



THE
OZ
OPPORTUNITY

IAN GALLOWAY
FEDERAL RESERVE BANK OF SF

PPT OVERVIEW

VALUE PROPOSITION

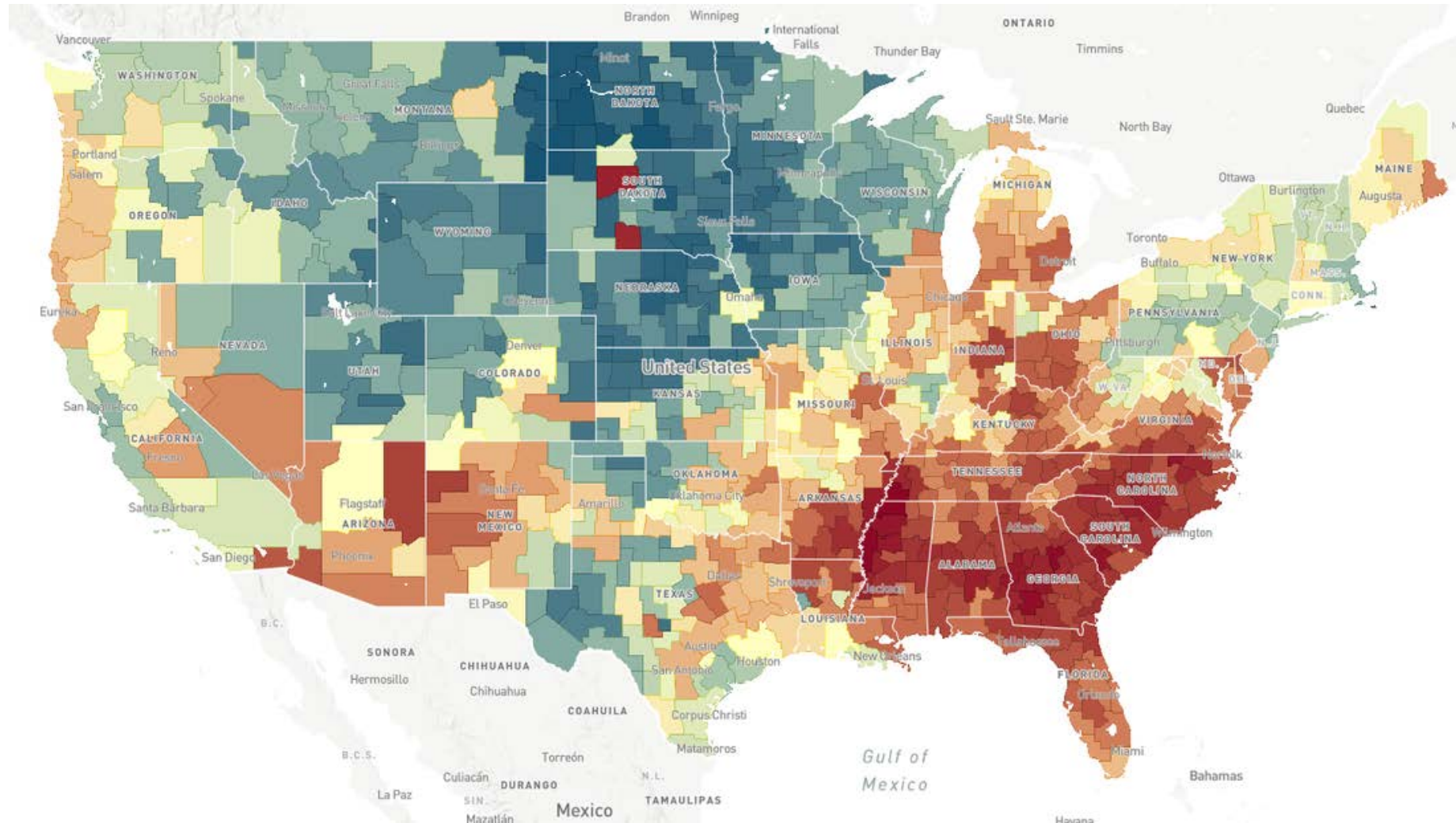
ECONOMIC DYNAMISM IN ARIZONA

INTRODUCTION TO OPPORTUNITY ZONES/FUNDS

PARTNER WITH COMMUNITY DEVELOPMENT

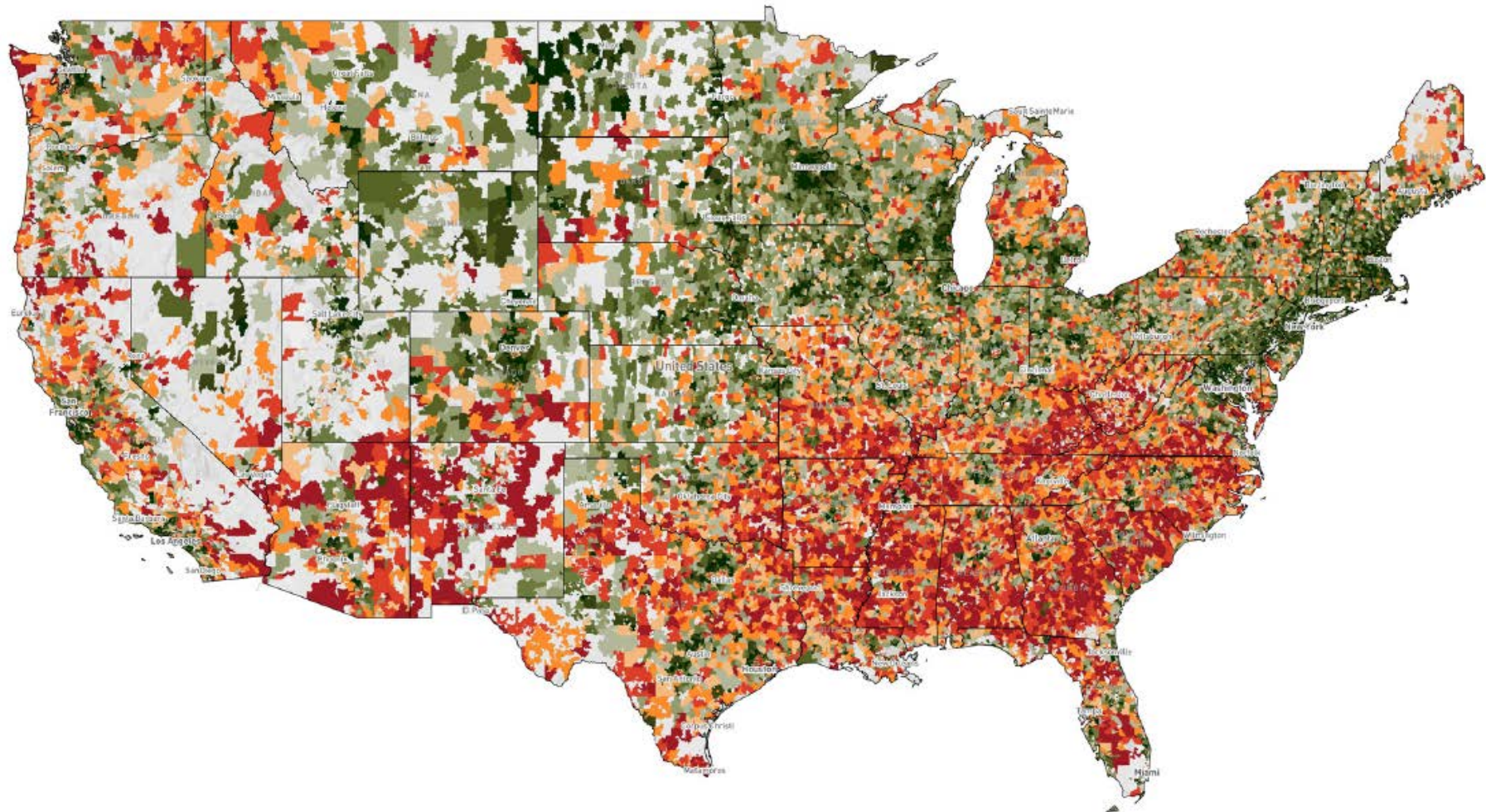
DO WELL BY DOING GOOD

MORE INVESTMENT IN DISTRESSED PLACES...



Source: Raj Chetty, *Opportunity Atlas*

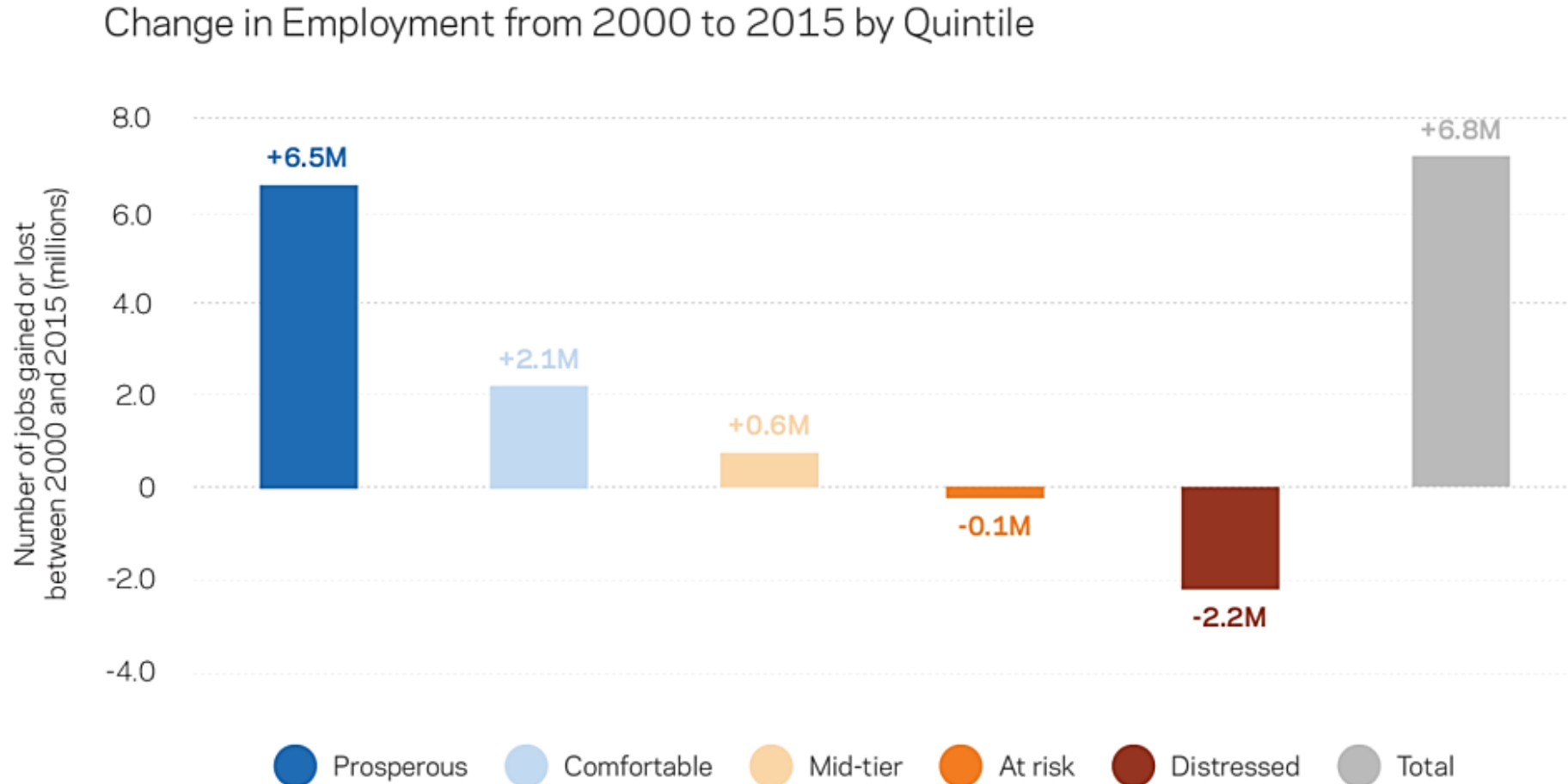
...MORE ECONOMIC DYNAMISM



Source: Economic Innovation Group

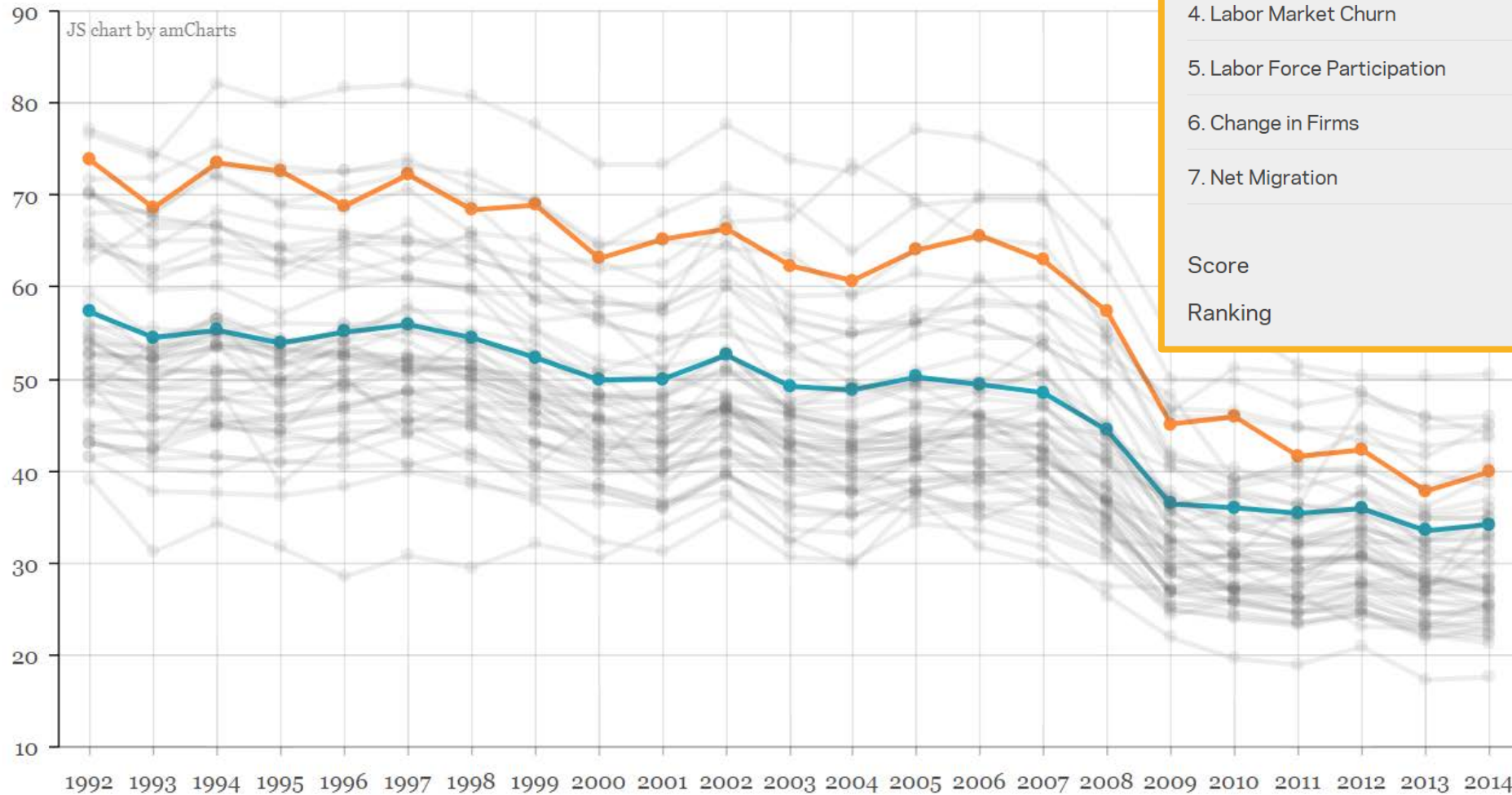
PLACE MATTERS

LABOR MARKET



ECONOMIC DYNAMISM

STATE OF ARIZONA



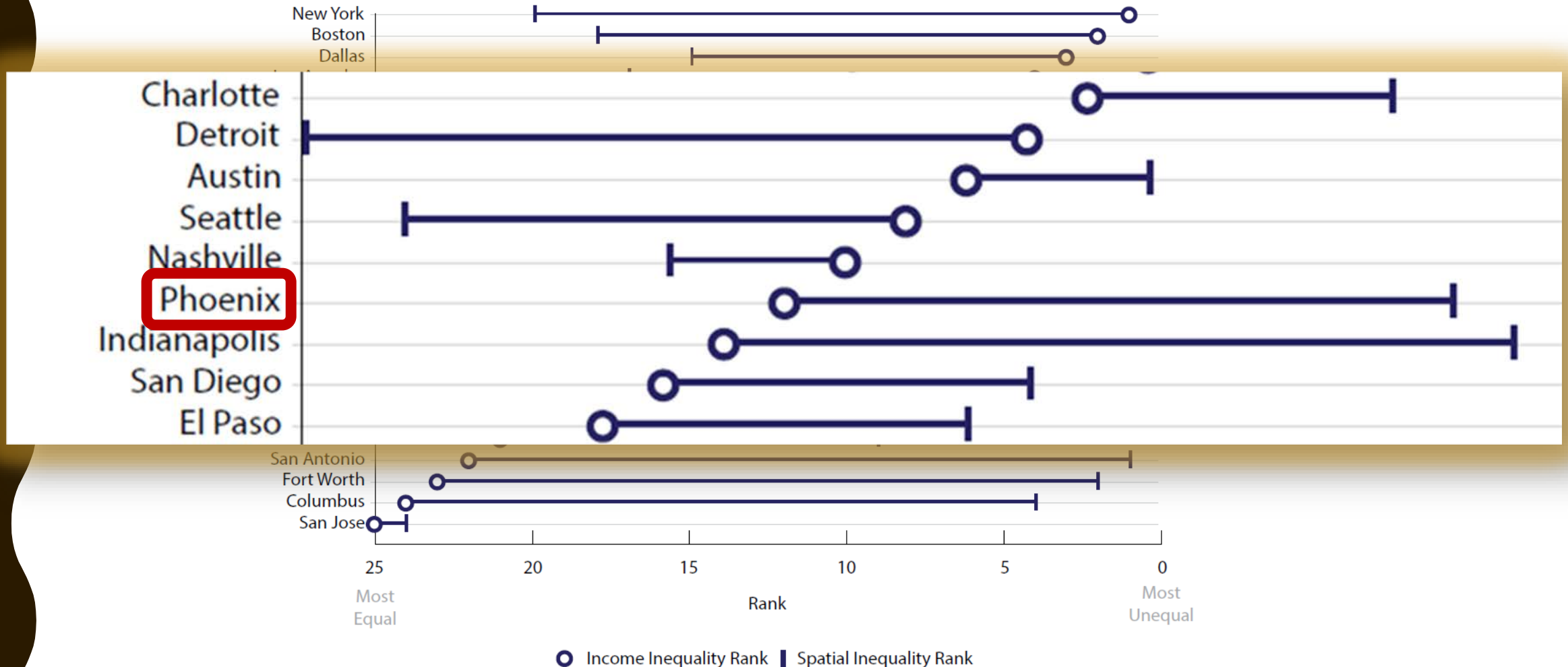
DYNAMISM INDICATORS FOR ARIZONA		1992	2014
1. Business Churn		22.4%	16.9%
2. Jobs in New Companies		4.0%	2.4%
3. Jobs in Incumbent Companies		51.1%	69.9%
4. Labor Market Churn		39.0%	25.6%
5. Labor Force Participation		63.4%	59.8%
6. Change in Firms		1.7%	0.8%
7. Net Migration		10.1	6.3
Score		73.8	39.9
Ranking		3	8

Source: Economic Innovation Group

● United States ● Arizona

SPACIAL INEQUALITY

CITY OF PHOENIX



Source: Source: Economic Innovation Group.

OPPORTUNITY ZONES

PROGRAM PARAMETERS

Part of 2017 Tax Reform Act

Purpose

Encourage investors with capital gains tax exposure to invest in economically distressed communities.

Two Program Elements

1. Opportunity Zones
2. Opportunity Funds

OPPORTUNITY ZONES

PROGRAM PARAMETERS

- Opportunity Zones were designated by governors of all 50 states and territories, certified by US Treasury.
- Up to 25% of all LMI census tracts (NMTC definition) were eligible to be designated as Opportunity Zones.
- 8,700+ OZs have been certified and designation will remain in place for duration of 10 year program.

OPPORTUNITY ZONES

PROGRAM PARAMETERS

- Opportunity Funds are investment vehicles that solicit and deploy rolled-over capital gains from individual and corporate investors.
- Funds must invest in businesses or real estate. Real estate investments must be “substantially improved” within 30 months of acquisition (no passive land banking).
- Funds can be managed by traditional financial institutions or individuals.
- Funds must invest minimum of 90% of solicited capital gains in designated OZs.

OPPORTUNITY ZONES

BENEFITS TO INVESTORS

- Deferral of federal capital gains tax for duration of Opportunity Fund investment until December 31, 2026.
- 10% reduction in capital gains taxed **after five years** on original rolled-over investment.
- 15% reduction in capital gains taxed **after seven years** on original rolled-over investment.
- No new taxes on any accrued capital gains if investment is deployed for **at least ten years**.

OPPORTUNITY ZONES

BENEFITS TO COMMUNITIES

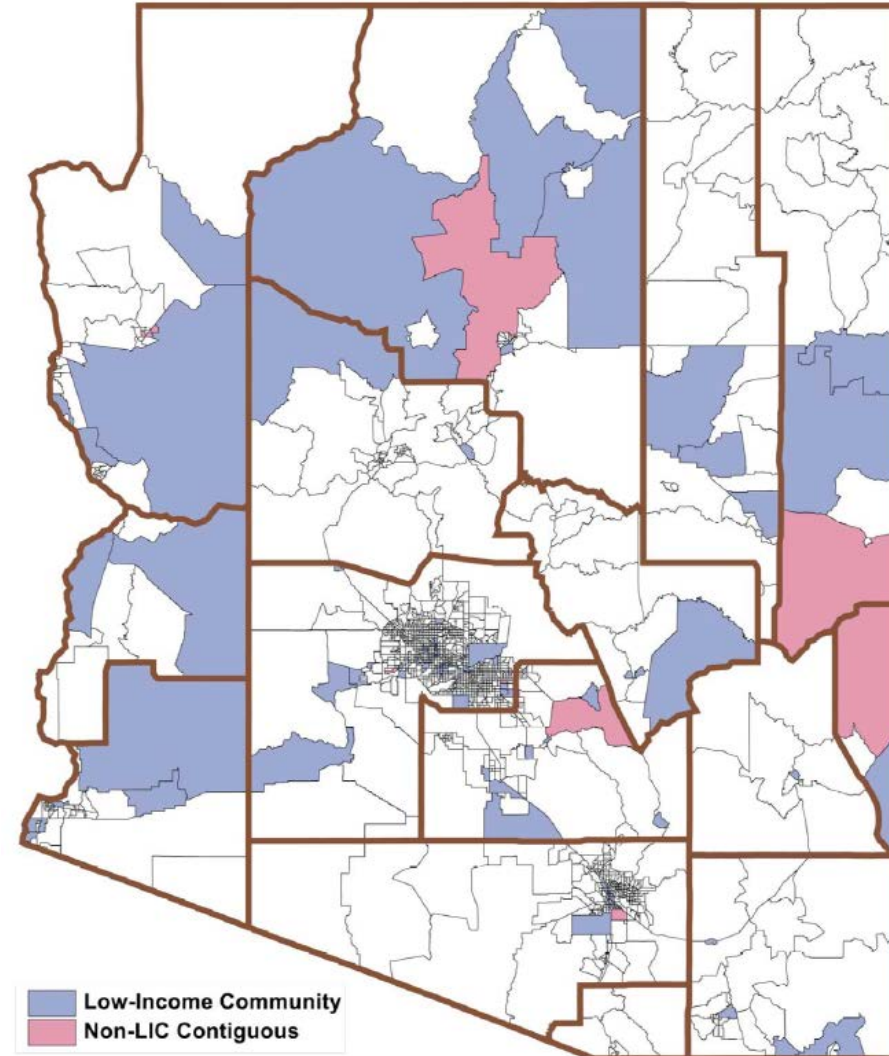
- Increased access to equity capital for business and community development.
- Place-based emphasis may concentrate investment in historically disinvested regions.
- Low-barrier to fund creation may offer opportunities for communities to invest in their own strategic priorities.
- Public process informed selection of priority census tracts.

OPPORTUNITY ZONES

STATE OF ARIZONA

168

Opportunity
Zones



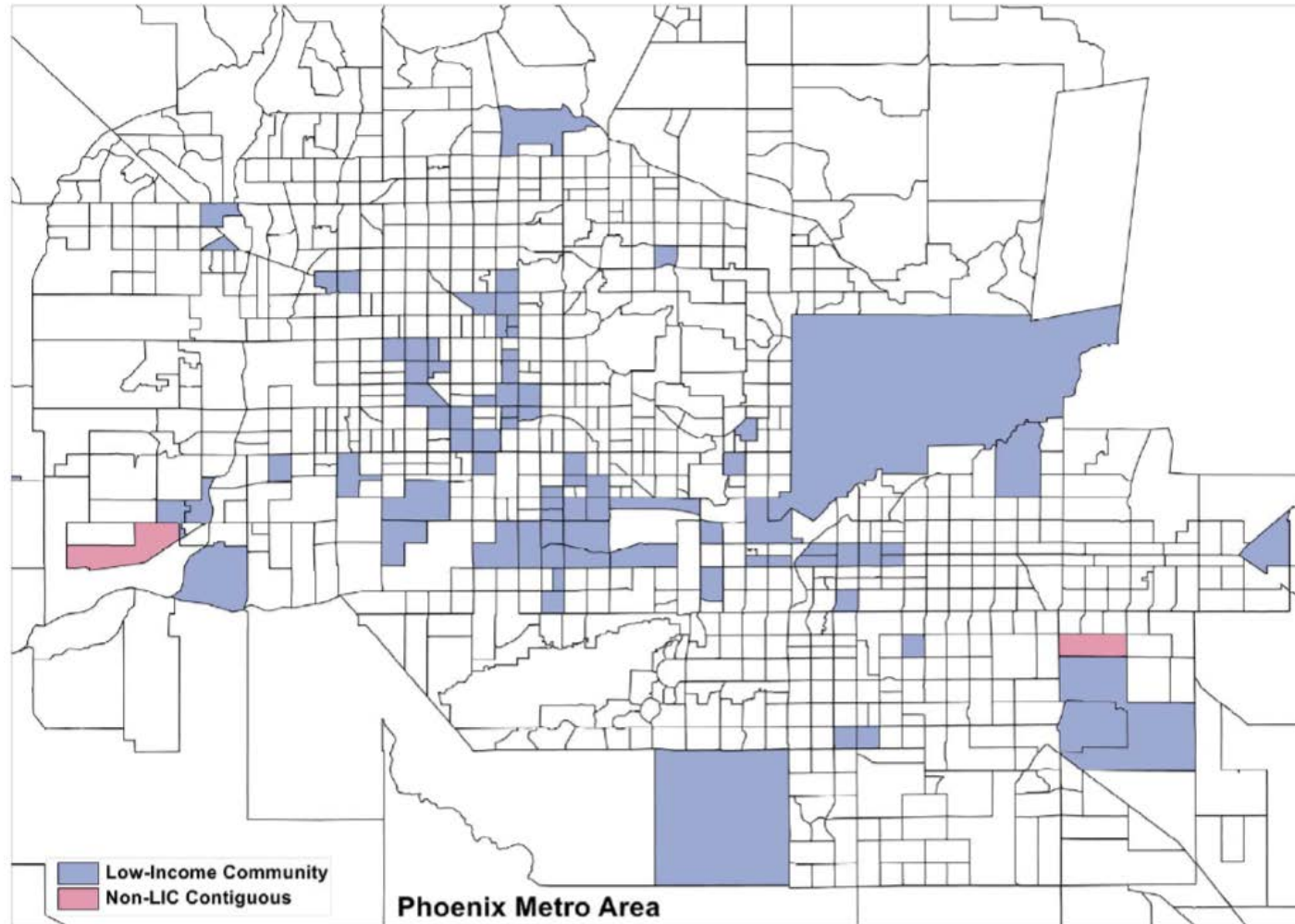
Source: Arizona Housing Coalition, "Arizona's Qualified Opportunity Zones: Balance of the State (Non-Metro Areas)"

OPPORTUNITY ZONES

PHOENIX METRO

42

Opportunity
Zones



OPPORTUNITY ZONES

QUESTIONS AND CONCERNS

- Very little guidance available on fund certification and operation.
- No public transparency around fund investment activity.
- Significant gentrification and displacement risk.

**“We want Opportunity Funds to be used by communities;
we don’t want communities to be used by Opportunity Funds.”**

Debby Kasemeyer, Northern Trust

LEVERAGE EXISTING CD TOOLS/PARTNERS

“TWIN” W/:

Low Income Housing Tax Credits

New Markets Tax Credits

Historic Tax Credits

PARTNER W/:

Community Development Financial Institutions

Community Foundations

CRA-Motivated Banks

Local/State Government

DO WELL BY DOING GOOD

FORM IMPACT-ORIENTED OZ FUNDS

CONTRIBUTE TO A STATEWIDE INVESTMENT DATABASE

HELP COMMUNITIES BANK ASSETS

LOWER RETURN EXPECTATIONS (WITHIN REASON)

SOLICIT COMMUNITY INPUT

BE CREATIVE

IAN GALLOWAY
CENTER FOR CD INVESTMENTS
FEDERAL RESERVE BANK OF SF

IAN.GALLOWAY@SF.FRB.ORG
@IJGALLOWAY