



# Opportunity Zones

Catalyst for Brownfield Redevelopment

2018 Southeast Brownfield Conference  
Birmingham, AL  
September 27, 2018



**David Humber**  
dhumber@maynardcooper.com  
205.254.1112

**Trey Hess**  
Trey.Hess@ppmco.com  
601.790.0170

**Nan Baldwin**  
nbaldwin@birminghambusinessalliance.com  
205.241.8114

# What are “Opportunity Zones” and how do they work?

David Humber  
September 27, 2018



[MAYNARDCOOPER.COM](http://MAYNARDCOOPER.COM)

# What are “Opportunity Zones”?

- ▼ “Opportunity Zones” are “low-income community” census tracts (or tracts contiguous to “low-income communities”) that have been *federally* designated as “qualified opportunity zones”
  - ▼ The chief executive officers of each State (all 50 plus the District of Columbia and all US possessions) were authorized to *nominate* up to 25 percent of the eligible census tracts for *designation* as “opportunity zones” (special provisions were made for Puerto Rico)
  - ▼ The initial designation process is now complete
- ▼ The term “low-income community” was borrowed from the federal new markets tax credit program
  - ▼ Generally, census tracts in which there is either a high poverty rate (20%) or low median family incomes (less than or equal to 80% of metropolitan/statewide median family income level)
- ▼ Authorization for the establishment of “Opportunity Zones” and the accompanying special tax rules came from the Tax Cuts and Jobs Act signed into law by President Trump on December 22, 2017

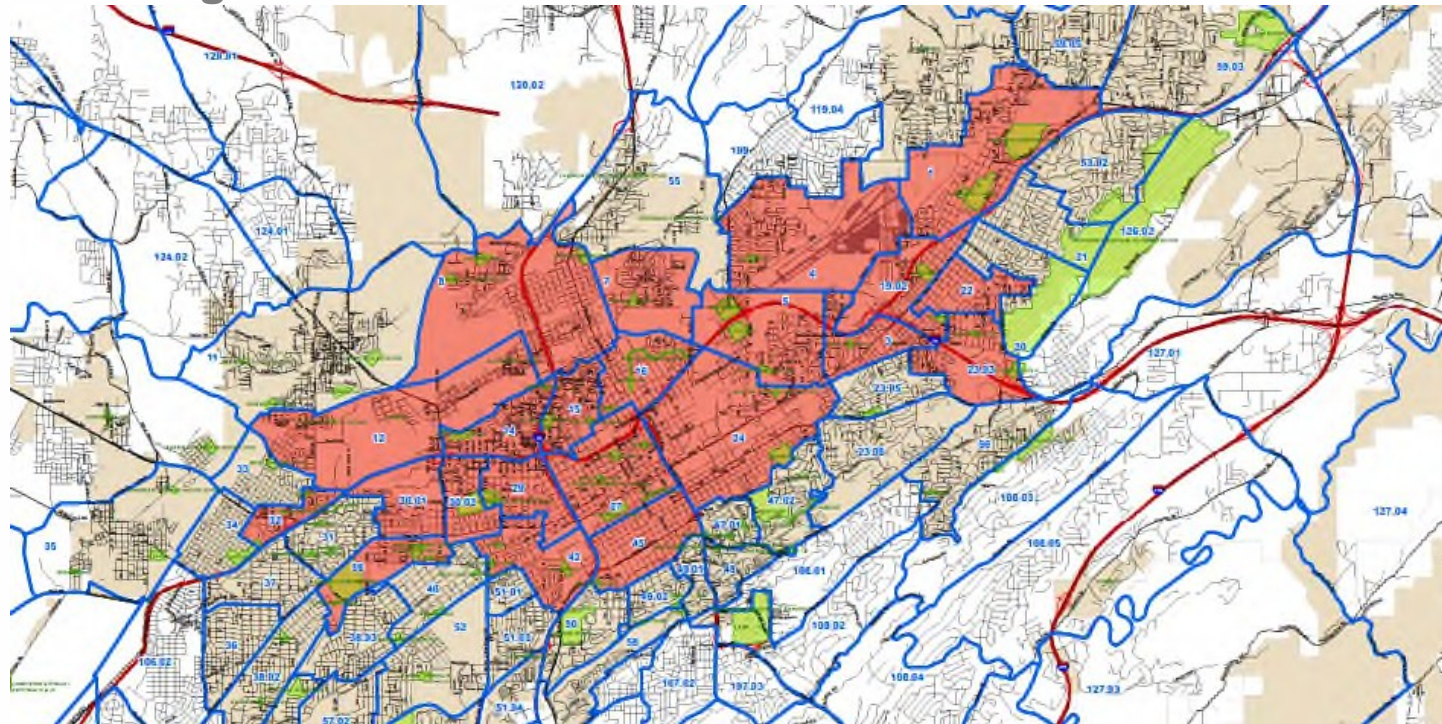
## Where are the 158 “Opportunity Zones” in Alabama located



▼ This picture shows the Opportunity Zones in Alabama.

# Where are the 24 “Opportunity Zones” in Birmingham located?

- ▼ This picture shows the Opportunity Zones in downtown Birmingham.



## Why would Congress want to establish “Opportunity Zones”?

- ▼ The policy goal of “Opportunity Zones” is to create an incentive for taxpayers with unrealized (or recently realized) gains (*i.e.*, private capital) to invest the proceeds of those gains in economically productive activities within designated boundaries, specifically in areas and communities most in need of private investment based on their current economic conditions.

## How do “Opportunity Zones” work?

- ▼ Under the new tax rules, a taxpayer may elect to exclude from its taxable income proceeds of the gains invested in an entity (a corporation or a partnership) that is designated as a “qualified opportunity fund” within 180 days of the event that generates the gains
- ▼ The “qualified opportunity fund” must, in turn, hold at least 90% of its assets in a qualifying investment (more on this later)
- ▼ The special tax treatment of qualifying investments entitles a taxpayer to defer taxes on gains so invested until December 31, 2026 (if the investments are held that long) and avoid federal income tax all together on gains beyond the amount of deferred gains (*i.e.*, “post-acquisition capital gains”) if the qualified investments are held at least ten (10) years
  - ▼ In addition, the taxpayer’s basis in such investments increases by 10% if the investments are held for at least five (5) years and increases by an additional 5% if the investments are held for a total of at least seven (7) years



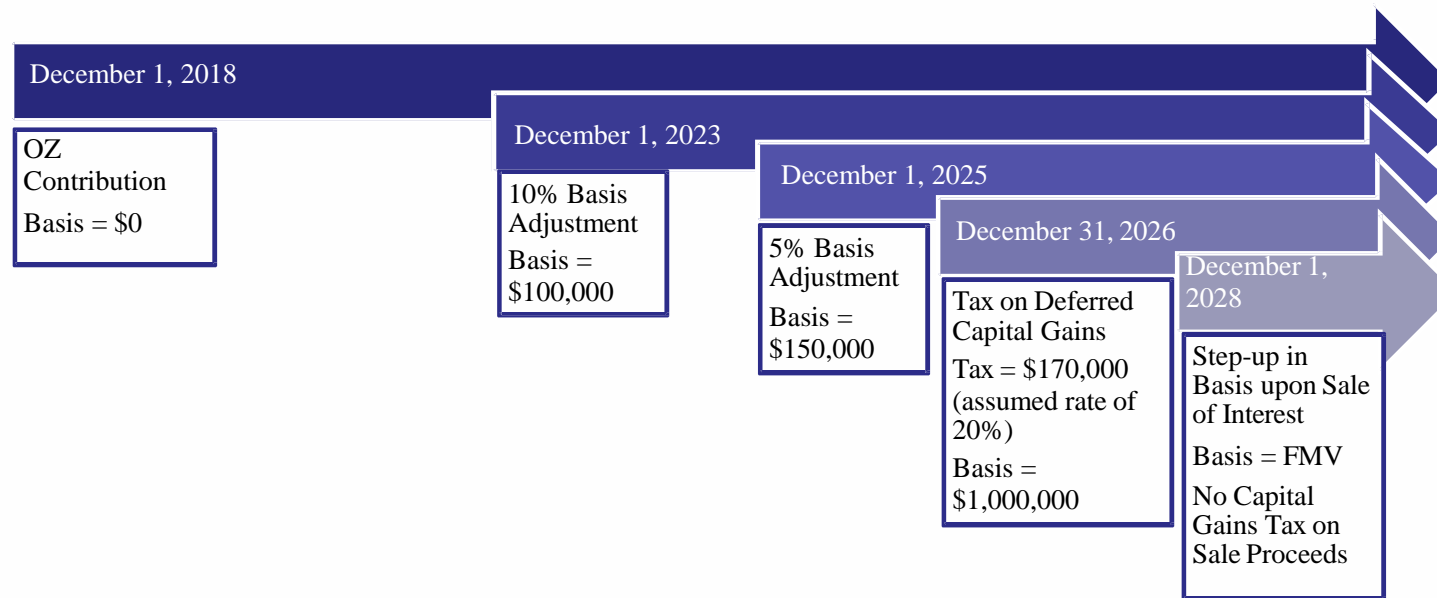
## What types of investments qualify for “Opportunity Zone” treatment?

- ▼ Under the new law, a “qualified opportunity fund” must invest in “qualified opportunity zone property” in order to be considered to be a “qualified opportunity fund”
- ▼ “Qualified opportunity zone property” can take one of two basic forms:
  - ▼ Direct Investment (“Qualified Opportunity Zone Business Property”)
  - ▼ Indirect Investment (“Qualified Opportunity Zone Stock” or “Qualified Opportunity Zone Partnership Interest”)
- ▼ Other than “sin businesses”, there are few limitations on the “types” of investment that could possibly qualify
  - ▼ Notably, certain financial property (such as debt or stock) is not a permitted investment

# Can you show us a simple example with numbers?

## Example

- ▼ Gain Proceeds: \$1,000,000
- ▼ Date of OZ Contribution: December 1, 2018
- ▼ Holding Period: 10+ years



\*This illustration ignores regular basis adjustments that may occur for OZ Funds that are taxed as partnerships.

## FAQs

- ▼ Where can I get a list of opportunity zones?
- ▼ How do I monetize the “credit” generated by opportunity zone investments?
- ▼ Are there any related-party restrictions?
- ▼ When will we know all of the rules of the game?
- ▼ Can I defer gain on sales or exchanges made in 2017?
- ▼ How can I get more information about opportunity zones?

# Why Opportunity Zones Matter

**Nan Baldwin**

**[nbaldwin@birminghambusinessalliance.com](mailto:nbaldwin@birminghambusinessalliance.com)**

**205.241.8114**

# Why Opportunity Zones Matter

- § Many lower income communities are plagued with blight from abandoned properties underdeveloped sites and Brownfields
- § These communities are considered “distressed areas”.
- § The Federal Government created the Opportunity Zones to incentivize private investment in these communities.
- § Opportunity Zones are a new alternative economic development program established by Congress in the Tax Cuts and Jobs Act of 2017
- § Opportunity Zones gives a powerful economic boost to distressed and struggling communities.

# Is your Community in an Opportunity Zone

§ For a map of the opportunity zones in Alabama, go to ADECA's website:

<https://adecagis.alabama.gov/ozones/>

§ Also, go to the City of Birmingham's website to search by property address:

<https://www.birminghamal.gov/about/city-directory/planning-engineering-permits/opportunityzones>



## So What's Next?

- § Work with your local Community Development and Economic Development agencies to identify projects that may be suitable for your area (i.e. redeveloping a blight building or site)
- § Green space initiatives: parks, walking and bike trails, community gardens
- § Residential –affordable housing, mixed use housing, senior citizen centers
- § Commercial/Retail –grocery stores, small businesses,
- § Light Industrial -Warehousing and distribution

# How to Make Opportunity Zones a Win-Win

§ Three Key Components:

## 1) Job growth and economic security

- Leverage tax incentives to create good jobs
- Increase economic security and mobility for residents
- Closes the wealth gap



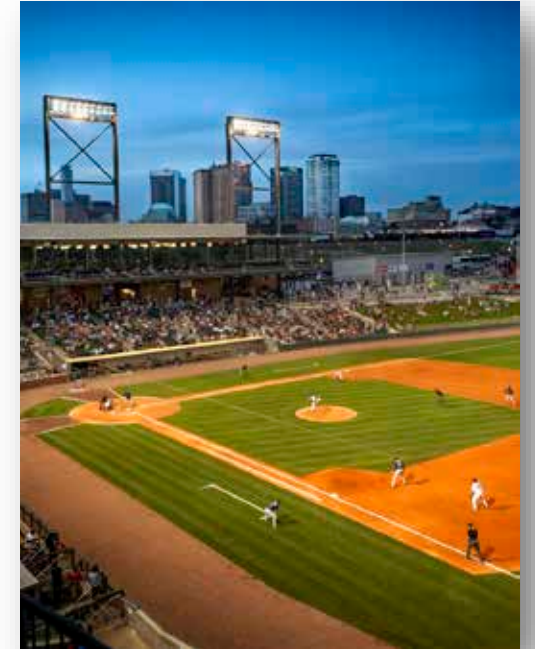


# How to Make Opportunity Zones a Win-Win

§ Three Key Components:

## 2) Maximize Development/Minimize Displacement

- Provide economic opportunity and vitality to disinvested communities,
- Offer affordable housing options
- Create opportunities for neighborhood partnerships in the planning process



# How to Make Opportunity Zones a Win-Win

§ Three Key Components:

§ **3) Healthy Communities Initiatives**

- Increase access to health-services in communities
- Affordable transportation options
- health-care facilities
- Affordable and healthy food establishments





[www.ppmco.com](http://www.ppmco.com)

**Trey Hess**

**Brownfield Redevelopment Director**

**Trey.Hess@ppmco.com**

**601.790.0170**



[www.ppmco.com](http://www.ppmco.com)

Setting The Stage:

If I were Warren Buffett, where  
would I put my capital gains?



[www.ppmco.com](http://www.ppmco.com)

## Top 10 Opportunity Zones in U.S.

1. CA - Oakland: West Oakland, Uptown, Jingletown, and Coliseum Industrial
2. CA - Los Angeles: Downtown and South LA
3. CA - San Jose: Market Almaden, Washington Guadalupe, East Northside, Jackson Taylor, and Mayfair
4. CA - San Diego: Golden Hill, South Park, and Barrio Logan
5. WA - Seattle: Beacon Hill and the International District
6. OR - Portland: Pearl District and Central Eastside
7. AZ - Phoenix: Downtown, Tempe, Chandler & Mesa
8. TN - Nashville: East Bank, Five Points, 12 South, and Edgehill
9. GA - Atlanta: Bankhead, Grove Park, and English Avenue
10. NY - New York City: Brooklyn

# Opportunity Zones & Brownfields

The Question:

What can we do to spur private investments in our Opportunity Zones?



[www.ppmco.com](http://www.ppmco.com)



[www.ppmco.com](http://www.ppmco.com)

Source:

<https://www.thenewlocalism.com/newsletter/how-states-can-maximize-opportunity-zones/>

# HOW STATES CAN MAXIMIZE OPPORTUNITY ZONES

## THE GOVERNANCE PROJECT

CO-AUTHORS

BRUCE KATZ

JEREMY NOWAK

JAMIE RUBIN

DAN BERKOVITS

THE  
GOVERNANCE  
PROJECT

# Policy Brief for States [www.thenewlocalism.com](http://www.thenewlocalism.com)



[www.ppmco.com](http://www.ppmco.com)

1. Help communities design and market an Investment Prospectus to showcase the distinctive assets of — and investable projects — in their Opportunity Zones;
2. Maximize the economic impact of public institutions of higher learning;
3. Maximize the economic impact of state assets that are located in or near Opportunity Zones;
4. Ensure that Zone related infrastructure is of high quality and meets performance standards;
5. Align state investments and decisions with the distinctive competitive assets and advantages of different Opportunity Zones.
6. Help local residents obtain skills or competencies necessary to meet existing or likely labor demand; and
7. Support the production and preservation of affordable/workforce housing.

Source:

<https://www.thenewlocalism.com/newsletter/how-states-can-maximize-opportunity-zones/>





Smart Growth America  
Making Neighborhoods Great Together

## Policy Recommendations

- **Cities can inspire investor confidence by operating Opportunity Funds and lowering their risk profiles**
  1. Designate staff to serve as an one-stop-coordinating office and point of contact for interested investors and businesses (open data, investment strategy, reporting).
  2. Establish state/city-based Opportunity Funds by pooling existing community development dollars to attract diverse equity partners, including public employees, local pension funds, and crowdsourced funders. [SEP]
  3. Provide incentives to encourage the formation of equitable Opportunity Funds.
  4. Institute “do no harm” policies that protect vulnerable populations and existing businesses.
  5. Create strategic investment and public benefits strategies for Opportunity Zones, including:
    1. Developing a comprehensive investable project pipeline that creates long-term housing and transportation affordability while accelerating job creation.
    2. Instituting an inclusive community engagement process for determining projects and initiatives.
    3. Establishing performance-based metrics, such as equitable development scores, to ensure that Opportunity Funded projects are positively improving lives and transforming place.



[www.ppmco.com](http://www.ppmco.com)

Source:

<https://smartgrowthamerica.org/program/locus/opportunity-zones/>



Smart Growth America  
Making Neighborhoods Great Together

## Policy Recommendations

- **Philanthropies** have the financial and knowledge resources to shape place-based investment strategy, organizing, and development efforts
  1. Pool program-related investments (PRIs) and return them to Opportunity Funds in the form of grants. These grants can be used by vulnerable populations to own wealth creation.
  2. Provide staff capacity and expertise for locally-controlled Opportunity Funds by serving as fund managers or board members (target rural, small, and disadvantaged communities).
  3. Lead capacity building efforts by funding and supporting financial literacy and wealth-building opportunities in local communities. For example, organizations may purchase shares in Opportunity Funds on behalf of vulnerable residents and businesses.



[www.ppmco.com](http://www.ppmco.com)

Source:

<https://smartgrowthamerica.org/program/locus/opportunity-zones/>

## Policy Recommendations

- **Advocates** can direct their capacity towards creating a responsible business and policy environment for Opportunity Zone operation
  1. Encourage cities to adopt “do no harm” policies.
  2. Build local investor ecosystems by recruiting and training local residents and business to become investors in their own communities.
  3. Compile a local project pipeline of mission-driven projects for investment.
  4. Align with like-minded organizations to sponsor or invest in an Opportunity Fund.



[www.ppmco.com](http://www.ppmco.com)

Source:

<https://smartgrowthamerica.org/program/locus/opportunity-zones/>

## Policy Recommendations

- The private sector can normalize equitable project development in new Opportunity Zones
  1. Adopt equitable development investment frameworks and strategies (people, planet, and profit).
  2. Conduct crowdsourced place-making to ensure community buy-in.
  3. Diversify the fund management community and incorporate local representation into fund leadership.
  4. Prioritize investments for projects near transit and those that create walkable, vibrant neighborhoods.
  5. Proactively provide annual assessments of investments.



[www.ppmco.com](http://www.ppmco.com)

Source:

<https://smartgrowthamerica.org/program/locus/opportunity-zones/>



[www.ppmco.com](http://www.ppmco.com)

Source: Garner, NC

## ConAgra Redevelopment Strategy



## Transforming Garner

February 2012

# Redevelopment Study Steps

## Project Goals:

- Wages greater than or equal to the Wake County Average of \$46,800
- Tax base greater than or equal to ConAgra's investment of \$55 million
- Job Creation greater than or equal to ConAgra's Employment Base at the time of closing of 440
- A Sustainable Industry Cluster





[www.ppmco.com](http://www.ppmco.com)

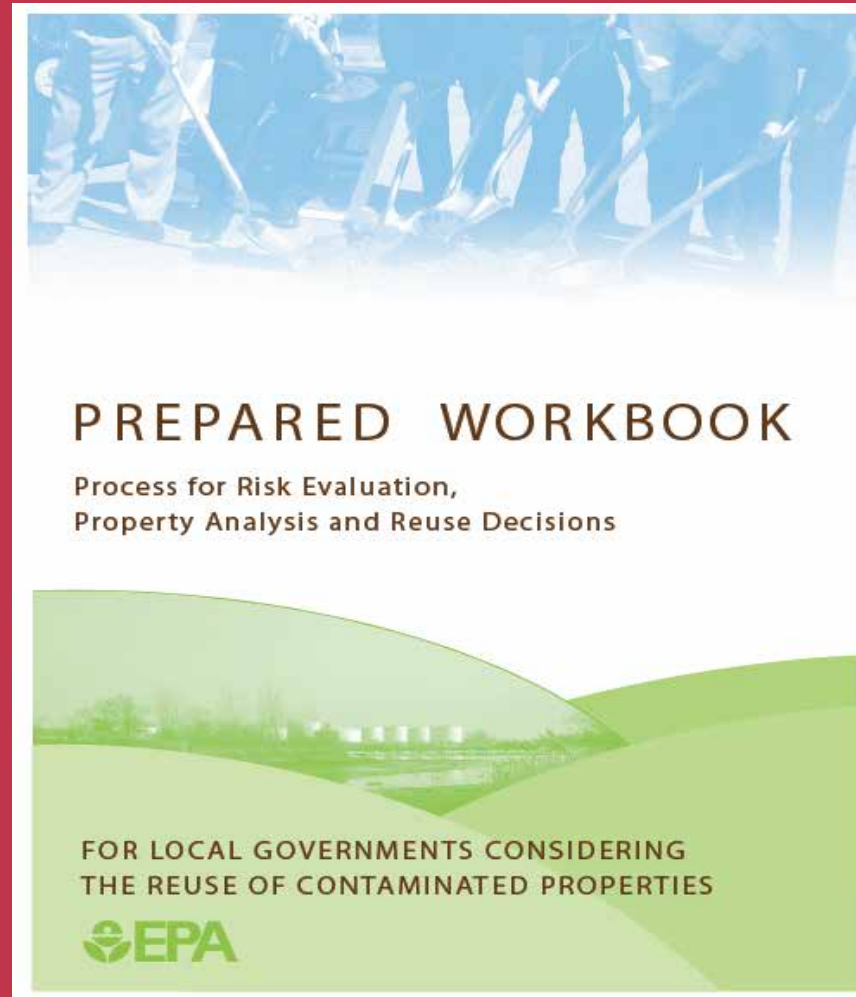
Source:

<https://www.bizjournals.com/triangle/news/2018/08/10/behind-the-deal-how-amazon-was-lured-by-garner.html>



Officials gathered in Friday to celebrate the town's biggest economic development project yet - Amazon's 1,500-job fulfillment center. The project means \$200 million in investment and \$45 million in annual payroll. It's an investment that's four times the amount of peak investment by ConAgra at the site, and several hundred more than ConAgra's peak employment in Garner.

# Redevelopment Strategy



<http://www.epa.gov/region1/brownfields/prepared/>



# Redevelopment Strategy Framework

- Goals:
  - reduce the probability and consequences of a risk
  - create opportunities and a positive outcome
  - balance costs, risks, and benefits
  - select appropriate actions and integrate with redevelopment
  - account for social, cultural, ethical, political, and legal considerations





MAYNARD  
COOPER GALE



PPM  
CONSULTANTS



**birmingham**  
**businessalliance**  
THE CHAMBER FOR REGIONAL PROSPERITY

Questions?



**David Humber**  
dhumber@maynardcooper.com  
205.254.1112

**Trey Hess**  
Trey.Hess@ppmco.com  
601.790.0170

**Nan Baldwin**  
nbaldwin@birminghambusinessalliance.com  
205.241.8114