

Innovation and Responsiveness: Opportunity Zones

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The views and opinions expressed are those of the presenter. They do not represent an official position of the Federal Reserve Bank of Richmond or the Federal Reserve System.

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

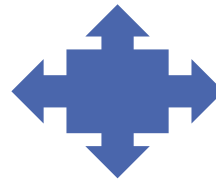


Commercial Real Estate Development and Renovation in Opportunity Zones



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 ...

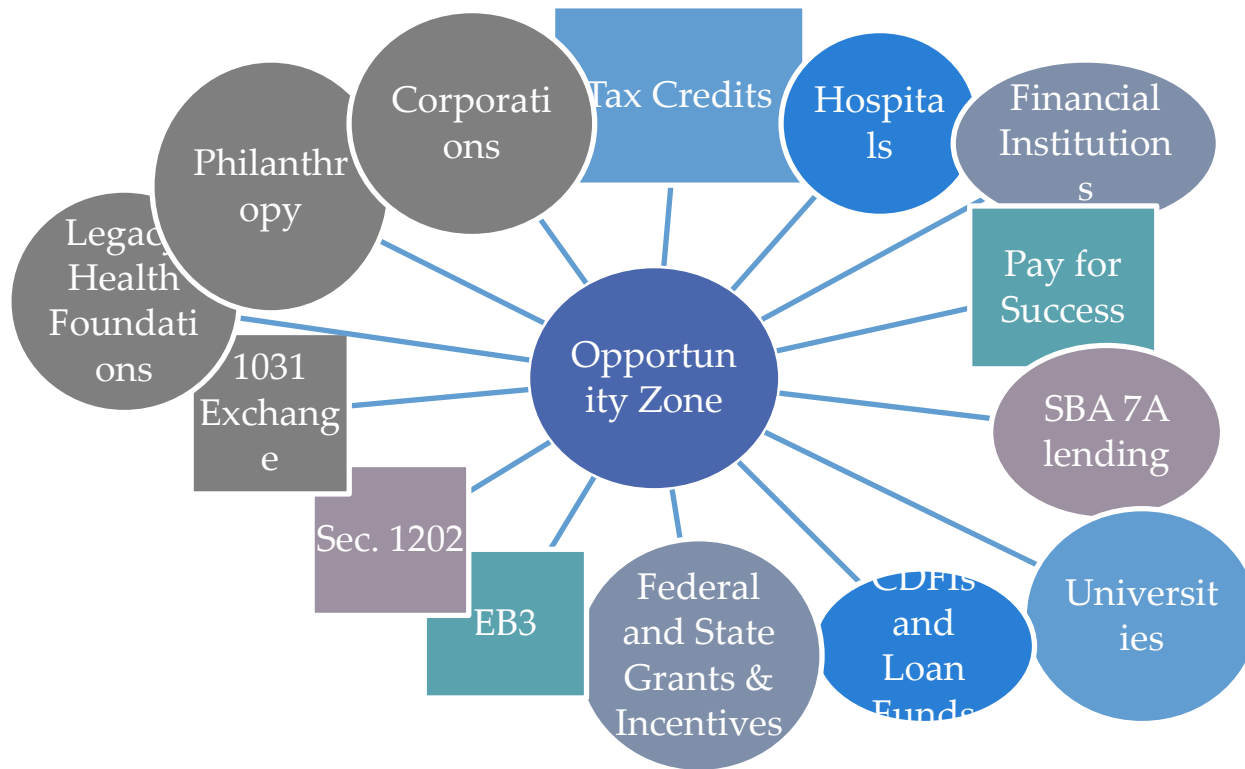
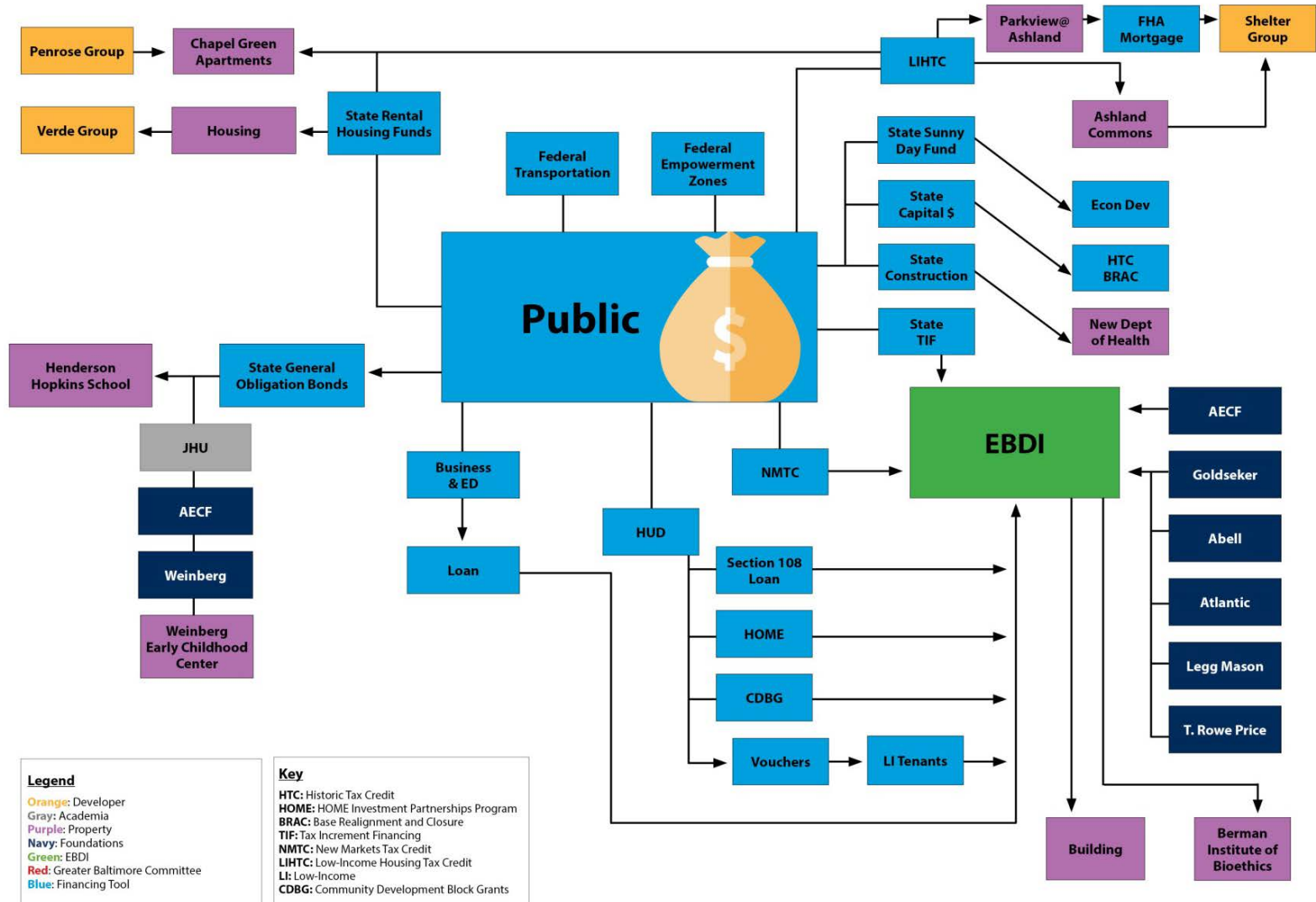


Diagram 1: Financing Tools, Projects and Actors in Phase 1 Redevelopment of East Baltimore



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

5th District Federal Reserve Map

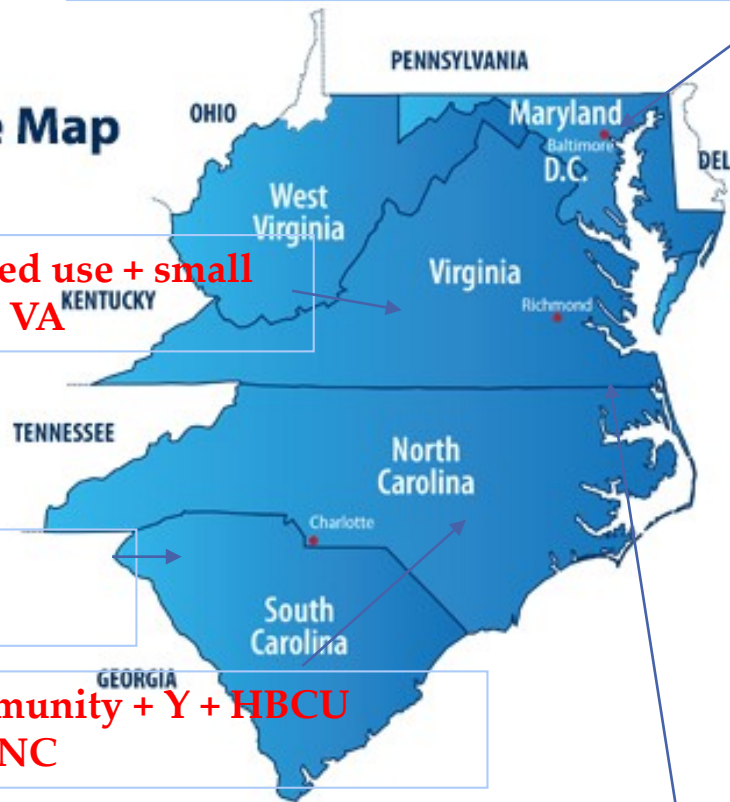
Brownfield to mixed use: Baltimore, MD

**Affordable Housing, mixed use + small
business: Charlottesville, VA**

**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](#)

