An Opportunity Zone Conversation
A Deeper Look at Opportunity Zones: An Opportunity for Socially Minded Investments
MISSION STATEMENT

To transform public health practice for the purpose of eliminating health inequities using a broad spectrum of approaches that create healthy communities.
Bay Area Life Expectancy by Census Tract

Life Expectancy at Birth

- Red: 66.1 - 79.6
- Orange: 79.7 - 81.6
- Yellow: 81.7 - 83.2
- Light Green: 83.3 - 84.9
- Green: 85.0 - 89.9

Source: CA Death Statistical Master Files, 2009-2011
The BARHII Framework

A Public Health Framework for Reducing Health Inequities
Bay Area Regional Health Inequities Initiative

Upstream
- Social Inequities
  - Class
  - Race/Ethnicity
  - Immigration Status
  - Gender
  - Sexual Orientation
- Institutional Inequities
  - Corporations & Businesses
  - Government Agencies
  - Schools
  - Laws & Regulations
  - Not-for-Profit Organizations
- Strategic Partnerships Advocacy

Institutional Inequities
- Community Capacity Building
- Community Organizing
- Civic Engagement

Living Conditions
- Physical Environment
  - Land Use
  - Transportation
  - Housing
  - Residential Segregation
  - Exposure to Toxins
- Economic & Work Environment
  - Employment
  - Income
  - Retail Businesses
  - Occupational Hazards
- Social Environment
  - Experience of Class, Racism, Gender, Immigration
  - Culture - Ads - Media
- Service Environment
  - Health Care
  - Education
  - Social Services

Risk Behaviors
- Smoking
- Poor Nutrition
- Low Physical Activity
- Violence
- Alcohol & Other Drugs
- Sexual Behavior

Disease & Injury
- Communicable Disease
- Chronic Disease
- Injury (Intentional & Unintentional)

Mortality
- Infant Mortality
- Life Expectancy

Downstream
- Individual Health Education
- Education
- Social Services

Emerging Public Health Practice
Current Public Health Practice

BARHII and California Office of Health Equity
The Opportunity Now

1. Socially responsible investors
2. Partnership with organized communities
3. Three core problems facing our Counties
   - Affordability
   - Resilience
   - Racial Equity
What is an Opportunity Zone?

• Newly created from the Tax Cuts and Jobs Act of 2017

• Designated census tracts to encourage long-term private capital investments in low-income communities

• Excited investors – tax incentive

• Concerned policy makers – accelerate displacement and climate change

Bay Area Opportunity Zones

Source: Enterprise Opportunity Zones 360 Tool
Opportunity Zones in Oakland

Interactive Map from California Department of Finance:
https://cafinance.maps.arcgis.com/apps/webappviewer/index.html?id=d068b90cb97f4b429f3b180593036b7e
Life Expectancy at Birth in Oakland by Census Tract

Interactive Map from Healthy Places Index: https://map.healthyplacesindex.org/
Sea Level Rise
at 2’ with a 5’ storm surge

Interactive map from https://explorer.adaptingtorisingtides.org/explorer
Earthquake Hazard for Alameda County

 MMI Legend

Modified Mercalli Intensity Shaking Severity Level

- 9 - Violent
- 8 - Very Strong
- 7 - Strong

This map is intended for planning only. Intensities may be incorrect by one unit higher or lower

Map from http://resilience.abag.ca.gov/earthquakes/alameda/
Slow Burn Crises

• Urgency, high stakes, uncertainty continue

• Leadership during a sustained crises
  • Emergency phase
  • Adaptive phase

Seize the opportunity of moments like the current one
Opportunity Zones to Grow Community Capacity in Health Equity-Priority Areas

• Deepen investments in the urban core
• Increase revenue for strong community partners
• Maintain diversity among the region
Displacement in the Bay Area

Displacement Typologies

Lower income (LI) tracts
1. Not losing LI households
2. At risk of gentrification and displacement
3. Ongoing Gentrification/Displacement

Moderate to high income (MHI) tracts
1. Advanced gentrification
2. Not losing LI households
3. At risk of exclusion
4. Ongoing Exclusion/Displacement
5. Advanced exclusion

Impacts Spending on Healthcare and Food

Low-Income Households that can comfortably afford housing are able to spend:

More on Childcare

1/3rd More on Healthy Food

5x as Much on Healthcare

See BARHII Displacement Brief for more information
Image Credit: the Noun Project—Arthur Shlain, Adrien Coquet, UNiCORN, and Aneeque Ahmed
Housing Affordability Impacts on Families

2x more likely to be evicted

2x more likely to be in poor health

Image Credit: The Concord Pavilion
The Opportunity Now

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   - Affordability
   - Resilience
   - Racial Equity
Bay Area Regional Health Inequities Initiative

It is our mission to transform public health practice for the purpose of eliminating health inequities using a broad spectrum of approaches that create healthy communities.

Melissa Jones, Executive Director
MJones@barhii.org
Displacement Impacts on Families

Image Credit: SF Chronicle. “Prescription for a healthy Bay Area? Homes for all”
https://www.sfchronicle.com/opinion/openforum/article/RX-for-healthy-Bay-Area-homes-for-all-13031388.php
Re-segregation in the Bay Area

• Growth of African American communities at the edges of the region from all income levels
• Poverty in Latinx communities increased
• Renter populations grew

Source: Urban Displacement Project
Developing Climate Resilient Communities

- Earthquakes
- Flooding
- Communities at Risk in Fragile Housing
Suburbanization of Poverty

Housing Market Trends
Solutions That Prioritize Public Health First

Protection:
**Goal:** Protect more than 450,000 low-income renter households
**How:** $400 million/year and adoption of incentives and requirements.

Preservation:
**Goal:** Take 25,550 homes occupied by and affordable to low-income renters off the speculative market, and preserve and improve 11,110 expiring deed-restricted units.
**How:** $500 million/year for 10 years and adoption of incentives and requirements

Production:
**Goal:** Meet the region’s need for 13,000 new affordable homes/year
**How:** $1.4 billion/year and adoption of incentives and requirements
Health Systems Investments in Population Health

- Hospital and health systems
  - Dignity Health
  - Sutter Health
  - Kaiser Hospitals and Clinics
  - John Muir

- Health Plans
  - Kaiser Foundation Health Plan, Inc.
  - Partnership Health Plan
    - County Organized Health Systems (COHS)
  - Anthem Blue Cross
Implementation actions: Stable access to housing and community wealth building are the central focus of BARHII’s work in Solano and East Contra Costa. In collaboration with our Public Health Members, BARHII could support capacity building, policy and technical support and identify funding strategies. Strategies to be considered:

1. **Community land trust**: Allows the acquisition of land to maintain security of tenure and provides affordable homes in perpetuity. This is a collective ownership and financial strategy that relates to the other three strategies below.

2. **Affordable retrofit**: Combines housing and resilience funds to invest housing improvements that will bring buildings up to code and add additional features to endure seismic and flooding events. A dollar of resilience investment equals four dollars of disaster recovery.

3. **Small Site Acquisition**: Community Development Organizations can purchase existing affordable homes to retain existing tenants at risk of displacement and retain the affordability of those units for future generations.

4. **Accessory Dwelling Units**: Large parcels might accommodate an affordable accessory dwelling unit in the existing garage or new structure without land cost and minimizing building cost. This unit could also add to the property owner income. Prototypes to consider: East Palo Alto, Santa Rosa, Richmond.

5. **Retention of Mobile Homes**: This is one of the most affordable housing types that are at high risk of being purchase for new development.
Opportunity Zones

Kevin Wilson
Novogradac & Company LLP
Tax Benefits of the Opportunity Zone Incentive
Taxpayers can get capital gains tax deferral (& more) for making timely investments in Qualified Opportunity Funds (QOFs) which invest in Qualified Opportunity Zone Property.

www.novoco.com
3 Tax Incentive Benefits

1. Gain Deferral
2. Partial forgiveness
3. Forgiveness of additional gains
Period of Deferral

The period of capital gain tax deferral ends upon the earlier of:

- Dec. 31, 2026
- Or an earlier sale
Amount Recognized

THE LESSER OF:

1. Amount of gain deferred
   or

2. The fair market value of investment in QOF interest

MINUS:

Taxpayer’s basis in the QOF interest

Note: The taxpayer’s outside basis in the Opportunity Fund is initially deemed to be zero.
Jan. 2, 2018
Taxpayer enters into a sale that generates $1M of capital gain

June 30, 2018
(Within 180 days), Taxpayer contributes entire $1M of capital gain to a Qualified Opportunity Fund

- Taxpayer is deemed to have a $0 basis in its QOF investment
- QOF Invests the $1MM in Qualified Opportunity Zone Property
June 30, 2018
(Taxpayer enters into a sale that generates $1M of capital gain)

June 30, 2018
(Within 180 days), Taxpayer contributes entire $1M of capital gain to a Qualified Opportunity Fund

• Taxpayer is deemed to have a $0 basis in its QOF investment
• QOF Invests the $1MM in Qualified Opportunity Zone Property

June 30, 2023
(After 5 years), Taxpayer’s basis in investment in QOF increases from $0 to $100k

June 30, 2025
(After 7 years), Taxpayer’s basis in investment in QOF increases from $100k to $150k

Dec. 31, 2026
$850K of the 1MM of deferred capital gains are taxed and the basis in QOF investment increases to $1MM.

June 30, 2028
(after 10 years), Taxpayer sells its investment for $2.0MM. Basis in the investment is deemed to be FMV. The effect is no tax on appreciation in investment.
Opportunity Zone Incremental Benefit

<table>
<thead>
<tr>
<th></th>
<th>4 Year</th>
<th>5 Year</th>
<th>7 Year</th>
<th>12/31/2026</th>
<th>10 Year</th>
</tr>
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<tbody>
<tr>
<td>Standard After Tax IRR</td>
<td>6.00%</td>
<td>6.00%</td>
<td>6.00%</td>
<td>6.00%</td>
<td>6.00%</td>
</tr>
<tr>
<td>Incremental OZ Benefit</td>
<td>1.44%</td>
<td>2.08%</td>
<td>1.95%</td>
<td>1.71%</td>
<td>3.08%</td>
</tr>
<tr>
<td>OZ Investment IRR</td>
<td>7.44%</td>
<td>8.08%</td>
<td>7.95%</td>
<td>7.71%</td>
<td>9.08%</td>
</tr>
<tr>
<td>Percentage Increase</td>
<td>35%</td>
<td>32%</td>
<td>29%</td>
<td>51%</td>
<td></td>
</tr>
</tbody>
</table>
Perishability of Incentives

Incremental IRR

Year of QOF Initial Investment

2018 2019 2020 2021 2022 2023 2024 2025

3.08% 2.96% 2.74% 2.61% 2.25% 2.09% 1.91% 1.74%
State Tax Implications

• Opportunity Zone benefits increase if states conform to the Federal Law
• Some states piggy-back off of the current Federal Law but could decouple from OZs
  – New York decided not to decouple
  – Hawaii decided to decouple
  – North Carolina released a draft bill that would decouple
• Some states do not conform to Federal Law but could add OZs at the state level
  – Colorado is considering a bill to add the OZ benefit at the state level
• Some states do not have a state income tax (e.g. Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming).
• State Tax Implications of an single OZ transaction may include multiple states
  – State where original gain was realized
  – State(s) where the opportunity fund has nexus
• Some states are tying other State incentives to opportunity zones
  – Missouri proposed increased cap for state historic credits for properties in OZs
  – California introduced a bill to exempt projects in OZs from the CA Environmental Quality Act
Readily Identifiable Investment Types in Opportunity Zones

1. Commercial Real Estate Development and Renovation in Opportunity Zones
2. Opening New Businesses in Opportunity Zones
3. Expansion of Existing Businesses into Opportunity Zones
4. Large Expansions of Businesses already within Opportunity Zones
QOZB: Excluded Businesses

Can’t be a “Sin Business”

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.
Additional Opportunity Zone Resources

- California Opportunity Zone website
  - [https://opzones.ca.gov/](https://opzones.ca.gov/)
- Economic Innovation Group
  - [https://eig.org/opportunityzones](https://eig.org/opportunityzones)
- Novogradac Opportunity Zone Resource Center
- Enterprise Community Partners – Opportunity360
  - [https://www.enterprisecommunity.org/opportunity360](https://www.enterprisecommunity.org/opportunity360)
- Novogradac Industry Alert emails
- Novogradac Opportunity Zones Working Group
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An Opportunity Zone Conversation

RNHS is an affordable housing organization established in 1981 doing business as Neighborhood Housing Services of the Eastbay a certified HUD counseling agency.
Oakland's Opportunity Zones and Strategy

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Adopted City Goals:
1. Increase overall GDP Growth
2. Increase Black and Latinx Household Assets
3. Increase # of Oaklanders earning a Living Wage
Oakland's Opportunity Zones
Guardrails on Opportunity Zone Investment

- Federal: Substantial Improvement Requirement

- City:
  - Healthy Development Guidelines
  - Rent Control and Just Cause Eviction Protections
  - Substantial Rehabilitation Rules
  - SRO conversion moratorium
  - Affordable Housing, Transportation and Capital Projects Impact Fees
  - AirBnBs: 7 Day Minimum

State of CA – what will they do?
Examples of Excellent Current Projects in OZs

- Community Foods Market, San Pablo Avenue
- Restore Oakland, Fruitvale
- Foothill-Seminary Retail Center and Plaza
- Coliseum Connections
- Affordable and Workforce Housing
- Local Business Investment Funds
Creating an Opportunity Fund in Oakland

- Any taxpaying individual or entity
- Must invest through a fund organized as a corporation or partnership
- Self-Certify using IRS Form 8996
- Meet thresholds for geography
- Stock, partnership, or property investment
- If property, substantially improve during any 30-month period beginning after the date of the acquisition
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RNHS Opportunity Zone Conversation

Kevin Stein
California Reinvestment Coalition
January 10, 2019
Displacement Financing

An example of how Displacement Financing works:

1. Banks lend money to a speculator.
2. The speculator buys a multi-unit building. The speculator then raises the rent, often beyond what the current tenants can pay. The bank may have underwritten the loan based on these higher rents.
3. When current tenants—who are often low and moderate income people of color—can’t afford the new rate, the speculator moves to evict them.
4. Then, the speculator rents to new tenants at a price that only the wealthy can afford.
5. Finally, the speculator leverages the existing property to take out another loan from the bank, then buys a new property and starts the process again. This becomes the speculator’s business model. The bank turns a profit by financing a serial evictor, and long-term community members are displaced.

More about Displacement Financing:

Illegal evictions: In some cases, the speculator may try to evict the tenants using loopholes, harassment, or other illegal means, especially in cities where there is rent control and just cause eviction protections. Speculators may also try to take the units out from under rent control.

Single family homes: Displacement financing also occurs when banks lend to speculators and other illegal means, especially in cities where there is rent control and just cause eviction protections. Speculators may also try to take the units out from under rent control.
FRB loans in Oakland Opportunity Zone LMI Tracts: Hundreds of loans to LLs who tried to evict hundreds
Code of Conduct: How Banks, Private Equity, and Wall Street Can Stop Contributing to Displacement

- Finance Stable Tenancies not displacement from multifamily bldgs.
  - Know your borrower-do not finance serial evictors
  - Ensure borrowers know state and local T protections
- Underwrite to current rents
- Meet with tenants about conditions, harassment, etc.
- Enforce loan terms

- Invest in Affordable Rental Housing Preservation, CLTs

- Promote Homeownership
  - Do not invest in investor purchases, REO to Rental
  - Offer flexible home ownership products

- Help Small Businesses buy buildings, sign leases

- Engage in anti-displacement philanthropy

- Sign Code of Conduct!!!

- SVCF/CBB/CRC partnership – a model?

- A good frame for OZs and local decisions