

# Leveraging Development Finance Tools to Attract Opportunity Zone Investment



U.S. EPA Office of Community Revitalization

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# Introduction

Many communities are looking for strategies to attract investment and support revitalization in their Opportunity Zones. Public sector development finance is an essential tool for attracting private investment. This guidance provides an overview of various development finance tools and suggestions for how communities could use these tools to finance projects in Opportunity Zones. Each section includes additional resources to learn more, along with case studies to illustrate how development finance tools have been used to support revitalization goals in several Opportunity Zones.

This guide is designed for local governments and other community stakeholders seeking to revitalize their communities and attract public and private investment for projects. The guide provides information to help community leaders think about options for bringing a community-based vision and plan to life by financing specific development or redevelopment projects, like rehabilitating a vacant downtown building or cleaning up an abandoned lot.

## What is Development Finance?

Development finance is the effort of local communities to support, encourage, and catalyze expansion through public and private investment in physical development, redevelopment, and business and industry. It is the act of contributing to a project or deal that causes the project or deal to materialize in a manner that benefits the long-term health of the community.

Development finance provides programs and solutions to address challenges that local business, industry, real estate, and environments face. As examples, creative financing approaches can be helpful to address environmentally-contaminated land and to provide specific solutions to unlock capital access in underserved markets and industries.

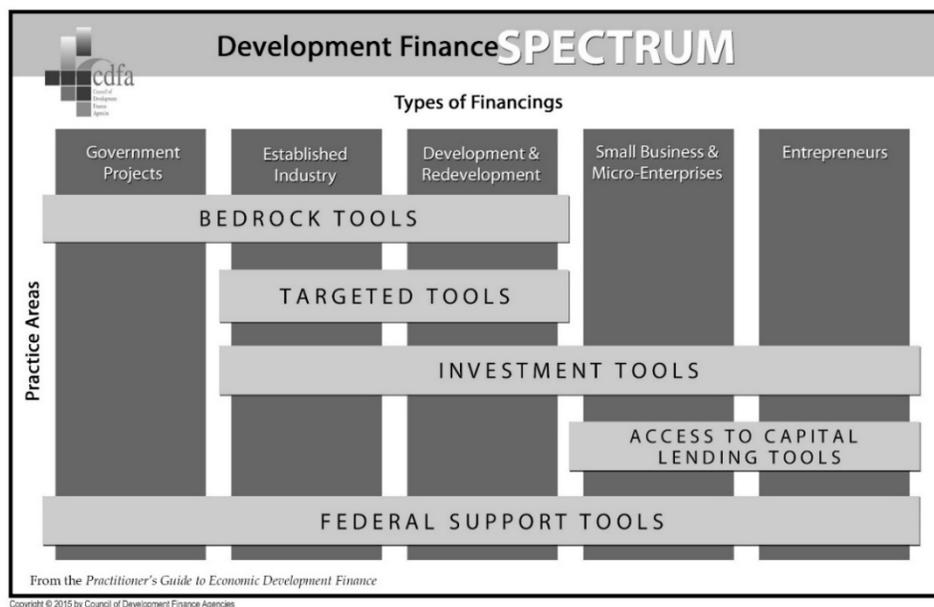


Figure 1. The Development Finance Spectrum illustrates the types of financing appropriate to different practice areas.

Ultimately, development finance aims to proactively leverage public resources to encourage private investment that leads to profitable investment in the community by business, industry, developers, and investors. By layering tools and programs, development finance can build a “capital stack” that can balance debt and equity sources for long-term and sustainable access to capital. The Development Finance in Action section of this guide includes case studies that explain capital stacks in the context of specific projects.

Using development finance tools requires careful analysis for best use and application. Local governments and authorities should engage a qualified municipal advisor along with other financial advisors, underwriters, accountants, and attorneys to analyze options and identify locally relevant and financially sound development finance recommendations. In addition, proactively engaging a set of key stakeholders in the financing process could help mitigate risk and ensure impactful social and economic returns over time.

Figure 1 illustrates the range of development finance tools based on their role in the marketplace. This guide provides an overview of the different types of development finance tools and how they could be used in coordination with investments from Opportunity Funds or to otherwise support projects in Opportunity Zones.

## Development Finance Resources

What is Development Finance

[www.cdfa.net/cdfa/cdfaweb.nsf/pages/df.html](http://www.cdfa.net/cdfa/cdfaweb.nsf/pages/df.html)

CDFA Online Resource Database

[www.cdfa.net/cdfa/cdfaweb.nsf/pages/resources.html](http://www.cdfa.net/cdfa/cdfaweb.nsf/pages/resources.html)

CDFA Development Finance Review Weekly Newsletter

[www.cdfa.net/cdfa/cdfaweb.nsf/pages/news.html](http://www.cdfa.net/cdfa/cdfaweb.nsf/pages/news.html)

## About Opportunity Zones

Opportunity Zones, created in the passage of the Tax Cuts and Jobs Act in 2017, are low-income census tracts eligible to use tax incentives to encourage long-term investments in projects or businesses located in that zone. There are approximately 8,700 designated Opportunity Zones. All 50 states, the District of Columbia, and U.S. territories have designated Opportunity Zones.

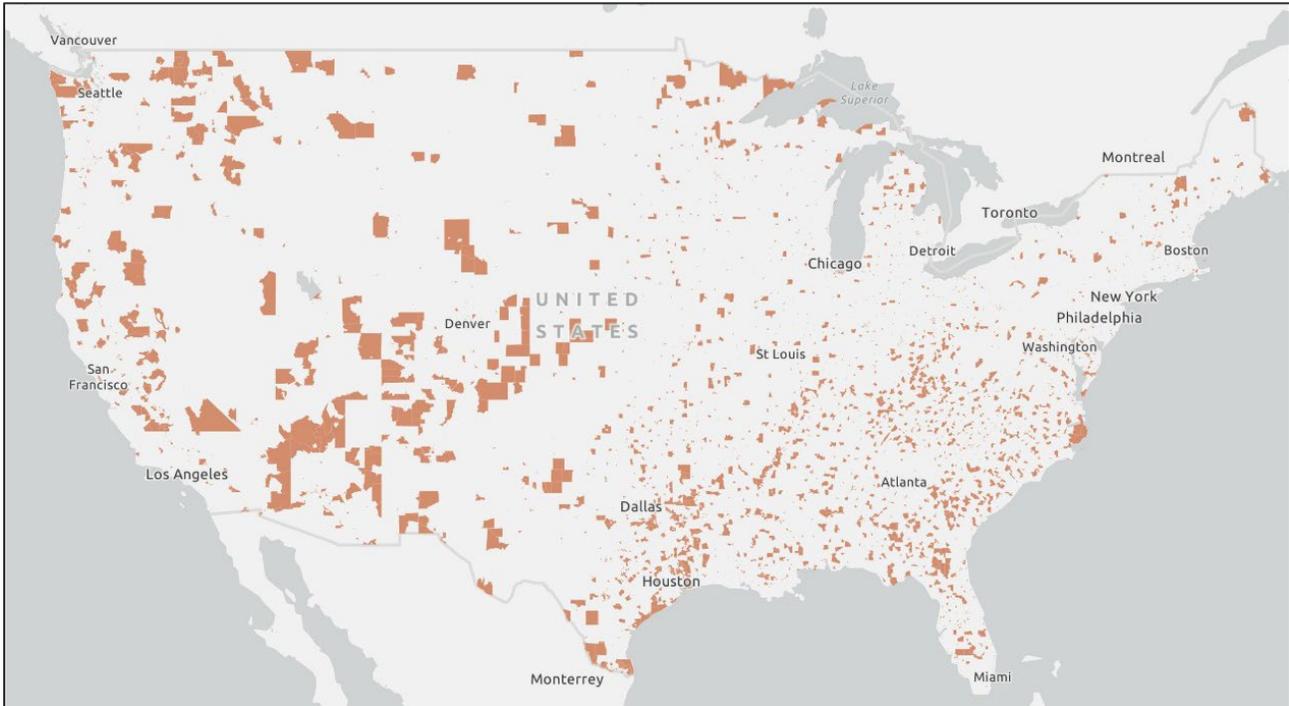


Figure 2. Map illustrating the location of Opportunity Zones in the continental United States. Source: Economic Innovation Group (EIG)

For an investor to realize the tax benefits of investing in Opportunity Zones, the investor has to invest the capital gains 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 their Opportunity Fund investment is sold or December 31, 2026, whichever comes first.

Investors place the capital gains in a Qualified Opportunity Fund as equity into a project or business located in an Opportunity Zone. Investors receive three main incentives:

- Defer capital gains taxes owed at the time the gain is realized.
- If the investment is in an Opportunity Zone for at least 5 years, only 90% of the original capital gains taxes must be paid.
- If the investment is in an Opportunity Zones for at least 10 years, any new capital gains tax on the appreciation of that investment is forgiven.

The purpose of Opportunity Zones is to encourage Opportunity Funds to invest patient, long-term capital in places that have been historically disinvested, or have struggled to access capital. In exchange for that long-term investment, ideally investors will be able to realize enough gains on their Opportunity Zones investment to pay the taxes owed on their original capital gain and have enough left over to receive tax-free earnings on the remaining balance.

Many state and local governments have created Opportunity Zone resources or consortiums to help communities, project developers, and investors coordinate on their Opportunity Zone efforts. As part of that effort, development finance agencies (DFAs) bring additional sources of capital to an Opportunity Zone investment when a gap is present or when projects within zones need financing but do not qualify for direct Opportunity Zone investment.

## Opportunity Zones Resources

CDFA Opportunity Zones Resource Center

[www.cdfa.net/cdfa/cdfaweb.nsf/resourcecenters/OZ.html](http://www.cdfa.net/cdfa/cdfaweb.nsf/resourcecenters/OZ.html)

CDFA Opportunity Zones Update Newsletter

[www.cdfa.net/cdfa/cdfaweb.nsf/newsletter.html?open&news=8132600899&archive=show&pager=hide](http://www.cdfa.net/cdfa/cdfaweb.nsf/newsletter.html?open&news=8132600899&archive=show&pager=hide)

CDFA LISC Navigating the Opportunity Zones Playbook

[www.cdfa.net/cdfa/cdfaweb.nsf/ordredirect.html?open&id=201909\\_ozplaybook.html](http://www.cdfa.net/cdfa/cdfaweb.nsf/ordredirect.html?open&id=201909_ozplaybook.html)

EIG Opportunity Zones Resources

[eig.org/opportunityzones/resources](http://eig.org/opportunityzones/resources)

## Bedrock Tools

Bonds are the bedrock of public development finance. Bond finance dates back to the 19th century, with the deferral tax exemption included in the country's first federal tax code. In its simplest form, a bond is a debt or a loan incurred by a governmental entity. Bonds are issued and sold to the investing public, and the proceeds are typically made available to finance the costs of a capital project. If the bonds are being issued for the benefit of a non-governmental borrower, the proceeds are often loaned to such a borrower, and the borrower then makes loan payments corresponding to when principal and interest are due on the bonds. Bondholders receive interest over the term of the bonds, and such interest is often exempt from federal, state, and local income taxes. The tax-exempt status of certain bonds often makes them an attractive investment option for investors.

### *Government Bonds*

There are two types of tax-exempt bonds: government bonds (GOs) and qualified private activity bonds (PABs). Government bonds are intended to address traditional infrastructure needs. Government bonds may be used for many public purposes (e.g., highways, schools, bridges, sewers, jails, parks, government equipment and buildings, etc.), and their debt service requirements are met by levying taxes on the general public. Private entities cannot significantly use, operate, control, or own facilities financed by GOs.

### *Private Activity Bonds*

Conversely, PABs permit a larger degree of private sector involvement, and are used to address development finance needs identified by Congress and state and local governments. PABs drive projects involving both the public and private sector by passing along the low-cost interest benefit generated by the tax-exempt status of PABs to private borrowers. While the language governing the usage of GOs is fairly straightforward, the language governing PAB regulations and uses is far more complicated. The Internal Revenue Code (IRC) permits the financing of several types of projects using qualified PABs, although they may be used partially or entirely for private purposes.

Qualified PABs generally include:

- Industrial development bonds to support small manufacturers.
- 501(c)(3) bonds to support non-profit organizations.
- Exempt facility bonds to support infrastructure or environmental improvements.
- Qualified redevelopment bonds to support real estate development and blight removal.
- Aggie bonds to support first time farmers.
- Green bonds to support energy efficiency and resiliency projects.

There are thousands of development finance agencies across the United States with the authority to issue PABs. These bond issuers are usually public or quasi-public units of government that have the direct responsibility for issuing bonds and accessing the capital markets. Depending on the type of project, the best issuer might be at the state, county, or municipal level. To identify the most appropriate issuer, local authorities could coordinate with local economic development leaders or government officials who oversee investment strategies or financing solutions for the community.

## In the Context of Opportunity Zones

Most development finance agencies and investors report that Opportunity Zone projects often need a debt component to balance out the capital stack. Private activity bonds could be a good source of funding to fill this need on an Opportunity Zone project. For example, a manufacturer wanting to locate in an Opportunity Zone could use an industrial development bond to support qualified expenses for building a new facility and investments from an Opportunity Fund could support other expenses not qualified by the Internal Revenue Service.

In addition, a development finance agency may want to consider issuing private activity bonds to support infrastructure such as sidewalks, lighting, or roads necessary to support projects in an Opportunity Zone. This initial investment could be the catalyst to receiving additional long-term capital from Opportunity Zone investors. A GO bond issued by a state or local government could also be a source for infrastructure development. State or local governments should engage qualified legal counsel and municipal advisors when considering the use of these bonds.

### Bedrock Tools Resources

CDFA Bond Finance Resource Center

[www.cdfa.net/cdfa/cdfaweb.nsf/resourcecenters/bond.html](http://www.cdfa.net/cdfa/cdfaweb.nsf/resourcecenters/bond.html)

CDFA Bond Finance Update Newsletter

[www.cdfa.net/cdfa/cdfaweb.nsf/newsletter.html?open&news=9809872586&archive=show&pager=hide](http://www.cdfa.net/cdfa/cdfaweb.nsf/newsletter.html?open&news=9809872586&archive=show&pager=hide)

Understanding Bonds

[www.cdfa.net/cdfa/cdfaweb.nsf/pages/bond-finance.html](http://www.cdfa.net/cdfa/cdfaweb.nsf/pages/bond-finance.html)

How the Tool Works: Qualified Private Activity Bonds

[www.cdfa.net/cdfa/cdfaweb.nsf/ord/cdfa-htw-qpabs-2013.html/\\$file/How%20the%20Tool%20Works%20PABs.pdf](http://www.cdfa.net/cdfa/cdfaweb.nsf/ord/cdfa-htw-qpabs-2013.html/$file/How%20the%20Tool%20Works%20PABs.pdf)

## Targeted Tools

Targeted financing tools differ from other tools because they target specific geographic areas or difficult to finance sectors in a community, offering incentives, tax rebates, credits, and unique financing structures that drive investment and development within that geographic footprint. Types of targeted tools include tax increment finance, special assessment districts, and tax abatements.

### *Tax Increment Finance*

Tax increment finance (TIF) is a popular development finance tool generally used to address blight, promote neighborhood stability, and inspire district-oriented development. Today, 48 states and the District of Columbia employ TIF tools, with rules and regulations varying by state. While each state's TIF statute is different, there are common policy goals and objectives. These goals include blight elimination, which is discussed in nearly every state's statute, as well as infrastructure additions and improvements. TIF can be used to finance one specific project or a group of projects in a district.

A TIF district is a powerful tool that can address many needs in a community. It is often used to encourage development, eliminate blight, address environmental issues, and facilitate adaptive reuse. TIF uses the increased property and/or sales taxes generated by a new development to finance costs related to that particular development. These costs may include public infrastructure, land acquisition, relocation, demolition, utilities, debt service, and planning costs.

TIF is a mechanism for capturing the future tax benefits of real estate improvements, in order to pay for the present cost of those improvements. It can be used to channel funding toward improvements in distressed or underdeveloped areas where development would not otherwise occur. As taxes increase, a portion of those taxes is set aside to pay the debt service on bonds issued in order for development to occur.

TIF is a local tool that is governed by state statutes. Typically, municipal or county governments have dedicated teams or agencies to provide information about TIF and how to access the tool based on a community's goals and objectives. In addition, development finance agencies and local project finance consultants can assist in navigating this process.

### *Special Assessment Districts*

Special assessment districts, also referred to as special improvement districts (SID), are a common tool. Every state provides some form of special district financing, and most states offer more than one option. SIDs are used to proactively collect a special tax for the benefit of the businesses or infrastructure needs of that district. As taxes are collected, a portion of them are set aside to fund needed support in that district. SIDs are often used to fund security or safety patrols, graffiti removal, snow removal, beautification, or marketing efforts. SIDs can also be used to fund transportation improvements, sewers, or community amenities. Similar to TIF, information about SIDs is typically housed at a municipal or county government agency.

### *Tax Abatements*

Tax abatements eliminate or reduce tax liabilities for qualified projects, investments, or other business activities. Tax abatement programs provide incentives for businesses to expand, invest, or relocate to a specific area. Governments could choose to abate property, payroll, sales, or other types of taxes as set forth in state statutes. In many states, the ability to abate taxes is a major driver for business relocations, because this incentive plays a critical role in the competitive site selection process. Abatements can also be used to foster investment in under-served neighborhoods, or areas where certain types of businesses, such as

industrial park or technology incubators, are sought. Similar to TIF, information about tax abatements is typically housed at a municipal or county government agency responsible for distributing incentives.

### In the Context of Opportunity Zones

Targeted tools are often used to advance economic development priorities, many of which match up to policy priorities around Opportunity Zones. Combining capital raised from targeted tools along with Opportunity Zone equity could help communities guide investment toward prioritized redevelopment, develop industry niches, open new markets for services that are absent, improve existing infrastructure, and clean up brownfields.

Targeted tools could be used to support infrastructure development or improvements; fund needed community amenities to help real estate appreciate over time like parks, façade improvements, or bus shelters; or provide an additional incentive to businesses willing to relocate in an Opportunity Zone. Because of the significant incentive provided to the Opportunity Fund investor, state and local governments should conduct the proper due diligence and carefully consider the appropriate level of investment from targeted tools. These targeted tools can be a valuable source of financing in an Opportunity Zone, but should not be the primary contributing capital for investment.

### Targeted Tools Resources

CDFA Tax Increment Finance Resource Center

[www.cdfa.net/cdfa/cdfaweb.nsf/resourcecenters/tif.html](http://www.cdfa.net/cdfa/cdfaweb.nsf/resourcecenters/tif.html)

CDFA Special Assessment Resource Center

[www.cdfa.net/cdfa/cdfaweb.nsf/resourcecenters/specialassessment.html](http://www.cdfa.net/cdfa/cdfaweb.nsf/resourcecenters/specialassessment.html)

CDFA Tax Increment Finance Update Newsletter

[www.cdfa.net/cdfa/cdfaweb.nsf/newsletter.html?open&news=4486305027&archive=show&pager=hide](http://www.cdfa.net/cdfa/cdfaweb.nsf/newsletter.html?open&news=4486305027&archive=show&pager=hide)

How the Tool Works: Tax Increment Finance

[www.cdfa.net/cdfa/cdfaweb.nsf/ord/howtoolworks--tif.html/\\$file/TIF-How-the-tool-works.pdf](http://www.cdfa.net/cdfa/cdfaweb.nsf/ord/howtoolworks--tif.html/$file/TIF-How-the-tool-works.pdf)

## Investment Tools

Investment tools are unique financing solutions that provide incentives for individuals and companies to invest in new machinery, technology, or real estate developments, among many others. They are often seen in the form of tax credit programs that allow businesses and investors to claim tax credits for committing resources to a project or business. Several different types of tax credit programs exist at the federal and state levels to encourage investments in redevelopment projects, affordable housing, specific industries, and communities of all sizes.

Tax credits directly reduce a taxpayer's tax liability and are not a deduction, thus making them a very desirable and effective tool. They can be used in urban, rural, and suburban communities, and in some cases on a regional basis. They can also provide a targeted impact by addressing specific community sectors, such as low-income neighborhoods, historic districts, and under-served markets that present opportunities for new investment.

In order to receive a tax credit, an investor first demonstrates that an investment has been made. Such a resource commitment could be an investment in a bricks and mortar real estate project or a cash investment in a business. The distributor of the tax credit is authorized to issue credit based on the actual outlay of resources as evidenced by the investor. Tax credits can be used for several purposes in development projects: to provide an increased internal rate of return for investors, to reduce the interest rates on a particular financing package, and perhaps most importantly, to provide a repayment method for investors in place of cash. In the latter case, the credits can often be sold on the secondary market to generate income.

### *Federal Tax Credits*

There are three main federal tax credit programs: New Markets Tax Credits (NMTC), Historic Rehabilitation Tax Credits (HTC), and Low-Income Housing Tax Credits (LIHTC). As outlined below, each federal tax credit program is designed to promote investment into disadvantaged communities or projects and has a different approach for accessing the tool.

- The NMTC was created to generate capital for projects located in low-income communities and helps borrowers and projects achieve lower interest rates and potential equity stakes, which enhances the project and encourages more investment. To use NMTC, the first step is to identify a certified development entity (CDE) with a NMTC allocation. This information is available on the Community Development Financial Institutions (CDFI) Fund's website.
- The HTC was established to discourage unnecessary demolition of older buildings, and to help mitigate higher rehabilitation costs that often lead to new builds instead of preserving historic structures. The HTC is available to any qualifying historic building and can be coordinated through the state's historic preservation office.
- Lastly, the LIHTC was created to promote the construction and rehabilitation of housing for low-income individuals and to encourage private investment into affordable housing. The LIHTC is allocated to specific state agencies that determine which projects are eligible for the credit. Information about each state's allocating agency is available on the Department of Housing and Urban Development's (HUD's) website.

## State Tax Credits

State tax credit programs are also available, and they can often be combined with federal tax credit programs for maximum investment. These programs address a number of investment areas, including venture capital investment, low-income housing, job creation, machinery and equipment, targeted area redevelopment, brownfield cleanup, wage adjustment credits, and other industry-specific credits. To determine the types of available tax credits for economic development efforts in a particular state, contact the state agency responsible for economic development. Typically, state departments of commerce or dedicated state-level development finance agencies can direct you to specific tax credit information.

## In the Context of Opportunity Zones

In many cases, all three federal tax credit programs can be used to support projects in Opportunity Zones. Some states have also created specific types of tax credit programs to encourage Opportunity Zone investments. The NMTC program pairs well with Opportunity Fund investments. Some Opportunity Zone project developers and advisors have reported that access to NMTC has been an important factor in making a project viable. These credits often work well to support mixed use, mixed-income development, community amenities, and housing in Opportunity Zones. Historic tax credits often work well to support capital needed to restore historic buildings in Opportunity Zones. LIHTCs could be used to support multi-family housing or low-income housing projects in Opportunity Zones.

## Investment Tools Resources

CDFA Tax Credit Finance Resource Center

[www.cdfa.net/cdfa/cdfaweb.nsf/resourcecenters/taxcredits.html](http://www.cdfa.net/cdfa/cdfaweb.nsf/resourcecenters/taxcredits.html)

CDFA Tax Credit Finance Update Newsletter

[www.cdfa.net/cdfa/cdfaweb.nsf/newsletter.html?open&news=8601663233&archive=show&pager=hide](http://www.cdfa.net/cdfa/cdfaweb.nsf/newsletter.html?open&news=8601663233&archive=show&pager=hide)

Overview of New Markets Tax Credit

[www.cdfifund.gov/programs-training/Programs/new-markets-tax-credit/Pages/default.aspx](http://www.cdfifund.gov/programs-training/Programs/new-markets-tax-credit/Pages/default.aspx)

Overview of Low-Income Housing Tax Credits

[www.huduser.gov/portal/datasets/lihtc.html](http://www.huduser.gov/portal/datasets/lihtc.html)

Overview of Historic Tax Credits

[www.nps.gov/tps/tax-incentives.htm](http://www.nps.gov/tps/tax-incentives.htm)

## Access to Capital Lending Tools

Access to capital lending tools are important sources of capital to support small businesses and economic development in communities. They can be tailored to address both small financing needs and large-scale projects. This type of tool is the most flexible in the development finance toolbox, and is often structured as a revolving loan fund.

### *Revolving Loan Funds*

A revolving loan fund (RLF) is a gap financing measure primarily used for development and expansion of small businesses. It is a self-replenishing pool of money, utilizing interest and principal payments on old loans to issue new ones. While most RLFs support local businesses, some target specific areas such as healthcare, minority business development, and environmental cleanup.

Establishing an RLF provides access to a flexible source of capital that can be used in combination with more conventional sources. Often, the RLF is a bridge between the amount the borrower can obtain on the private market and the amount needed to start or sustain a business. For example, a borrower may obtain 60 to 80 percent of project financing from other sources.

Quality RLFs issue loans at market or otherwise competitive and attractive rates. Many RLF studies have shown that access to capital and flexibility in collateral and terms is more important to borrowers than low interest rates. RLF programs are built with sound interest rate practices and are not free or easy sources of financing. If successful, RLFs will generate enough of an interest rate return to replenish the fund for future loan allocations. With competitive rates and flexible terms, a RLF provides access to new financing sources for the borrower, while lowering overall risk for participating institutional lenders. Information about available RLFs in your community can be found by talking to local development finance agency and community development finance institutions. In addition, local small business development centers (SBDCs) or chambers of commerce often have lists of eligible RLFs based on business activity.

### *In the Context of Opportunity Zones*

Because access to capital lending tools, and especially RLFs, are so flexible, they can be used to support a variety of needs in Opportunity Zones. Financing from RLFs could be used alongside Opportunity Fund investments to support new construction or property improvements, infrastructure needs like water and sewer upgrades, or land acquisition. RLFs can also support the businesses located in Opportunity Zones, especially for those businesses where Opportunity Zone capital is not an ideal fit. For example, RLFs can support small businesses to purchase machinery and equipment, provide necessary working capital, or investment in new jobs. The presence of a healthy and thriving small business ecosystem in an Opportunity Zone can help strengthen the long-term investment potential of that zone.

### Access to Capital Lending Tools Resources

CDFA Revolving Loan Fund Resource Center

[www.cdfa.net/cdfa/cdfaweb.nsf/resourcecenters/rlf.html](http://www.cdfa.net/cdfa/cdfaweb.nsf/resourcecenters/rlf.html)

CDFA Revolving Loan Fund Finance Update Newsletter

[www.cdfa.net/cdfa/cdfaweb.nsf/newsletter.html?open&news=888990616&archive=show&pager=hide](http://www.cdfa.net/cdfa/cdfaweb.nsf/newsletter.html?open&news=888990616&archive=show&pager=hide)

## How the Tool Works: Revolving Loan Funds

[www.cdfa.net/cdfa/cdfaweb.nsf/ord/howtoolworks--rlf.html/\\$file/dfp4--howtoolworks.pdf](http://www.cdfa.net/cdfa/cdfaweb.nsf/ord/howtoolworks--rlf.html/$file/dfp4--howtoolworks.pdf)

## Basics of Revolving Loan Funds

[www.cdfa.net/cdfa/cdfaweb.nsf/pages/revolving-loan-funds.html](http://www.cdfa.net/cdfa/cdfaweb.nsf/pages/revolving-loan-funds.html)

## U.S. Small Business Administration

[www.sba.gov/local-assistance](http://www.sba.gov/local-assistance)

# Federal Support Tools

Federal agencies provide billions of dollars annually to support economic development activities at the state and local levels. The availability of such tools depends on the local context. Some federal support tools are typically available on an annual basis, while other tax incentives and grants may only be available for a set period or in response to specific financing challenges.

There are hundreds of federal programs that finance economic development. Many of these programs provide funding directly to local governments, while others provide funding to a business, industry, collaborative, or intermediary. Often these resources supplement local efforts and come in the form of guarantees, loans, or grants. Many of these programs are housed at the Economic Development Administration (EDA), HUD, EPA Office of Brownfields, and United States Department of Agriculture (USDA) Rural Development.

To access these programs, it can be helpful for practitioners to build partnerships with cooperative agencies within the community. Coordination with state and local government agencies often plays an important role in the delivery of federal programs. These state and local agencies often employ outreach coordinators and professionals who help build partnerships, provide program education, and assist with funding requests. Additionally, federal agencies often offer technical assistance and resources to help communities navigate federal funding programs.

## In the Context of Opportunity Zones

As a directive from the White House Opportunity and Revitalization Council, a collaboration of 17 federal agencies are encouraged to develop policies and programs that directly invest or otherwise support activities in Opportunity Zones. Several goals were established to help guide this work, including:

- Leverage federal grants and loans in a more integrated way to develop dilapidated properties and provide basic infrastructure and financial tools to attract private investment.
- Leverage government lending and grants to stimulate access to private capital and promote programs that assist entrepreneurs.
- Combat drug addiction and the opioid crisis, reduce crime/enhance public safety, and address environmental contamination obstacles to development.
- Improve the efficacy of K-12 and community college career and technical education and workforce development programs to better prepare workers in distressed communities for jobs.
- Develop robust reporting and analytics to measure impact of Opportunity Zone designation.

As a result, several federal agencies have modified program requirements to allocate additional funding to projects in Opportunity Zones. Some agencies award bonus points on federal grants for projects that directly invest or support activities in Opportunity Zones. The availability of federal capital to support Opportunity Zones can help to leverage Opportunity Zone investment or other financing tools needed to encourage long-term investment and strengthen access to capital.

## Federal Support Tools Resources

CDFA Federal Financing Clearinghouse

[www.cdfa.net/cdfa/cdfaweb.nsf/ffcsearch.html](http://www.cdfa.net/cdfa/cdfaweb.nsf/ffcsearch.html)

White House Opportunity and Revitalization Council report (Feb 2020)

[www.hud.gov/press/press\\_releases\\_media\\_advisories/HUD\\_No\\_20\\_019](http://www.hud.gov/press/press_releases_media_advisories/HUD_No_20_019)

White House Opportunity and Revitalization Council Best Practices (June 2020)

[opportunityzones.hud.gov/sites/opportunityzones.hud.gov/files/documents/OZ\\_Best\\_Practices\\_Report.pdf](http://opportunityzones.hud.gov/sites/opportunityzones.hud.gov/files/documents/OZ_Best_Practices_Report.pdf)

## Development Finance in Action

Development finance is a complex undertaking requiring considerable knowledge and training. Lack of education and training can be a major hindrance to the development finance process for under-resourced communities, sometimes creating project obstacles and legal problems.

In addition, each economic development transaction presents different challenges. For instance, large-scale industrial development requires a different financing approach than small business development. Communities that understand the spectrum and application of development finance approaches are well-positioned to allow development finance agencies to address the needs of established industries, large real estate development projects, small businesses, and individual entrepreneurs.

This section will explore how the spectrum of development finance tools have been used in Opportunity Zone projects. Understanding how capital stacks work is important to maximizing the development finance resources available in a community. Many stakeholders will need to work together for successful project financing. Community leaders might find it valuable to bring together a variety of experts, including state and local development finance agencies, traditional lending representatives, tax credit allocatees, non-profit lenders, Opportunity Zone investors or fund managers, along with a series of professional legal and financial advisors.

### Key Players

Most communities do not have all the resources or expertise to assemble the capital for an Opportunity Zone project. Likewise, one development finance agency likely cannot offer all of the necessary programs or investment tools. Finding the right partners at the local, state, and national levels is very important to building a robust development finance toolbox that supports a sustainable and thriving financial ecosystem. By allocating the responsibility to operate and fund programs across a spectrum of agencies, communities can diversify their development finance toolbox, just as they would seek to diversify their economic base or industry specialization. Figure 3 illustrates the types of agencies that can be engaged with each tool.

As the case studies in the next section showcase, many different organizations are often involved when assembling capital for a project. Partners at federal agencies, private lending institutions, foundations, anchor institutions, industry associations, and non-profit service providers can be invited to conversations about Opportunity Zone projects and long-term community investment strategies. Many of these partners could bring important resources in the form of capital, investor connections, or technical assistance that could support a successful transaction.

Opportunity Zone projects benefit from a careful selection of attorneys and financial advisors that represent the project developers, the communities, and the investors. It is important to consult those qualified professionals before undertaking a complex financing transaction.

# Development Finance **TOOLBOX** Partnerships

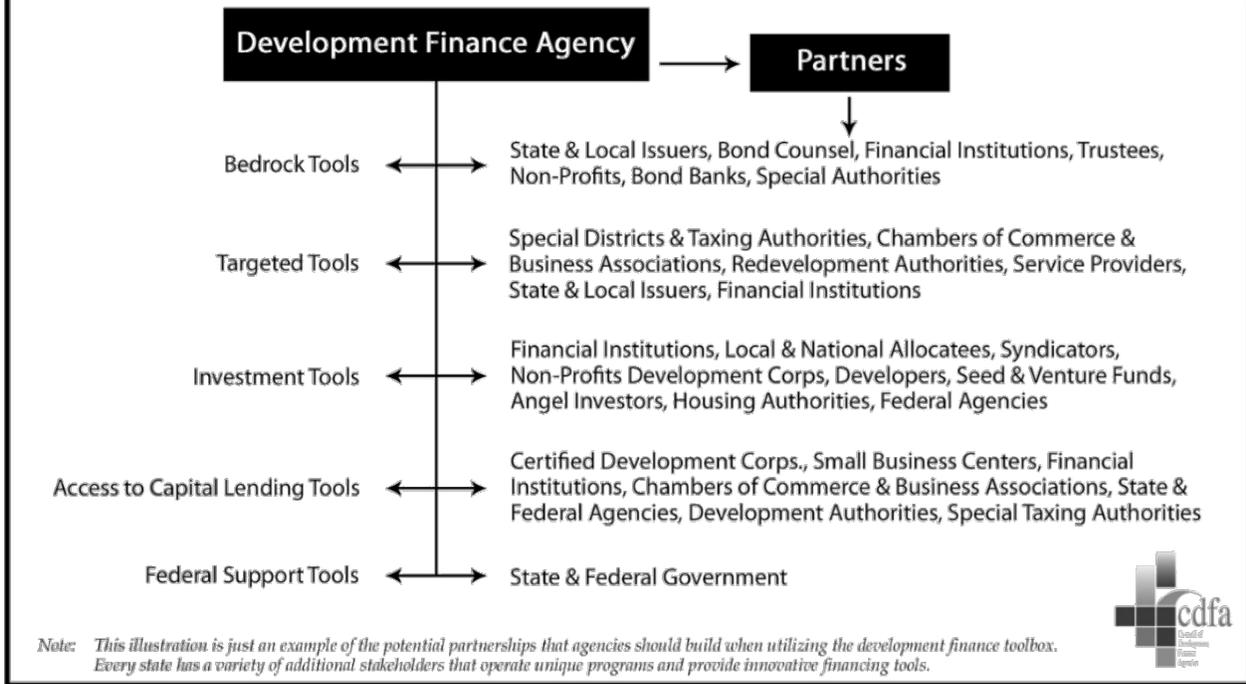


Figure 3. This diagram illustrates potential partners for each development finance tool.

# Case Studies

## Ox Fibre Apartments

*Frederick, Maryland*

Source: *Economic Innovation Group*

[eig.org/wp-content/uploads/2020/03/Case-Study-%E2%80%93-Ox-Fibre-UPDATED.pdf](http://eig.org/wp-content/uploads/2020/03/Case-Study-%E2%80%93-Ox-Fibre-UPDATED.pdf)

Ox Fibre Apartments will bring 83 new affordable apartments to Frederick, Maryland, which is a growing community located within one hour of Washington, D.C. and Baltimore, Maryland. Layering Opportunity Zones equity with state LIHTCs, federal HTC, and additional sources of debt will allow the developer to bring a 19th century warehouse back to life while providing much-needed one-, two-, and three-bedroom homes at price points affordable to current residents. The benefits of this project did not end at creating 83 new affordable apartments; it also created 38 full-time jobs, supported 56 construction jobs, generated \$5 million dollars in total wages, and will add \$539,500 in state and local tax revenue.



This creative financing model demonstrates how various state and federal programs can be layered to support low-income residents. The project also demonstrates the role of Opportunity Zone equity in furthering that goal. Ox Fibre Apartments directly benefited from \$11.5 million in tax credit equity by combining the 4 percent housing credit from the Maryland Department of Housing and Community Development and federal HTCs.

The developer, EquityPlus, accessed federal, state and local debt with preferable terms, which was key in advancing Ox Fibre Apartments. This included a \$10.5 million tax-exempt permanent loan from Freddie Mac with a forward commitment, which mitigates interest rate risk, as well as subordinate debt totaling \$3.4 million from Frederick County and the state.



- Freddie Mac debt – \$10.5 million
- Housing Credit equity – \$7.1 million
- Historic Tax Credit equity – \$4.4 million
- Opportunity Zones equity – \$830,000
- State and County debt – \$3.4 million
- Deferred Developer Fee – \$670,000

**Total Development Cost: Approximately \$27 million**

# The Tappan

## Cleveland, Ohio

Source: *Economic Innovation Group*  
[eig.org/wp-content/uploads/2019/11/CaseStudy-TheTappan.pdf](http://eig.org/wp-content/uploads/2019/11/CaseStudy-TheTappan.pdf)



Cleveland-based Sustainable Community Associates (SCA) broke ground on their fourth development in the city, The Tappan. This development will bring 95 new apartments and a bakery to the Tremont neighborhood. SCA views The Tappan as building on Cleveland’s ongoing efforts to revitalize the Tremont neighborhood and invest along the Scranton Corridor. Once completed in the third quarter of 2020, The Tappan will offer affordable homes and provide a local entrepreneur the opportunity to open a bakery on the ground floor.

PNC Bank (PNC) is supporting The Tappan through a \$3.8-million construction loan and an \$11.4-million equity investment financed through its Qualified Opportunity Fund; both closed in the second quarter of 2019. PNC’s investment attracted additional Opportunity Zone investments through two Opportunity Funds, totaling \$6.9 million. SCA secured a \$180,000 loan from the city of Cleveland to finance the project, and the project will benefit from a 30-year non-school tax increment financing package in addition to the city’s typical 15-year residential property tax abatement.



- Opportunity Zones equity (developer and partner) – \$6.9 million
- Opportunity Zones equity (PNC Bank) – \$11.4 million
- City of Cleveland debt – \$180,000
- PNC Bank debt – \$3.8 million

**Total Development Cost: Approximately \$22.3 million**

# Newark Arts Commons

*Newark, New Jersey*

Source: National Trust Community Investment Corporation  
[ntcic.com/projects/newarkartscommons/](http://ntcic.com/projects/newarkartscommons/)

Southern New Jersey Development Council  
[snjdc.org/wp-content/uploads/2018/12/Newark-Arts-Commons-Project-Overview.pdf](http://snjdc.org/wp-content/uploads/2018/12/Newark-Arts-Commons-Project-Overview.pdf)

The former St. Michael’s Hospital building in Newark, New Jersey, will become the Newark Arts Commons, a center for arts education and creative co-living. Newark Arts Commons will include 25 apartment units, including 20 “co-living units” and five traditional units. There will also be affordable, long-term space dedicated to non-profit arts organizations in the community to ensure an ongoing vibrant arts scene in downtown Newark.



Approximately \$11 million of Opportunity Zones equity was provided by the Ellavoz Shared Values Opportunity Fund. NMTC and HTC financing was provided by the National Trust Community Investment Corporation and is expected to generate nearly \$1 million in cost savings for the project. This savings makes it possible to give the non-profit tenants below-market rent and create affordable housing units within the residential space. The project is expected to support 80 full-time equivalent (FTE) jobs during construction, half of which will be hired from the local low-income communities. Once complete, the project will support 75 FTE positions.

## Key financials

### Newark Arts Commons

Uses	Total	% Total	Sources	Total	% Total
Land and Building	\$ 2,700,000	12%	Owner Equity (Building Val Appreciation)	\$ 1,600,000	7%
Hard Construction Costs	\$ 13,847,573	64%	Residential Condo Loan	\$ 4,400,000	20%
Soft Costs	\$ 3,952,191	18%	Historic Tax Credits	\$ 2,555,261	12%
Financing Fees & Carrying Costs	\$ 1,202,533	6%	Deferred Dev Fee	\$ 247,036	1%
<b>Total Project Costs</b>	<b>\$ 21,702,297</b>	<b>100%</b>	Opportunity Zone Equity	\$ 11,000,000	51%
			GlassRoots Contribution	\$ 875,000	4%
			Project Sponsor Equity Investments	\$ 1,025,000	5%
			<b>Total Sources of Funds</b>	<b>\$ 21,702,297</b>	<b>100%</b>

## Glossary of Terms

**Angel Investment** – An investment from an accredited investor or high net worth individual given to a company at its earliest stages, usually in exchange for equity in the company.

**Asset** – Anything of value that can be converted into cash.

**Bond** – A debt security issued by a state, municipality or county to finance capital projects. A bond is different than a loan in that the money is provided by the capital markets, rather than by a lender. The debt security is paid back similarly to a loan, with a specific interest rate and payment date(s).

**Capital** – Financial assets, such as funds held in deposit accounts or obtained from financing sources. Capital assets can include cash or securities as well as equipment or real estate.

**Capital Gain** – A profit from the sale of property or an investment.

**Capital Stack** – A term used to define all of the sources of capital used to finance a project.

**Collateral** – A non-monetary item pledged as security in the event of a default.

**Credit Enhancement** – The improvement of the credit profile of a financial transaction to obtain better terms for repaying a debt. There are several types of credit enhancement including collateral, third-party guarantees, and insurance.

**Debt** – A monetary obligation borrowed from one party to another that requires repayment of principal and interest.

**Debt Service** – The amount of money owed on a debt at certain payment intervals, such as monthly or quarterly.

**Deduction** – A tax deduction lowers a tax payer's liability by lowering their taxable income.

**Equity** - Ownership in a business entity. Generally, equity is total assets minus total liabilities.

**Gap Financing** – The difference between what is needed to finance a project and what is already pledged. A lender providing gap financing often does so through a bridge loan until all of the capital can be secured.

**Grant** – An amount of money that a government or philanthropic institution gives to an entity that does not need to be repaid.

**Incentive** – A deduction, exemption, or exclusion from money owed in taxes to the government. Tax incentives are offered by a governmental entity to encourage individuals or businesses to invest in certain activities.

**Interest Rate** – A percentage of the loan amount that is paid to the lender as the cost for borrowing money.

**Issuer** – The entity borrowing money through the issuance of bonds. This can be a state, political subdivision, agency or authority in the case of municipal bonds, a corporation for corporate bonds, and the U.S. Government for Treasury Bonds.

**Liability** – An obligation between one party and another not yet completed or paid for.

**Loan** – An agreement between a lender and borrower that the borrower will receive a specified monetary benefit and in exchange will also incur a debt until the principal and interest are paid.

**Loan Guarantee** - A loan that a third-party agrees to pay for in the event that the borrower defaults. Some loan guarantees are covered at a portion of the principle balance, while others cover 100% of the unpaid balance.

**Tax Credit** – A tax credit is a dollar for dollar reduction of a taxpayer’s tax liability. A tax credit could reduce either federal or state taxes owed depending on its structure.

**Venture Capital** – A type of equity financing that investors provide to startup companies and small businesses that are believed to have long-term growth potential. A venture capital investor will receive an equity stake in a company and therefore will receive earnings from the company as it grows.