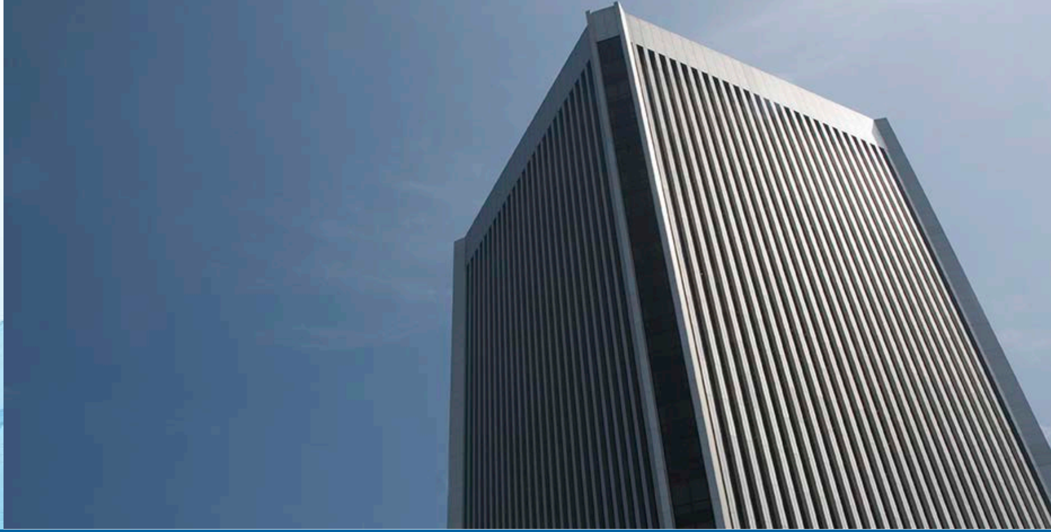

Qualified Opportunity Zones: Innovation and Responsiveness

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May 21,2019

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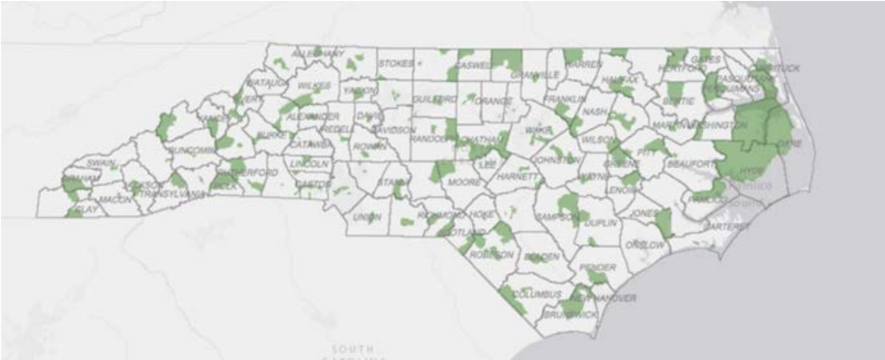
Federal Legislation

- Original Legislation H.R. 5082 April 27, 2016
- Qualified Opportunity Zones were added to the Internal Revenue Code by the 2017 Tax Cuts and Jobs Act (The "2017 Tax Act") by Code sections:
    - 1400Z-1 discusses designation of Qualified Opportunity Zones (QOZ)
    - 1400Z-2 discusses how to invest capital gains into QOZs and receive significant tax benefits
- NC 252



Policy Goals

- The Qualified 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 Qualified Opportunity Zone census tracts.
- The Community Reinvestment Act (CRA) focuses on low- and moderate-income.
- The policy goals of the 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**

Who can benefit?

Any US taxpayer with capital gains (net 1231 capital gains) can potentially benefit from this new tax incentive. This includes:

- Individuals or corporations looking to reinvest gains from sales of property in order to defer and reduce taxes;
- Real estate developers and start-up companies located in a QOZ who are looking for equity investment; and
- Real estate sponsors, syndicators and/or private equity funds looking to create Qualified Opportunity Funds (QOF) and then make investments in Qualified Opportunity Zone Property, including investments in corporations, partnerships or direct investments in property.

For the Investors

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

Investing in Qualified Opportunity Funds

- A Corporation or Partnership organized for the purpose of investing in "Qualified Opportunity Zone Property" that holds at least 90 percent of its assets in QOZP
  - Funds must self-certify to the IRS.
  - Funds will be audited twice yearly to ensure compliance.
  - This is reported on Form 8996

Form **8896** (Rev. December 2017) Department of the Treasury Internal Revenue Service

Low Sulfur Diesel Fuel Production Credit

► Attach to your tax return.
► Go to *www.irs.gov/Form8896* for the latest information.

OMB No. 1545-1914
Attachment Sequence No. 142

Name(s) shown on return | Identifying number

1	Low sulfur diesel fuel produced (in gallons)	1	
2	Multiply line 1 by $0.05	2	
3	Qualified costs limitation (see instructions)	3	
4	Total low sulfur diesel fuel production credits allowed for all prior tax years (see instructions)	4	
5	Subtract line 4 from line 3	5	
6	Enter the smaller of line 5 or line 2	6	
7	Low sulfur diesel fuel production credit from partnerships, S corporations, and cooperatives (see instructions)	7	
8	Add lines 6 and 7. Cooperatives, go to line 9. Partnerships and S corporations, stop here and report this amount on Schedule K. All others, stop here and report this amount on Form 3800, Part III, line 1m	8	
9	Amount allocated to patrons of the cooperative (see instructions)	9	
10	Cooperatives, subtract line 9 from line 8. Report this amount on Form 3800, Part III, line 1m	10	

General Instructions

Section references are to the Internal Revenue Code unless otherwise noted.

Future Developments

For the latest information about developments related to Form 8896 and its instructions, such as legislation enacted after they were published, go to *www.irs.gov/Form8896.*

Purpose of Form

Use Form 8896 to claim the low sulfur diesel fuel production credit.

The credit generally is 5 cents for every gallon of low sulfur diesel fuel produced by a qualified small business refiner during the tax year. However, the total credits allowed for all tax years cannot be more than the refiner's qualified costs limitation on line 3. This credit is part of the general business credit.

Partnerships, S corporations, and cooperatives must file this form to claim the credit. All other taxpayers are not required to complete or file this form if their only source for this credit is a partnership, S corporation, or cooperative. Instead, they can report this credit directly on line 1m in Part III of Form 3800, General Business Credit.

Definitions

Low Sulfur Diesel Fuel

This is diesel fuel with a sulfur content of 15 parts per million or less.

Small Business Refiner

A small business refiner generally is a refiner of crude oil with an average daily domestic refinery run or average retained production for all facilities that did not exceed 205,000 barrels for the 1-year period ending on December 31, 2002. To figure the average daily domestic refinery run or retained production, only include refineries that were refineries of the refiner or a related person (within the meaning of section 613A(d)(3)) on April 1, 2003. However, a refiner is not a small business refiner for a tax year if more than 1,500 individuals are engaged in the refinery operations of the business on any day during the tax year.

Qualified Costs

For each facility, qualified costs are costs paid or incurred to comply with the highway diesel fuel sulfur control requirements of the Environmental Protection Agency (EPA) during the period beginning January 1, 2003, and ending on the earlier of:

- The date 1 year after the date on which the refiner must comply with these EPA requirements with respect to such facility; or
- December 31, 2009.

Qualified costs include costs for the construction of new process operation units or the dismantling and reconstruction of existing process units to be used in the production of low sulfur diesel fuel, associated adjacent or offsite equipment (including tankage, catalyst, and power supply), engineering, construction period interest, and site work.

In addition, the small business refiner must obtain certification from the IRS (which will consult with the EPA) that the taxpayer's qualified costs will result in compliance with the applicable EPA regulations. This certification must be obtained not later than June 29, 2008, or, if later, the date that is 30 months after the first day of the first tax year in which the credit is determined. For details, see Rev. Proc. 2007-69, 2007-49 I.R.B. 1137, available at *www.irs.gov/irb/2007-49_IRB#RP-2007-69.*

TIP *Unless you elect not to take this credit, your deductions will be reduced by the amount of your credit. For details, see section 280C(d).*

Additional Information

For more information, see section 45H.

Specific Instructions

Use lines 1 through 6 to figure any low sulfur diesel fuel production credit from your own trade or business.

Line 1

Enter the number of gallons of diesel fuel produced with a sulfur content of 15 parts per million or less.

For Paperwork Reduction Act Notice, see instructions. Cat. No. 37704F Form **8896** (Rev. 12-2017)

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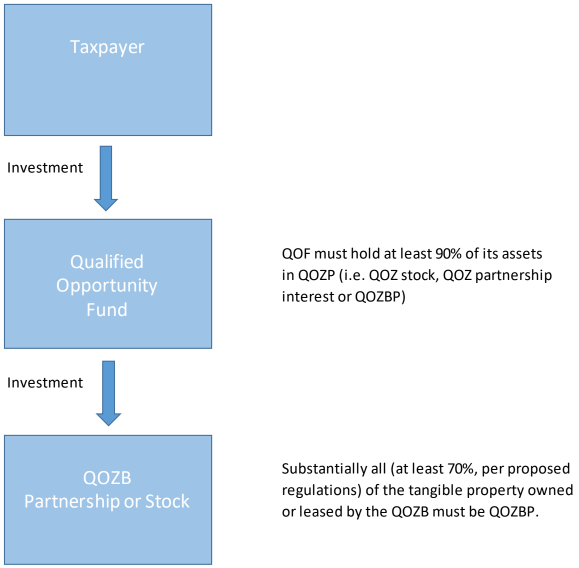
QOFs

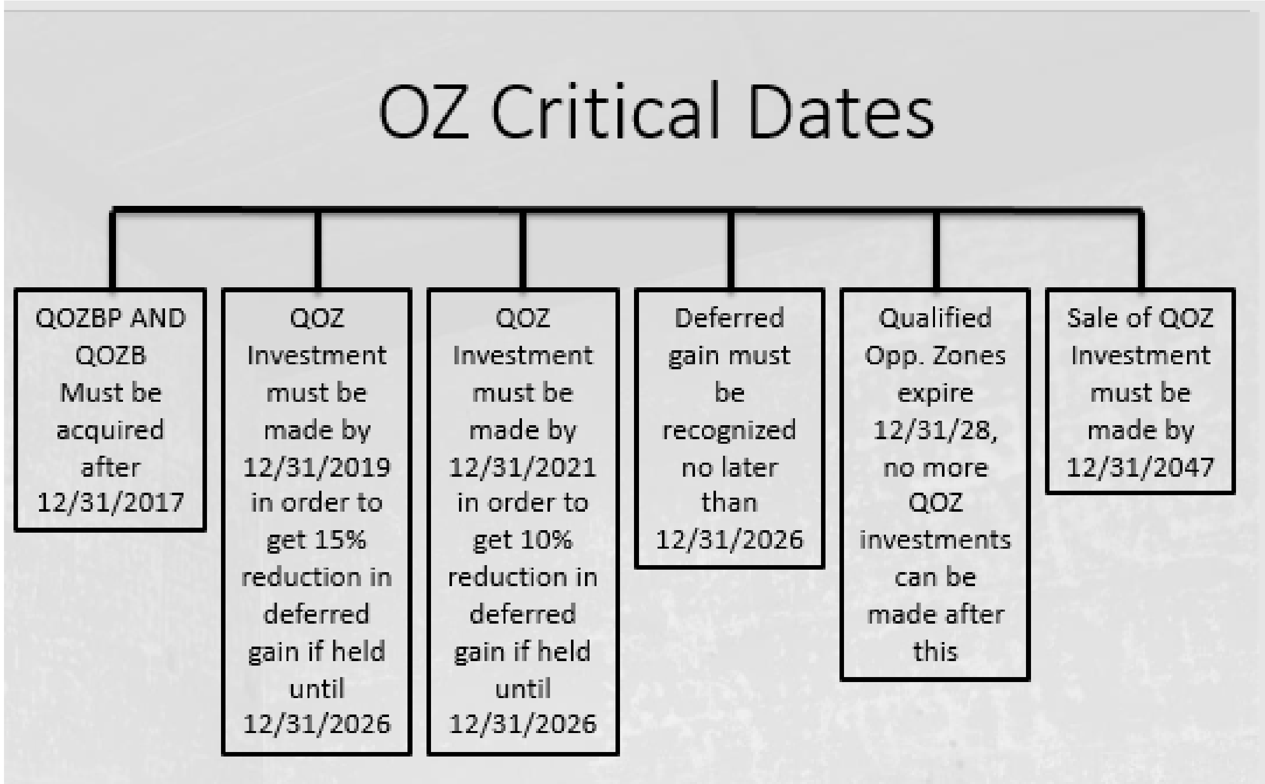
- All investments that seek to benefit from the tax advantages of the program must be made through a QOF.
- The QOF model is designed to encourage broad participation.
- The private sector is responsible for establishing QOF.
- QOFs will come in many shapes and sizes:
  - Some will invest nationally, others locally.
  - Some will have many investors; others few.
  - Some will specialize in particular asset classes or geographies, others will diversify.



Regulatory Guidance

- October 2018
- April 2019

- QOF Profiles
  - Novogradac
  - NCSHA



Communities can benefit

- Timing to build a plan for financing of top priorities
- Funding available to build out community plans and 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

1,190 views | May 10, 2019, 03:13pm

New Opportunity Zone Reporting Requirements Aim To Measure Social Impact

Commercial Real Estate

Can opportunity zones drive investment, development in Charlotte?

Touted as game-changing legislation for real estate investment, opportunity zones have yet to live up to that billing. A year after the federal tax overhaul put some low-income census tracts in play, many rules still aren't clear.

“Opportunities”

- Pair with other funding streams that support stronger and more resilient communities; QOZ equity may be a deal closer
- 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
- Local capital is mobilizing first in many places
  Philanthropy is engaged
- Opportunity and Revitalization Council:
  - Thirteen federal agencies and led by the Housing and Urban Development Secretary
  - Council to prioritize QOZs in a variety of federal efforts, including grant funding, loan guarantees, infrastructure spending and crime prevention
  - 150 potential actions – i.e. USDA water infrastructure and rural broadband spending in certain zones, or SBA focusing certain loan programs in designated tracts.
  - Disaster recovery

Layer and Leverage the Capital Stack

- Construction loans
- Permanent financing
- Equity Bridge loans
- Federal Home Loan Bank Community Investment Service

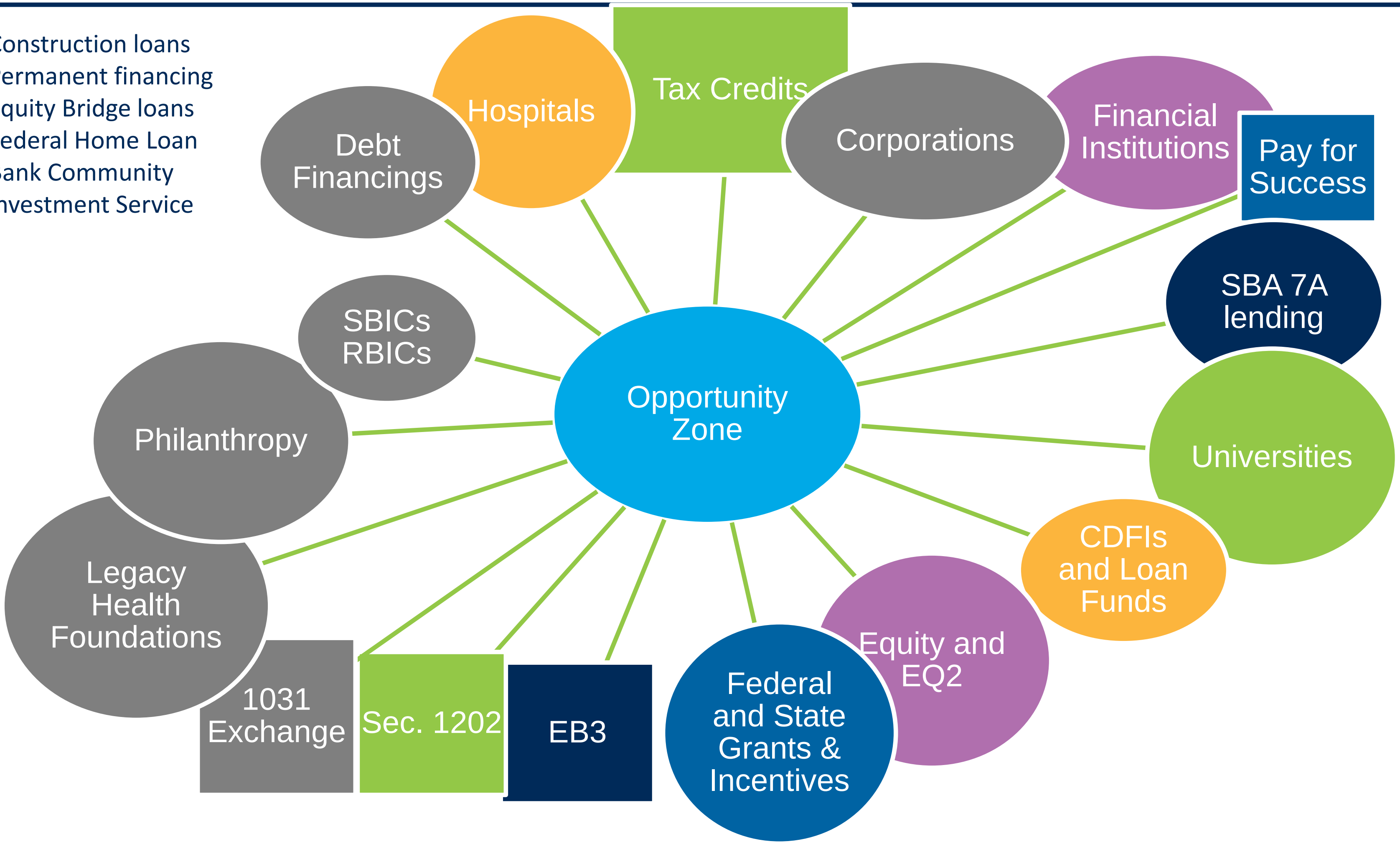
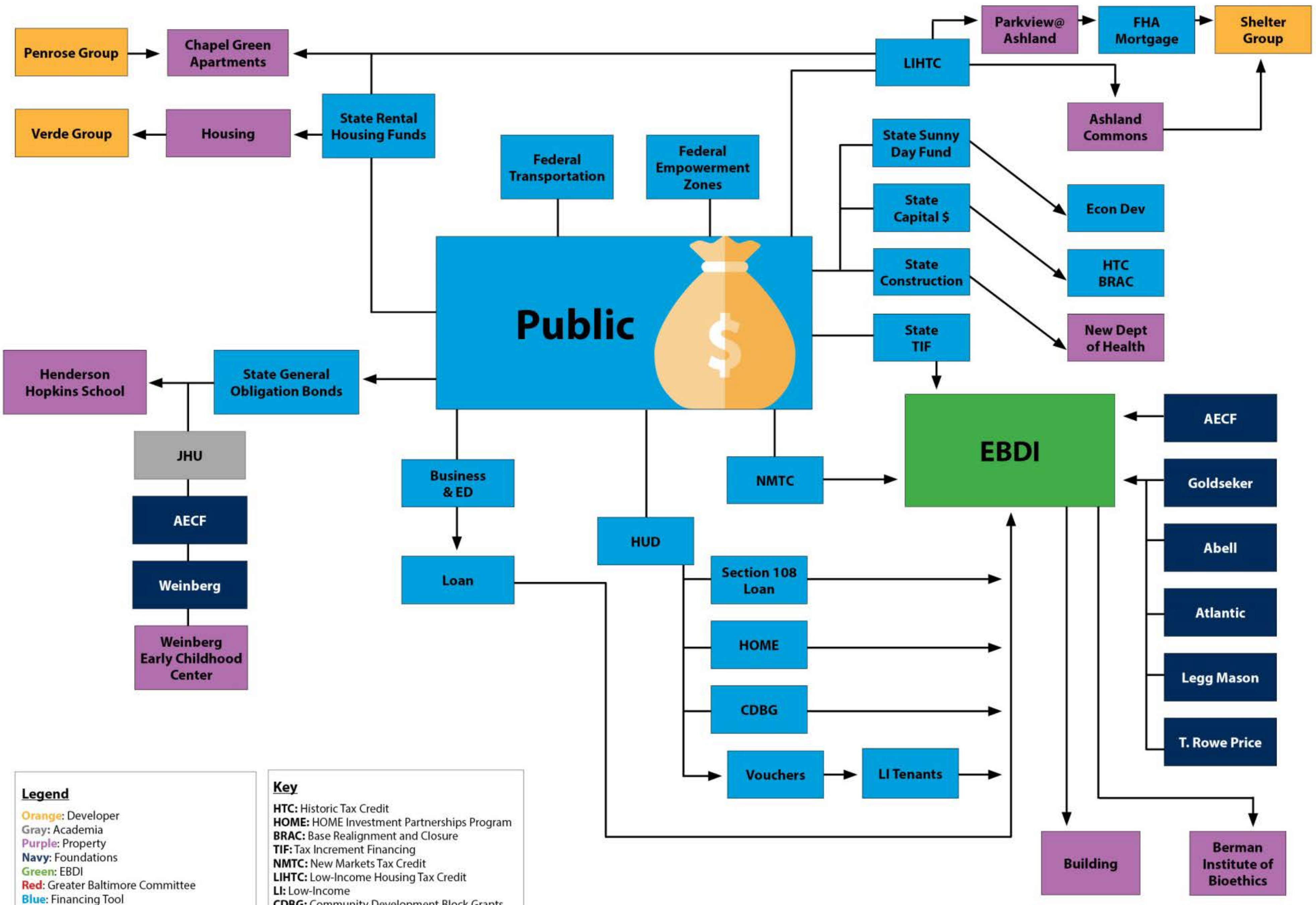


Diagram 1: Financing Tools, Projects and Actors in Phase 1 Redevelopment of East Baltimore



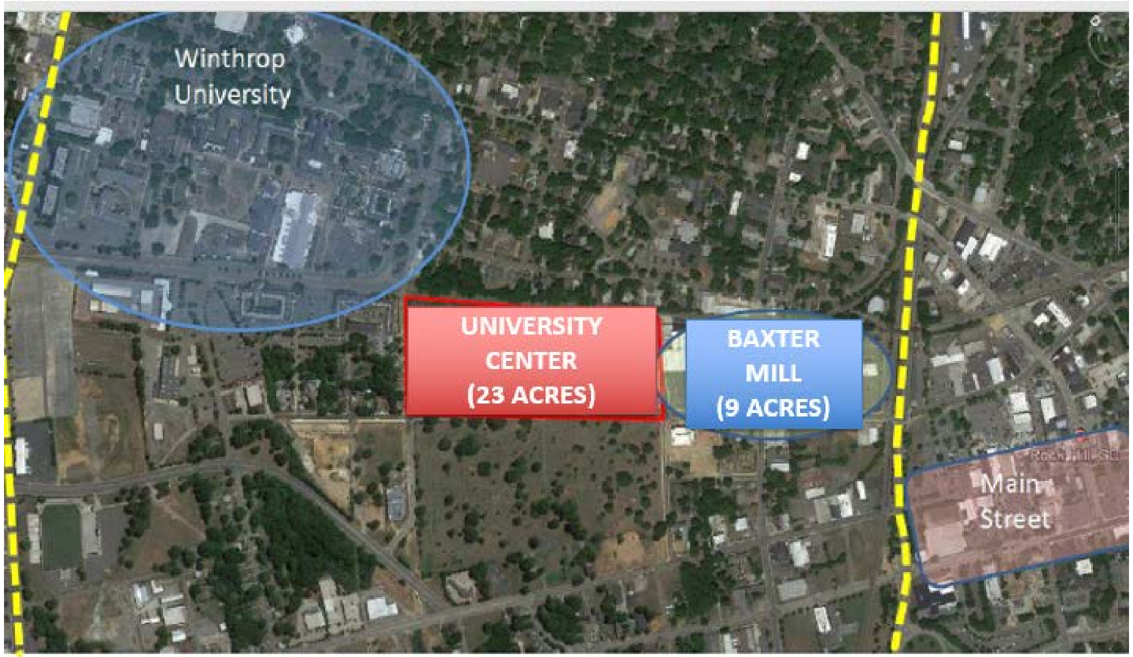
Legend

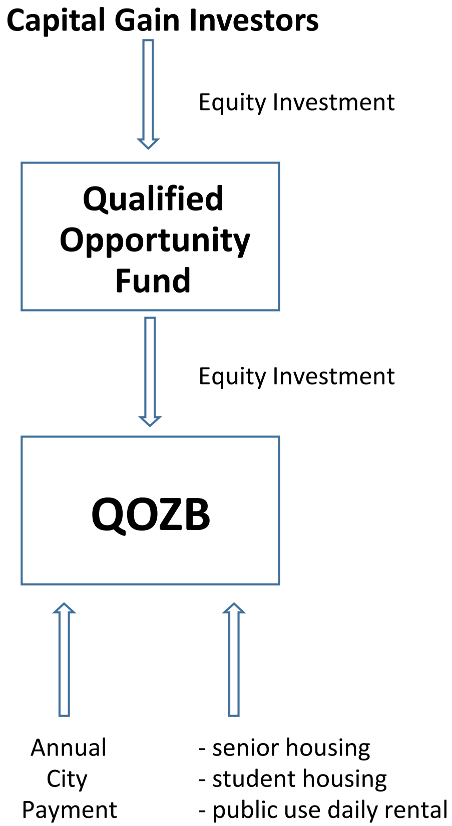
Orange: Developer
Gray: Academia
Purple: Property
Navy: Foundations
Green: EBDI
Red: Greater Baltimore Committee
Blue: Financing Tool

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

Example: Rock Hill, SC





*After year 10, OZ investors are bought out at 5% IRR

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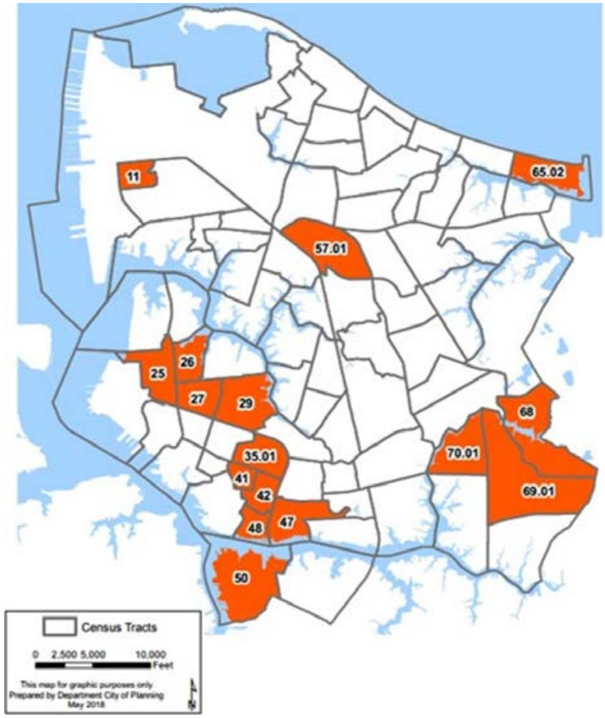
Example: Norfolk, VA



Coastal, Neighborhood, Economic Resilience

ESTIMATED CAPITAL REQUIREMENTS: PHASE 1

Activities	Estimated Cost	Current Funding (over five years)	Gap
Demolition	$7,400,000	$7,400,000	$ -
Infrastructure	$146,980,000	$56,000,000	$90,980,000
Stormwater	18,000,000	$18,000,000	$ -
Road Network	$85,000,000	$32,000,000	$53,000,000
Water	$6,204,000	$ -	$6,204,000
Power, Landscaping & Lighting	$10,000,000	$ -	$10,000,000
Wastewater	$9,776,000	$6,000,000	$3,776,000
Demolition of Infrastructure	$18,000,000	$ -	$18,000,000
People First	$15,000,000	$15,000,000	$ -
Relocation	$1,300,000	$ 1,300,000	$ -
Project Management	$2,500,000	$2,500,000	$ -
Public Facilities	$118,300,000	$25,000,000	$93,300,000
New Housing Development	$150,000,000	$30,000,000 (CNI)	$120,000,000
Total	$441,480,000	$137,200,000	$334,280,000



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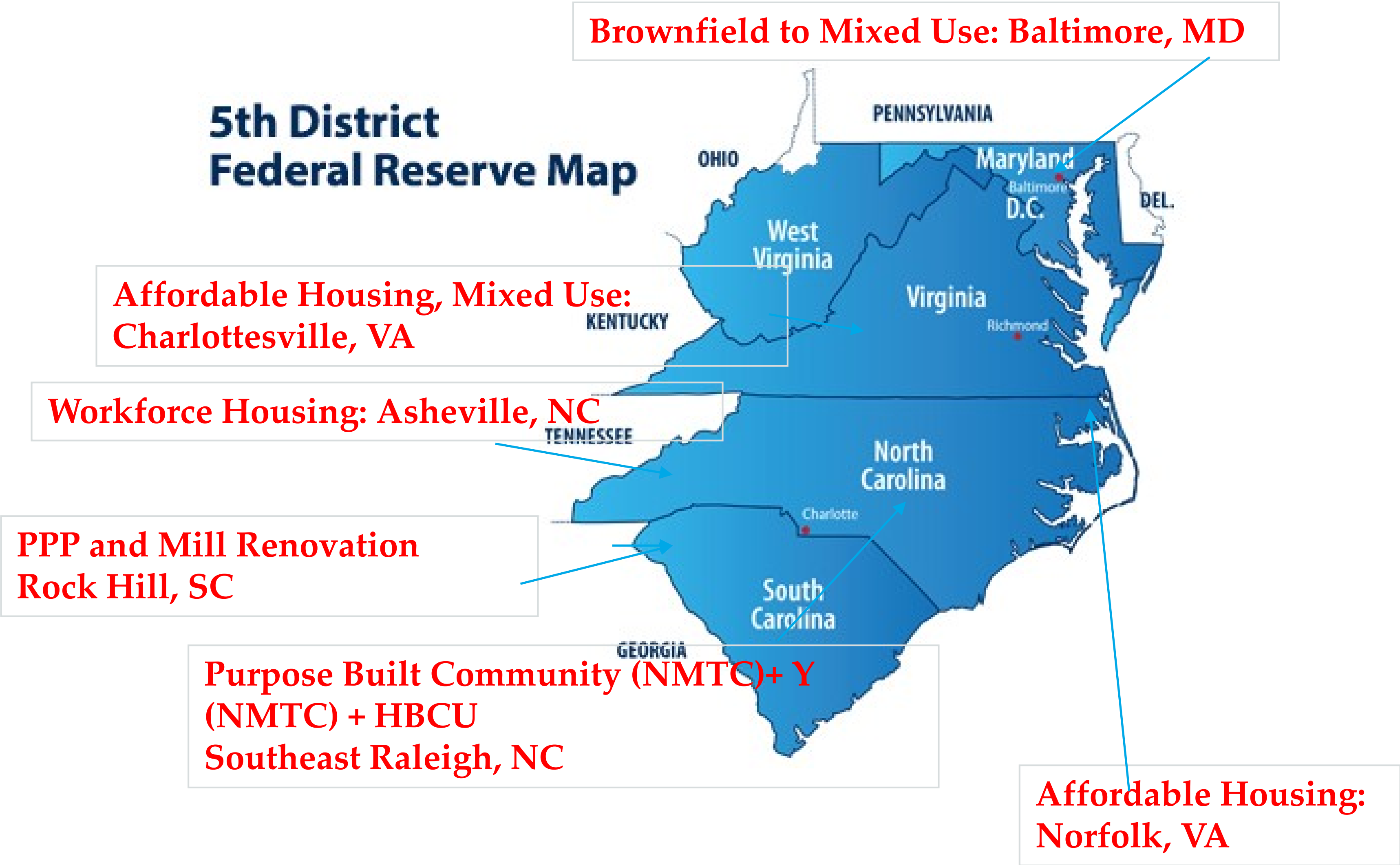
Innovations

- Strategies to mitigate community harm, create community benefits
- Partnerships to raise and deploy funds
- Mission-oriented institutions' sponsorship of Qualified Opportunity Funds
- Foundation Incentives – ROI Guarantee in exchange for jobs, wages
- Local government-driven funds
- New social impact funds
- Purpose Built Communities
- Add to NMTC project


Brownfield to Mixed Use: Baltimore, MD
5th District
Federal Reserve Map
PENNSYLVANIA
OHIO
Maryland
Baltimore
D.C.
DEL.
West Virginia
Virginia
Richmond
KENTUCKY
Affordable Housing, Mixed Use:
Charlottesville, VA
Workforce Housing: Asheville, NC
TENNESSEE
North Carolina
Charlotte
PPP and Mill Renovation
Rock Hill, SC
South Carolina
GEORGIA
Purpose Built Community (NMTC)+ Y
(NMTC) + HBCU
Southeast Raleigh, NC
Affordable Housing:
Norfolk, VA

Possibilities

- Industrial/Manufacturing facilities
- Affordable, Workforce Housing (holistic approach)
- Renewable energy production, food processing/production
- Real Estate Development Projects
- Office space affordable to or supportive of entrepreneurs, small businesses
- Broadband
  - Equity Investments
  - Interim Construction Loans for fiber optic infrastructure deployment and expansion
  - Grants and/or loans for broadband infrastructure, such as last-mile infrastructure: WiFi Mesh Networks, WiFi hotspots, etc.
  - R3 Fiber in rural Minnesota (Multilayered financing - Banks; federal, state and local gov'ts; CDFI; private foundation; private equity investors; member revenues with cooperative -- OCC's public welfare investment (PWI) authority)

Concerns

- Massive influx in capital and the ability of a community to absorb it
- Few guardrails
- 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
- No required stakeholder engagement
- No federal or state entity makes decisions … just IRS