OPPORTUNITY ZONES ARE KNOCKING: WILL BALTIMORE BE PREPARED?

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Federal Opportunity Zones Overview

The Tax Cuts and Jobs Act of 2017 established a new, federal tax incentive for Opportunity Zones intended to spur investment in low-income communities. For cities like Baltimore, Opportunity Zones have the potential to be a valuable resource for inclusive growth. This white paper provides an overview and update of the Opportunity Zones program and current efforts underway in Baltimore, as well as recommendations for how the city can take full advantage of the program.

The working theory behind Opportunity Zones is to put cash that investors are currently keeping on the sidelines in the form of unrealized capital gains into projects in local communities, while also providing an attractive return to the investor. For example, according to the Economic Innovation Group, it is estimated that U.S. households and corporations currently hold $6.1 trillion in unrealized capital gains in U.S. stocks and mutual funds, alone. Investors who put capital gains realized from the sale of these assets into Opportunity Zone projects for at least five years benefit by deferring as well as reducing tax payments by up to 15 percent on the original gains and potentially not paying taxes on any additional profits arising from the Opportunity Zone project if the investment is held for 10 years.

Opportunity Zones consist of four elements:

1. **Places** - eligible census tracts designated as Opportunity Zones where investments will be directed
2. **Funds** - Qualified Opportunity Funds that will invest money in projects in Opportunity Zones
3. **Projects** - business, commercial, residential, or multi-purpose projects located in Opportunity Zones
4. **Investors** - individuals or institutions who make equity investments in Opportunity Funds

The U.S. Department of Treasury has overall responsibility for the implementation of Opportunity Zones, with the Internal Revenue Service (IRS) taking the lead and the Community Development Financial Institutions Fund (CDFI Fund) assisting. The IRS and CDFI Fund aim to have the program fully operational by early 2019, meaning that much planning is already taking place at the federal, state, and local levels and across the four elements:

- **Places**: To date, the U.S. Treasury has designated Opportunity Zones for 52 states and territories based on governor nominations.

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- **Funds**: A range of entities, including cities like Baltimore, are assembling Opportunity Funds. Last month, Mayor Catherine Pugh announced plans to create a Neighborhood Impact Investment Fund that would initially be capitalized with $55 million from leasing several city-owned parking garages. The Fund would be used, in part, to attract investments for Opportunity Zones projects.
- **Projects**: States and localities are identifying and marketing Opportunity Zones projects. For example, South Bend, In.; Oklahoma City, OK; and Louisville, KY, are currently developing an urban "Investment Prospectus" for each of their cities.
- **Investors**: Interested investors are educating themselves on the emerging rules of the program and looking to build investment partnerships and coalitions around Opportunity Funds and Opportunity Zones projects.

Table 1, below, outlines the full timeline for implementation of Opportunity Zones. As mentioned above, Opportunity Zones have been selected, and Opportunity Funds are being developed. The U.S. Treasury is currently developing regulations that will establish rules and guidelines for the program. The regulations are expected to be published in the fall for public comment and then finalized in early 2019. Once the rules are made final, investment in Opportunity Zones projects can begin.

TABLE 1: TIMELINE OF OPPORTUNITY ZONES IMPLEMENTATION

DATE	OPPORTUNITY ZONE IMPLEMENTATION
December 22, 2017	Tax Cuts and Jobs Act signed into law with Opportunity Zones provisions
March 21, 2018	Governors submit Opportunity Zones nominations to the U.S Treasury Department for approval or request 30-day extension
April 9, 2018	U.S Treasury approves Opportunity Zone sdesignations for 15 states and 3 territories
April 19, 2018	U.S Treasury approves Opportunity Zones designations for 5 states and 1 territory
April 20, 2018	Opportunity Zones nominations due for governors who requested extensions
May 18, 2018	U.S Treasury approves Opportunity Zones designations for an additional 28 states and territories, including Maryland
June - July, 2018	U.S Treasury will release Opportunity Fund certification forms
Oct - Nov, 2018	U.S Treasury will publish Opportunity Zones regulations for public comment
Jan - Mar, 2019	U.S. Treasury will publish final Opportunity Zones regulations
December 31, 2026	Investors can defer tax on prior gains until this date, with investment deadlines by 2019 and 2021 to receive certain basis adjustments

Baltimore City Designated Opportunity Zones

Opportunity Zone eligibility is limited to low-income communities defined as census tracts with at least a 20 percent poverty rate or a median family income not exceeding 80 percent of either statewide median family income or metropolitan area median family income. The methodology used is the same as that of qualified investment areas for the CDFI Fund's New Markets Tax Credit program. In addition, Opportunity Zone eligibility extends to a small percentage of tracts that don't meet the poverty or income criteria but are contiguous to those that do. Governors were given the authority to nominate up to 25 percent of all eligible tracts in their states, 5 percent of which could be contiguous tracts so long as their median income did not exceed 125 percent of their neighboring low-income community.

The selection process in most states included the following steps: localities submitted proposed census tracts to their governors; governors reviewed these proposals and made a final selection. Some states (but not Maryland) included an added step of publishing preliminary tract recommendations for public comment. Once states selected their tracts, they submitted them as nominations to the U.S. Treasury for final approval.

For Baltimore City, the mayor's office submitted to the governor 41 proposed tracts out of a total of 183 eligible tracts across the city, or roughly 22 percent of eligible tracts. Of the 41 tracts Baltimore proposed, 38 were selected by Maryland in its nomination to the U.S. Treasury. The three tracts Baltimore proposed but that were not nominated by Maryland are in the neighborhoods of Reservoir Hill, Brooklyn, Uplands, and Irvington. Maryland nominated four census tracts that Baltimore City did not originally propose, in the following neighborhoods: Port Covington, Downtown/Inner Harbor, Mondawmin/Penn North, and Sandtown Winchester. This brought the total number of Opportunity Zones in Baltimore City nominated by Maryland to 42. The U.S. Treasury approved and designated all 42 nominated tracts as Baltimore's official Opportunity Zones. Figure 1 illustrates Baltimore's eligible, proposed, selected, and designated tracts.

At the state level, Maryland selected (and U.S. Treasury designated) a total of 149 tracts out of 754 eligible tracts statewide, representing 20 percent of all eligible tracts. In Baltimore City, 23 percent of eligible tracts in the city were designated. Baltimore City accounts for 28 percent of the overall share of designated tracts statewide.

FIGURE 1: MAP OF DESIGNATED OPPORTUNITY ZONES IN BALTIMORE CITY

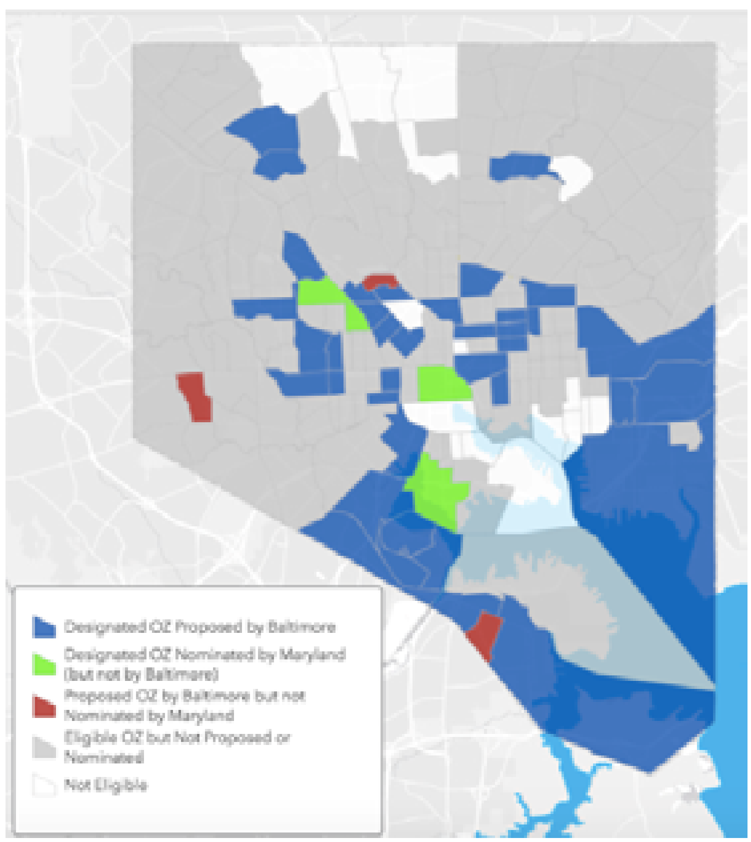


TABLE 2: INVESTMENT STRATEGIES IN DESIGNATED BALTIMORE CITY OPPORTUNITY ZONES

STRATEGY	DEFINITION	# OF TRACTS	EXAMPLE TRACTS
Neighborhood investment/ reinvestment	Neighborhood invest-ment = no city plans or investments in area, large amount of vacant land will be available for investors Neighborhood reinvestment = city has major plans or investment for area	17	Hollins Market - Major neighbor-hood reinvestment Penn North, Reservoir Hill - Transformative neighborhood investment
Industrial development	Investment aimed towards preexisting or developing industry	3	Curtis Bay, Curtis Bay Industrial Area, Hawkins Point - Port related reinvestment
Business development	Investment in commercial projects and pre-existing business	3	Mondawmin, Burleith Leighton - Commercial and business redevelopment
Housing development	Investment in construction of housing projects	2	Middle East, Gay Street, Broadway East, Oliver - Redevelopment and housing
Multiple strategies	Combination of neighborhood, industrial, housing, and/or business development strategies	5	Oldtown, Penn-Fallsway, Pleasant View Gardens, Dunbar Broadway - transformative redevelopment, Perkins Neighborhood Initiative, commercial redevelopment, Oldtown Mall Canton Industrial Area, Greektown - Redeveloped projects (Crown Cork and Seal)
Other projects/ unspecified	Unspecified "major redevelopment," work on other unspecified projects, or strategy unknown	12	Central Park Heights, Pimlico, Cylburn, Pimlico Good Neighbors, Levindale Race Track, Sinai Hospital, Park Heights Major Redevelopment Area Midtown-Edmondson, Harlem Park, Sandtown-Winchester - Future major reinvestment site
Total Tracts		42	

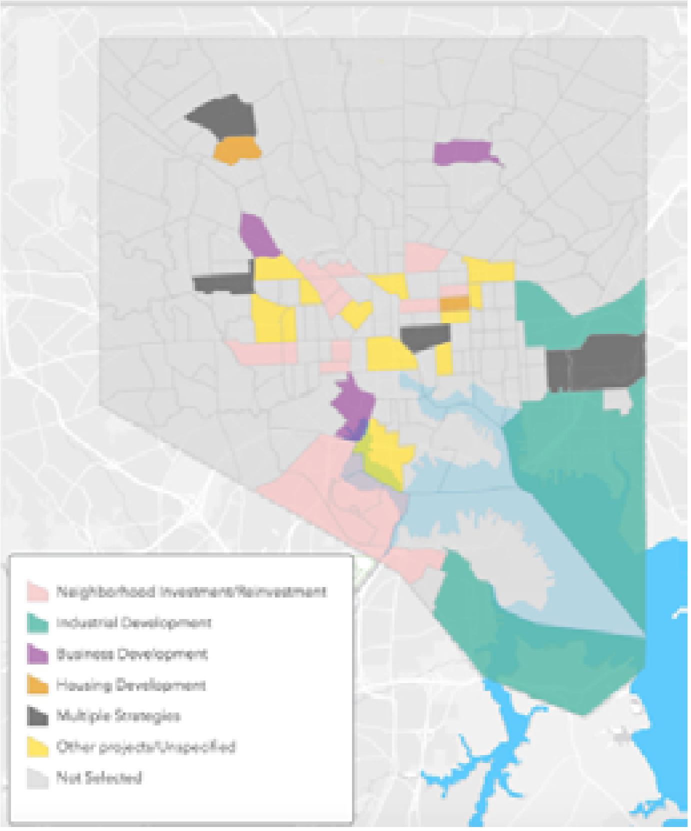
Baltimore City Opportunity Zones Investment Strategies

Baltimore City made available to the public its list of proposed census tracts and the type of investment strategies in each tract. Baltimore's investment strategies can be organized into six broad categories: 1) neighborhood investment or reinvestment; 2) industrial development; 3) business development; 4) housing development; 5) multiple strategies; and 6) other projects/unspecified. According to information made available by the city, it is likely that the neighborhood investment and reinvestment categories would include a mix of housing and commercial strategies, but currently these areas include large amounts of vacant land.

Table 2, on page 4, breaks out the six investment strategy categories with brief definitions of each, the number of tracts selected in those categories, and a description of example tracts. The four tracts selected by Maryland, but not proposed by Baltimore, are included in the "other projects/unspecified" category.

Figure 2, to the right, displays a map of the 42 Baltimore City Opportunity Zones color coded by investment strategy. The map illustrates the range of investment strategies and geographic distribution across Baltimore. Industrial development strategies are concentrated along the port areas of South and Southeast Baltimore, where there are "shovel-ready" projects ripe for investment. Neighborhood investment and reinvestment strategies are concentrated in some of the city's most distressed neighborhoods in East, West, and South Baltimore, which appear to align with the intent of Mayor Pugh's recently announced Neighborhood Impact Investment Fund to invest in the city's historically-neglected and under-resourced neighborhoods.

FIGURE 2: MAP OF BALTIMORE CITY OPPORTUNITY ZONES BY INVESTMENT STRATEGY



Baltimore City Opportunity Zone Investment Score Index

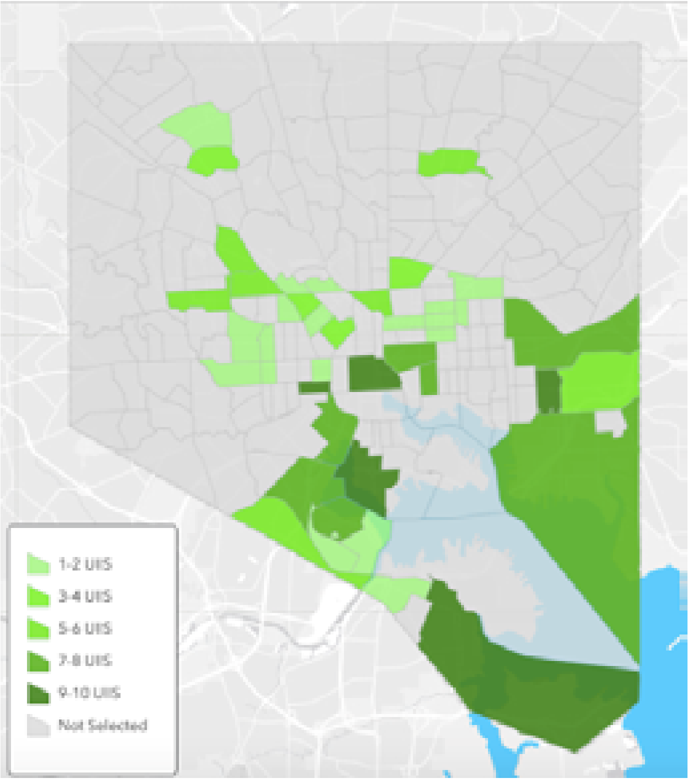
The Urban Institute has developed an investment score for every eligible census tract in the U.S. The scores are based on the flows of loan capital into each census tract across four types of loans: commercial loans, multifamily housing loans, single family housing loans, and small business loans. Scoring is based on a scale of 1 to 10. A higher score indicates greater lending activity and apparent attractiveness to investors, whereas a lower score suggests limited lending activity and more apparent need to encourage investment with tax incentives.

It is important to note that the Urban Institute's scoring index is based on lending or debt flows into census tracts, while Opportunity

Funds will make equity investments in Opportunity Zones. In addition, the Urban index does not account for other types of investments in census tracts, such as government or foundation loans, grants, and other funding instruments. Despite these limitations, the index provides a useful, big-picture view of Opportunity Zones potential to attract new investments and revitalize distressed communities.

The scores for the 42 Opportunity Zones in Baltimore City are shown in the map to the right. The map collapses the 1 to 10 scoring rubric into five categories: 1-2, 3-4, 5-6, 7-8, and 9-10 with the darker shades of green indicating higher scores. As the map suggests, areas with the highest scores are concentrated in the Baltimore port areas, including Port Covington; as well as downtown and Southeast Baltimore. The lower scores are concentrated in most distressed areas in West and East Baltimore and roughly align with Baltimore's neighborhood investment and reinvestment strategies from Figure 2, on page 5.

FIGURE 3: MAP OF BALTIMORE CITY OPPORTUNITY ZONES BY URBAN INSTITUTE INVESTMENT SCORE (UIIS)



Looking Ahead

The next six to nine months could be a make-or-break period for cities like Baltimore to take full advantage of Opportunity Zones. As public and private partners across Baltimore and Maryland plan and prepare, here are several recommendations to consider.

Provide comprehensive information to the public through Opportunity Zones websites. For Opportunity Zones to succeed, the public must be fully aware of activities across the four elements of places, funds, projects, and investors. Such information is critical to informing decisions by investors, project developers, and others. An important step in this process are state and city websites detailing Opportunity Zones locations and strategies.

Several states have developed detailed Opportunity Zones websites that provide information on the selection criteria and process, specific investment and project strategies, and implementation updates. For example, the California Department of Finance Opportunity Zones website provides information on the criteria for how each census tract was selected. It also lists preliminarily recommended tracts and details comments received by the public on initial tract selections. The Pennsylvania Department of Community and Economic Development provides a selection rationale for tracts and provides a timeline for the implementation of Opportunity Zones on a statewide level. South Carolina details the project focus areas and strategies of each selected census tract statewide, an interactive map, and an outline of how tax incentives function for Opportunity Zones.

Maryland's Department of Housing and Community Development (DHCD), which is overseeing Opportunity Zones implementation for the state, is responsible for managing the state's website and public information. Now that Maryland's Opportunity Zones have been designated, the focus should be on developing strong tools to communicate with potential investors, project developers, and the general public. The DHCD website is a good start, with basic information about Opportunity Zones, the state's designated tracts, and frequently asked questions, but the agency should consider adding information on specific strategies and projects, where available. Baltimore City may also want to consider developing an Opportunity Zones website focused solely on the city's designated tracts, strategies, and projects.

Identify a lead entity or individual to represent Baltimore City on Opportunity Zones. While a handful of individuals within the mayor's office and across city agencies have been deeply engaged in Opportunity Zone strategy development, the city should consider publicly identifying a point person or office to manage communication with and across stakeholders and coordinate strategy efforts in the city.

Convene partners and stakeholders locally. While Baltimore City was not selected as a finalist for the Amazon headquarters bid, Baltimore's application process has been viewed as a resounding success for bringing together public and private stakeholders across the city to work collaboratively in developing a unified strategy and approach. Such a "coming together" should be taking place with Opportunity Zones and Opportunity Fund development. One of the roles of the city's lead entity or point person on Opportunity Zones should be building a larger coalition across the city of investors, anchor institutions, business groups, community advocates, and others to create a transparent and inclusive approach that will help realize the full potential of Opportunity Zones to jumpstart growth that can provide benefits and opportunities to all residents across Baltimore while limiting displacement in revitalized communities. The groups should be open and accessible to potential partners, both locally and nationally, seeking to invest in Opportunity Funds and develop projects in Opportunity Zones.

Develop an inventory of resources. Another useful role for the city's lead entity or point person could be developing and making publicly available an inventory of all existing and expected resources and investments in designated tracts, including New Markets Tax Credits, Low-Income Housing Tax Credits, infrastructure investments, and various other federal, state, local, and private investments and funds. Such an inventory could serve as a valuable resource to prospective private investors interested in seeing how their potential investment in a particular Opportunity Zone would be leveraged by public investment in infrastructure and services, as well as other private investment. The inventory could also be converted into an investment score index, similar to (but much more comprehensive than) the tool developed by the Urban Institute, to help illustrate how and where in Baltimore City new investments would be leveraged with existing resources and economic development activity.

Consider developing an investment prospectus. As mentioned above, several cities have begun the process of developing an investment prospectus to clearly describe Opportunity Zone projects and market them to potential investors and developers. Various organizations across the country, such as Accelerator for America, are looking to work with cities to help develop such investment term sheets. Baltimore should consider developing its own investment prospectus in partnership with local and national experts. The prospectus should especially highlight specific projects, timelines, budgets, and investment opportunities and potentials.

Baltimore has a lot of strong attributes to be a national model for Opportunity Zones, with a mix of low-cost, marketable areas and promising, shovel ready projects that should be attractive to a wide range of investors. But in order to realize the full potential of the program, stakeholders across the city will need to be organized, transparent, and responsive.

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The 21st Century Cities Initiative advances cross-disciplinary, applied research that examines urban policy and informs the future possibilities of cities as dynamic hubs of opportunity, inclusion and innovation.

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