



Federal Opportunity Zones Strategy Presentation to the CDHS Committee

February 12, 2019

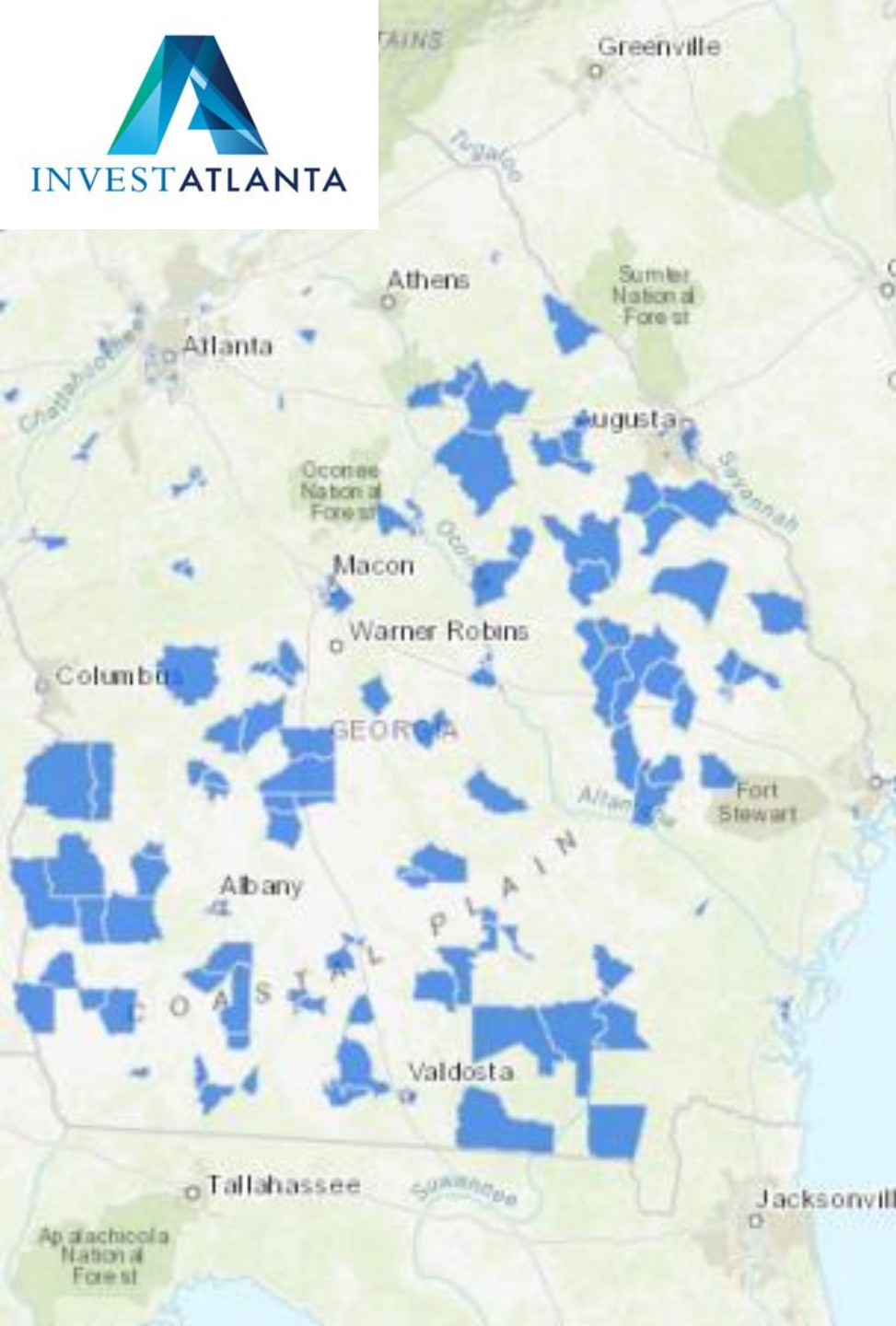


FEDERAL OPPORTUNITY ZONES

- Source of private capital to revitalize low-income communities through business and real estate development projects
- Provides a deferral/discount on unrealized capital gains tax obligations
- Can be utilized to support affordable housing, start-up businesses, and local real estate developers

Has the potential to be the largest new economic development tool in decades

U.S. households and corporations are currently sitting on over
\$6 trillion of unrealized capital gains

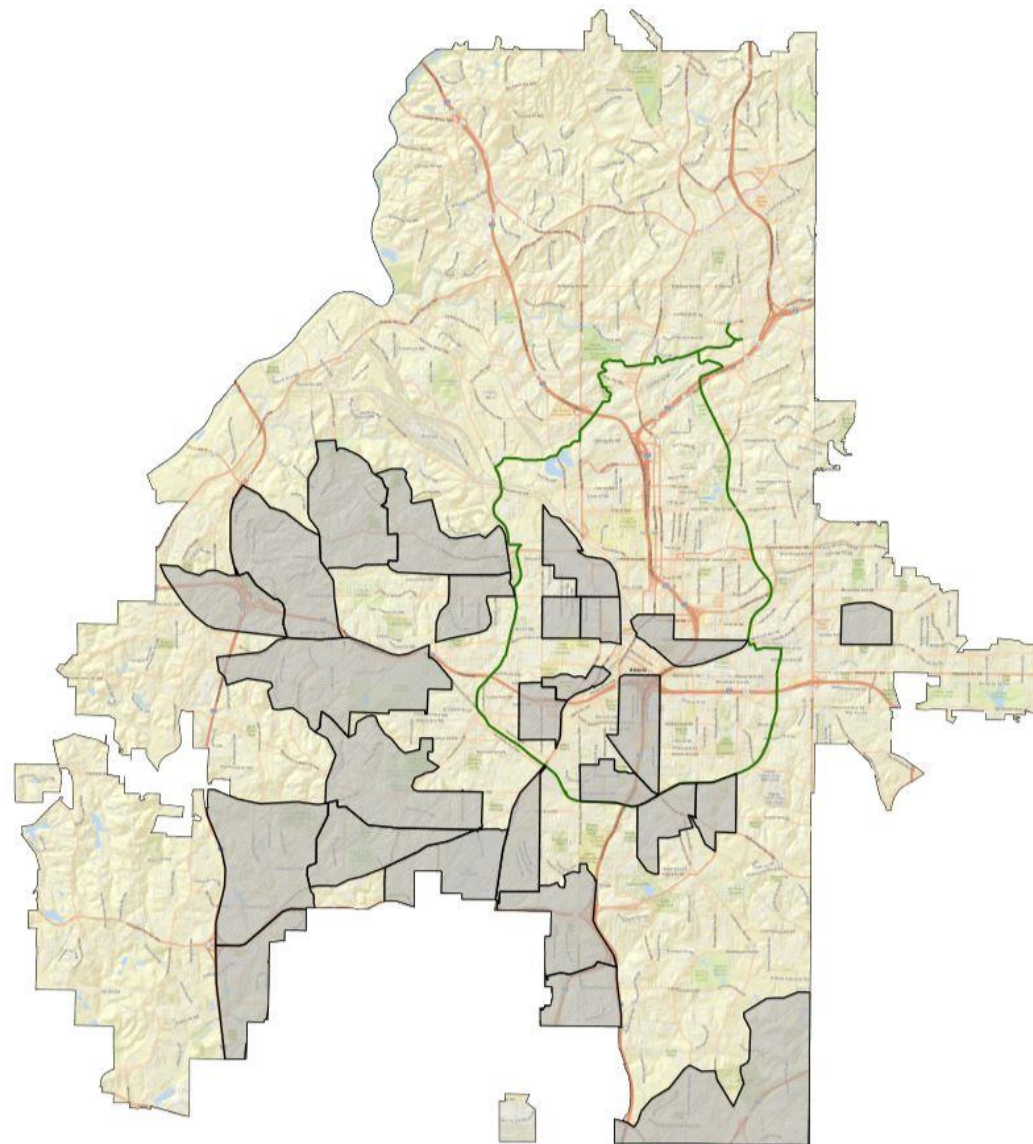


STATE OF GA OPPORTUNITY ZONES

- Georgia's 260 zones, located in 83 counties
- Both rural and metropolitan areas, with approximately 60% rural and 40% urban

ATLANTA'S OPPORTUNITY ZONES

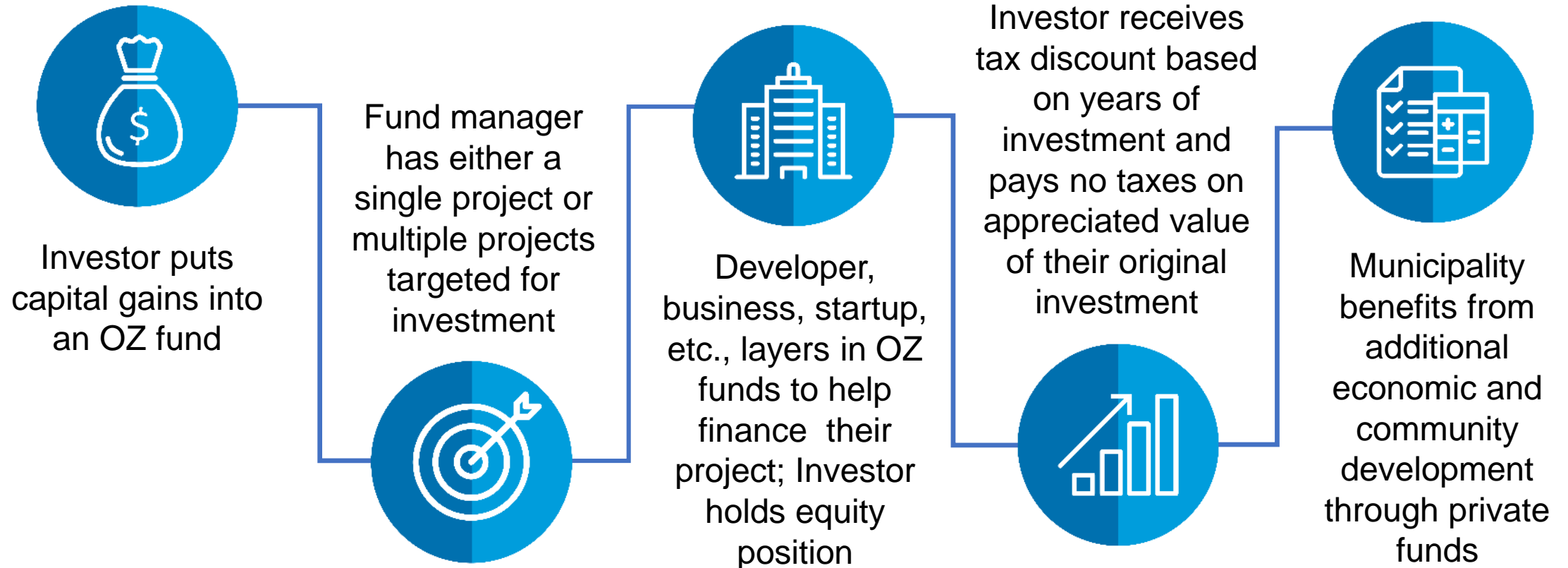
- 26 Opportunity Zones in the City of Atlanta mostly located in the south and southwest areas of the city
- Invest Atlanta took the lead in recommending census tracts to the state for consideration by the U.S. Treasury and IRS



WHY ARE OPPORTUNITY ZONES IMPORTANT?

- New economic development tool in the City's toolbox
- Directly supports low-income communities with much needed capital
- Incentivizes investments with private, not public, financing
- Source of scarce equity capital
- Benefits range of stakeholders: investors, developers, businesses, startups, municipalities
- Aligns with goals and objectives of Invest Atlanta

HOW OPPORTUNITY ZONES WORK?



SAMPLE OPPORTUNITY ZONE PROJECT REAL ESTATE

Flatiron City

- 41,000 square-foot office
- Women’s Entrepreneurship Initiative
- Microsoft Innovation Center
- Problem: Developer’s construction budget has a gap of \$1.2 million
- Solution: Opportunity Fund investor can provide funds as equity to fill gap
- Terms: OZ Investor to wait for up to 10 years to get payback or share profits

Source	Total (\$)	%
Developer Equity	\$4.9 million	45%
Opportunity Fund Equity	\$1.2 million	10%
New Markets Tax Credit Equity	\$2.3 million	20%
Historic Tax Credit Equity	\$1.3 million	12%
Westside Tax Allocation District Grant	\$1.5 million	13%
Total	\$11.2 million	100%



SAMPLE OPPORTUNITY ZONE PROJECT OPERATING BUSINESS

Legends Food

- Baking products business in eligible location
- Business makes ready-to-pour-and-bake cake batter
- Needs funds to purchase equipment and supplies

- Problem: Business has customers but needs \$500,000 to fill orders
- Solution: Opportunity Fund investor to provide funds as equity to fill gap
- Terms: OZ Investor to wait for up to 10 years to get payback or share profits

Source	Total (\$)	%
Owner Equity	\$250,000	33%
Opportunity Fund Equity	\$500,000	66%
Total	\$750,000	100%



Typical Investor

- Real Estate Group Selling Properties
- Entrepreneur Selling Business
- Low tolerance to risk
- Market returns
- Sensitive to term
- Wants an exit strategy

Social Investor

- Nonprofit Group Selling Surplus Land
- Private Foundation With Dividend Gains
- Medium tolerance to risk
- Social Impact
- Lower returns
- Sensitive to term
- Wants an exit strategy

OPPORTUNITY ZONE CHALLENGE

Project



- Project Type
- Time Commitment
 - Returns
- Capital Stack Structure
 - Risk
- Exit Strategy

Investor



A FUNDED PROJECT

using market rate capital in a low income census track community

Hub To Direct Private Investment

Pillar 1 – MATCH-MAKING Position Atlanta as a place to invest, connecting eligible projects with investors	Pillar 2 – LEVERAGING CITY RESOURCES Encourage and assist projects that will provide community and social impacts
<ul style="list-style-type: none"> • RFQ to identify investors for social impact projects 	<ul style="list-style-type: none"> • Economic development funds, e.g., TAD grants
<ul style="list-style-type: none"> • Website to introduce projects to investors 	<ul style="list-style-type: none"> • City of Atlanta land assets
<ul style="list-style-type: none"> • Marketing materials and thought leadership 	<ul style="list-style-type: none"> • Existing incentives, e.g., tax-exempt bonds, and existing economic development programs
<ul style="list-style-type: none"> • Regional investor prospectus booklet 	<ul style="list-style-type: none"> • City fund (Currently Evaluating)
<ul style="list-style-type: none"> • Collaborate with community leaders and stakeholders 	
<ul style="list-style-type: none"> • Track pipeline, monitor transactions through closings 	

HOW WOULD A CITY OPPORTUNITY FUND WORK?

- Federal Opportunity Zones projects receive funds through registered Opportunity Funds
- The City could sponsor its own Opportunity Fund to attract capital from the private market
 - Opportunity Funds must deploy each investor's funds to a project within 6 months

CITY-SPONSORED OPPORTUNITY FUND

Advantage

- More control over projects selected
- Easier to monitor success and impacts

Risk/Challenges

- Limited investment capacity
- City assumes risk of timely investments
- Less variety of projects can be considered
- Need access to large incentives
- City incurs cost to hire fund manager



PRIVATE INDEPENDENT OPPORTUNITY FUNDS

Advantage

- Big capacity: dozens of investment funds are ready for Atlanta projects
- Social impacts: RFQ identified 9 OZ funds willing to focus on projects with below-market value returns
- Wide variety of projects can be funded

Risk/Challenges

- No control over projects selected





Investor registry; currently 50+ interested investors



Social Impact Investor RFQ Issued; currently evaluating 11 responses received



**Recruiting Invest Atlanta Opportunity Zones & Special Initiatives
Manager**



Information sessions (Nov. 2018, Mar. 2019, others)



Coordination of a Metro Atlanta investor project book (prospectus) with local economic development partners and stakeholders



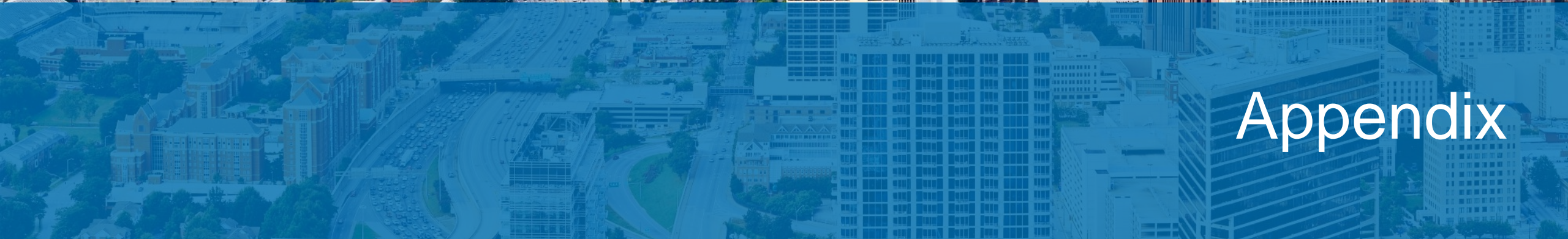
Investor-ready project fact sheets posted on Invest Atlanta's website
<https://www.investatlanta.com/businesses/small-businesses/federal-opportunity-zones>



Development of an online information hub (website) to match investors with high-impact projects in the city



Development of Measures of Success and Reporting Metrics

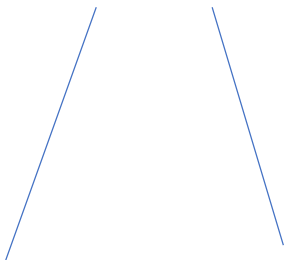


Appendix



WHERE IS THE TAX BENEFIT IN AN OPPORTUNITY ZONE INVESTMENT?



<p>Profit - \$1 million Two Options</p>  <p>Taxes \$250,000</p> <p>OZ Project ABC</p>	<p>Project ABC Invest for 5 years 10% Discount on Profit \$900,000</p> <p>Taxes \$225,000</p>	<p>Project ABC Invest for 7 years 15% Discount on Profit \$850,000</p> <p>Taxes \$212,500</p>	<p>Project ABC Invest for <u>10</u> years 15% Discount on Profit \$850,000 Plus Project ABC worth \$5M</p> <p>Taxes + Taxes = Total Taxes \$212,500 + \$0 = \$212,500 (Savings of \$1M on \$4M Gain)</p>
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