Applications now open for Advanced Industries Early Stage Capital and Retention Grant LEARN MORE

Opportunity Zones | Colorado Office of Economic Development & International Trade

Opportunity Zones

The Opportunity Zones Program was 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. In the broadest sense, the newly enacted federal Opportunity Zone program provides a tax incentive for investors to reinvest unrealized capital gains into low-income urban and rural communities. In Colorado, Opportunity Zones may help address a number of challenges:

- Promoting economic vitality 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 who have potential for rapid increases in scale and the ability to "export" outside the state of Colorado
- Upgrading the capability of existing underutilized assets through capital improvement investments

This economic and community development tax incentive program provides a new impetus for private 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. U.S. investors currently hold trillions of dollars in unrealized capital gains in stocks and mutual funds alone—this is a significant untapped resource for economic development.

Opportunity Funds which invest in Opportunity Zones provide investors the chance to put that money to work rebuilding the nation's distressed communities. The fund model will enable a broad array of private equity fund managers and investors to pool their resources, increasing the scale of investments going to under-served areas.

OPPORTUNITY FOR PUBLIC INPUT

Public input collected through 2/28/2018

OEDIT is working closely with some of our key local economic development partners, like the State's local Enterprise Zone program administrators, to help select census tracts for Opportunity Zones. Other stakeholders and members of the public who would like to submit feedback in identifying opportunity zones are invited to complete a short survey.

We encourage you to communicate with the appropriate Enterprise Zone (EZ) Administrator for your geographic area of interest. You can also let us know about your interests in Opportunity Zone designations using the form below – we'll share this information with the EZ Administrators.

For full implementation of the Opportunity Zone program, many efforts are going on simultaneously: states are working to identify and designate census tracts as OZs, the U.S. Treasury is finalizing their regulations which will implement this new law that will guide the Opportunity Funds, and investment groups are organizing and contemplating opportunities.

Provide Input Here

Investors who are interested in investing in a potential opportunity zone may submit letters of interest as part of the survey.

Sample letters:

- *Fund Manager Letter of Interest*
- *Investor Letter of Interest*

CENSUS TRACTS

Colorado has 1,249 census tracts; 500 are eligible for OZ designation. The law allows for the designation of 25% of eligible tracts – that's 125. Of the 125, we may select up to 7 that do not meet the basic eligibility criteria, but are adjacent to an eligible designated tract and the median family income of the tract does not exceed 125 percent of the median family income of the adjacent qualified tract.

Census tracts are designed to contain populations between 2,500 and 8,000 people with an optimum size of 4,000 people. The spatial size of census tracts varies widely depending on the density of settlement – census tracts in urban areas will cover a small land area, while those in sparsely populated areas are large. The boundaries tend to follow visible features like roads and are designed to capture a homogeneous region of population characteristics, economic status, and living conditions.

Every state and territory may designate up to 25% of eligible census tracts; there are about 74,000 census tracts across the U.S. Limited private equity in Opportunity Funds will seek the best investment opportunities aligned with their missions, potentially across the whole U.S. It's important to remember that OZs in Colorado will frequently be competing with zones throughout the United States for capital investments so it is important that we designate zones that will be attractive for investors.

THE STATE'S ROLE IDENTIFYING COLORADO'S OPPORTUNITY ZONES

Governor Hickenlooper's goal is to create the most pro-business state government, with the highest environmental and ethical standards. He has guided economic development efforts to support the unique communities and assets around our great state. Overall, Colorado's economy is healthy with low unemployment and strong business and population growth. That said, the administration recognizes that many parts of the State and some urban communities are struggling with decline, business closures, and population loss. We are working hard to drive prosperity throughout the State. We are focused on growing quality job opportunities in our rural communities, addressing the lack of workforce housing and infrastructure, and strengthening our key industries. We look to support development across the state with opportunity zone designations.

OEDIT has developed mapping and data tools to aid in identifying census tracts for OZ designation. These tools highlight eligible areas plus indexes to highlight areas of need and opportunity; the state does not intend to designate areas where investment is already engaged and hurdles are low. Communities must decide where they want to encourage investment and make efforts to shape that investment to the community's goals. Investment may come with the side-effects of higher real estate prices and gentrification. Investments must also meet the criteria in the Opportunity Act for being qualified opportunity zone business property. If the investments don't generate capital gains they will not be attractive to Opportunity Funds.

This Data Table provides census tracts, eligibility, and indices developed by OEDIT

The Data Table identifies **eligible** census tracts.

On top of that we created an index for **need** to identify those areas that have experienced economic distress and have impediments to investment that might be overcome with the OZ designation. Low median family income and high poverty are the base criteria for eligibility. In addition, high unemployment, a declining labor force, and distance from thriving metro areas and major inter-state highways were used to build our need index. The map highlights those census tracts where the statistics indicate more need.

Additionally, we have constructed an index to identify areas of **opportunity**. This index helps to identifying the census tracts in the best position to see improvement with OZ designation. The index accounts for State programs already in place (like Main Street Communities, Creative Districts, and Enterprise Zones, to name a few), core assets (like higher education institutions, federal labs, and major hospitals, significant rural airports, and others), business and labor density, and a presence of advanced industry and exporting businesses.

These two indices are combined for an over-all index in an effort to prioritize areas for OZ designation.

Coming soon – State map with census tracts and indeces
In the meantime, this New Market Tax Credit map is a good resource.

These tools are meant to aid our local economic development partners and other stakeholders in identifying top contenders for OZ status. The goal is to designate areas with economic growth impediments that can be overcome given the assets and efforts already in place, and with the additional momentum that Opportunity Fund investment can bring to the area in a 10-year time-frame.

We are coordinating with the Enterprise Zone administrators to prioritize areas within their regions. We want to understand where local community planners want investment and growth to occur. We want to know what has hindered the growth desired, and whether an Opportunity Zone will address that hurdle. We'll be considering the type of investment desired and whether private investment is the right tool. Other local efforts and the ability to market the opportunity to investors is also a key consideration.

OEDIT will make a recommendation to the Governor about which census tracts to select in early March, and per the federal law, the Governor will submit the final list to the U.S. Treasury by March 21st, 2018 (unless a 30-day federal extension is granted).

OPPORTUNITY FUNDS

For full implementation of the Opportunity Zone program, many efforts are going on simultaneously. While states work to identify and designate census tracts as OZs, the U.S. Treasury is finalizing their regulations which will implement this new law that will guide the Opportunity Funds. Investment groups are organizing and contemplating opportunities.

Opportunity Funds are a new class of investment vehicle that must be organized as a corporation or a partnership. The funds will specialize in attracting investors with similar risk/reward profiles to aggregate and deploy their capital in rural and low-income urban communities. Opportunity Funds will be comprised of private capital and guided by market principals. The funds must invest 90% of their assets in opportunity zone assets. Funds may invest in opportunity zones via stock, partnership interests, or business property.

Fund assets must create new business activity. If invested in an existing business, the fund must double the investment basis over 30 months. The funds can create new businesses. or new real estate or infrastructure. Funds may not be invested in certain types of business like golf courses, country clubs, gambling establishments, and a few other specifically excluded types of business.

Program details are in development. We encourage you to search the web and to review the links below on our webpage.

WHY WILL INVESTORS CHOOSE AN OPPORTUNITY FUND

Some investors have a social investment drive – they want their capital to improve communities they know and love. The Opportunity Fund creates an additional incentive to invest in communities by deferring and possibly eliminating the capital gain tax on long-term investments. Booms in the stock-market have many investors stilling on unrealized capital gains; they can transfer these into Opportunity Funds putting the full value of the capital gain to work.

The law allows for the temporary deferral of inclusion of the capital gain in gross income for those capital gains that are reinvested into Opportunity Funds.

These are benefits of rolling unrealized capital gains into an Opportunity Fund:

- No up-front tax bill on the roll-over investment
- Reduction of tax on the roll-over investment for long-term holding.
    - A 5 year holding reduces the capital basis to 90%
    - A 7 year holding reduces the basis capital basis to 85%
- Investors can defer their original tax bill until December 31, 2026 at the latest, or until they sell their Opportunity Fund investments, if earlier.

Opportunity fund investments held in the fund for at least 10 years are not taxed for capital gains.

Links & Resources

Tax Cuts and Jobs Act
Enterprise Institute - fact sheet and background
The Economic Innovation Group - national eligibility map, a fact sheet explaining the investment incentive
Bloomberg Tax Management Real Estate Journal

Colorado Office of Economic Development and International Trade
(303) 892-3840
oedit.info@state.co.us

Colorado Office of Economic Development and International Trade
(303) 892-3840
oedit.info@state.co.us

Colorado Office of Economic Development and International Trade
(303) 892-3840
oedit.info@state.co.us

Colorado Office of Economic Development and International Trade
(303) 892-3840
oedit.info@state.co.us

1625 Broadway, Ste. 2700,
Denver, Colorado 80202

Phone (303) 892-3840 | **Fax** (303) 892-3848

Colorado Office of Economic Development and International Trade - A Division of the Colorado Governor's Office - John W. Hickenlooper

© 2018 State of Colorado | Privacy Policy | Terms and Conditions | FY 17 Performance Plan