



SNJDC Economic Development Committee
Opportunity Zones

South Jersey
Opportunity Zones

Presented by

M&T Bank



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Opening Remarks

Jane Asselta, Vice President, SNJDC

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Welcome from U.S. Senator Booker

Hon. William Moen, Jr.
South Jersey Director

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Panelists



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Real Estate



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Chief Data Officer



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Understanding Opportunity Zones & Tax Aspects of Opportunity Zones



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Overview of Today's Discussion

- What is an Opportunity Zone (“OZs”)?
- Where do OZs exist?
- What is a Qualified Opportunity Fund (“QFund”)?
- Why do QFunds present special opportunities for Real Estate?
- Where are OZs located in NJ by way of example?
- Have there been funds that have been formed yet?
- What is the likely structure for affordable housing for a:
 - Developer, investor, lender?

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Opportunity Zones

Opportunity Zones



The Opportunity Zones tax incentive was established by Congress in the 2017 Tax Cuts and Jobs Act as an innovative approach to spur long-term private sector investments in low-income urban and rural communities nationwide. This economic development initiative is based on the bipartisan [Investing in Opportunities Act](#).

What are Opportunity Zones?

Opportunity Zone: A low-income census tract (**LIC**), as determined within New Markets Tax Credits legislation, is designated as an Opportunity Zone (**OZ**) by the governor of the state or territory in which it is located. Designations will stay in place for 10 years.

Up to 25% of LICs in a U.S. state or territory may be designated as OZs.

States or territories in which there are fewer than 100 LICs may designate up to 25 LICs as OZs.

Up to 5% of census tracts contiguous to LICs may be designated as OZs, if the median family income of the census tract does not exceed 125% of the median family income of the LIC to which the tract is contiguous.



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Designated Opportunity Zones

8,762

census tracts designated

1,858

rural census tracts designated

31%

average poverty
rate

14.4%

average unemployment
rate

60%

average family income in OZ
census tracts relative to
area median income (AMI)

24 million

current jobs in designated
tracts

1.6 million

businesses in designated
tracts



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Definitions

Opportunity Fund: An investment vehicle organized as a corporation or partnership for the purpose of investing in Opportunity Zone property.

Opportunity Funds will be self-certified per IRS guidelines. They must be organized for the purpose of investing in Opportunity Zones

Opportunity Funds are required to invest 90% or more of their capital as EQUITY in Opportunity Zone property

Opportunity Zone property includes stock, partnership interest, or business property in an Opportunity Zone

Investor Incentives

U. S. investors currently **hold \$6.1 trillion in unrealized capital gains**, representing a significant untapped resource for economic development. Opportunity Funds will allow these investors throughout the country to pool and deploy their resources as Opportunity Zone investments.



OPPORTUNITY ZONE INVESTMENTS PROVIDE AN IMMEDIATE BENEFIT

to investors of deferring payment of the capital gains tax that would be paid in 2018 until 2026. Further incentives are linked to the duration of an investor's commitment to Opportunity Fund investments.



THE OZ TAX INCENTIVE WILL ALLOW

a modest reduction in capital gains taxes in exchange for holding Opportunity Fund investments for five to seven years.

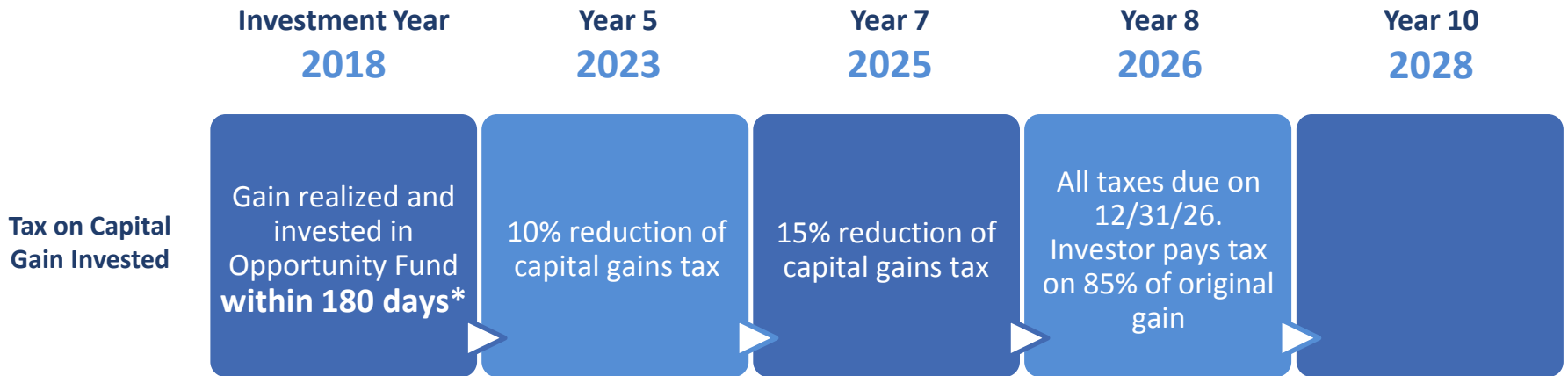


IF INVESTMENTS ARE HELD 10+ YEARS,

gains accrued on the Opportunity Fund investment during that 10-year period will not be taxed, further incentivizing patient capital.

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Timeline for Opportunity Zone Investments



* Tax is deferred until the earlier of investment liquidation (return of capital) or 12/31/26



** Any appreciation on Opportunity Fund investment is tax free if held > 10 years



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Eligible Investments

Only equity investments are eligible for the Opportunity Zone tax incentive.

- 1 Business investments**
can include investments in new stock issuance for corporations and ownership interests in partnerships and LLCs.
- 2 Investments in real estate**
must include an ownership interest of new construction or assets that will be "**substantially improved**" within 30 months of acquisition by the Opportunity Fund.
- 3 New equipment and other assets**
are also eligible investments.

Economic Development Examples

1 Business infrastructure real estate funds:

- *Industrial*
- *Retail*
- *Mixed use*
- *TOD*

2 Venture capital funds:

- *Seed stage investments*
- *Series A investments*

3 Operating business private equity:

- *Equity recapitalizations*
- *Growth capital investments*

4 Enhancement for other federal tax credit transactions:

- *NMTCs*
- *Historic Tax Credits*

Qualified Opportunity Zones

- Program Overview
 - A Qualified Opportunity Zone (“OZone”) means a Population Census Tract (“PCT”) that is a Low-Income Community (“LIC”) designated by the government as an OZone through a qualification process.
 - The OZone program allows taxpayers to defer capital gains by reinvesting such gains into a Qualified Opportunity Fund (“QFund”) and potentially exclude future capital gains on investments within the zone.
 - The CEO of each state nominated no more than 25% of the total LICs within its state* to be designated as OZones including up to 5% of PCTs that are not LICs but are:
 - contiguous LICs;
 - the median family income does not exceed 125 percent of the medium family income of LIC with which the PCT is contiguous

*Twenty-five may have been designated if the state has fewer than 100 tracts

Qualified Opportunity Zones

- Program Overview (continued)
 - A QFund is an investment vehicle that is:
 - Organized as a corporation or a partnership, and
 - Invests and holds at least 90 percent of its assets in qualified opportunity zone property
 - The investment vehicle can become a QFund through a self-certification process that requires completing a form to be attached to a timely filed tax return
 - Qualified opportunity zone property includes the following:
 - Qualified opportunity zone stock
 - Qualified opportunity zone partnership interest, or
 - Qualified opportunity zone business property (see slide 5)

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Benefit Overview – OZone Investments made during 2018 or 2019

Original Investment



Sale of Assets

- Sell assets for \$200M with a basis of \$120M during 2018/2019
- Realize \$80M of capital gain

5 Year Basis Step-Up

- 5 Year Deferral
- 10% Basis Step-Up
- Capital gain reduced to \$72M

7 Year Basis Step-Up

- 7 Year Deferral
- 5% Basis Step-Up
- Capital gain reduced to \$68M

Deferred Gain Recognized

- No later than December 31, 2026 - Gain Recognized on original capital investment of \$80M (up to \$12M may be excluded)



New OZone Investment



OZone Investment

- Invest \$80M in certified QFund, which invests in OZone property
- Realized capital gain of \$80M is deferred.



OZone Investment Sale

- 10 Year Exclusion
- Sell OZone investment property for \$300M
- \$220M capital gain excluded

Example Savings – Investment made during 2018/2019 and Sale of Assets after 10 years

Original Investment

Estimated 5 Year Benefit (\$1.6M) = Capital Gain (\$80M) x Basis Step-Up (10%) x Capital Gain Tax Rate (20%)

Estimated 7 Year Benefit (\$2.4M) = Capital Gain (\$80M) x Basis Step-Up (15%) x Capital Gain Tax Rate (20%)

New OZone Investment

Estimated 10 Year Benefit (\$44M) = Capital Gain (\$220M) x Basis Step-Up (100%) x Capital Gain Tax Rate (20%)

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Benefit Overview – OZone Investments made during 2020 or 2021

Original Investment



Sale of Assets

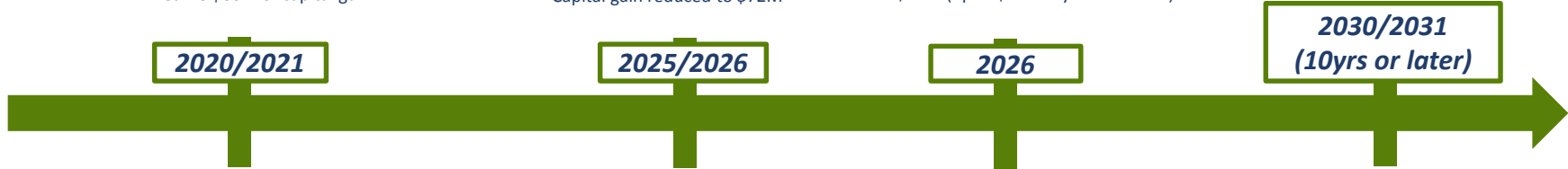
- Sell assets for \$200M with a basis of \$120M during 2020/2021
- Realize \$80M of capital gain

5 Year Basis Step-Up

- 5 Year Deferral
- 10% Basis Step-Up
- Capital gain reduced to \$72M

Deferred Gain Recognized

- No later than December 31, 2026 - Gain Recognized on original capital investment of \$80M (up to \$8M may be excluded)



New OZone Investment



OZone Investment

- Invest \$80M in certified QFund, which invests in OZone property
- Realized capital gain of \$80M is deferred.



OZone Investment Sale

- 10 Year Exclusion
- Sell OZone investment property for \$300M
- \$220M capital gain excluded

Example Savings – Investment made during 2020/2021 and Sale of Assets after 10 years

Original Investment

Estimated 5 Year Benefit (\$1.6M) = Capital Gain (\$80M) x Basis Step-Up (10%) x Capital Gain Tax Rate (20%)

*There is no potential basis step-up available for the 7 year holding period for investments made after the year 2019.

New OZone Investment

Estimated 10 Year Benefit (\$44M) = Capital Gain (\$220M) x Basis Step-Up (100%) x Capital Gain Tax Rate (20%)

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Benefit Overview – OZone Investments made during 2022 – 2026

Original Investment



Sale of Assets

- Sell assets for \$200M with a basis of \$120M during 2022 through 2026
- Realize \$80M of capital gain

Deferred Gain Recognized

No later than December 31, 2026 - Gain Recognized on original capital investment of \$80M

2022 - 2026

2026

2032 - 2036
(10yrs or later)

New OZone Investment



OZone Investment

- Invest \$80M in certified QFund, which invests in OZone property
- Realized capital gain of \$80M is deferred.



OZone Investment Sale

- 10 Year Exclusion
- Sell OZone investment property for \$300M
- \$220M capital gain excluded

Example Savings – Investment made during 2022-2026 and Sale of Assets after 10 years

Original Investment

*There is no potential basis step-up available for either the 5 or 7 year holding periods for investments made after the year 2021.

New OZone Investment

Estimated 10 Year Benefit (\$44M) = Capital Gain (\$220M) x Basis Step-Up (100%) x Capital Gain Tax Rate (20%)



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IRC §1031 Exchange vs. OZone Investment

IRC § 1031 Like-Kind Exchange (“LKE”)

- All proceeds from the original sale must be reinvested within 180 days of the exchange
- Deferred gain is recognized upon taxable sale of the new property
- Basis in the new property is equal to the basis in the original property exchanged
- Future LKEs may be applied
- No limitation on location of LKE property
- There is no basis step-up or gain reduction as a result of holding the new property for a period of time
- Generally, exchanges can occur between related parties
- Under Tax Reform, section 1031 only applies to real property exchanges

IRC § 1400Z-2 OZone Investment

- Only the realized gain portion of the original sale must be reinvested within 180 days of the sale to defer gains
- Deferred gain is recognized upon the earlier of the sale of the property or December 31, 2026
- Basis in the OZone property is zero (assuming only the gain is reinvested) until the deferred gain is recognized
- No future deferrals are allowed after the first election
- Location limited to designated OZones
- There is a basis step-up in the new property if held for 5 years and 7 years of 10% and 5% of the deferred gain, respectively. After 10 years, the basis is equal to the FMV of the investment when sold
- The original sale or exchange of the property must be to an unrelated person
- Investment in new property can be any property if it meets the definitions of qualified opportunity zone property

Where are we seeing focus and attention?

- What classes of Real Estate are likely to attract attention from investors:
 - Grocery anchored retail
 - Warehouse and industrial
 - Skilled nursing and medical office
 - **Affordable Housing**
- Will Investors pay more for LIHTC credits knowing they might be able to also get capital gains shelter?
- What is Deferral, Reduction and potential non-payment of gain worth for a project – maybe 500 bps to 800 bps

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Steps Toward Implementation





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Key Points

Investors

- Tax incentive is most valuable for 10 year investments in appreciating assets
- Six months to invest after realizing a capital gain
- Another six months to deploy 90% of capital in Zones
- Capital is required to be an equity investment – loans from investors are not eligible for the tax incentive

Funds

- All capital must flow through an Opportunity Fund to be eligible for the tax incentive
- Funds are self-certified via an IRS tax form
- Fund must be established for the purpose of investing in Opportunity Zones
- 90% of fund assets must be invested in Zones to maximize the tax incentive

Eligible Investments

- Must be equity investments
- Real estate investments must include substantial rehabilitation – doubling basis within 30 months
- “Sin businesses” are not eligible
- Other requirements include property use in “active conduct of business” and limits on assets held in cash

Concerns

- Timing
 - Clarifying draft regulations issued in October, 2018
 - helpful
 - Additional regulations regarding “original use property” and “related party rules” expected Q4 18’ or Q1 19’.

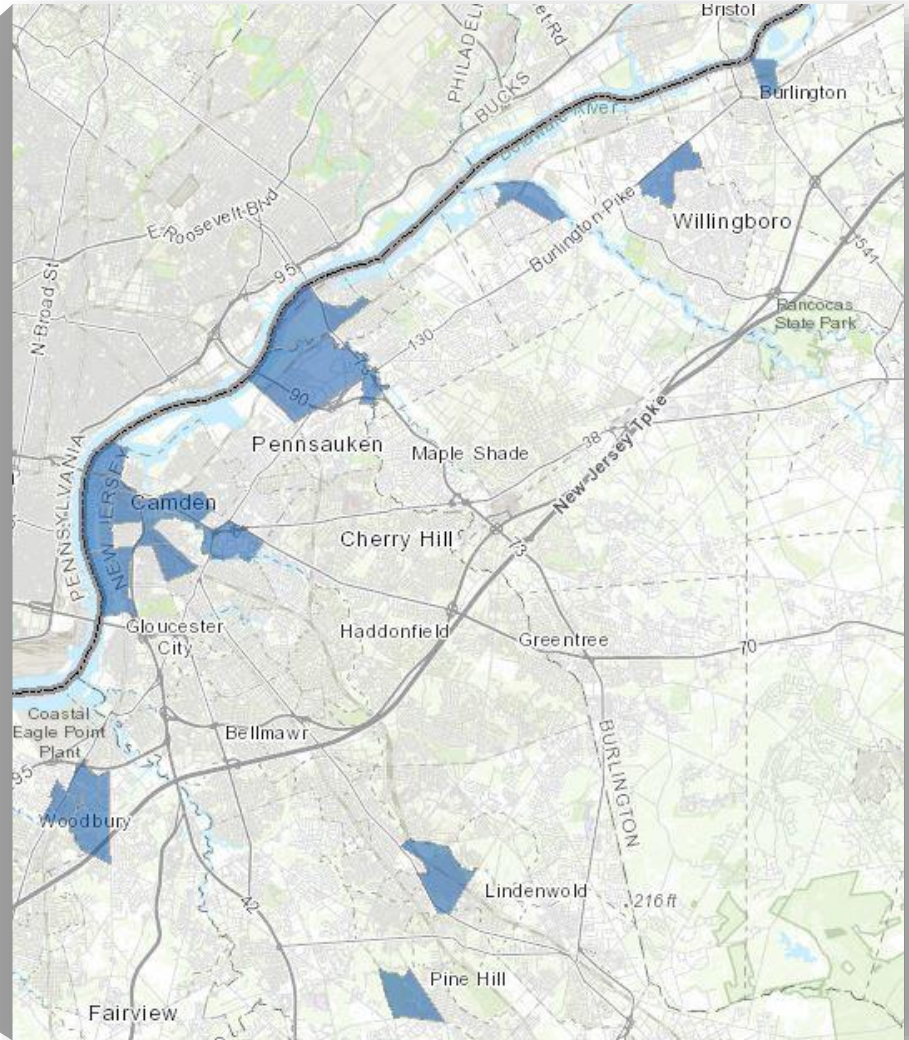
Concerns (continued)

- Encouraging Social Impact and Preventing Gentrification
 - No requirement for a fund to meet social impact; no current reporting requirements
 - Lack of oversight could lead to abuse
 - Will require that cities and states provide structure on investments in these markets with soft funding. Zoning or permit controls or tax policies.

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Camden, New Jersey



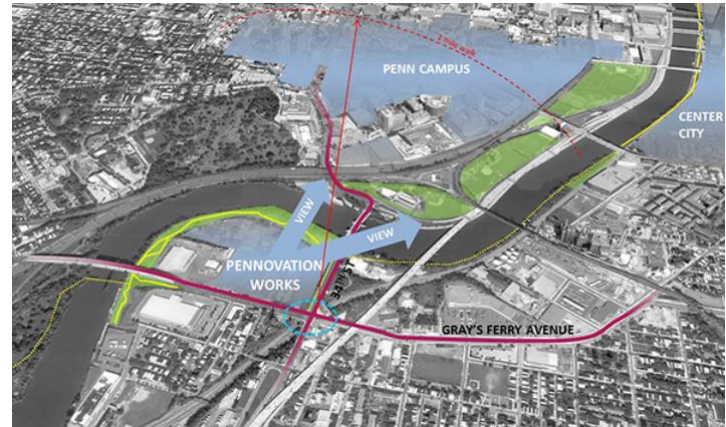
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Regional Site Examples



The Arsenal in Frankford



The Pennovation Center in Grays Ferry



Camden, NJ



Chester Waterfront

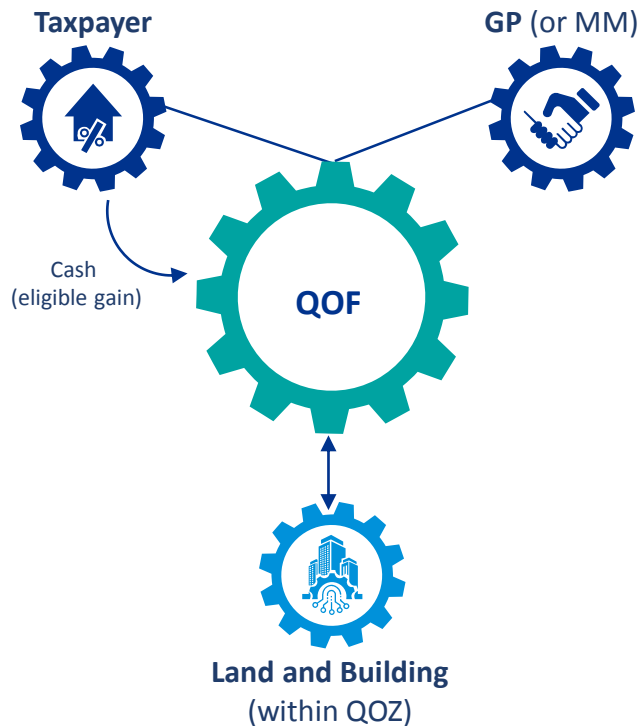
Direct Investment vs. Two-Tiered Investment

- Exploring a direct investment in a QOZ business property (i.e., real estate) vs. investing in a business that in turn invests in a business property
- What is the difference – timing? Flexibility? Cash? Working Capital Plan?

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Steps to achieve gain deferral; Direct investment in QOZ business property



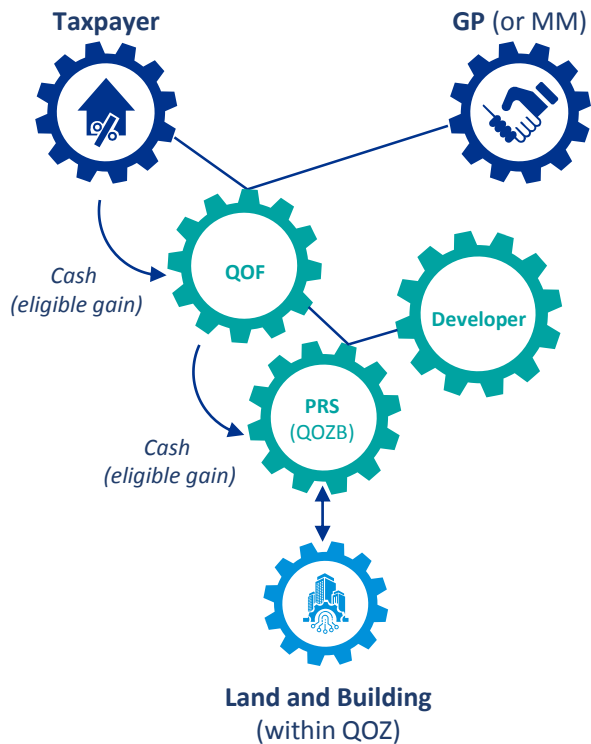
- Taxpayer and General Partner (or Managing Member) form Investment Fund (QOF) as a partnership for US federal income tax purposes that will certify as a QOF.
- Within the 180-days period requirement for an eligible gain, Taxpayer contributes cash equal to the eligible gain to the QOF.
- QOF uses eligible gain cash proceeds contributed to acquire QOZ property.
 - For example, land and an existing building within a QOZ from an unrelated party which it intends to substantially improve within the requisite 30-month period

Two-tier Structures for QOZ Businesses

Best path forward as a result of the
proposed regulations?

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Two-tier structures for QOZ businesses (QOZB)



Assume the facts are the same as the example provided for single-tier structure above except that QOF contributes cash to PRS, treated as a partnership for US federal income tax purposes, which purchases the land and building as part of a QOZB.

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What is a “QOZB”?

A QOZB is a trade or business:

01

Substantially all (**70 percent**) of the tangible property owned **or leased** by the business is QOZB property;

02

At least 50 percent of the business’s total gross income is from the **active conduct** of the trade or business **in the opportunity zone**;

03

A substantial portion of the business’s intangible property is used in the **active conduct** of the trade or business **in the opportunity zone**;

04

Less than five percent of the average of the aggregate unadjusted bases of the business’s property is attributable to nonqualified financial property (e.g., debt, stock, partnership interests), with **exception for reasonable amounts of working capital**; and

05

Is not a “Sin Business”

- Private or commercial golf course
- Country club
- Massage parlor
- Hot tub facility
- Suntan facility
- Racetrack or other facility used for gambling
- Any store the principal business of which is the sale of alcoholic beverages for consumption off premises.

See Prop. Treas. Reg. §1.140022(d)-1(d)(2) and (3).

Working capital safe harbor for QOZB – Proposed regulations

The working capital safe harbor for QOF investments applies to QOZB that acquire, construct, or rehabilitate tangible business property used in a business operating in an opportunity zone.

The safe harbor allows QOZB to treat all working capital (cash, cash equivalents, and debt instruments not exceed 18 months) as reasonable for a period of up to 31 months, if there is a:

- Written plan that identifies the working capital as property held for the acquisition, construction, or substantial improvement of tangible property in the opportunity zone,
- Written schedule consistent with the ordinary start-up of a trade or business for the expenditure of the working capital; and under that schedule the working capital must be spent within 31 months of receipt of the working capital, and
- The working capital is actually used in a manner that is substantially consistent with the schedule.

The QOZB would be required to retain any written plan in their records.

See Prop. Treas. Reg. §1.1400Z2(d)-1(d)(5)(iv).

Complementary safe harbors – Proposed regulations

Qualified opportunity zone businesses that acquire, construct, or rehabilitate tangible business property and satisfy the working capital safe harbor may:

Gross income safe harbor

Treat gross income from such working capital as gross income satisfying the 50% gross income test;

Use of intangible property safe harbor

Treat the use requirement for intangible property as satisfied during any period in which the business operating in a manner consistent with the working capital safe harbor; and

Safe harbor for property on which working capital is being expended

Treat the property to which the working capital will be expended and that is expected to be QOZB property after such expenditures as not failing the requirements to be QOZB property during the expenditure period.

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Direct vs indirect ownership – Comparison table

Direct ownership (Single-Tier structure): QOF directly owns QOZB Property used in a trade or business	Indirect ownership (Two-Tier structure): QOF owns QOZB Property through a QOZB
90-Percent Asset Test (90% of the all of the QOF’s assets is QOZB Property)	Substantially All (70%) of the tangible property owned or leased by the business is QOZB Property
QOZB Property is used in the QOF’s trade or business	50% of gross income of the QOZB from active conduct of trade or business within the QOZ
Intangible Property is not QOZB Property for the 90-Percent Asset Test (instead, it counts towards the remaining 10%)	A substantial portion of the business’ intangible property is used in the active conduct of the trade or business in the opportunity zone
No additional restrictions on financial property	<5% of the average of the aggregate unadjusted bases of the property is attributable to the non-qualified financial property* (except for reasonable amounts of working capital)
No Working Capital Safe Harbor	Working Capital Safe Harbor
No prohibition on “Sin Businesses”	QOZB can NOT be a “Sin Business”
No specific reference to the lease of property by a QOF	A QOZB is able to lease property and could possibly qualify as QOZB Property.**

*The definition of nonqualified financial property includes debt, stock, partnership interests, options, futures contracts, forward contracts, warrants, notional principal contracts, annuities, and other similar property specified in regulations

**However, it is not clear how the QOZB Property requirements are applied to leased property.



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Tax Elections and Tax Reporting

Proposed regulation self-certification and election deferral forms



Form 8996 for self-certification and annual compliance

It is expected that taxpayers will use Form 8996, Qualified Opportunity Fund, both for initial self-certification and for annual reporting of compliance with the 90-Percent Asset Test and that Form 8996 would be attached to the taxpayer's Federal income tax return for the relevant tax years. See Prop. Treas. Reg. §1.1400Z-2(d)-1(a)(1)(i).

Form 8949 for gain deferral election

It is expected that taxpayers will make deferral elections on Form 8949, which will be attached to their Federal income tax returns for the taxable year in which the gain would have been recognized if it had not been deferred.

Effective dates

The proposed regulations generally are proposed to be effective on or after the date of publication in the Federal Register. However, eligible taxpayers may generally rely on the proposed rules prior to the final regulations if the taxpayer applies the rules in their entirety and in a consistent manner.

An aerial photograph of a city, likely New Jersey, showing a large bridge spanning a body of water, with various buildings and infrastructure visible in the foreground and background.

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QOZ Investments in relation to
Other Tax Credits and Incentives

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Deferred like kind exchanges (LKE)/QOZ investments

Gains from deferred LKE



- All proceeds from the original sale must be reinvested within 180 days of the sale
- Deferred gain is recognized upon taxable sale of the new property
- Basis in the new property is equal to the basis in the original property exchanged (assuming no additional amounts beyond sales proceeds)
- Future LKEs may be applied
- Domestic LKE property may be located anywhere in the US
- There is no basis step-up or gain reduction as a result of holding the new property for a period of time
- Generally, exchanges may occur between related parties (subject to anti-abuse rules)
- Under Tax Act, section 1031 only applies to real property exchanges

QOZ deferred gains



- Any eligible gains elected to be deferred must be reinvested in a QOF within 180 days of the sale or exchange of the asset
- The deferred gain (less any basis step ups) generally is recognized the earlier of the sale or exchange of QOF interest or December 31, 2026
- Initial basis in the QOF investment is zero
- QOZ business property must be located in QOZ
- Deferred gain recognized on sale of entire QOF interest may be reinvested in another QOF during the deferral period
- A basis step-up of 10% occurs if the interest in the QOF is held for at least 5 years and another 5% if the interest in the QOF is held for at least 7 years. After the QOF interest is held for 10 years, the basis in the interest may be increased to the FMV when sold or exchanged.
- Only gain on the sale or exchange with an unrelated person qualify.
- Eligible gains are those treated as capital gain from any property held by the taxpayer.



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Opportunity zone and New Markets Tax Credit (NMTC) and Low-Income Housing Credit (LIHTC)

QOZ/NMTC

Both the NMTC and Opportunity Zones share the same geographic footprint to the extent of the 25% limitation on the number of population census tracts that can be designated. In addition qualified opportunity zones can include a percentage of contiguous non-low-income tracts. While it may have been congressional drafter's original intent to certify QOFs in a manner similar to CDEs, the IRS's self-certification guidance allows QOFs to be created without any government review or regulation. Finally, the NMTC allocation authority is limited to 3.5 billion for each of 2018 and 2019 after which the program is set to expire. There is no limit of the investment of gains taxpayers may contribute to QOFs that will eventually be deployed into QOZs.

QOZ/LIHTC

While the LIHTC is available only for residential rental property, QOZ property can include both commercial and residential real property. Moreover, QOFs that invest LIHTC projects located in a QOZ could potentially benefit from both LIHTC and the gain deferral for QOZs.

An aerial photograph of a city, likely New Jersey, showing a large bridge spanning a body of water, with various buildings and infrastructure visible in the foreground and background.

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**QOZ Designation and
State Conformity**

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QOZ designation process



The IRS issued guidance to the “chief executive officers (CEOs)” of any U.S. state, U.S. possession, and the District of Columbia regarding the procedure for designating population census tracts as QOZs.



CEOs had to submit to the Treasury population census tracts representing no more than 25% of the state’s census tracts that are qualified low-income communities. A qualified low-income community has the same definition as under the new markets tax credit (NMTC) rules.



In addition, up to 5% of census tracts that are not qualified low-income communities under the NMTC rules, but are contiguous to a qualified low-income community census tract may be designated as a QOZ if the median family income (MFI) does not exceed 125% of the MFI of the contiguous census tract.

To search for QOZ by zip code, <https://www.cdfifund.gov/Pages/Opportunity-Zones.aspx>

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QOZ designation process (continued)



The initial period for CEOs to submit eligible census tracts ended on April 20th, 2018. No further submissions after June 18, 2018 may be designated as QOZs.

The government has designated approximately 8700 QOZs across the 50 states, 5 territories and the District of Columbia (See Notice 2018-48 for the complete list of QOZs).

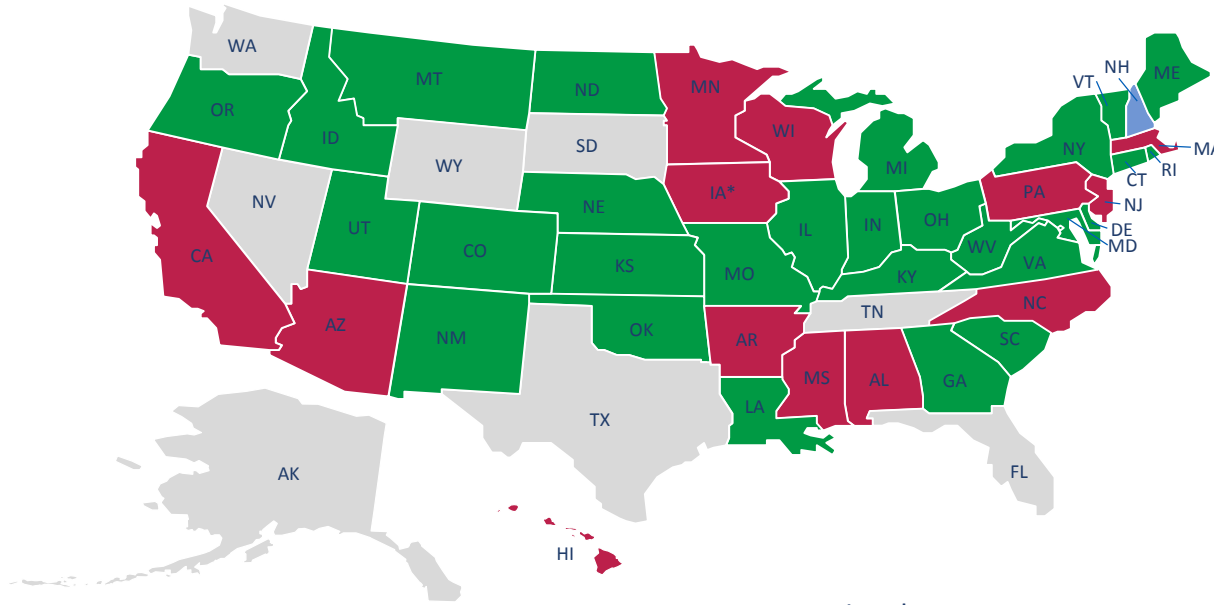
In the case of Puerto Rico, Congress designated all qualified low-income community census tracts as QOZs and 26 contiguous tracts.

The Proposed regulations treat designated QOZs as eligible census tracts through 2047. See Prop. Reg. §1.1400Z2(c)-1(b).

To search for QOZ by zip code, <https://www.cdfifund.gov/Pages/Opportunity-Zones.aspx>

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State conformity – Individual income tax



Legend

	The state conforms with opportunity zone benefits for tax year 2018
	The state does not conform with opportunity zone benefits for tax year 2018
	No individual income tax that includes capital gains in the tax base

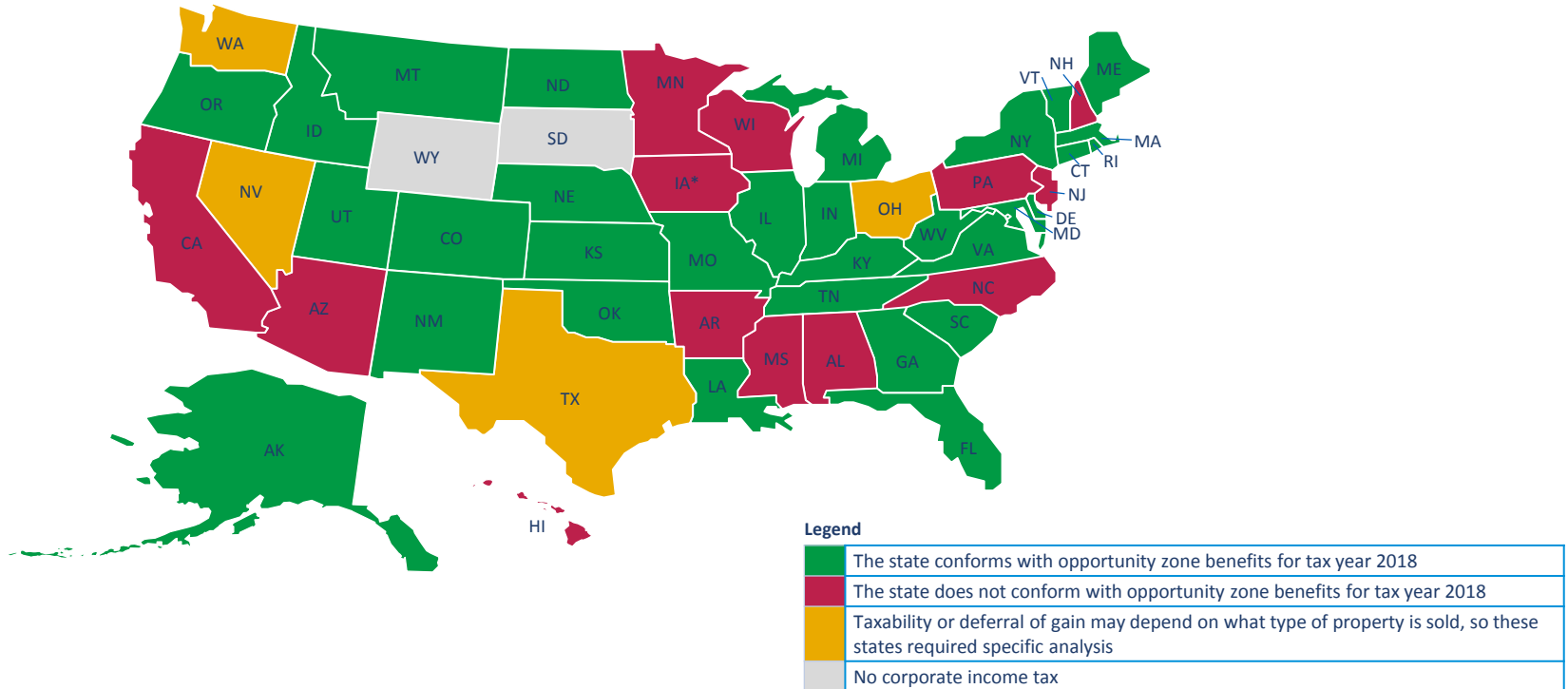
Information is current as of October 29, 2018

* Iowa will conform with QOZ benefits beginning with tax year 2019

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State conformity – Corporate income tax



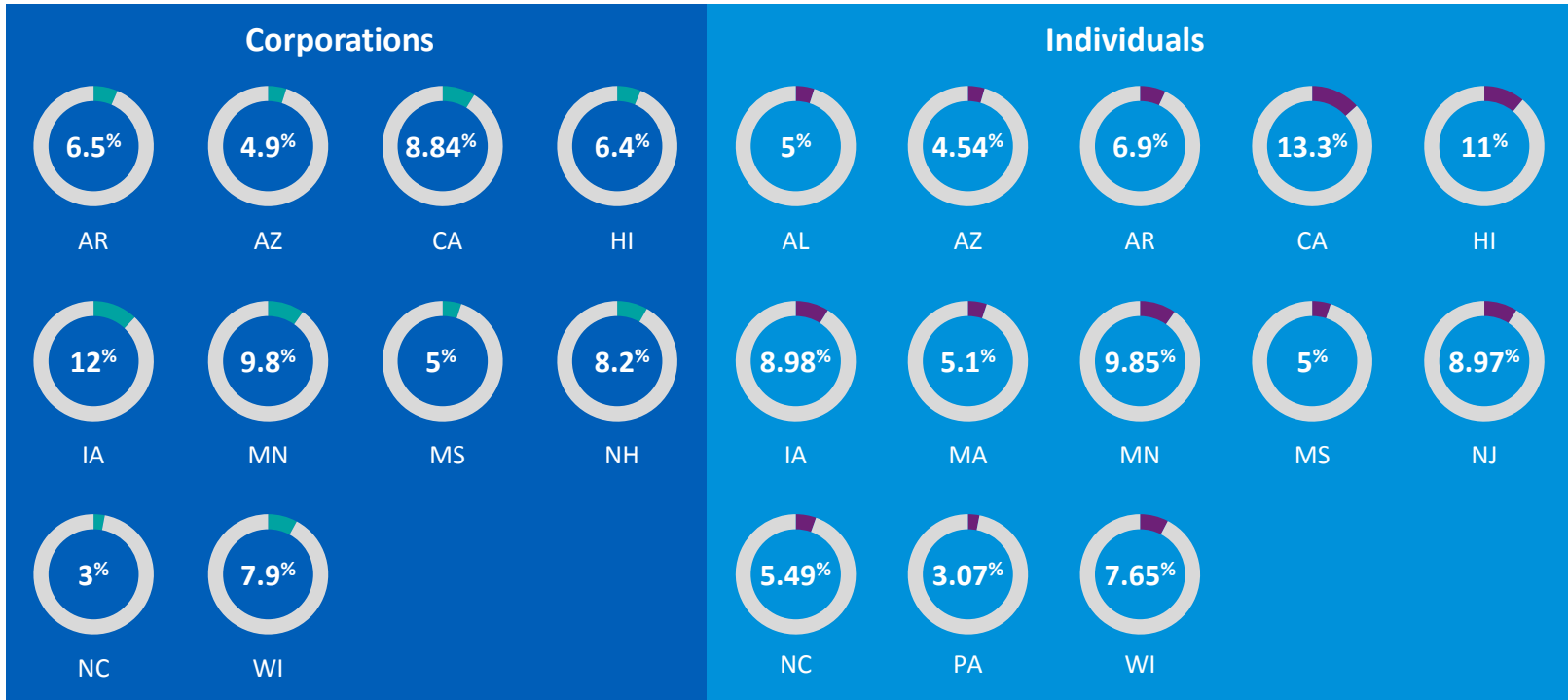
Information is current as of October 29, 2018
 * Iowa will conform with QOZ benefits beginning with tax year 2019

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Income tax rates in nonconforming states

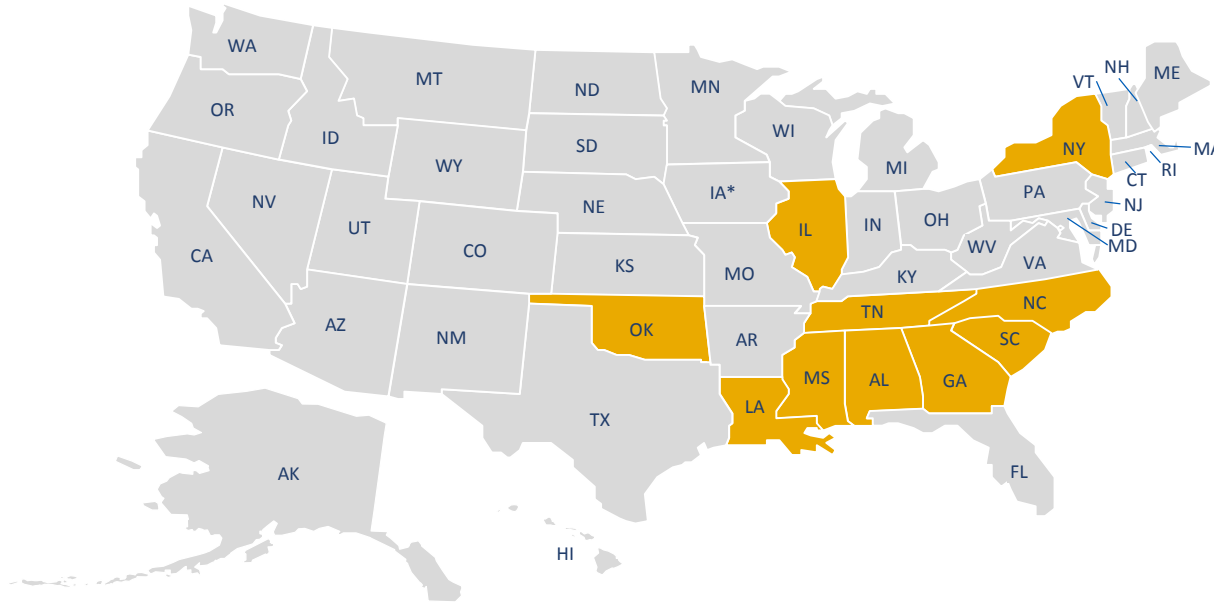
Current as of October 29, 2018 (TY2018 - highest marginal rate)



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State tax on corporation's net worth or property value



Legend

- The state taxes corporations on net worth, investment in property, or assessed value of property for tax year 2018 along with the income tax return (this map does not indicate property taxes imposed on tangible or real property)
- No tax on net worth, investment in property, or assessed value of property along with income tax return

Information is current as of October 29, 2018



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State conformity to opportunity zone IRC provision

Current as of October 29, 2018

Corporations

- 34 states currently conforming (rolling or updated state IRC conformity)
- 4 states didn't update state IRC conformity (CA, MN, NH; IA conforms starting in TY19)
- 4 states updated state IRC conformity but decoupled from IRC 1400Z (AZ, HI, NC, WI)
- 2 states with only selective IRC conformity (AR, MS)
- 4 states impose gross receipts taxes and not corporate income tax (NV, OH, TX, WA)
- 2 states don't impose corporate income tax or gross receipts tax

Individuals

- 28 states currently conforming (rolling or updated state IRC conformity)
- 3 states didn't update state IRC conformity (CA, MN; IA conforms starting in TY19)
- 4 states updated state IRC conformity but decoupled from IRC 1400Z (AZ, HI, NC, WI)
- 6 states where state IRC conformity is different for personal income tax or only have selective IRC conformity (AL, AR, MA, MS, NJ, PA)
- 3 states don't impose personal income tax but imposed gross receipts tax on certain businesses (NV, TX, WA)
- 6 states don't impose personal income tax or gross receipts tax on individuals (AK, FL, NH, SD, TN, and WY)



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Opportunity Zones

Resources:

- Opportunity Zones Resources:
 - The authority to implement IRC 1400Z-1 and 1400Z-2 has been delegated to the IRS. The CDFI Fund is supporting the IRS with the Opportunity Zone nomination and designation process under IRC 1400Z-1 only.
 - The IRS has posted a list of [Frequently Asked Questions about Opportunity Zones](#) and is currently working on guidance on how the Qualified Opportunity Zone benefit under IRC 1400Z-2 (including the certification of Qualified Opportunity Funds and eligible investments in Qualified Opportunity Zones) will be administered. IRS and Treasury are giving this guidance high priority for rapid issuance over the next few months. Please send any comments or questions to CC.ITA.Section.1400@irsounsel.treas.gov.



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Opportunity Zones

Resources (continued)

- Opportunity Zones:
 - **List of designated Qualified Opportunity Zones (QOZs)**: This spreadsheet was updated June 14, 2018, to reflect the final QOZ designations for all States. (See **IRS Notice 2018-48, 2018–28 Internal Revenue Bulletin 9**, July 9, 2018, for the official list of all population census tracts designated as QOZs for purposes of Internal Revenue Code §§ 1400Z-1 and 1400Z-2.)
 - For a map of all designated QOZs, **click here**.
 - To view all designated QOZs, click on the “Layers” tab on the menu on the right hand side of the screen. Select “Opportunity Zone Tract” and unselect “2011-2015 LIC Census Tract,” and zoom in to a specific area on the map. Designated QOZs will appear in blue.
 - To view a specific census tract, enter the tract number in the search bar, select “2011-2015 Census Tract” by clicking on the mailbox symbol on the left of the search bar, click search, and select the census tract number that appears in the results below.

Resources (continued)

- Additional Resources:
 - [IRS Revenue Procedure](#): Provides information on the eligibility criteria for census tract designation as a Qualified Opportunity Zone and the nomination and designation process.
 - [Opportunity Zones Information Resource](#), with sortable lists by State of all census tracts originally eligible for designation as a QOZ.
 - [Opportunity Zones Shapefile](#): This Zip file contains a Geographic Information System (GIS) shapefile of all population census tracts designated as QOZs as well as all population census tracts originally eligible for designation as a QOZ. See Readme text document for additional detail.



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Resources (continued)

- For all questions on IRC 1400Z-2 related to Opportunity Funds and Opportunity Zone Investments:
- Phone: (414) 231-2240
- E-mail: CC.ITA.Section.1400@irsounsel.treas.gov

Resources and Tools

- opportunityzones.newmarkets.org
- Visit [NMSC's Opportunity Zones](#) pages for:
 - A [mapping tool](#) of designated census tracts
 - Federal and state [government resources](#) and updates
 - [LISC and partner resources](#), including presentations and webinar recordings
 - Opportunity Zones and Opportunity Funds [FAQ](#)
 - A sign-up form for our Opportunity Zones [email updates](#)

Resources and Tools (continued)

- Other Opportunity Zones resources:
 - The [Investing in Opportunity Act](#)
 - [Community Development Financial Institutions \(CDFI\) Fund Opportunity Zones updates and resources](#)
 - Economic Innovation Group ([EIG Opportunity Zones pages](#)) for related news, background information, and a list of bipartisan supporters



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NJ Department of Community Affairs

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Opportunity Zones



Christopher A. Wheeler, PhD
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Overview

- **Opportunity Zones (OZs)**, created by the 2017 Tax Cuts and Jobs Act, were designed to drive long term capital into distressed communities throughout the country through tax incentives.
- Each state recommended a certain number of census tracts be designated as Opportunity Zones
- Tracts must have a **poverty rate of 20%** or above or a **median family income up to 80%** of the area (statewide) median
- All of New Jersey's 169 recommendations were accepted in April

Policy Goals behind selections

- Create **diverse economic opportunity** by fairly and evenly distributing OZs across the state and within every county
- **Improve economic conditions** in distressed communities
- Support **emerging opportunity for economic growth** and (re)development
- Utilize **public-private partnerships** to maximize the value of state and local investments
- Support **linkages to transit** and other infrastructure
- Seek **balanced support** by identifying **diversity of zones** throughout the state
 - Include urban and rural communities and commercial and residential areas

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Opportunity Zones

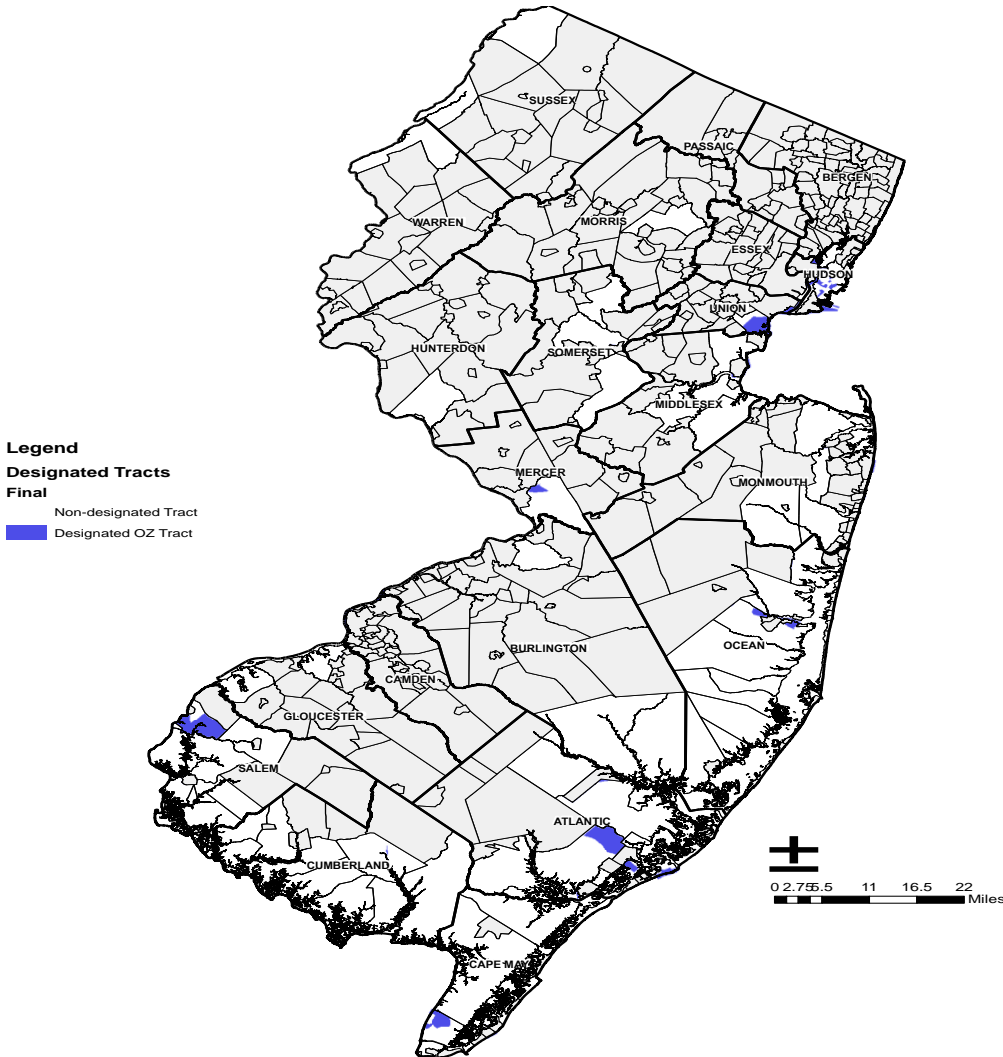
Designated OZ Tracts by Municipality

Municipality	County	#	Municipality	County	#	Municipality	County	#
Atlantic City	Atlantic	4	Bridgeton	Cumberland	2	Red Bank	Monmouth	1
Egg Harbor City	Atlantic	1	Millville	Cumberland	1	Long Branch	Monmouth	2
Egg Harbor township	Atlantic	1	Vineland	Cumberland	2	Asbury Park	Monmouth	2
Pleasantville	Atlantic	1	Newark	Essex	13	Neptune Twp.	Monmouth	1
Somers Point	Atlantic	1	East Orange	Essex	3	Neptune City	Monmouth	1
Cliffside Park	Bergen	1	Irvington	Essex	3	Freehold	Monmouth	1
Englewood	Bergen	1	Orange	Essex	4	Dover	Morris	3
Fairview	Bergen	1	Woodbury	Gloucester	1	Wharton	Morris	1
Garfield	Bergen	3	Deptford Twp.	Gloucester	1	Lakewood Twp.	Ocean	6
Hackensack	Bergen	3	Glassboro	Gloucester	2	Manchester Twp.	Ocean	3
Lodi	Bergen	2	Jersey City	Hudson	11	Berkeley Twp.	Ocean	2
S. Hackensack Twp./Teterboro	Bergen	1	Bayonne	Hudson	2	Clifton	Passaic	2
Palmyra	Burlington	1	Kearny	Hudson	1	Passaic city	Passaic	4
Riverside	Burlington	1	North Bergen	Hudson	2	Paterson	Passaic	8
Burlington city	Burlington	1	West New York	Hudson	1	Prospect Park	Passaic	1
Pemberton township	Burlington	1	Union City	Hudson	4	Carneys Point Twp.	Salem	1
Willingboro	Burlington	1	Flemington	Hunterdon	1	Salem	Salem	1
Camden	Camden	7	Trenton	Mercer	7	Bound Brook	Somerset	2
Pennsauken	Camden	2	Hamilton Twp.	Mercer	1	North Plainfield	Somerset	1
Lindenwold	Camden	1	Carteret	Middlesex	1	Sussex	Sussex	1
Pine Hill	Camden	1	Perth Amboy	Middlesex	4	Elizabeth	Union	5
Lower township	Cape May	1	New Brunswick	Middlesex	6	Hillside Twp.	Union	1
Wildwood/W. Wildwood	Cape May	1	South River	Middlesex	1	Linden	Union	2
			Jamesburg	Middlesex	1	Rahway	Union	1
						Plainfield	Union	2
						Phillipsburg	Warren	1

- Total Towns = 75
- Total Tracts = 169
- Roughly 1 in 8 NJ towns got a zone (13%)
- 42% of all *eligible* towns got an OZ

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Opportunity Zones



Opportunity Zones Map

Purpose of state strategy

- 1) Position New Jersey as a competitive state for attracting Opportunity Fund investments
- 2) Synthesize various state resources for the most optimal impact for redevelopment, business growth and job creation within the Opportunity Zone communities
- 3) Promote inclusive and equitable development and investment

Targeted Outcomes

- **Lower unemployment** through job opportunities that OZ residents can access (through training, mentorship programs and other incentives)
- **Economic opportunities for residents** of distressed rural and urban communities across New Jersey
- **Locally appropriate investment and development** that strengthens existing communities
- **Safe places** for residents to work, live, and enjoy recreational activities
- **Inclusion of new and enduring locally owned businesses**, including small, minority, and women owned business enterprises in OZ redevelopment activity which results in increased participation and is consistent with state set-aside procurement goals
- **Sustainable transit-oriented communities**
- Increased **entrepreneurship**
- **Redevelopment** of underutilized, vacant and contaminated properties

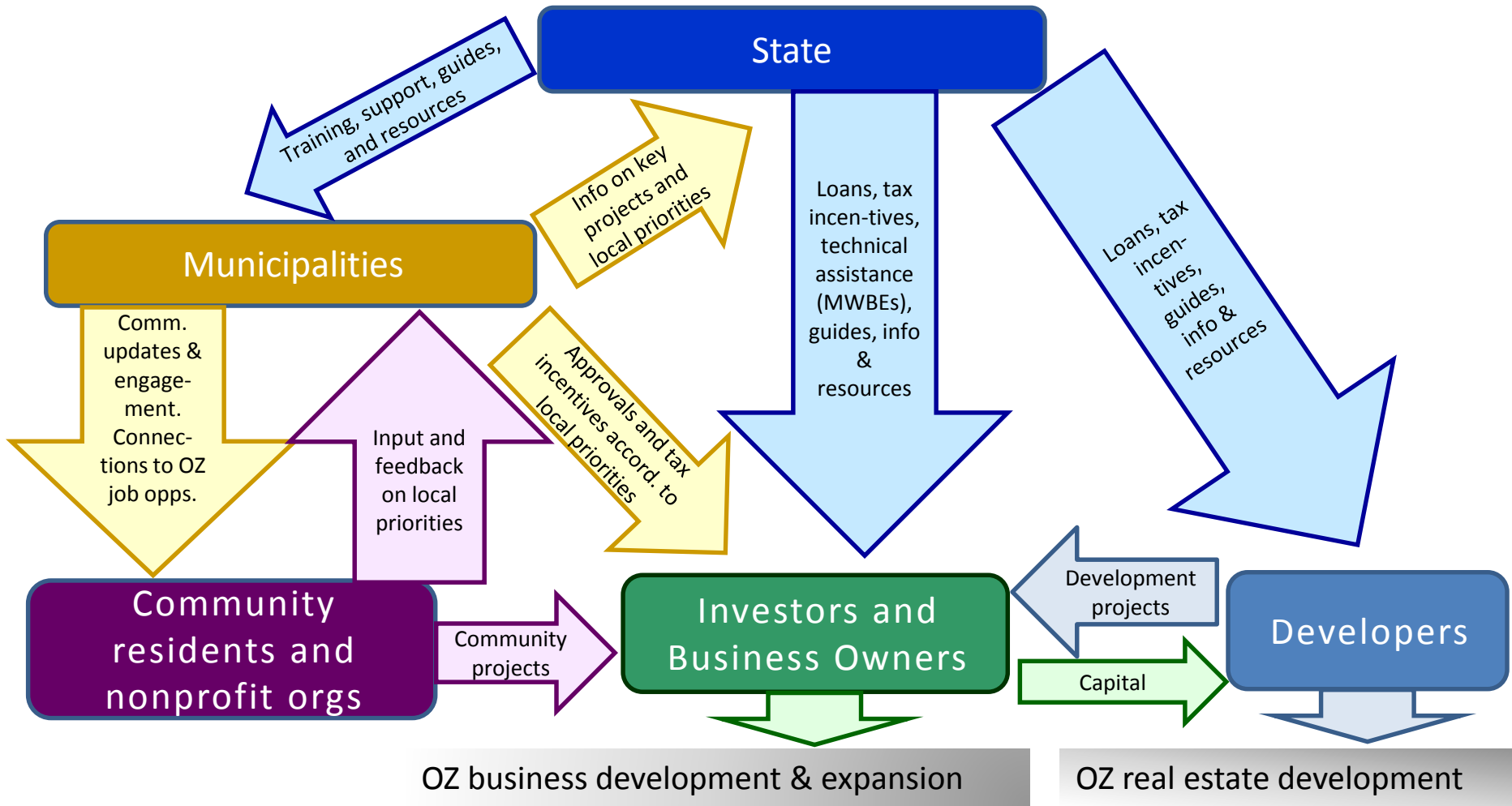
Key actors

- There are **five** primary actors that will play major roles in the advancement of Opportunity Zones:
 - State of New Jersey
 - Municipalities
 - Investors and business owners
 - Including social entrepreneurs and non-profit investors
 - Developers
 - Community residents and non-profit organizations
 - Including foundations and larger non-profits

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Opportunity Zones

Opportunity Zones Strategy



Role of Municipalities

- Channel appropriate businesses, investment, and development into OZs through the use of tax incentives and a streamlined planning, zoning, and permitting process
- Advance local and municipal development priorities in OZs
- Develop an affordable housing production and preservation strategy (if appropriate)
- Special mandates for OZ projects receiving municipal funds or tax incentives
- Leverage local workforce development and job training programs to build resident skills to connect to jobs
- Focus on communications & outreach to neighborhood organizations and community residents on local opportunities from OZs
- Provide information to the State on key OZ projects and local development priorities

Opportunity Zone Resources

- **One-stop-shop** website for information, resources, guides, maps, and rules on New Jersey's Opportunity Zones
 - Interactive community asset map
 - Guides on key topics – strategic planning, using data to market Opportunity Zones, measuring and monitoring outcomes
 - Links to rules, guidelines and information from the US Department of the Treasury
 - Dedicated state email address for questions
 - Digital Marketplace matching Opportunity Zone investment opportunities to investors (in development)



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New Jersey Community Capital Case Study: Newark Arts Commons



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Opportunity Zones

Property address: 306 Dr. Martin Luther King Jr. Boulevard, Newark NJ, 07102

Census Tract: 34013022900 (High Distressed CT based on Poverty, Income, & Employment)

OZ Equity Investment: \$11.0 million

Historic Tax Credits Generated: Approximately \$17.0 milli

Project Purpose:

Create a new arts-focused destination near downtown Newark that will offer permanent affordable office space to nonprofit arts organizations and unique housing options

Long-term Affordable Arts Space:

The space dedicated to Non-profit arts organizations is more than **60% below market** (average \$9.50 PSF vs. \$25 PSF) enabling Arts organizations to obtain affordable, long-term space that ensures an on-going vibrant arts scene in downtown Newark.

Youth Served through Arts Programming:

500 low- and moderate-income youth served annually

Artists Served: The building will provide flexible creative-space for nearly 100 artists annually

Building Preservation:

The project preserves and restores a historic structure that has been vacant and deteriorating for nearly a decade.



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Project timeline:

The project partners have already completed an initial round of demolition and hazardous material abatement making the project shovel ready for full construction. We anticipate the following key milestones and expect completing of construction by the end of 2018.

- Planning Board – Approved Winter 2018
- Historic Tax Credits, Parts I and II – March 2018
- Construction Start – July 2018
- OZ Equity/Construction & Perm Loan / Historic Tax Credits closing – January 2019
- Construction completion – January 2020

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Financial Plan:

The financial plan creates long term affordable program and office space for Newark arts-oriented nonprofit organizations by taking advantage of federal tax credit and deferral programs as well as tradition capital. The below chart outlines the Sources and Uses for the Project:

Key financials

Newark Arts Commons					
Uses	Total	% Total	Sources	Total	% Total
Land and Building	\$ 2,700,000	12%	Owner Equity (Building Val Appreciation)	\$ 1,600,000	7%
Hard Construction Costs	\$ 13,847,573	64%	Residential Condo Loan	\$ 4,400,000	20%
Soft Costs	\$ 3,952,191	18%	Historic Tax Credits	\$ 2,555,261	12%
Financing Fees & Carrying Costs	\$ 1,202,533	6%	Deferred Dev Fee	\$ 247,036	1%
Total Project Costs	\$ 21,702,297	100%	Opportunity Zone Equity	\$ 11,000,000	51%
			GlassRoots Contribution	\$ 875,000	4%
			Project Sponsor Equity Investments	\$ 1,025,000	5%
			Total Sources of Funds	\$ 21,702,297	100%



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Panel Discussion & Audience Q & A

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Closing Remarks

Steve Kehs, Vice President, Triad Associates

SNJDC Economic Development Committee co-Chair

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For their support and assistance with today's seminar

Additional Resources:

Drexel University Lindy Institute for Urban Innovation

<https://drexel.edu/lindyinstitute/initiatives/nowak-metro-finance-lab/publications/reports/opportunity-zones/>

Official Site of the State of New Jersey: Opportunity Zones

<https://nj.gov/governor/njopportunityzones/index.shtml>

New Jersey Community Capital Case Study: Newark Arts Commons

<http://snjdc.org/wp-content/uploads/2018/12/Newark-Arts-Commons-Project-Overview.pdf>

<http://snjdc.org/wp-content/uploads/2018/12/Newark-Arts-Commons-Financial-Projections-1.pdf>

<http://snjdc.org/wp-content/uploads/2018/12/Newark-Arts-Commons-Financial-Projections2.pdf>