

# What's Next?

## Opportunity Zone Review for New Hampshire Communities

*Briefing for O-Zone Communities*

October 2, 2018  
Triangle Park  
Concord



# Agenda

Welcome: Stephen Buckley, NH Municipal Association

Introduction: Taylor Caswell, Business and Economic Affairs

Opportunity Zone Overview

New Hampshire Opportunity Zones

Granite Opportunity Fund

Role for Communities

Investment/Finance Opportunities

Next Steps

# Opportunity Zones - Overview

2017 Tax Cuts and Jobs Act created **Opportunity Zones**

Drive Investment in Underserved Areas

- Connect investors to overlooked, but credit-worthy, investment opportunities
- Incent long-term equity investments in businesses and real property
- Spur economic growth and job creation in underserved communities

Internal Revenue Service (IRS) will oversee

Special rules for capital gains invested in Opportunity Zones

No reporting requirements, state oversight, or investment mandates

# What are Opportunity Zones?

## **Designated low-income census tracts eligible for tax-favored investments**

Governors nominated up to 25% of low-income census tracts

- 90 – 120 days post enactment to select
- Exemption: Up to 5% could be eligible based on contiguity

Treasury approved these nominations - final as of 6/15/2018

Designations last for 10 years

# What are Opportunity Funds?

Any **investment vehicle** organized as a corporation or a partnership for the purpose of aggregating and deploying investments in **Qualified Opportunity Zone Property**

Flexible structure:

- Private or public fund manager
- National/Regional/State/Local focus
- Multi-asset fund or single-asset fund

Must hold at least **90% of assets** in Qualified Opportunity Zone  
Investments must meet the **substantial improvement test**

# How It Works



# Potential Investment Types

- Construction & development of commercial real estate
- Development & renovation of existing property
- Creation of a new business
- Expansion of an existing business

# Tax Benefit

- Taxpayer receives **favorable Capital Gains Tax treatment** if proceeds of sale of an appreciate asset are invested in an Qualified Opportunity Fund
- **Deferral** of capital gains tax liability until the earlier of:
  - sale of QOF investment or
  - December 31, 2026
- **Step up in basis** (of the original asset sold):
  - 10% if investment in QOF held for at least 5 years
  - 15% if investment in QOF held for at least 7 years
- **No tax on gain earned** (if investment in QOF held for 10 years )



# Opportunity Funds

- Opportunity Fund (QOF)
- Anyone can create a fund – ‘self-certification’ (simple IRS form)
- No cap on amount of capital gains invested in a QOF
- No limit on where QOFs can invest—any Opportunity Zone (8,700+)
- Must invest at least 90% of asset in qualified investments located in O-Zones
- Real estate and businesses
- Equity investments only – no debt
- Investors – Six Month Window
- After sale of asset, investor must move proceeds to Opportunity Fund within 180 days
- Fund must invest in qualifying investment within 3 months
- Greatest tax benefit for long investments (10 years)

# Fund Activity - National

**Fundrise** – Creating a [\\$500 million Opportunity Fund](#); first project announced; a partially-vacant property in Washington D.C.'s LeDroit Park, filling ground-level retail space.

**Bridge Housing** - [\\$500 million Opportunity Fund](#) for affordable housing projects on the West Coast.

**Virtua Partners** - [Raising \\$200 million](#) for an Opportunity Fund, primarily investing in residential rental property development, hospitality, offices in high growth Sunbelt markets.

**PNC bank** - [Planning](#) an Opportunity Fund to finance mixed-use, multi-family naturally occurring affordable housing, commercial rental, owner-occupied housing.

Other [early movers](#) include **Enterprise**, **LISC**, **Access Ventures** and **Village Capital**



# Strengths

## Local

Designations are made by states and localities, rather than federal agencies, ensuring more local buy in and coordination.

## Flexible

The flexibility of the investment tool can support investments in any type of asset class.

## New Investor Class

The incentive has the ability to attract high net worth individual investors to community development finance.

## Potential

The incentive could attract hundreds of billions of private sector capital into low-income communities (compared with about \$10 - \$12 billion annually under LIHTC and \$3.5 billion annually under NMTC).

## Straightforward

The tool is relatively straightforward from an investment and compliance standpoint, in comparison to LIHTC and NMTC.

# Potential Concerns

## Lack of Oversight

Lack of oversight from government entities could lead to program abuses.

## Lack of Impact Incentives

Incentives focus on back-end returns, rather than investments that will result in community impacts.

## Gentrification and Displacement

Could aid in gentrification/displacement of residents and businesses in Opportunity Zone communities.

## Future of Other Tax Incentives

The new Incentive might be used as reason to diminish or eliminate community development tax incentives, eg NMTC.

# Where Things Stand

## **Opportunity Zone Nominations: *Complete***

50 states, 5 territories, Washington, DC; 8,762 zones approved as of June

## **Guidance on Opportunity Funds: *Ongoing***

- IRS published FAQs (April and June 2018)
- Funds will self-certify
- Additional FAQs anticipated before year-end
- Need for clarification on issues, including reporting requirements

## **Creation of/investment in Opportunity Funds: *Currently happening***

## **State and Local Efforts: *Ongoing***

- Convenings, legislation, community and investor engagement

## **Full implementation of Law: *Anticipated Q3 2018 – Q4 2018***

# New Hampshire's Opportunity Zones

## Low Income Census Tracts

- NH has 105

We selected 25% (27)

Some communities have multiple tracts

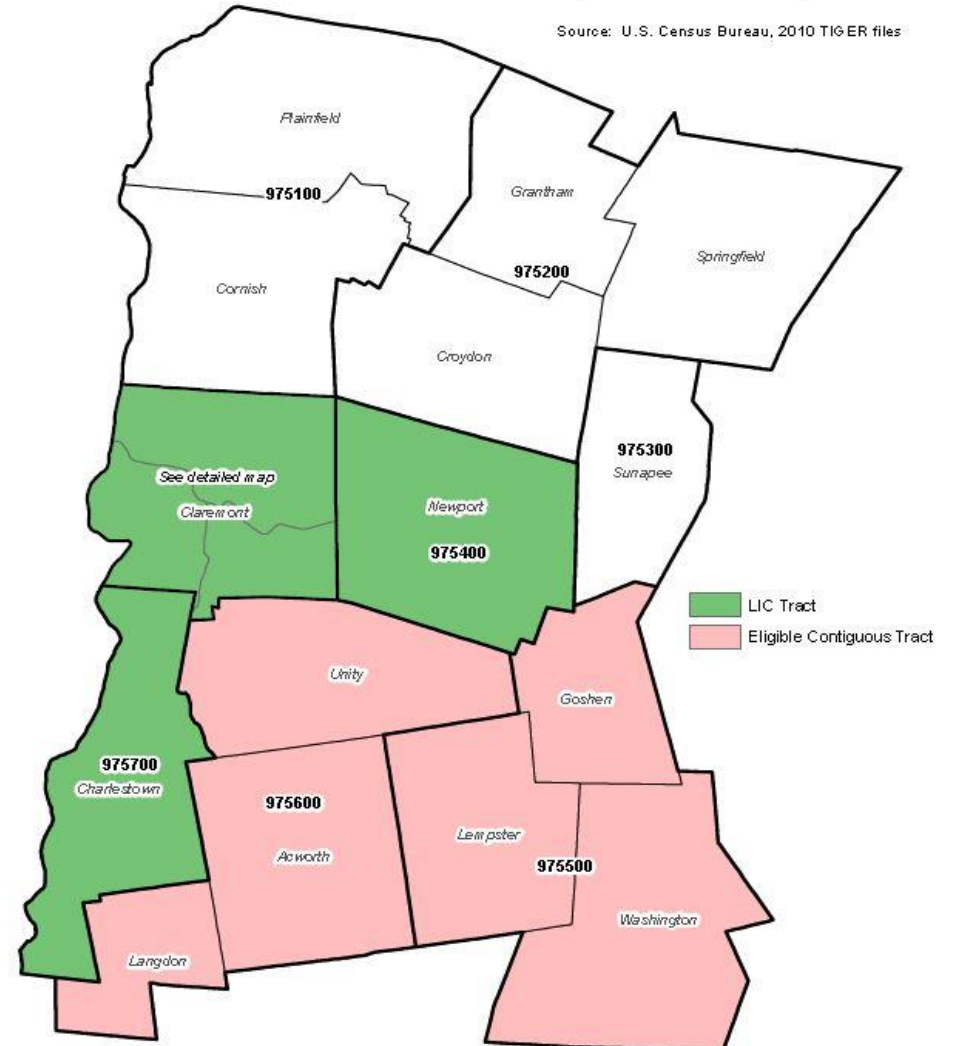
Also contiguous tracts

A census tract is 4000 people or less; median family income at or below 80% of Area Median Income (AMI) or (2) poverty rate of 20% or greater in the period of 2011-2015. *Same criteria as New Markets Tax Credits.*



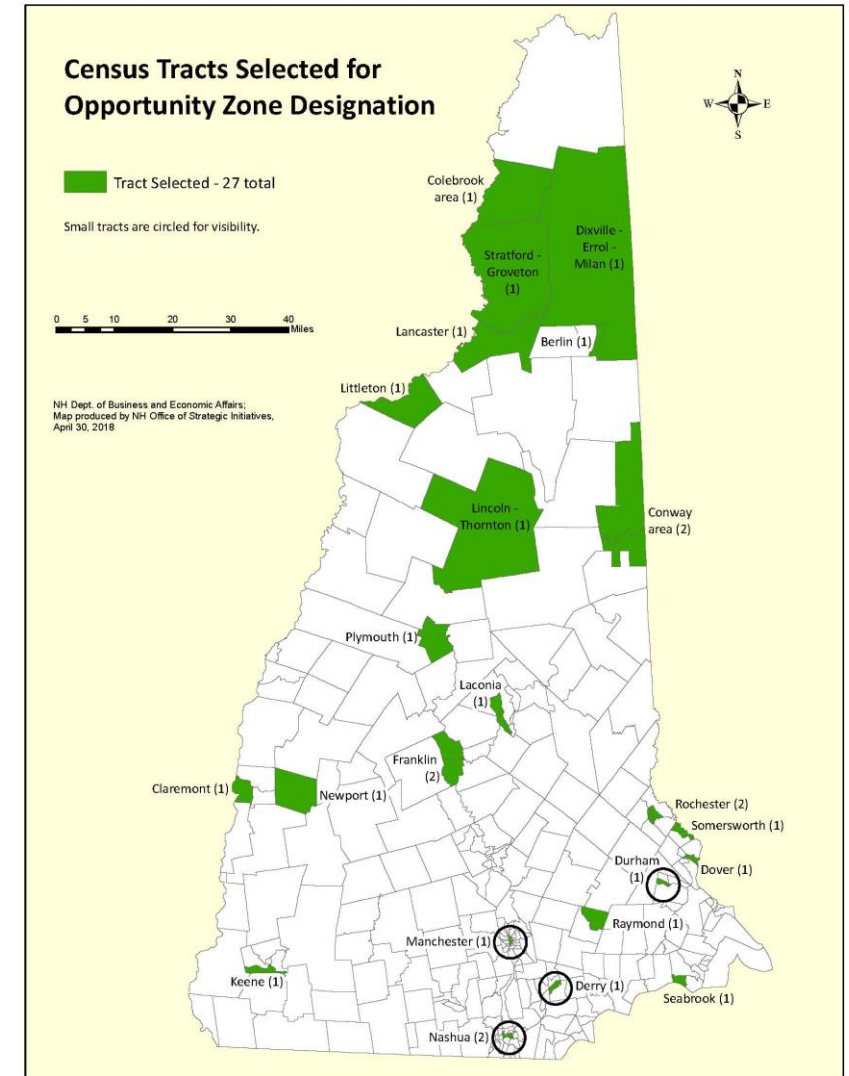
## 2010 Census Tract Boundaries Sullivan County, New Hampshire

Source: U.S. Census Bureau, 2010 TIGER files



# Identification of Census Tracts

- Mapping of census tracts and accurate identification of designation #
- Awareness of eligible zones in other states
- Adjacent tracts in each community
- Identification of contiguous zones
- Nomination Process



# Granite Opportunity Fund





# Granite Opportunity Fund

## Formal Partnership Structure

- Fund Manager – Northern New England Housing Investment Fund
- Fund Advisors – NH Council of Partner Agencies

## Provide Local Investment Option for NH Investors

- NH bank wealth-management clients
- NH Charitable Foundation donors
- Others with NH or more local investment focus

## Focus on Existing/Emerging projects

Launch Date Unclear until Treasury Releases Guidance

# BUILD A NEW ALLIANCE

Policy Leaders

POLICY

Business  
Leaders

BUSINESS

ACADEMIC

Academic  
Institution Leaders

# Role for Communities

Engage local entrepreneurs/businesses that may be eligible for investment from Opportunity Zones.

Partner with universities, startup incubators and accelerators, and other ecosystem partners to ready your home region to take advantage of the program.

Work with local and regional planners and developers to integrate the financing model with existing or anticipated development or infrastructure plans.

Communicate state, local, regional, and federal funds to make sure they are aware of eligible investment opportunities in your region.

Integrate the designated tract(s) into local marketing and outreach effort

# Role for Communities

What do you see as the role for communities?

Are there opportunities for alignment?

Do you have projects in development

# Next Steps for the State

Granite Opportunity – Council of Partner Agencies

State Economic Development Plan

Zones can align with state economic development efforts -  
address state sector priorities

Remove burdensome regulations

Identify legislative resources that complement zones (RSA 79E,  
72) and which could be improved

Consider prioritization within other State and federal agency  
funding

# Other Investment Resources

- Regional Development Corporations
- Community Development Finance Authority
- Business Finance Authority
- New Hampshire Community Loan Fund
- NH Housing Finance Authority
- Northern Borders Regional Commission
- USDA – Rural Development
- New Hampshire Charitable Foundation
- Northern Community Investment Corp.

# Other Investment Resources

## **NH Opportunity Zones**

- [nheconomy.com/grow/opportunity-zones](http://nheconomy.com/grow/opportunity-zones)

## **Council of Development Finance Agencies**

- [cdfa.net/cdfa/cdfaweb.nsf/resourcecenters/OZ.html](http://cdfa.net/cdfa/cdfaweb.nsf/resourcecenters/OZ.html)

## **Enterprise Community Partners**

- [opportunityzonesinfo.org](http://opportunityzonesinfo.org)

## **Economic Innovation Group**

- [eig.org/opportunityzones](http://eig.org/opportunityzones)

## **Mission Investors Exchange**

- [missioninvestors.org/opportunity-zones](http://missioninvestors.org/opportunity-zones)

## For More Information

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