

All-Staff Presentation: Opportunity Zones



What are Opportunity Zones?

- New **federal incentive** designated in the 2017 tax reform bill
- Incentive for investors to **support distressed communities** through **long-term, equity investments** in businesses and real estate ventures
- If properly executed, Opportunity Zones may help address a number of challenges in Colorado:
 - **Promoting economic vitality** in parts of the state that have not shared in the general prosperity over the past few years
 - **Funding the development of workforce and affordable housing** in areas with escalating prices and inventory shortages
 - **Funding new infrastructure** to support population and economic growth
 - **Investing in startup businesses** that have potential for rapid increases in scale and the ability to “export” outside the state of Colorado



How does it work?

Taxpayers can get
capital gains
tax deferral
(& more)



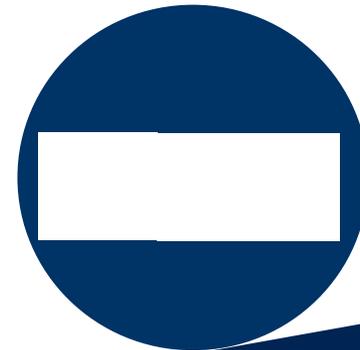
*for making timely
investments in*

Qualified
Opportunity
Funds



*which invest
in*

Qualified Opportunity
Zone Property
*(Primarily real estate or
businesses)*



Taxpayer Benefits

1. **Deferral of capital gains tax** until sale or Dec 31, 2026
2. **Partial reduction of deferred gain**
 - Tax basis increases by 10% if investment is held for 5 years
 - Tax basis increases by additional 5% if investment is held for 7 years
3. **No capital gains tax on appreciation** if investment is held for 10 years

Qualified OZ Fund

- Taxpayer has **180 days** to move gain into the **OZ Fund**
- Fund must be a **partnership or corporation (LLC is allowed)**
- Fund must be **90% deployed into Qualified Opportunity Zone Property 6 months after it takes in capital**
 - Safe harbor for reasonable working capital
- Declaration and deployment test will be self-certified and subject to audit (IRS Form 8996)



Qualified OZ Property



- **Must be an equity investment**
- **Property must have been purchased by an unrelated party after Jan 1, 2018**
- **Business investment:** Businesses must have a majority of their a) employee hours b) revenues OR c) management and operations within an OZ to qualify
- **“Sin businesses” are excluded, marijuana companies probably not allowed**
- **Real estate:** Most property must be substantially improved = doubled in value (unless it is original use)

CO Opportunity Zone Program

The Mission: Position Colorado as a leading destination nationally for capital investment in Opportunity Zones, and use this investment to benefit distressed communities

Nomination

- *Designating 126 Opportunity Zones across the state*

Education

- *Spreading the word to investors, community leaders, business owners and other stakeholders*

Community Support

- *Empowering communities to understand how Opportunity Zones work and how they can benefit*

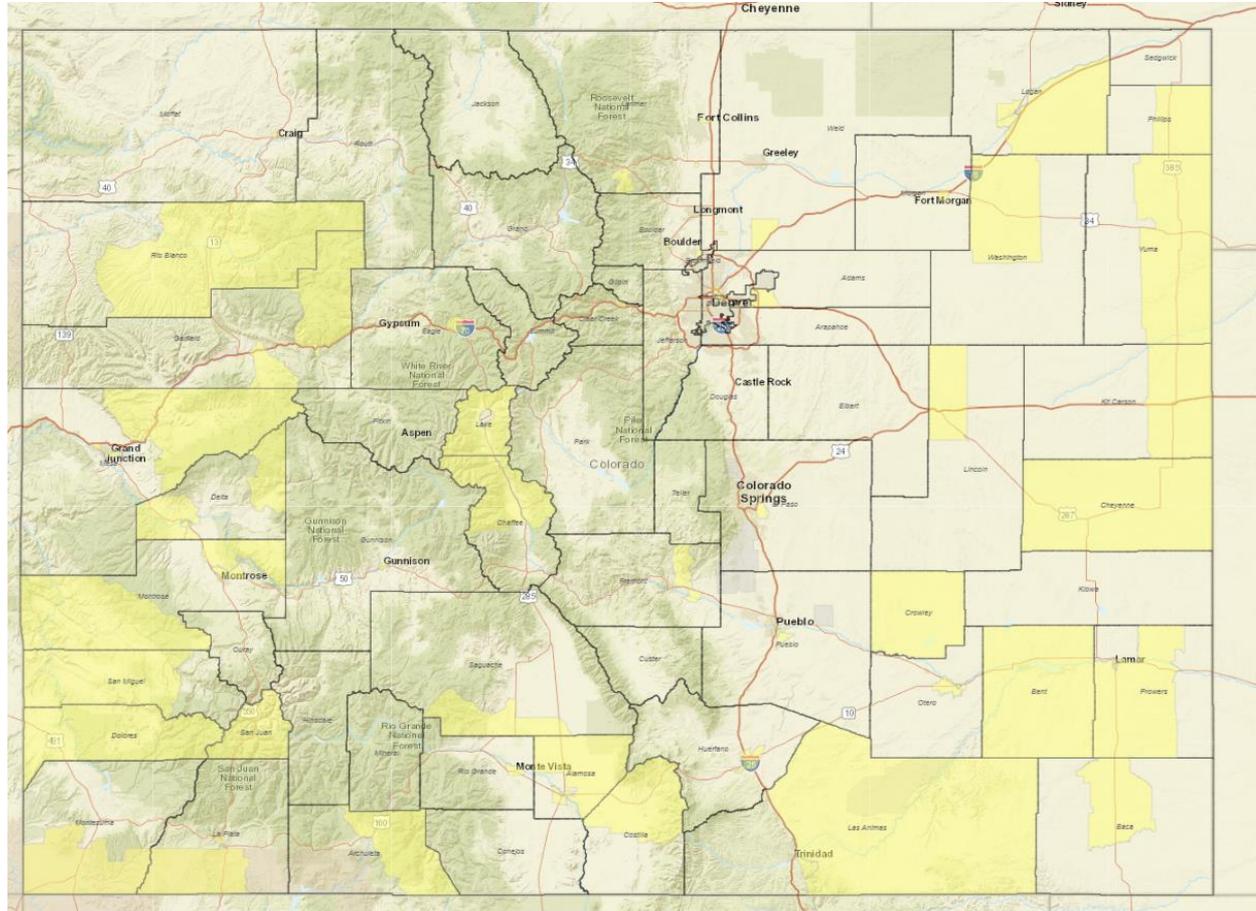
Investment Facilitation

- *Helping capital and projects find each other*



Colorado's Opportunity Zones

- Nomination
- Education
- Community Support
- Investment Facilitation



Interactive map: www.choosecolorado.com/oz



Identify your general OZ strategy

Which strategy best describes your community?



Guiding Questions for Communities

- Overall:
 - What types of investment does the community need? (i.e., housing, infrastructure, entrepreneurship)
 - What assets does the community have available? (i.e., town-owned land, anchor institutions, infrastructure, workforce)
 - What would be the top ~5 most developable projects that would benefit the community?
- For particular OZ projects:
 - What is the projected rate of return?
 - What can the community add to make them more attractive? (i.e., additional incentives, fast-tracked permitting, etc.)
 - Who are the participants we need to be involved? How and where can we reach them?

Potential Next Steps

- ❑ Hold an OZ convening
 - Investors, developers, business owners, philanthropy, non-profits, anchor institutions
- ❑ Begin building a prospectus telling the story of growth in your community
 - Not typical economic development marketing doc – needs investor led
 - Data sources: Enterprise Opportunity360, DOLA site
- ❑ Begin identifying potential OZ projects
 - Review comp plan and other documents for ideas that can be augmented with private capital
 - Think about other incentives that can be layered on
- ❑ Identify and pitch to investors
 - Start local – move outward

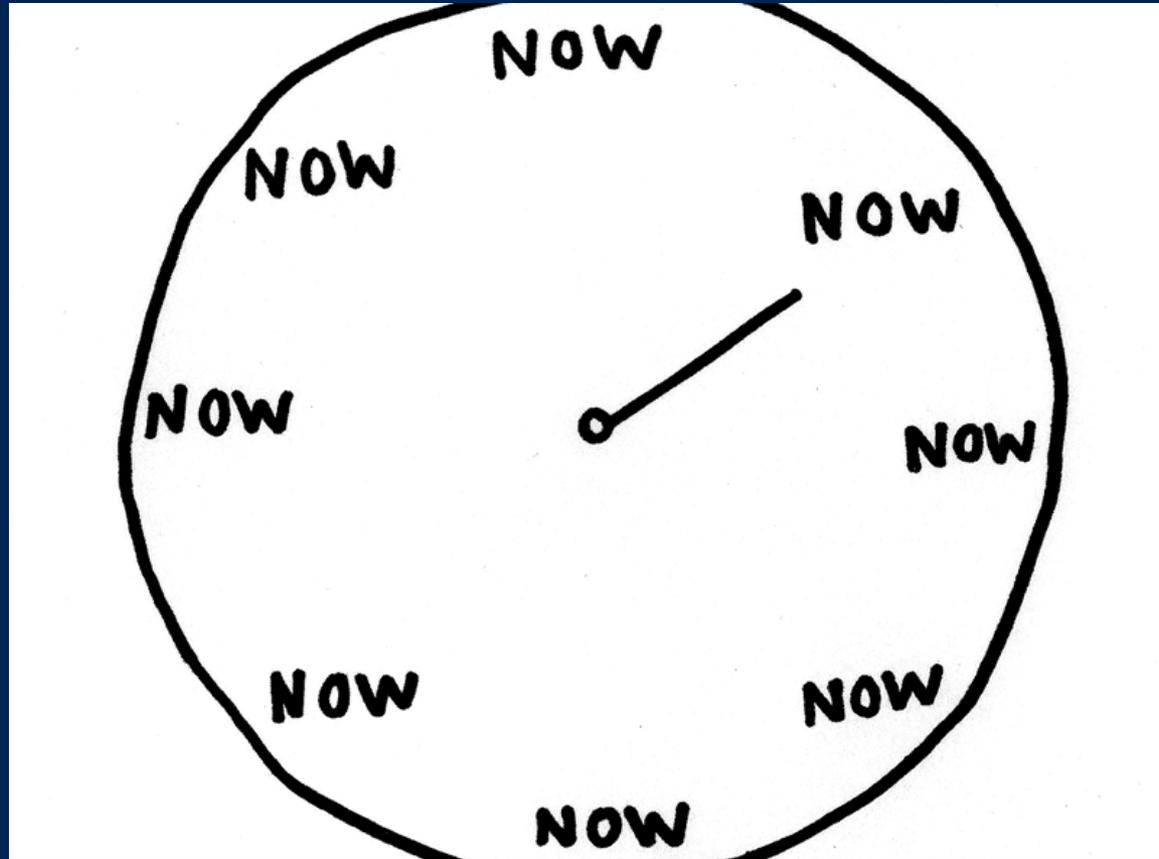
Five Messages to Communities





1. Be Proactive

2. Urgency is Key





3. Think like an Investor



4. Layer additional programs and incentives

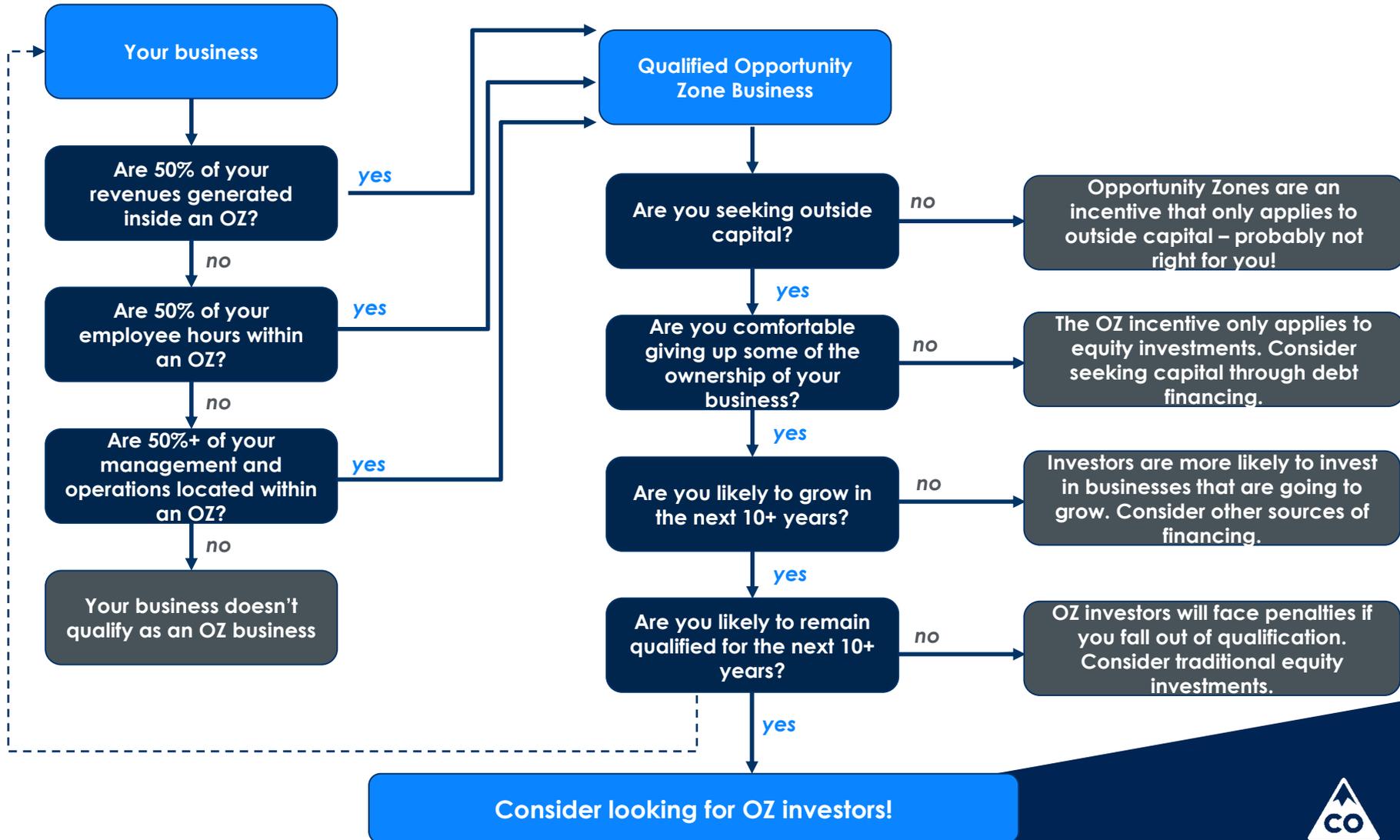
5. Opportunity Zones are just one tool in the toolkit



The main benefit for businesses is easier access to equity investors

Basis for comparison	DEBT	EQUITY
Meaning	Borrowing a fixed sum from a lender which is paid back with interest	Selling a percentage of the business to an investor in return for capital
Creates	An obligation	Ownership
Term	Usually a fixed, comparatively short term	No fixed term
Types	Bank loans, credit cards, bonds, convertible notes, etc	Shares, preferred shares
Return	Fixed and regular	Variable and irregular
Nature of Returns	Interest + repayment of principal	Dividends + proceeds from sale
Collateral	Secured against the assets of the business	Unsecured

Are OZs right for your business?



Resources for Businesses



- **Co-Invest**
www.co-invest.co



- **Upcoming pitch events – stay tuned!**
www.choosecolorado.com/oz



- **OEDIT Technical Support Grants**
www.choosecolorado.com/oz

Overall Resources

Data Sources

- Opportunity360 - <https://www.enterprisecommunity.org/opportunity360>
- State Demographers Office - <https://demography.dola.colorado.gov/>
- Census Bureau Site - <https://www.census.gov/>
- Bureau of Economic Analysis - <https://www.bea.gov/>

Grants

- DOLA Planning Grants - <http://choosecolorado.com/wp-content/uploads/2018/08/OppZone-1.pdf>
- OEDIT Technical Support Grants - https://choosecolorado.com/wp-content/uploads/2019/03/OZ-Technical-Support-Grant_March-2019.pdf
- EDA Grants
- HUD Grants

Policy Frameworks

- OZ Impact Framework - <https://ozframework.org/>
- Equitable Economic Development - <http://www.policylink.org/sites/default/files/>
- OZ Policy Strategies and Opportunities - <http://choosecolorado.com/wp-content/uploads/2018/08/Opportunity-Zones-Policy-Strategies-Opportunities-updated.pdf>

Fact Sheets

- Opportunity Zone Fact Sheet - <https://eig.org/wp-content/uploads/2018/07/Opportunity-Zones-Fact-Sheet-7.6.18-Update.pdf>
- IRS FAQs - <https://www.irs.gov/newsroom/opportunity-zones-frequently-asked-questions>



OZ Projects in Colorado

CRANE WATCH

COMMERCIAL REAL ESTATE

One of Denver's first big opportunity zone plays kicks off with a \$155M project

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By Staff Writer - June 18, 2019



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players at one of

Powderhorn ski area uses Opportunity Zone tax credits to lure deep-pocketed investors

Powderhorn's owners hope the Walton family's investment arm ZOMA Capital will help speed improvements at the ski area above Grand Junction

OCT 31, 2018 12:02PM MDT | OUTDOORS

Jan 23, 2019

GJ opportunity zones gaining strong interest

By JOE VACCARELLI

Related Content
GRAND JUNCTION OPPORTUNITY ZONES

A search on the Grand Junction Economic Partnership website shows there are 94 commercial real estate properties available inside designated opportunity zones in the Grand Valley. But check back in a few weeks and that number is very likely to go

Montrose wants a piece of Colorado's \$62.5 billion outdoor recreation economy with new 150-acre business campus

Layers of federal, state, city incentives luring outdoor companies, including one of Colorado's first Opportunity Zone investment projects

For discussion:

What projects do you have that could benefit from private capital?

How can we partner to increase our impact overall?

