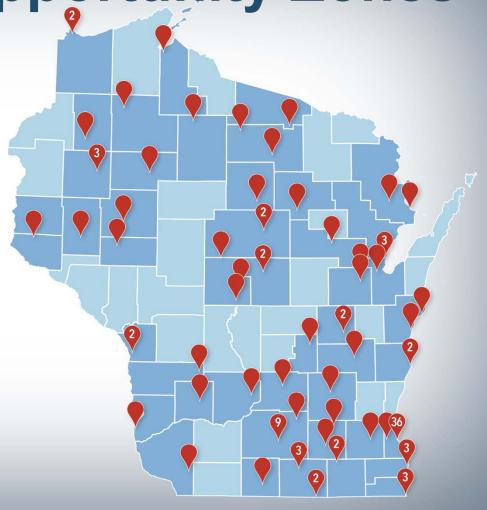


Wisconsin's Opportunity Zones

Antigo 1
Appleton 1
Ashland 1
Ashwaubenon 1
Baraboo1
Beaver Dam 1
Beloit 2
Berlin 1
Chippewa Falls 1
Crivitz 1
Eagle River 1
Eau Claire 3
Fond du Lac 1
Green Bay 3
Hayward 1
Hillsboro 1
Janesville 3
Jefferson 1
Kenosha 3
La Crosse
Lac du Flambeau Reservation 1
Ladysmith1
Madison 9
Madison (Town) 1
Manitowoc1
Marinette 1
Marshfield 1
Menasha 1
Menomonie1
Merrill 1

Milwaukee34
Monroe1
Neenah1
Nekoosa/Port Edwards1
Oshkosh2
Park Falls1
Platteville1
Portage1
Prairie du Chien1
Racine3
Rhinelander1
Rice Lake3
Richland Center1
River Falls1
Shawano1
Sheboygan2
South Milwaukee1
Spooner1
Stevens Point2
Sun Prairie1
Superior2
Two Rivers1
Watertown1
Waukesha1
Wausau2
West Allis1
West Milwaukee1
Whitewater2
Wisconsin Rapids1



Useful resources

https://www.wheda.com/opportunity-zones

Inwisconsin.com/doing-business-in-wisconsin

www.ncsha.org
National Council of State Housing Agencies

Novogradac

Timeline for investment benefits



Up to 5 years

Deferred payment of existing capital gains until the date that the Opportunity Fund investment is sold or exchanged.

5 - 7 years

Benefits above + 10% of tax on existing capital gain is forgiven.

7-10 years

Deferred payment of existing gains until 12/31/26 or the date that investment is sold or exchanged (whichever comes first) plus 15% of tax on existing gain is forgiven (5% on top of previous 10%)

10+ years investor receives benefits prior and investments are exempt from any gains beyond those which were previously deferred.

Requirements



The investment must be acquired after December 31, 2017 in exchange for cash

- Must be a qualified opportunity zone business, or is being organized for the purpose of being a qualified opportunity zone business;
- Must remain a qualified opportunity zone business for substantially all of the qualified opportunity fund's holding period.

NOTE: Opportunity Zones are fixed (can't annex in new property.)

Potential Projects



Commercial real estate development and renovation in Opportunity Zones

Opening new businesses in Opportunity Zones

Expansion of existing businesses into Opportunity Zones

Large expansions of businesses already within Opportunity Zones

Types of projects not included

A private or commercial golf course

Massage parlor or hot tub facility

Tanning parlor

Racetrack or other facility used for gambling

Package liquor store (as principal business)

Three Tax Incentive Benefits



- 1. Gain deferral
- 2. Partial forgiveness
- 3. Forgiveness of additional gains

Investment Example

- Jan. 2, 2018 Taxpayer enters into a sale that generates \$1M of capital gain
- June 30, 2018 Taxpayer contributes entire \$1M of capital gain to a QOF (within 180 days)
- QOF Invests the \$1M in Qualified Opportunity Zone Property
- After 5 years June 30, 2023 Taxpayer's basis in investment in QOF increases from \$0 to \$100 K (10%)
- After 7 years June 30, 2025 Taxpayer's basis in investment in QOF increases from \$100 K to \$150K (another 5%)
- Dec. 31, 2026 \$850K of the \$1 MM of deferred capital gains are taxed and the basis in QOF investment increases to \$1M
- After 10 years June 30, 2028 Taxpayer sells its investment for \$2.0M.
 Basis in the investment is deemed to be FMV. The effect is no tax on appreciation in investment.

The benefits received by this investor include:

Investing \$1 million instead of the \$762,000 that would be remaining if the capital was not re-invested into an Opportunity Fund.

Defer paying tax until 2026 instead of paying in 2018.

Owing no additional tax on the \$1 million in capital gains on the Opportunity Fund investment realized in 2028.

Things to Consider



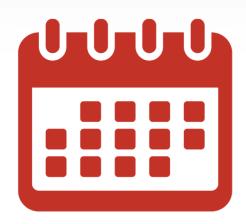
Big fund managers provide expertise (compliance). In return, they receive:

- Fees + possibly a share of profits
- Not a very liquid investment; holding periods.
- Investing in distressed neighborhoods entails risk.
- Self-directed and smaller funds
- What is the investor's motivation? Project needs to provide a return

Known Unknowns

- Condition of the market in Dec. 31, 2026.
- Capital gains tax in effect for 2026.
- Whether Congress will extend the legislation to allow 5 and 7 year holding periods. (This could be a big year for OZ investment in order to capture the 7-year benefit.)

Substantial Improvement Required



- Substantially improves means that taxpayers must double their adjusted basis in the property after purchase and during any 30-month period that they hold their qualified opportunity zone property.
- The value of the land is excluded from this calculation.

What can EDC's do to help Wisconsin communities?



- Develop a prospectus on your opportunity zones showing its assets, demographics, economics – why investing might make sense.
- Community OZ funds
- Get to know Individuals for self-directed OZ funds
- Understand what a qualified investor looks like and what may motivate people

WEDC's assistance

- Promoted OZ's on website
- Provided funding to WEDA's OZ training workshop and matchmaking event
- Assisted communities with educational workshops
- Working with WHEDA in the evaluation of a statewide marketplace platform to match Wisconsin's 120 opportunity zones with Investors
- Making communities aware of service providers



Thank you

Barb LaMue

Vice President, Business and Community Development barb.lamue@wedc.org
608.210.6760

John Parrish

Program and Policy Advisor john.parrish@wedc.org 608.210.6869

For more information on programs and available resources visit wedc.org



Twitter: @inwisconsin or twitter.com/inwisconsin



LinkedIn: Search "Wisconsin Economic Development Corporation"



YouTube: Search "Think-Make-Happen In Wisconsin"



Rebecca Mitich 414.978.5367 Rebecca.mitich@huschblackwell.com



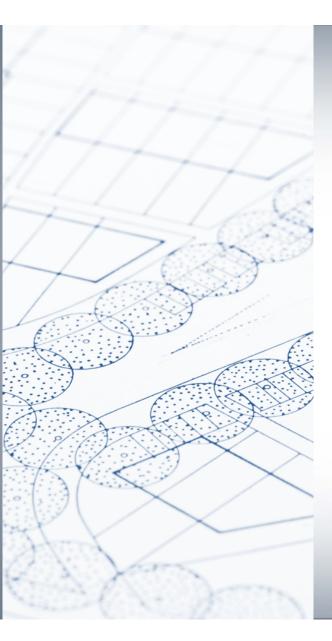
HUSCH BLACKWELL

Opportunity Zones

Overview and Guidance

Rebecca Mitich

"Opportunity Funds are private sector investment vehicles that invest at least 90 percent of their capital in Opportunity Zones. U.S. investors currently hold trillions of dollars in unrealized capital gains in stocks and mutual funds alone— a significant untapped resource for economic development. Opportunity Funds provide investors the chance to put that money to work rebuilding the nation's left-behind communities. The fund model will enable a broad array of investors to pool their resources in Opportunity Zones, increasing the scale of investments going to underserved areas." https://eig.org/opportunityzones/about



Background

- Passed as part of Tax Cuts and Jobs Act (2017)
- First round of proposed regulations
 October 2018
- Second round of proposed regulations April 2019

Taxpayers can get capital gains tax deferral for making (& more) timely investments in Qualified **Opportunity Funds** which (QOFs) invest in Qualified Opportunity Zone Property



Three Tax Incentive Benefits

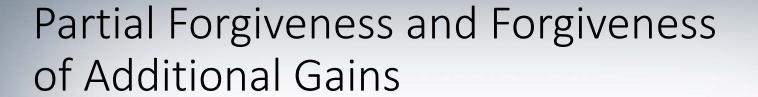
Gain
Deferral

Partial forgiveness

Forgiveness of additional gains

Period of Deferral and Amount Recognized

- Deferral period ends upon the earlier of:
 - Sale of QOF interest or
 - December 31, 2026
- Amount of capital gain tax recognized:
 - Lesser of:
 - Amount of gain deferred or
 - The fair market value of the investment in the QOF interest
 - Minus
 - Taxpayer's basis in the QOF interest (basis in QOF interest initial is deemed to be zero)



Fair Market
Value
Forgiveness of
gains on
appreciation of
investment
Requires an

Basis is equal to



Taxpayers can get capital gains tax deferral for making (& more) timely investments in Qualified **Opportunity Funds** which (QOFs) invest in Qualified Opportunity Zone Property



Online Mapping Tools for Confirming OZs

- www.cdfifund.gov/Pages/mapping-system.aspx
- www.eig.org
- <u>www.novoco.com/resource-centers/opportunity-zone-resource-center/guidance/novogradac-opportunity-zones-mapping-tool</u>



Taxpayers can get capital gains tax deferral for making (& more) timely investments in Qualified **Opportunity Funds** which (QOFs) invest in Qualified Opportunity Zone Property

Qualified Opportunity Fund

- Statutory definition:
 - An investment vehicle organized as a corporation or a partnership for the purpose of investing in Qualified Opportunity Zone Property (QOZP).
- Opportunity Funds self certify
- Noncompliance Penalty
 - 90% asset test
 - Per month penalty equal to % of shortfall x underpayment rate
 - No penalty for reasonable cause

Types of Funds

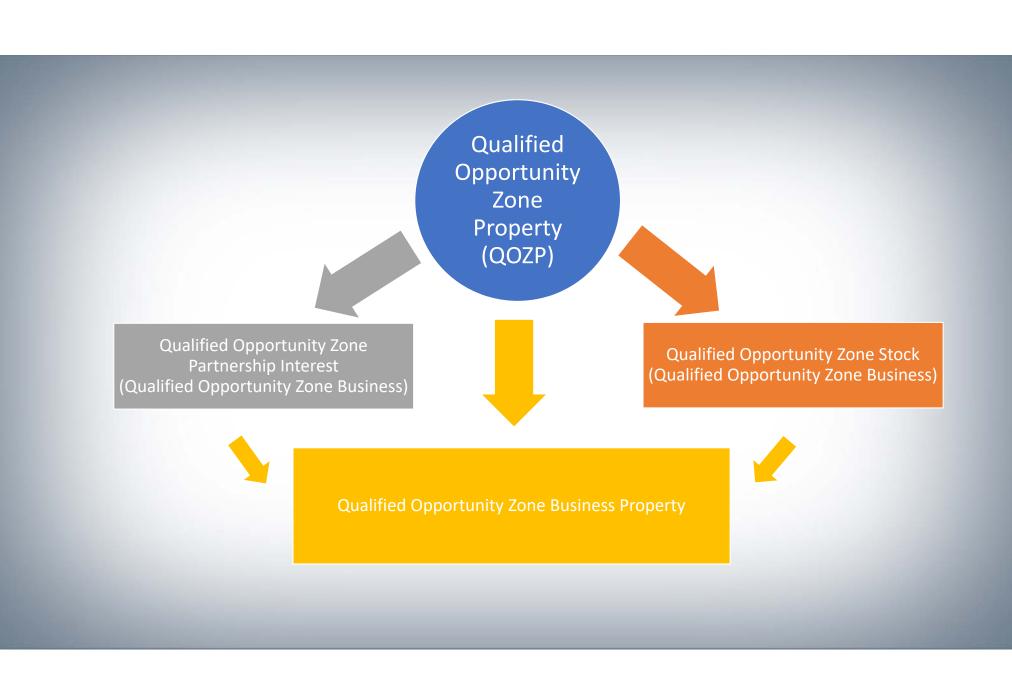
- Self directed
 - Investing into the next project
- Targeted
 - Small groups/identified projects
- Large Funds
 - May be specialized; add management talent

Securities Laws

- OZ Funds are investments and are subject to securities laws
 - Accredited vs. unaccredited investors
 - Crowdsourcing
 - In-state exemptions from federal acts
- Consult securities counsel!

Taxpayers can get capital gains tax deferral for making (& more) timely investments in Qualified **Opportunity Funds** which (QOFs) invest in Qualified Opportunity Zone Property





Qualified Opportunity Zone Stock and Partnership Interests

- The investment must be acquired after December 31, 2017 in exchange for cash;
- Must be a qualified opportunity zone business, or is being organized for the purpose of being a qualified opportunity zone business;
- Must remain a qualified opportunity zone business for substantially all of the qualified opportunity fund's holding period

Qualified Opportunity Zone Businesses (QOZB)

- A trade or business in which substantially all of the tangible property owned or leased by the taxpayer is qualified opportunity zone business property (QOZBP) and:
 - At least 50% of income derived from Active Conduct of business in the OZ
 - Substantial portion of intangible property used in active conduct of business
 - Three methods of calculation, plus facts and circumstances
 - < 5 percent unadjusted basis of property is nonqualified financial property
 - Safe harbor allows a QOZB to hold OZ investments for a defined period without violation of NQFP test
 - No "sin businesses" permitted
 - A private or commercial golf course, country club, massage parlor, hot tub facility, suntan facility, racetrack or other facility used for gambling, or any store the principal business of which is the sale of alcoholic beverages for consumption off premises

Qualified Opportunity Zone Business Property (QOZBP)

- ✓ Tangible property used in a trade or business
- ✓ Acquired by purchase from an unrelated party (20% standard) after December 31, 2017
- ✓ During substantially all of holding period, substantially all the use is in a QOZ
- ✓ Either:
 - ✓ Original use in the QOZ commences with the taxpayer

OR

- √ Taxpayer substantially improves the property
 - ✓ during any 30-month period after acquisition, additions to basis exceed an amount equal to the adjusted basis of such property at the beginning of such period

Readily Identifiable Investment Types in Opportunity Zones



Commercial Real Estate
Development and
Renovation in
Opportunity Zones



Opening New Businesses in Opportunity Zones



Expansion of
Existing
Businesses into
Opportunity
Zones



Large Expansions of Businesses already within Opportunity Zones

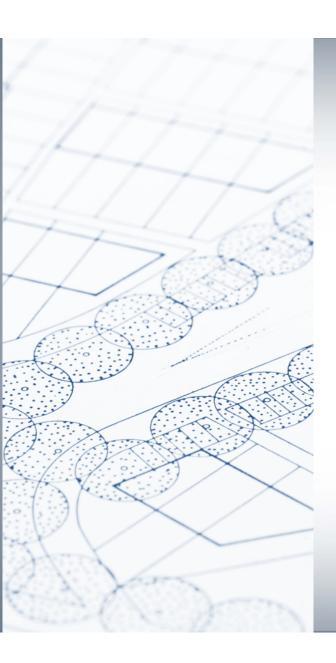
Five QOZB Tests

- ✓ Organized as a partnership or corporation for tax purposes
- √ 70% of tangible assets are QOZ Property
 - ✓ Used in the trade or business
 - ✓ Acquired or leased after 12/31/17
 - ✓ Used in an Opportunity Zone
 - ✓ Original Use or Substantial Improvement (unless vacant land)
- √ 50% of active gross income from OZ
- √ <5% NQFP
 </p>
- ✓ Ineligible businesses



1031 Comparison

- No "like kind" requirement
- No qualified intermediary necessary
- 180 days to reinvest
- No 45 day property identification necessary
- Benefits to tax payer in additional to deferral
- No continuous deferral taxes on original gain must be paid in 2027
- Potential cash flow issues when taxes are due



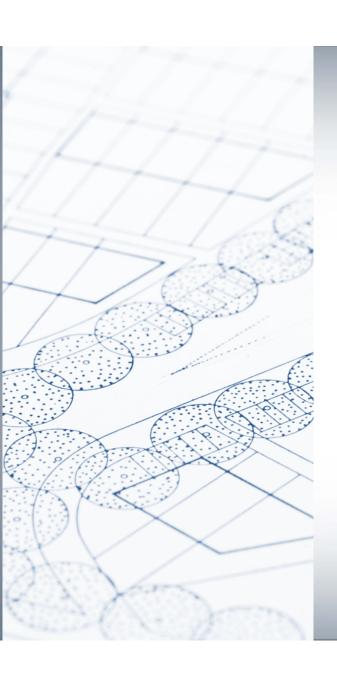
Takeaways for Real Estate Developers

- New construction in an OZ works well
- Renovations of existing structures must meet substantial improvement test
- Property vacant for 5 years or more satisfies the "original use" test
- Tenant improvements on leased property constitute original use.
- OZ capital can be layered with other financing incentives



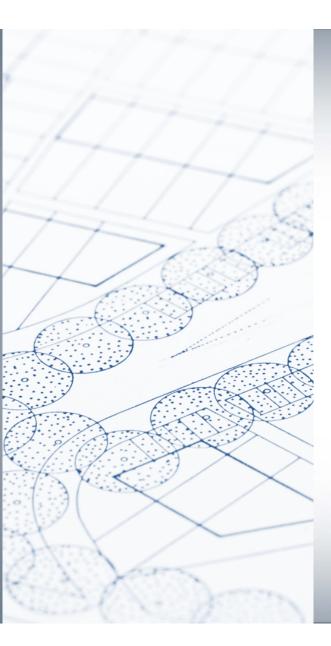
Takeaways for Investors

- Timing of investment
- Don't forget to file elections
- Ability of Fund to change or restrict investments
- Exit strategies
- Experience of Fund manager
- Multi-asset vs. Single-asset Funds
- Blind Funds



Takeaways for Fund Managers

- Private Placement Memorandum/Offering materials
- Tax services offered to investors
- Fiduciary duty to investors
- Exit strategies
- Mixed fund issues/accounting
- Good legal and accounting counsel



Takeaways for Operating Companies

- Source of capital for expansion/relocation
 - Patient Capital
 - Lower Cost
- Be mindful of the 5 tests
- 50% of gross income must come from the QOZ 50% of services performed (based on hours)
 - 50% of services performed (based on pay)
 - 50% of gross income generated
 - Facts and circumstances
- Must remain in QOZ for substantially all of the holding period (90%)

Questions?





S.R. Mills 262.842.0452 SMills@BearDevelopment.com

Bear Development OPPORTUNITY ZONES



GAIN DEFERRAL

NO CAPITAL GAINS
IMMEDIATELY DUE AS LONG
AS FUNDS ARE INVESTED IN
QOF

PARTIAL GAIN FORGIVENESS

10% STEP UP IN BASIS AFTER 5 YEARS

15% STEP UP IN BASIS AFTER 7 YEARS (2026) FORGIVENESS OF GAINS UPON SALE

GAINS FORGIVEN ON APPRECIATION IF HELD LONGER THAN 10 YEARS

TAX BENEFITS OF INVESTING IN OPPORTUNITY ZONES



ASSUMPTIONS

- Acquisition & Improvement of Property- \$5,000,000
- Capital Stack- \$5,000,000 equity (no leverage)
- Unlevered Yield- 7% (2% annual NOI growth)
- Depreciation- 39-year straight line (building 85%, land 15%)
 - For simplicity, assume building & improvements placed in service on Day 1
- Investment Period- 10 years
- Disposition- Year 10 NOI @ 7% cap rate, 5% cost of sale

SAMPLE OPPORTUNITY ZONE PROJECT



		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
	_	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Required Gain		6,200,000	-	-	-	-	-	-	-	-	-
Capital Gains Tax	20.00%_	(1,200,000)	-	-	-	-	-	-	_	-	-
Available Funds for Project		5,000,000									
Building Acquisition & Improvement		(5,000,000)	-	-	-	-	-	-	-	-	-
Net Operating Income		350,000	357,000	364,140	371,423	378,851	386,428	394,157	402,040	410,081	418,282
Depreciation (39 years)		(108,974)	(108,974)	(108,974)	(108,974)	(108,974)	(108,974)	(108,974)	(108,974)	(108,974)	(108,974)
Taxable Income	_	241,026	248,026	255,166	262,448	269,877	277,454	285,182	293,066	301,106	309,308
Tax Benefits/(Cost)	37.00%	(89,179)	(91,769)	(94,411)	(97,106)	(99,854)	(102,658)	(105,518)	(108,434)	(111,409)	(114,444)
After Tax Cash Flow		260,821	265,231	269,729	274,317	278,997	283,770	288,639	293,606	298,671	303,838
Sale of Property (net proceeds)		-	-	-	=	-	-	-	-	-	5,676,690
Taxes on Sale		-	-	-	-	-	-	-	-	-	(407,774)
Net Benefit	=	(5,989,179)	265,231	269,729	274,317	278,997	283,770	288,639	293,606	298,671	5,572,754
After Tax IRR	3.57%										
Opportunity Zone Benefits											
Deferral of Capital Gain		1,200,000	-	-	-	-	-	-	-	_	-
Partial Forgiveness After 7 Years		-	-	-	-	-	-	-	(850,000)	-	-
Forgiveness of Gains on Appreciation		-	-	-	-	-	-	-	=	-	407,774
Net Benefit		1,250,000	-	-	-	-	-	-	(850,000)	-	407,774
Net Benefit with Opportunity Zone	_	(4,739,179)	265,231	269,729	274,317	278,997	283,770	288,639	(556,394)	298,671	5,980,528
After Tax IRR with Opportunity Zone	5.93%	% 2.25% to 3.50% increased IRR for Opp Zone									

AFTER TAX-WITH OPPORTUNITY ZONE





Depreciation methods and total amount depreciated over investment period will affect the difference in yields between analysis with & without opportunity zone benefits



"True up" on deferred capital gain amount occurs on December 31, 2026. If investment is not held for 7-years prior, step up in basis will not be 15%



Substantial improvement test must be met

ITEMS TO REMEMBER



Artisan Village Assumptions

- Acquisition & Improvement of New 169-unit, 4% tax credit, multifamily development in Fitchburg (both state and federal)
- 35mm Dev Costs
- 18mm Equity (LP)

Benefits to Development

- LP paid approx. \$.03 increase per dollar of equity invested due to Opp.
 Zone
- \$.03 equates to approximately \$500,000 of additional equity to the project
- GP benefit once LP is bought out in yr. 15 as gains should be tax free







Opportunity Zones are not another "source" like TIF, bank debt or equity. While a generalization and each deal unique, our experience is Opp Zones can increase an IRR 2.5% to 4%



1031 Starker Exchanges will still have a vital role in Real Estate. We have not found investors willing to trigger gains from a low basis, cash flowing 1031 trade asset to roll into an opp. zone deal. We have however found a willingness on new deals to forego a 1031 trade and instead choose to invest into an Opp. Zone business or property.



While we have recently received additional Treasury guidance a high degree of uncertainty still exists within the rules. Because of that, most of the opp. Zone deals we have looked at were developments that would be proceeding regardless of opportunity zone. As the Capital Markets gain confidence in the rule interpretations, we expect to see increased investments in Opp Zone deals but it will take time and competition in the marketplace.

WHAT WE LEARNED





Farshad Maltes 608.266.2027 farshad.maltes@wheda.com



Kate Wolf 414.227.2291 kate.wolf@wheda.com

Place-based Strategies for Opportunity Zones

- 1. Opportunity Zones in Wisconsin
- 2. What we've seen so far
- 3. How communities can engage
- 4. Case Study







The Importance of the Invest in Opportunities Act

- The program could become the largest Federal economic development incentive with conservatively over three trillion of potential investment
- For comparison:

 - Low Income Housing Tax Credit \$785MM annually





Opportunity zones in Wisconsin

- WHEDA assigned by the Governor to lead the OZ selection process
 - Reviewed wide range of statistical information of qualifying census tracts
 - Gathered public input from local elected, administrative, business, philanthropic, and civic leaders
 - Collaboration with federal agencies, including DOA, WEDC, and USDA
- 120 designated Economic Opportunity Zones in the state
 - 60 Municipalities
 - 69% located in CDFI Fund-defined high housing need areas
 - 83% located in Low Income Housing Tax Credit Qualified Census Tracts
 - 28% located in the City of Milwaukee
 - 39% located in rural areas of the state



Statewide Resources

- Federal & State Housing Tax Credits
 - 15 year holding period fits within OZ program parameters
 - Predictable investment start and end dates
 - State tax credit provides additional subsidy
 - OZs receive additional points per the QAP
- New Market Tax Credits
 - 7 year tax credit period matches the seven year 15% tax-write off for OZ program.
 - Wisconsin has experienced pool of professionals and allocating entities that can help blend OZs with NMTCs
- Other resources
 - WHEDA guarantees and participation lending program: blended finance approach which can reduce debt service
 - Property Assessed Clean Energy (PACE) Investment Funds
 - National, regional, local investment funds



WHAT WE'VE SEEN SO FAR



WHAT WE'VE SEEN SO FAR

Year 1 $\frac{1}{4}$: What do we know?

- Broad investor base
- OZs can have a big impact on investment economics
- OZ equity is a deal closer
- Local capital will likely move first
- Philanthropies, nonprofits, and others want to know how they can help
- Local leaders must chart the vision
- Indirect impacts and opportunities could be significant







Creating a place-based strategy

- 1. Start with a Vision or Prospectus
- 2. Identify **Zone-Specific** Needs
- 3. Identify Community Resources
- 4. Map Local Stakeholder Ecosystem
- 5. Select Priority Projects
- 6. Develop Financing Models to Refine Priorities
- 7. Progress Priority Projects into Deals



Start with a Vision or Prospectus

- Outline overarching goals for the municipality
 - City or regional planning documents
 - Community engagement / visioning workshops
- Establish parameters for what is possible with existing Opportunity Zones
 - How can investment in OZs support the vision?
- Tell a story
 - Demographic, housing, and population growth data



Identify Zone-Specific Needs

- What are the existing barriers for the site? (i.e. brownfields, land use, etc.)
- Which stakeholders need to be at the table?
- Is there downside risk? (i.e. displacement)





Identify Community Resources

- Reduced-cost public land
- Patient-capital loan funds
- Tax-increment financing
- Credit enhancements and guarantees
- City procurement
- Expedited entitlement and permitting process



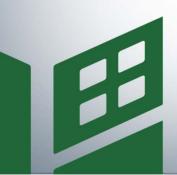
Map Local Stakeholder Ecosystem

- What stakeholders are invested in your community?
 - Institutions, i.e. hospitals, universities
 - Philanthropy, i.e. foundations, corporate partners
 - Developers, both market rate and affordable
- What is their incentive to engage?
 - Long-range campus planning
 - Social impact metrics
 - Exit strategy on affordable housing developments



Select Priority Projects

- What types of projects intersect with "needs" and "resources"?
- What are the major assets in the area? (i.e. land, institutions, infrastructure, etc.)
- Which projects offer low-hanging fruit?
- Who are the stakeholders invested in local development?





Develop Finance Tools to Refine Priorities

- Building a proforma
 - Quality data on local real estate market, i.e. cap rates, cost of construction
 - Estimate potential rate of return
 - (+) community resources
 - (-) capital gains tax
 - (-) recapture tax





Progress Priority Projects into Deals

- Develop platform to manage and market projects
 - Post projects on municipal website
- Process an RFP
 - Engage developers and investors
 - Establish target (national, local, mission-aligned)
 - Host informational sessions





CASE STUDY



North Side Yard

Stevens Point, Wisconsin

- Vacant 3.5 acre site located downtown

- Contaminated from previous industry use

- Over 250,000 square footage mixed use development

- \$25MM total project cost

Vision: Downtown Redevelopment Plan

2017 Housing Study

Zone-Specific Site remediation

Needs: Change zoning to mixed-use

Community TIF

Resources: Overlay District (reduced parking and

setback requirements

Brownfields grants (WEDC & DNR)

Stakeholder Niche developer focused on midwestern

Ecosystem: college towns with OZs

Questions to consider:

What are existing problems that need solving? How can OZ sites be used as a solution? What will it take to get to an RFP?



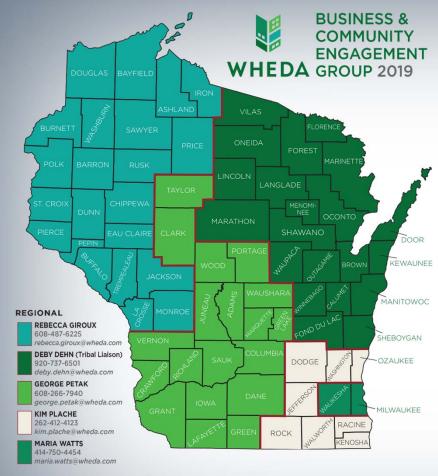
North Side Yard CASE STUDY

Stevens Point, Wisconsin

Questions to consider:

- What are existing problems that need solving?
 - High rate of absorption of affordable units downtown by student population, lack of housing type options
- How can OZ sites be used as a solution?
 - Address housing needs
 - Move the needle on "anti-sprawl" development strategy
- What did it take to get to an RFP?
 - Shared vision
 - Long range planning goals
 - Demonstrated need for housing
 - Existing council support (per the shared vision)





BUSINESS & COMMUNITY ENGAGEMENT STATEWIDE

STUART KUZIK - Director 414-227-3955 | stuart.kuzik@wheda.com

RON SLADE - Program Specialist 414-227-1852 | ronald.slade@wheda.com KAROLE KIMBLE - Manager 414-227-2294 | karole.kimble@wheda.com

KATE WOLF - Technical Officer 414-227-2291 | kate.wolf@wheda.com

ENGAGE WITH WHEDA

Farshad Maltes, Director of Strategic Business Development farshad.maltes@wheda.com

Kate Wolf, Business and Community Engagement Technical Officer kate.wolf@wheda.com

