Opportunity Zones: DRAFT Introduction and Key Points
March 2018

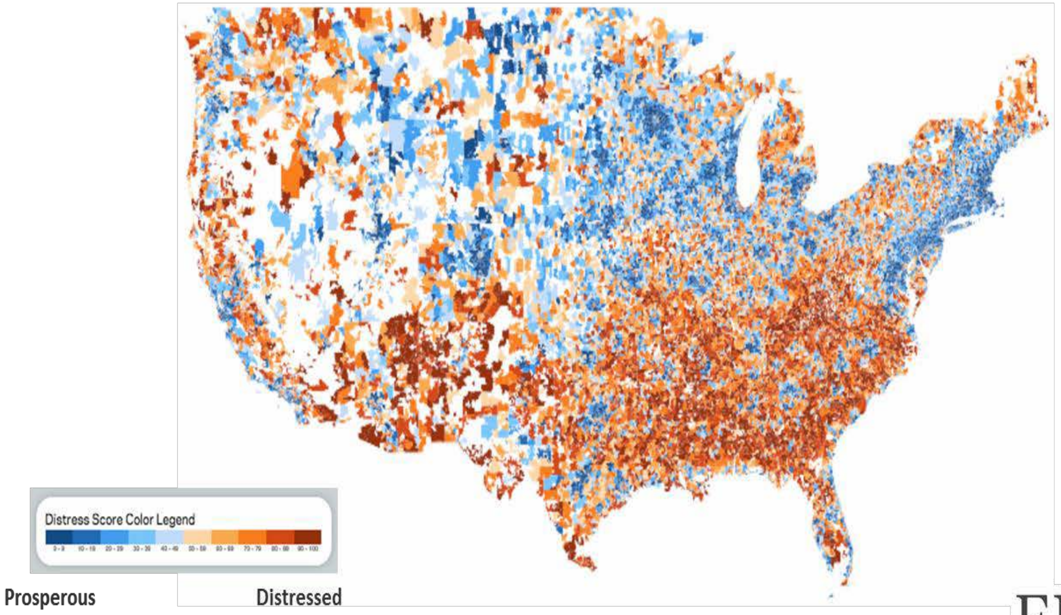
Sources: EIG.org and LISC.org

National economic growth fails to reach most of the country’s distressed zip codes

- More than half of the country’s distressed zip codes contained **fewer jobs and places of business in 2015 than they had *in 2000***.

- The U.S. is **missing about 100,000 startups a year** right now; More firms **closed than opened** in three out of every five U.S. metro areas in 2014.

- Conventional approaches to economic development have failed to turn these communities, home to tens of millions of Americans, around.



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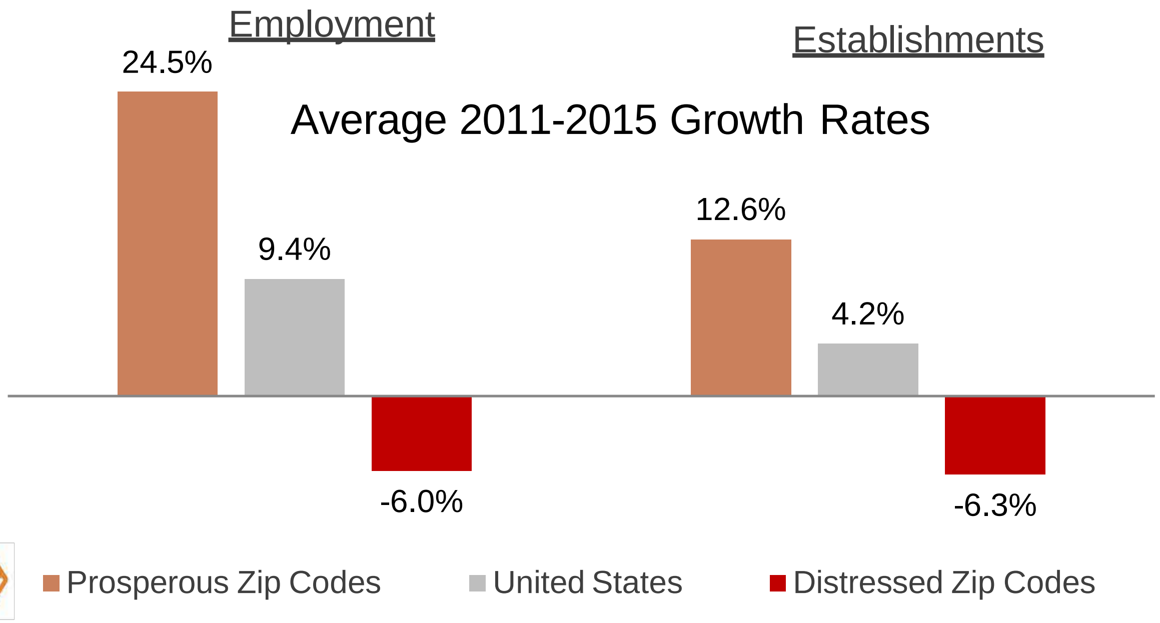


Source: EIG.org

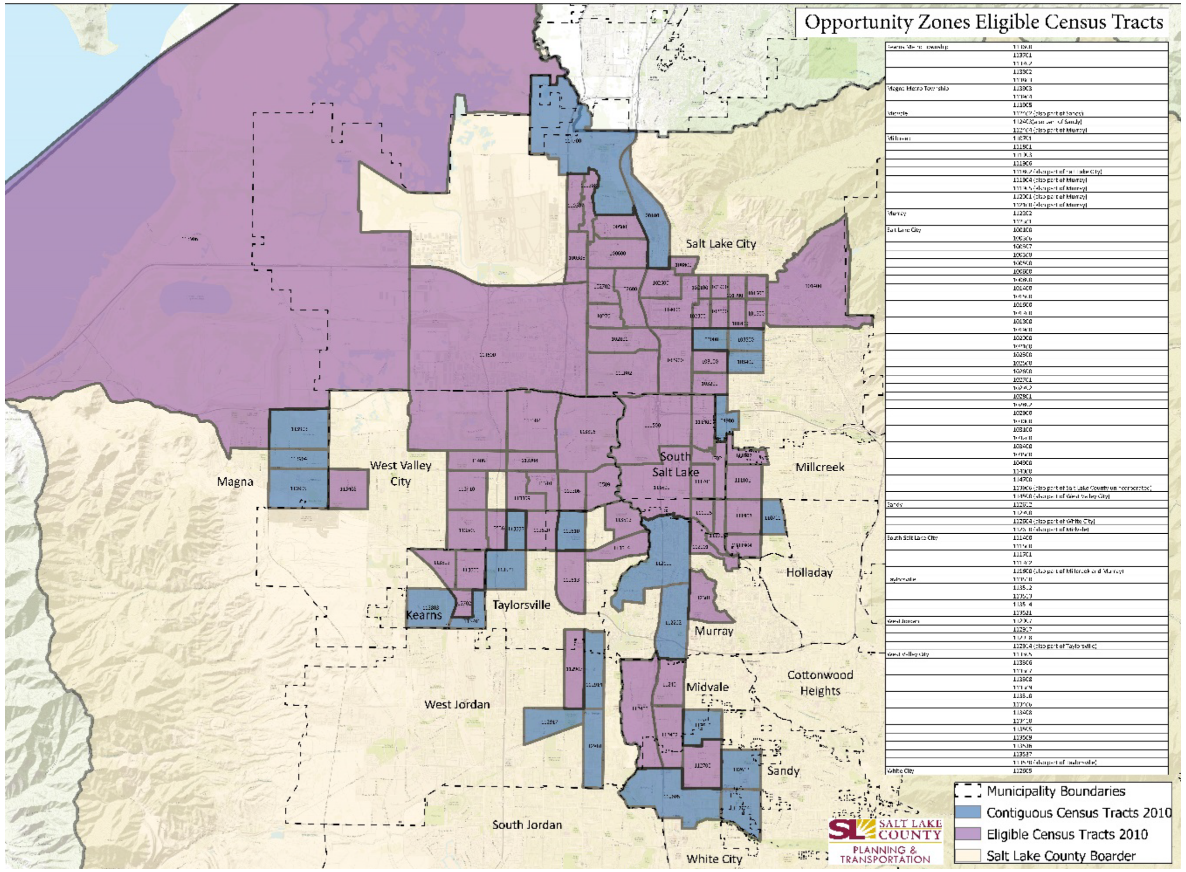
Opportunity Zones can help catalyze growth and opportunity in communities that desperately need it

- The Opportunity Zones program was established by Congress in the 2017 Tax Cut and Jobs Act to **spur long-term private sector investments** in low-income communities nationwide.

- The program offers a frictionless way to **reinvest capital gains** into distressed communities through Opportunity Funds, in exchange for a graduated series of incentives tied to long-term holdings.

- This program is the first new national community investment program in over 15 years, and has the potential to be the largest economic development program in the U.S.

- Governors can select 25% of their state's low income census tracts for designation as qualified opportunity zones
  - Utah has 181 eligible zones, meaning 46 can be nominated
  - SLCO has 64 eligible zones, 25% of which is 16
  - Governor Herbert has **until April 21, 2018** to submit them



How do Opportunity Zones work?

The Opportunity Zones program offers investors three incentives for putting their capital to work rebuilding economically distressed communities:

Temporary Deferral

1. A **temporary deferral**: An investor can defer capital gains taxes until 2026 by putting and keeping unrealized gains in an Opportunity Fund.

Step-Up In Basis

2. A **reduction**: The original amount of capital gains on which an investor has to pay deferred taxes is reduced by 10% if the Opportunity Fund investment is held for 5 years and another 5% if held for 7 years.

Permanent Exclusion

3. An **exemption**: Any capital gains on investments made through the Opportunity Fund accrue *tax-free* as long as the investor holds them for at least 10 years.

What are Opportunity Funds?

- **What?** Opportunity Funds (**O-Funds**) are investment vehicles organized as corporations or partnerships for the purpose of investing in qualified Opportunity Zone property.
    - Funds must hold at least **90% of their assets** in such property and will be audited twice yearly.
    - All investments that that seek to benefit from the tax advantages of the program *must* be made through an O-Fund.
- **Who?** Institutional investors and investment banks, impact investors, CDFIs, multifamily offices, philanthropies, venture capital partnerships, angel groups, REITs and more can **invest in or establish their own** Opportunity Funds.
    - Funds are expected to **differentiate themselves** along multiple lines, from geographic scope to investment type to management style.
    - **Localities** may be able to set up their own funds as well.

What can Opportunity Funds invest in?

- There are three types of business property eligible for investment:
  - Original-issue **stock** of a qualified opportunity zone **corporation**.
  - **Interest** in a qualified opportunity zone **partnership**.
  - **Tangible property** used in qualified opportunity zones.
    - If the original use does not commence with the O-Fund investment, then the property must be substantially improved in order to qualify.
- In laymen's terms, that means there are a lot of investment opportunities: **high-growth startups, main street businesses, real estate, manufacturing facilities, brownfield redevelopment, entrepreneurship incubators and accelerators, co-working spaces, rental housing, affordable housing, and more.**
    - *So-called "sin" businesses are excluded.*

How do Opportunity Zones build compare to other geographically-targeted community investment programs?

The Opportunity Zones program incorporates lessons learned and builds on past place-based economic development incentives in several ways:

- All incentives pertain to **capital gains**, tapping into resources that were previously on the sidelines of economic development.
- It is **targeted**: By narrowing the number of Low-Income Community census tracts that are eligible, the program concentrates capital where other programs spread it too thinly.
- It is **simple**: After meeting basic qualifications, investors and businesses face none of the wait times or micromanagement that limited the uptake of past programs.
- It is **flexible**: The program is specifically designed to foster various types of investment.
- It provides **no up-front subsidy** and doesn't pick winners: Funds and investors make their own decisions.
- It rewards **patient capital**: All incentives are tied to the longevity of the investment.
- It is **designed more for startups** than incumbents.
- It is **scalable**: With no cap from appropriations, the program can scale to match investor demand.
- It gives investors a **stake in communities' future**: Most programs reward individual projects; this one ties investor payoff to community success.

Process and Timeline

February 26-March 29: County/City dialogue on tract selection

- March 6th: SLCO Economic Development hosted "Lunch and Learn" at the Utah State Capital where all Mayors, economic development officials, and other stakeholders were invited
- March 15th: Meeting with affordable housing stakeholders
- March 23rd: Meeting with Poplar Grove and NW Quadrant stakeholders

April 2nd or 3rd: Public meeting for comment

April 4: Designation recommendations submitted to WFRC by counties

April 9: Designation recommendations submitted to Governor's Office by WFRC

April 20: Designation recommendations submitted by Governor to Treasury