

An aerial photograph of Pittsburgh, Pennsylvania, showing a dense residential area in the foreground and a city skyline with several skyscrapers in the background. The sky is overcast. The text is overlaid on the image.

# Opportunity Zones Explained

September 17, 2019

Pennsylvania Community Foundation Gathering

Penn State Inn and Conference Center

**Grantmakers**  
OF WESTERN PENNSYLVANIA  
*excellence in philanthropy*

An aerial photograph of Pittsburgh, Pennsylvania, showing a dense residential neighborhood in the foreground with various colored houses and a prominent church with a steeple. In the background, the city skyline is visible, including several tall skyscrapers, one of which has 'UPMC' written on its top. The sky is overcast.

**Presented by:**

**Stephanie Chernay, Chief Operating Officer,  
Neighborhood Allies**

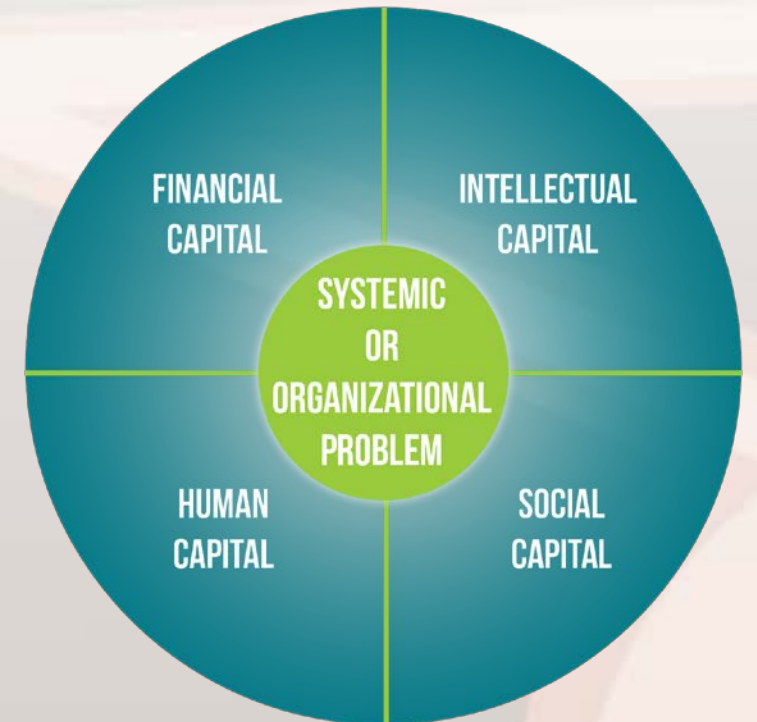
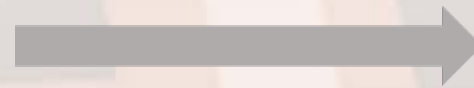
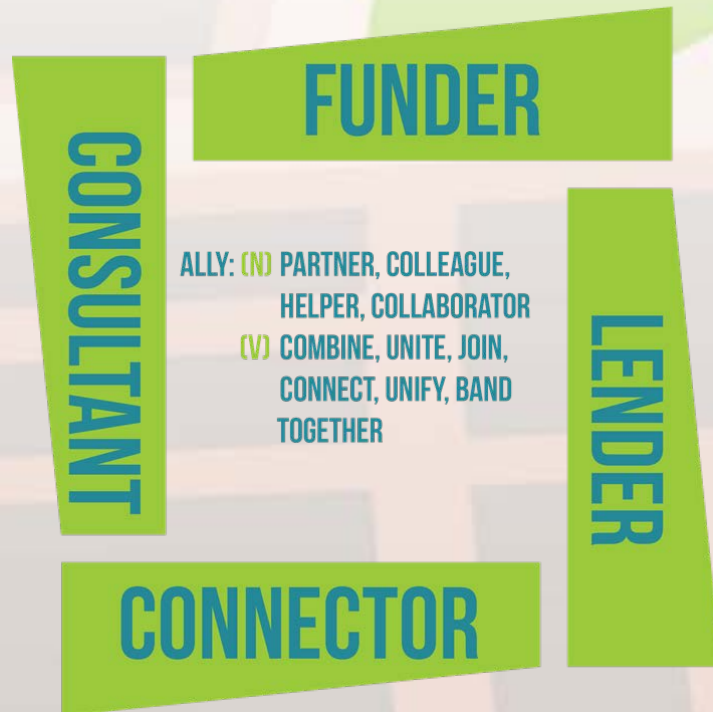
**Michelle Walker, Founder & Principal, Walker  
Philanthropic Consulting**

**David Weber, Policy Analyst, Public Housing Authorities  
Directors Association**

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# NEIGHBORHOOD ALLIES

Neighborhood Allies is a unique and accomplished community development intermediary organization that is leading reinvestment in Pittsburgh's revitalizing communities. We are comprehensive and multifaceted - providing financial, intellectual, human and social capital to the community development system. We catalyze fresh thinking, take strategic risks, test new approaches and track progress to transform distressed neighborhoods into communities of opportunity.





# OPPORTUNITY ZONES – TOPICS COVERED

## What is an Opportunity Zone

- How Do They Work and What are the Benefits?
  - Who benefits and how?
- Identifying stakeholders and their interests
- Risks
- Making Opportunity Zones Work for neighborhoods
  - Where is it happening?
  - Who is doing what to pursue this goal?
  - What evaluations are possible?

# WHAT IS AN OPPORTUNITY ZONE?

## What is an Opportunity Zone?

A Census Tract or group of tracts where real estate and businesses are able to accept an investment at a tax advantage to the investor and therefore at a lower cost to the real estate or business.

## How were the Opportunity Zones Chosen?

- Opportunity Zones were added to the law as part of the 2017 Tax Cut (Tax Cuts and Jobs Act that went into laws on 12/22/17)
- Each Governor across the US was allowed to chose 25% of the low and moderate income census tracts within each State (States chose in April-June 2018).

<https://www.irs.gov/newsroom/opportunity-zones-frequently-asked-questions>

# Who Benefits, and What are the Benefits?

- **Investor – Deferral and reduction of taxes on original gain, exclusion of tax on gains in investment held 10 yrs**
- **Developer/Entrepreneur – New source of riskier, long term capital at reduced cost**
- **Community – IT DEPENDS**
  - **Depends on context and characteristics of community**
  - **Potential positives – new jobs, higher wages, revitalized community, new amenities and opportunities**
  - **Potential negatives – Potential for displacement through rising rents, conversion of low quality, inexpensive housing to higher quality, higher rents (accelerated gentrification)**

# WHAT ARE THE TAX BENEFITS OF OPPORTUNITY ZONES?

*Only those with unrealized capital gain can take advantage of the tax benefits.*

There are two types of Tax Benefits:

- 1. Benefits on existing or created unrealized capital gain.** The gain is invested in a *Qualified Opportunity Fund* (a QOF, which must then invest 90% of its assets in a qualifying investment in an Opportunity Zone).
  - **Defer tax liability** on that gain for as long as it remains appropriately invested (until 2047?).
  - **Reduce the tax** on that gain by 10% with a 5 year hold, and 15% with a 7 year hold.
- 2. New capital gains resulting from the new investment in an OZ are TAX FREE if occurring after 10 years.**



# Review of Investments Requirements

- **General Regulatory Requirements**
- **Qualified Opportunity Zone Business Requirements**
- **Opportunity Zone Investment Returns vs. Tradition Investment Returns**
- **Key Takeaways and Bottom Line for Investors, Developers, Entrepreneurs**

# General Requirements – Real Estate

- **Timing Requirements dictate deadline for taxpayer to invest in Qualified Opportunity Fund (180 days)**
- **Fund must hold 90% of property in Qualified Stock, Partnership Interests, or Qualified OZ Business Property**
- **Qualified OZ Business Property (QOZBP):**
  - **Must be acquired by purchase after 12/31/17, AND**
  - **Substantially all of use of property in the OZ, AND**
  - **Either:**
    - **Original Use commences with the Opportunity Fund/Business (“Original Use” regulations and guidance still to come), OR**
    - **The property is substantially improved (within 30 months, spend at least as much as the purchase price on improvements, i.e. double the basis, not including land).**

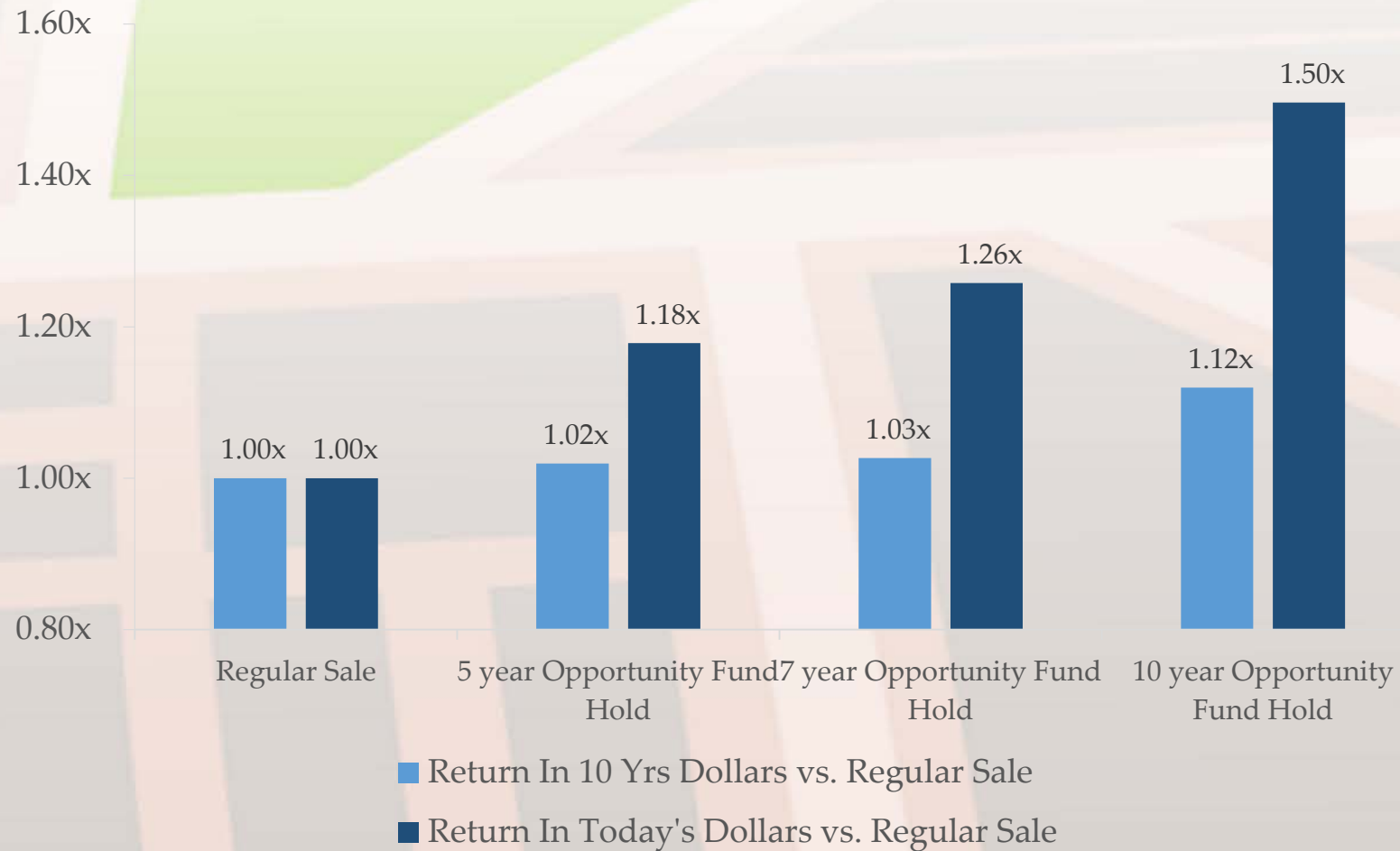
# General Requirements – Operating Business

- Substantially all tangible property owned or leased by the business is QOZBP (Substantially all = 70%)
- At least 50% of Gross Income is derived from Active conduct of Biz
- Substantial Portion of Intangible property used in Active conduct of Biz
- Less than 5% of aggregate unadjusted basis of property is attributable to non-qualified financial property (NQFP – does not include reasonable working capital held for up to 31 months for identified project with written plan and substantial compliance with the plan)
- No “Sin Business” Activity (Golf courses, Liquor Stores, Massage Parlors, Gaming, Tanning, etc.)

# Basic Comparison of QOF Investment v. Traditional



### Financial Incentive of Opportunity Zones



# **Key Takeaways For Investors, Developers and Entrepreneurs**

## **Low Hanging Fruit**

- **New Construction**
- **Substantial Rehab/Adaptive Reuse**
- **Startups**

## **Tougher Questions**

- **Relocations**
- **Expansions**
- **New Uses/Underutilized/Abandoned Properties**

# Bottom Line & Key Concepts For Investors, Developers, and Entrepreneurs

## Bottom Line:

Opportunity Zone benefits should be considered as you purchase, sell, or navigate community engagement in the real estate & businesses of your neighborhood because the advantages are material and the risks should be mitigated where possible by community members.

# Approaches from a Community Perspective

**Investors are the only entities eligible for the Tax benefit:**

- **Types**
- **Categories**

**Who is 'receiving' the investment?**

- **Geographic area**
- **Real Estate Owners and Developers**
- **Businesses**

# Community Opportunities

- Opportunity Zones look different from city to city, brownfield to rural area
- Aggregate resources to support healthy absorption of the capital help:
  - Workforce Development
  - Infrastructure
  - Health and Safety
- Compete for the types of investments you want to see in your neighborhoods/priority areas
  - Land Assembly
  - Comprehensive Community Plans
  - Market Studies
  - Investment Prospectus





# Consider: Who Invests In Opportunity Zones?

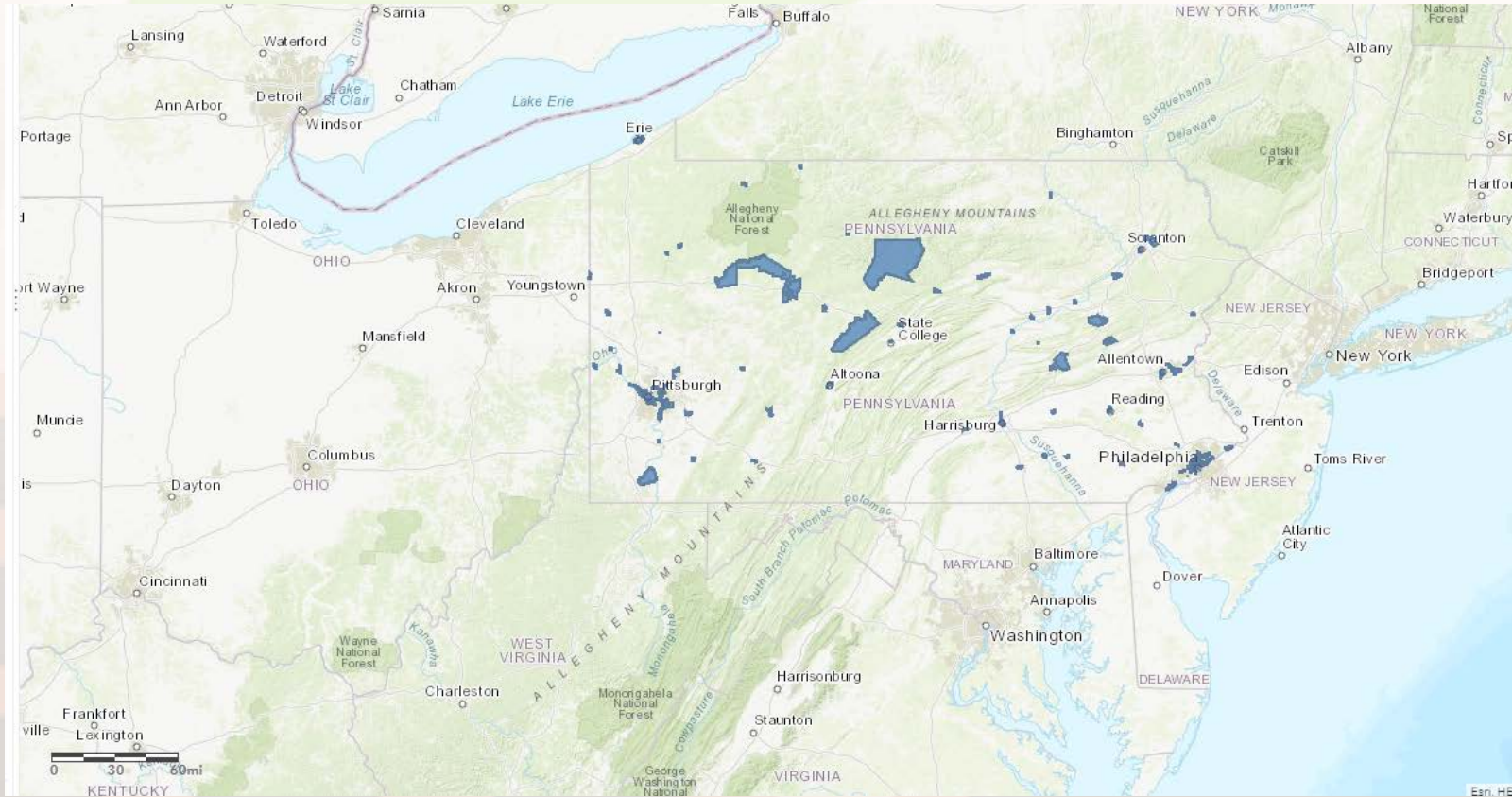
- **Types of Investors**
  - Individuals
  - Corporate (may include banks, pension funds, etc.)
  - Fund Managers (those who manage investments and investment funds for other investors).
- **Categories of Investors – all want basic return on investment.**
  - Traditional – Want return and/or tax break
  - Venture Capital – Big potential upside for successful businesses
  - Mission Driven – Have additional goals beyond financial return:
    - Individuals with a larger goal – leading an ‘Impact Investor’ movement.
    - Banks and related entities – driven by CRA (Community Reinvestment Act) Credits
    - Anchor Institutions – may have investment ability or related entities, and have a larger stake in success of the area due to their larger business investment
    - **COMMUNITY FOUNDATIONS**

# Who is “Receiving” the Investment – Identifying Stakeholders

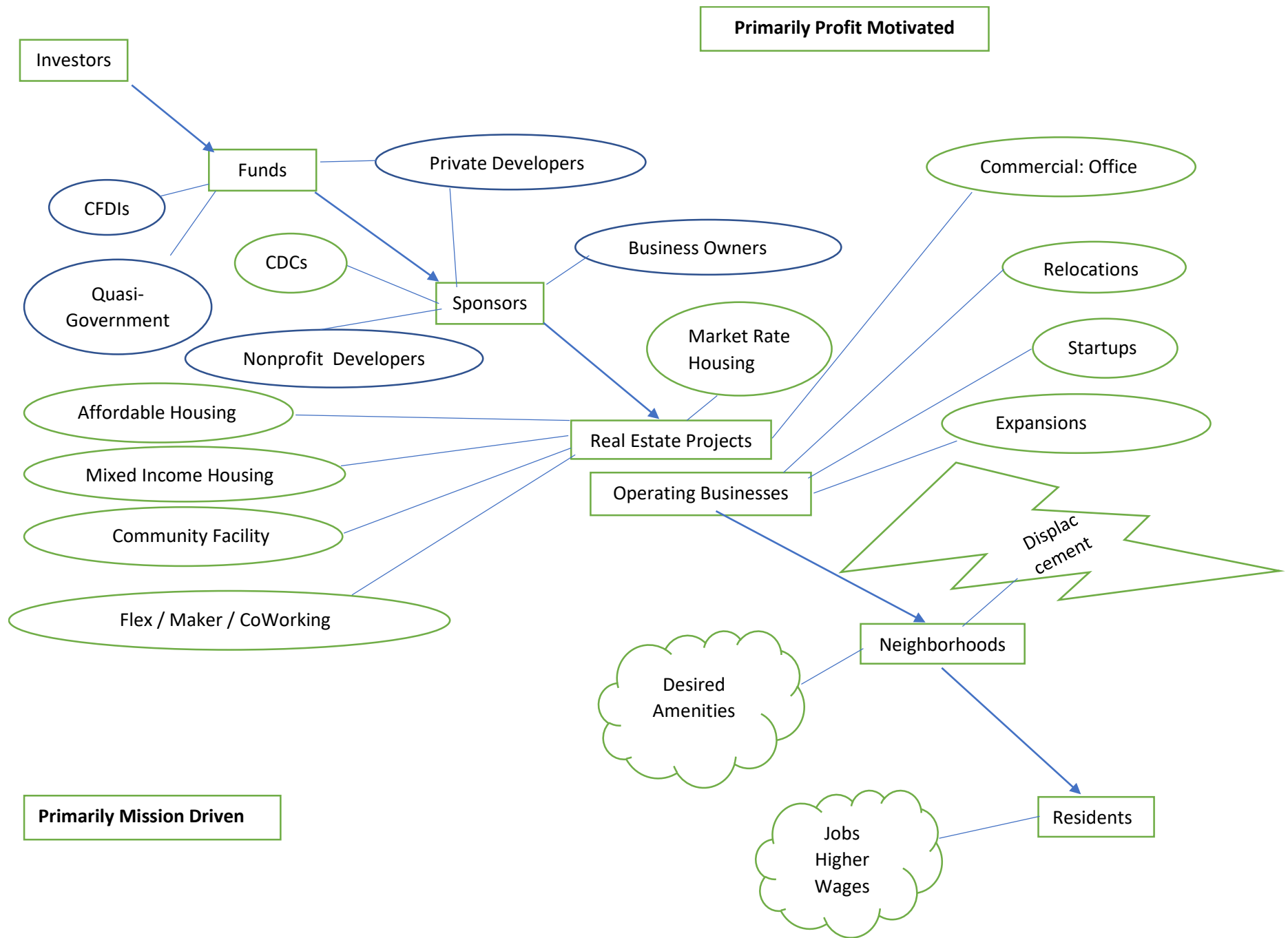
- Opportunity Zone is a Physical Location, so any and all governments with jurisdiction have a stake and are ‘receiving’ investment:
  - Municipal, County, State Governments
  - Independent and quasi-governmental Authorities (Housing, Redevelopment, Water & Sewer, Port/Transportation, Parking, Etc.)
- Real Estate Developers/Landowners
- Business – New or existing businesses that will locate (or significantly expand) within the zone.

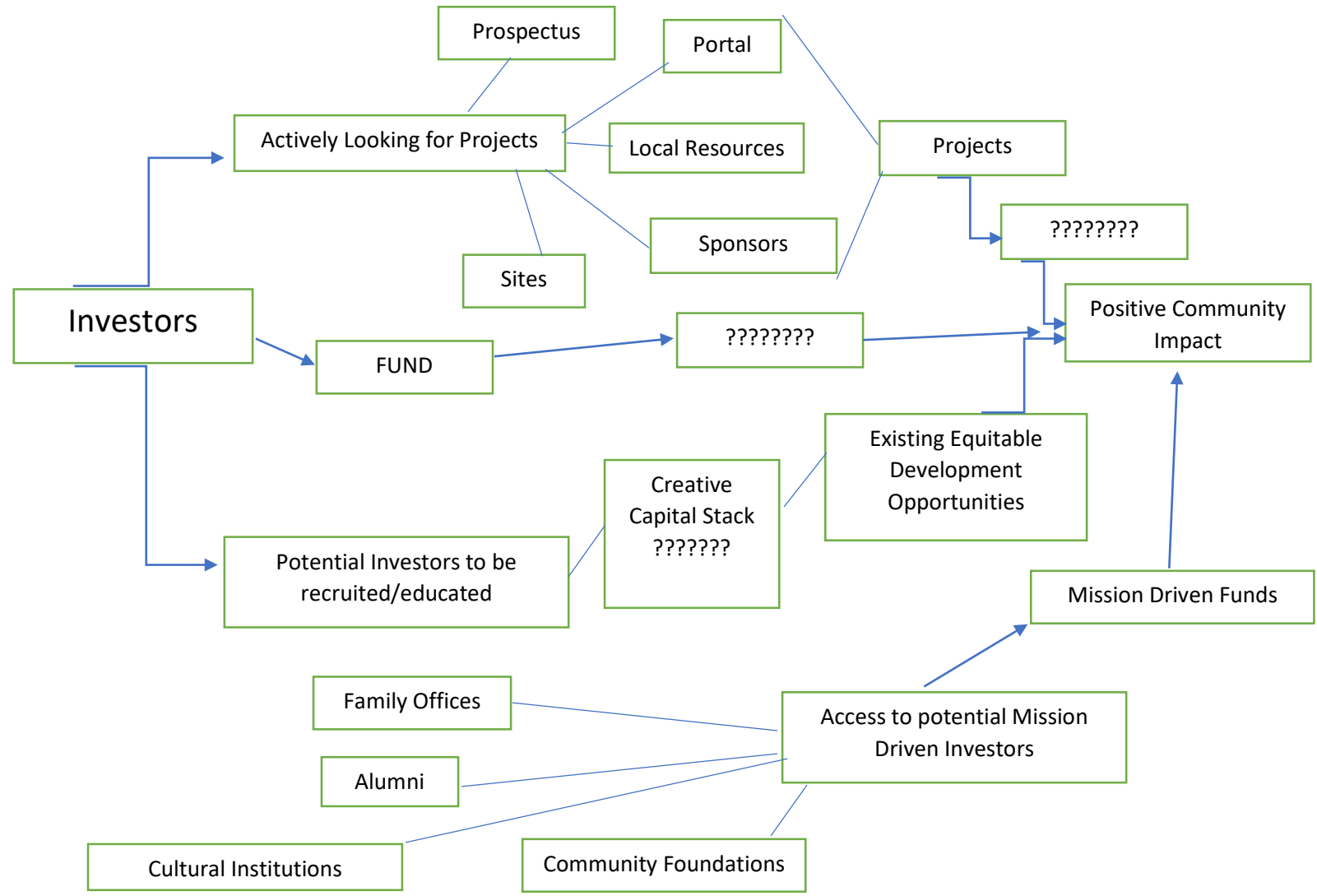
**NOTE: None of these entities receive the tax benefit directly, they benefit from the potential of lower cost financing/investments**

# PA Department of Community and Economic Development Look-up Tool



<http://dced.maps.arcgis.com/home/webmap/viewer.html?webmap=b0bd4d703ddc498fb0a993a00d77ed4c>

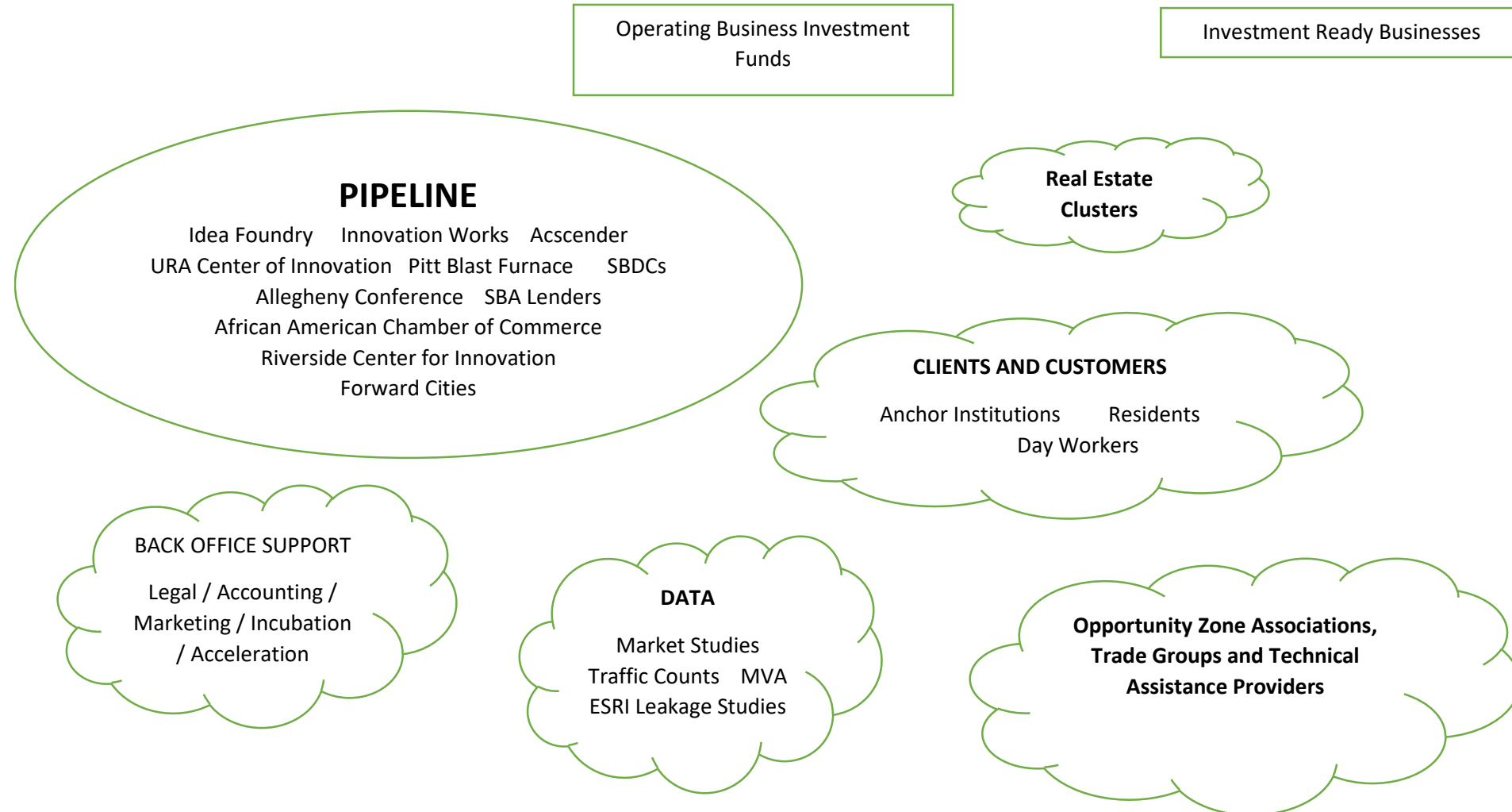




## Operating Businesses

### RESOURCES TO SUPPORT BUSINESSES AFTER THE INVESTMENT

Anchor Institutions (procurement and training); local chamber of commerce, Allegheny Conference, a TBA entity that would provide professional services such as accounting, basic legal and back-office support; SBDCs; SBA Lender TA; Riverside Center for Innovation, African American Chamber



# Disparate Goals; Different Stakeholders

- **Investors want tax break and return on investment.**
- **Developers and Businesses want cheaper capital, and perhaps capital that would not otherwise have been available.**
- **Localities/Communities may also have divergent goals:**
  - **Municipalities may be primarily interested in expanding the tax base.**
  - **Neighborhoods may be most interested in jobs, or in physical improvements to the neighborhood such as more or improved housing and/or affordable housing.**
  - **Some may not want the additional investment and would prefer the status quo.**

# RISKS

- **Investors and Developers will take advantage with little or no benefit to the neighborhood (“How a Trump Tax Break to Help Poor Communities Became a Windfall for the Rich,” *The New York Times*, August 31, 2019.)**
- **Investments will result in few economic opportunities for current residents.**
- **Investments will lead to or accelerate gentrification and displacement of existing low-income households.**
- **Investments will be short-lived, creating short/medium term benefits for investors, but leaving the neighborhood even more disadvantaged after 10 years.**



# **Making Opportunity Zones Work for Communities**

## **- Where are things happening?**

- 1. Areas that were ready for development before their designation as Opportunity Zones.**
- 2. Where there is leadership in organizing information on specific zones and marketing to investors, fund managers, etc.**
  - a) Erie**
  - b) Alabama**
  - c) Maryland**
- 3. Where specific projects or groups of projects are being connected to investors.**

# Making Opportunity Zones Work for Communities - Evaluations

- Currently **NO REPORTING REQUIREMENTS** in the law.
- Impact Investing Alliance has developed a recommended Framework.
- Difficult to evaluate place-based initiatives, as it is very difficult to create a ‘control group’ or ‘counterfactual condition.’

***“Focusing on the issue of evaluations, the most important thing HUD can do is to continue to press the Treasury Department and the Internal Revenue Service for the most basic evaluation data that is required here, which is the flow of investments that claim Opportunity Zone advantages as without that, there really is no hope.”*** - Professor Robert Stoker, George Washington University, during a HUD Office of Policy Development & Research Huddle forum on Opportunity Zones, June 20, 2019.

# **Making Opportunity Zones Work for Communities - Evaluations (Cont'd)**

There **ARE** opportunities for local evaluation of results:

- **States and Localities can require certain reporting.**
- **Local Use of Impact Investing Standard, or locally developed matrices.**
- **Negotiating with owners, developers, investors for impacts and reporting.**
- **Community Census approach to track individuals and households currently in the zone that are hoped to be positively impacted.**

# What can communities do to spur investment, ensure positive local outcomes, and measure impacts?

- **Bring players together to:**
  - **Coordinate**
  - **Streamline**
  - **Align other incentives**
  - **ARTICULATE VISION AND OPPORTUNITY!**

# What can communities do to spur investment, ensure positive local outcomes, and measure impacts?

- **Governments and Non-profits can lead and provide coordinating resources.**
- **Foundations can provide resources to play that coordinator and navigator role (Kresge, Rockefeller)**
- **Organize to limit and control investments to reduce risk (Boulder)**
- **See How Philanthropy Can Ensure Opportunity Zones Ensure Widespread Economic Renewal, Chronicle of Philanthropy, April 25, 2019**

# What can communities do to spur investment, ensure positive local outcomes?

- **General Approach – all the great things in your zone.**
- **Specific Approach – identify specific potential projects the neighborhood wants – be in traditional industrial, residential, mixed use, new business – Have a vision with support!**
- **Utilize an Investment Prospectus! Models and a Guide to creating a Prospectus can be found at [Accelerator for America/tools](#).**

# Who will be successful?

- Places that can:
  - **Articulate** a clear vision with broad support improves chances for success and thus **REDUCES RISK FOR THE INVESTOR.**
  - **Streamline** and assist with local processes and approvals (and other possible incentives). These time-consuming, costly, disconnected and unpredictable processes can cause delays and cost increases. Confusions, delays, and potential for unexpected impacts create additional risk and scare off investors. Minimizing those risks can be key.
  - **Coordinate** local efforts so everyone is on the same page and demonstrates support. Negotiate out local conflicts early to ensure unity of vision and support for projects. This may include zoning variances or changes.

# Opportunity Zones & Community Foundations

8 Ways to be Engaged





# Before We Dive In

- Using an intellectual capital lens
- Charitable purpose: engaging in OZ work is consistent with IRS rulings on charitable purpose of public charities
- Values alignment: ensure your engagement fits with and amplifies your organization's values
- Consult with your legal and financial professionals

# Community Foundations & Intellectual Capital

## Human Capital

- Internal staff capabilities and talents
- Relationships with donors
- Trust and services provided to donors
- Trust and relationships with grantees

## Structural Capital

- Financial and fund management
- Donor contact and data
- Reporting systems and metrics

## Network Capital

- Board members
- Community connections
- Community trust and convening
- Other financial professionals

# #1: Use Your Voice

- The CF doesn't have to be actively invested to be invested in the success of a local OZ.
- Use it to champion OZ investments that fit with community-oriented goals
- Share examples of what is working or projects that align with the CF's strategies and objectives for grantmaking.
- Educate the community, donors and others on what is happening in the OZ in your community

# #2: Educate Everyone

- As a public charity, a CF is an important resource for educating the community.
  - Donors
  - Nonprofit groups in the OZ
  - Small businesses and owners
  - Developers
  - Potential donors
  - Wealth managers & financial professionals
  - Government officials & practitioners
  - Incubators
  - Residents
- If you don't have the expertise in house, there are plenty of groups who do.
- Maintain a set of resources, including professionals, that can assist people looking for information or tools.
- Maintain a list of ready investment opportunities, or know who has this.

# #3: Convener

- Once a CF has a sense of what role they can or want to have in Opportunity Zones, then they can exert their influence to convene.
- Have you heard from the community or your donors that direction is needed – even if your CF doesn't want to lead can it be a neutral gathering place?
- Think about how it can be more than the usual cast of characters.
- How can convening bring together OZ that are not adjacent or even served by your CF, but might benefit from working together: is there a regional need or regional economy that benefits from more resources and network capacity at the table?

# #4: Partner

This is where the recommendations start to tip into hands-on work and should be done with the appropriate professional counsel and planning.

- CF taking the lead in supporting prospectus development, connecting investments with QOFs
- Collaborating with other CFs to bundle OZ opportunities
- Provide technical or capacity building services/grants to QOZ organizations/businesses
- Support the OZ residents/businesses in establishing their impact metrics and investment requirements.

# #5: Advisor

A CF knows the community. Unless there is a local QOF manager in the community the fund will need some on-the-ground insight into the *idiosyncratic risks* (particularly real estate) and opportunities of investing in a particular OZ.

- Serving as a gatekeeper or trusted intermediary for the community.
- Technical assistance or consulting to QOFs
- Sourcing opportunities, setting meeting with owners and developers, identifying HNW investors.

# #6: Fundraiser

Definitely seek counsel here as securities laws may apply as well as UBTI.

Also, how does it tie into your values and the trusted advisor role you have with your donors.

- Licensing a donor list to a QOF for royalties
- Marketing a QOF directly to your donors

The exit of a QOF investor from a QOF Real Estate or Business investment is also something that will need to be capitalized.

- CF's can be a first-right-of-refusal buyer, or play a role in supporting community buy-back through various financing mechanisms and fundraising.



# #7: Co-Investor

- The CF can be an investor in a QOF Business or Real Estate. This can have several mission-related purposes even though it will not provide any tax benefits to the CF. Beyond being a capital asset diversification strategy of the assets of the CF, being a co-investor can play the role of:
  - Signaling to other investors
  - Risk capital
  - Investment strategy for capital appreciation & diversification
  - Mission-related investing
  - Closing a funding gap
- If the lead investor, there's an opportunity to set the impact and reporting terms.

# #8: Fund Manager

- CF owns and manages a QOF
  - Likely as a separate entity, but staffing and board are CF staff and board
- CF is retained by a 3<sup>rd</sup> party QOF to provide services to the QOF, such as charitable and community benefit analysis or long-term research and impact on changes to the community
  - Or provide all services related to the QOF for a fee, but are selected to retain community-level oversight for impact and community benefit.

# Walker

## Philanthropic Consulting

Michelle Walker, MA, CAP®

Principal

Walker Philanthropic Consulting

Phone: 412-983-3547

E-mail: [WalkerPhilanthropicConsulting@gmail.com](mailto:WalkerPhilanthropicConsulting@gmail.com)

Web: [www.walkerphilanthropic.com](http://www.walkerphilanthropic.com)



# DISCUSSION

## Additional Resources

- Department of the Treasury, Community Development Financial Institutions Fund, Opportunity Zones Resources: <https://www.cdfifund.gov/Pages/Opportunity-Zones.aspx>
- Economic Innovations Group: <https://eig.org/opportunityzones>
- Smart Growth America: <https://smartgrowthamerica.org/program/locus/opportunity-zones/>
- Accelerator for America: <http://www.acceleratorforamerica.com/OZGuide>
- Urban Institute: <https://www.urban.org/policy-centers/metropolitan-housing-and-communities-policy-center/projects/opportunity-zones>
- The U. S. Impact Investing Alliance: <http://impinvalliance.org/opportunity-zones>
- HUD PD&R Webcast from June 20, 2019: <https://www.huduser.gov/portal/event/opportunity-zones.html>
- MakerCity has a list of good resources at: <https://makercity.com/opportunity-zones-oz/>

# OPPORTUNITY ZONES ARE HERE

## IS PITTSBURGH READY?

The Opportunity Zone Program can become one of the nation's greatest **economic development tools**—incentivizing and facilitating meaningful investments in communities that need it most.

The establishment of new businesses stimulates community **growth** and health, particularly when local stakeholders get involved. **Developers, investors, government representatives, and community advocates** play a key role in identifying strategic plans for developing these opportunity zones. As a result, the community flourishes and grows in a more deliberate, coordinated way.

### JOIN US FOR ONE OR BOTH EVENTS:

**october 31, 2019**

8:30 AM to 12:00 PM

**doubletree by hilton**  
one bigelow square  
pittsburgh, pa 15219

\*Free, but registration required



**REGISTER ONLINE AT:**  
[pghworkshop.ozaa.org](http://pghworkshop.ozaa.org)

### FOR OZ COMMUNITY LEADERS: INVESTING IN SUCCESS WORKSHOP

In an effort to build awareness throughout the community, OZAA is hosting an informational community workshop to ensure Pittsburgh communities are up to speed on OZs. Take advantage of our national leaders and industry experts. Learn about OZs, what they are, what they mean for the community, and how YOU can take advantage of them. This session will help you or your organization identify challenges in your community and assets critical to developing deals.

### FOR ALL PITTSBURGH STAKEHOLDERS: PITTSBURGH OZ CONFERENCE

The Opportunity Zone Association of America (OZAA) is hosting Pittsburgh's first OZ Catalyst Event at Duquesne University this November. We invite participants to learn more about opportunity zones and explore the region-specific opportunities that await communities, businesses and investors alike.

#### Join us as we navigate through the following:

- Learn about OZs & how it can positively impact the region
- Identify and hear from viable OZs in Pittsburgh
- Listen to expert insights from national authorities & policy makers
- Discover how OZs have improved communities nationally

**november 1, 2019**

8:00 AM to 4:00 PM

**the power center**  
**duquesne university**  
1015 forbes avenue  
pittsburgh, pa 15282

\$25 Pittsburgh community &  
OZAA members  
\$75 General Admission



**REGISTER ONLINE AT:**  
[pittsburgh.ozaa.org](http://pittsburgh.ozaa.org)



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## WHAT ARE OPPORTUNITY ZONES?

Opportunity zones can bring economic revitalization to distressed communities across the country. The 2017 Tax Cuts and Jobs Act prompted state governments to designate their opportunity zones. Once those designations were approved by federal government, investors nationwide could begin leveraging the portions of Tax Cut and Jobs Act that encourage significant investment in any opportunity zone.

The Opportunity Zone Program can become one of the nation's greatest economic development tools—incentivizing and facilitating meaningful investments in communities that need it most. The establishment of new businesses stimulates community growth and health, particularly when local stakeholders get involved.



Pittsburgh has **28** opportunity zones in **5** neighborhoods



Pittsburgh has **716** companies on AngelList, each with an average value of **4.3 million**



Pittsburgh is home to over **306,500** people



Pittsburgh has a total opportunity zone population of **58,876**

## THANK YOU ROADSHOW SPONSORS:



### INTERESTED IN BECOMING A SPONSOR?

Contact Aaron Grau, OZAA Executive Director at [aaron.grau@ozaa.org](mailto:aaron.grau@ozaa.org) for more information.



**NEIGHBORHOOD ALLIES**  
**429 FOURTH AVENUE, SUITE 1900**  
**PITTSBURGH, PA 15219 [www.neighborhoodallies.org](http://www.neighborhoodallies.org)**

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