The Shifting Sands of Economic Development: Welcome to the “O”-Zone
League of California Cities
City Managers Conference

California is still the land of opportunity

February 14, 2019
DISCLAIMER

None of the information contained or provided herein constitute a recommendation nor is to be construed as tax or legal advice. Please consult a qualified tax accountant or legal advisor regarding any potential investment in Opportunity Funds.
PRESENTATION OUTLINE

- Brief Overview Of OZ Program
- State of Opportunity Zones in California
- Aspects of Opportunity Zone Implementation
“We also want to pair EIFDs with the Opportunity Zones. This is the Big Idea.”

— Gov. Newsom
January 10th, 2019
2019-2020 State Budget Release

“The Governor’s Office of Business and Economic Development will help foster relationships between local EIFDs and investors to facilitate investments for disadvantaged communities or other targeted areas. The state will explore layering additional programs on Opportunity Zones and EIFDs to increase the production of affordable and moderate-income housing.”

- Budget Summary, Governor Newsom’s 2019-2020 Proposed Budget, Page 94
CITIES CAN CAPITALIZE ON OZ INVESTMENT

Opportunity Zone Funds are Forming Across the Country
• ~70 funds pursuing investment opportunities in California
• Diverse preferences for investment types:
  • Urban/suburban
  • Real estate and business operations
  • Community-based investing

State is Prioritizing OZ Program in Econ. Development Toolkit
• Preferences for housing and green technology developments
• Wants to couple OZs with EIFDs to improve investment opportunity and catalyze development
## Opportunity Zones in 57 California Counties

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Opp Zones: City Managers Conference
WIDE VARIETY OF POTENTIAL INVESTMENTS

Housing & real estate development; infrastructure & energy projects; tech & service businesses

- Rural Areas with sluggish economies
- Deteriorating neighborhoods adjoining older industrial areas
- Blighted industrial/commercial areas with adjoining residential areas
- Declining commercial corridors

OZ Investments spur economic growth
The Tax Cuts and Jobs Act of 2017 created **Opportunity Zones** to unlock unrealized capital gains by incentivizing private sector investment and development in low income census tracts.

- **3,516 low-income census tracts in California; 25% eligible for nomination**
- **Tract screening criteria:**
  - Poverty level
  - Sufficient business activity
  - Geographic diversity
- **879 O-Zones approved in California**

8,700 census tracts approved in the United States
879 Census tracts approved in the State of California in April 2018
OPPORTUNITY ZONES – OVERVIEW

Basic Tax Advantages
Tax advantages incentivize a 10-year hold
  • Deferral of capital gains taxes until earlier of 2026 or upon exit
  • Step up in basis
    • 5 year hold – Basis increased 10%
    • 7 year hold – Basis increased 15%
  • Elimination of capital gains taxes at 10 years or upon sale

Investment Options
  • Project must be in a qualified Opportunity Zone census tract:
    • Qualified Opportunity Zone Property
    • Qualified Opportunity Zone Business
  • Investment transaction must occur after December 31, 2017*
  • Minimal requirements on project type:
    • can include residential, commercial, hospitality, office, industrial, or an operating business; no “sin” businesses.

Timing Requirements Are Critical
  • Capital gains must be invested in the Opportunity Fund within 180 days of realization.
  • Property must be substantially improved during any 30-month period.*

* Guidance from U.S. Dept. of Treasury ongoing
OPPORTUNITY ZONES: INVESTMENT TIMELINE

Investment made into Opportunity Fund

2018

Basis increased by 10%

2019

Basis increased another 5% for a total of 15%

2020

Federal tax on deferred capital gains due by 12/31/26

2023

Basis is adjusted to equal Fair Market Value. No tax on investment appreciation.

2028

No tax on investment appreciation.
CITIES STARTING TO FOCUS ON OZ INVESTMENT

1. Opportunity Zones can be used as part of an economic development strategy, creating jobs, stimulating economic activity, and jump-starting projects within a community.

2. Opportunity Zones can stimulate housing development, paving the way for cities to meet legislative housing mandates.

3. Opportunity Zones can be used to augment other tax incentives and tax deferral strategies, enhancing the economic viability of a proposed project (EIFDs, TIF, NMTC, Fed Tax Credits).
CITIES: USE OZ PROSPECTUS TO ATTRACT INVESTORS

OZ Prospectus: Emphasize strategy, stability, and structural advantages of your city to highlight market opportunities for OZ funds, vision for future growth, and preparation & commitment to investment.

Prospectus Components

• City/Regional Momentum demographic/econ. indicators & growth
• Economic Development Planning & Zoning Updates
• Streamlined Local Processes
• Other Funding Sources e.g. EIFD, TIF, NMTC, etc.
• Target Areas & Target Projects/Sites

With over 8,000 approved Opportunity Zones across the country, competition for Opportunity Fund investment is high
WHATS NEXT FOR OZ DEVELOPMENT

Federal OZ Regulations
• Regs and guidance last released in October 2018
• Exec. Order established interagency council for OZ targeting and data collection
• Updated regs expected on February 14th to address key issues:
  • affiliated parties test, business profits/location, original use, investment transfers

California Legislative Changes to Aid OZ Development
• SB 25: CEQA streamlining for OZ projects
• SB128: EIFD vote requirement for debt will be eliminated
• Income Tax Changes: to be proposed soon

Expansion of California Digital Platform
• OppSites will make OZ matchmaking easier for cities and investors
The California OZ Marketplace Is Now Open

Learn more and post your projects
Showcase your Opportunities
Project Marketplace

Create your Profile
Member Network

Connect with Project Partners
Place Networks

The Marketplace & Network
connecting capital to California communities

1421 Projects in the Network

Project Marketplace  |  Member Network  |  Place Networks
Project Marketplace

Discover Business and Real Estate opportunities in Opportunity Zones throughout the nation.

Project Opportunities
• Real Estate Opportunities
• Business Opportunities

Filterable by ‘Opportunity Zone’, project size, type, location, source, and timing.

Screen shot from the Market Network BETA. The Project Marketplace is already calibrated for Promotion and Discovery of Opportunity Zone projects.
Connect with projects, funds, sponsors, owner-operators, investors, fund managers, and service providers focused on investing in specific cities and neighborhoods.

Connecting People to Fuel Opportunities
- Create and share project opportunities.
- Find funds operating in specific cities.
- Access fund project requirements, mission, timing, and project interests.
- Connect with local service providers to perform due diligence.
- Receive real-time notifications about activity, new project opportunities, new business opportunities, and new members and organizations.
Three Steps to Join the Conversation

1. Create your Profile
2. Join Place Networks
3. Share Opportunities
➢ Thousands of Surplus Properties
➢ For sale, for lease and P3 Opportunities in Opportunity Zones and nearby Districts.
➢ Connecting capital to California cities and counties.
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CITIES MUST GET PREPARED:

• **Educate** city council, staff, and the community on Opportunity Zones
• **Identify** key projects, property owners, and stakeholders in OZ areas
• **Develop** an OZ investment strategy: OZ Businesses, OZ Properties, or both
• **Update** economic development plans and zoning to align with targets
• **Streamline** local project approval processes and align with CEQA
• **Create Prospectus** to market target projects to OZ investors
OPPORTUNITY ZONE READY GUIDE

Local Jurisdiction Readiness

1. **Education on Opportunity Zones and benefits – City Council and Staff**
   - Community support and engagement needed for future success

2. **Review and Update Economic Development Plans within each District**
   - When were they last updated? Are housing and transit priorities considered?
   - Do they conform with current priorities/needs?
   - Assess current and future infrastructure needs, as aligned with proposed changes.

3. **Review existing Specific Plans**
   - In alignment with economic development, housing, mobility, and sustainability goals?
   - Existing CEQA documents to tier off - important in streamlining approval processes for Opportunity Zone projects
Local Jurisdiction Readiness

4. For each district, identify the best fit for Opportunity Funds:
   - Opportunity Zone Business or Opportunity Zone Property or Both
   - Includes a review of parcels; size, current zoning

5. Identify property and business owners in designated Opportunity Zones

6. Evaluate local project approval processes
   - What can be streamlined?
   - What are the current impediments that need to be addressed?
   - Community outreach – ensure community is ready and on board, and identify desired community benefits
OZ PROSPECTUS: PREP FOR INVESTOR DUE DILIGENCE

OZ Prospectus Should Highlight Market Opportunities to OZ Funds

- Long term economic strength and appreciation potential (compared to other cities)
- Recent/pending investments in OZ area
- Streamlining and other services offered to Opportunity Zone projects
- Other funding sources and grant programs available
- Capability to induce public/private investment in OZs via TIF & housing funds
- Prioritized, investable projects in target OZ areas
KEY STEPS FOR CITIES TO GET READY

- Update Local Permitting and Zoning
- Know Your O Zone: Identify key projects and 10-15 year economic demand data and workforce drivers that you can highlight for investors
- Catalogue Pending Investments: Already planned by city, county, MPOs, local community foundations that offer co-investment opportunities to private investors
- Create OZ Investor Prospectus – Be Prepared for Investor Due Diligence
  - Generate Project Pipeline
  - Prioritize; become deal jockeys for your investable projects
  - Catalogue local private investors already working in your zones/community foundations
  - Use state marketplace (OppSites) to upload projects, research sources & investor directories
  - Ask for term sheet that defines what investors are looking for
OZs: NEW PRIORITY FOR CA ECON. DEVELOPMENT

2019-2020 State Budget: Gov. Newsom sets OZs and EIFDs as a priority

• Pair EIFDs with OZs leverage earlier OZ investment with longer term tax increment (SB 128)
• Conform CA Income Tax with fed. income tax sched. for low/mod. housing & greentech
• Excess State Property to be put to the market (OppSites Marketplace)
• CEQA Streamlining for certain OZ projects to mitigate timing challenges (SB 25)

“To make Opportunity Zones more effective, the state will conform to federal law allowing for deferred and reduced taxes on capital gains in Opportunity Zones for investments in green technology or in affordable housing, and for exclusion of gains on such investments in Opportunity Zones held for 10 years or more.”

- Budget Summary, Governor Newsom’s 2019-2020 Proposed Budget
OPPORTUNITY ZONES

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