HELPING COMMUNITIES — BUILD THEIR FUTURE.
SPEAKER AND CONTACTS

GENE GODDARD
Senior VP / Consultant
Housing & Economic Development
Springsted, Inc.

MIKAELA HUOT
VP / Consultant
Housing & Economic Development
Springsted, Inc.
We help communities build their future.

Springsted is a multi-disciplinary Municipal Advisory firm. Our team of leading experts in the fields of Housing, Economic Development and Finance deliver independent advisory services within the long-term process of building communities on a fiscally sound and well-managed basis.

Our comprehensive services cover:

- Policy Development
- Project Management from concept through construction and performance

We specialize in:

- Development strategies
- Project feasibility studies
- Project Financing and business plan analysis
- Negotiation of the need and type of public sector participation and coordination of financing mechanisms
SPRINGSTED’S AREAS OF EXPERTISE

Our housing and economic development advisors leverage their extensive public and private sector experience to help our clients navigate any aspect of the following tasks:

- Lead focus groups to clarify community objectives and goals
- Craft comprehensive economic development, redevelopment and housing strategies
- Help integrate policies into a strategic vision and action plan to catalyze growth
- Guide cities in discovering how to evaluate desired public purpose outcomes and develop benchmark metrics for success
- Support private sector investments that lead to tax base growth
- Conduct Industry Sector and Labor Force analysis to help communities position themselves for future opportunities
- Analyze sites and development opportunities to support economic development capacity
- Develop and manage business assistance programs such as Tax Increment Financing, Tax Abatement and Revolving loan funds.
- Establish a targeted process for business and developer recruitment
- Evaluate developer responses to requests for proposals
- Identifying the tools available to address the projects specific needs
- Establishing and monitoring tax increment financing and tax abatement projects
- Conduct negotiations for business assistance
A specialized team dedicated to helping you plan and manage resources to achieve maximum efficiency and effectiveness. The team provides a variety of financial planning tools, enabling you to evaluate the interface of capital infrastructure, tax policies, debt management and operational finance.

An extensive team of financial experts providing comprehensive services for every type of public infrastructure and operational finance area. Specialized technology and experts devoted to providing you with independent advice covering all of your options, with associated full regulatory compliance services.

An expert team of former public sector leaders, devoted to helping governing bodies, senior management and HR departments in solving their organizational and staffing needs. Complete services to provide strategic direction, organizational improvements and staffing enhancements.

A skilled team of investment professionals with experience in policy development, cash flow and portfolio analysis, fund selection and refunding existing debt.

Team of experienced, full-time consultants providing innovative solutions in managing, developing and recruiting key-human capital in your organization. Leveraging an extensive national candidate network and time-proven processes, our Executive Recruitment Group is recognized nationwide for delivering high-level services along with expert advice on issues such as position requirements, compensation and contract terms.
TODAY’S OPPORTUNITY ZONE TOPICS

Some concepts that will be covered:

• What it means to become Opportunity Zone “Investment Ready.”
• How to create an “Investment Ready” Prospectus that includes the materials and messaging that meets the needs of an certified-investor or Opportunity Fund’s investment strategy.
• How you can help encourage Opportunity Zone investments that meet your community’s goals.
• Case Studies
RAISING CAPITAL FOR A DEVELOPMENT PROJECT

• Raising capital for a development project is often a challenge.
• Raising capital is a crucial strategic decision for any project.
• The first step for any developer is to understand what type of funding or mix of funding is required.
• Understand which funders or investors are best placed to provide the capital that is needed.
• Can the project generate enough revenue to service debt and create a profit.
• For more speculative projects, the cost of funds will be higher or they will need an additional equity investment to be successful.

Whatever the type of funding requirement, it's important that the project is investment ready.
Our process for evaluating economic development projects can be summarized by six key questions:

- Is this something our community really wants?
- Who are we dealing with?
- Is this project feasible?
- Will our community financially benefit?
- Is a subsidy needed?
- Will they do what they say?
BECOMING OPPORTUNITY ZONE “INVESTMENT READY”
WHAT LOCAL GOVERNMENT CAN DO?

The OZ projects that will be most attractive to investors will be those considered to be “investment ready” before the end of 2019.

Local governments should conduct planning and predevelopment activities to prepare projects for potential investment.

There are no guarantees that OZ investments will benefit the local community or serve public interests.

Local governments may want to be proactive by securing key property/sites and prepare it for investment in a way that meets public interests.
BEING OPPORTUNITY ZONE “INVESTMENT READY” IS LIKE COMBINING PIECES OF FOLLOWING:

- Shovel Ready
- Early Stage Company Prospectus
- Municipal Bond Offering - Official Statement
DEFINITION of Shovel Ready

• Describes the status of a project that is considered to be in the advanced stages of development. Shovel-ready means a project is past the planning stages and can start construction quickly.

• Everything that is needed to close the real estate transaction is completed or nearly completed before marketing a site/location.

• If given stimulus money, a development project will have the most immediate impact on employment, local economy or other desired outcome.

• Shovel Ready Site certification is one of the most effective site marketing tools for Eco Devo’s wanting to create a competitive advantage.
EARLY STAGE COMPANY CAPITAL ASK – WHAT’S IN IT FOR THE INVESTOR

The Ten Rules for those Who Want to Write a Prospectus

• Know who your audience: Who are the your targeted investors
• Explain how They will generate profit
• Keep it simple
• Know your market
• Show how the business can scale
• Introduce the team
• Be clear about the risks
• Detail how their funds will be used
• Show your financials
• Have an exit strategy

This is your investment pitch – and don’t forget to add some Industry Statistics! A simple search on Google will reveal some interesting facts that you can include in your investment proposal. Remember who money you are trying to attract.

Source: Prospectus.com
OFFICIAL STATEMENT INFORMATION

TABLE OF CONTENTS
Terms of Proposal................................................................. i-v
Introductory Statement...................................................... 1
Continuing Disclosure ......................................................... 1
The Bonds............................................................................... 2
Authority and Purpose....................................................... 4
Sources and Uses of Funds................................................... 5
Security and Financing......................................................... 5
Future Financing................................................................. 5
Litigation............................................................................... 6
Legality................................................................................ 6
Tax Exemption....................................................................... 6
Bank-Qualified Tax-Exempt Obligations............................... 7
Rating.................................................................................. 8
Municipal Advisor............................................................. 8
Certification......................................................................... 8
City Property Values.......................................................... 9
City Indebtedness.............................................................. 10
City Tax Rates, Levies and Collections............................... 14
Funds On Hand..................................................................... 15
Investments......................................................................... 15
General Information Concerning the City............................ 16
Governmental Organization and Services............................ 21
Proposed Form of Legal Opinion................................. Appendix I
Proposed Form of Continuing Disclosure Undertaking .... Appendix II
Summary of Tax Levies, Payment Provisions, and Real Property Valuation... Appendix III
Excerpt of 2018 Annual Financial Statements.................. Appendix IV
DIGGING IN A LITTLE DEEPER: WHAT IT MEANS TO BE “INVESTMENT READY”?

- Local governments can do the following:
  - Conduct a survey of development opportunities
  - Secure control of key properties
  - Conduct planning and pre-development activities
  - Investment in public transportation or other infrastructure
  - Consider an targeted incentives
  - Create an Investment Ready Prospectus
  - Market those projects
  - Work with civic-minded local and regional business leaders
  - Watch out for speculators
OPPORTUNITY ZONE “INVESTMENT READY” PROSPECTUS TEMPLATE

EXECUTIVE SUMMARY/OPPORTUNITY ZONE DEAL SHEET (Site Specific)

Investor Discussion:
• Problem being solved, solution offered and how an OZ Fund investment could support proposed development?
• Unique advantage of your community’s OZ?
• Why your development project is an attractive investment opportunity?
• How much money is needed, and how will it be used?
• What will be the return on investment (ROI) for an OZ Funds or other Investors and when will they see this return?
• Sustainable Advantages/Barriers of development in the OZ?
• Adoption Strategy - Why will people want to live, work or invest in your OZ?
• Who is the Target Market for housing, business or investment?
  • Community priorities, strategy and support
  • Why?

Note: Ideally you should aim to write this AFTER you have created and drafted your entire investment pitch below, so as to ensure that you do not miss out any important facts!
INVESTMENT READY PROSPECTUS - FINANCING DISCUSSION:

• Project appraised value/market value
• Projected total project costs
  – Projected Sources of Funds:
    • Equity
    • Bank
    • Opportunity Zone Fund
    • Government
    • Other
  – Projected Use of Funds
  – For OZ business investments:
    • Percent of the company being offered
    • Total amount of money being raised
    • Current company value
INVESTMENT READY PROSPECTUS - OPPORTUNITY ZONE INFORMATION:

- Zone summary
- Zone characteristics
  - Significant Milestones achieved to date.
  - Milestones to be achieved in the next 12 months.
  - Competitor communities or projects.
  - Secondary Market for exit strategy.
- Business Investment Programs and Strategy
- Demographics
- Major Employers
- Education System
- Workforce
- Local Government Stability
The best way to build investor confidence is to exceed expectations.
THE THREE P’S OF ECONOMIC DEVELOPMENT

PREPARATION
1. Demographics
2. Real Estate
3. Housing
4. C/I Market Data
5. Retail Market Data

PARTNERSHIPS
1. Cities
2. Industry Groups
3. State
4. Regional Groups
5. Utilities

PROMOTION
1. Direct Marketing
2. Web-Based
3. Two-Way Feedback
4. CRM
5. Traditional Collateral
SPRINGSTED
CASE STUDIES
CASE STUDY
#1: REGIONAL CENTER

- City receives proposal for redevelopment to include new rental housing development
- Project located within Opportunity Zone
- Developer indicates Opportunity Zone Funds may be financing component
- Ok... what does this mean?
CASE STUDY #1: REGIONAL CENTER

• Developer-financed with debt, equity and other sources
• Tax increment or other subsidy may be financing component
• Opportunity Zone Funds provide additional source of equity
• Project must be financially feasible to generate market rate returns
• Investors more likely to be local or self-invested in project
## CASE STUDY #1: REGIONAL CENTER

### Development Costs

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land Acquisition</td>
<td>$250,000</td>
</tr>
<tr>
<td>On-Site Improvements</td>
<td>$75,000</td>
</tr>
<tr>
<td>Building</td>
<td>$750,000</td>
</tr>
<tr>
<td>Permits</td>
<td>$15,000</td>
</tr>
<tr>
<td>Legal</td>
<td>$12,000</td>
</tr>
<tr>
<td>Architectural/Engineering</td>
<td>$115,000</td>
</tr>
<tr>
<td>Construction Loan Fees and Interest</td>
<td>$300,000</td>
</tr>
<tr>
<td>Contingency</td>
<td>$175,000</td>
</tr>
<tr>
<td><strong>Total Costs</strong></td>
<td><strong>$1,692,000</strong></td>
</tr>
</tbody>
</table>

### Sources

#### Traditional

<table>
<thead>
<tr>
<th>Sources of Funds</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developer Equity</td>
<td>$1,015,200</td>
</tr>
<tr>
<td>Bank Loan</td>
<td>$676,800</td>
</tr>
<tr>
<td><strong>Total Sources</strong></td>
<td><strong>$1,692,000</strong></td>
</tr>
</tbody>
</table>

#### Opportunity Zone

<table>
<thead>
<tr>
<th>Sources of Funds</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developer Equity</td>
<td>$761,400</td>
</tr>
<tr>
<td>Bank Loan</td>
<td>$507,600</td>
</tr>
<tr>
<td>Opportunity Zone Investment</td>
<td>$423,000</td>
</tr>
<tr>
<td><strong>Total Sources</strong></td>
<td><strong>$1,692,000</strong></td>
</tr>
</tbody>
</table>

#### Developer’s Return – 6.5%

<table>
<thead>
<tr>
<th>After-tax IRR</th>
<th>OZ</th>
<th>Non-OZ</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 years</td>
<td>8.8%</td>
<td>6.5%</td>
</tr>
<tr>
<td>7 years</td>
<td>9.9%</td>
<td>7.5%</td>
</tr>
<tr>
<td>10 years</td>
<td>11.9%</td>
<td>8.5%</td>
</tr>
</tbody>
</table>
CASE STUDY #2: MEDIUM-LARGE CITY

- City receives proposal for redevelopment to include new mixed-use development
- Project located within Opportunity Zone
- Developer indicates Opportunity Zone Funds may be financing component
- Ok... what does this mean?
CASE STUDY #2: MEDIUM-LARGE CITY

- Developer-financed with debt, equity and other sources
- Tax increment or other subsidy may be financing component
- Opportunity Zone Funds provide additional source of equity
- Project must be financially feasible to generate market rate returns
- Investors more likely to be self-invested in project
# CASE STUDY #2: MEDIUM- LARGE CITY

## Uses

<table>
<thead>
<tr>
<th>Development Costs</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Land Acquisition</td>
<td>$800,000</td>
</tr>
<tr>
<td>On-Site Improvements</td>
<td>$110,000</td>
</tr>
<tr>
<td>Building</td>
<td>$1,200,000</td>
</tr>
<tr>
<td>Permits</td>
<td>$30,000</td>
</tr>
<tr>
<td>Legal</td>
<td>$15,000</td>
</tr>
<tr>
<td>Architectural/Engineering</td>
<td>$316,500</td>
</tr>
<tr>
<td>Construction Loan Fees and Interest</td>
<td>$425,000</td>
</tr>
<tr>
<td>Contingency</td>
<td>$210,000</td>
</tr>
<tr>
<td><strong>Total Costs</strong></td>
<td><strong>$3,106,500</strong></td>
</tr>
</tbody>
</table>

## Sources

### Traditional

- **Sources of Funds**
  - Developer Equity: $1,863,900
  - Bank Loan: $1,242,600
  - **Total Sources**: $3,106,500

### Opportunity Zone

- **Sources of Funds**
  - Developer Equity: $1,397,925
  - Bank Loan: $931,950
  - Opportunity Zone Investment: $776,625
  - **Total Sources**: $3,106,500

## After-tax IRR

- **5 years**: OZ 7.8% Non-OZ 5.9%
- **7 years**: OZ 8.9% Non-OZ 6.9%
- **10 years**: OZ 10.9% Non-OZ 7.5%

**Developer’s Return – 5.9%**
**ADDITIONAL BENEFITS**

- Makes projects economically feasible
- Higher return on investment
- Lower cost of capital
- Lower owner’s investment
- Higher probability of successful project
- Opportunity to expand the project without expending additional funds
- Potential shifting of tax attributes to sponsor

Source: Baker Tilly
OPPORTUNITY ZONE VALUE TO INVESTORS:

If held for 5 years, 90% of original capital gain invested is subject to tax.

If held for 7 years, 85% of gain is taxed.

Year 10 – 100% forgiveness of gain on appreciation – Basis of property equal to FMV.

Qualifying sale and investment

If held for 5 years, 90% of original capital gain invested is subject to tax.

If held for 7 years, 85% of gain is taxed.

Year 10 – 100% forgiveness of gain on appreciation – Basis of property equal to FMV.

12/31/2026 “Deemed Sale”

Tax due is lesser of (a) FMV over basis of investment or (b) original gain over basis of investment.

Source: Baker Tilly
OPPORTUNITY ZONE VALUE TO INVESTORS:

Example cash flows in Opportunity Zones over a 5, 7, and 10 year horizon

$242,000

$188,000

Source: Baker Tilly
SOURCES

- H.R.1, U.S. Congress
- Curbed News, How Opportunity Zones could become a big catalyst for inner-city development, Patrick Sisson Apr 12, 2018
- I.R.S., Opportunity Zones FAQ’s.
- Brookings, Maximizing the impact of new Opportunity Zones requires transparency and citizen engagement, Anthony F. Pipa Monday, April 16, 2018
- Brookings, Will Opportunity Zones help distressed residents or be a tax cut for gentrification?, Adam Looney Monday, February 26, 2018
- Economic Innovation Group (EIG), Opportunity Zones: Tapping into a $6 Trillion Market, March 21, 2018
- Economic Innovation Group (EIG), The Tax Benefits of Investing in Opportunity Zones, January 2018
- UNC – School of Government, Tyler Middleton
- IEDC – Opportunity Zone webinar
- EquityMultiple – Opportunity Zones – A Real Estate Investor’s Guide
- BakerTilly
Joined by
CONTACT US

Springsted Inc. Housing & Economic Development (HED)

GENE GODDARD, CEcD, EDFP
Senior Vice President
ggoddard@springsted.com
Ph: 651-223-3047, Cell: 651-247-7392

MIKAELA HUOT, CIPMA, EDFP, SERIES 50 QUALIFIED
Vice President
mhuot@springsted.com
Ph: (651) 223-3036, Cell: (651) 368-2533

www.springsted.com
Helping Communities – Build Their Future