PAST FORWARD
DENVER
OCTOBER 10–12, 2019
A CONFERENCE OF THE NATIONAL TRUST FOR HISTORIC PRESERVATION
Opportunity Zones & Historic Preservation: At the Crossroads
Today’s Speakers

• Kathleen Galvan – National Trust Community Investment Corporation

• Shaw Sprague – National Trust for Historic Preservation

• Bonnie MacDonald – President and CEO, Landmarks Illinois

• Chelsea Rosty – Director of Business Innovation, City of Montrose, CO
Session Focus

- How Opportunity Zones work and how Qualified Opportunity Funds are set up
- Historic Preservation Concerns about the Opportunity Zone Program
- Post-Tax Reform Opportunity Zone Legislative Activity
- How preservation organizations are responding to this new reinvestment incentive
- Local involvement and interaction with OZ funds: Montrose, Colorado
- Conclusions / Questions
Opportunity Zones and Preservation

Kathleen Galvan - National Trust Community Investment Corporation
Background

• Introduced with Tax Cuts & Jobs Act of 2017
  • Sections 1400Z-1 and 1400Z-2 of the Internal Revenue Code
  • First set of proposed regulations released October 19, 2018
  • Second set of proposed regulations released April 17, 2019

• 8,700 census tracts certified as Opportunity Zones

• White House Opportunity and Revitalization Council established to coordinate federal agency efforts

• Uncapped investment opportunities mean potentially $6 trillion unrealized capital gains available for low-income community investment
Opportunity Zones and Preservation

- 58% of Part 2 applications received in 2018 overlap with Opportunity Zones
- 46% of designated Main Street Communities overlap with Opportunity Zones
- Likely influx of capital from non-preservationists
- Balance opportunity with risk of new “Urban Renewal”
How do Opportunity Zones Work?

Taxpayers can get capital gains tax deferral (& more)

Qualified Opportunity Funds (QOFs)

for making timely investments in

which invest in

Qualified Opportunity Zone Property
What is the Benefit to Investors?

- The Opportunity Zones incentive offers investors three incentives for investing in properties and businesses located in economically distressed communities:

  1. A **temporary deferral**: A QOF investor can defer capital gains taxes until earlier of Dec. 31, 2026 and occurrence of an inclusion event.

  2. A **reduction**: The original amount of capital gains on which a QOF investor has to pay deferred taxes is reduced by 10% if the interest in the QOF is held for 5 years prior to 2027 and 15% if held for 7 years before 2027.

  3. An **exclusion**: If a QOF investor holds its QOF interest for at least 10 years and disposes of that interest on or before December 31, 2047, the QOF investor will not have to pay tax on gain on the appreciation of its QOF interest.
Opportunity Zone Timeline

- **2019**
  - Equity investment in QOF within 180 days. Basis = 0

- **2019-2028**
  - Held for 5 years
  - Basis increased by 10% of the deferred gain (up to 90% taxed)

- **2020-2028**
  - Held for 7 years
  - Basis increased by 5% of the deferred gain (up to 85% taxed)

- **2021-2028**
  - Held for 10 years
  - Basis increased to fair market value upon transfer/sale of interest in QOF

- **2022-2029**
  - Pay tax on original gain with 2026 tax return
  - Forgiveness of capital gains on appreciation of investment so long as held for at least 10 years
Opportunity Zone Investors

• Who can be a QOF investor?
  • A taxpayer that rolls over capital gains within 180 days of sale (to an unrelated party) into a QOF:

  Includes:
  • Individuals
  • C Corporations
  • Partnerships
  • S Corporations
  • REITs
  • REITs
  • RICs
  • Trusts and Estates
Opportunity Zone Property

QOF
Invests in

QOZB
Purchases or leases

QOZBP

Purchases or leases

QOZBP
Importance of NMTC and HTC

- **Ensure “guardrails” to promote preservation and community impact**
  - Requirements and prerequisites are built into HTCs and NMTCs to ensure investments prioritize preservation, job creation, and other quality community outcomes

- **NMTC allows for debt or equity**
  - Attractive financing opportunity for high impact projects that would likely not have higher returns

- **Incorporates mission-oriented intermediaries**
  - Tax credit investors require ongoing compliance
  - Annual reports to monitor impact benchmarks are met
Opportunity Zones and Preservation

Shaw Sprague - National Trust for Historic Preservation
Opportunity Zones and Unintended Consequences

Building’s History.

• 1920s Commercial Style Architecture

• Two story brick public parking garage

• Built by prominent local developer Albert S. Rines

Building’s Future?

• Located within the city’s Opportunity Zone

• Not within an existing historic district

• Redevelopment of up to 11 stories

• Exciting Potential!

Mainebiz October 15, 2018
How a Trump Tax Break to Help Poor Communities Became a Windfall for the Rich

August 31, 2019
By Jesse Drucker and Eric Lipton

“Capital is going to flow to the lowest-risk, highest return environment.”
Aaron T. Seybert, Kresge Foundation

“The current system is clearly driving capital to places that are known to be winners.”
Christopher A. Coes, Smart Growth America

“We are seeing projects that are being announced here in Alabama that would not have happened otherwise.”
Alex Flachsbart, Opportunity Alabama
Opportunity Zone Resources

Locating Opportunity Zones and historic resources

www.forum.savingplaces.org
Over the measuring period, 37% of Historic Tax Credit projects occurred in Opportunity Zones.

The City of New Orleans
Public comments submitted to Treasury and HUD, emphasizing:

- the need to protect historic properties in designated census tracts from demolition and displacement
- support for utilizing historic tax credits and community development incentives in Opportunity Zones
What guardrails can be deployed to counter the negative impacts of federal Opportunity Zones?

- Establish reporting requirements and metrics that meet the programmatic objectives of the federal incentive

- Make regulatory and zoning adjustments that deter predatory development and real estate speculation

- Build public-private partnerships between States/municipalities and QOF investors through prospectuses

- Incorporate State & Local input and community development standards in OZ prospectuses that serve the affected communities and residents that reside in the designated zone/census tract
Proposed Federal Guardrails

- Senator Tim Scott (R-SC), Senator Corey Booker (D-NJ) and Representative Ron Kind (D-WI) introduced an Opportunity Zones reporting requirements bill in the House and Senate.

- The legislation calls for statutory accountability, reporting requirements, and protection for communities that might be negatively impacted by Opportunity Zones.
IN GENERAL.—The Secretary of the Treasury shall collect information on investments held by qualified opportunity funds nationally and at the State level, which shall include—

1. the number of such qualified opportunity funds,
2. the amount of assets held in qualified opportunity funds,
3. the composition of qualified opportunity fund investments by asset class,
4. the percentage of qualified opportunity zone census tracts designated under subchapter Z of the Internal Revenue Code of 1986 that have received qualified opportunity fund investments, and
5. the impacts and outcomes of zone designation in those areas on economic indicators, including job creation, poverty reduction, new business starts, and other metrics as determined by the Secretary.

INVESTMENTS.—For any investment described in subsection (a), the Secretary shall collect relevant information regarding each such investment, including—

1. the total amount of the investment and the date on which such investment was made,
2. the type of investment, such as whether the investment is in an existing business, new business, or real property, and the location of such business or property,
3. the type of activity being supported by such investment, such as single-family or multi-family residential properties, commercial properties, or the economic sectors in which the business operates,
4. in the case of a business, the approximate number of full-time employees at the time the investment in such business was made, and (5) in the case of real property, the approximate total square footage and the approximate number of residential units, as applicable.
Post-tax reform, twenty-four States have introduced Opportunity Zone legislation.

Key Areas of Focus

Creating or Boosting Existing Incentives
- KY, AL, CA, CT, LA, MA, MD, MI, MO, NE, OH, RI, SC, TX, VT, WA (67%)

Replicating the Federal Incentive
- AL, AR, CA, FL, MS, PR, WV (29%)

Affordable Housing
- AL, CA, CT, MD, MI, NE (25%)

Business Development Assistance/Job Training
- OH, NE, RI, MD (17%)

Rural Development
- AL, WA, KY (13%)

Technology (start-ups, green energy)
- AL, CA (8%)
Analysis of State Opportunity Zone Legislation

• **Positive**
  - Demolition Moratorium – Boulder, CO
  - Reporting Requirements Instituted – FL
  - Establishment of Task Forces – MD, CA
  - Historic Tax Credit Set Aside – MO
  - Establishment of an Additional HTC Incentive – TX

• **Neutral**
  - OZ Marketing and Technical Assistance – MA
  - Conforming State Legislation – AL, AR, CA, FL, MS, PR
  - Countering State Legislation – NY

• **Negative**
  - Streamlining Existing Historic Preservation Requirements – CA, CT
  - Demolition Incentives – MD
Opportunity Zones and Preservation – State Level Considerations

Bonnie MacDonald, President and CEO – Landmarks Illinois
Evaluating the Launch of a Qualified Opportunity Fund (QOF)

A tool for nonprofit preservation organizations

Bonnie McDonald
President and CEO, Landmarks Illinois

National Preservation Partners Network
Spring Meeting
Fort Worth, Texas
April 11, 2019
About Landmarks Illinois

- Formed as grassroots advocacy organization in 1971 in Chicago
- Statewide nonprofit preservation org since 1979
- Chicago HQ and Springfield Field Office
- 37-member board and nine staff
- $2.3M budget
- Services include advocacy, technical assistance, public policy, trainings and lectures, networking events, publicity, grantmaking and revolving loans
- “People Saving Places for People”
O-Zones - A New Preservation Incentive in IL?

- 327 Opportunity Zones in Illinois (82% metro)
- Over half (181) in Cook County (Chicagoland)
- One-by-one, researching alignment with Landmarks Illinois projects statewide
  - Findings: *No such luck*...
- November 2018 Board of Directors training
- December 2018 Reinvestment Committee (revolving loan fund) training
- Hosted a preservation incentives training in Chicago on February 20, including Opportunity Zones
- Calls for a similar training in communities statewide
Designated Qualified Opportunity Zones (Illinois)

**Illinois Opportunity Zones**

- **327** Total Opportunity Zones
- **1.2 M** Zone Residents
- **499 k** Zone Jobs
- **34 k** Zone Businesses

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<th>Illinois</th>
<th>Majority Minority</th>
<th>Poverty Rate</th>
<th>Median Income</th>
<th>Bachelor Degree+</th>
<th>Adults Not Working</th>
<th>Median Home Age</th>
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<td>32%</td>
<td>14%</td>
<td>$72,948</td>
<td>32%</td>
<td>27%</td>
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<td>Opportunity Zones</td>
<td>73%</td>
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Information courtesy accounting firm of Plante Moran
The Frustration with Opportunity Zones

Former Anthony Overton Elementary School
221 E. 49th Street, Chicago (Bronzeville neighborhood)
Perkins and Will, 1963, Listed in NRHP
Photo used with permission - copyright Sandra Steinbrecher
The Frustration with Opportunity Zones

Laramie State Bank Building
5200 W. Chicago Avenue,
Chicago (Austin neighborhood)
Meyer and Cook, 1929
Chicago Landmark
Photo by decopix.com from
www.pinterest.com/pin/310959
549248010155/?lp=true
We Finally Found One!

The Forum, 318-324 E. 43rd St., Chicago (Bronzeville neighborhood), 1897
Proposed for NRHP listing; Photo from http://www.theforumbronzeville.com/
# Evaluating the Launch of a Qualified Opportunity Fund (QOF)

**Question 1: What is the organization’s goal?**

**Question 2: Do you have a project?**
*(Answer “yes” to all)*
- Do you have a project in a QOZ?
- Can the QOF acquire the property or was it acquired after 12/31/17 from a non-related party?
- Will 90%+ of QOF assets be spent on the QOZ property?
- Will the property meet the substantial improvement test or commence its original use with the investment?
- Will the investment be made by 12/31/2026?
- Are you willing to hold the property for 10 years and bear the risk?
- Can we sell the investment at the end of the holding period?
- Will the property provide a (non-guaranteed) return to the QOF investors?

**Question 3: Do you have the capacity?**
*(Answer “yes” to all)*
- Do you have legal counsel available to set up your QOF as an LLC?
- Do you have accounting assistance to file your QOF self-certification (IRS Form 8996) with the org’s IRS Form 990?
- Do you have the human resources and expertise to manage the investment and the property long-term?

**Question 4: Do you have investors?**
- Do your existing donors have large capital gains (sale of property, stocks)?
- Can you develop an informative solicitation about the QOF and have experts available to explain the program?
Landmarks Illinois Launch a Qualified Opportunity Fund (QOF)? **No.**

**Question 1:** What is the organization’s goal?  
*Facilitate historic property reuse.*

**Question 2:** Do you have a project?  
*No, but we know of projects*  

**Question 3:** Do you have the capacity?  
*Yes to legal and accounting, no to acting as a bank*  

**Question 4:** Do you have investors?  
*Yes, we know donors likely to have capital gains*

How can we facilitate historic property reuse through the O-Zone Program?
An Alternative Option to Drive Resources to Preservation Projects

How can we facilitate historic property reuse through the O-Zone Program?

Option A: Create QOF
- Direct impact
- Administrative fees
- Higher risk

Option B: Assist QOF
- Less risk
- Finder’s fees
- Indirect impact

Investors → Projects
Projects → Investors
Looking for More Information?

Novogradac & Company Opportunity Zone Resource Center

Thank you!

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Opportunity Zones and Preservation – Local Level Considerations

Chelsea Rosty, Director of Business Innovation – City of Montrose, CO
Chelsea Rosty,
Director of Business Innovation – City of Montrose, CO

• Chelsea Rosty grew up in Grand Junction, Colorado. She is a graduate of the University of Wyoming. While in Laramie, Chelsea competed on the UW Rodeo team and studied Marketing and Economics. She has 13 years of experience in marketing and community development with an emphasis in community engagement and the outdoor industry.

• In her current role as Director of Business Innovation, Chelsea manages the city’s DART (Development and Revitalization Team) where historic preservation and local business vitality are primary focuses. Through DART, Chelsea handles the administration of the city’s business and workforce housing incentives program. Additionally, Chelsea oversees communication for the city.
Opportunity Zone Approach

1. Bye- bye red tape
2. This is not for the risk adverse
3. Act now
4. Be specific
5. Be open to every....well....opportunity
MONTROSE OPPORTUNITY ZONE FOCUS

COLORADO OUTDOORS
WESTERN SLOPE

DOWNTOWN KEY PROPERTIES

imper i onestore nobis ro explace ssunt.
Nain, occulp racliiis ari res int as euvallac
essimus eaurm fugias dolori dem hitatur.

Main St
Cascade Ave
Success occurs when opportunity meets preparation.

Zig Ziglar
CONNECT WITH US

→ Invest
→ Partner
→ Explore!

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#MontroseCO
#MontroseDART
QUESTIONS AND DISCUSSION