CDFA-ARI Rural Finance Webinar Series

Welcome

The Broadcast will begin at 1:00 PM (Central)

Thank you

for joining the conversation today. Send us your questions and comments!

Moderator

Pearl Jean Mabe
Director, Research & Technical Assistance
Council of Development Finance Agencies

Thank you for joining the conversation today. Send us your questions and comments!

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CDFA-ARI Rural Finance Webinar Series

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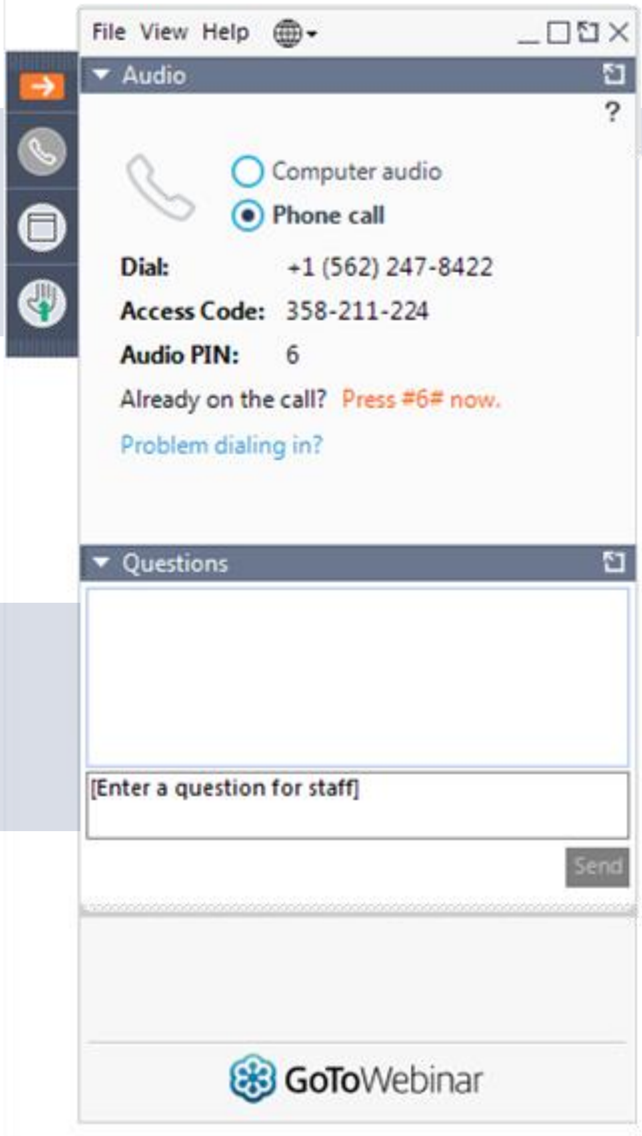
Using your telephone will give you better audio quality.

Submit your questions to the panelists here.



CDFA-ARI Rural Finance Webinar Series

Panelists

Kim Smith
Attorney
Butler Snow LLP

Tony Smith
Executive Vice President
SB Friedman

Jennifer Watkins
Director of Operations
Alliance for Rural Impact

Mark Scheffel
Vice President
Advantage Capital

Nick Bush
Principal
Bush Consulting Group

Council of Development Finance Agencies

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NEW MARKETS TAX CREDITS

A Powerful Tool for Rural Community Facility Development

Tony Smith, SB Friedman Development Advisors

SB FRIEDMAN

VISION
ECONOMICS
FINANCE
STRATEGY
IMPLEMENTATION

01 NMTC Federal Program Overview

NEW MARKETS TAX CREDIT PROGRAM

History

- Federal tax credit started in 2000
- Designed to promote economic development in the nation's economically distressed communities

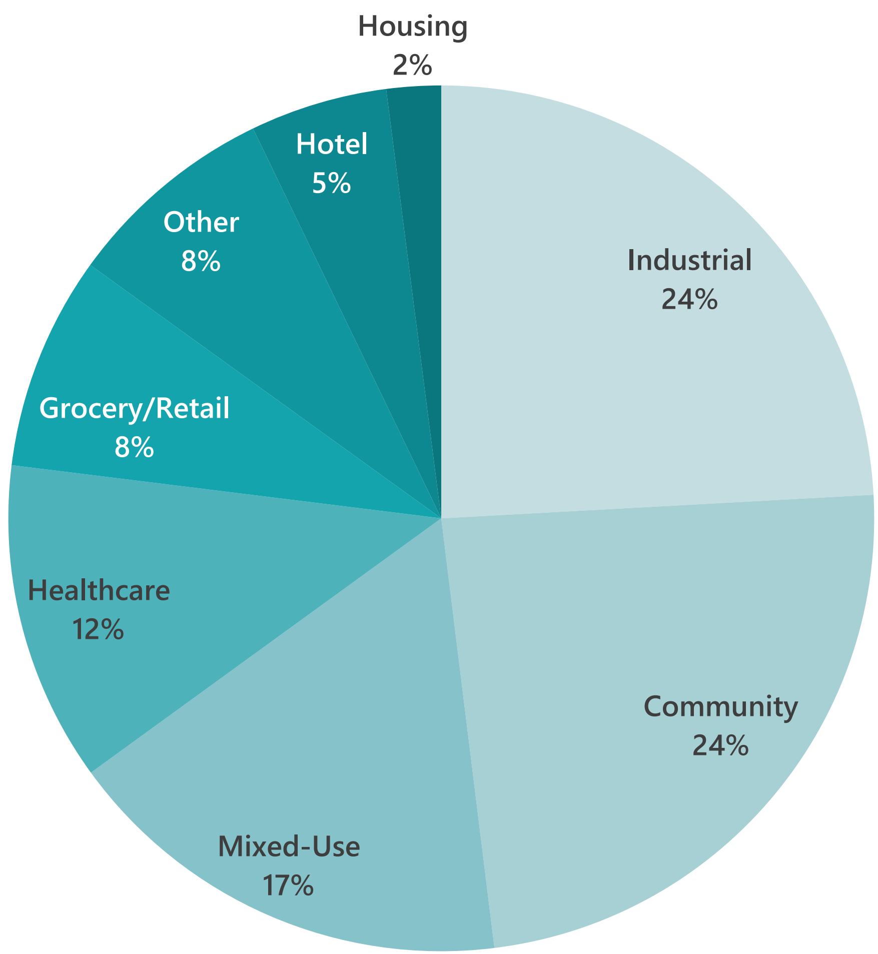
Impact To Date

- Supported over **5,000** projects, including more than **2,000** community facilities
- Provided subsidy for projects totaling over **$81.6** billion
- Created more than **1,000,000** jobs

Benefits to Projects

- **Subsidy:** Boosts available capital by ~20%
- **Long-Term Financing:** Very low-cost, patient capital with 7+ year term
- **Permanency:** After 7 years, the additional capital converts to permanent equity

WHAT TYPES OF PROJECTS DO NMTCS SUPPORT?



Source: New Markets Tax Credit Coalition. NMTC Economic Impact Report (2003-2015). December 2017

WHAT MAKES A GOOD NMTC PROSPECT?

Location

- Projects must be located in a Low-Income Community, defined as a census tract that meets one of the following criteria according to the 2011-2015 American Community Survey:
  - Median Family Income of 80% or less of Metro Median
  - Poverty rate of 20% or greater
- To be attractive, a project also needs to be located in an Area of Severe Distress (multiple definitions/paths to qualify)
  - Location in a non-metropolitan county is a distress criterion!
- Mapping Tool: https://www.novoco.com/resource-centers/new-markets-tax-credits/data-tools/nmtc-mapping-tool

Impact

The most attractive projects offer strong community impacts with robust documentation

Readiness

- Other financing sources (the Non-NMTC subsidy) need to be available as cash at NMTC closing
- Project needs to start spending NMTC proceeds upon closing

Need

Projects must have a demonstrated need for NMTC subsidy—the "But For"

Size

Projects are typically $5MM+ in total project cost

WHO'S INVOLVED?

FEDERAL GOVERNMENT	• U.S. Congress authorizes Treasury to make allocations of NMTC • Within U.S. Treasury, CDFI Fund administers NMTC Program
COMMUNITY DEVELOPMENT ENTITIES (CDES)	• Apply for and receive NMTC allocation in competitive process • Make decisions on what projects to support with their NMTC allocation • Private mission-driven entities, serving low-income communities
NMTC INVESTORS	• Invest equity in exchange for a federal tax credit • Provide 20-25% of total capital for a given transaction • Typically large banks
OTHER FUNDERS	• Provide 70-75% of total capital for a given transaction • Very flexible: foundations, banks, CDFIs, gov't (local, state, federal), etc.
NMTC PROJECTS	• Typically commercial real estate, owner-occupied facility, or operating business • For-profit or nonprofit; many are nonprofit • Project Team includes NMTC-specialized consultant, accountant and attorney

WHAT'S INVOLVED?

STEP 1: PRELIMINARY POSITIONING (Varies; can be 12 months or more)

- Define the project, complete preliminary deal structuring, and create summary of community impacts
- Get on the radar of CDEs (ideally spring/summer of the year before the deal will close)
- Work on the core funding sources; configure them to be NMTC-compatible
- Move the project towards readiness (site control, design, regulatory, etc.)

STEP 2: ASSEMBLING THE DEAL (Roughly 60-90 days)

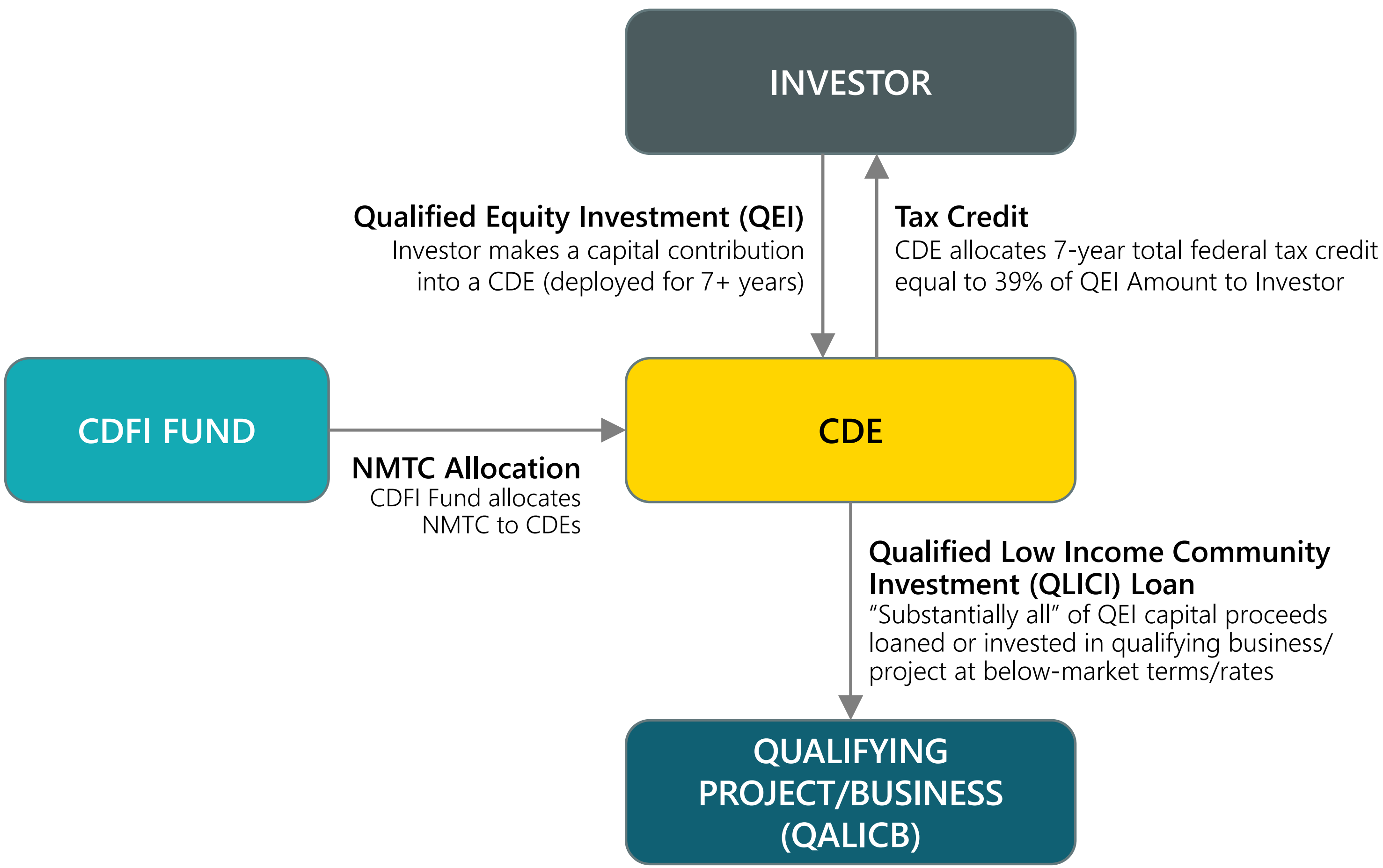
- Non-NMTC funding sources are in-hand at a "term sheet" level
- Put together a "deal package" highlighting project feasibility, community impact, timing
- Go through CDE and investor screening process
- Pursue commitments of NMTC allocation, NMTC equity investment

STEP 3: CLOSING PROCESS (Roughly 60-90 days)

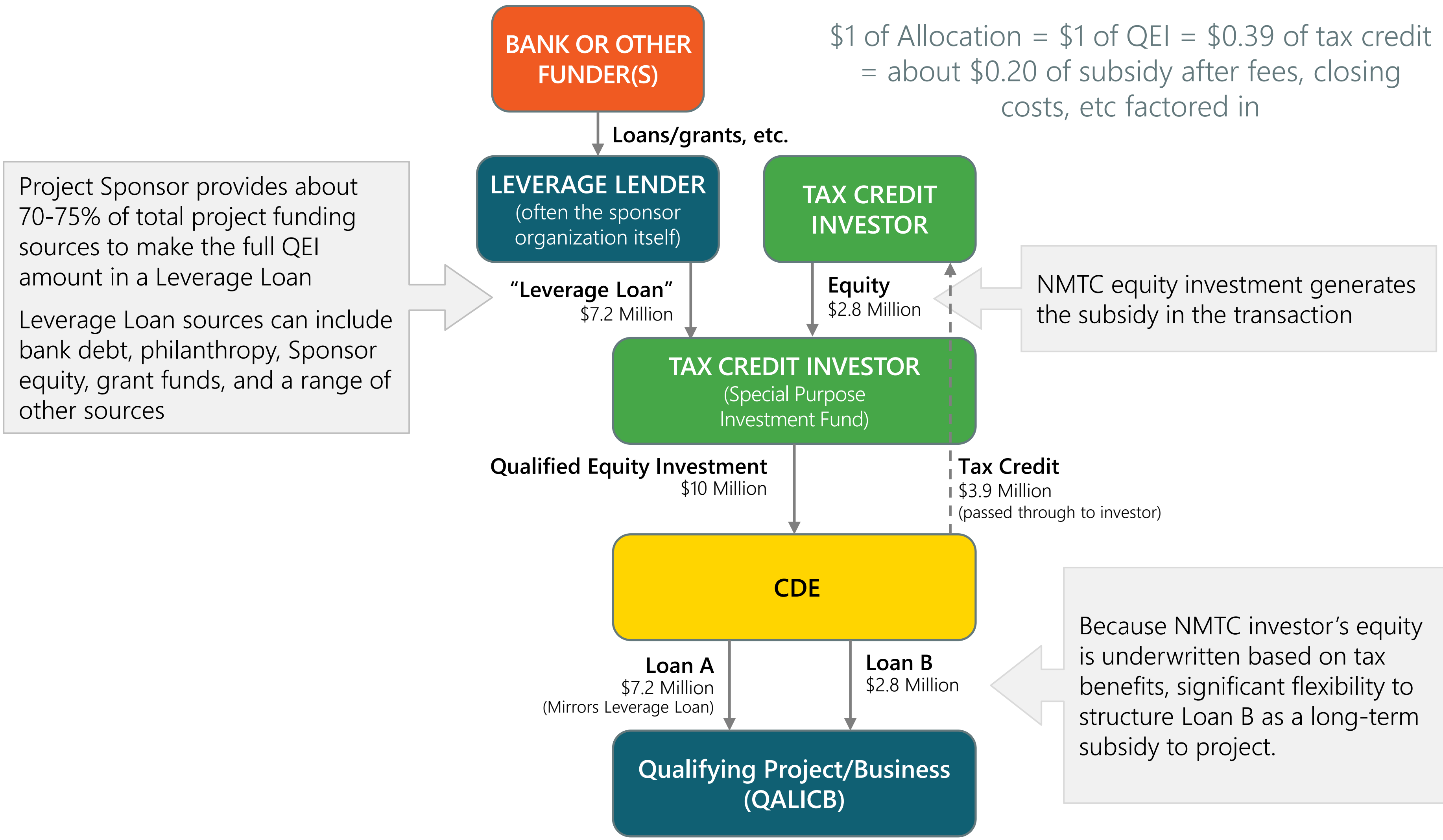
- Retain legal counsel and NMTC accountants
- Weekly calls and document drafting
- Ready to break ground prior to or at closing
- All legal permissions to proceed are in-hand (e.g., building permits, zoning, etc.)

02 Transaction Structuring and Economics

GENERAL CAPITAL FLOW



STRUCTURING: THE "LEVERAGE MODEL"



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03 Project Case Studies

SALINA REGIONAL HEALTH CENTER FIELDHOUSE

Salina, KS

Overview

- 65,000SF athletic fieldhouse and community center sponsored and operated by City of Salina, Kansas
- $13MM project budget; NMTCs filled a financing gap allowing project to proceed with government bond resources and philanthropic dollars
- NMTCs leveraged with General Obligation Bond proceeds, paired with Industrial Revenue Bonds for tax exemption

Key Impacts

- Key catalytic project in $110MM revitalization effort for Salina's distressed central core area
- Much-needed resource promoting health, wellness, and regional economic activity

Photo Credit: Jeff Haines Photography

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410 BROADWAY: MT. PLEASANT, MI

MIXED-INCOME HOUSING

- 47 studio, one-bedroom, and two-bedroom units
- 30% of units restricted at 80% of AMI
- Balance of units "naturally affordable" at 80-90% AMI

COMMERCIAL SPACE

- 1,700-square-foot space
- Targeting local retailers that address gaps in area market

GREENTREE COOPERATIVE GROCERY

- 45+ year history in community
- Relocating from small, cramped space in suboptimal location to a newly-built, 10,000-square-foot "turnkey" space that is four times as large

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410 BROADWAY: HIGHLIGHTS

- Sponsor: Michigan Community Capital, a mission-driven developer of attainable housing in distressed Michigan communities
- $17.9 million total project cost
- NMTCs paired with state grant funds, local tax abatements, and loan proceeds from Community Development Financial Institution

Key Community Benefits:

- Reactivating the multifamily housing market in a rural community
- Remediating a brownfield site where 3 previous market-rate attempts at mixed-use development had failed
- Addressing community needs for workforce housing, increased healthy food access, and downtown revitalization
- Providing much-needed expansion space for a grocery co-op

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MARKET ANALYSIS AND REAL ESTATE ECONOMICS

STRATEGY

DEVELOPMENT STRATEGY AND PLANNING

FINANCE | IMPLEMENTATION

NEW MARKETS TAX CREDITS
TAX INCREMENT FINANCING
DEAL STRUCTURING

Council of Development Finance Agencies

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Mark Scheffel
Senior Vice President
Advantage Capital

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NEW MARKETS TAX CREDIT:
Access to Capital and Community Facilities

JULY 2020

ADVANTAGE CAPITAL

- Over $3 billion of investment capital deployed; registered investment advisor
- Manage public/private partnerships utilizing 40 distinct state and federal economic development programs
- Allocated over $2.5 billion in state and federal tax credit programs
- NMTC awardee in 11 of 15 rounds

"We founded Advantage Capital in 1992 on a mission of building businesses, services and jobs to communities that have historically lacked access to investment capital. We've been expanding our toolkit and partnerships ever since."

– Steven Stull, Founder and CEO

MARK SCHEFFEL

Mark Scheffel serves as a senior vice president for Advantage Capital. Given his experience as both a legislator and practicing attorney, Mr. Scheffel plays an important role in helping the firm's clients navigate the challenges presented by state governments.

With over 25 years of professional experience in business and public service, Mr. Scheffel most recently served as the Senate Majority Leader in the Colorado State Senate, representing State Senate District 4 as the second highest-ranking Republican in the chamber. A member of the Colorado Senate since 2008, he has dedicated his career in public service championing both small businesses and Colorado's taxpayers, leading legislative efforts to help small businesses grow and expand and provide more transparency in state government for taxpayers. Mr. Scheffel has worked as a practicing business and tax attorney since 1989, starting his own firm, Reid and Scheffel, P.C. in 1993. He has represented individual, corporate, and governmental entity clients in tax, business, and regulatory matters.

Mr. Scheffel received his LL.M. degree in taxation from New York University's School of Law, his J.D. from John Marshall School of Law, and his bachelor's degree in finance from the University of Denver.

FULLSCREEN HOME

I. CURRENT STATUS OF NMTC RENEWEL EFFORTS IN DC

JULY 2020

New Markets Tax Credit is set to expire on December 31, 2020

- NEW MARKETS TAX CREDIT EXTENSION ACT
  - S. 750, Senator Roy Blunt (R. MO) and Senator Ben Cardin (D. MD) 37 co-sponsors
  - H.R. 1680, Congressman Terri Sewell (D. AL) and Congressman Tom Reed (R. NY) 126 co-sponsors
    - Provides an indefinite extension
    - Increases the annual allocation and indexes future allocations to inflation
    - Provides NMTC investors with relief from the Alternative Minimum Tax

- THE MOVING FORWARD ACT
  - H.R. 2, infrastructure bill, Congressman Peter DeFazio (D. OR)
    - Permanent extension
    - Increased allocations for CY 2019 ($4 billion), CY 2020 ($7 billion), and CY 2021 ($6 billion). The additional $500 million for CY 2019 goes to CDEs who applied and were either passed over, or got less than they asked, which will most likely be awarded retroactively, since the CY 2019 awards will presumably be announced before the bill becomes law.
    - Allocations of $5 billion for CY 2022 and every year thereafter
    - Adjustments for inflation and cost-of-living
    - H.R. 2 has passed the House and is awaiting consideration in the Senate

II. CURRENT STATUS OF NMTC STATE PROGRAMS

JULY 2020

PROJECTED REVENUE LOSSES BY STATE (IN BILLIONS)

- Alabama -$4
- Alaska -$3
- Arizona -$6
- Arkansas -$4
- California -$68
- Colorado -$7
- Connecticut -$8
- Delaware -$2
- Florida -$18
- Georgia -$10
- Hawaii -$3
- Idaho -$1
- Illinois -$16
- Indiana -$6
- Iowa -$3
- Kansas -$4
- Kentucky -$5
- Louisiana -$7
- Maine -$2
- Maryland -$9
- Massachusetts -$11
- Michigan -$9
- Minnesota -$9
- Mississippi -$3
- Missouri -$5
- Montana -$1
- Nebraska -$2
- Nevada -$3
- New Hampshire -$1
- New Jersey -$14
- New Mexico -$3
- New York -$32
- North Carolina -$11
- North Dakota -$2
- Ohio -$10
- Oklahoma -$4
- Oregon -$4
- Pennsylvania -$14
- Rhode Island -$1
- South Carolina -$5
- South Dakota -$1
- Tennessee -$6
- Texas -$24
- Utah -$4
- Vermont -$1
- Virginia -$11
- Washington -$11
- West Virginia -$3
- Wisconsin -$6
- Wyoming -$1
- **Total -$397**

** Source: https://www.truthinaccounting.org/news/detail/state-general-revenue-shortfall-projections*

NMTC - STATE BUDGETS AND REVENUE

- According to the **National Association of State Budget Officers**, as of July 1, 41 states have enacted a full-year budget for fiscal 2021. States are currently contending with revenue losses and increased spending demands related to COVID-19 as they work to finalize or adjust their fiscal 2021 budgets. In addition, states continue to monitor developments at the federal level to see if additional federal aid will be provided, helping to lessen the need for more drastic cuts to essential services that would impact state residents and dampen the nation's economic recovery.

- Generally, **46 states** begin their fiscal years on July 1
  - **New Jersey** extended its fiscal year so that fiscal 2021 will begin on October 1, 2020 and end on June 30, 2021
  - **New York** starts its fiscal year on April 1
  - **Texas** begins on September 1
  - **Alabama** and **Michigan** start their fiscal years on October 1

- **33 states** are enacting a new budget for fiscal 2021, while 17 states previously enacted budgets covering both fiscal 2020 and fiscal 2021; some of the 17 states that previously enacted a two-year budget approved a revised budget this year. In addition, of the 33 states approving a new budget, two states authorized a two-year budget covering both fiscal 2021 and fiscal 2022.
  - **Kentucky** normally would have enacted a two-year budget but opted to pass only one-year appropriations given the budget uncertainty regarding COVID-19 impacts.

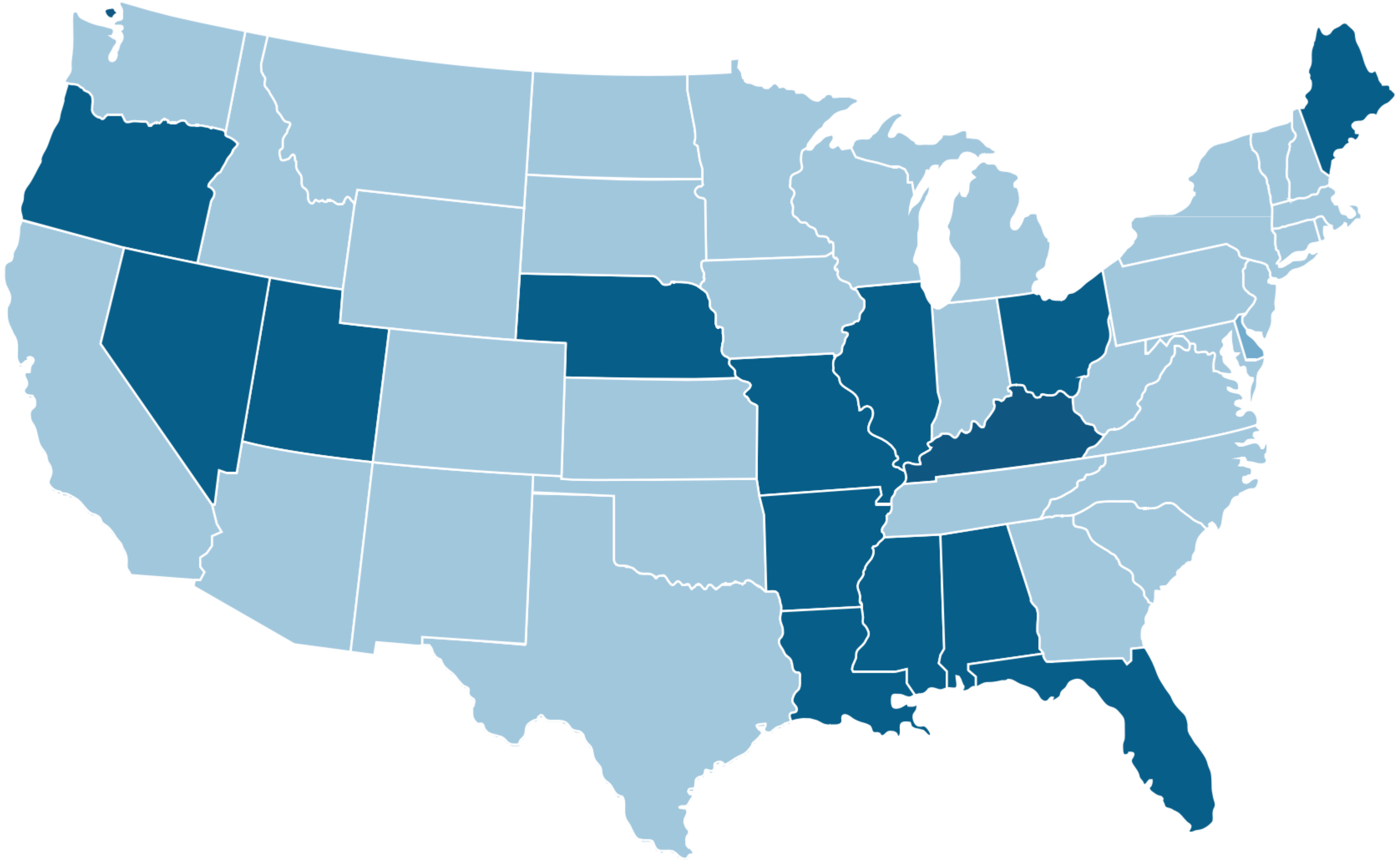
- Due to questions about the possibility of future federal aid, along with uncertainties regarding revenue outlooks, several states are planning on temporary budgets to begin fiscal 2021, while considering budgets for the remainder of fiscal 2021 in the coming months. Additionally, some states that enacted balanced budgets before the effects of COVID-19 expect to convene special sessions over the summer to adjust those spending plans in response to revenue declines.

** Source:* *http://budgetblog.nasbo.org/budgetblogs/blogs/brian-sigritz/2020/06/26/states-work-to-finalize-fiscal-2021-budgets-update?CLK=412cdc68-3ff5-4443-a76d-ad49ba46cc06*

FULLSCREEN HOME

STATE NMTC PROGRAMS

- Nebraska
- Nevada
- Ohio
- Kentucky
- Illinois
- Mississippi
- Utah
- Missouri
- Florida
- Maine
- Oregon
- Alabama
- Arkansas
- Louisiana



III. EXAMPLES OF COMMUNITY INVESTMENTS

JULY 2020

NMTC IN 2019

- **26%** of total 2019 projects were in non-metro counties
- **55%** of NMTC projects included at least one community facility, nonprofit, or social service component
- NMTC was used to expand healthcare, recreational options, food security, job training, and other social services for **1.7 million** individuals through **300+** nonprofits, health centers, childcare centers, libraries, community centers, and other community facilities
- NMTC financed **16** nonprofit “hubs” providing low-cost space for nearly **50** social service providers and mission-driven organizations

** Source: New Markets Tax Credit Coalition 2020 Progress Report*

KANSAS - NMTC FINANCED RURAL NONPROFIT

HARVESTERS FOOD BANK

LOCATION
Topeka, KS

BUSINESS TYPE
Food bank

NMTC'S
$1.95 million

TOTAL PROJECT COST
$5.2 million

FTE JOBS MAINTAINED
15

CONSTRUCTION JOBS CREATED
16, with 42% going to local low-income residents

NMTC financing supported the acquisition and redevelopment of more than 43,000 sq. ft. of warehouse space to serve as a permanent food bank for Harvesters Community Food Network, a nonprofit with limited operational cash flow

Harvesters serves food-insecure individuals in a 16-county service area in northeastern Kansas

New location allowed Harvesters to deliver 3.5 million more meals to the community, with 91% going to people at or below 185% of the federal poverty level, as well as more space for health and nutrition classes

The investment also helped Harvesters obtain mobile food pantry trucks to provide on-site food pantries to low-income Topeka neighborhoods

NORTH CAROLINA - NMTC FINANCED RURAL SCHOOL

JONES COUNTY SCHOOLS

LOCATION
Trenton, NC

BUSINESS TYPE
K-12 LEED Platinum public school

NMTC'S
$2.9 million

TOTAL PROJECT COST
$7.5 million

DIRECT FTES CREATED/MAINTAINED
100

CONSTRUCTION JOBS
300

The Jones County School district, located in rural Trenton, serves approximately 720 students, 79% of which receive free or reduced lunch

Its 1950s-era facilities suffered from extensive water damage, resulting in mold and unsafe structures

NMTC financing consolidated three existing schools and administrative offices under one roof

The addition of low-cost NMTC capital eliminated the need for bonds, giving momentum to the project, and directly led to the Jones County School Foundation securing the remaining sources of capital necessary, including grants, to construct a high-performance, low-maintenance, LEED platinum facility

NORTH CAROLINA - NMTC FINANCED RURAL NONPROFIT

ROCKY MOUNT DOWNTOWN COMMUNITY FACILITY

LOCATION
Rocky Mount, NC

BUSINESS TYPE
Mixed-use community facility

NMTC'S
$8.5 million

TOTAL PROJECT COST
$21.9 million

JOBS CREATED & RETAINED
258

Mixed-use facility that will house a health clinic education facility, retail food and beverage providers, indoor sports and fitness center, and a civic event center

Health clinic is operated by Opportunities Industrialization Center (OIC), a federally qualified health center providing primary medical care, health education outreach and employment training

An investment in connection with NMTC will help finance construction and support hundreds of construction and permanent jobs

The facility will serve more than 3,000 area residents

FLORIDA - NMTC FINANCED RURAL NONPROFIT

BOYS & GIRLS CLUBS OF PALM BEACH COUNTY

SMITH & MOORE FAMILY TEEN CENTER

LOCATION

Belle Glade, FL

BUSINESS TYPE

Community center

NMTC'S

$3.2 million

TOTAL PROJECT COST

$9 million

TEMPORARY JOBS CREATED OR RETAINED

400

PERMANENT JOBS CREATED OR RETAINED

15

The Smith & Moore Family Teen Center is located in a high-poverty area known as "The Glades," one of the most impoverished communities in Florida, with high unemployment and a violent crime rate 4x the national average

The existing facility is functionally obsolete and too small to accommodate the growing number of youth in need of a safe space for after-school activities

NMTC financing will be used to build a new 13,860 square foot building that will triple current capacity to serve an estimated 900 youth annuallyNearly 20% of patients are covered by Medicaid, 28% of patients carry no insurance, and 47% live in a low-income community

Center will offer academic enrichment programs and technology-based career training

Youth served by the center are minority (99%), eligible for free or reduced lunch (81%), from single-parent or non-traditional households (77%), and live below the poverty level (41%)

FLORIDA - NMTC FINANCED RURAL NONPROFIT

BOYS & GIRLS CLUBS OF MANATEE COUNTY

LOCATION
Bradenton, FL

BUSINESS TYPE
Community facility

NMTC'S
$4.09 million

TOTAL PROJECT COST
$11 million

TEMPORARY JOBS CREATED OR RETAINED
200

PERMANENT JOBS CREATED OR RETAINED
34

The De Soto Club's 50-year-old facility was obsolete

NMTC financing built a new 37,500 square foot clubhouse to more than double capacity and reach an estimated 2,400 children and youth annually, 75% of whom come from low-income backgrounds

Programs include academic excellence, good character and citizenship, and healthy lifestyles

New clubhouse features an upgraded computer lab, space for local elected officials and entrepreneurs, an art workshop, a new gymnasium, and nutrition classes in a commercial kitchen

A study estimates that each dollar invested in a Boys & Girls Club returns $9.60 in benefits to the community through increased earning power and lower costs associated with healthcare, public assistance, and incarceration

NEBRASKA - NMTC FINANCED RURAL NONPROFIT

OMAHA EARLY LEARNING CENTER

LOCATION
Omaha, NE

BUSINESS TYPE
Early learning center

NMTC'S
$2.73 million

FTE JOBS CREATED
50

CONSTRUCTION JOBS
170

When construction is complete, the center will serve hundreds of low-income children during the critical development period from birth to age 5

Studies show that children who enroll in early childhood development programs are better prepared when they start school and are more likely to graduate from high school

The center, adjacent to the Omaha Public School's Howard Kennedy Elementary School, is part of the resurgence of the Highlander/Pleasantview neighborhood, located in historic North Omaha

FULLSCREEN HOME

ADVANTAGE CAPITAL

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Panelist

Kim Smith
Attorney
Butler Snow LLP

Thank you for joining the conversation today. Send us your questions and comments!

BUTLER | SNOW

A Financial Investment for Community Growth

Opportunity Zone Investments

Section 1400Z-2 of the Internal Revenue Code

July 8, 2020

OPPORTUNITY ZONES

FOCUS. VALUE.

SOME TAKE CREDIT. WE TAKE INITIATIVE.

Our approach allows us to anticipate challenges and find creative solutions. After all, we measure our success by yours.

LAW ELEVATED

OPPORTUNITY ZONE INVESTMENT PROGRAM BASICS

- Section 1400Z-2 of the Internal Revenue Code.
- The Opportunity Zone Program (the “OZ Program”) allows for the temporary deferral of inclusion in gross income and a limited exclusion for capital gains from the sale of an appreciated asset which is reinvested in a qualified opportunity fund.
- The OZ Program is intended to encourage investments that will be used to start businesses, develop abandoned properties, or provide low-income housing in low-income, economically distressed communities.
- The OZ Program helps to remove the common disincentives for investors to place investment assets in economically distressed communities and preserve a larger amount capital for investments in such locations.

OPPORTUNITY ZONE SUCCESS STORIES

- An Opportunity Fund engaged in a downtown urban renewal revitalization project to support a mixed-use development which may include an office building, retail facilities, a grocery store, two hotels, residential rental property and supporting parking facilities.
- An Opportunity Fund engaged in the construction, operation, and management of a 135-unit assisted living facility, which also features independent living units and memory care units.
- An Opportunity Fund engaged in the construction, operation, and management of a 96-unit assisted living facility, which also features independent living cottages and memory care units.
- An Opportunity Fund capitalized under QOF/QOZB structure to support the development of a timber processing facility. This project was recognized in the President's State of the Union address.
- Two Opportunity Funds each capitalized under QOF/QOZB structure to support student housing projects serving medium sized college communities which otherwise lack sufficient housing.
- Two Opportunity Funds each capitalized under QOF/QOZB structure to support startup healthcare services businesses. One of these QOZBs specifically focusses on rural healthcare needs.
- An Opportunity Fund capitalized to support the development of a facility which will be used in the businesses of (a) selling and servicing construction machinery and (b) selling and servicing heavy trucks.

OPPORTUNITY ZONE SUCCESS STORIES (CONTINUED)

- An Opportunity Fund capitalized to support (a) the development of new construction of a multifamily mixed-income project on property adjacent to an active medical mall community, and (b) repurposing of a vacant hotel property.
- An Opportunity Fund which has been capitalized and expects to develop office building projects in Tampa, Florida and Nashville, Tennessee.
- An Opportunity Fund which has been capitalized to support the development of a college oriented mixed-use facility to serve a rapidly growing graduate student population.
- Structuring and financial analysis of a proposed Opportunity Fund for a hotel rehabilitation which would also utilize federal rehabilitation tax credits.
- An Opportunity Fund engaged in the construction, operation and management of residential rental property.

OZ PROGRAM – BENEFITS

- The QO Zone Program incentivizes Qualified Opportunity Fund (“QO Fund”) Fund investments by allowing for:
  - Temporary deferral of capital gains (“CG”);
  - Possible limited elimination of CG by possible step-up in basis of such OZ Fund Interest, and
  - Possible permanent exclusion of CG from the appreciation of such QO Fund investments.

OZ PROGRAM – GENERAL SEQUENCE

The following outlines the general sequence for the deferral of CG and the consummation of an investment of such gain in an Opportunity Zone:

Step 1: A QO Fund is formed by the investor or a third party and self certifies its status as an QO Fund.

Step 2: An investor with a recently realized CG elects to invest this gain into the QO fund within 180 days from the date of the underlying sale or exchange of the asset, taking stock or a partnership interest in the QO Fund (the "OZ Fund Interest") in return. By so doing, the investor is able to defer including the CG in income.

Step 3: The QO Fund uses the investment to acquire "qualified opportunity zone property." This investment represents the QO Fund's interest in the underlying business in the low-income community.

OZ PROGRAM – GENERAL SEQUENCE

Step 4: The investor holds the OZ Fund Interest for as long as he desires or for some period of time as maybe stipulated in the organizational documents of the QO Fund. Unless adjusted as described in Step 5, <u>the basis of the investor in the OZ Fund Interest is zero</u>.

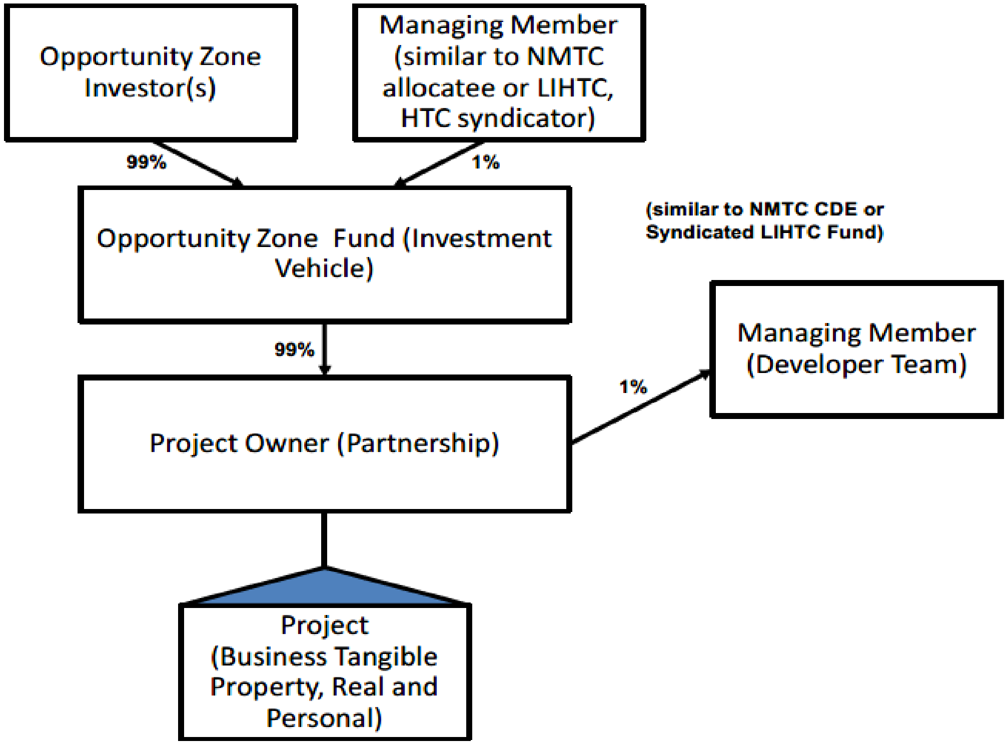
Step 5: If the investor sells or exchanges his OZ Fund Interest before December 31, 2026, he will recognize all or a portion of the deferred CG.

> If the holding period of the OZ Fund Interest on the date of sale is at least five (5) years, the investor <u>receives a 10% basis increase</u> for such investment to offset a portion of the CG.
>
> If the holding period of the OZ Fund Interest on the date of sale is at least seven (7) years, <u>the investor receives an additional 5% basis increase above the 10% increase</u> for the 5 year hold (15% increase).

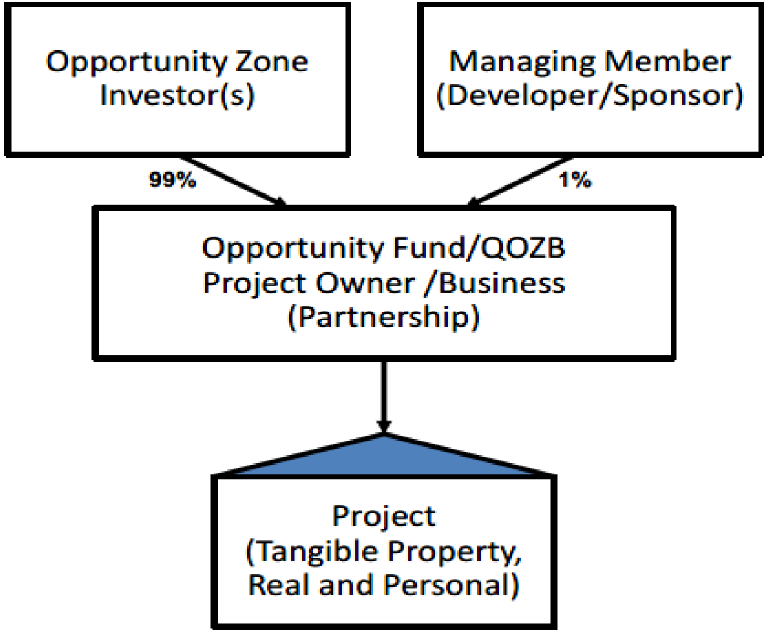
OZ PROGRAM – GENERAL SEQUENCE

Step 6: In any event, the investor’s CG deferral period ends on December 31, 2026. If the investor still owns the OZ Fund Interest, the deferred CG must be recognized as of that date, subject to the basis adjustments noted in Step 5 above. The amount of gain recognized will not exceed the excess of (i) the lesser of the fair market value of the OZ Fund Interest or the deferred gain over (ii) the basis of the OZ Fund Interest on such date.

Step 7: If the investor holds his interest in the QO Fund for at least 10 years, he is entitled to fair market value basis increase, which results in any appreciation in the value of his interest being excluded from income.


Opportunity Zone Investor(s)
Managing Member (similar to NMTC allocatee or LIHTC, HTC syndicator)
99%
1%
Opportunity Zone Fund (Investment Vehicle)
(similar to NMTC CDE or Syndicated LIHTC Fund)
99%
Managing Member (Developer Team)
1%
Project Owner (Partnership)
Project (Business Tangible Property, Real and Personal)

BUTLER | SNOW


Opportunity Zone Investor(s)
Managing Member (Developer/Sponsor)
99%
1%
Opportunity Fund/QOZB Project Owner /Business (Partnership)
Project (Tangible Property, Real and Personal)

OZ PROGRAM – INVESTMENT BENEFITS EXAMPLES

- Assume A sells stock with a basis of 5mm for 10mm, realizing a 5mm gain on June 1, 2020.
- On July 1, 2020, A invests 5mm in P, a certified QO Fund taxed as a partnership with a December 31 year end, in exchange for interest in P, an OZ Fund Interest.
- On August 31, 2020, P acquires Qualified Opportunity Zone Partnership Interest, as described below (a “QOZPI”) which constitutes its only asset.
- A sells the OZ Fund Interest for 15mm on July 2, 2030. At all times, A’s interest is an OZ Fund Interest and P’s interest is a QOZPI.

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OZ PROGRAM – INVESTMENT BENEFITS EXAMPLES

We would expect the following results:

- A pays no tax on the CG in 2020. A would have paid CG on 5mm in 2020.
- P constitutes a QO Fund;
- On December 31, 2026, A's basis in the QO Fund is increased 10%, from zero to $500,000.
  - A recognizes ninety percent of the deferred 2020 CG or 4.5mm.
  - $500,000 of A's deferred 2020 CG is eliminated.
  - A's basis is now 5mm ($500,000 plus 4.5mm recognized); and
- A recognizes no CG as a result of the sale of the OZ Fund Interest on July 2, 2030.
  - A's basis is now 15mm (the fair market value).
  - The CG would have otherwise been 10mm.

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OZ PROGRAM – THE INVESTOR

The OZ statute addresses CG from the “sale to, or exchange with, an unrelated person of any property held by the **taxpayer**” and makes the available deferment of CG under the OZ program “at the election of the **taxpayer**.”

- “Taxpayer” is defined in the OZ regulations to be a person that is required to report the recognition of gains during the taxable year under Federal income tax accounting principles.
- Thus, “eligible taxpayers” include individuals; C corporations, including regulated investment companies (RICs) and real estate investment trusts (REITs); organizations subject to tax under I.R.C. § 511; and partnerships, S corporations, trusts, and decedents’ estates to the extent permitted under the OZ regulations.

OZ PROGRAM – GAIN ELIGIIBLE FOR OZ INVESTMENT

The OZ regulations provide that gain entitled for OZ treatment is "**eligible gain**" if:

- The gain is treated as capital gain for Federal income tax purposes or is a qualified 1231 gain;
- The gain would be recognized for Federal income tax purposes prior to January 1, 2027 in the absence of an OZ investment; **and**
- The gain does not arise from the sale or exchange with a person who is related to the taxpayer.
- "Eligible gain" does not include any portion of gain that has already been elected to be deferred under the OZ program.
- A qualified 1231 gain is gain recognized on the sale or exchange of property to the extent that such gain exceeds any amount with respect to the 1231 property that is treated as ordinary income.

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OZ PROGRAM – THE 180 DAY INVESTMENT PERIOD

To be eligible for OZ gain deferral, the taxpayer's eligible gain must be invested in a Qualified OZ Fund within "the 180-day period beginning on the date of such sale or exchange" giving rise to the eligible gain.

- The OZ regulations clarify that the 180 day period begins on the day on which the gain would be recognized for Federal income tax purposes.
- For stock, the 180 day period begins on the day the stock is traded.
- For RIC or REIT shareholders, the 180 day period begins on the last day of shareholder's taxable year in which the capital gain dividend would otherwise be recognized.
- For previously deferred gain that is eligible for reinvestment in an OZ Fund, the 180 day period begins on the date on which the entire original OZ investment is disposed of.

OZ PROGRAM – THE 180 DAY INVESTMENT PERIOD

- For partnerships, if the partnership itself elects to defer the gain then the 180 day period begins on the date of the sale or exchange.
- Absent a partnership level deferral, for the individual partners, the 180 day period begins on the last day of the partnership taxable year.
- Partners may elect to have their 180 day period coincide with the partnership's 180 day period.
- For other pass through entities like S-Corporations, nongrantor trusts, or a decedent's estate, the rules analogous to partnerships and partners apply to shareholders or beneficiaries, as the case may be.

OZ PROGRAM – THE QO FUND

The OZ statute defines a "**Qualified Opportunity Fund**" to be:

- An investment vehicle which is organized as a corporation or a partnership for the purpose of investing in **qualified opportunity zone property** (other than another qualified opportunity fund); and

- Such vehicle holds at least 90 percent of its assets in qualified opportunity zone property, determined by the average of the percentage of qualified opportunity zone property held in the fund as measured:

  - On the last day of the first 6-month period of the taxable year of the fund, and

  - On the last day of the taxable year of the fund.

OZ PROGRAM – THE QO FUND

- The eligible entity self certifies it is an OZ Fund by timely filing IRS Form 8996, Qualified Opportunity Fund, with its federal income tax return.
- The entity must identify the first taxable year of its certification and may designate the first month of its certification, or absent such designation, the certification is effective on the first month of the entity’s initial taxable year.
- Any investment made in an OZ Fund prior to certification is not eligible for OZ deferral.
- Preexisting entities are eligible for OZ Fund certification as long as they satisfy all of the OZ statutory and regulatory requirements.
- The entity must be organized in one of the 50 states, Washington D.C., or a U.S. territory.

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OZ PROGRAM – THE QO ZONES

QUALIFIED OPPORTUNITY ZONES

- QO Zones are population census tracts that meet the New Markets Tax Credits statutory definition of a "low-income community" which are designated as QO Zones.

- QO Zones are nominated by the Governor or other CEO of each state and then certified by the Treasury Secretary as a QO Zone.

- The number of QO Zones per state is limited to 25% of the low-income communities of in the nominating state.

- The QO Zone certification for each QO Zone is effective for 10 years from designation.

- There is also a procedure for states to nominate certain census tracts that do not qualify as low-income communities to be QO Zones if such tracts are contiguous with a low-income community and the MFI for such tract does not exceed 125% of the MFI for the contiguous low-income community census tract.

- The CDFI Fund has a map program that identifies all certified QO Zones and is available at: https://www.cdfifund.gov/pages/opportunity-zones.aspx

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OZ PROGRAM – THE QO FUND: QO ZONE PROPERTY

QUALIFIED OPPORTUNITY ZONE STOCK

- QO Zone Stock is stock in a domestic corporation, including an S corporation, acquired by the QO Fund from the corporation after December 31, 2017, at its original issue, solely in exchange for cash.
- When the QO Zone Stock is issued, the corporation must be a **QO Zone Business** and must remain a QO Zone Business for substantially all of the QO Fund's holding period of such stock.
- If it is a new corporation, it must be organized for the purpose of being a QO Zone Business.
- A redemption of QO Zone Stock is subject to I.R.C. § 1202(c)(3), which prohibits the issuing corporation from purchasing such stock from the purchaser or a party related to the purchaser for a 4 year period beginning on the date that is two years prior to the issuance of the stock.
- Investments in corporate debt instruments are not permitted and the taxpayer may collateralize the stock.

OZ PROGRAM – THE QO FUND: QO ZONE PROPERTY

QUALIFIED OPPORTUNITY ZONE PARTNERSHIP INTEREST

- QO Zone Partnership Interest is a domestic partnership interest acquired by the QO Fund from the partnership after December 31, 2017, solely in exchange for cash. An interest acquired from a partner, rather than the partnership or an interest acquired in exchange for property other than cash will not qualify

- As is the case with QO Zone Stock, when the QO Zone Partnership Interest is issued, the partnership must be a QO Zone Business and must remain a QO Zone Business for substantially all of the QO Fund’s holding period of such interest.

- If it is a new partnership, it must be organized for the purpose of being QO Zone Business.

- Investments in partnership debt instruments are not permitted, and the taxpayer may collateralize its OZ partnership interest.

OZ PROGRAM – THE QO FUND: QO ZONE PROPERTY

QUALIFIED OPPORTUNITY ZONE BUSINESS PROPERTY

- QO Zone Business Property is tangible property used in a trade or business of a QO Fund if such property:
  - Was acquired by purchase after December 31, 2017,
  - The original use of such property in the QO Zone commences with the QO Fund or the QO Fund substantially improves the property, and
  - substantially all (at least 70%) of the use of such property was in a QO Zone during substantially all of the QO Fund's holding period for the property
- **Substantial Improvement** – QO Zone Business Property is deemed substantially improved if during the 30 month period beginning after the date of acquisition, the additions to the basis of such property in the hands of the QO Fund exceed the adjusted basis of such property at the beginning of the 30 month period. For property consisting of land and improvements, the substantial improvement requirement only applies to the improvements, not the land.

QO ZONE: QO ZONE BUSINESS

A “**QO Zone Business**” is a trade or business:

- In which substantially all of the tangible property owned or leased by the taxpayer is QO Zone Business Property;
- At least 50% of the total gross income of such business is derived from the active conduct of such business;
- A substantial portion of the intangible property of such entity is used in the active conduct of any such business;
- Less than 5% of the average of the aggregate unadjusted bases of the of the property of such business is attributable to nonqualified financial property, with allowances for reasonable amounts of working capital that meets certain requirements; and
- Is not a private or commercial golf course, country club, massage parlor, hot tub facility, suntan facility, racetrack or other facility used for gambling, or any store the principal business of which is the sale of alcoholic beverages for consumption off premises.

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OPPORTUNITY ZONES: ONLINE LINKS TO RESOURCES

US CDFI Fund General Information and Resources:

https://www.cdfifund.gov/Pages/Opportunity-Zones.aspx

Novogradac Federal Opportunity Zone Mapping Tool:

https://www.novoco.com/resource-centers/opportunity-zone-resource-center/guidance/novogradac-opportunity-zones-mapping-tool

HISTORIC TAX CREDITS: OVERVIEW

INCENTIVE/SUBSIDY FOR PRESERVATION AND REHABILITATION OF HISTORIC STRUCTURES.

- Federal historic credit, and, in some states, there is a state tax credit program (for the same structure and expenditures – a piggyback).
- Must be used as income producing property.
- Dollar-for-Dollar Tax Credit; Not a Deduction.
- Can be monetized by the owner to provide additional funds for project costs in lieu of using the credit.
- Federal credit is subject to a 5 year compliance period during which the renovations must be maintained and no sale of the asset. A breach of these rules can trigger a recapture of the tax credits, requiring repayment plus penalties and interest.

THE FEDERAL HISTORIC CREDIT: THE BASICS (IRC Sect. 47)

- 20% tax credit for "**qualified rehabilitation expenditures**" incurred in connection with the "substantial rehabilitation" of a "certified historic structure."
- "**Substantial Rehabilitation**" test met if qualified rehabilitation expenditures exceed the greater of $5,000 or the adjusted basis of the building (excluding basis in land).
- "**Qualified Rehabilitation Expenditures**" ("QRE") defined in Treas. Reg. 1.48-12(c); generally include costs chargeable to a capital account made in connection with the rehabilitation. Consider permanent attachments subject to a mortgage (not personal property) and other qualified soft costs. Examples include Construction Hard Costs (excluding FF&E), Architectural Fees, Developer Fees, & Construction Period Interest, Insurance and Taxes. Acquisition costs are NOT a qualified.
- "**Certified Historic Structure**" must be either (1) "Certified Structure" listed on the National Register of Historic Places or (2) (a) 50 years or older, (b) located within in a federal historical district, and (c) deemed by the National Park Service to contribute to the significance of the district.

HISTORIC TAX CREDITS: USE AND/OR MONETIZATION OF THE CREDIT

- Federal Credit. Generally, federal historic tax credits can only be used by c-corporations and “active real estate professionals” to offset active income.
- Monetization. Regardless, developers generally prefer to (a) admit federal tax credit investor partners that can use the credits in exchange for tax-free partner capital contributions to the owner entity, and (b) sell the state tax credits.
- Tax credit investments are structured by tax credit professionals due to complex Income Tax Code laws and Regulations.
- Equity investments can be used to fill project budget gaps. May take bridge loans against staged equity contributions.

FIRM INFORMATION

FOCUS. VALUE.

SOME TAKE CREDIT. WE TAKE INITIATIVE.

Our approach allows us to anticipate challenges and find creative solutions. After all, we measure our success by yours.

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OUR APPROACH

Innovation. Service. Teamwork. Responsiveness. Focus. Value.

At Butler Snow, we embrace an innovative approach to successful and efficient representation. Our unique, team-oriented culture is a departure from legal industry norms, and allows our clients to benefit from the full breadth of our legal expertise across practice areas, geographic locations and experience levels. We provide clients with the expertise and guidance they need and deserve as efficiently and effectively as possible.

These practices, combined with innovative fee structures, and the experience and historical results to back it up, enable Butler Snow attorneys and advisors to focus on providing a level of client service that other firms struggle to match.

OUR UNIQUE ENVIRONMENT

GROWTH

The firm is dynamic and growing. Just a few years ago, we had 160 lawyers in three offices. Our growth has been highly strategic and carefully measured. Today, Butler Snow has approximately 385 attorneys and an additional 40 professionals.

TEAMWORK

Butler Snow's mantra is "Client First," and we take it seriously. Unlike other firms, our lawyers are not compensated on the basis of who generates billable hours. There is no internal competition at Butler Snow, and we do not compete with other firms with whom we work. Our goal is to ensure that at all times the client has the best lawyer to undertake the matter.

DIVERSITY AND INCLUSIVITY

Butler Snow's commitment to diversity is fundamental to our success. Over the past few years, many of the firm's hallmark trial wins have been led by lawyers of color, or women. But our commitment to diversity is not simply for diversity's sake. We genuinely believe that we can better serve our clients and provide better strategic judgment through diverse views.

PROFESSIONALISM

We know when serving as your legal counsel that we are partners and representatives of your team whenever we appear on your behalf. We know we must mirror the professionalism and dedication demonstrated by your team, even in the most challenging environments.

GIVING BACK

We also recognize that we have an obligation to our judicial system, community and world to give back. Butler Snow has its own charitable foundation that supports organizations in communities where our staff and lawyers live and work.

VALUE

Butler Snow believes that it is important to be a partner with our clients in both stable and challenging times. We work diligently to provide value and predictability as well as efficient representation for our clients.

385

ATTORNEYS & ADVISORS

40+

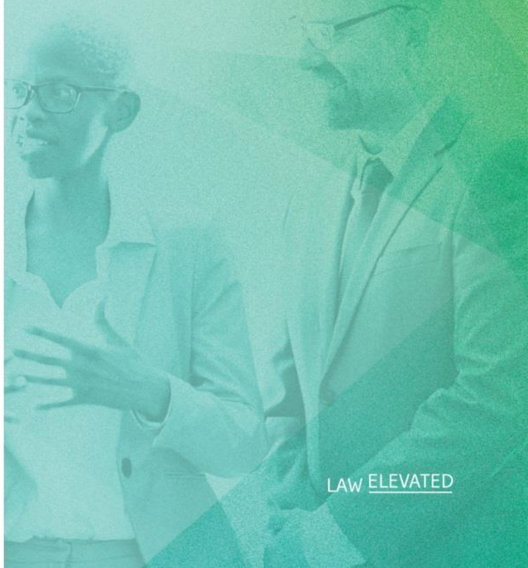
PRACTICE AREAS

27 OFFICES

Birmingham & Montgomery, AL
Denver, CO
Washington, D.C.
Atlanta & Macon, GA
New Orleans, Shreveport & Baton Rouge, LA
Boston, MA
Oxford, Gulfport & Jackson, MS
Wilmington, NC
Albuquerque, NM
New York, NY
Fort Washington & Bethlehem, PA
Charleston, SC
Memphis & Nashville, TN
Austin & Dallas, TX
Richmond, VA
Hong Kong
London, UK
Singapore

10 KEY INDUSTRIES

Energy
Manufacturing/Chemicals
Retail/Wholesale Trade
Financial Services & Banking
Gaming
Entertainment, Media & Sports
Real Estate Development
Pharmaceutical, Medical Device & Healthcare
Insurance
Governmental Services



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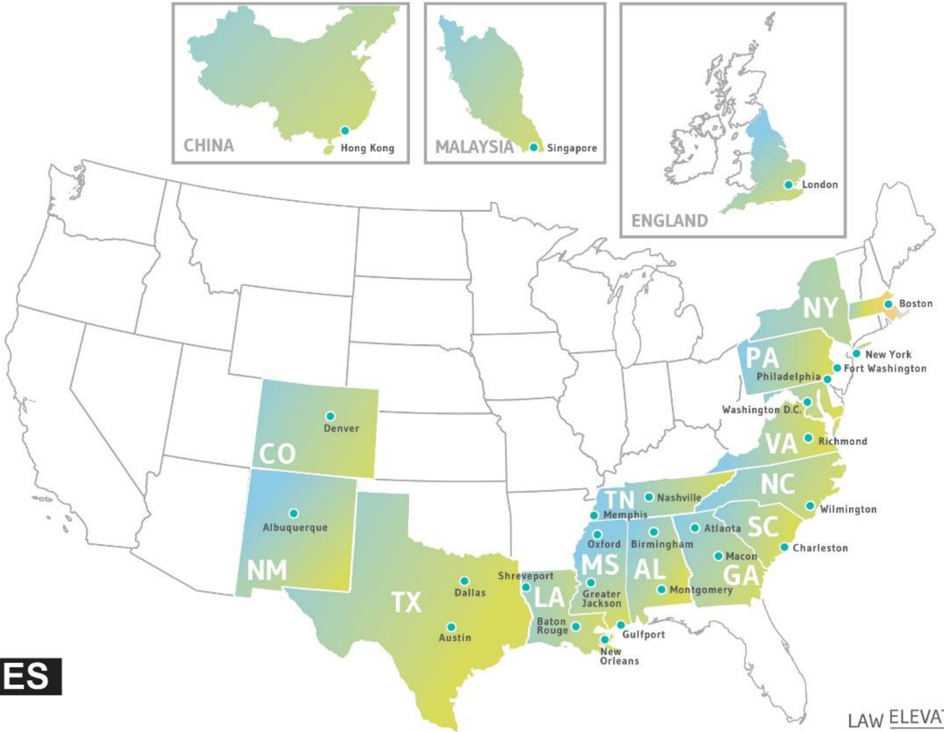
OFFICE LOCATIONS

24 U.S. OFFICES

3 INTERNATIONAL OFFICES

LONDON
HONG KONG
SINGAPORE

SINCE 2011
BUTLER SNOW
HAS OPENED
17 NEW OFFICES



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Questions?

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Council of Development Finance Agencies

Thank you
for joining the conversation today. Send us your questions and comments!

Partner

Thank You To Our Partner!

ALLIANCE FOR RURAL IMPACT

The Alliance for Rural Impact

Learn more about the Alliance for Rural Impact at ruralimpact.org

Panelist

Jennifer Watkins
Director of Operations
Alliance for Rural Impact

Thank you for joining the conversation today. Send us your questions and comments!

See all of CDFA's resources online at www.cdfa.net/resources

Council of Development Finance Agencies

CDFA-ARI Rural Finance Webinar Series

Panelist

Thank you for joining the conversation today. Send us your questions and comments!

Nick Bush
Principal
Bush Consulting Group

See all of CDFA's resources online at www.cdfa.net/resources

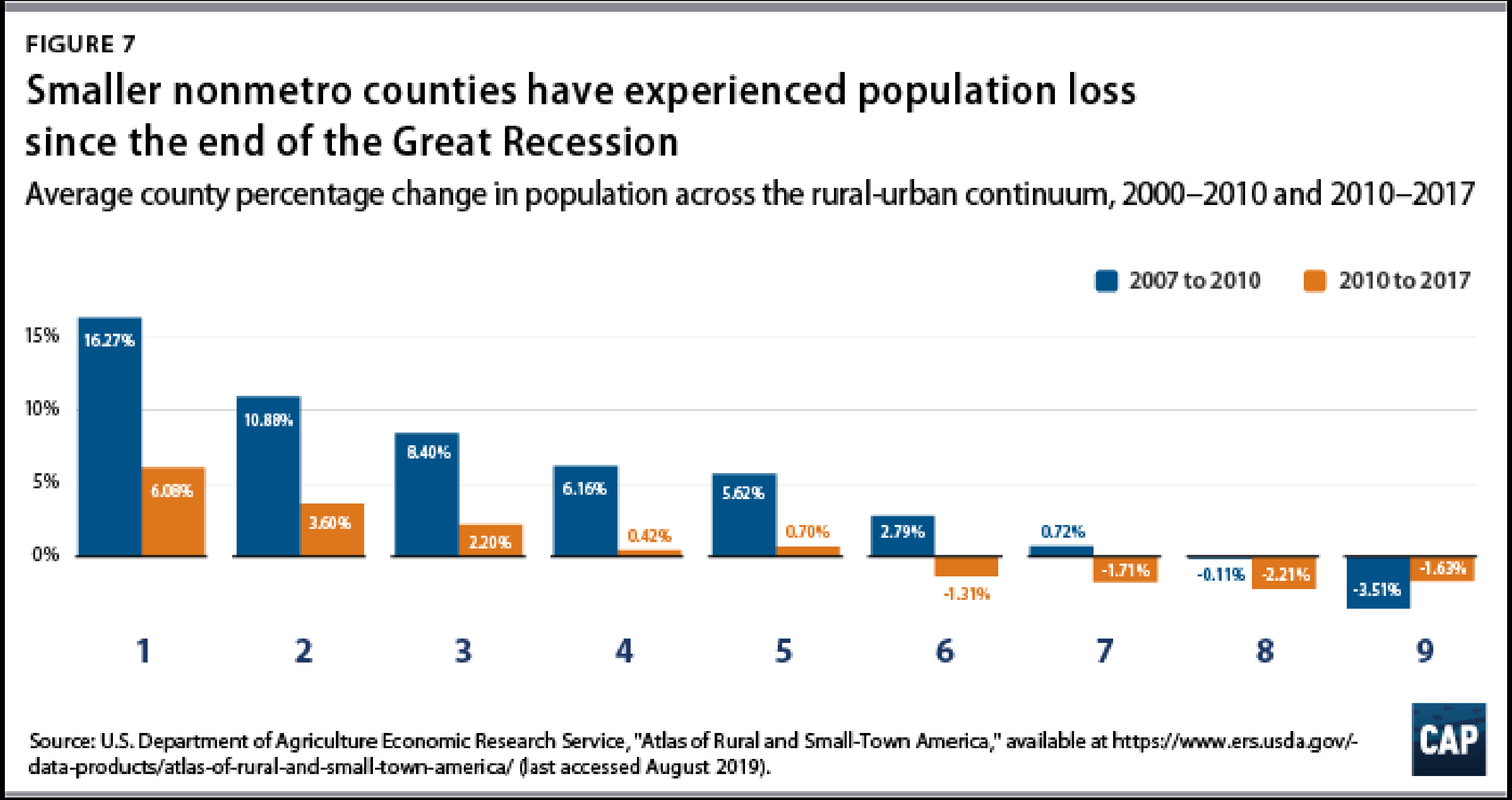
ALLIANCE FOR
RURAL IMPACT

To facilitate the successful transformation of rural communities through the delivery of innovative community and economic development services

Identifying Solutions. Creating Impacts. Reimagining Rural.

Serving rural communities in our home-state of Arkansas and throughout the Mid-South

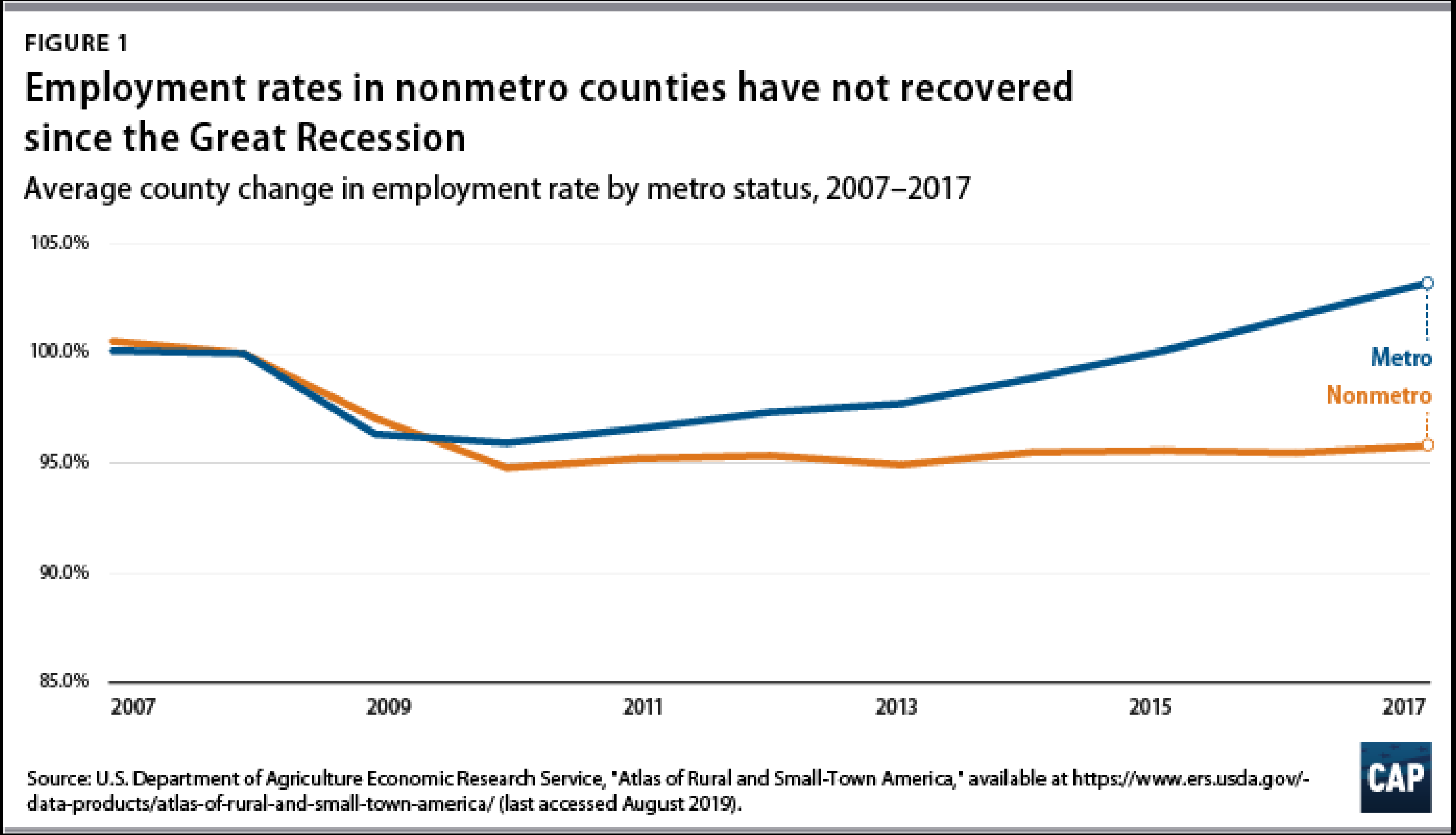
- Created to address the issues of resource depletion, population and demographic shifts, economic distress and stagnation, a lack of access to expertise and shortage of capital
- Emerging Community Development Finance Institute (CDFI)
- ARI answers these questions for communities:
  - What ***should*** we do?
  - Where do we find the ***resources***?
  - How do we get it ***done***?
  - How do we ***sustain*** progress?



Source: Center for American Progress 'Adversity and Assets: Identifying Rural Opportunities
https://www.americanprogress.org/issues/economy/reports/2019/10/21/476097/adversity-assets-identifying-rural-opportunities/

UNDERSTANDING THE CHANGING RURAL ECONOMY

- DEPOPULATION
  - Since 2010, outmigration in rural areas is no longer being offset by birthrates
  - Areas being hardest hit by depopulation are the Mississippi Delta, Great Plains, Appalachia and the Northeast[1]
  - Precipitates economic decline and creates a vicious chain reaction
    - A report by the Economic Innovation Group found that a 1% point decline in population leads to a 2-3% point decline in business startups[2]



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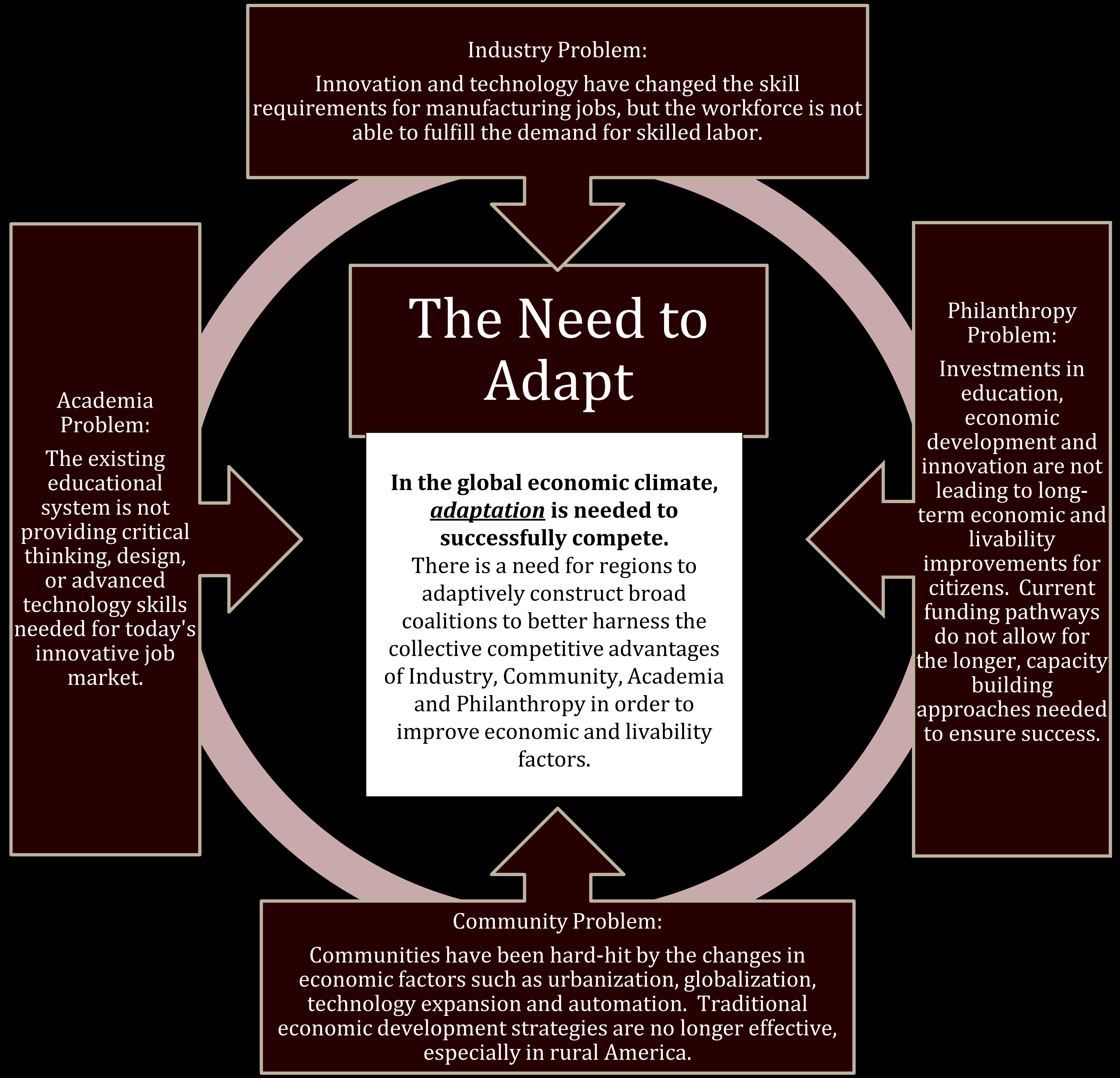
UNDERSTANDING THE CHANGING RURAL ECONOMY

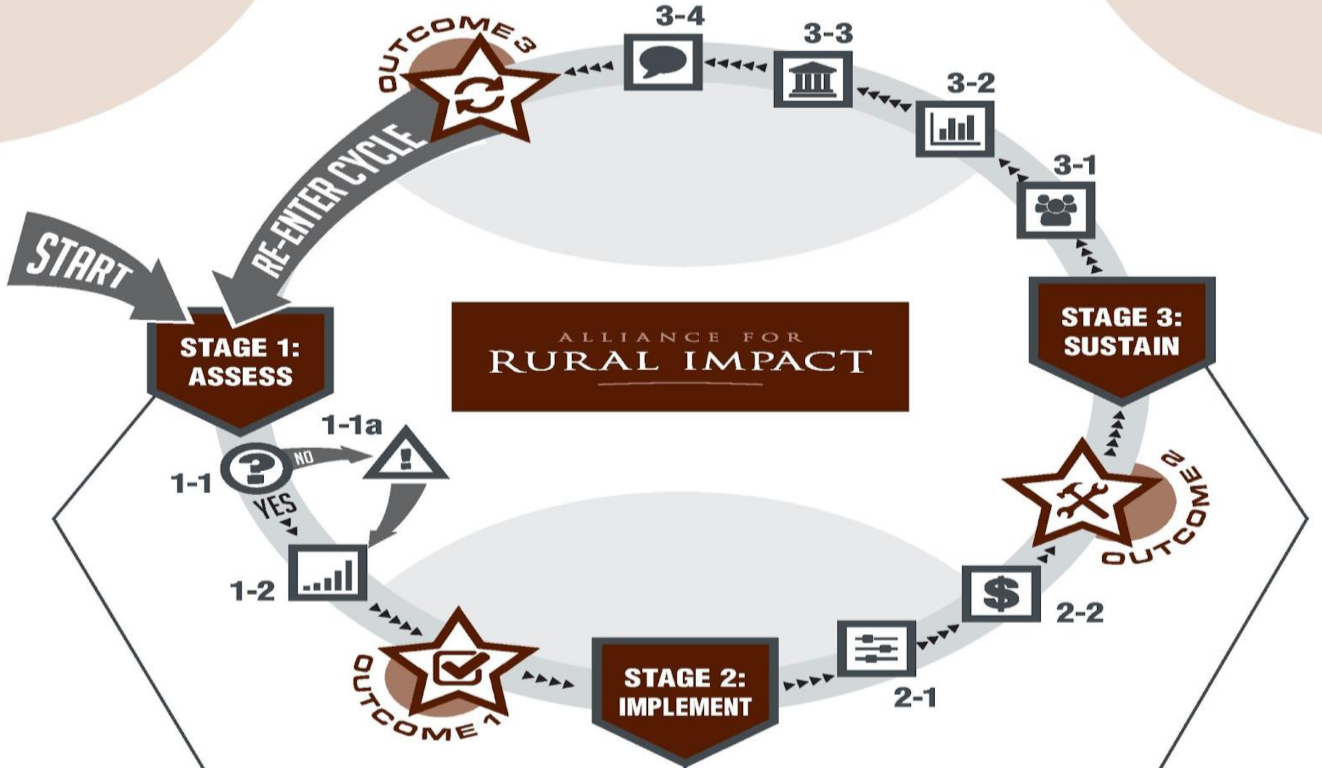
- CHANGES IN EMPLOYMENT
  - Much of rural America hasn't recovered from the Great Recession
  - Appalachia has experienced the greatest of job losses
  - Aging demographics and disabilities are higher in rural areas than urban counterparts
  - Broader lack of opportunities as demonstrated by long-term unemployment
    - Rural communities NOT adjacent to urban communities have a greater struggle in maintaining a workforce which is attracted to larger urban areas for job opportunities



BOTTOM LINE

- Must think *CREATIVELY*
- *Adapt* to creative systems that take advantage of the existing assets
  - Natural resources
  - Human capital
  - Community strength
  - Culture
- Be *open* to change

COMMUNITY INVESTMENT MODEL



STAGE 1: ASSESS

1-1. EXISTING PLAN?
Does the community have a current strategy with well-defined projects or programs and buy-in from the community at large?

1-1a. STRATEGIC PRIORITIZATION
Identify potential projects and programs for implementation.

1-2. INVESTABILITY ANALYSIS
Identify capacity, resources, partners and markets. Prioritize investment based on potential return.

OUTCOME 1: A PLAN
Actionable, investable, implementable plan supported by the community at large.

STAGE 2: IMPLEMENT

2-1. PROJECT DEVELOPMENT
Putting it together: Initial design and scoping of project or program, including continuous community input cycles and champion development.

2-2. RESOURCE DEVELOPMENT
Funding alignment. Identification of public and private resources specific to each priority, project or program.

OUTCOME 2: IMPLEMENTATION
Project implementation. Projects funded and underway.

STAGE 3: SUSTAIN

3-1. CAPACITY
Organizational development. Education and leadership of community partners. Systemic improvements to support continued progress.

3-2. STRUCTURE
System development. Creation of an integrated partnership between community and economic development organizations, nonprofits, municipalities and citizens.

3-3. LONG-TERM CAPITAL
Local financing. Lending and technical services designed to provide local impact while expanding partnerships with outside investors.

3-4. PROMOTION
Marketing and public relations. A mix of internal and external promotional systems to engage the public and attract interest.

OUTCOME 3: SUSTAINABILITY
Sustained cycle of assessment, project identification, investment readiness and implementation.

ANALYZE WHICH PRIORITIES WILL HAVE THE GREATEST IMPACT

- Stage 1: Assess
  - Existing Plan *or*
  - New Plan
  - Strategic Priorities
  - Investability Analysis
- ***Outcome: An Action Plan***

TIE FINANCING TOOLS TO MOST IMPACTFUL PROJECTS & PROGRAMS

- Stage 2: Implement
  - Project Development
  - Resource Development
- ***Outcome: Project Completion***

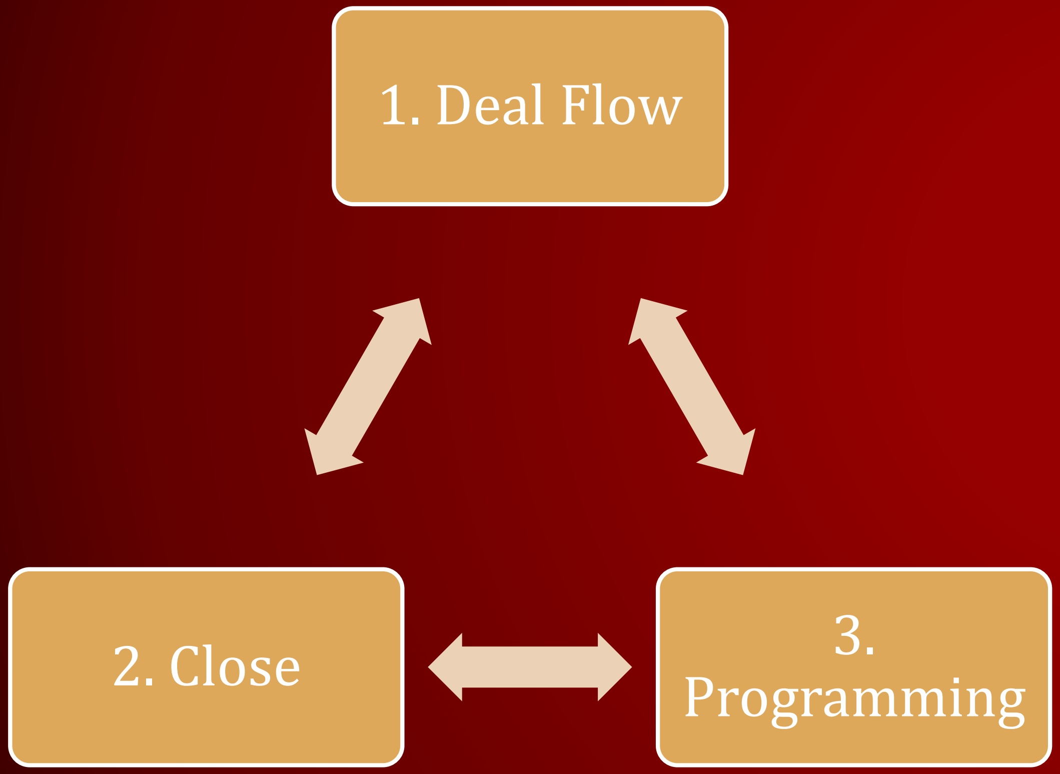
KEEP THE CYCLE GOING BY CREATING STRONGER LOCAL SYSTEMS

- Stage 3: Sustain
  - Capacity
  - Structure
  - Long-term Capital
  - Promotion
- ***Outcome: Sustainable Progress through a Repetitive Cycle of Strategic Prioritization, Resource Investment and Accountability***

THE RURAL IMPACT FUND

- New Lending Program for rural communities and businesses
- Proactive
- Innovative
- Targeted toward Rural and Underserved Areas
- Committed to Long-term Involvement
- Outcome-focused.
- Forensic Financial Approach to TA

THREE KEY ISSUES PLAGUE MANY FINANCIAL LENDING PROGRAMS IN RURAL AREAS



1. Deal flow generation for many loan funds is often too passive. Consequently, the wrong opportunities present themselves.

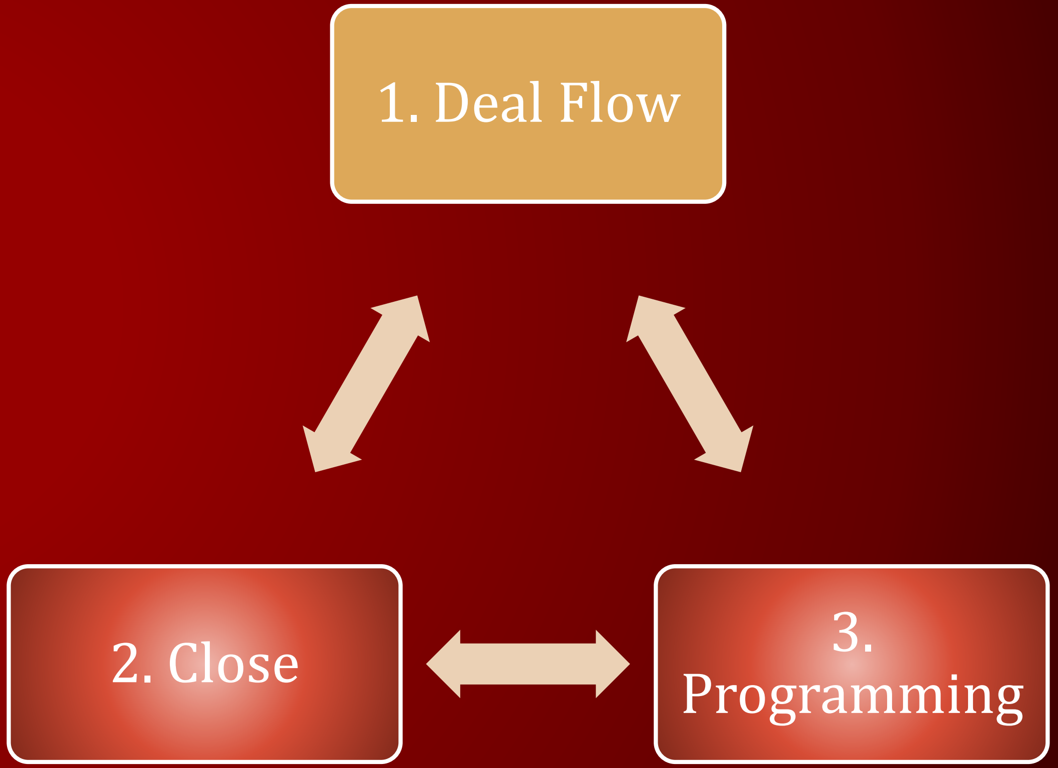
2. Closing of deals is too low. Many borrowers are hesitant to pursue capital financing or abandon the process midstream due to fear or apprehension, onerous processes, or mistrust of lenders.

3. Funds chase the wrong investments. They systemically underestimate borrowers and overestimate the quality of the opportunity being financed and their ability to provide adequate technical assistance.

RURAL IMPACT FUND PREMISE #1: PROACTIVE OUTREACH TO THE RIGHT APPLICANTS

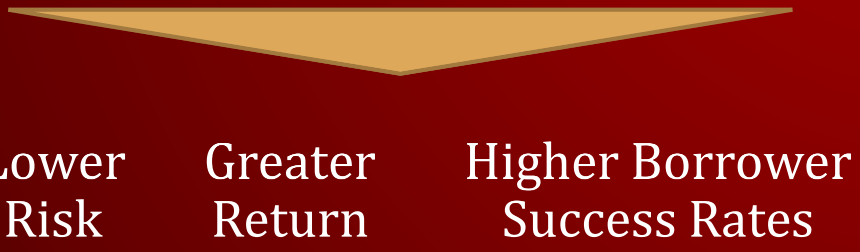
- Targeting specific industries, business and workflow types, and owners
- Alignment to identified strategic Community Investment Model imperatives
- Structured approach to identify interested parties, which includes programs to be funded

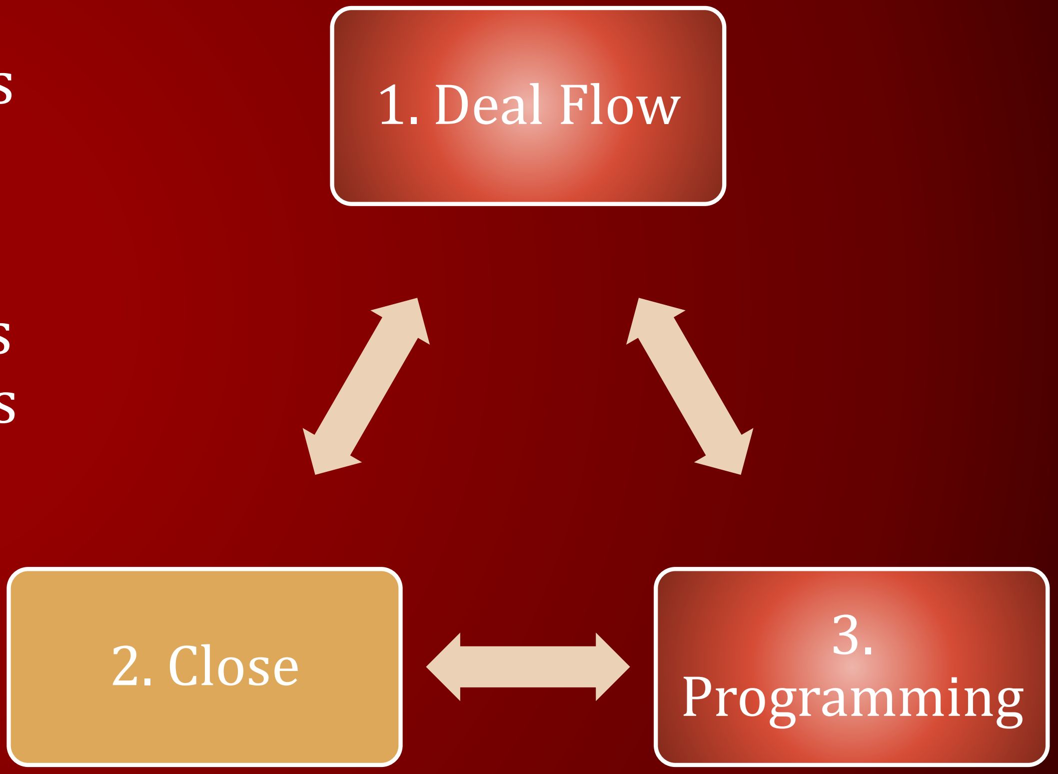
Lower Risk | Greater Return | Higher Borrower Success Rates



RURAL IMPACT FUND PREMISE #2: AN APPLICANT FRIENDLY PROCESS

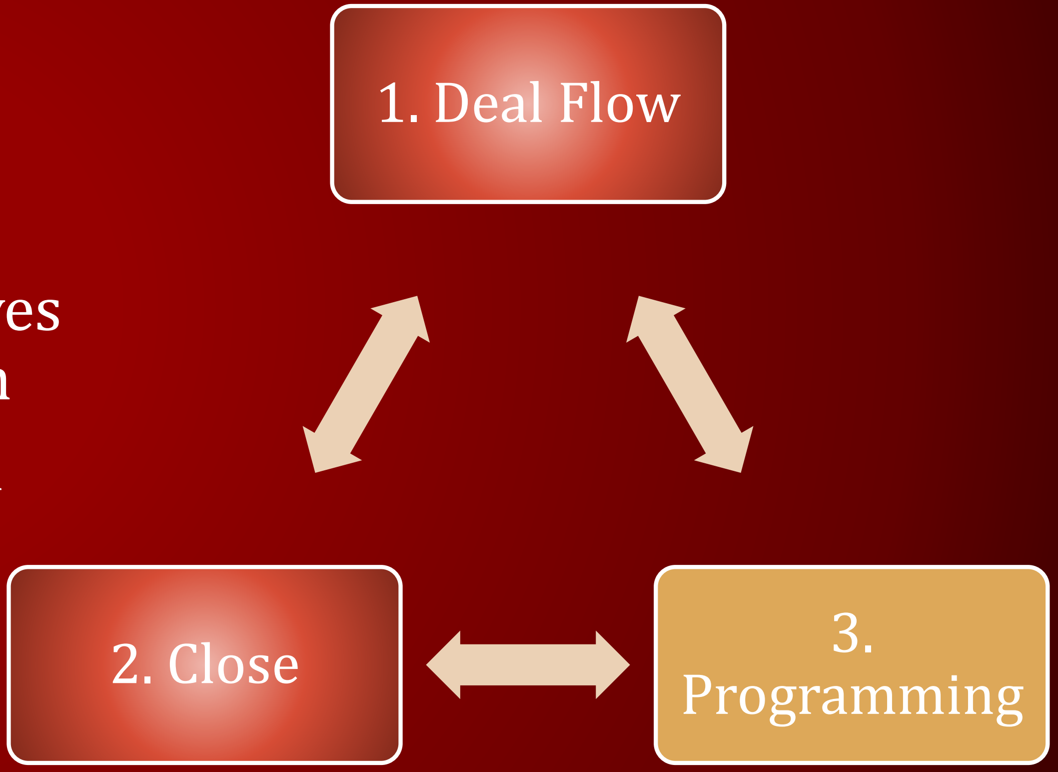
- Transparency about borrower qualifications, process, and expectations
- Streamlined process to simplify and expedite
- Objectives aligned to business outcomes to ensure similar success measurements for lender and borrower



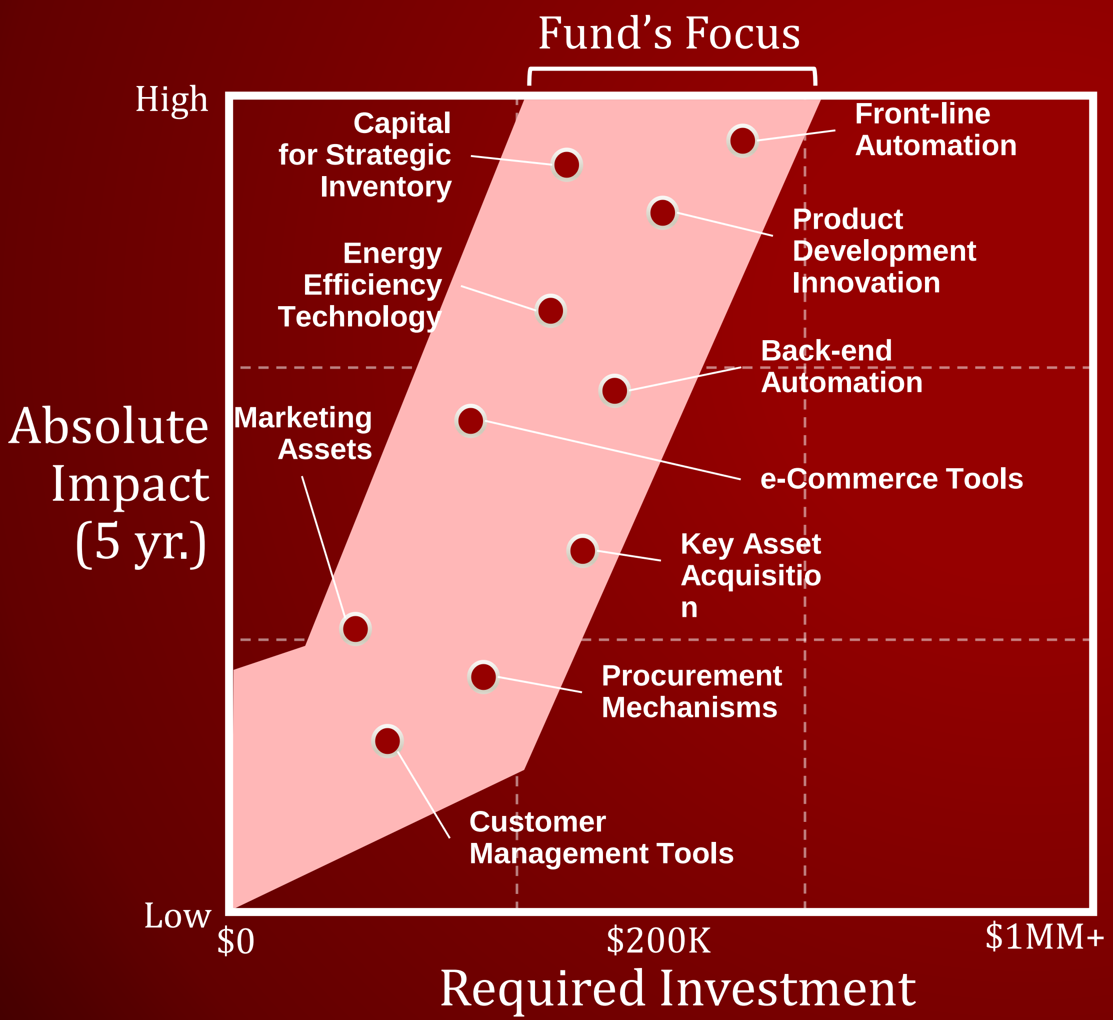


RURAL IMPACT FUND PREMISE #3: TARGETED BUSINESS PROGRAMS & TECHNICAL ASSISTANCE

- Programs aligned to common needs/opportunities of Delta and Mid-South businesses, emphasizing modest investments and rapid absolute returns
- Target efficiency / effectiveness initiatives based on technology and modernization
- Delivered through proprietary technical assistance tools and experienced team



THE RURAL IMPACT FUND TECHNICAL ASSISTANCE MODEL©



- Model leverages 10 tested, well-understood intervention categories known to drive business impact
- Interventions typically a mix of asset investment <u>and</u> technical assistance
- Well-defined tools for each intervention type simplify financing evaluation, portfolio management, performance measurement

THANK YOU!

Want to learn more?

Visit: www.ruralimpact.org
Email: jennifer@ruralimpact.org
Call: (855) 530-9100

Council of Development Finance Agencies

Thank you for joining the conversation today. Send us your questions and comments!

Questions?

CDFA-ARI Rural Finance Webinar Series

Upcoming Events

CDFA –Bricker PACE Webinar Series: Focusing on Sustainability Using PACE
July 14, 2020

CDFA Federal Financing Webinar Series: Federal Recovery Resources from the EPA
July 17, 2020

Register online at www.cdfa.net

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