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Opportunity Zones: The Erie Model

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Opportunity Zones and the corresponding Opportunity Funds are a Federal Tax Incentive that work to encourage re-investment of unrealized capital gains into certain low-income census tracts known as Opportunity Zones. Investors receive a deferral and reduction in the payment of the realized capital gains that are rolled into Opportunity Funds. The Opportunity Fund then is required to invest into real estate or businesses known as Qualified Opportunity Zone Businesses or Business Properties.

The genius of the tax incentive is that once the investments are held for at least 10 years, and the interest in the investment is sold, the appreciation on the gain is **federal capital gains tax free**. Opportunity Funds are designed to be an aggressive investment of patient capital by requiring that investments are to be made within a relatively short period of time, but the investor has to wait at least 10 years before cashing out for the appreciation to be federal capital gains tax free.

By enticing investors with tax free growth, Opportunity Zones work to give low-income communities a “shot in the arm” and a chance at making a deal that may not otherwise be possible, possible. **In short, Opportunity Zones present opportunity.**

The Opportunity Zone market is hot, and investors are predicted to invest nearly $100 billion in Opportunity Zone projects. In order for an Opportunity Zone to take full advantage of the incentive program, the Zone must have shovel ready and investor ready projects in the pipeline, the necessary technical expertise available to carry out those projects, and the commitment from the community to effectively close the deal.

The Erie Model

Our city of Erie, Pennsylvania has been widely recognized as one of the nation’s premier early adopters of Opportunity Zones and has since become a national incubator for the program, having done so through the collaboration of **Knox Law Public Strategies**, **Timothy S. Wachter, Esq.**, lead for Knox Law Public Strategies, and various Erie community partners.

Poised for resurgence, Erie, Pennsylvania was experiencing significant levels of private and public investment before the roll-out of Opportunity Zones. These trailblazing investments allowed for Erie community partners to fully capitalize on the program by encouraging further investments and initiatives, such as:

- The **Erie Downtown Development Corporation**, a nonprofit development company supported by nearly $30M in private equity working to redevelop Erie's Central Business District, modeled its investment strategy around the leveraging of Opportunity Zones.
- The **Erie Innovation District** formed the Secure Erie Accelerator that ultimately retained five early-stage, high-growth technology companies, and launched the Smart City initiative to allow Erie to leverage its technology to create a more cohesive environment across multiple public services.
- The **Flagship Opportunity Zone Development Company** was formed and housed under the Erie Regional Chamber and Growth Partnership to cultivate and promote a robust portfolio of viable and socially impactful projects, aimed at unlocking local capital and transforming the city through leveraging the promise offered by Opportunity Zones.
- Along with what is now over $600M in private local investment, the **Commonwealth of Pennsylvania** has made over $50M in ongoing investments in various Erie projects, ranging from transportation and infrastructure to the conservation of natural resources. These investments have been designed to de-risk private investment within the Opportunity Zones.

5 Steps to Opportunity Zone Development

Though there are no cookie-cutter approaches to Zone Development, the Erie Model was built on the Five Steps to Opportunity Zone Development:

1. **Stakeholder Education.** Educate local government, community, economic development, business leaders, and real estate developers as to what it means to have an Opportunity Zone within your jurisdiction, and the opportunities they may present.
2. **Investor Identification and Education.** Identify and educate potential investors.
3. **Project Identification and Preparation.** Identify eligible projects early. Not every real estate or business investment that is located within an Opportunity Zone is an eligible Opportunity Fund investment. Identify and develop eligible projects early, to increase the chances of receiving Opportunity Fund investment.
4. **Fund Development and Identification.** Often, it will be easier to receive investment from local and regional investors. Identify and educate potential investors as to how the tax incentive can assist them in making a deal work, and then work to connect the investor with the projects that exist within your Zone.
5. **Project Promotion.** Promote the shovel ready and investor ready projects to local, regional and national investors.

4 Activities Vital to Zone Development

When working on the development of an Opportunity Zone, we have determined that there are four main activities which are vital to assist in Zone development. These activities are:

1. **Quantify** (i) the main goals of your Zone (likely to receive investment in eligible, economically viable, and socially beneficial projects), (ii) the local availability of capital that can be then used to attract external capital, and, (iii) the necessary supportive investments in infrastructure, transportation and private real estate development that can be used to further establish a community buy-in.
2. **Identify** and build a database of specific eligible projects; local investors that have standby capital gains; local, regional, and national funds that may be interested in investing in your industry specific projects; and partner investment opportunities to build the capital stack, such as LERTA, venture capital funds, state funding programs and others.
3. **Promote** the Zone to developers, existing businesses, entrepreneurs, and investors in hopes of attracting them with a healthy deal flow, return potential, and social impact. This can be done by promoting specific projects, local capital commitments, and your community itself through the creation of an Investment Prospectus. Also, because of the heightened activity in Opportunity Zones, you have to be willing to go on the road and promote your projects directly to the Funds.

4. **Facilitate** the entire process by creating a Concierge Service to help assist in the process of further establishing, identifying, and promoting the Zone both locally and nationally.

Opportunity Zones are an exceptional and innovative way to build our communities by attracting investment to economically distressed areas. Adopting a community-centric strategy like the Erie Model can ensure that your community is taking full advantage of the federal tax incentive and leveraging its local assets and talents to create a stronger, more prosperous future for all of its members and stakeholders.



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