

# Opportunity Zones Toolkit

## Maximizing the Impact of Opportunity Zones in West Virginia



The West Virginia Department of Commerce would like to share this Opportunity Zones Toolkit to assist local governments who were selected by Gov. Jim Justice to become one of West Virginia's 55 Opportunity Zones.

West Virginia has two separate Opportunity Zone incentives to offer. The first is the Federal Opportunity Zones initiative which was created to support recovery and growth in distressed communities, while also providing tax incentives for private investors willing to invest in low-income areas. Investors benefit from the real estate or business investments within these areas, while also enjoying tax deferring benefits on any capital gains received from these investments.

Additionally, in the 2019 special session, the West Virginia state Opportunity Zone incentive was created and approved by Gov. Justice. The state incentive allows any new business created in an Opportunity Zone to be exempt from corporate and personal income tax for 10 years so long as the business is created before the year 2024. The two incentives can be stacked together or stand alone. Additional incentives and possible project-related grants may also be available depending on the project. Commerce also is a voting member on the Municipal Home Rule Board and can assist in educating local governments on how to take advantage of other West Virginia tools for community needs.

This document outlines emerging best practices for identifying, prioritizing, and advancing Opportunity Zone projects. Mayoral administrations can work with Commerce to take steps to set the course for positive and transformative cycles of investment which will ensure their communities benefit from the Opportunity Zone tax incentive. With visionary local leadership, the Opportunity Zone incentive can be a vital step forward for local community revitalization.



## 1. Start with a Vision or Prospectus

The first step is to develop a community plan and vision for the zone. It allows the mayor to tell a story that unifies stakeholders around a vision and markets the city to investors. This often entails developing an “investment prospectus.” A well-done prospectus, or vision, achieves four goals:

- a. It establishes what is possible for a municipality’s Opportunity Zone.
- b. It allows the community and City Hall to establish a common vision for the zone.
- c. It tells a story that contextualizes economic and demographic data about the zone.
- d. The prospectus can be shared on Commerce’s website to promote site-selection for developers and investors.

## 2. Identify Zone-Specific Needs

This incentive should be leveraged to address a community need. Two broad categories of community need exist: (1) the need to alleviate a problem, such as a lack of affordable housing; or (2) the need to create alternative pathways to prosperity, such as the new industry creation. Projects that address both types of need at once are the most transformative. To identify needs, local governments can bring local parties together to get on the same page about what they want for the zone. This process should make clear that now is the time to act and should focus on projects with demonstrated community buy-in. Local governments know their area the best and what is needed for long term investment.

## 3. Identify Community Resources

City Hall can contribute to ensure socially impactful projects are also economically viable. Since investors generally seek risk-adjusted returns, to make projects more investible, communities can deploy resources to increase returns or decrease risk. We identify two categories of community resources that can be mobilized to credibly boost a project’s risk-adjusted return.

- a. **In-kind Contributions:** These are the most traditional local development tools City Hall uses. Public finance contributions: these include bonds, Tax Increment Financing (TIF) districts, and other tax incentives that can be layered on state and federal incentives in zones. Municipalities often have tracts of publicly owned land that can be contributed at below market-rate to decrease investment risk, increase affordability, and provide investors with assurance that City Hall will be a partner.
- b. **Regulatory Steps:** City Hall should creatively use the permitting process and zoning code to support projects that address social needs, as well as to curb any potential program abuses.

The Opportunity Zone statute outlines strict timelines for funds investing in projects. This makes time a critical resource for investors and developers. City Hall should think creatively about how to fast-track certain projects. This is also a key place to consider adding measurement requirements for local projects in zones.

Commerce, through the West Virginia Development Office, can offer certificates of critical economic concern for high priority projects which will allow for expedited permitting to speed up the permitting process. The designation is awarded to projects meeting a set of criteria based on the project’s projected economic impact.



## 4. The Local Asset Base

Mayors usually have a good understanding of the local asset base. It is most important to project success. Some groups can contribute financial resources, others can contribute some degree of certainty about continued community demand for the project.

**Local capital base:** Early evidence suggests that a mobilized locally committed capital base may be the critical factor that determines the success of Opportunity Zones. Evaluating and engaging this base of local capital is vital. It comes in two forms.

**Local investors:** Some communities are home to investors, high or moderate net worth individuals, or family offices who care deeply about the future of their city. Those individuals can work alone or pull resources to invest in a potential project and receive a great long-term investment. Those individuals may not be aware of the federal and state Opportunity Zone incentives and this toolkit can be a resource to ignite local passion for community revitalization.

**Engaged local and regional philanthropy:** Local or regional foundations or philanthropists deeply committed to solving some problem can be engaged around mission-oriented projects such as community development. The local philanthropy may not be aware of a critical concern or a potential local movement for community development.

**Anchor institutions:** The presence of universities, hospitals, or other large employment-based entity in, or adjacent to, a zone can provide investors or potential future employees with an assurance of market stability and innovative potential to assist a local project will succeed long-term. If they are engaged through partnerships or initiatives, this is even better.

**Mission-oriented developer:** Several developers operating on local and national stages focus on solving social problems as well as constructing buildings. They can be engaged through real estate project Request for Proposals (RFPs).

**Engaged community group:** Active and widely trusted organizations in a zone should be brought in early in developing the project to ensure it has local buy-in, and therefore lower risk.

**A talented spokesperson:** Telling a good story that weaves in the project can help build attention to the project's mission and the need that it's addressing. Many communities have access to a local Economic Development Corporation with talented and passionate members who already work with local governments to field inquiries, develop strategy, and provide informed communication to a breadth of stakeholders. Commerce can also provide business and industry reps or Small Business Development Center assistance such as providing local business coaches to assist in new start-up business in your area.



## 5. Select Priority Projects from the Intersection of Needs & Resources

Good projects for this incentive occur at the intersection of social need and market traction. City Hall should lead communities and help leverage local resources for maximum social impact. To do so, City Hall should compare zone-specific needs and resources to find projects at the intersection of each. The questions below are intended to help guide City Hall's thinking as it compares intersecting projects.

- What are the different combinations of need-asset "sweet spots"?
- How far along in the planning pipeline are current projects in these sweet spots?
- How much city-owned or anchor-owned land is in the zones surrounding "sweet spot" projects?
- How do "sweet spot" projects fit within the mission orientation of the local capital base?
- Do these projects create the groundwork for entrepreneurship?
- Where do "sweet spot" projects fit within the mayor's vision and the city's strategic plan?

## 6. Develop Financing Models to Refine Priorities

Once one or two projects are prioritized, City Hall should develop financing models to understand the specific magnitude of resources they will need to deploy to make projects successful. Based on a set of market assumptions, the model will determine the project's expected net operating expenses, revenues, and rate of return. Performing a sensitivity analysis on assumptions will allow municipal staff to deliberately leverage local resources.

- a. Building the business model:** Economic development staff should acquire quality data on the local real estate market, especially the cap rate and construction costs to generate assumptions. The model should be developed in coordination with a nonprofit or consultant with expertise. Occasionally a feasibility study is necessary to get a better idea of local market conditions. This model will inform the project pro forma.
- b. Develop a platform for managing priority projects:** As the municipality advances projects, there will likely be multiple projects across zones. The local government should help investors to easily see and sort projects by attribute, geography, and financial characteristics. A digital platform like this can serve the dual function of allowing the city to track the progress of priority projects.



## 7. Progress Priority Projects into Deals

The process of moving priority projects to deal differs only slightly from the normal development process in that it requires credible engagement with equity investors as well as developers.

### a. Formalize a Pro Forma and Deal Sheet:

City Hall should formalize a deal sheet, which is a one-page public-facing document that summarizes key financial facts about one project. It's backed up by a formalized financial pro forma. City Hall should prepare to qualify these documents and defend their assumptions.

**The deal sheet should include:** a rendering of the project; a short description of the offering, describing community buy-in, the developer, key surroundings, and other important information; a section focusing on investment highlights (number of units, land values, and a summary of local contributions); a section on the project's total debt capital, equity requirements, and potential social impact; and a final section focusing on notes on the local market.

**b. Progress an RFP:** The actual deal may occur through the Request For Proposal process. An RFP should go out to two audiences: developers and investors. The investor RFP should include a term sheet along with any city specifications on the investment alongside normal RFP contents. Create a list of relevant parties to invite to an RFP. City Hall should decide if they want to target local, national, and/or mission aligned developers and investors.

**Develop and circulate the RFPs:** The municipality should include the normal specifications for the RFP in both the developer and investor RFPs. After the document is developed and circulated, the city should host a session for interested investors and developers and field questions.

**Evaluate and approve:** After the deadline for responding to the RFP has passed, City Hall should evaluate responses following the process specified in the RFP. It is recommended that the city employ or contract someone with investment experience to evaluate the investor RFP responses.

## Questions? Looking for assistance on this process?

If you're a community or municipal leader and want to learn more, visit

[westvirginia.gov/opportunity-zones](https://westvirginia.gov/opportunity-zones)

or email Meghan Smith, Manager, Business Development at

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