

OPPORTUNITY ZONES

PROGRAM OVERVIEW

The Opportunity Zone program is a relatively new federal program designed to encourage long-term private investments in low-income communities. In 2017, the Tax Cuts and Jobs Act established the program to incentivize taxpayers to invest unrealized capital gains into “Opportunity Funds”. These funds are then used to invest in low-income areas designated as “Opportunity Zones”.

The following information was taken from the Department of Commerce’s website: <https://commerce.mt.gov/opportunityzones>

Please visit the website for more information.

BASIC STRUCTURE AND FUNCTION OF OPPORTUNITY ZONES

Opportunity Zones themselves are comprised of Low-Income Community Census tracts and designated by governors in every state and territory. The program has the potential to direct private capital toward distressed communities and serve as a catalyst for long-term, inclusive economic development. This may include downtown revitalization, workforce development, affordable housing, infrastructure, and business startup and expansion.

TAX BENEFITS TO INVESTING IN OPPORTUNITY ZONES

For an investor to realize the tax benefits of investing in Opportunity Zones, an investor’s capital gains must be invested in a Qualified Opportunity Fund within 180 days of the sale or exchange that generated the gains. Investors are then eligible to defer the tax on their capital gains until the earlier of: the date the Opportunity Fund investment is sold or December 31, 2026.

The capital gains invested in a Qualified Opportunity Fund are eligible for partial tax forgiveness if the investment is held in a Qualified Opportunity Fund for at least 5 years. After 5 years, only 90 percent of the original gain is taxed. If

the investment is held for 7 years, only 85 percent of the original gain is taxed. If an investment in a Qualified Opportunity Fund is held for 10 years, any tax on the appreciation of that investment is forgiven.

WHAT ARE OPPORTUNITY FUNDS?

Opportunity Funds are Treasury-certified investment vehicles, that deploy capital into Opportunity Zones. Opportunity Funds are required to hold at least 90 percent of their assets in an Opportunity Zone

HOW WERE OPPORTUNITY ZONES DETERMINED IN MONTANA?

As of December 22, 2017, state governors had 90 days to designate state Opportunity Zones. A maximum of 25 percent of state low-income census tracts could be designated as Opportunity Zones. If a given state had less than 100 low-income census tracts, it may still designate 25 state Opportunity Zones. Montana designations were limited to 25, and no indications were given by the U.S. Treasury that this process would allow for additional or future nominations.

Governor Steve Bullock directed the Montana Department of Commerce (MDOC) to research and develop criteria to help guide Opportunity Zone designations. Eligible jurisdictions utilized the Opportunity Zone Proposal application to nominate tracts. Eligible applicants were cities, towns, counties, tribal governments, CRDCs, or lead economic development organizations with an eligible Census tract within their boundary.

After collecting application responses from eligible applicants, an interdisciplinary review committee made nomination recommendations to the governor based on the potential for development, demonstrated need and the existing plans presented in each application. Designated Census tracts demonstrating the highest degree of probability for development currently or within the 10-year designation period were given favorable preference. Preference was considered for communities participating in the Montana Main Street Program or that had previous or expected capacity for housing and small business development.

Applicants were asked to clearly identify how the selected Census tracts leveraged other resources, utilized existing economic development areas such as current Targeted Economic Development Districts, Tax Increment Financing Districts, Urban Renewal Districts or enhanced other local planned or existing development. The Governor made final recommendations and submitted the nominated tracts to the U.S. Department of the Treasury in April 2018.

OPPORTUNITY AND NEED

The market-oriented approach of Opportunity Zone designations is limited by the private investment interest within a designated community and *does not guarantee economic development*. Capitalizing upon an Opportunity Zone designation will depend partially on the area's existing and future ability to foster private economic growth in their community. The benefits of this market approach will be realized most by communities with the potential for growth. Though it is important to direct investment into areas that are best situated to cultivate economic growth, it is also necessary to realize the potential this program has to help areas in need of economic revitalization.

COMMUNITY NEXT STEPS

Communities designated as Opportunity Zones should consider taking steps that best position for investment, development, and growth within the census tract.

PROACTIVE

Update and develop community-wide planning documents, site-specific planning, or an Opportunity Zone prospectus that strategize land use, redevelopment, and rehabilitation opportunities and identify resources available for correlating infrastructure or architectural needs. Educate and engage local partners in conjunction with ongoing development of Opportunity Zone regulations and state and national examples.

PREPARE

Designation as an Opportunity Zone does not assure that funds flow to local projects. Communities should position to leverage Opportunity Zone fund investment and utilize funding as an effective incentive in the local economic development toolkit in coordination with other local, state, and Federal programs and tax credits. Local communication and coordination among partners is essential to recruitment of capital and project success.

PRIORITIZE

Communities should determine the key development projects that implement local goals and coordinate with local needs. Such projects should be packaged and marketed widely to attract investment and development.

POTENTIAL

Manage development in conjunction with local community vision. Integrate organizations and institutions and coordinate efforts in a common purpose that capitalizes on the quality of life and a vibrant place economy.

ADDITIONAL RESOURCES:

Numerous additional resources may be accessed through the Department of Commerce's webpage:

<https://commerce.mt.gov/OpportunityZones/ResourcesNews>