



The Knowledge Now series features practical research on timely topics from the Colorado Municipal League.

OPPORTUNITY ZONES

By Jana Persky, Colorado Office of Economic Development & International Trade Opportunity Zone program director

OPPORTUNITY ZONES WERE enacted as part of the 2017 tax reform package (Tax Cuts and Jobs Act) to address uneven economic recovery and persistent lack of growth that have left many communities across the country behind. Through Opportunity Zones, there is now a federal tax incentive for investors to support distressed communities through private equity investments in businesses and real estate ventures. The incentive is deferral, reduction, and potential elimination of certain federal capital gains taxes.

Currently, there are trillions of unrealized capital gains sitting on balance sheets across the country. Although the U.S. Treasury has not provided complete guidance yet, an Opportunity Zone (OZ) market is already beginning to develop, and much of this capital is actively seeking projects. In order to successfully attract capital to projects that a community wants and that will benefit its residents, stakeholders will need to organize themselves to build prospectuses, structure deals and add incentives that are attractive to investors, and work to engage investors. The State of Colorado has set up an Opportunity Zone Program Office, housed in the Office of Economic Development & International Trade (OEDIT) to support communities in this work.

In particular, there are five key considerations for communities to think about:

1. Be Proactive.

A city or town needs to take a seat at the table to ensure that investments available are the ones desired by its residents. The best way to do this is to make projects attractive and easy to find. This will ensure that investments happen with the community and not to the community.

2. Urgency is Key.

To realize the full benefits of the incentive, an OZ investment must occur before the end of 2019. While OZ investments will continue after this date, communities and projects that organize themselves quickly will have an easier time attracting capital.

3. Think like an Investor.

Focus on projects that will help investors realize a return, and consider what your city or town can do to increase that return even more. It is important to note that the OZ incentive will not make a bad project good, but instead will help bring a good project over the finish line.

4. Layer Additional Programs and Incentives.

Consider what else your city or town can add to make a project as attractive as possible to investors. OZ incentives coupled with Enterprise Zones, New Market Tax Credits, tax-increment financing, Low-Income Housing Tax Credits, land donations, fast-tracked permitting, and other economic development tools can make an investment more appealing and easier to attract investors.

5. Opportunity Zones are Another Tool in the Toolkit.

There will be some projects that are not well suited for OZs, and there are some problems that OZs cannot solve. Think about how OZs can fit in with existing economic development tools and be used strategically to increase community investments.

In Colorado, OZs may help address a number of challenges:

- promoting economic vitality in parts of the state that have not shared in the general prosperity over the past few years;
- funding the development of workforce and affordable housing in areas with escalating prices and inventory shortages;
- funding new infrastructure to support population and economic growth;
- investing in startup businesses that have potential for rapid increases in scale and the ability to “export” outside of Colorado; or
- upgrading the capability of existing underutilized assets through capital improvement investments.

The state is fully committed to empowering communities to take advantage of this incentive through technical support, grant funding for projects, and connecting capital and projects at a dedicated website, *co-invest.co*. For more information and resources, visit *choosecolorado.com/oz*.

OPPORTUNITY IS KNOCKING

By Greg Caton, Grand Junction city manager, and Robin Brown, Grand Junction economic partnership director

MESA COUNTY HAS MORE OPPORTUNITY ZONES THAN ANY OTHER COUNTY IN THE STATE OF COLORADO. Six of those zones are in the City of Grand Junction and the seventh is on the Grand Mesa, which includes Powderhorn Mountain Resort and the Town of Collbran.

As a community, the City of Grand Junction quickly got to work exploring how to best market the investment opportunities within the zones — an effort led by the Grand Junction Economic Partnership (GJEP), which serves as the economic development agency. GJEP worked closely with City planners, commercial brokers, developers, and investment advisors to create a City prospectus, which is a document that lays out the region's economic overview. It includes a map of all available properties within the Opportunity Zones, as well as market and demographic information on leading industries, major infrastructure projects, freight and transportation, and other factors that make Grand Junction attractive to potential investors.

The City then identified needs within the community, such as Class A office space and high-density housing, and created Offering Memorandums for each of those separate investment opportunities. The majority of the opportunities are real estate investments, although there also are venture capital opportunities for start-ups located within the Opportunity Zones. Working closely with the Office of Economic Development and International Trade, the City of Grand Junction also has shared those opportunities on the state's Invest in Colorado website, www.colorado-invest.com.

The regulations surrounding Opportunity Zones are complicated, and the City does not see itself as an expert or deal maker when it comes to investment decisions. Instead, the goal is to make information readily available on its website to help investors determine what is and what is not a good opportunity. The website is updated consistently with current economic and demographic data, links to earned media and news stories about the local economy, workforce reports, cost of living data, and available real estate listings.

As a result of these efforts, the City of Grand Junction has a number of Opportunity Zone investments underway in the area and expects to see many more in the next few years as the economy continues to diversify and grow. The region has the 10th largest GDP in the state, just behind the nine counties that make up the Denver metro area. As the only metropolitan area in western Colorado, Grand Junction is seeing quite a bit of growth coming from the Front Range as congestion and a high cost of living continue to push people into other parts of the state. The location on the I-70 corridor halfway between Denver and Salt Lake City puts businesses within an easy drive of more than 5 million people, and a regional airport with 16 daily direct flights makes business travel easy and affordable. Colorado Mesa University is the fastest growing university in Colorado with an enrollment of 11,000, providing a highly qualified workforce for the area's strongest industries — energy, healthcare, manufacturing, and tech. The economic indicators are all trending positively with steady job growth while the cost of living and doing business make the area an affordable option for those who want the Colorado experience without the high prices found along the I-25 corridor and resort communities.

Grand Junction's Opportunity Zone information can be found at www.gjep.org.

BULLISH ON OPPORTUNITY

By Jeff Layman, Silt town administrator

When I arrived on the scene as Silt's interim administrator in May 2018, I had never heard of an "Opportunity Zone," much less knew anything about how to coax it to yield economic development benefits for a small municipality.

Luckily, Silt's staff had completed the application paperwork and provided appropriate follow-up information enough to be included as one of Colorado's 126 Opportunity Zones (OZ).

As I learned more about this "opportunity," I realized how stimulating it could potentially be for Silt should we possess the kind of assets and ventures that would kindle the interest of investors. Rarely does such a prospect come around.

At statewide conferences on OZs, I learned that "urgency" is the watchword, since the maximum investment benefit will diminish after 2019. We were told that quickly developing a "community investment prospectus" is one important step in attracting investment. It seemed important for Silt to be represented on the state website as soon as possible to gain some early attention from investors.

The purpose of the prospectus is to advertise the OZ to regional and national investors, and provide investors with an understanding of infrastructure and pathways to development and to maximize investment potential for stakeholders. It also alerts investors to the fact that Silt has other existing economic development initiatives that may be leveraged for catalytic effect ... not to mention Silt's willingness to streamline commercial and industrial use processes.

While it is right for some municipalities to hire consultants and convene community meetings to define their qualities for the purpose of developing a prospectus, Silt decided to use staff knowledge and resources. It was after meeting with our experienced staff — some approaching 20 years of service, the mayor, and trustees that we decided to forgo the formality of public sessions prior to developing the prospectus. Our staff had virtually all the answers that a business or investor might need to move forward. We came to believe that there was some utility in being among the first to get the prospectus on the state's website to be seen by investors and to make adjustments to the document as necessary.

As it turns out, we achieved our goal of being one of the first OZs on choosecolorado.com/opportunity-zones and we are now working on an interactive website that will link investors directly to investment opportunities in Silt.

Additionally, we rolled out the prospectus at a Silt Board of Trustees work session in front of nearly 20 residents, business owners, developers, and others.

We have had some success in attracting attention — several phone calls from investors "kicking the tires" — but the work of coaxing real results is still before us. It will require an almost evangelical commitment to reach out to investors and to refine our message as we go so that the opportunities are well understood.

As Silt Mayor Keith Richel said, "With the national economy being healthy and Colorado's population growth, we believe Silt is poised to grow and develop positively, too."

We are poised to capitalize on our Opportunity Zone designation and bullish on Silt's future!

READY FOR OPPORTUNITY

By Chelsea Rosty, Montrose director of business innovation

WHEN COMMUNITY DEVELOPMENT PROFESSIONALS IN MONTROSE LEARNED ABOUT OPPORTUNITY Zones (OZs), its leaders mobilized quickly. It did not take long before Montrose County, the City of Montrose, Montrose Economic Development Corporation, Region 10, and local developers gathered together to collaborate.

“We systematically looked at every census tract in Montrose County,” said Chelsea Rosty, Montrose director of business innovation. “Our community leaders then selected three census tracts for recommendation to the state for approval as Opportunity Zones.”

One tract was selected in the remote western part of the county, and two were selected in the northeastern section of Montrose. The City was thrilled when the OZs were approved by the State of Colorado and U.S. Treasury.

Representatives of the Montrose City Council, as well as the Montrose County Board of Commissioners, advocated for swift action to capitalize on the new designation. Staff and volunteers were tasked with researching OZ regulations to find even more meaningful solutions for the community.

Within one of Montrose’s Opportunity Zones sits the Montrose Urban Renewal Authority (MURA). The MURA project, known as Colorado Outdoors, is a new development along the underutilized Uncompahgre River. The 158-acre business park is a result of the City’s public–private partnership with developer Colorado Outdoors LLC and several community organizations.

“We are proud to be part of an effort to revitalize the property along an absolutely beautiful stretch of river,” said Colorado Outdoors President David Dragoo.

The development boasts the new 41,000 square foot manufacturing facility of the local manufacturing business Mayfly Outdoors opening in the spring 2019, along with abundant space and multimillion dollar river trail.

“With the City’s leadership, we intend to make the project a destination for new and expanding businesses,” Dragoo added.

Following MURA’s formation, the Montrose Development and Revitalization Team was established, and immediately hosted a learning event featuring leaders from the Office of Economic Development & International Trade. The event was a nexus for local community engagement and further strengthened local development plans.

The City also began working with MBA students from the University of Colorado Leeds School of Business to study the community. The students selected MURA as their semester research topic and analyzed all aspects of the project, including the value of OZs. Presentations on the students’ findings were given to the City and representatives from Colorado Outdoors in January 2019 in Boulder.

Montrose County and the City of Montrose then came together on a successful grant application to the Colorado Department of Local Affairs. The \$25,000 grant will be used to pay for a community prospectus outlining specific plans for the capitalizing on the OZ designation. The prospectus will include both high-level marketing and business incentive information, as well as detailed market analysis on key sites for developers and investors. Different than prospecti currently being developed for other communities, the prospectus will highlight the region’s strong business incentives for relocation and expansion.

The prospectus is slated for an April 2019 completion. With this report, Montrose intends to continue marketing itself to investors who have like-minded goals for the community. With the shovel-ready Colorado Outdoors project and additional properties highlighted in the report, City leaders and other community partners have high expectations for the future.

EAGER TO EDUCATE ABOUT OPPORTUNITY ZONES

By Julie Patterson, Aurora senior communications strategist

WHEN THE FEDERAL OPPORTUNITY ZONE PROGRAM WAS OFFICIALLY ANNOUNCED, THE CITY OF AURORA and its partners seized the opportunity to promote another economic development tool that would encourage investment in underserved areas.

“Education is key to our success,” said Yuriy Gorlov, vice president of the Aurora Economic Development Council, which collaborated with the City from the start to identify potential zones in Aurora that fit the foundational criteria and were strategically positioned to attract development. “This is a federal program, but it is important for businesses and property owners to understand our development process so they can take full advantage of the federal tax benefit they can receive.”

Aurora’s five opportunity zones are purposefully diverse, representing a mix of infill, redevelopment, and greenfield areas. The three zones flanking East Colfax Avenue represent the opportunity for redevelopment; the Metro Center zone that sits close to the Aurora Municipal Center at the City’s core is primed for infill; and the large area adjacent to the south of Denver International Airport in the aerotropolis with its ample, open land is one of the most promising greenfield development opportunities in the region.

In addition to hosting several joint information sessions with the Colorado Office of Economic Development & International Trade and the Aurora Economic Development Council, the City of Aurora launched a website, auroraopportunityzones.org, to highlight the five zones in Aurora. The website provides mapping tools, links to City vision documents such as urban renewal plans, and other related information.

“Collaborating with other agencies and jurisdictions has been important from the start,” Aurora Deputy City Manager Jason Batchelor said. “Even before the zones had been identified in Aurora, we worked closely with the Aurora Economic Development Council and representatives with the program to identify those underserved Census tracts that had more commercial development potential. We continue to work with AEDC to market the program to property owners.”

County leaders have attended the Aurora information sessions, and City staff has reached out to neighboring jurisdictions with abutting zones to discuss potential opportunities for collaboration in those areas.

“It is important for us to work together to maximize the prospects for everyone who can benefit in the region,” said Vinessa Irvin, Aurora Office of Development Assistance manager.

She has received information from companies assembling Opportunity Zone investment funds, and is able to share that information with developers looking for investors as well as provide the investment fund information regarding specific areas or types of projects in which they may be interested in investing.

“This is really about letting people know this new economic development tool exists and creating the right connections for people,” Irvin said.

While four of Aurora’s five Opportunity Zones are mostly undeveloped land, one zone south of East Colfax Avenue has a lot of existing commercial development. In that area, it is going to be essential for the City to conduct outreach to businesses, property owners, and nearby residents who can benefit from potential redevelopment, Batchelor said.

The City will hire a consultant this year to look at the current land uses and potential for this zone, and gather feedback from the Aurora City Council and residents on the kind of commercial development they want to see in that area.

“This will be a community-driven process, and one more way for us to provide education about the federal Opportunity Zone program,” Batchelor said.



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OPPORTUNITY ZONES: A NEW INCENTIVE FOR INVESTING IN LOW-INCOME COMMUNITIES

From a fact sheet by the Economic Innovation Group (www.eig.org)

The Opportunity Zones program offers three tax incentives for investing in designated low-income communities through a qualified Opportunity Fund.

The private sector and other stakeholders are responsible for establishing Opportunity Funds. A qualified fund is a privately managed investment vehicle organized as a corporation or partnership for the specific purpose of investing in qualified Opportunity Zone property (the vehicle must hold at least 90 percent of its assets in such property). Opportunity Zones have been designated in all states and territories. Qualified Opportunity Zone property includes any qualified Opportunity Zone business stock, any qualified Opportunity Zone partnership interest, and any originally-used or substantially-improved tangible business 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 or Dec. 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 percent if the investment in the Opportunity Fund is held by the taxpayer for at least five years and by an additional 5 percent if held for at least seven years, thereby excluding up to 15 percent 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.