Opportunity Zones in Rural Indiana

An Innovative Strategy for Expanding Investments in High Need Communities
Thank You for Joining Today’s Webinar
Today’s Presenters

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Special Thanks

Committed to the future of rural communities.

For awarding our team a 2019 Rural Business Enterprise Grant to advance our Opportunity Zone Work in Rural Indiana.
Office of the Lieutenant Governor Suzanne Crouch
Today’s Topics

• What are Opportunity Zones (OZs)?
• How did OZs come about and why?
• The OZ selection process and Rural OZs in Indiana
• OZ Program: How it works
• Investing in OZs: Some possible areas
• The New Rural IN Opportunities Zones Initiative
• Application timeline and selection process
• A Look at complementary funding programs
• Benefits to your OZ site, if selected
• Questions and Answers
What is the Opportunity Zones Program?

An effort designed to invest capital in underserved areas of the country, places in need of an influx of money to jump-start their economies.

Source: Jeff Andrews, October 2018

Opportunity Zones: A Product of Federal Legislation

- The OZ program was established by the U.S. Congress as part of the 2017 Tax Cuts and Jobs Act.

- It represents an innovative approach to promote long-term investment by the private sector in low-income urban and rural communities across the U.S.

- Opportunity Zones are chosen by the Governors of each state and subsequently approved by the U.S. Treasury Department.
These areas have witnessed a decline in business formations. Furthermore, they have fewer employers, innovators & service providers.

Economic growth is happening in a handful of metropolitan areas of the U.S. But, economic expansion must occur in more communities, including rural areas.

Three of every four distressed counties in the U.S. have fewer business establishments today than they did in 2007, just prior to the Great Recession.

Sources: Fikri and Lettieri, December 2018; LISC, not dated
Selection of Opportunity Zones: The Process

State identified all Census Tracts with income at or lower than 80% of the median family income of the state and a poverty rate greater than 20%*

Governor could nominate 25% of these eligible tracts as Opportunity Zones

Up to 5% of the nominated Opportunity Zone tracts could be non-low income sites as long as they were contiguous to a qualified, nominated tract and their median family income did not exceed 125% of the adjacent qualified tract.

* Different requirements for rural vs. metro tracts

Nominated tracts were then submitted and approved by the U.S. Treasury Dept. Designation is for 10 years.
Indiana Opportunity Zones

156

Number of Zones Meeting the Rural Definition*

46

* Rural Definition: Any area other than a city or town that has a population of greater than 50,000 and an urbanized area contiguous and adjacent to such a city or town (according to the latest decennial census).
A Snapshot of Rural Opportunity Zones in Indiana
Demographic and Economic Features of Opportunity Zones in Indiana, 2017

<table>
<thead>
<tr>
<th>Category</th>
<th>All Indiana Opportunity Zones (n = 156)</th>
<th>Rural Opportunity Zones (n= 46)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>563,523 Average: 3,439</td>
<td>182,553 (34%) Average: 3,969</td>
</tr>
<tr>
<td>Total Jobs &amp; Unemployment</td>
<td>233,074 9.8%</td>
<td>79,520 (34.1%) 7%</td>
</tr>
<tr>
<td>Average Poverty Rate/Range</td>
<td>29.1% (8.3% - 75.1%)</td>
<td>20.5% (8.3% - 35.2%)</td>
</tr>
<tr>
<td>Education (average)</td>
<td>High School: 35.2% Some College/Associates: 28% College +: 17.9%</td>
<td>High School: 41.2% Some College/Associates: 27.9% College +: 13.2%</td>
</tr>
<tr>
<td>Key Industries (average)</td>
<td>Manufacturing: 17.9% Entertainment: 12% Services: 8.7%</td>
<td>Manufacturing: 25% Entertainment: 9.6% Services: 5.9%</td>
</tr>
</tbody>
</table>
Investors has 180 days from the point of sale of an asset to invest (into a QOF)

Qualified Opportunity Fund (QOF)

Invest in Eligible Projects

Intent is to connect potential investors with capital gains to re-invest in economically distressed communities that could benefit from such investments.
A mechanism that is designed to invest in eligible property located in an Opportunity Zone. The fund uses the investor’s gains from a prior investment for funding the Opportunity Fund.

A QOF has six months to deploy 90% of its capital in Ozs.
How are Qualified Opportunity Funds Created?

- To become a Qualified Opportunity Fund, an eligible corporation or partnership self-certifies by filing Form 8996: Qualified Opportunity Fund with its federal income tax return.

- No approval or action by the Internal Revenue Service is required.

- Any taxpayer who wishes to participate in the Opportunity Zone program can do so (but it must be in a Qualified Opportunity Fund).
## Benefits to the Investor: Increases Over Time

<table>
<thead>
<tr>
<th>Investment Length</th>
<th>Benefits Received</th>
</tr>
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<tbody>
<tr>
<td>Less than 5 years</td>
<td>Deferred payment on existing capital gains until the date that the Opportunity Fund investment is sold or exchanged.</td>
</tr>
<tr>
<td>5-7 years</td>
<td>Benefits above plus 10% of tax on existing capital gain is canceled</td>
</tr>
<tr>
<td>7-10 years</td>
<td>Deferred payment of exiting capital gains until December 2026 or the date that the Opportunity Fund investment is sold or exchanged (whichever comes first) PLUS 15% of tax on existing capital gain is canceled.</td>
</tr>
<tr>
<td>Greater than 10 years</td>
<td>Benefits of the 7-10 years investment PLUS investor pays no capital gains tax on the Opportunity Fund investments (that is, investments are exempt from any capital gains beyond those which were previously deferred)</td>
</tr>
</tbody>
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Example of the Benefit of a Long-Term Investment in a QOF

In 2018, an individual investor sells 1,000 shares of Amazon stock that was purchased in 2013 for $250,000. The sale at $1,250 per share results in a $1 million capital gain.

Instead of paying the $238,000 in federal capital gains tax on this sale, the investor rolls the $1 million gain into a Qualified Opportunity Fund that invests the capital in newly issued shares in various operating businesses located in Opportunity Zones. Let’s assume that the value of that investment is $2 million in 2028.

The benefit to the investor:

- Investing $1 million instead of the $762,000 that would be remaining if the capital did not re-invest into an Opportunity Fund.
- Paying $202,300 in taxes in 2026, instead of paying $238,000 in 2018.
- Owing no additional tax on the $1 million in capital gains on the Opportunity Fund investment realized in 2028.

Source: LISC
Examples of Investments Pursued in Rural OZs in the U.S.

<table>
<thead>
<tr>
<th>SITE</th>
<th>PURPOSE</th>
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<tbody>
<tr>
<td>Heflin, Alabama</td>
<td>Senior care center</td>
</tr>
<tr>
<td>(Population: 3,425)</td>
<td></td>
</tr>
<tr>
<td>Augusta, ME</td>
<td>Main Street Refurbishing</td>
</tr>
<tr>
<td>(Population: 18,594)</td>
<td></td>
</tr>
<tr>
<td>Vicksburg, MS</td>
<td>Sawmill Conversion</td>
</tr>
<tr>
<td>(Population: 22,489)</td>
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Investing in Indiana’s Rural Opportunity Zones
Areas of Possible Investment *

Housing
Small Business
Health Clinic
Startups
Warehousing/Logistics
Broadband
Mixed Uses
Infrastructure
Industries
Agribusiness/Food Processing

* NOTE: OZ Funds are likely to be invested in projects with the potential to be profitable.
NEXT STEPS?

Introducing the New Rural Indiana Opportunity Zones Initiative
Awarded a Rural Business Enterprise Grant

• Proposal submitted to USDA RD as part of USDA’s RBEG program by PCRD, OCRA and key partners. Project selected for funding.

• Project just launched June 2019.

• PURPOSE?

To build the capacity of Opportunity Zones in rural Indiana to attract private, public and/or philanthropic sector investments that support locally-driven priorities.
Key Features of the IN Rural OZ Initiative

Technical assistance and capacity-building support provided by a statewide team of university & agency professionals

Type of support that could be provided:

- Guidance in establishing an OZ Task Force;
- Proprietary data products that profile types of properties in the area;
- Assessment of key economic drivers;
- Profile of existing businesses and companies in the zone and surrounding areas;
- Transportation infrastructure and connectivity;
- Discovering the area’s community/economic development assets;
- Suitability analysis;
- Mapping of broadband services in the zone; and more.
The Indiana Rural Opportunity Zones Online Application

GO TO . . .

https://forms.gle/6nDYatZXJVVY97z2y8
Applications from IN Rural OZs -- Timeline

**Webinar:**    July 2, 2019

**IHCDA Summit:**    July 23, 2019

**Eligible OZs:** The 46 Rural Opportunity Zones in Indiana

**Application:** Due July 31, 2019

**Sites Selected:** Announced August 14, 2019

**No. of Sites:** Approximately 6 will be selected

**Launch Date:** September 2019
Maximizing Local Benefits:  
**Examples of Complementary Funding Programs**

**Housing Programs (single/multi-family)**

**Main Street Program**

**Wastewater/Drinking Water Improvement Programs**

**HOME Investment Partnership Program**

**Small Business Administration Loans or SB Development Center Assistance**

**Rural Development Programs**

**Residential Historic Rehabilitation Credit**

**Public Facilities Program**

**Stormwater Improvements Program**

**Blight Elimination Program**

**IN Economic Development Corporation Industrial Recovery Tax Credit**

**Economic Development Administration OZ Investments**
Benefits for Indiana Rural Opportunity Zone Sites

1. Development and marketing of an *Opportunity Zone Investment Prospectus* by Task Force members and others;

2. Access to programs that can help jump-start or strengthen local economic development activities;

3. Connect Opportunity Zones to existing local, state, federal and foundation funding;

4. Document the impact(s) of the RBEG effort in the targeted Opportunity Zone sites.
Who to Invite to Your Opportunity Zone Team? Some Possibilities

- Business & Industry
- Community Foundation
- Local Government
- Local/Regional Econ Dev Organizations
- Education
- Health Care
- Financial Institutions
- Local/Regional Planners
- Nonprofit Organizations
- OZ Residents
- OZ Task Force Team
Key Observations on OZs to Date

Economic Innovation Group

• OZs change the economics of many types of investments.

• Local capital will move first.

• Local leadership is key.

• Philanthropies, nonprofits and others want to know how they can help; looking to the community for an answer.

• It is local leaders that need to chart the vision for the OZ.
Hope You are Interested in Applying...  

Now, What Are Your Questions?
SOURCES:


