

OPPORTUNITY



ALABAMA

THE “OPPORTUNITY” IN OPPORTUNITY ZONES

ALEX FLACHSBART

A nighttime photograph of a city street. In the center background, a large, white, domed building with a green-tinted dome is illuminated. The street is lined with trees and streetlights, and a few cars are visible in the distance. A green speech bubble with white text is overlaid on the image.

Opportunity Zones have the potential
to be the **largest economic
development program** in U.S. history

Steve Glickman
Co-Founder, Economic Innovation Group

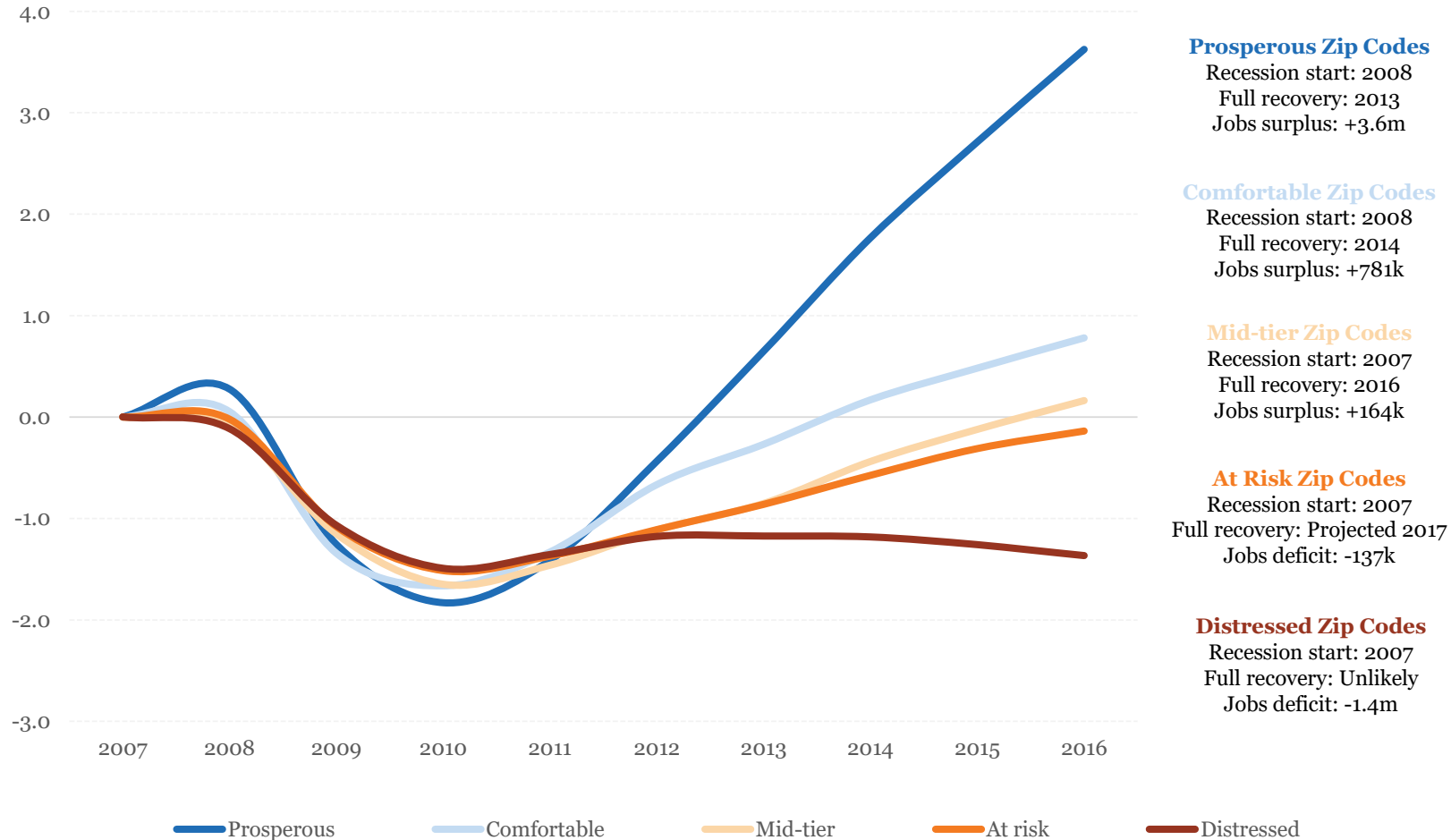
WHAT IS AN OPPORTUNITY ZONE?



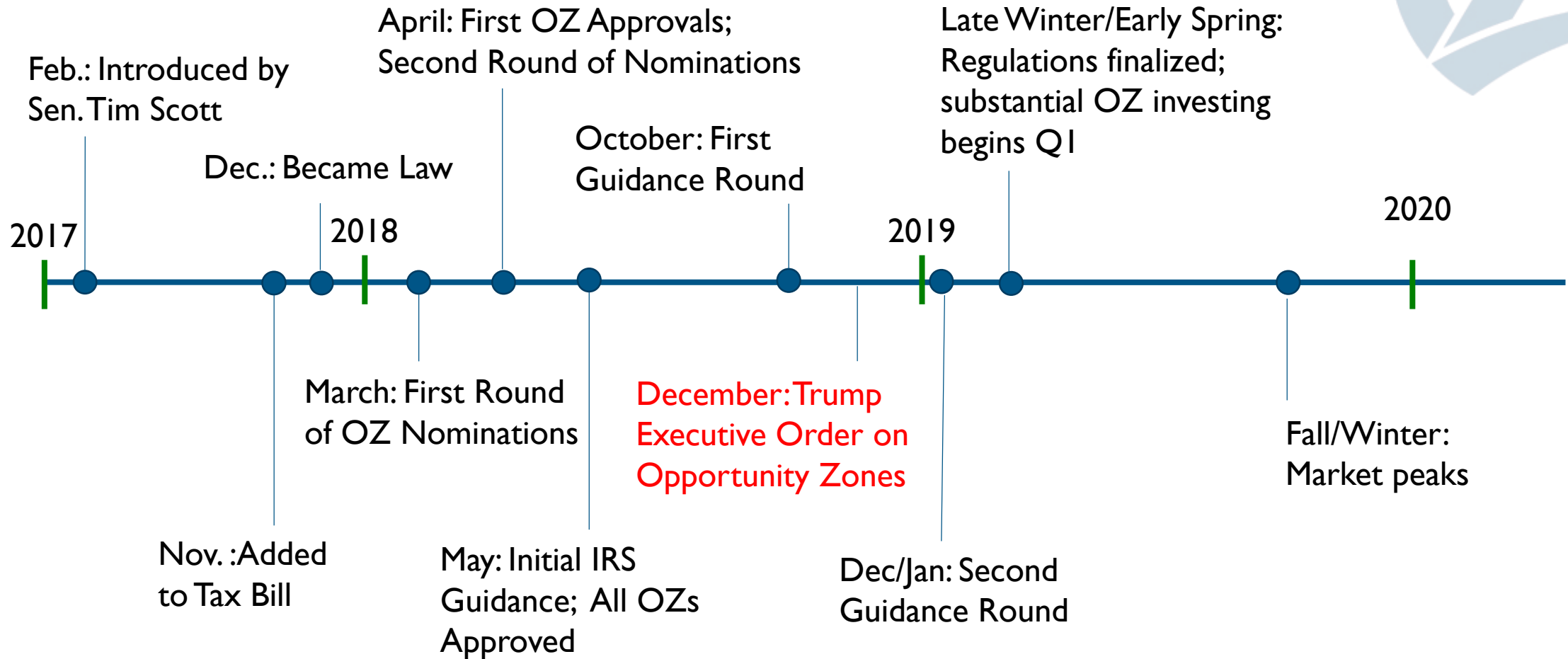
The basic concept of Opportunity Zones was forged in the fractured recovery.



Total change in employment since 2007 across zip code quintiles

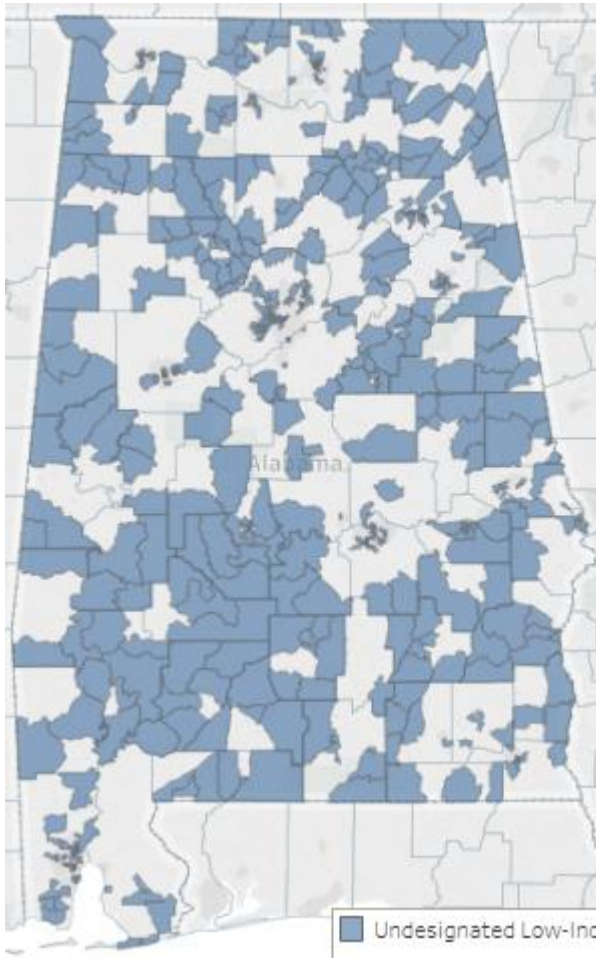


THE HISTORY OF OPPORTUNITY ZONES

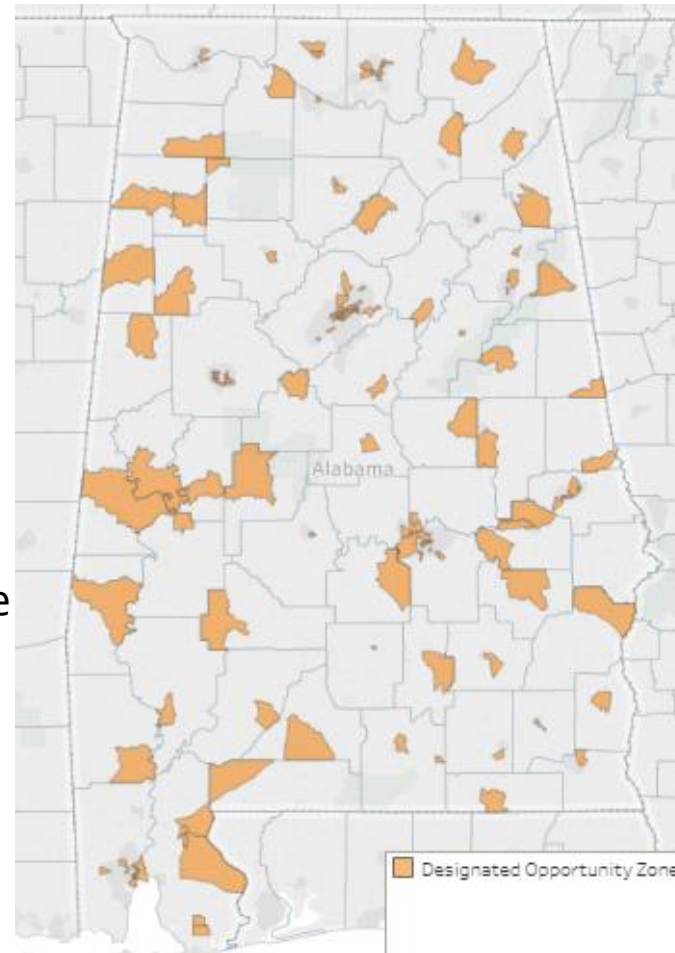


ALABAMA'S OPPORTUNITY ZONES

629 Eligible Tracts

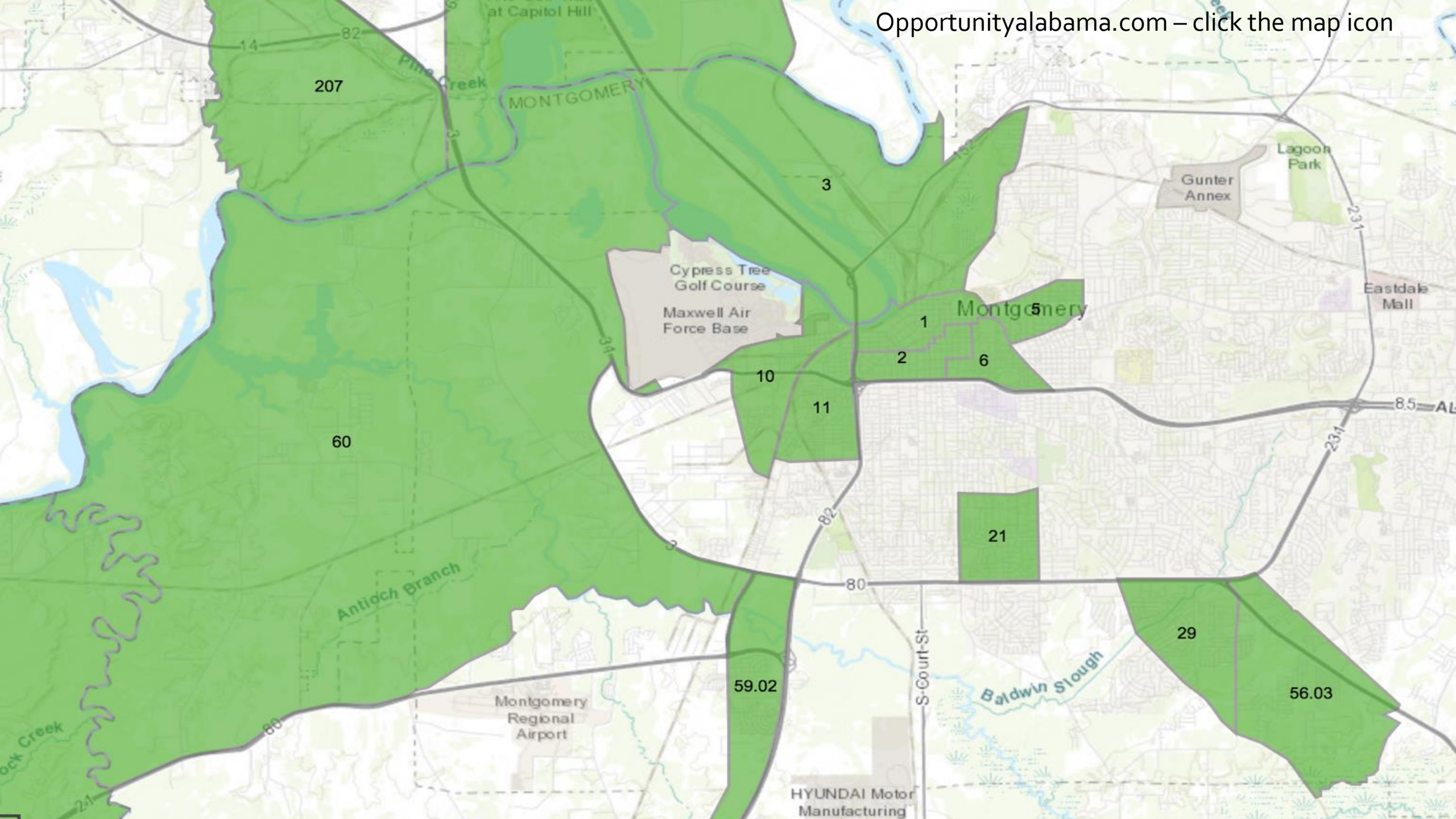


158 Selected



Governor's Office
(via ADECA)

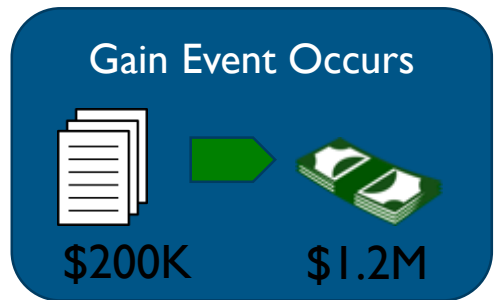




HOW THE PROGRAM WORKS (OR, HOW I LEARNED TO LOVE TAX LAW)



OPPORTUNITY ZONE TAX BENEFITS



\$1M

Gain Invested in QOF

Held for 5 Years

Held for 7 Years

Cash Out of QOF after 10 Years or More

\$3M

Pocket principal (\$200K)

Tax Benefits

1

Temporary Deferral on Original Gain Tax (until 2026 at latest)

Front End Benefit

2

10% Reduction in Original Gain Tax

(\$20K Savings) + Deferral

3

No Cap. Gains Tax on Appreciation of Investment





Back End Benefit

(\$30K Savings) + Deferral

(\$400K Savings)

INVESTOR PROFILES



	Rationale for Investment	Location of Investor	Size of Investment	Source of Investment
 Location	Make a Difference	Primarily Local to OZ	Varies by Community	Varies by Community
 Impact	Make a Difference	Primarily National	Varies by Investor	Likely Not Capital Gains
 Opportunity	Make a Profit	Local or National	Primarily Large \$	Varies
 Tax Benefit	Profit / Tax Benefits	Local or National	TBD	Capital Gains

CoStars
Novogradac

WHAT DO I GET OUT OF THIS?



Access to
(Cheaper?) Capital



Becoming an
Investor



Improved
Property Values

*BUT ONLY IF MY PROJECT QUALIFIES

DOES MY PROJECT QUALIFY?



Real Estate

Active Businesses



Commercial



Industrial



Multi-Family



Startups



Infrastructure



Housing



R&D / Tech



Hospitals



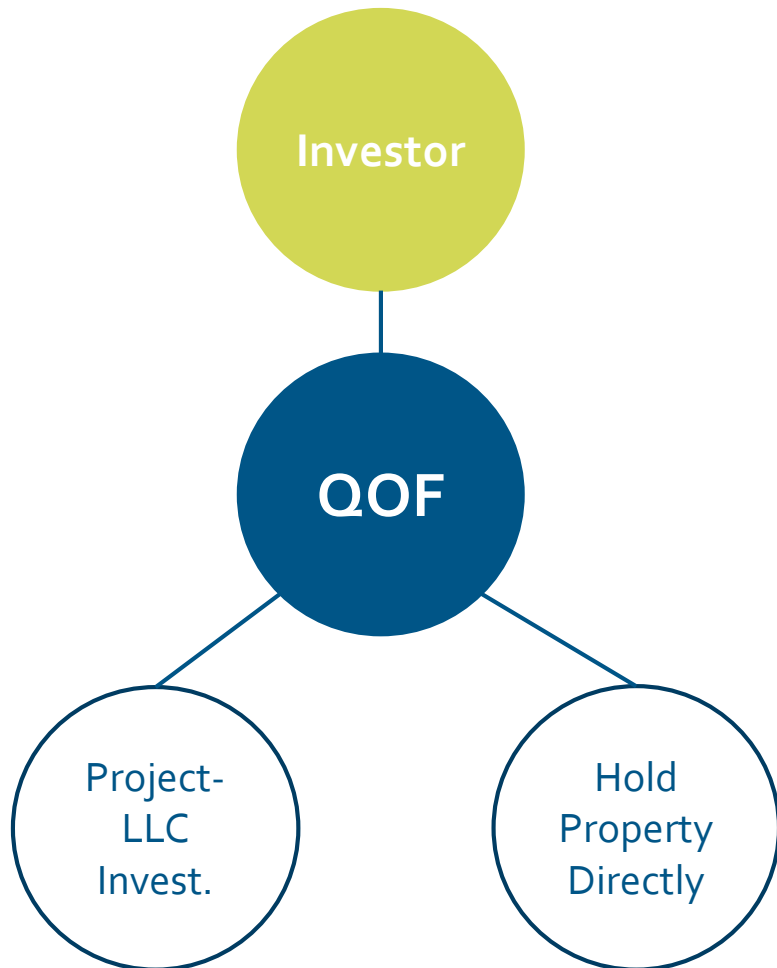
Community /
Public Assets

Need
Tax Law
Compliant
Project

Need
Qualified
Deal
Structure

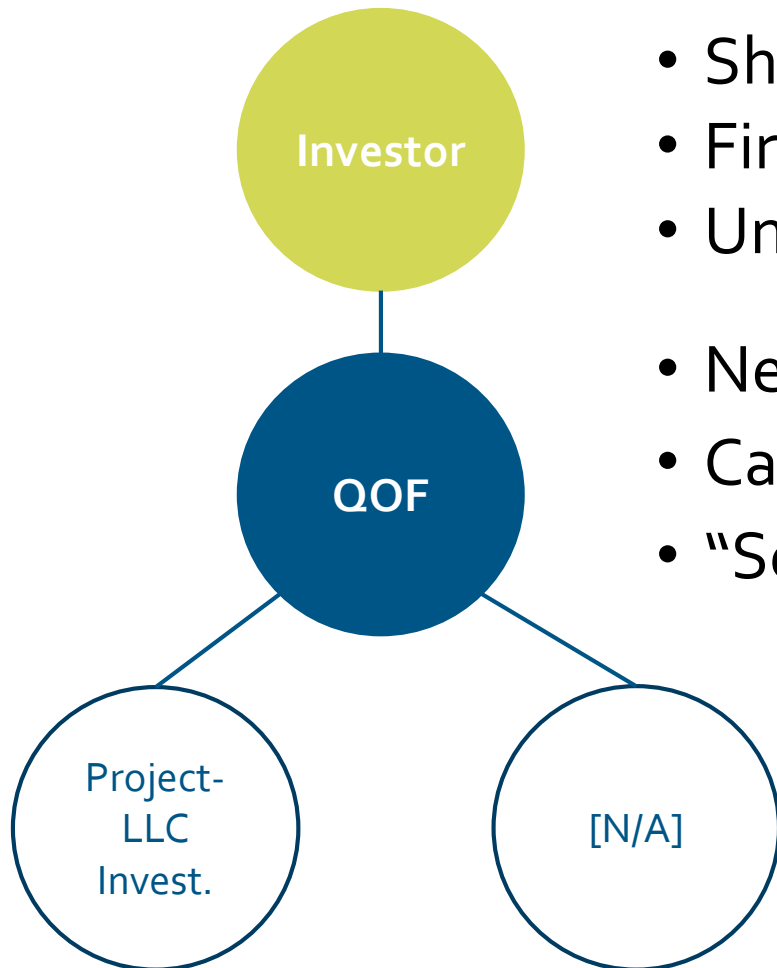
No Sin
Businesses

COMPLIANT PROJECT



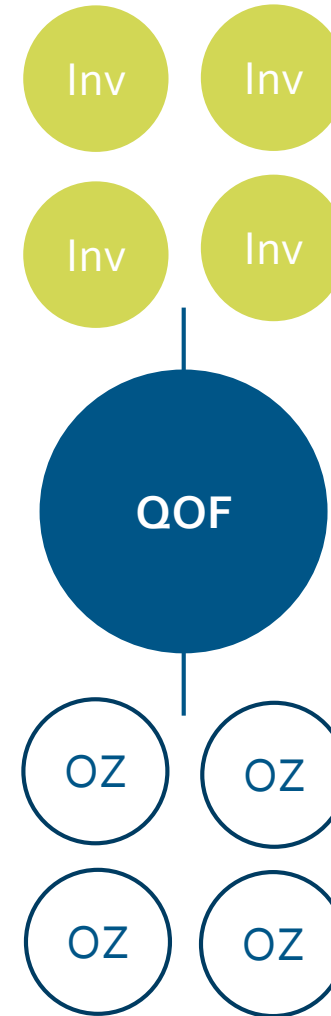
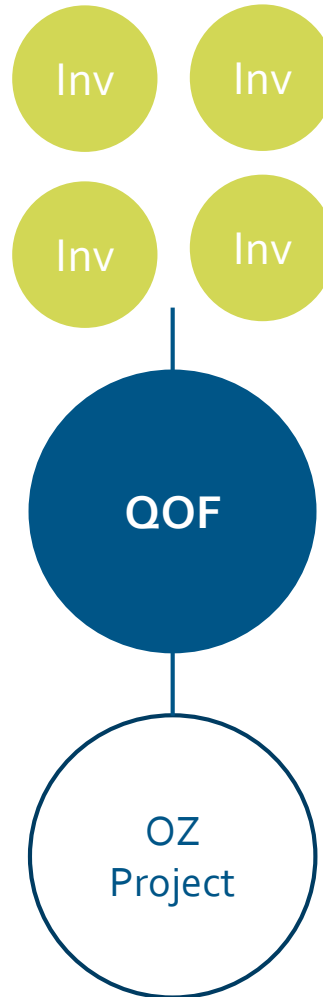
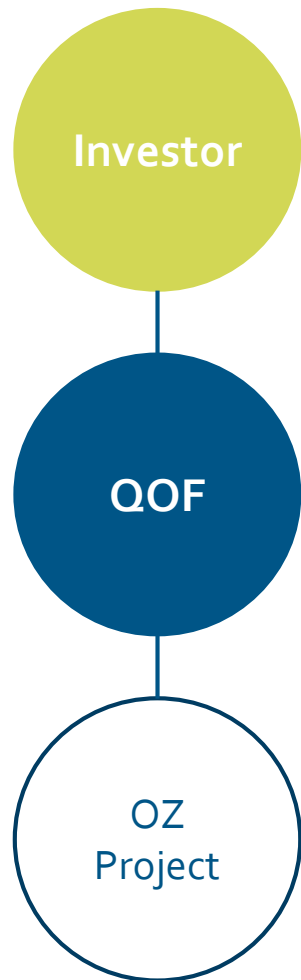
- (1) For 70% of Tangible Property:
 - (A) Acquired after 2017 from unrelated party
 - (B) “Substantially all” use in OZ
 - (C) Original OZ Use or “Substantial Improvement” -> double cost basis in 30 month period (*special rule for buildings*)
- (2) 50% income from “active conduct” (in OZ?)
- (3) Substantial intangible property use (in OZ?)
- (4) “Non-Qualified Financial Property Test” (31-month safe harbor for deployment)

QUALIFIED DEAL STRUCTURE



- Short or Long-Term Capital Gains
- First 6 month clock*
- Unlimited # of investors or \$ of investment
- New 6 month clock to meet 90% test
- Can leverage equity invested
- “Self-Certification” process (one-page form)
- 31-month or shorter buildout
- Hold project for full 10-year period (condo / single family home problem)
- “Active Management” component

INVESTMENT STRUCTURES + TERMS



BUT: Major issue around “rolling projects” (called the “Interim Gains Issue”)

MAJOR BUSINESS CONSIDERATIONS



Investor to Project
Timing



"Cycling
Projects"



2026 Tax Event

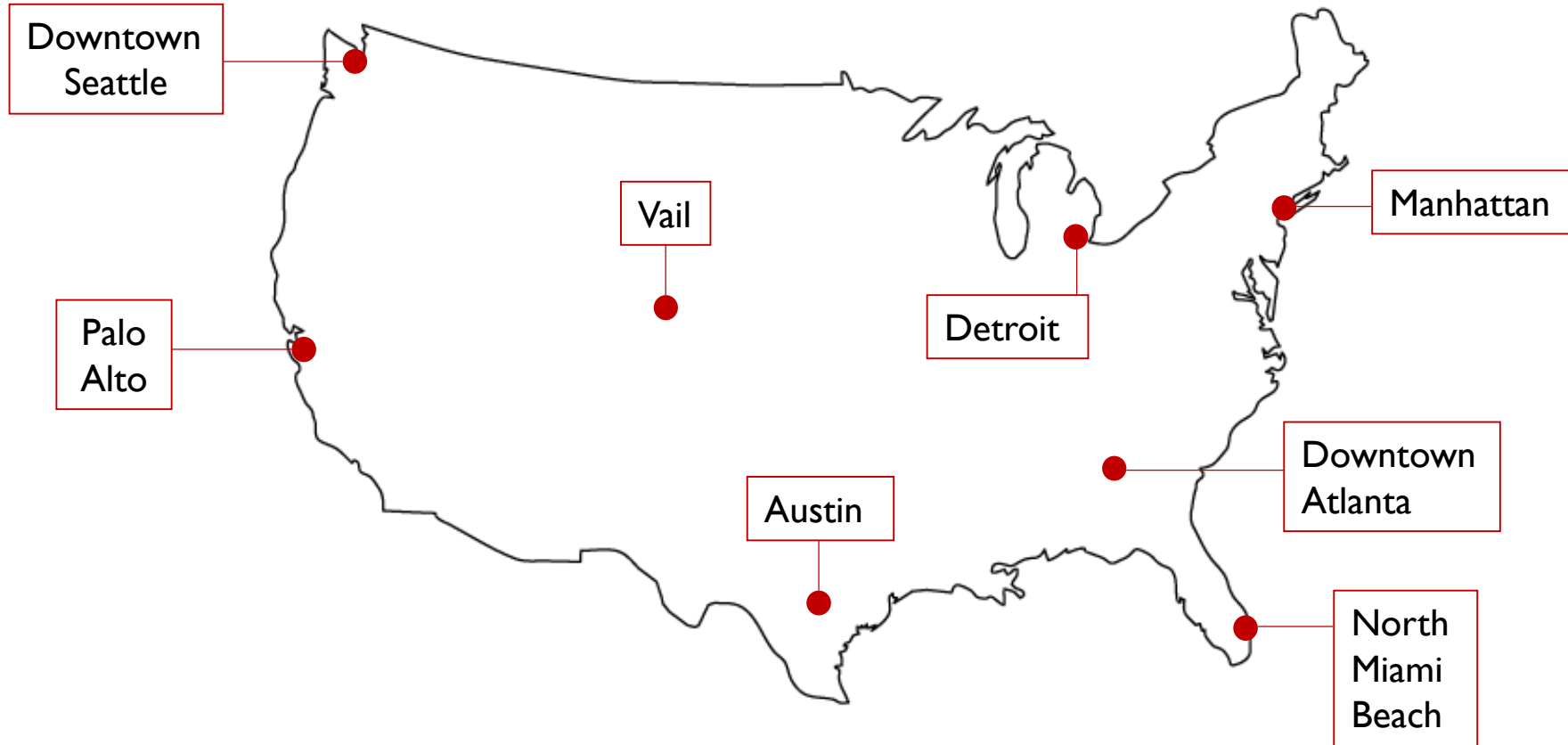


Exit Strategy

WHAT IS OPPORTUNITY ALABAMA?

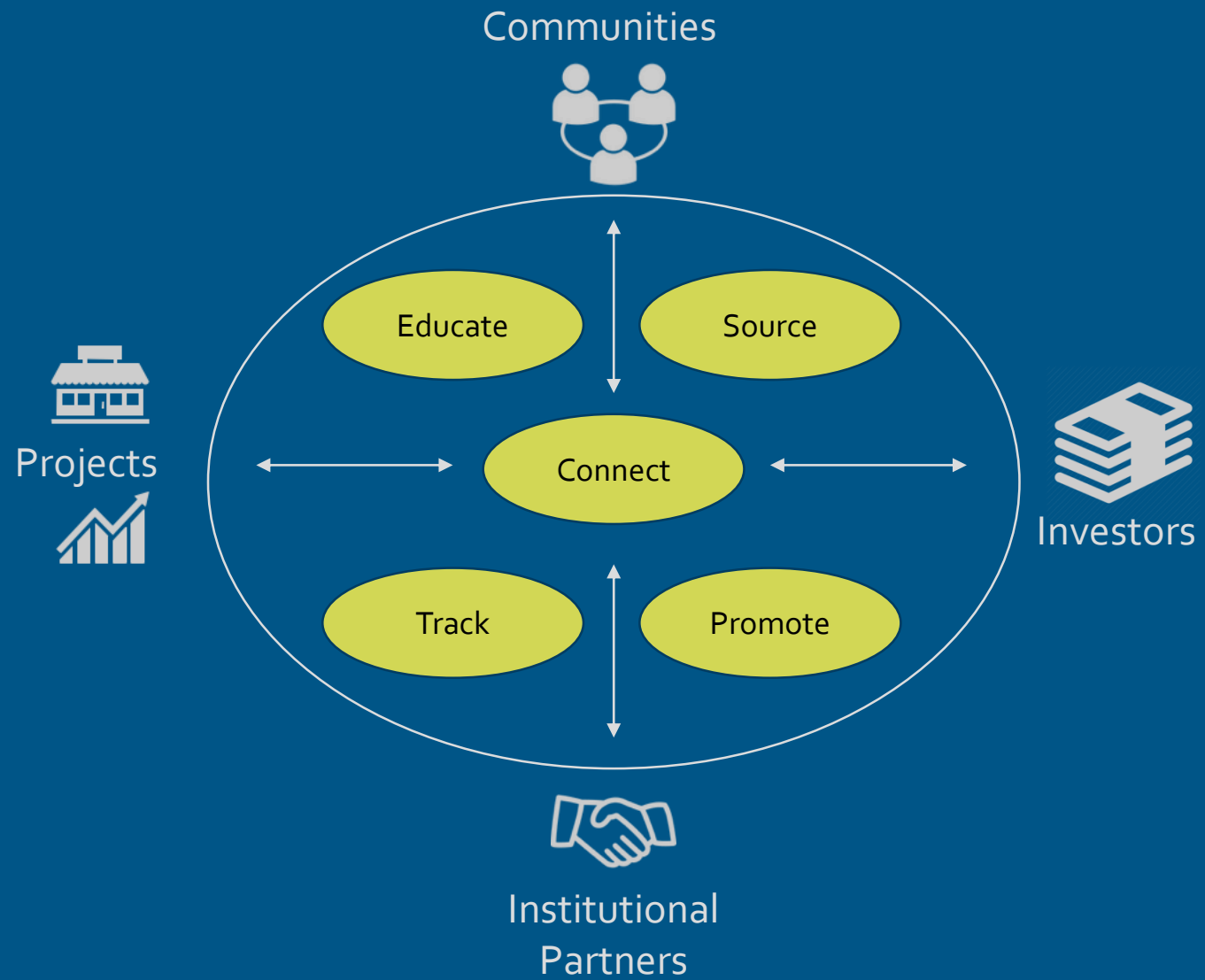


THE NATIONAL COMPETITION



HOW DO WE BUILD AN ECOSYSTEM TO MAXIMIZE
OPPORTUNITY ZONE INVESTMENT IN ALABAMA?





WHAT YOUR INTERMEDIAR(IES?) SHOULD DO



- General OZ Education / Project Assessment / Fund Information
- Institutional Partner Engagement / “Concierge” Service
- Fund / Deal Introductions
- Community Ecosystem Working Group
- Community Prospectus Development
- Needs Identification / Impact Tracking
- Direct Community Investment Mechanisms



QUESTIONS?



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HOW DOES THIS REALLY WORK?



REAL ESTATE / MIXED USE EXAMPLE



Developer bought lot in 2015 and wants to turn it into a microbrewery, then sell remaining portion to mixed use developer. Brewery land is worth \$250,000. Remaining land worth \$500,000. Brewery will cost \$10mm (\$2mm from developer equity) and mixed use will cost \$5mm. Mixed use will either be condos or affordable housing units.

- Tangible Assets (70%):
 - Post-2017 Acquisition?
 - Sub-All in the Zone?
 - Double Cost Basis in 30 Months?
- 50% Gross Income from OZ?
- Intangible Property Use in OZ?
- Excessive Cash Holdings?

Ten Year Hold OK?

Exit Strategy?

Other Business Considerations?

HIGH-GROWTH COMPANY EXAMPLE



High-growth tech startup seeking \$500,000 in growth stage capital and is indifferent to structure. CEO is from Birmingham and is considering moving back.

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Exit Strategy?

Other Business Considerations?

POINT-OF-SALE EXAMPLE

Existing retail business in OZ has about \$300,000 in assets in the Opportunity Zone and is looking to expand with new OZ capital.

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Other Business Considerations?



MANUFACTURING EXAMPLE



Local IDB owns \$500,000 in land and wants to use Opportunity Zones to develop it – likely via a build-to-suit lease arrangement.

[Fun aside – could we invest in the company itself?]

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Ten Year Hold OK?

Other Business Considerations?

HEALTHCARE EXAMPLE

Existing hospital facility is looking to substantially expand operations / add new facility in Opportunity Zone. Current assets in zone are about \$20 million, and proposed new assets would be at least \$50 million, all told.

REAL ESTATE vs.
ACTIVE BUSINESS?

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