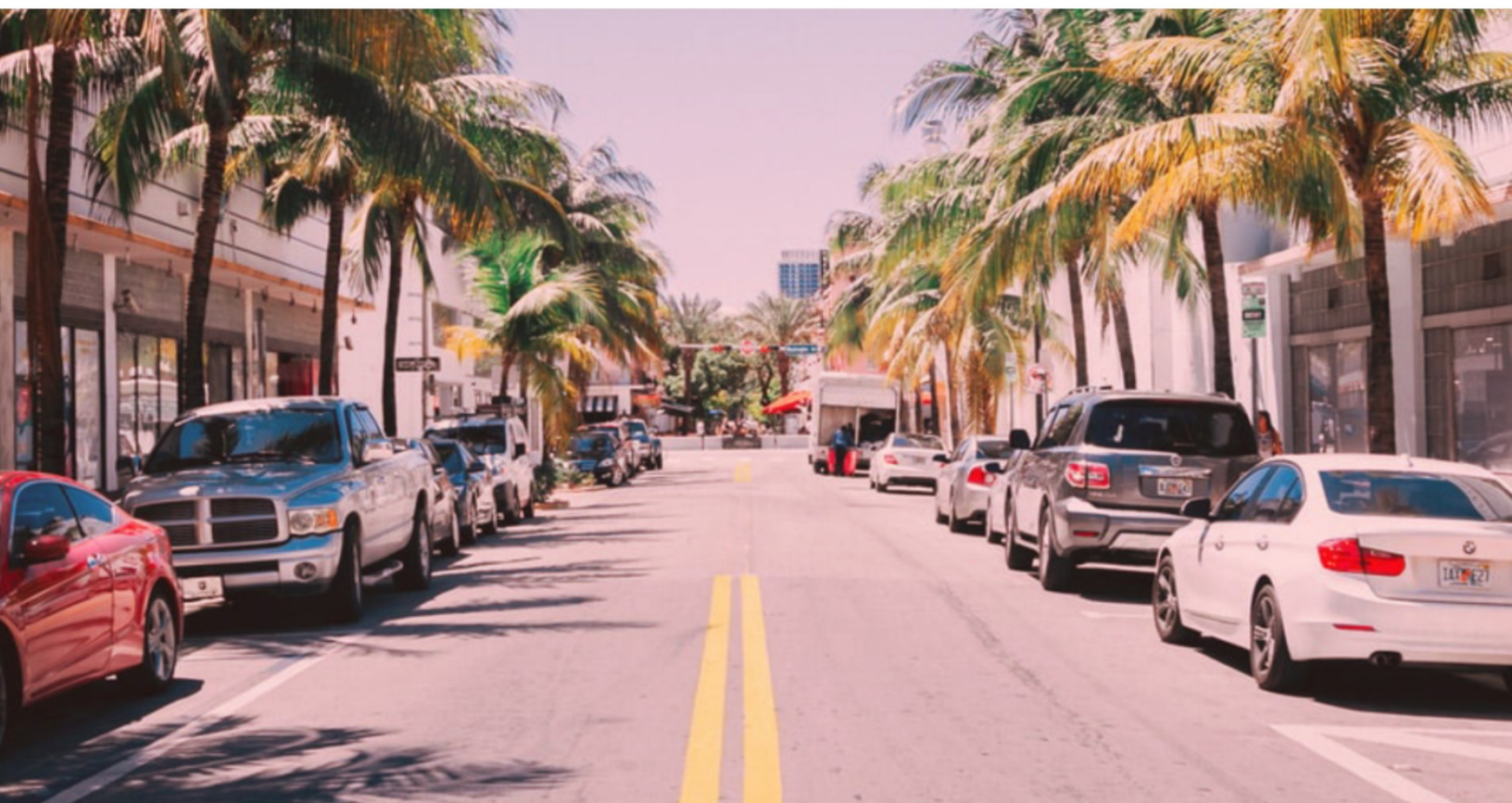


THE COMMUNITY ALLIES GUIDE TO OPPORTUNITY ZONES



Prepared by:
The Florida Housing
Coalition



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OVERVIEW

The Opportunity Zones tax incentive has the potential to be the most impactful community development and affordable housing program since the Low-Income Housing Tax Credit was introduced in 1986. The incentive activates a new source of capital for the community development industry: capital gains held by corporations, individuals, and families. With trillions of dollars in unrealized capital gains in the United States at stake, allies for OZ communities across the country must understand the OZ program and quickly determine how they can best attract impact capital to drive positive social and economic change.

While the potential is great, the OZ incentive also represents a very real danger to OZ residents. When creating the incentive, Congress did not require any reporting, transparency, or accountability mechanisms. Congress did not establish threshold requirements for OZ fund managers and did not require activity reporting to the IRS, local governments, third party agencies, or residents living in OZs. There are few restrictions on eligible investment activities.

This Guidebook differs from nearly all other materials offered on Opportunity Zones in that it is not written for the taxpayer or from the perspective of the taxpayer; it is specifically written from the perspective of the community. It provides background information on the Opportunity Zones tax incentive and details ways community allies can ensure the incentive works to produce strong local economies that benefit long-time residents living in designated Opportunity Zones.

Information in this guide is organized into three broad topics on OZ:

1. Background Information
2. Potential & Dangers
3. Solutions & Strategies

We hope you will find the information contained here accessible and to the point.

Who or what is a community ally?

This Guidebook frequently refers to what we call ‘community allies.’ We are using the term allies to denote a variety of interests that are aligned to work toward a common goal, in this case to attract OZ investment that promotes the community’s vision for redevelopment, one that uplifts and does not displace. Community allies are local government officials, local government economic development, housing, and planning staff, community foundations and other social impact investors, the residents in designated OZs, and members of the community who share a vision for equitable development. To secure investments in affordable housing and catalytic economic development projects, and for the OZ incentive to be a policy success in Florida, every ally must understand the program and strategies for getting started immediately.

Community allies represent the broad constellation of persons and organizations working toward a common purpose: realizing positive social and economic outcomes in Florida’s designated Opportunity Zones

BACKGROUND INFORMATION

Break down the fundamental components of the OZ incentive and you will recognize a familiar approach to economic and community development: a tax incentive to attract investment to a designated place. There is a long history of similar programs like OZ. President Clinton created Empowerment Zones, President Obama created Promise Zones. The theory underlying these approaches to community development is the recognition that certain communities have been historically starved of capital. Capital serves as the lifeblood of a community – it drives investment in real estate, generates demand from residents and businesses for even more capital, and it attracts jobs and further investment. Without capital, we have seen countless communities across the country lose population, lose jobs, and eventually decline. This reality hurts neighborhoods, local governments, and the state. The OZ incentive seeks to stabilize communities that have been historically starved of capital, bring back jobs, and offer opportunities to residents through increased private sector investment.

What is the Opportunity Zone incentive and what are Opportunity Zones?

The OZ tax incentive was created in the Tax Cuts and Jobs Act (TCJA), passed by Congress and signed by the President in December, 2017. It is an incentive to attract investment in designated census tracts called OZs, with over 8,000 designated across the country. To be designated as an OZ, a census tract must have high rates of poverty and a large share of low-income households. Former Governor Rick Scott nominated a list of census tracts for OZ designation in Florida, and the U.S. Treasury designated them with no changes. In total, Florida has 427 designated OZs, with at least one in each county in the state.

What is a qualified opportunity fund?

A qualified opportunity fund (QOF) means any investment vehicle organized as a corporation or partnership for the purpose of investing in qualified opportunity zone property that holds at least 90 percent of its assets in such property. Investors must place their capital gains investment in an Opportunity Fund which then invests in a “Qualified Opportunity Zone Business.”

A qualified opportunity zone business is a trade or business in which substantially all of the tangible property owned or leased by the investor is newly acquired in an Opportunity Zone and which substantially improves the property. Guidance from the U.S. Treasury defines “substantially all” as 70 percent. Real estate projects that build or preserve affordable housing can be the focus of a QOF.

How do you start a QOF?

To become a QOF, an eligible corporation or partnership self-certifies by filing Form 8996, Qualified Opportunity Fund, with its federal income tax return and submits it to the IRS. Form 8996 is a total of two pages and asks basic qualification questions to ensure the QOF meets threshold investment requirements of the incentive.

Purpose of the Incentive

The stated purpose of the OZ incentive is to support economic development in OZs across the country. In 2019, Treasury officials, including Secretary Mnuchin, frequently shared their hopes that the next Google or Facebook be founded in an OZ. From this perspective, Treasury officials see the OZ incentive as a source of seed capital for existing or new businesses operating in a

designated OZ. While this view is certainly possible within the structure of the OZ incentive, we also know real estate transactions fit within the incentive structure of the program whether those transactions are for luxury apartments or affordable multifamily housing. Soon after the program's passage, real estate speculators were purchasing properties in highly desirable OZs across the country, and property owners were marketing for-sale properties based on the merits of location within an OZ.

Capital Gains

Capital gains are at the core of the OZ incentive. OZ incentivizes investment of capital gains into assets within the geographic boundaries of designated OZs. Capital gains are the positive difference between the sale price of an asset and its original purchase price. The federal government taxes the difference at different tax rates depending on the length of time the asset was held before sale and the income of the tax filer (individual or corporation).

Incentives

There are three primary means by which an investor benefits from investing unrealized capital gains into a qualified opportunity fund:

- 1) Deferral of capital gains tax.
- 2) Step-up in basis of original gain.
- 3) Total capital gains tax exclusion on the sale of equity after a 10-year hold period.

Community allies should understand how each of these incentives work.

Deferral

Deferring tax payment on capital gain is a desirable component of the OZ incentive. Investors recognize that deferring (delaying) payment as far into the future as possible gives them the opportunity to deploy those funds to their greatest advantage by seeking significant returns on the capital in the interim. It should be noted that there are many means by which an investor can defer payment of capital gains tax, the Opportunity Zone incentive is one of them.

Step-up in basis of original gain

In addition to deferral of capital gains tax, an OZ investor may also benefit from a boost in the basis of their original investment in a QOF. The OZ incentive offers a tiered basis boost depending on the number of years an investor holds their funds in a QOF:

- 1) 10% boost. If the investor holds for a minimum of five years, they will receive a 10% increase in the basis of their investment, effectively lowering their tax liability by 10%.
- 2) 15% boost. If the investor holds for a minimum of seven years, they will receive an additional 5% boost (totaling 15%) in the basis of their investment, effectively lowering their tax liability by 15%.

Capital gains tax exclusion

The first two incentives are generous for an OZ investor, and represents an attractive option on those two alone. The third and final incentive for an OZ investor represents the greatest upside for return on investment. If the investor holds their equity share in a QOF for a minimum of 10 years, they will not owe one cent on any capital gain from the sale of that investment.



An illustrative example

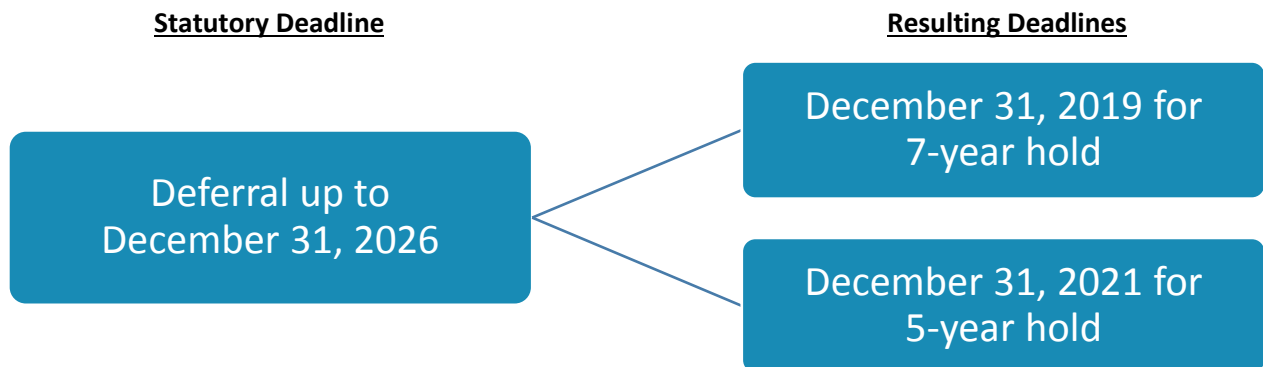
Consider the following hypothetical scenario:

- An investor originally invested \$1,000,000 in an asset (basis), sold that asset for \$2,000,000 (proceeds), and then invested the capital gain of \$1,000,000 (\$2,000,000 proceeds minus \$1,000,000 basis) into a QOF.
- The investor can defer payment of 20% federal capital gains tax rate (\$200,000 on a \$1,000,000 capital gain) until December 31, 2026 or whenever the asset is sold.
- If the investor holds the QOF investment for a minimum of five years, only \$180,000 in capital gains tax is owed (\$200,000 * .90).
- If the investor holds the QOF investment for a minimum of seven years, only \$170,000 in capital gains tax is owed (\$200,000 * .85).
- If the investor holds the QOF investment for a minimum of 10 years and sells it for \$5,000,000, only \$170,000 in capital gains tax is owed on the original \$1,000,000 capital gain, and \$0 on the \$4,000,000 proceeds, effectively saving a total of \$830,000 in federal capital gains tax.

Statutory Deadlines

The Tax Cuts and Jobs Act sets hard deadlines within the program. It states that OZ investors may defer capital gains tax up to December 31, 2026. Using this date as an end point for deferral imposes two deadlines for investors:

- 1) Investment in a QOF by December 31, 2019 to enjoy a seven-year hold for the 15% basis boost on the original capital gain.
- 2) Investment in a QOF by December 31, 2021 to enjoy a five-year hold for the 10% basis boost on the original capital gain.



Is OZ an incentive or a program?

Technically Congress did not create a formal community/economic development program when it created Opportunity Zones in the TCJA. OZ is a tax incentive, written into the tax code and administered by the U.S. Internal Revenue Service (IRS). For the purposes of this Guidebook, both terms are used interchangeably.

Equity

The word “equity” is used in multiple contexts – in finance as a type of capital or the value of property in excess of claims or liens against it, and in social science to describe justice or equality between interests. All of these definitions can be associated with the OZ incentive. However, using a strict financial interpretation, an OZ investor will be investing equity in a project. In this context, equity means money given to a company in exchange for a share of ownership in the company. Equity investment can be considered a type of loan to a company that is expected to be paid back according to terms and conditions set forth an agreement.

The Details

The OZ incentive offers the investment community a new vehicle for deploying capital in communities to maximize a social and financial return on investment. For communities to benefit from the generous incentive structure, however, it is necessary for community allies to understand some of the details of the incentive. For instance, understanding the vocabulary of the incentive, details of OZs and residents living in them, and how a qualified opportunity fund (QOF) relates to qualified opportunity zone businesses (QOZB) enables an intelligent and focused effort at the local level to ensure positive social and economic impact for communities. This section explores Florida’s OZs, covers some key terms in the statute, and offers an overview of the likely types of investor and investments in the program.

Florida’s Opportunity Zones

Florida has 427 designated OZs, with at least one OZ in each county. Viewed through a data lens,

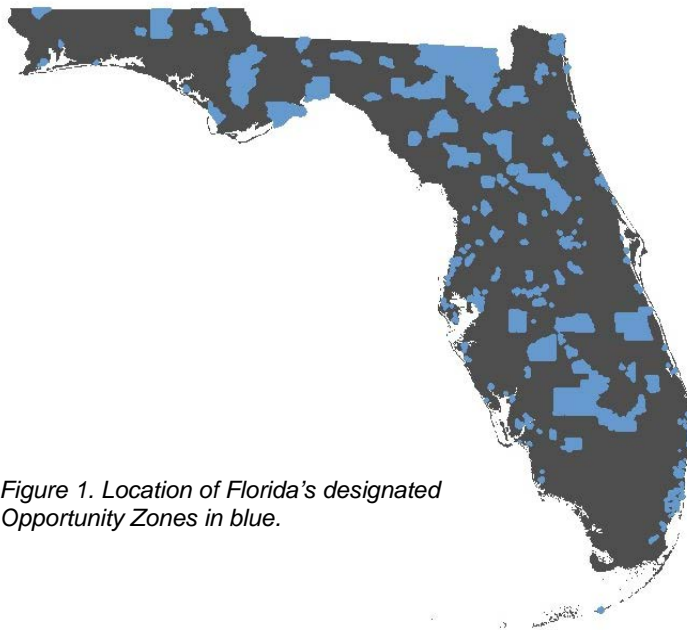


Figure 1. Location of Florida’s designated Opportunity Zones in blue.

Florida’s OZs are diverse from a demographic, geographic, and economic perspective. No two Florida OZs are alike. Some OZs are urban in nature with a dense built environment, large populations relative to other tracts, and proximity to jobs, public transportation, readily available water and sewer infrastructure, and other elements conducive to intensive redevelopment or rehabilitation. Other OZs are rural, with plenty of undeveloped land, little infrastructure, and lower access to jobs, public transportation, and other amenities.

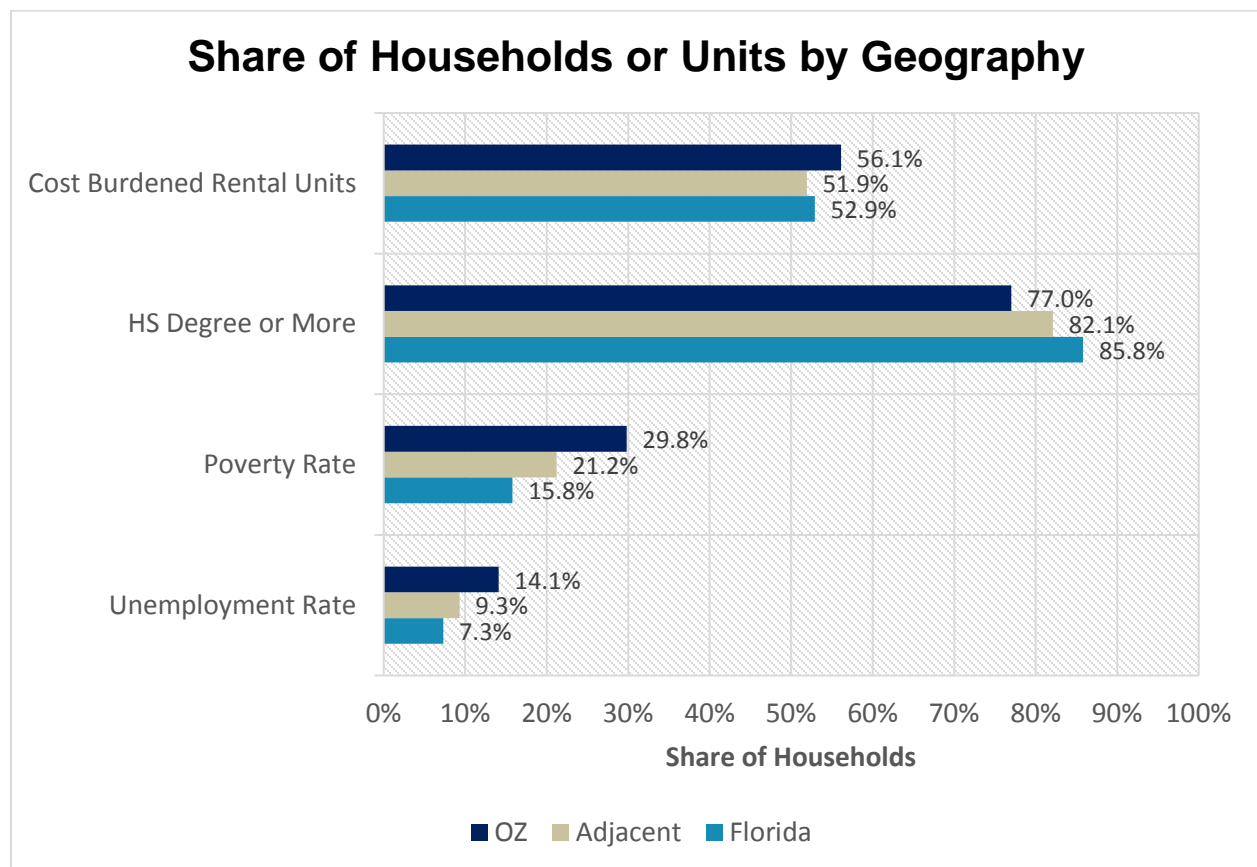
Community allies are best positioned to understand the attributes of local OZs and to identify the greatest needs within the community. Community allies should

take the time to understand the economic and social characteristics of designated OZs, and determine whether investment in housing, commercial projects, existing businesses, or attracting new business formation in the local OZ is most appropriate.

Aggregate statistics for Florida

While community allies at the local level are best positioned to recognize the needs of residents, allies should also immerse themselves in economic and demographic data to build a strong case for local needs. This section includes detailed statistics on three primary categories of data: 1) data for all census tracts in Florida independent of OZ designation, 2) data for the census tracts adjacent to designated OZs, and 3) statistics for all 427 designated OZs in Florida. The first group is included to enable comparison between designated OZs and statewide averages. It should be noted that these aggregate figures disguise significant variation in Florida’s OZs – household economic and demographic characteristics vary considerably from neighborhood to neighborhood. The second group - adjacent census tracts - is included to explore the severity of economic and housing challenges for OZ neighborhoods compared to communities directly adjacent to OZs. Each economic and housing variable discussed in this section should be examined on a tract-by-tract basis to inform local decision-making.

To begin, the data presented in the chart below shows the share of households within designated OZs in Florida, within adjacent census tracts, and for all of Florida. .

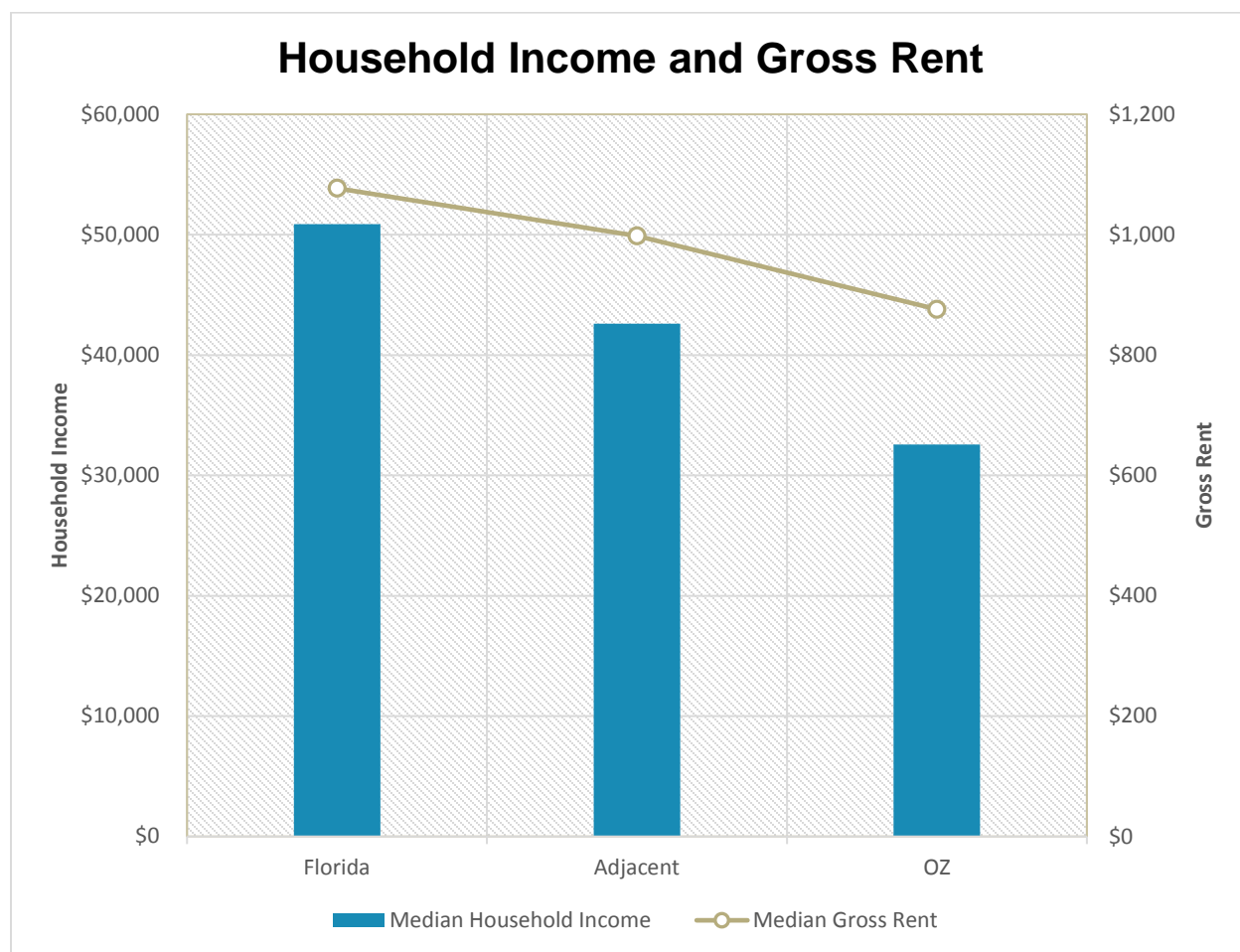


Source: FHC analysis of ACS 2013-17, Table S2301; S1701; S1501; B25064.

On every indicator - the share of cost burdened rental units, the population with a high school degree or more, the poverty rate, and unemployment rate – OZ households score worse than neighboring communities and for Florida overall. Take unemployment: the unemployment rate in OZs is nearly double the rate for Florida overall, and just over 5% worse than in adjacent tracts. Similarly, the poverty rate in OZs is nearly double the poverty rate for all of Florida.

This data demonstrates a real need for economic development and affordable housing investment in Florida’s designated OZs, but it also shows that OZ households are highly vulnerable to housing displacement. OZ residents are more vulnerable because they have access to fewer jobs, earn less when they do work, and have lower educational attainment than their peers. Further, a majority of OZ renter residents are living in housing that costs more than 30% of their household income, only worsening their ability to absorb increased housing costs driven by OZ investment in housing and economic development projects.

The chart below shows two data points: 1) the median household income, and 2) median gross rent for the same three geographies used in the previous analysis.

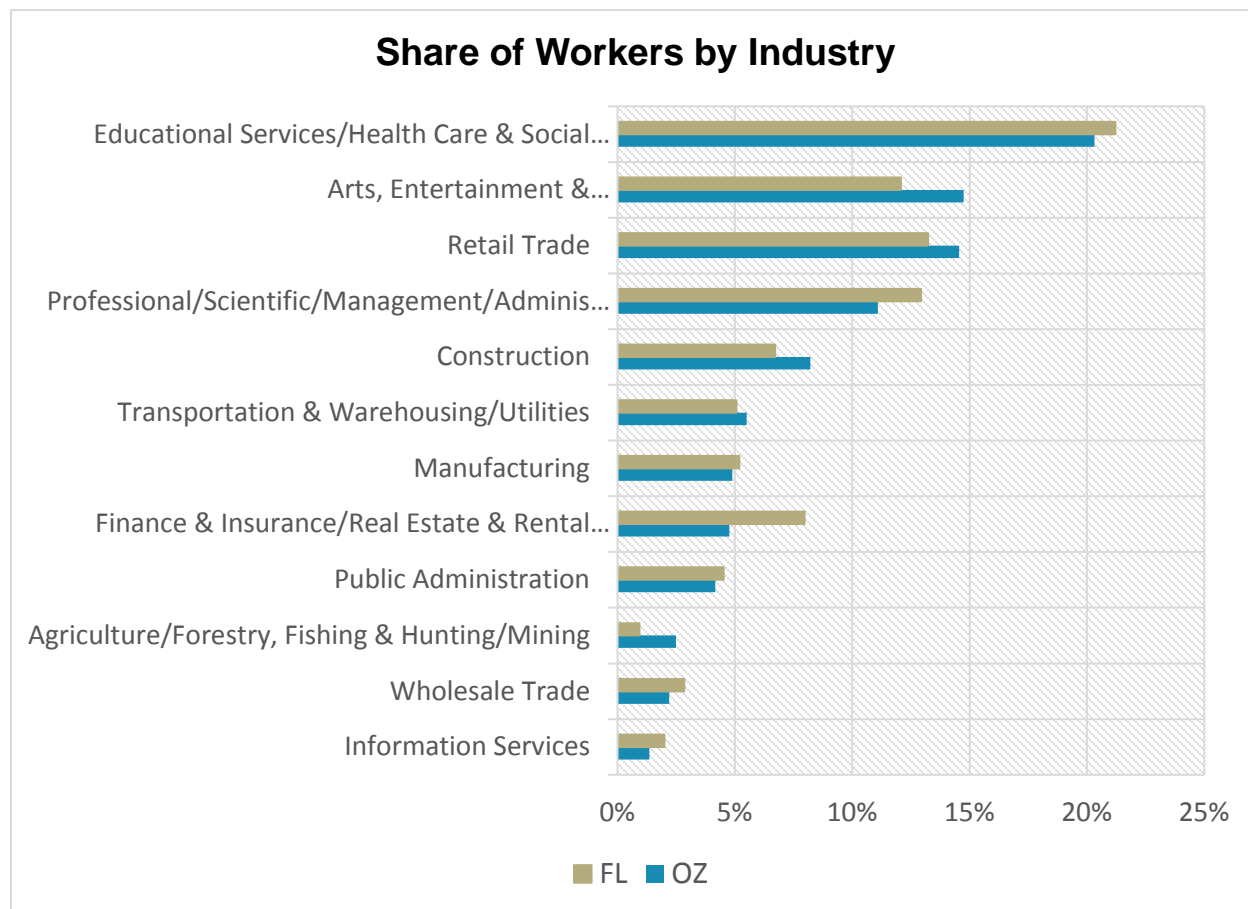


Source: FHC analysis of ACS 2013-17, Table B25106; B25064.

Once again, the data shows a stark divide between designated OZs, adjacent neighborhoods, and Florida overall in terms of household income and gross rent. OZ households spend less on rent than Florida and adjacent census tracts, but as demonstrated in the previous discussion

those same households suffer from housing cost burden at a higher rate than their peers. This is due in part to the noticeably lower median household income in OZ households, and worsened by the higher rates of poverty, unemployment, and lower educational attainment.

A final data point worth considering is the concentration of workers by industry type in Florida's OZs. The chart below provides information on the industries with the greatest share of workers in Florida overall and in its OZs.



Source: FHC analysis of 2013-17 ACS, Table S2405.

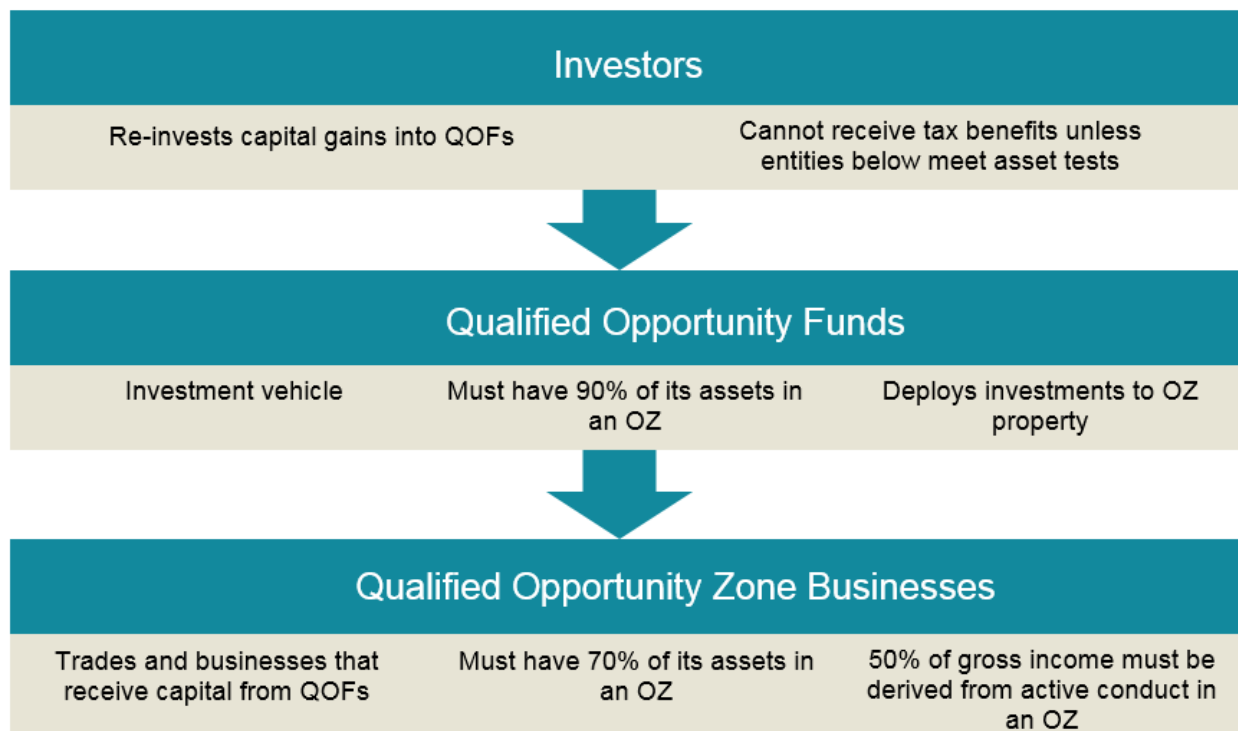
Once again, the data reinforces a concerning trend: OZ households are more vulnerable to displacement pressures compared to the broader population in Florida. Workers living in OZs are more concentrated in retail (15% in OZs compared to 13% in Florida), construction (8% compared to 7%) and agriculture (2.5% compared to 1%). These industries typically offer lower wages and fewer benefits to workers.

Qualified Opportunity Funds and Other Key Terms

To receive favorable tax treatment, investors must deploy their capital gains into “qualified opportunity funds.” A QOF is any investment vehicle organized as a corporation or partnership for the purpose of investing in qualified opportunity zone property and qualified opportunity zone businesses. To be a QOF, the entity must hold at least 90% of its assets in qualified opportunity zone property.

Qualified opportunity zone business property means any tangible property used in a trade or business within an OZ. A qualified opportunity zone business is any trade or business in which substantially all (or 70%) of the tangible property owned or leased by the investor is newly acquired and/or which substantially improves the property. These businesses must derive 50% of their gross income from active conduct in an OZ in order for investors to receive the favorable tax treatment.

In sum, investors place capital gains into QOFs which, in turn, deploy investments to qualified opportunity zone property. Here is a chart demonstrating this interaction:



It is important to note that the term “trade or business” when defining qualified OZ businesses is very broad. A qualified OZ business can be all business enterprises except for a few statutorily-defined “sin businesses” (see sidebar). The trade or business is not required to have ties to the local community and is not required to benefit existing communities. A QOF could invest solely in high-rise apartments and boutique shops within an OZ and investors could still receive favorable tax treatment. Because there are no federal guidelines as to how an OZ project should benefit communities, it is up to community allies to shape the success of the program in favor of the people the program was designed to serve.

WHAT IS A SIN BUSINESS?

The OZ statute in the Tax Cuts and Jobs Act identifies certain excluded business types. These businesses cannot benefit from the tax advantages offered through the OZ incentive. The excluded business types are: a private or commercial golf course, country club, massage parlor, hot tub facility, suntan facility, racetrack or other facility used for gambling, or any store the principal business of which is the sale of alcoholic beverages for consumption of premises.

This same sin business exclusion is included in the New Markets Tax Credit (NMTC) program, the OZ incentive's sister program.

Types of investment

The statute is very broad in defining the type of qualifying investment for advantaged tax treatment under the OZ incentive. Investors may invest in existing businesses, form new businesses, purchase and operate real estate, reposition older properties, substantially rehabilitate properties, invest in a portfolio of companies, and more. A critical component to understand the investment landscape for assets in a QOF is that capital investment in a QOF comes in the form of equity. Equity is the ownership of some share of the asset. The details of the equity ownership will be determined on a project-by-project or asset-by-asset basis.

Types of investor

The primary issue to understand when considering the pool of OZ investors is capital gains. Many of the traditional investors in affordable housing and community development, namely large institutional investors like insurance companies and banks, do not have significant capital gain liability. Large institutions typically have multiple ways to write down profits and reduce capital gain tax liability. Thus, the sort of investor interested in investing in a QOF is likely to be non-institutional investor like family offices, high net-worth individuals, and real estate investment trusts (REIT).

PROMISE & PERIL

As with most public policies, the OZ incentive offers potential for significant positive impact on communities, and also threatens communities with new capital from outside investors interested in as strong a return on investment as possible. In forming a response to the OZ incentive in your local community, it is critical that all community allies understand the potential of the program and its drawbacks. Understanding both sides to the program offers a way to ameliorate potential dangers and focus on activities that strengthen the potential upside.

Promise

Affordable housing and community development allies recognize the desperate need for capital in communities suffering from a history of decades-long underinvestment. Funding from the U.S. Department of Housing and Urban Development (HUD) through Community Development Block Grant (CDBG), HOME, Emergency Solutions Grant (ESG) and even Housing Opportunities for Persons with Aids (HOPWA) offers reliable and important funding for low-income communities, but even in combination these programs are insufficient. Alternatively, tax credits for the New Markets Tax Credit (NMTC) or the Low-Income Housing Tax Credit (LIHTC) offer significant equity for affordable housing and catalytic economic development projects, but these sources are capped each year and are highly competitive.

OZ equity should be considered as another source of funding in the capital stack of any affordable housing or economic development project. OZ equity could make a marginal project financially feasible.

The OZ program also promises to attract a new type of investor to the affordable housing and community development industry. Companies or individuals with unrealized capital gains are investor types who have historically avoided investing in low-income communities. The OZ program incentivizes an interest in outcomes within designated OZs. An OZ investor will realize the greatest return on investment if the surrounding community experiences a renaissance and land and property prices increase or OZ businesses thrive and scale up. This positive feedback loop establishes a holistic policy framework where positive social and economic outcomes at the neighborhood level are supported and desired by public and private sector stakeholders, community residents, and investors.

The OZ incentive creates a positive feedback loop where positive social and economic outcomes at the neighborhood level are supported by the public and private sector

Peril

For some communities there is a real threat of displacement of existing residents as a result of OZ designation. This displacement threat is driven through three principal factors: 1) speculative real estate transactions, 2) increased property taxes, and 3) repositioning of naturally occurring affordable housing to luxury housing. It is important for community allies to understand each of these displacement factors and how to recognize them. This section offers details on each.

Speculative transactions

In many cases, assets located in a designated OZ became more valuable the minute the TCJA became law. Investors, whether they be motivated by a position in a QOF or not, may be interested in purchasing real estate, land, and existing businesses in a designated OZ simply by virtue of their location in an OZ. Even by mid-2019, there is substantial evidence for this reality. Zillow, the online real estate listing service with an effective research and data team, reported a 20% increase year-over-year on sale prices within designated OZs across the country from 2017 to 2018¹. There is evidence from Florida of speculative real estate transactions in OZs as well, particularly in major metropolitan areas like Orlando and Miami. For instance, The Real Deal analyzed real estate transactions from April through September, 2018 and reported a 25% increase in year-over-year property sales in Miami².

¹ See Zillow, "Sale Prices Surge in Neighborhoods with New Tax Break," published March 18, 2019. Available here: <https://www.zillow.com/research/prices-surge-opportunity-zones-23393/>. Accessed July 24, 2019.

² See TheRealDeal, "'We are starting to run, but the gun hasn't fired:' Investors dash into Miami Opportunity Zones," published January 25, 2019. Available here: <https://therealdeal.com/miami/2019/01/25/we-are-starting-to-run-but-the-gun-hasnt-fired-investors-dash-into-miami-opportunity-zones/>. Accessed July 24, 2019.

Community allies are best positioned to recognize speculative real estate transactions in their own community. Real estate transactions are all recorded in public records, typically housed in a tax assessor's office with transactions posted online on a regular basis. Community allies should monitor transactions in their own neighborhood and raise concerns if the market begins to demonstrate signs of rapid cost inflation.

Increased property taxes

Assuming property and land prices spike in OZs, especially those in high density markets located near major metropolitan centers, one should also expect higher property taxes in those same communities. This danger is mitigated somewhat by Florida's property tax increase cap for non-homestead properties, but that cap will certainly be met in many designated OZs in Florida. With annual increases of 10% year after year, the low-income residents living in OZs, whether they be renters or homeowners, will face increasing housing cost pressure.

Community allies should monitor property tax rates in designated OZ census tracts on an annual basis. This exercise is best conducted in a geospatial analysis software, like ESRI's ArcGIS. Public tax records can be mapped to OZ tracts and summary statistics analyzed to demonstrate increased property tax rates year over year. This analysis should be focused in particular on census block groups with the lowest-income households – presumably those with households at the greatest risk of displacement.

Repositioning of naturally occurring affordable housing

Naturally occurring affordable housing (NOAH) refers to unsubsidized housing that is naturally affordable to lower income households by virtue of the location or quality of the housing stock. NOAH is a critical component in the supply of affordable housing for low-income households in Florida. However, these properties are highly vulnerable to acquisition, substantial rehabilitation, and repositioning in the housing market in OZs. This is especially true for OZs located near downtowns or high amenity areas.

Tracking conversion of NOAH to luxury housing is challenging from outside a community. For this reason, again community allies are best positioned to identify NOAH in their community and assess the degree to which it is vulnerable to repositioning in the marketplace. Community allies should be prepared to address concerns with housing displacement if a developer requests any new zoning or allowances for the property. In the case where a developer has a by-right case for redevelopment, including substantial rehabilitation, community allies should pursue ways to support residents in their search for new affordable housing.

Reporting and Outcomes Assessments

The TCJA statute on OZ does not require reporting to Congress, an executive agency, any third-party, or to the IRS. This deficiency in the statute cannot be addressed without Congressional action, and to date the IRS has failed to use its authority to establish reporting requirements. This reality is concerning because regular reporting of key metrics promotes transparency and accountability for the entire OZ industry. Other housing and community development subsidies require extensive reporting, certainly for HUD funds, LIHTC, even the closest corollary in the New Markets Tax Credit (NMTC). All of these programs are resilient to community-sourced opposition and political headwinds year after year because reporting demonstrates the success of each program for communities across the country.

Given the drawbacks associated with the OZ incentive, it is critical for community allies to promote transparency and accountability in OZ transactions. To the greatest degree possible, community allies should consider establishing a policy framework to serve as a guidepost for existing and future OZ transactions.

Given the drawbacks associated with the OZ incentive, it is critical for community allies to promote transparency and accountability for OZ transactions

A Framework for Policy Success

Community allies should demand and help establish a policy framework to help guide OZ investments in the right projects that benefit local residents. Beyond outcome measures related to economic development, housing security must be at the center of any OZ policy framework because the low-income residents living in Opportunity Zones are the most vulnerable to housing displacement as a result of the OZ incentive.

Because the TCJA does not include statutory reporting requirements, community allies are best positioned to establish a policy framework within QOFs. At the time this Guidebook was written, there are already examples of QOF-level policy frameworks. Consider the work done by the Kresge Foundation: it created an investment term sheet as a component of its work in promoting transparency and accountability in the OZ space³. As a condition of receiving risk-reduction capital from Kresge and the Rockefeller Foundation, two national QOFs agreed to a set of reporting and investment requirements. Specifically, Kresge required the following:

- Establishing a non-governing advisory board on community impact and requiring meetings no fewer than twice per year.
- Transparent identification of the fund as a QOF.
- Agreement on meeting certain impact covenants as applicable, including
 - Housing for persons under certain area median income (AMI) thresholds;
 - A published anti-displacement strategy;
 - Net positive job creation.
- Annual impact reporting to Kresge and Rockefeller.

THE OPPORTUNITY ZONES FRAMEWORK

OZ community allies in Florida need not create a new policy framework without guidance from already established frameworks. Community allies should pursue the framework developed by the U.S. Impact Investing Alliance, Federal Reserve Bank of New York, and the Beek Center for Social Impact and Innovation at Georgetown University. These entities partnered to create the “Opportunity Zone Framework,” a guide that enables community allies of all kinds to effectively manage and measure the impact and outcomes of OZ investment at the local level.

For more information on the Opportunity Zone Framework, navigate to:

www.ozframework.org.

³ See Kresge, “Opportunity Zones guarantee term sheet,” published April 24, 2019. Available here: <https://kresge.org/library/opportunity-zones-guarantee-term-sheet>. Accessed July 24, 2019.

Central to the Kresge example are three principles community allies should pursue for a local policy framework: 1) transparency, 2) measuring appropriate outcomes, and 3) accountability.

Appropriate outcomes

Not every QOF will seek similar investment portfolios or individual projects. Some QOFs may pursue housing projects, some may invest in operating businesses. Depending on the investments in a QOF's portfolio, outcome measures will change. Regardless of the type of investment, any QOF should pursue positive social and economic outcomes for the designated OZ census tract, including its residents and existing businesses. Below is a non-exhaustive sample of possible outcomes metrics:

- Number of jobs created;
- Net new jobs;
- Number of employees living in an OZ;
- Total new affordable housing units created;
- The share of affordable units in a mixed-income project;
- Number of affordable units substantially rehabilitated.

Transparency

Once a QOF identifies the positive social/economic outcomes it is working to achieve, it should then commit to full transparency in reporting on those metrics. To achieve this transparency, a QOF should commit to producing a regular report on the degree to which the QOF has achieved its intended outcomes. The progress report should offer an update on activities conducted in the previous year, provide updated outcome metrics, and it should be made available to the public.

Accountability

Beyond committing to pursuit of appropriate outcomes and regular reporting on progress, a QOF should also commit to establishing accountability. Accountability is best established through creation of an advisory council, as modeled in the Kresge investment term sheet. The advisory council should consist of some share of local residents and local stakeholders. This advisory council should review proposed investments within each OZ before they are made, and should discuss progress and challenges with QOF leadership on a regular basis. Finally, the QOF should commit to regular meetings with the advisory council.

SOLUTIONS & STRATEGIES

Opportunity Zones represent real potential for attracting necessary capital to some of Florida's most undercapitalized communities and presents meaningful dangers to the long-term housing and financial security for community residents and businesses. This section offers a set of practical solutions and strategies to consider when engaging with work related to OZs in your community - no matter your role in the spectrum of agencies or individuals with a nexus to OZ work.

The solutions and strategies included here are organized by type of ally (residents, local governments, philanthropies, developers, lenders, local institutions, and investors). We present the information in this way because, ideally, every ally would understand the potential role of all other actors with a nexus to OZ investment.

What sort of strategy should we deploy in our OZ?

OZ-related investments can be pursued through the lens of a broad range of strategies. OZ efforts can be completed on a single-project basis, where real estate is purchased, investors commit resources, and a developer ensures the project is completed. This is a worthy approach and addresses affordable housing shortages in a community with a mixed-income project, for instance.

An alternative, more ambitious and impactful approach is to develop a broad place-based neighborhood revitalization strategy that encompasses every type of community ally to affect real, lasting, and positive change in a community. A census tract's designation as an OZ can serve as



the starting point for just such a place-based development effort. This approach certainly requires more effort and coordination. This section suggests strategies and solutions for each community ally with an assumption that a local community is pursuing a broader place-based revitalization strategy.

Strategies for: Residents

Resident support for broad-based revitalization efforts is critical to attracting and sustaining support. Marshalling this support can be challenging, given significant diversity in backgrounds, interests, and motivations of the public. That said, communities are often composed of influential leaders, whether they be sourced from the faith community, neighborhood associations, or particularly well-connected residents with a firm understanding of community needs, who are capable of corralling public opinion and support for a broader message of community activation and support for a project.

Demonstrable resident support for a vision of redevelopment and investment in an OZ community can serve as a catalyst for engaging every other community ally. Democratically-sourced

solutions will sustain momentum, attract investors, reassure politicians and local government officials, and inspire the philanthropic sector to act.

Finally, ensuring resident support for a project alleviates one of the central concerns related to the OZ investment: outside QOFs investing in projects that displace residents and eliminate competition in the local economy. Every community ally type, from local government to developers, must recognize and consult with the needs of local residents.

Local government

Local governments have the responsibility to ensure that OZ investment benefits existing communities without causing displacement. The following represent best practices for local government community allies working to address deficiencies in the OZ incentive to ensure positive outcomes for residents vulnerable to displacement.

Local Government as Investment Promoter

Not all Opportunity Zones are created equal. Some OZs are naturally primed for growth and will receive investment without local government involvement. However, there will be OZs that will struggle to attract investment. Local governments can act as an investment promotor on behalf of the communities they serve by developing investment prospectuses that detail the local business and housing environment to ultimately encourage outside investors to deploy OZ capital to their communities. The OZ initiative is national in scope. Investors from across the country can use the OZ program to build projects in Gulf and Liberty Counties. Local governments can work to offer tax incentives, partnership opportunities, and other incentives to attract investment from within and outside the community to help revitalize targeted areas.

Local Government as Matchmaker

The OZ program may be its most successful when local investors have a stake in local OZs. Persons with a vested interest in the vitality of their local neighborhoods may work best to develop projects that benefit existing communities without causing displacement. At its core, local government can be a place where all members of the community come together to plan for revitalization and equitable growth. Local governments can work to connect local investors, anchor institutions, businesses, and community leaders to form localized strategies for maximizing the potential of the OZ program. This can be in the form of educational outreach forums run by economic development staff to encourage local stakeholders to take advantage of the initiative. With a localized mission, local governments can bring together capital and communities to develop projects that benefit all parties.

Local Government as Steward

The need for affordable housing, from ending homelessness to first time workforce home ownership, is widely recognized by Florida's counties and cities. Local governments do not build affordable housing, but they are expected to create an environment in which the private sector will build affordable housing. Local governments can use their land use authority to plan and prepare for OZ investment. This may include amending comprehensive planning documents and land development regulations to attract and aid investment, adopting overlay districts that ensure no net affordable housing loss, and otherwise ensuring equitable development or redevelopment. In short, local government can use the OZ program as a catalyst for devising best practices for equitable community development through land use planning.

If a local government plans for OZ investment ahead of time, it may be able to guide the types of projects that are developed using OZ capital. Further, if a locality rezones areas with OZs to land use designations that permit a large variety of uses, they may be able to better attract investment as developers would not need to rezone parcels within OZs on their own. Flexible land use designations within OZs will save investors both time and money and may encourage desired OZ projects. One caveat for such flexibility is that it must be coupled with a requirement for affordability to meet the statutory constructs for inclusionary zoning. Local governments can also utilize government-owned lands, the Brownfields program, and other local tools to capitalize on Opportunity Zones.

The Local government Affordable Housing Advisory Committee (AHAC) for the SHIP program may want to consider mechanisms for reducing regulatory and financial burdens for affordable housing development in OZs and use the incentive as a focus point for coordinating with other local government agencies (economic development, for instance) to attract investment and avoid displacement.

Philanthropy

The philanthropic sector, including private and community foundations, have multiple roles in ensuring both a social and financial return on investment from projects in designated OZs.

Opportunity Fund Investor

Sourcing and raising impact capital for QOFs is a crucial task for philanthropy. At the most basic level, philanthropy has a role in advising its investor network of strong impact investment opportunities; creating a QOF or investing in a social impact Opportunity Fund created by another entity is a key role for philanthropy. The philanthropic sector has a responsibility to properly review the capacity, technical expertise, and investment strategies for every QOF before recommending investment in the QOF. Once it has done its due diligence, a foundation should then promote the QOF's vision and actively educate its investor partners on the opportunity.

Market Builder

As a non-governmental agent often with a geographic focus, philanthropy can serve as a trusted third party in informing, educating, and engaging community residents and investors. Investing resources in education and outreach in this manner helps promote a full understanding of the OZ incentive and increases the likelihood that locally owned businesses can attract capital to scale up operations, expand, or invest in designated OZs. The philanthropic sector may also choose to assist in matching potential projects with investors through donor advised funds.

A key activity for philanthropy serving in the market builder role is to offer assistance and resources to produce a local market prospectus for each OZ of interest. The prospectus should

WHAT IS PLACE-BASED DEVELOPMENT?

Place-based development takes many forms, but fundamentally rests on the belief that positive social and economic outcomes are best realized through coordinated and concentrated investment in a particular geography.

Place-based initiatives should start with a carefully conceived plan that builds on existing and past efforts.

The plan should incorporate resources from the public and private sector, technical expertise from local stakeholders, incorporate public comment and regular input, and develop a permanent and on-going governance structure.

The most successful place-based initiatives include participation from the philanthropic sector, especially in locations where philanthropy has a positive existing relationship with community residents and stakeholders in the community.

detail market opportunities in the OZ, offer context on existing and future incentives and initiatives in the area, and identify persons responsible for ensuring affordable housing and economic development projects move forward.

Seed Capital

If possible, philanthropy should leverage its investor networks and/or capital reserves to seed projects, reduce risk for investors in QOFs, fill financing gaps in proposed projects, or invest resources to help build capacity for key stakeholders critical to pushing projects forward.

A key activity for philanthropy serving seed capital for OZ projects is to support capacity-building for other community allies working on a common vision of success. There are multiple ways this capacity building could be deployed. Capacity building seed capital could come in the form of funding for a new local government staff person responsible for directing OZ efforts as in the Kresge/Rockefeller example. A more typical model might be for a foundation to contract with a nonprofit to provide the bridge between the public and private sectors. Capacity building resources could also be deployed to a local non-profit developer, or to fund legal assistance for structuring deals located in an OZ of interest.

Policy Driver

Philanthropy can serve to set the table for policy success at the local level by identifying and clearly communicating expected outcomes for OZ investment, establishing a reporting framework for outcomes and accountability measures, or even coordinating **place-based revitalization** at the local level. As discussed earlier in this Guidebook, the Rockefeller and Kresge Foundations offer a blueprint for establishing an effective policy framework by leveraging its financial commitments to two national QOFs.

A key activity for philanthropy serving in the policy driver role is to first offer seed capital for projects and reduce financial risk for investors. The second step is for philanthropy to leverage its seed capital to extract concessions from QOFs by establishing requirements as a condition of funding. This second step can be established through development of an investment covenant which establishes the policy framework by which the QOF will operate going forward.

Developers

There are few more important stakeholders in the constellation of community allies than developers. The developer understands financing sources, is ultimately responsible for securing commitments from investors, maintains site control, and makes real estate ideas become reality. From a development perspective, the OZ incentive offers one more source of capital for workforce and affordable housing projects, and developers should make themselves fluent in the incentive and understand its implications for their investors and projects.

An experienced developer should understand that project scale and type make a significant difference in the ultimate success of an OZ project. Considerations for any project include:

- Whether the project is a detached single-family home, or bundled single family home parcels.
- Low-, mid-, or high-rise multifamily apartments with greater potential return on investment for project partners.
- Whether the project will produce rental, owner, or condo units and the cash flow implications of each.

- The demographic group targeted by the project, and corresponding demand for the product in the market. Target demographics could be workforce housing for households earning between 80 and 120% AMI; senior housing for those over the age of 65; housing for persons with special needs; and mixed-income housing with a combination of both market rate and income-restricted units.

An experienced developer will also understand how to identify and secure a shovel ready project. The developer will understand that securing site control, understanding the governing zoning and land use restrictions on the property, addressing any environmental issues on the site, ensuring necessary infrastructure is in place, and defining financial sources for the project are essential steps in development. These steps can be time consuming and resource intensive. Working in partnership with other community allies, especially local government and residents, can make the process much faster and cost efficient for the developer. A less expensive and faster process also benefits investors in the project who may be in a subordinate position in the capital stack.

The maximum benefit from the OZ incentive accrues to shovel-ready projects. The Coalition conducted a geospatial analysis to assess the degree to which 2017 and 2018 unfunded FHFC 9% tax credit applications are located in designated OZs. The results are below.

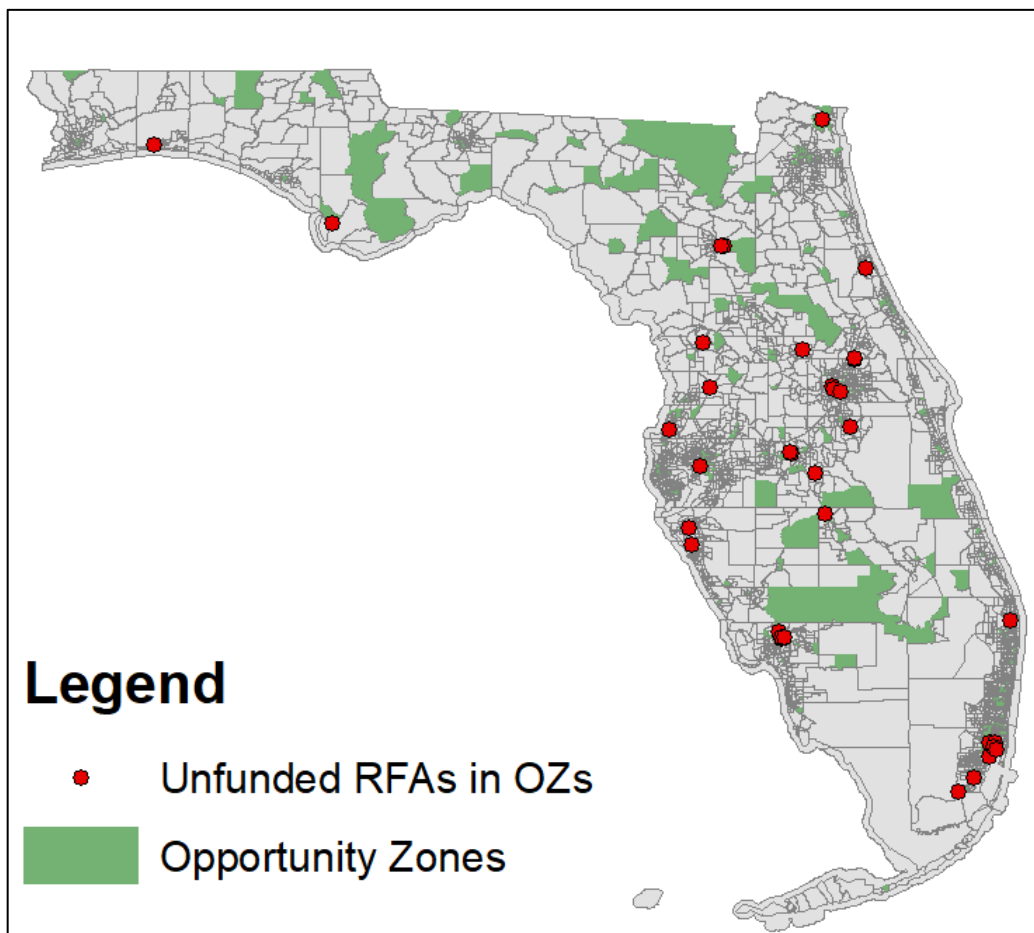


Figure 2. FHC analysis of unfunded FHFC RFA projects in designated OZs.

There are 147 unfunded applications from 2017 and 2018 located in an OZ in the state. This is a remarkable pool of possible projects from high capacity developers with local funding matches, established site control (at the time of application), and substantial predevelopment work already done.

Lenders

Lenders play an important role in the capital stack of any affordable housing and economic development project. Historically, these lenders have committed substantial resources to low-income and rural communities primarily through Community Reinvestment Act (CRA) investment requirements and the credit they receive for such investment in those areas. In many cases, lenders will receive CRA credit for investment in OZs and may be eligible for enjoying the benefits of capital gains tax treatment, depending on whether the lender elects to blend both debt and equity in a project.

The OZ incentive may encourage lending in designated OZs. Lenders are often motivated by the risk profile of a project inclusive of market performance and outlook as a leading indicator for appropriate leverage in the deal. For instance, the loan-to-value (LTV) of a project may shift from 65% to 80% for an OZ multi-family project connected to a broader neighborhood revitalization strategy, including local match, land use changes, and community support.

It is useful to model work already done by a lender in the OZ space. PNC Bank, one of the earliest lenders engaged in OZ, closed on multiple OZ projects across the country since the statute was passed in 2017. These projects included mixed-income and mixed-use properties, with an average blend of 20% debt, 70% equity, and 10% developer interest. PNC's equity position was raised through sale of stock in late 2017. PNC actually started its own Opportunity Fund. Most lenders will not have their own Opportunity Fund, but will still derive the CRA investment and loan credit from financing affordable housing developments in OZs.

Local institutions

Most communities will have a prominent local institution with a sense of responsibility for ensuring positive social and economic outcomes for the neighborhood in which it is located. The type of local institution with this interest is broad and changes from one OZ to the next. Consider the following list:

- Major employers
- Hospitals and healthcare providers
- Chambers of commerce
- Housing finance authorities
- Churches and their congregations
- News media, including television, radio, and newspapers
- Institutions of higher education, including universities, colleges, technical colleges

The role for local institutions is dynamic because responsibilities will shift depending on the institution. For instance, a local hospital is strongly incentivized to reduce return visits to emergency rooms and might see value in bolstering housing security in an emergency room's surrounding neighborhood. Alternatively, a college might recognize the value in offering seed capital for a catalytic economic development project at a key intersection near the college's campus. These examples are meant to demonstrate that whomever you might be as a local institution, you have a role to play in promoting investment in your OZ.

A coordinating entity with responsibility for engaging local institutions (whether it be a local government, non-profit agency, or other), should develop an inventory of potential local institution partners and engage each institution. An early conversation with each institution to explore possible partnerships or contributions from the institution can establish a pool of financial and other resources that can carry a key project or OZ effort forward.

Opportunity Fund Impact investors

The OZ incentive can only contribute to neighborhood revitalization with engaged investors. Ideally, the investors engaged in a project recognize the value in realizing both a social and financial return. We should be clear: a project delivering double bottom-line returns is likely to offer a lower rate of financial return compared to a project focused exclusively on luxury condominiums, for instance. The key for community allies is to identify an impact investor with both capital gains and a firm commitment to supporting low-income communities.

The full range of community allies included in this Guidebook have a responsibility for sourcing and attracting impact investors for OZ-related revitalization efforts. The local government should serve in a promotional and guarantor role for broad-based efforts from a land use and public investment standpoint. Community residents should voice support for a broad vision of redevelopment, including catalytic OZ projects. Local institutions should demonstrate a financial and political commitment to the effort. Developer partners should demonstrate technical expertise and capacity to execute on real estate projects. And of course, philanthropy should assist in establishing a fully accountable policy framework in addition to offering resources in the first place.

A CALL TO ACTION

The 2017 Tax Cuts and Jobs Act created one of the most exciting and controversial tools for community development seen in decades: the Opportunity Zones tax incentive for investment of capital gains in designated Opportunity Zones across the country. In Florida, 427 census tracts were designated, with at least one Opportunity Zone in every county. The incentive offers exceptional benefits for investors but comes with few regulations and no specific requirements for community benefit. As professionals across the nation grapple with the implications of the OZ incentive, Florida's cities and counties and their allies in social impact investing must balance the promise and the perils.

This Guidebook offers practical guidance for community allies, which includes local government elected officials and staff, to engage in the OZ space and work to ensure the incentive offers benefits to both investors and residents. At its core, OZ promises new capital for historically undercapitalized communities desperate for new investment. Affordable housing and economic development projects are more likely to receive equity and debt if they are located in an OZ, and local businesses may be able to source capital for scaling and expanding their operations. Perhaps most exciting, OZ designation serves as a solid starting point for a broad conversation about place-based equitable development or redevelopment in the context of neighborhood revitalization – setting a geographic boundary around an effort helps rally like-minded stakeholders around a common purpose of economic development and revitalization.

While the OZ incentive certainly promises new capital, it also presents definite perils for local residents. From displacement driven by increased housing costs to conversion of NOAH, this

Guidebook covers the many ways local residents may not benefit from the OZ program. Local elected officials, key planning staff, local social impact investors, and other community allies have a responsibility to navigate the balance between both the promise and perils of the OZ incentive.

Getting started

The Florida Housing Coalition has a deep bench of experts in Opportunity Zones on our nonprofit statewide team of housing and community development advisors. We are prepared to work in OZs across the state to facilitate the use of Opportunity Zones in a way that aligns with community priorities. Our team is prepared to work with you on any of the following tasks related to equitable development in an OZ:

- Educating Stakeholders in the public and private sector
- Community engagement
- Analysis of the OZ potential in your community
- Recommendations for land use and anti-displacement strategies related to OZ
- Site identification and predevelopment
- Affordable housing finance
- Adaptive reuse of vacant and underutilized property
- Coordinating place-based revitalization efforts
- Assistance in putting together the development team

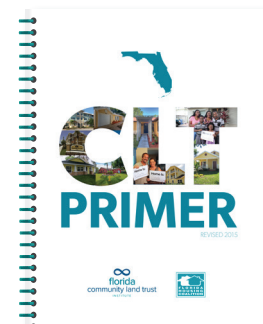
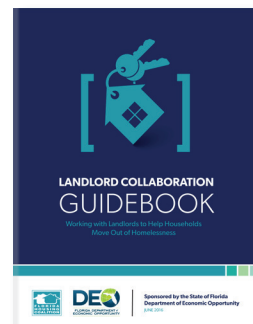
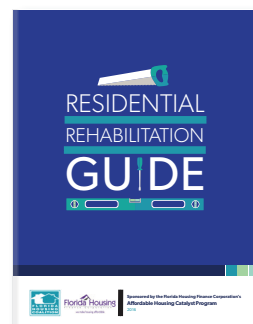
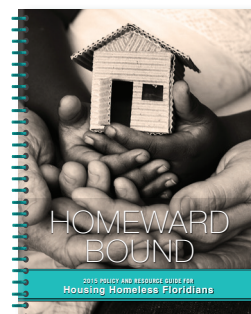
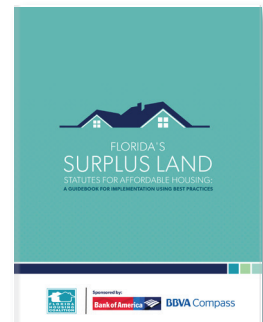
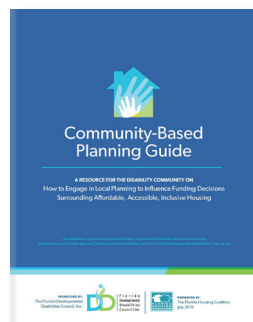
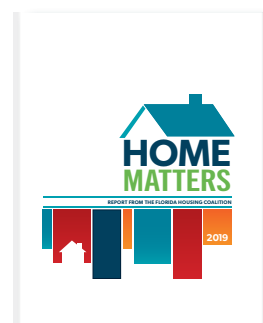
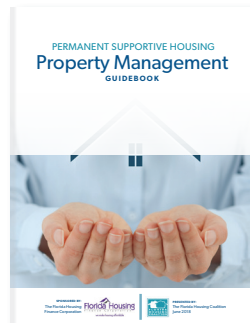
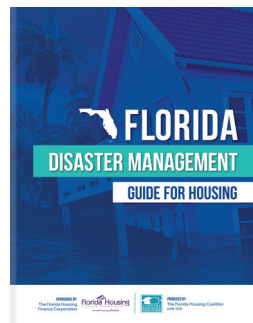
As professionals across the nation grapple with the implications of the OZ incentive, Florida's cities and counties and their allies in social impact investing would do well to advance the promise and reduce the perils of the OZ incentive

Appendix – Additional Resources

1. The Florida Housing Coalition’s resource page on OZ:
<https://www.flhousing.org/opportunity-zones/>
2. The Florida Housing Coalition’s webinar on the role of local governments in OZ:
<https://flhousingcoalition.thinkific.com/courses/local-government-s-role-in-opportunity-zones>
3. Opportunity Zones: From the Perspective of Affordable Housing and Community Development Advocates:
<https://www.flhousing.org/wp-content/uploads/2019/04/Opportunity-Zones-From-Perspective-of-Affordable-Housing-and-Comm-Dev-Advocates.pdf>
4. The Opportunity Zone Framework.
<https://ozframework.org/>
5. Rockefeller Foundation example on promoting equitable development in OZ.
<https://www.rockefellerfoundation.org/our-work/initiatives/opportunity-zones/>
6. Kresge supports Opportunity Zone Incubator.
<https://kresge.org/news/new-incubation-program-opens-help-social-impact-orgs-ready-opportunity-zone-funds>
7. IRS Opportunity Zones FAQ.
<https://www.irs.gov/newsroom/opportunity-zones-frequently-asked-questions>
8. Novogradac’s Opportunity Zone Fund listings.
<https://www.novoco.com/resource-centers/opportunity-zone-resource-center/opportunity-funds-listing>
9. Enterprise Community Partners’ Opportunity Zone Explorer (mapping).
<https://www.enterprisecommunity.org/opportunity360/opportunity-zone-eligibility-tool>
10. City of Philadelphia OZ marketing page.
<https://www.philadelphidelivers.com/opportunity-zones>
11. Florida Department of Economic Opportunity (DEO) Opportunity Zone program page.
<http://www.floridajobs.org/business-growth-and-partnerships/for-businesses-and-entrepreneurs/business-resource/opportunity-zones>

FLORIDA HOUSING COALITION PUBLICATIONS

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Florida Housing Coalition

1367 E. Lafayette Street, Suite C

Tallahassee, FL 32301

Phone | 850.878.4219

Website | flhousing.org