



# Cleveland – Opportunity Zones

# PROGRAM BACKGROUND

# Opportunity Zones - History

- Initially proposed through the Investing in Opportunity Act in 2015
- Incorporated into the Tax Cuts & Jobs Act of 2017
- Address the uneven recovery of many economically distressed communities by encouraging business formation and investment in these markets

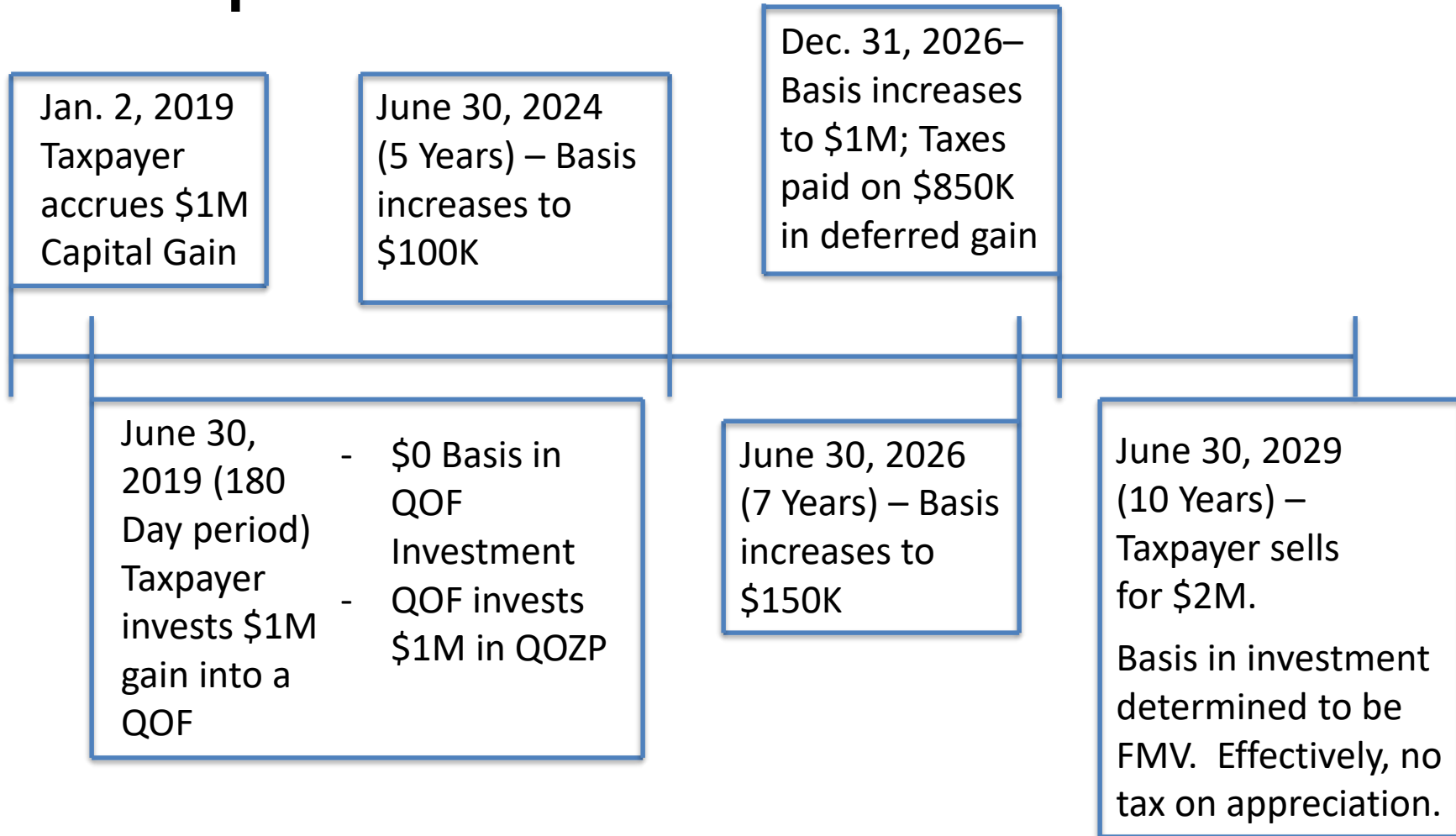
# How the Investment Works

1. Taxpayers have capital gains
2. Taxpayers make a timely investment in Qualified Opportunity Funds (QOFs)
3. QOFs make investments in Qualified Opportunity Zone Property (QOZP)
4. 31-Month Window for Investment if done in accordance with a development plan
5. Investment must be *substantial improvement*
6. Self-Reported & Certified

# Tax Incentives

- Deferral of Gain
  - Deferral ends upon earlier of sale of the asset or 12/31/26
- Partial Forgiveness
  - 5-year hold = 10% forgiveness
  - 7-year hold = 15% forgiveness
- Forgiveness of Additional Gains
  - Step-up in basis

# Example



# Incremental Benefits

	4-Year	5-Year	7-Year	12/31/26	10-Year
Standard IRR	6.00%	6.00%	6.00%	6.00%	6.00%
Incremental Benefit	1.44%	2.08%	1.95%	1.71%	3.08%
OZ Investment IRR	7.44%	8.08%	7.95%	7.71%	9.08%
% Increase	24%	35%	32%	29%	51%

## Assumptions:

- \$1,000,000 Initial Investment
- 6% Internal Rate of Return
- 23.8% Tax Rate
- Compares sale at each point

# Where are we now?

- Treasury approved designations of census tracts in April 2018
- Treasury issued first round of implementing regulations in October 2018
- Additional regulations sent to OMB March 2019 – Intend to address some issues identified through IRS hearings



# Challenges

- How can weaker capital markets compete for financial returns?
  - Within markets challenge – Opportunity Zones v. Other Low-Income Zones v. Market-Driven Zones
  - Between markets challenge – Cleveland v. Columbus v. Chicago
- Operating Businesses
  - Program Intent was to stimulate development into Operating Businesses, but structure of incentive has impeded the program.
- Pre-2018 Acquisitions
  - Sites acquired prior to 2018 may not be eligible for investment
- Reinvestment of Funds
  - As of now, funds must be retained in the investment throughout the period
  - Enabling reinvestment of OZ Funds would allow the incentive to stimulate future investment in additional projects

# DESIGNATED OPPORTUNITY ZONES

# Nomination Process

- Governors required to nominate 25% of eligible low-income census tracts to Treasury
- State of Ohio issued request for nomination of census tracts:
  - Potential for Job Creation
  - History & future of public/private investment
  - Available land for development
  - Existing Business/employers

# State Determinations

- Ohio could nominate up to 320 Census Tracts
- State then determined proportionate census tracts for each county
- State looked for tracts that met their identified criteria and were nominated and prioritized by multiple public and private sector entities
- Cleveland has 47 tracts designated (64 in Cuyahoga County)

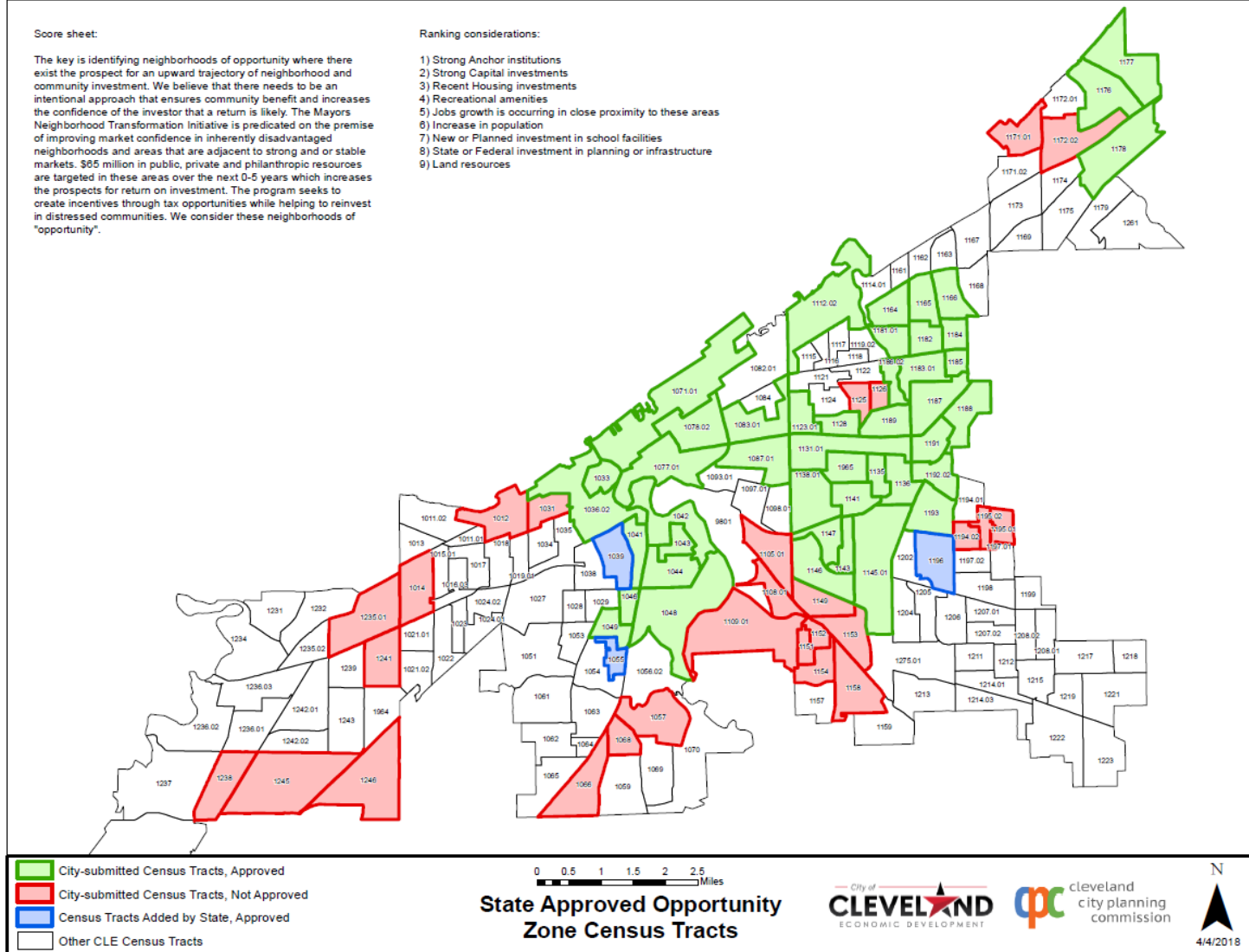
# CLEVELAND OPPORTUNITY ZONES

## Score sheet:

The key is identifying neighborhoods of opportunity where there exist the prospect for an upward trajectory of neighborhood and community investment. We believe that there needs to be an intentional approach that ensures community benefit and increases the confidence of the investor that a return is likely. The Mayors Neighborhood Transformation Initiative is predicated on the premise of improving market confidence in inherently disadvantaged neighborhoods and areas that are adjacent to strong and or stable markets. \$65 million in public, private and philanthropic resources are targeted in these areas over the next 0-5 years which increases the prospects for return on investment. The program seeks to create incentives through tax opportunities while helping to reinvest in distressed communities. We consider these neighborhoods of "opportunity".

## Ranking considerations:

- 1) Strong Anchor institutions
- 2) Strong Capital investments
- 3) Recent Housing investments
- 4) Recreational amenities
- 5) Jobs growth is occurring in close proximity to these areas
- 6) Increase in population
- 7) New or Planned investment in school facilities
- 8) State or Federal investment in planning or infrastructure
- 9) Land resources



# Evaluation

- LOCUS/Smart Growth America
  - Identifies Several Cleveland districts as top markets for Smart Growth (High Equity/High Opportunity)
  - Evaluation based on
    - Walkability
    - Job & Housing Density
    - Distance from CBD
    - Transit Accessibility

# ATTRACTING INVESTMENTS

# State Incentives

- Many States are enacting additional incentives around OZ Investment
- 2020-21 Governor's Budget proposes a 10% nonrefundable income tax credit
- Ohio SB 8 – proposes a nonrefundable income tax credit of 1%, with an additional 2% conditional credit after 5 years



# Opportunity-CLE

- Cleveland Development Prospectus
- Designed to introduce Cleveland area development zones to outside investors
- Partnership between City, County, GCP, CDA, Fund for Our Economic Future, CCLRC

# Portal

- Creates opportunity for interested investors and developers to connect
- Developers and Businesses soliciting investments can propose projects
- Investors can review projects and connect with potential opportunities
- Social Impact Scorecard under development
  - Urban Institute w/ Gates Foundation (National Model)

# Funds

- Bank Funding
  - Often Linked w/ CRA eligibility
  - Mix of Debt/Equity
  - Key & PNC have created funds
- National Directories – Over 100 Funds (NCHSA)
- Developer-Driven Single-Purpose Funds
- Fundrise – Open Platform for Investment

# Questions?

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