OPPORTUNITY ZONES
MATTER TO YOUR FOUNDATION:
FIND OUT WHY AND
HOW YOU CAN TAKE ACTION
WEBINAR CONTROL PANEL

PARTICIPATE

During the presentation –
Type your question in the
QUESTIONS BOX
to be addressed during
discussion breaks or
during Q/A
Working Together to Achieve Economic Security for All

As the only membership organization for grantmakers focused on advancing economic security, the Asset Funders Network connects philanthropic leaders to drive greater impact where it’s needed most.
Our Goals for this talk today:

- Offer AFN Members and stakeholders a Strategy Spotlight on Opportunity Zones
- Gain insight into how funder and investors are using a network of providers to increase the integrated capacity of programs to address financial well being
- Explore how philanthropy can engage to shape outcomes and impact
WELCOME

ENSURING IMPACT FROM OPPORTUNITY ZONES: ROLES FOR PHILANTHROPY

ROCKEFELLER FOUNDATION’S US JOBS & ECONOMIC OPPORTUNITY INITIATIVE

TARYN MACFARLANE
ASSET FUNDERS NETWORK

TAMMY HALEVY
PUBLIC PRIVATE STRATEGIES

OTIS ROLLEY
THE ROCKEFELLER FOUNDATION
Ensuring Impact from Opportunity Zones: Roles for Philanthropy
Ensuring Impact from Opportunity Zones: Roles for Philanthropy

• What are Opportunity Zones (and how does the incentive work)?

• What are we seeing in the market?

• How can philanthropy engage to shape outcomes and impact?
Opportunity Zones Overview

Economic development tool intended to spur economic growth and job creation in distressed communities

Three incentives for investors to put private capital to work across asset classes in economically distressed communities...

- Temporary tax deferral
- Step-up in basis of up to 15%
- Permanent exclusion of taxable income of capital gains

...and to hold those investments for long-term

- Value of incentive maximized when investment held for at least ten years
Where are Opportunity Zones?

- 8,700 designated census tracts in all 50 states, DC + territories (12% of all US census tracts)
- On average, poverty rate of 29% (~2X national average)
- Median family income in median designated Opportunity Zone is $42,400 (vs national average of $67,900)
- 56% of Opportunity Zone residents are People of Color

Source: Economic Innovation Group
## How are Opportunity Zones Different?

<table>
<thead>
<tr>
<th>Funds Available</th>
<th><strong>Opportunity Zone Incentive</strong></th>
<th><strong>“Traditional” Programs</strong></th>
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</thead>
<tbody>
<tr>
<td></td>
<td>• No cap</td>
<td>• Finite pool of appropriated funds (~$3.5B allocated per year)</td>
</tr>
<tr>
<td>Eligibility</td>
<td>• Any investor (individual or institutional) with realized capital gains</td>
<td>• Competitive process to allocate</td>
</tr>
<tr>
<td>Management</td>
<td>• IRS oversight</td>
<td>• Administered by federal government (e.g. NMTC) or state housing authorities (e.g. LIHTC)</td>
</tr>
<tr>
<td>Compliance &amp; Reporting</td>
<td>• TBD – Request for information issued by Treasury/IRS in April 2019</td>
<td>• Transaction level data collection</td>
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<td>• 50+ page program compliance FAQs</td>
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</tbody>
</table>

*Traditional Programs*
**What’s the Opportunity for an Investor?**

### Traditional Investment
- **2019**
  - Year of Investment
  - Pay tax on capital gain of $200,000 ($46,000); $154,000 left for reinvestment*

### Opportunity Zone Investment
- **2019**
  - Year of Investment
  - Pay tax on full $200,000 of capital gain and invest in qualified Opportunity Fund*

### Year of Gain Recognition
- **2026**
  - Investment appreciates to $330,113
  - Rollover investment taxed with basis increased by 15% ($170,000); tax due: $39,100. Investment (less tax due) worth $389,618

### Year of Sale
- **2029**
  - Year of sale
  - Sell investment for $500,000
    - Gain of $346,000
    - Tax due: $79,580
    - Total tax due since 2019 = $125,580
  - Sell investment for $500,000
    - Appreciation of $300,000 is tax free since invested in opportunity zone.
    - Total tax due since 2019 = $34,000

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*Assumes 10 percent annual rate of return and 23 percent capital gains rate

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**PUBLIC PRIVATE STRATEGIES**
Success Requires Many Stakeholders

Communities*

Businesses

Local Market-Maker

Projects**

Institutional Partners***

Investors

Data Tracking & Impact Improvement

* e.g. Cities, Counties, Economic Developers, Chambers, Main Street Groups, CDCs, Neighborhood Associations
** e.g. Developers, Landowners, Companies, Entrepreneurs, Incubators
*** e.g. Banks, Utilities, Corporates with local HQs, CDFIs, Foundations, Universities, Hospitals, Accountants, Lawyers
What’s Happening?

**Federal Rule-Making**
- Opportunity Zones enacted in December 2017 as part of Tax Cuts and Jobs Act 2017
- Treasury certified designations in June 2018
- Treasury released the first tranche of guidance and a revenue ruling on October 19, 2018.
- Treasury released the second tranche of guidance in April 2019 along with a “Request for Information” (RFI) on reporting
- Treasury currently evaluating RFI responses – open questions on timing and content. Rhetoric to date provides some cause for optimism

**Market Activity**
- Landscape emerging and evolving; momentum increasing as rules become clearer
- Funds forming and transactions have closed
  - First wave primarily single asset real estate
  - Target fund sizes range from $1M - $3B with a median target fund size of $110M*
  - ~40% are multi-state or regional funds*
  - 26% national geographic scope*
  - 11% focused on a single city*
What Are We Seeing in Communities?

- Opportunity Zone activity emerging in *places well-beyond the usual suspects*
- *Coordination function* in places invaluable; can take different forms
- Frequently missing: Deal development capabilities to move community aspirations into *investable opportunities* & diligence to evaluate priority projects
- Projects often need *additional incentives/investment*
- *Appetite for impact* among many project sponsors and investors
6 Ways Philanthropy Can Play Shape Rules of the Game
Influence Opportunity Zone follow-on legislation and IRS guidelines

Create Investable Opportunities
Stuff the investment pipeline to reflect Foundation priorities

Build Wealth for Residents
Minimize displacement risks to current residents including small business owners by better meeting current needs and creating mechanisms for wealth creation

Level the Playing Field
Ensure communities are poised to draw investor interest and have (an outsized) seat at the table

Incentivize Investor Behavior
Create environment where community benefits, common impact reporting, and related activities become “no-brainers” for investors

Accelerate Progress via Coordination & Info Sharing
Seed “open source” solutions, cross-pollinate stakeholder groups, promote coordination among leading actors
Ensuring Impact from Opportunity Zones
Rockefeller Foundation’s US Jobs & Economic Opportunity Initiative
For 39 million households in the U.S., representing 90 million people, work is not enough to make ends meet.
Of these 90 million:

- 83% Live in Cities
- 69% Are Between the Ages of 25 and 54
- 62% Are Black, Latino, Asian, or Native American
Our vision: Every person who works should be able to meet the basic needs of their families and have a path to a better future.
Our new strategy will identify and scale solutions and mobilize private investment in place.

- **Identify and Scale Solutions for Workers**
- **Mobilize Private Investment in People and Place**
- **Place-based Investment**
- **Lab for Economic Opportunity!**

- In **Five Years**: > 3 Million People
- In **Three Years**: 1 – 1.5 Million People
- In **One Year**: 500 people

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* Earned Income Tax Credit and Child Tax Credit Adoption and Expansion
Mobilize private investment

Place-based Investment

Identify and Scale Solutions for Workers

Mobilize Private Investment in People and Place

National Influence
Why we think it is essential to work in place

Economic opportunity is local

Work happens in place

Policy momentum is in states and cities

“Where Washington fails to work for the betterment of our people and our communities, the states have become the testing ground for innovative and social solutions” – Gov. Phil Murphy (D-NJ)

Rockefeller has experience to build on
We will help build municipal capacity and attract investors to drive investment in Opportunity Zones.

- Build municipal capacity to take advantage of Opportunity Zones.
- Work with investors and intermediaries to shape transactions, mobilize investment, and advance impact.

Increase investment by $1 billion and support 8,000 jobs in 5 years.
Opportunity Zone Grant Making

Community Capacity Building Program

National Opportunity Zone Academy

Opportunity Zone Network Exchange

Influence Investor Impact & Transparency
Click the QUESTIONS box to share a question for the presenters.
Opportunity Zones are a fast moving area.

If you have examples of how you are connecting with Opportunity Zones, or are bringing an asset building perspective to this arena, we want to hear from you!

You can keep in touch by emailing:

Taryn MacFarlane, AFN Program Officer
taryn@assetfunders.org
Thank you for attending today’s Asset Funders Network presentation.

PLEASE FILL OUT OUR SURVEY

The survey will pop up on your screen momentarily and will also be sent to you via email.

WE VALUE YOUR TIME, AND YOUR RESPONSES WILL INFORM OUR FUTURE PLANNING.