Innovation and Responsiveness: Opportunity Zones

NMTC and QOZ Workshop
Winston-Salem, NC
May 9, 2019

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Innovative and Responsive Policy Goals

• Opportunity Zones are low-income census tracts

• The same definition of a “low-income community” that is used by Treasury CDFI Fund’s New Markets Tax Credit (NMTC) program is the basis for defining eligible Opportunity Zone census tracts.

• The Community Reinvestment Act (CRA) focuses on low- and moderate-income.

• The policy goals of the Opportunity Zone tax incentive
  - Drive long-term private sector investments
  - Channel equity capital into overlooked and underserved markets
  - Reinvest realized capital gains into distressed communities
  - First new national community investment in more than 15 years
  - May scale to the largest economic development program in the country
Incentives for Individual Investors

- A temporary deferral: An investor can defer capital gains taxes until 2026 by rolling their gains directly over into an Opportunity Fund.
- A reduction: The deferred capital gains liability is effectively reduced by 10 percent if the investment in the Opportunity Fund is held for 5 years and another 5 percent if held for 7 years.
- An exemption: Any capital gains on subsequent investments made through an Opportunity Fund accrue tax-free as long as the investor stays invested in the fund for at least 10 years.
Readily Identifiable Investment Types in Opportunity Zones

- Commercial Real Estate Development and Renovation in Opportunity Zones
- Opening New Businesses in Opportunity Zones
- Large Expansions of Businesses already within Opportunity Zones
- Expansion of Existing Businesses into Opportunity Zones

Source: Novogradac LLC
What is the incentive for the community?

- Funding available to build community plans
- Build a plan for financing of top priorities
- Leverage the opportunity to attract ALL types of investors, especially local ones
- Think broadly about all investors and how to change the economy of the community
- Be creative
- Equitable and inclusive development
Community Development Finance

- Pair with other funding streams that support stronger and more resilient communities.
- New opportunities--affordable housing, small businesses, and jobs--that specifically benefit low-income neighborhoods and people.
- Collaborate with financial institutions, CDCs, CDFIs to help meet the credit, housing, and economic development needs of communities.
- Use with other State, Federal tax incentives
- Use with Local tax incentives
Community Development Finance just continues to grow with possibilities…
Diagram 1: Financing Tools, Projects and Actors in Phase 1 Redevelopment of East Baltimore

Legend
- Orange: Developer
- Gray: Academia
- Purple: Property
- Navy: Foundations
- Green: EBDI
- Red: Greater Baltimore Committee
- Blue: Financing Tool

Key
- HTC: Historic Tax Credit
- HOME: HOME Investment Partnerships Program
- BRAC: Base Realignment and Closure
- TIF: Tax Increment Financing
- NMTC: New Markets Tax Credit
- LIHTC: Low-Income Housing Tax Credit
- LI: Low-Income
- CDBG: Community Development Block Grants

Innovations

- Strategies to mitigate community harm, community benefits – West End, Charlotte; S.C. Community Capital Alliance/SCACED
- Partnerships to raise and deploy funds – HBCU QOF
- Mission-oriented institutions’ sponsorship of Qualified Opportunity Funds (Enterprise Community Partners, Self Help)
- Foundation Incentives – ROI Guarantee in exchange for jobs, wages
- Innovative Capital Stacks – Qualified Opportunity Funds paired with impact investing products, debt
- Local government-driven funds
- Public Asset Corporations, Institutions
- Purpose Built Communities – Raleigh, Norfolk
Affordable Housing, mixed use + small business: Charlottesville, VA

Brownfield to mixed use: Baltimore, MD

PPP and Mill Renovation
Rock Hill, SC

Purpose Built Community + Y + HBCU
Southeast Raleigh, NC

Affordable Housing: Norfolk, VA
Economic Conditions and Impact

- Massive influx in capital and the ability of a community to absorb it
- Few guardrails
- No “owner”
- Gentrification and Displacement
- Hot spots and Deserts
- Concentration in high-cost cities
- Unwelcome or harmful investments in communities
- Displacement of existing Community Development investments
- Lack of reporting requirements and metrics
- Incentives race
- Stakeholder engagement
Guiding Principles for Investors & Communities

- Synergy and Balance
- Social Equity
- Impact Investing
- Collaborative Partnerships
- Transparency
Resources

- Urban Institute [Opportunity Zones Investment Score Dataset](#)
- Urban Institute [Community Development Financial Flows](#)
- Council of Development Finance Agencies [Opportunity Zones page](#)
- Novogradac Company [Resource Center](#) (Opportunity Funds)
- Federal Reserve [Webinar](#)
- Federal Reserve Bank of Richmond [East Baltimore Financing](#)