

# Opportunity Zones in Appalachia: Developing Successful Projects or Programs

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July 30, 2019

PUBLIC PRIVATE  
STRATEGIES

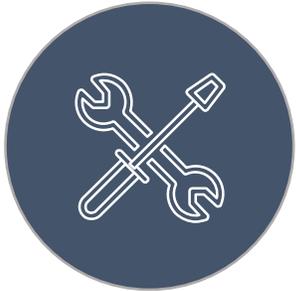
# Opportunity Zones in Appalachia

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- Who's in the room?
- What are Opportunity Zones (and how does the incentive work)?
- How can you advance projects and attract investment?

# Opportunity Zones Overview

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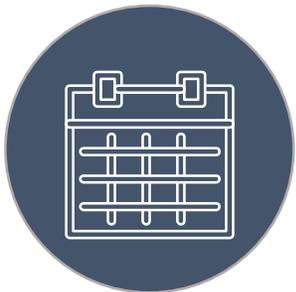


**Economic development tool intended to spur economic growth and job creation in distressed communities**



**Three incentives for investors to put private capital to work across asset classes in economically distressed communities...**

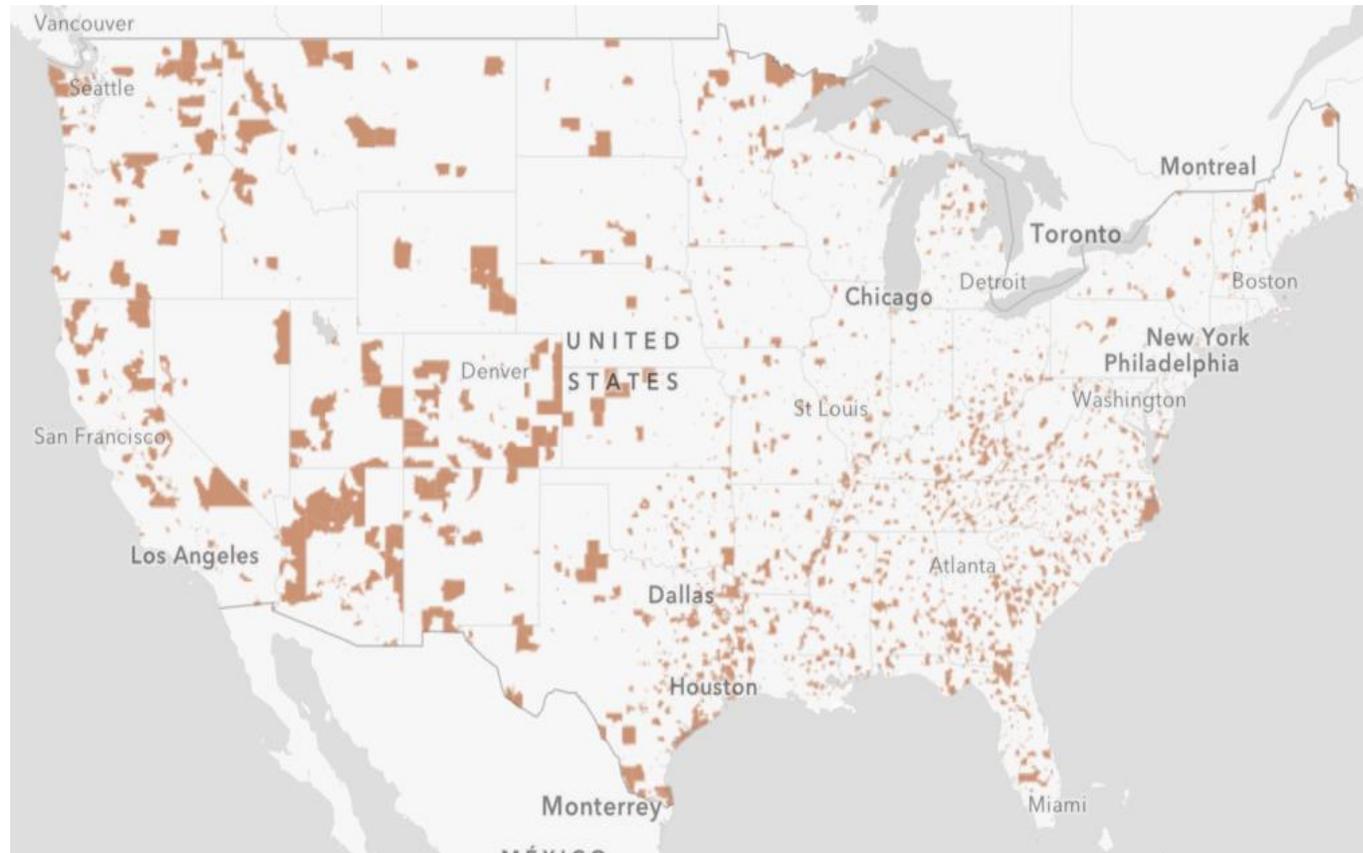
- Temporary tax deferral
- Step-up in basis of up to 15%
- Permanent exclusion of taxable income of capital gains



**...and to hold those investments for long-term**

- Value of incentive maximized when investment held for at least ten years

# Where are Opportunity Zones?

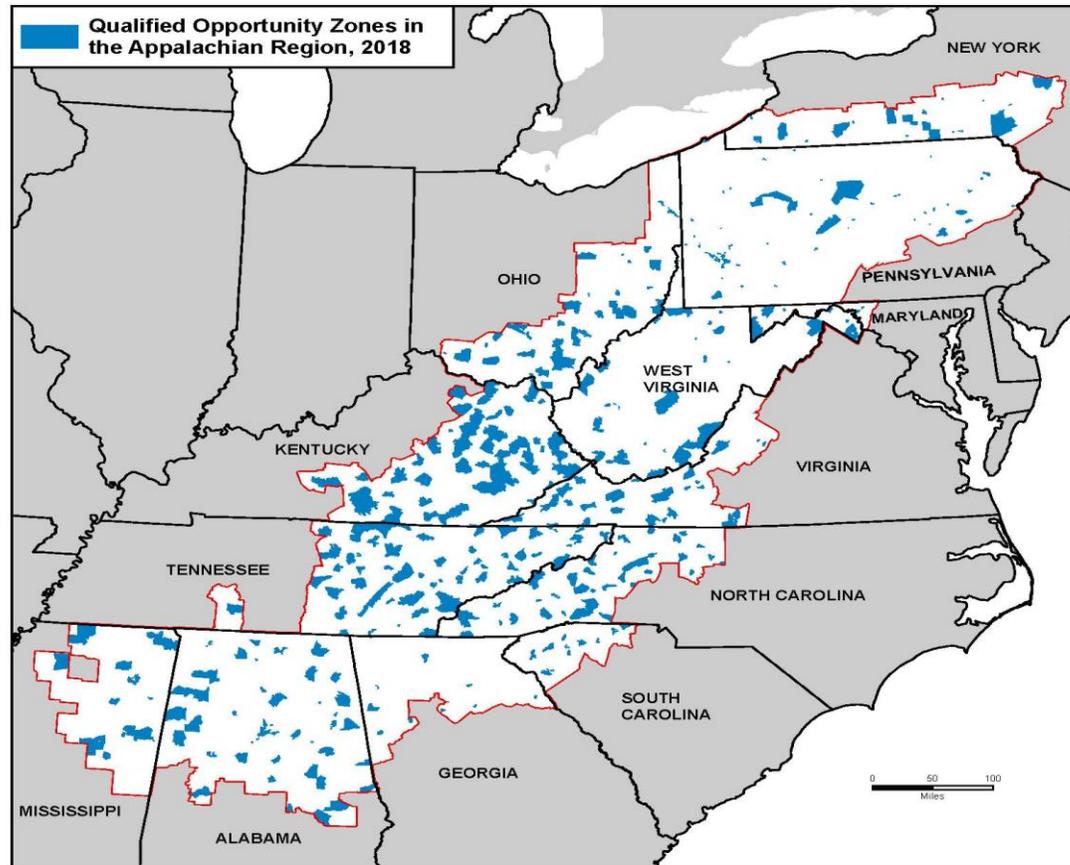


Opportunity Zones

Source: Economic Innovation Group

- 8,700 designated census tracts in all 50 states, DC + territories (12% of all US census tracts)
- On average, poverty rate of 29% (~2X national average)
- Median family income in median designated Opportunity Zone is \$42,400 (vs national average of \$67,900)
- 56% of Opportunity Zone residents are People of Color

# Opportunity Zones in Appalachia



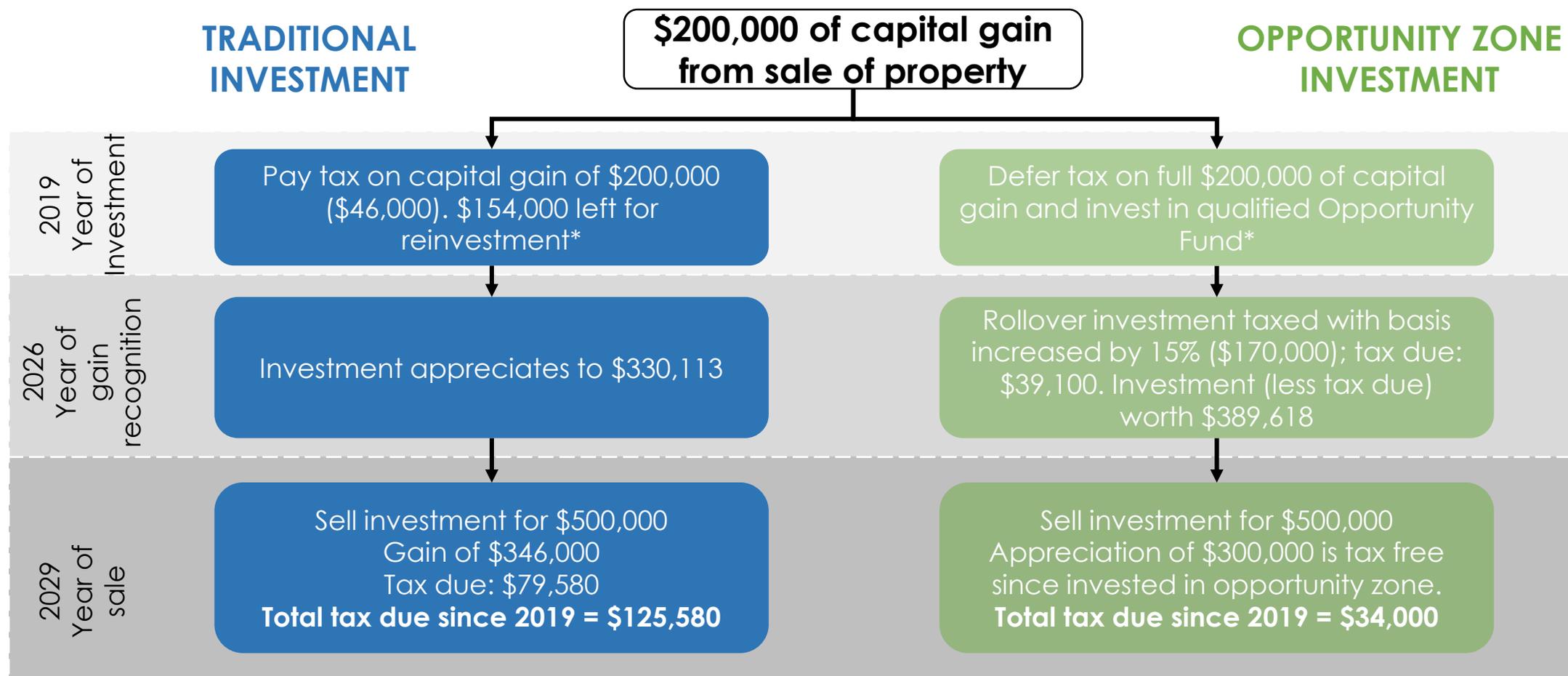
Appalachian Regional Commission, July 2018  
Data Source: U.S. Department of the Treasury, Community Development Financial Institutions Fund (updated June 14, 2018)

- 737 census tracts across Appalachia (~8% of all designated Opportunity Zones)
- >2.8 million residents

# How are Opportunity Zones Different?

	<u>Opportunity Zone Incentive</u>	<u>“Traditional” Programs*</u>
Funds Available	<ul style="list-style-type: none"><li>No cap</li></ul>	<ul style="list-style-type: none"><li>Finite pool of appropriated funds (~\$3.5B allocated per year)</li></ul>
Eligibility	<ul style="list-style-type: none"><li>Any investor (individual or institutional) with realized capital gains</li></ul>	<ul style="list-style-type: none"><li>Competitive process to allocate</li></ul>
Management	<ul style="list-style-type: none"><li>IRS oversight</li></ul>	<ul style="list-style-type: none"><li>Administered by federal government (e.g. NMTC) or state housing authorities (e.g. LIHTC)</li></ul>
Compliance & Reporting	<ul style="list-style-type: none"><li>TBD – Request for information issued by Treasury/IRS in April 2019</li></ul>	<ul style="list-style-type: none"><li>Transaction level data collection</li><li>50+ page program compliance FAQs</li></ul>

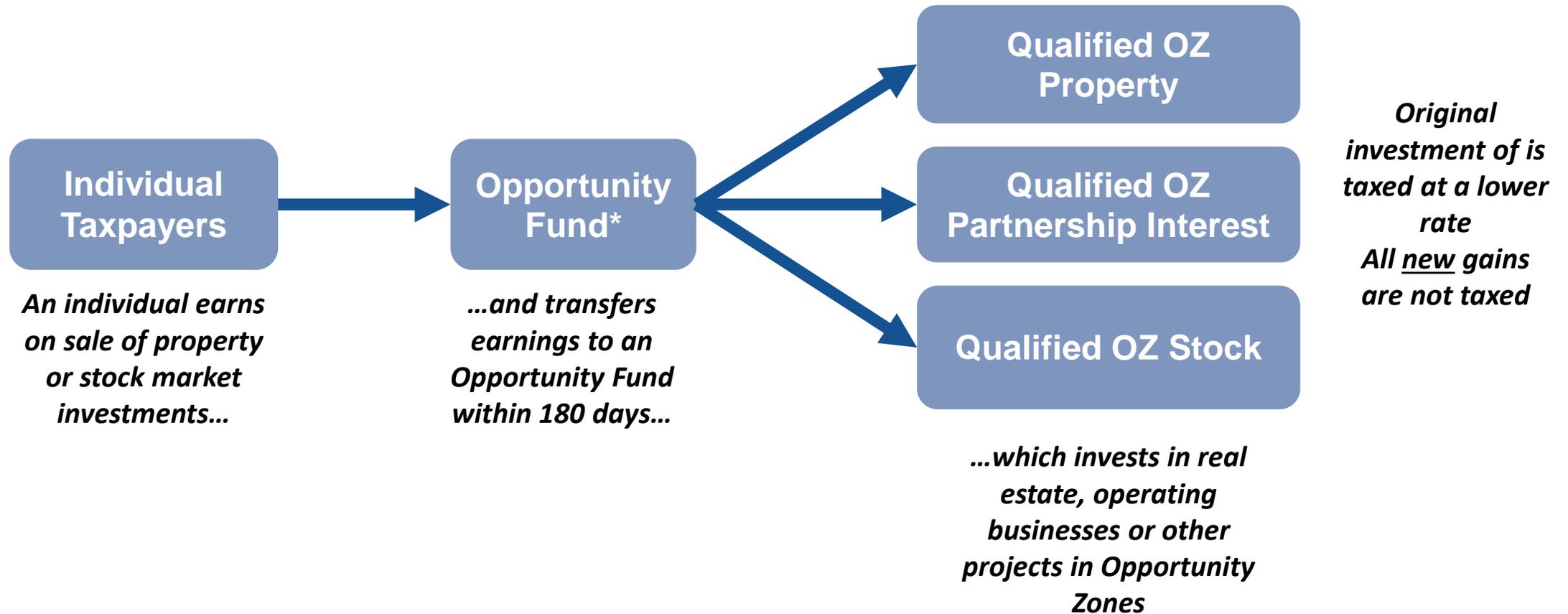
# What's the Opportunity for an Investor?



\*Assumes 10 percent annual rate of return and 23 percent capital gains rate

# Investment Mechanics

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# What's Happening?

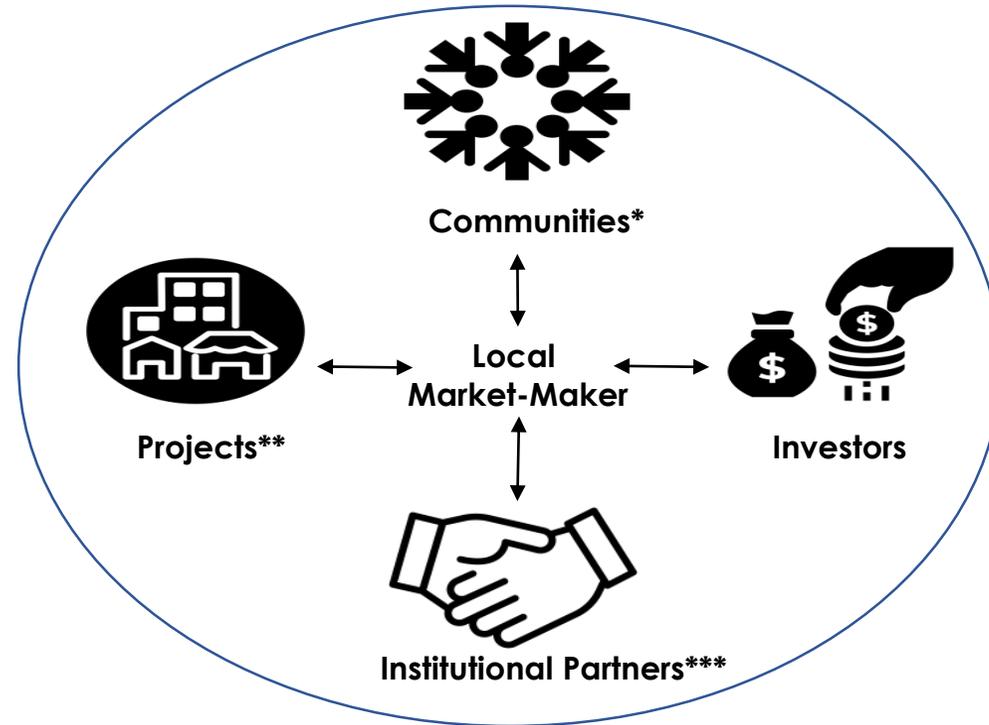
## Federal Rule-Making

- Opportunity Zones enacted in December 2017 as part of Tax Cuts and Jobs Act 2017
- Treasury certified designations in June 2018
- Treasury released the first tranche of guidance and a revenue ruling on October 19, 2018.
- Treasury released the second tranche of guidance in April 2019 along with a "Request for Information" (RFI) on reporting
- Unlikely that 3<sup>rd</sup> tranche will follow
- Treasury currently evaluating RFI responses – open questions on timing and content. Rhetoric to date provides some cause for optimism

## Market Activity

- Landscape **emerging and evolving; momentum increasing** as rules become clearer
- **Funds forming and transactions have closed**
  - First wave **primarily single asset real estate**
  - Target fund sizes range from **\$1M - \$3B** with a **median target fund size of \$110M\***
  - **~40%** are **multi-state** or regional funds\*
  - **26% national** geographic scope\*
  - **11%** focused on a **single city\***
- **Rural OZs disadvantaged** vs urban OZs
  - Tend to smaller deals with lower rates of return
  - Fewer resources to enable them to develop community strategies and package transactions to potential investors

# Success Requires Many Stakeholders



Data Tracking & Impact Improvement

\*e.g. Cities, Counties, Economic Developers, Chambers, Main Street Groups, CDCs/Neighborhood Associations

\*\*e.g. Developers, Landowners, Companies, Entrepreneurs, Incubators

\*\*\*e.g. Banks, Utilities, Corporates with local HQs, CDFIs, Foundations, Universities, Hospitals, Accountants, Lawyers

# Critical Activities

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1. Community Prospectus and Pitch Books
2. Financial Modeling & Deal Structuring
3. Investor Outreach & Capital Raise
4. Community Benefit
5. Deal Close

# What Are We Seeing in Communities?

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- Opportunity Zone activity emerging in **places well-beyond the usual suspects**
- **Coordination function** in places invaluable; can take different forms
- Frequently missing: Deal development capabilities to move community aspirations into **investable opportunities** & diligence to evaluate priority projects
- Projects often need **additional incentives/investment**
- **Appetite for impact** among many project sponsors and investors

# Selected OZ Resources

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Nonprofit initiative dedicated to connecting investors with investable assets in Alabama's Opportunity Zones, including rural & Appalachia. By using a data-driven approach, we bring investors, opportunities, communities and key institutional supporters together to generate real returns while improving economic vitality and quality of life.



Seeks to scale and replicate local solutions to economic insecurity across the country. We support initiatives that connect people with existing jobs, create new opportunities and foster infrastructure development.



ELG is a policy and advocacy focused organization that provides information about the Opportunity Zones incentive and how it works, as well as data about the designated zones.

# Group Discussion

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- What is your team doing to advance Opportunity Zone investments?
- Have you identified a pipeline of priority projects?
- What's working well in your community?
- Where are you experiencing challenges?

# Thank You!

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**Questions?**

**[tammy@publicprivatestrategies.com](mailto:tammy@publicprivatestrategies.com)**

**To receive our Opportunity Zones Newsletter:**

**[rf@publicprivatestrategies.com](mailto:rf@publicprivatestrategies.com)**