



# **OPPORTUNITY ZONES**

**Presentation prepared for:**

**Housing Action Illinois**

**October 25, 2019**

**Bloomington, Illinois**



# BACKGROUND

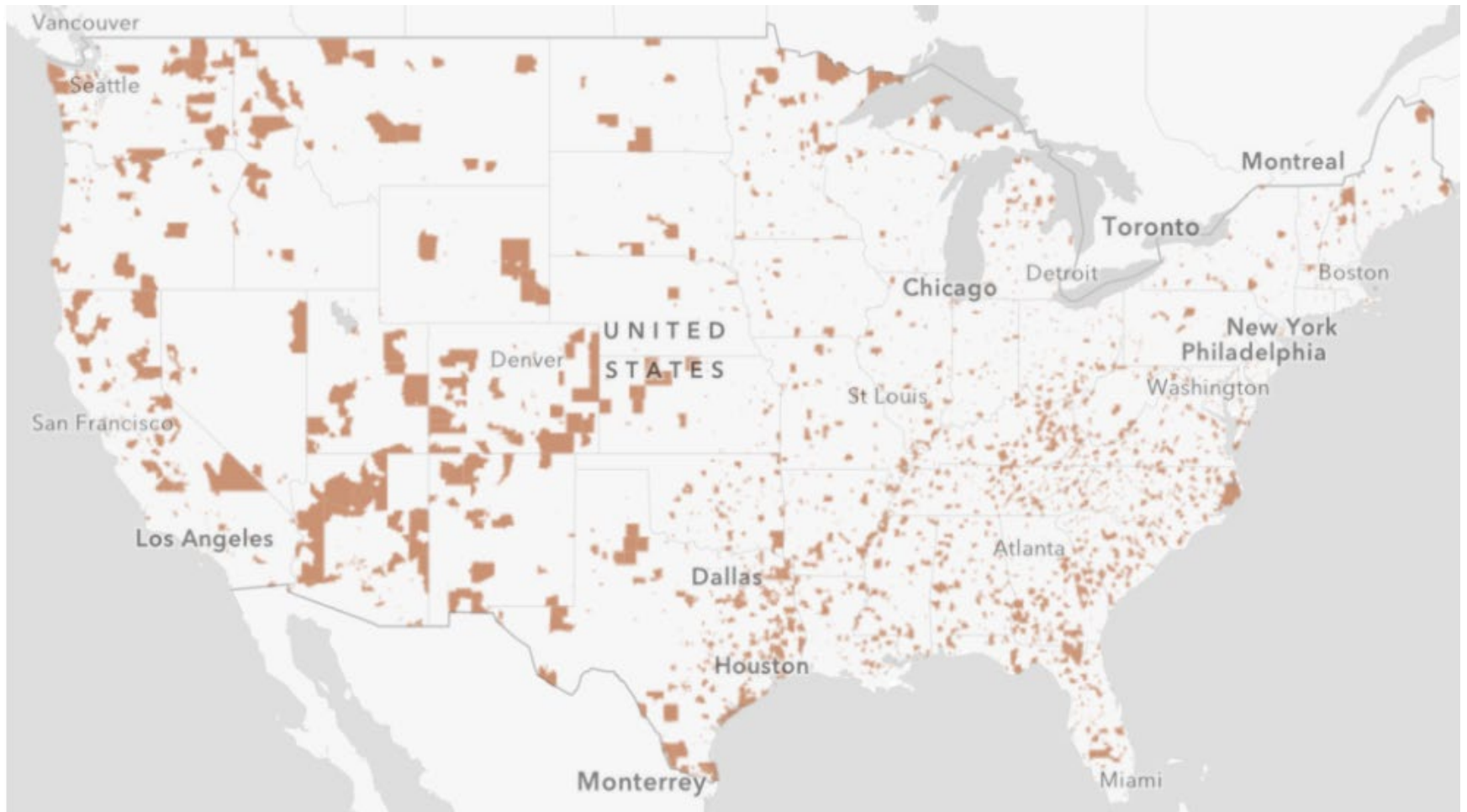
Opportunity Zones are a federal economic development tool created to spur economic development and job creation in distressed communities.

Opportunity Zones are designated as such by the governor or chief executive of a given state, district, or territory. All 50 states, the District of Columbia, and U.S. territories were eligible to designate Opportunity Zones.

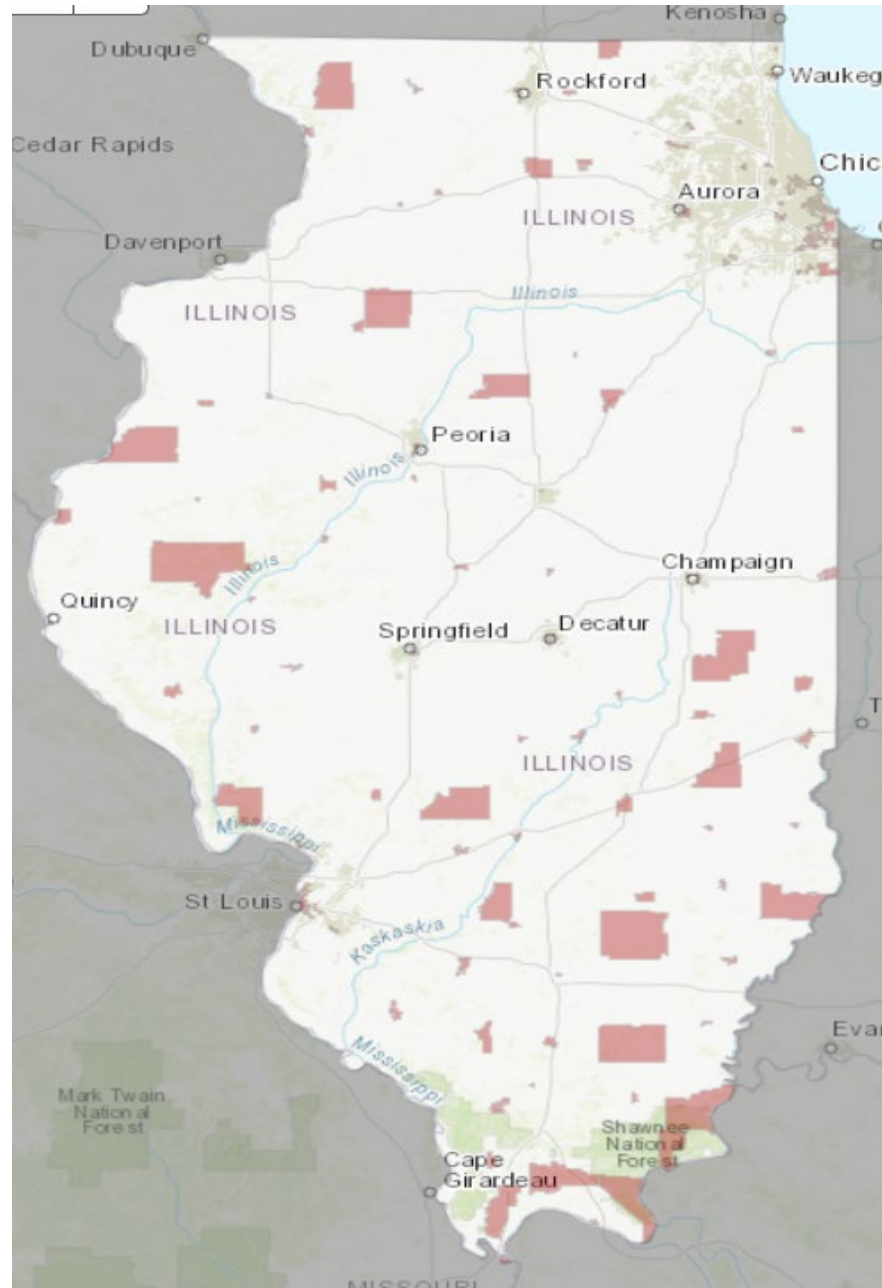
Based on the guidelines established in the Federal Tax Cuts and Jobs Act of 2017 - Section 1400Z-1, the Illinois Governor was eligible to nominate 25% (327) of the state's 1,305 qualifying low-income census tracts as Opportunity Zones. A three-phase approach was utilized to identify the tracts, which involved:

- **Need-Based** indexing examining rates of unemployment, poverty, including total number of children in poverty, violent crime and population
- **Equitable Distribution** based on geography which limited each town/city to no more than (5) Zones with the exception of the City of Chicago
- **Local Consideration** with input and suggestions from government and community entities throughout the State.

# U. S. OPPORTUNITY ZONES



# Illinois Opportunity Zones



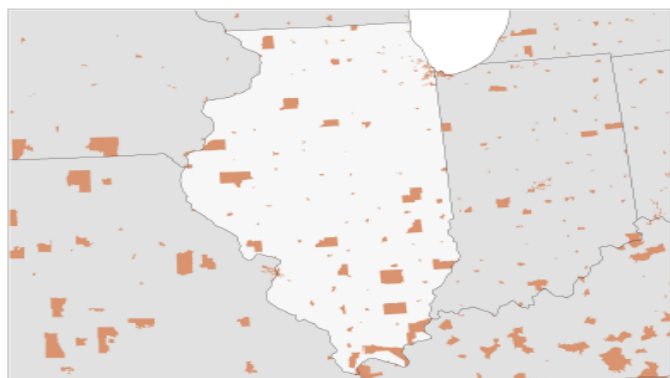
# Opportunity Zones – IL Counties

<b>Adams</b>	<b>Edgar</b>	<b>Kane</b>	<b>Monroe</b>	<b>Tazewell</b>
<b>Alexander</b>	<b>Edwards</b>	<b>Kankakee</b>	<b>Montgomery</b>	<b>Union</b>
<b>Bond</b>	<b>Effingham</b>	<b>Kendall</b>	<b>Morgan</b>	<b>Vermilion</b>
<b>Boone</b>	<b>Fayette</b>	<b>Knox</b>	<b>Moultrie</b>	<b>Wabash</b>
<b>Brown</b>	<b>Ford</b>	<b>Lake</b>	<b>Ogle</b>	<b>Warren</b>
<b>Bureau</b>	<b>Franklin</b>	<b>LaSalle</b>	<b>Peoria</b>	<b>Washington</b>
<b>Calhoun</b>	<b>Fulton</b>	<b>Lawrence</b>	<b>Perry</b>	<b>Wayne</b>
<b>Carroll</b>	<b>Gallatin</b>	<b>Lee</b>	<b>Piatt</b>	<b>White</b>
<b>Cass</b>	<b>Greene</b>	<b>Livingston</b>	<b>Pike</b>	<b>Whiteside</b>
<b>Champaign</b>	<b>Grundy</b>	<b>Logan</b>	<b>Pope</b>	<b>Will</b>
<b>Christian</b>	<b>Hamilton</b>	<b>Macon</b>	<b>Pulaski</b>	<b>Williamson</b>
<b>Clark Clay</b>	<b>Hancock</b>	<b>Macoupin</b>	<b>Putnam</b>	<b>Winnebago</b>
<b>Clinton</b>	<b>Hardin</b>	<b>Madison</b>	<b>Randolph</b>	<b>Woodford</b>
<b>Coles</b>	<b>Henderson</b>	<b>Marion</b>	<b>Richland</b>	
<b>Cook</b>	<b>Henry</b>	<b>Marshall</b>	<b>Rock Island</b>	
<b>Crawford</b>	<b>Iroquois</b>	<b>Mason</b>	<b>Saline</b>	
<b>Cumberland</b>	<b>Jackson</b>	<b>Massac</b>	<b>Sangamon</b>	
<b>DeKalb</b>	<b>Jasper</b>	<b>McDonough</b>	<b>Schuyler</b>	
<b>DeWitt</b>	<b>Jefferson</b>	<b>McHenry</b>	<b>Scott</b>	
<b>Douglas</b>	<b>Jersey</b>	<b>McLean</b>	<b>Shelby</b>	
<b>DuPage</b>	<b>Jo Daviess</b>	<b>Menard</b>	<b>St. Clair</b>	
	<b>Johnson</b>	<b>Mercer</b>	<b>Stark</b>	
			<b>Stephenson</b>	

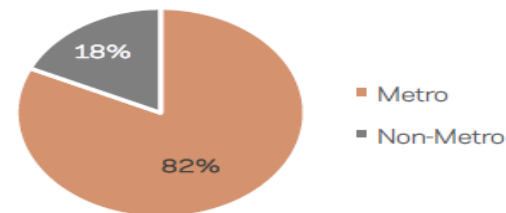
Data Source: <https://opportunitydb.com>








# ILLINOIS OPPORTUNITY ZONES

## Illinois Opportunity Zones

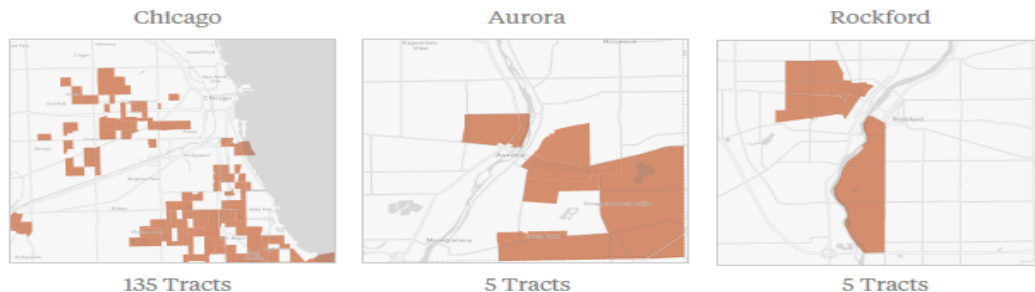


**327** Total Opportunity Zones  
**1.2 M** Zone Residents  
**499 k** Zone Jobs  
**34 k** Zone Businesses



	 Minority Population	 Poverty Rate	 Median Income	 Bachelor Degree +	 Adults Not Working	 Housing Vacancy	 Rent Burdened
<b>Illinois</b>	<b>38%</b>	<b>14%</b>	<b>\$76,500</b>	<b>33%</b>	<b>25%</b>	<b>9%</b>	<b>49%</b>
<b>Opportunity Zones</b>	<b>69%</b>	<b>32%</b>	<b>\$39,200</b>	<b>14%</b>	<b>39%</b>	<b>17%</b>	<b>60%</b>

### Major Cities with the Largest Number of Zones



### Congressional Districts with the Largest Number of Zones

Representative	District	Party	Zones
<b>Danny K. Davis</b>	IL-7	D	61
<b>Bobby L. Rush</b>	IL-1	D	61
<b>Robin L. Kelly</b>	IL-2	D	46
<b>John Shimkus</b>	IL-15	R	31
<b>Mike Bost</b>	IL-12	R	23

# PROGRAM OVERVIEW

- Potential Investors: Any taxpayer that recognizes capital gain for federal income tax purposes
  - “Taxpayers” include individuals, partnerships, business entities (i.e., corporations and LLCs) and trusts
- Investment Deadlines: Taxpayers must invest their capital gains in a Qualified Opportunity Zone Fund (QOF) within 180 days following the date such gains are realized, then the QOF must invest in a “project” within 31-month period
- Discuss special rules with respect to investments made by partnerships or other pass-through business entities with a tax advisor

# BENEFITS

Through the program, there are (3) tax benefits made available to those who invest and hold their capital gains in Opportunity Zone assets or property.

- **Temporary Deferral-** A temporary deferral of inclusion in taxable income for capital gains reinvested into an Opportunity Fund. The deferred gain must be recognized on the earlier of the date on which the opportunity zone investment is disposed of or December 31, 2026.
- **Step-Up In Basis-** A step-up in basis for capital gains reinvested in an Opportunity Fund. The basis is increased by 10% if the investment in the Opportunity Fund is held by the taxpayer for at least 5 years and by an additional 5% if held for at least 7 years, thereby excluding up to 15% of the original gain from taxation.
- **Permanent Exclusion-** A permanent exclusion from taxable income of capital gains from the sale or exchange of an investment in an Opportunity Fund if the investment is held for at least 10 years. This exclusion only applies to gains accrued after an investment in an Opportunity Fund.



## EX. 10 YEAR INVESTMENT: FULLY TAXABLE VS. OPPORTUNITY ZONE FUND

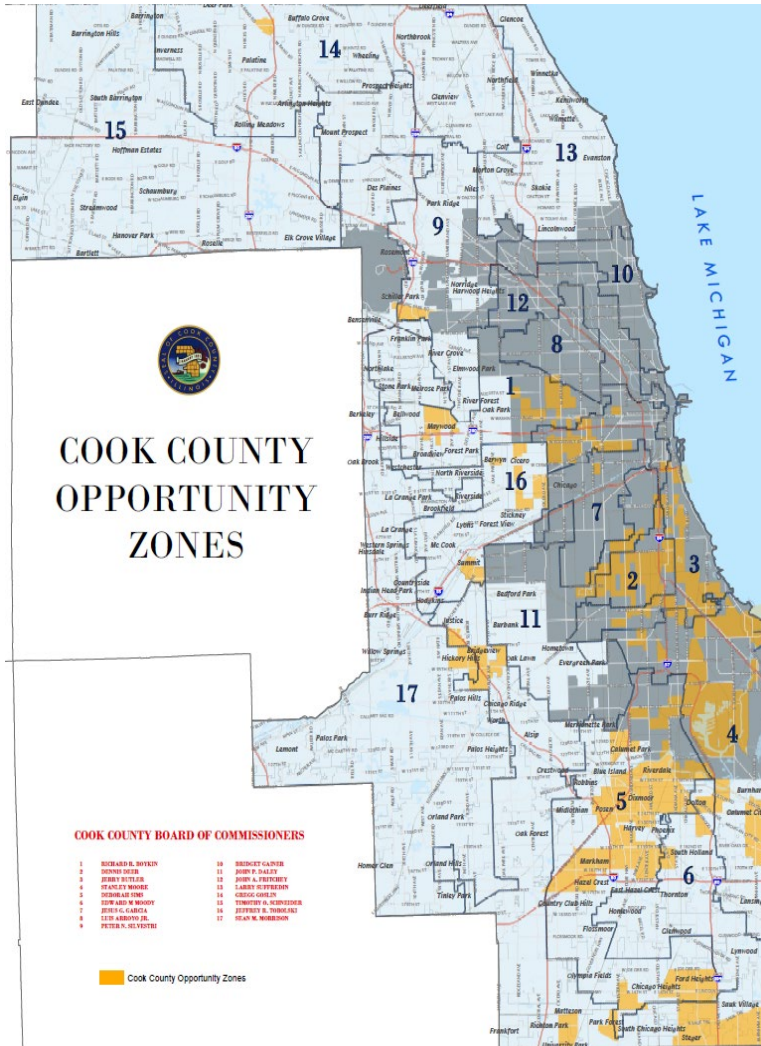
### Assumptions:

- 10% annual investment appreciation, 24% capital gains tax (federal only)

Fully Taxed Investment		Opportunity Zone Investment	
Capital Gain	\$100,000	Capital Gain	\$100,000
- Tax payable (24%)	\$24,000	- Tax payable	\$0
Total Capital to Invest	\$76,000	Total Capital to Invest	\$100,000
Sales Price after 10 years	\$197,000	Sales Price after 10 years	\$259,374
- Tax on Appreciation (24%)	\$29,070	- Tax on Appreciation	\$0
<b>After Tax Funds Available</b>	<b>\$168,054</b>	Deferred Capital Gain Tax (24%) paid in 2026	\$20,480
		<b>After Tax Funds Available</b>	<b>\$238,974</b>

# COOK COUNTY: OPPORTUNITY ZONES

133 tracts in Chicago  
48 tracts in suburban Cook County



	National Profile	Cook County Profile
Average poverty rate	31%	36.9%
Average unemployment rate	14.4%	21.6%
Average family income in OZ census tracts relative to area median income (AMI)	60%	47.95%
Rural Census Tracts	40%	32% (total 58)

# SO....WHAT ARE WE DOING ???

We encouraged and looked at Chicago Community Loan Fund (CCLF) to take the lead and to call on the community stakeholders to start the conversation

We the stakeholders have been participating in collaborative working sessions witch includes representatives from government, philanthropic entities, private sector banks, community development finance institutions, and investors.

These sessions have allowed partners to: inform of OZ projects in underway, review the OZ work of existing agencies, obtain perspectives from all sectors, discuss challenges and opportunities and outline the framework for future strategy regarding OZs.

Our four primary strategies for implementation are: developer-driven, marketing-driven, investor-driven and public incentive-driven.

# CHICAGOLAND O-ZONE CONSORTIUM

- Chicagoland partners working to establish a **collaborative ecosystem** to support Opportunity Zone investments in inclusive community development-driven projects.
- Seek to ensure that existing and emerging community development projects that prioritize **long-term job and local wealth creation** are well-positioned to receive a portion of Opportunity Zone investments – and that the communities share in the long-term impacts.
- Although Chicago has a strong community development ecosystem of CDFIs, small business lenders, local developers, CDCs, philanthropic and government partners, such work is **not something a single organization can do alone**.

# CURRENT COLLABORATORS AT THE TABLE

Public Sector	CDFI	Philanthropic	Other
City of Chicago	Accion Chicago	Chicago Community Trust	Applegate & Thorne-Thomsen
Cook County	Chicago Community Loan Fund (CCLF) (convener)	John D. and Catherine T. MacArthur Foundation	Community Law Project
State of Illinois	Community Investment Corp. (CIC)	Robert R. McCormick Foundation	POAH
World Business Chicago	Chicago Neighborhood Initiatives (CNI)	4S Bay Partners (formerly Sarowitz Family, LLC)	S. B. Friedman Development Advisors
	Enterprise Community Partners		SomerCor
	IFF		
	LISC Chicago		
	National Equity Fund		
	Neighborhood Housing Services of Chicago (NHS)		

# Planning phase

## Working Sessions

- Four facilitated planning sessions
- Discussion of current landscape
- Discussion of vision, initial priorities
- Exploration of collaborative strategies

## Exploratory Research

- Exploration of models in other jurisdictions
- Accelerator for America roundtable, Bruce Katz
- Conversations with philanthropic & implementation partners

## Strategy and Action Plan

- Developing and finalizing action plan to chart specific path forward for consortium

# PROJECTED AREAS OF WORK

- Hire a centralized Opportunity Zone Coordinator
- Serve as a centralized platform / matchmaker for community development focused OZ investments
  - Mapping of deal pipeline
  - Mapping of investors
- Provide technical support to developers / operators to democratize process (e.g. legal, pro formas)
- Coordinate and leverage public sector incentives
- Track Chicagoland OZ-activity to inform need and structure for a potential fund, be it a coordinated investment vehicle, credit enhancement to incentivize outcomes, etc.

# NEXT STEPS



Hire centralized coordinator, supported  
via philanthropic and other funds



Transition to set up stage



# LOCAL GOVERNMENT INVOLVEMENT

- Work with community stakeholders to identify strategies for accessing this new pot of financing to accomplish community goals
- Identify individuals or establish a working group to play a coordinating/support role to connect investors to local needs (i.e., development projects or new startup companies) on an ongoing basis
- Integrate OZ program with other community development initiatives and consult with legal and tax professionals regarding the availability of additional tax credit and incentives programs that can enhance the attractiveness of an OZ or a particular project contemplated in an OZ

# HOW OZ INVESTMENT CAN HELP

- **OZ investments can help make real estate deals economically viable in tough geography**
  - Ease or subsidize the cost of basic infrastructure that catalyzes growth – roads, transit, education, public safety
  - Foster development of areas outside of class-A commercial zones with the public entity as credit tenant on a long-term lease
  - The OZ incentive might result in investors accepting lower returns on a long-term lease to a public entity (though getting the economic package right matters a great deal)

# QUESTIONS OR ADDITIONAL INFORMATION

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