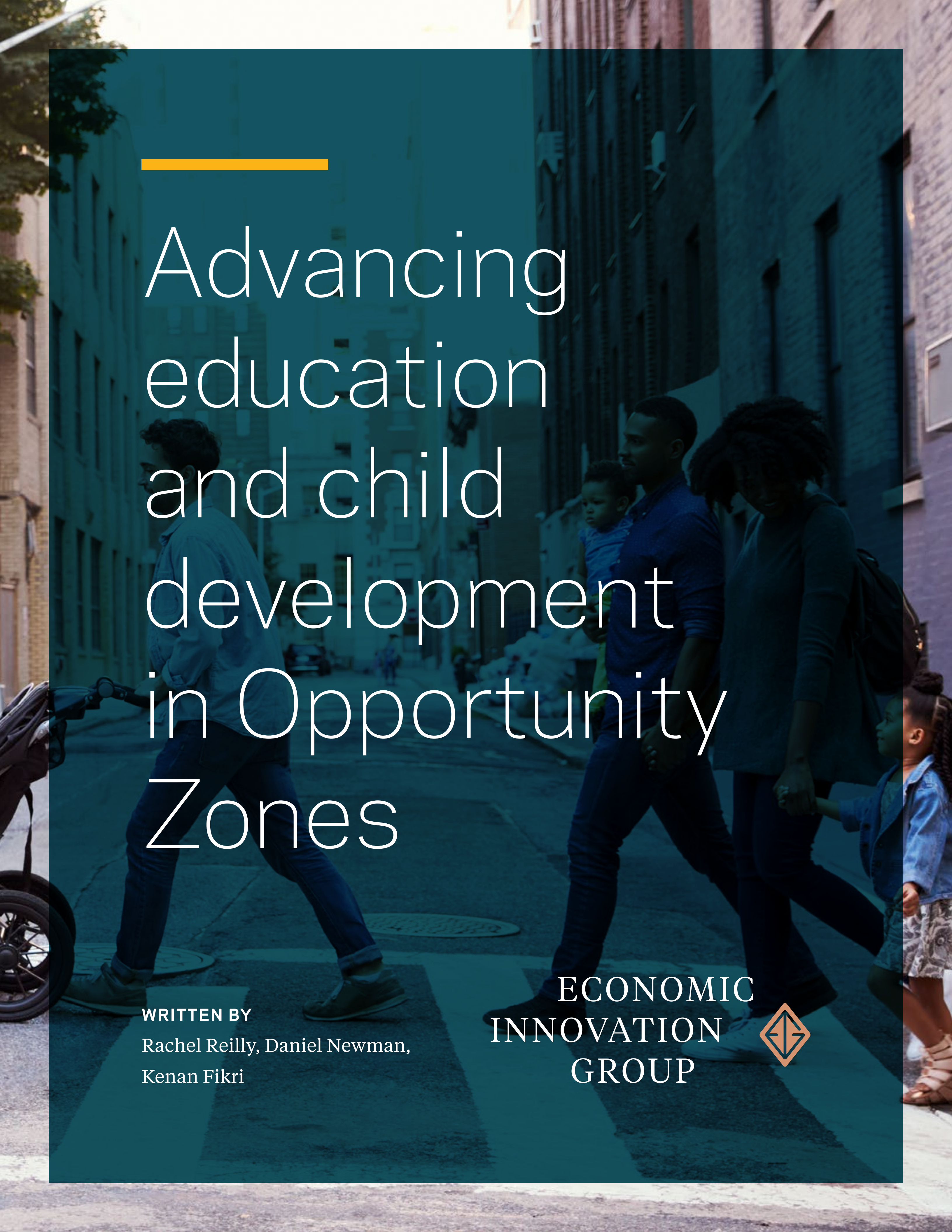

Advancing education and child development in Opportunity Zones

WRITTEN BY

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ECONOMIC INNOVATION GROUP

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Convening guide

Strategies for hosting an Opportunity Zones convening.

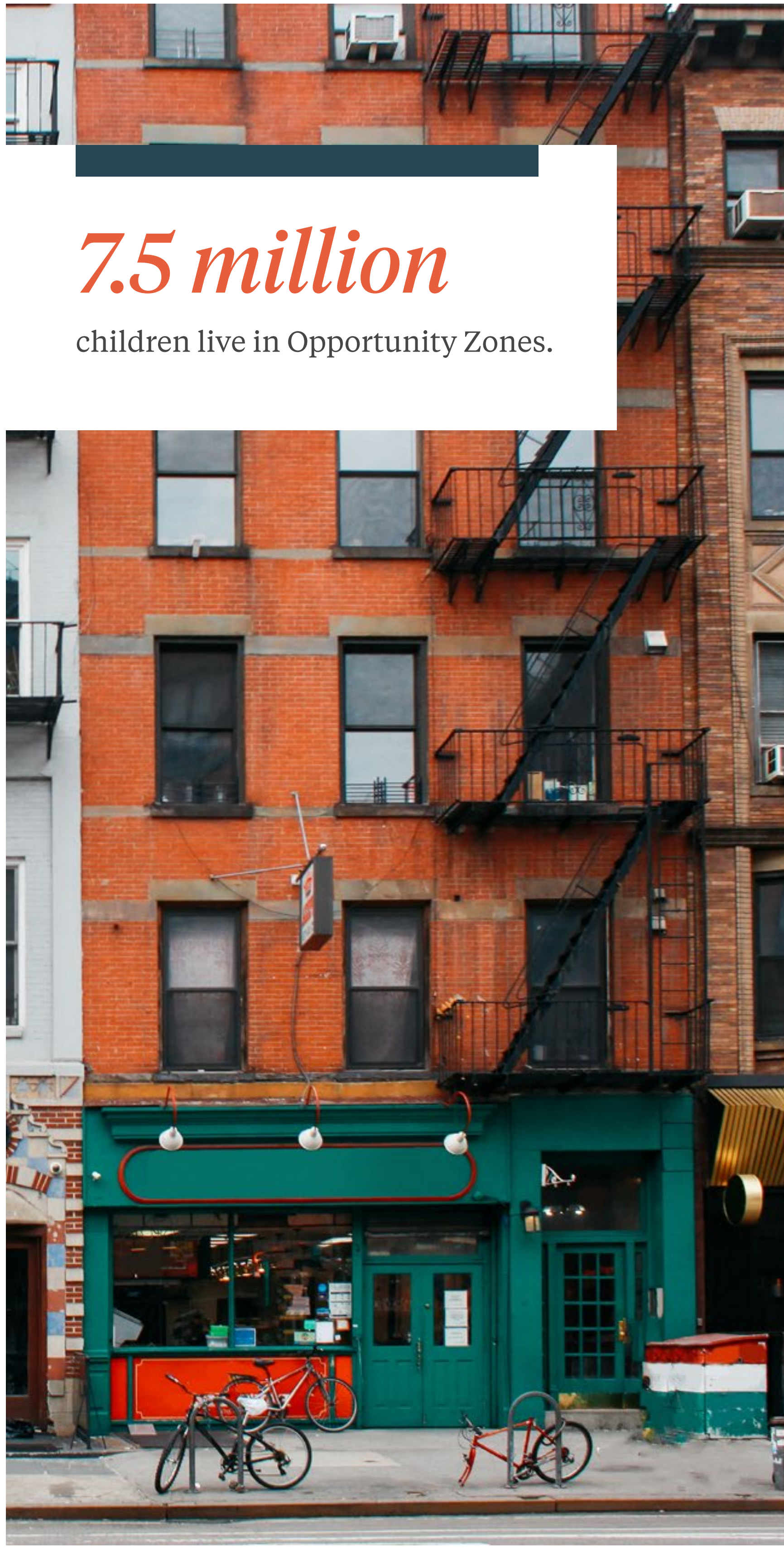
1

Executive summary

The COVID-19 pandemic and recent civic unrest has shed light on the deep inequities that have long plagued our nation. Communities that were already in distress have been disproportionately impacted. Residents have been disconnected from critical, yet fragile, service delivery systems and face ongoing economic uncertainty with diminished resources. As schools transitioned to remote-learning and childcare operators were forced to shut their doors, the disparities between children living in prosperous and struggling communities were further revealed. The retreat of private investment from neglected neighborhoods has isolated too many children in pockets of poverty that restrict their potential for upward mobility. The Opportunity Zones policy has created incentives to redirect the flow of capital back to neighborhoods that have long lacked investment, spurring economic growth and unleashing untapped talent.

While education and social reforms have made inroads in closing opportunity gaps, nearly all of the low-income census tracts designated as OZs lack the infrastructure and resources needed for residents to prosper. Nine out of 10 OZs lack adequate access to high-quality early childcare and schools, safe places for children to live and play, and economic opportunity. Such conditions can dramatically affect the academic success, lifetime earnings, and health outcomes for the 7.5 million children growing up in OZs.

OZs has broadened the base of those engaged in economic and community development, increased the pool of capital available for low-income communities, and launched a new marketplace for community investment. For the first time, private equity capital is being deployed at scale to improve conditions and create value in the nation's most distressed communities. Through investment



7.5 million

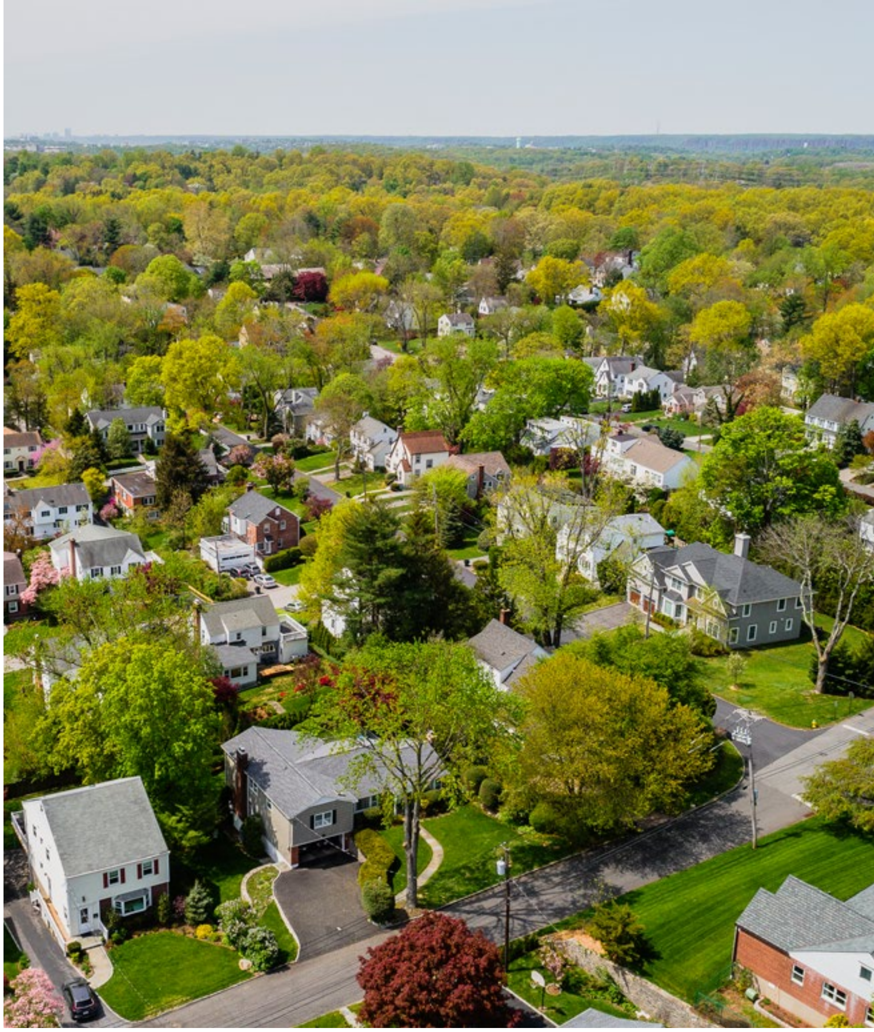
children live in Opportunity Zones.

and partnership, government officials, education practitioners, community and philanthropic leaders, local employers, entrepreneurs, and socially motivated investors can align to create new pathways to prosperity for children currently at risk of being left behind.

Recent regulatory clarity coupled with newly established investment norms and the proliferation of innovative cross-sector collaborations are helping to drive OZs capital where it is needed most. To build a supportive ecosystem for children and families in OZs:

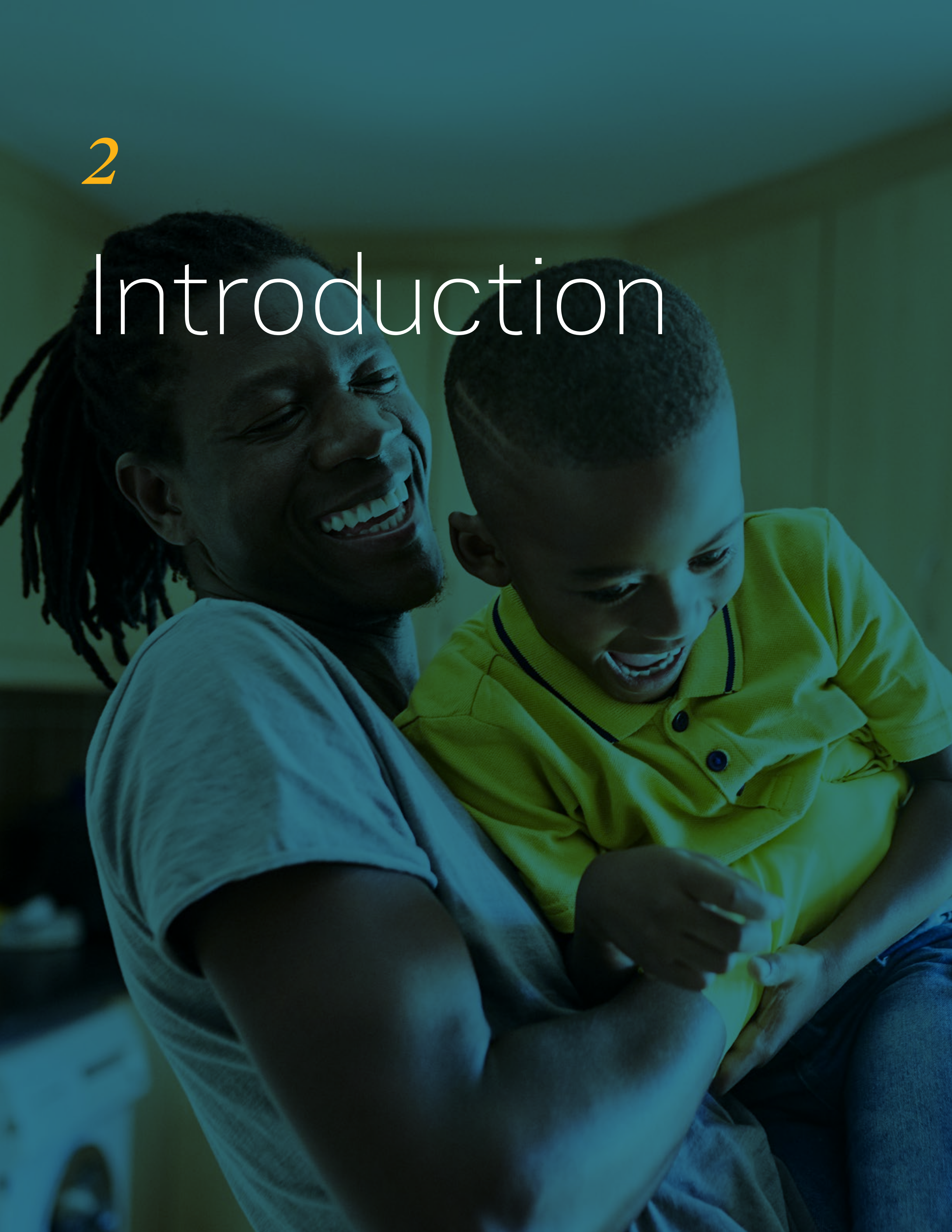
- Investors can align with government leaders to identify high-impact projects and businesses in need of equity financing;
- Businesses that serve children and their families can locate operations in designated census tracts as part of their strategy to raise seed and growth capital;
- Local employers, universities, community organizations, and anchor institutions can find meaningful ways to engage in community-led strategies and develop collaborative partnerships that advance the well-being and academic success of children; and
- Philanthropic organizations can build a community's capacity to implement local strategies and seed public-interest businesses and projects positioned to positively influence resident outcomes.

Recovering from the pandemic and addressing the intergenerational inequities that have stunted personal and national prosperity will require an all-hands-on-deck effort. This guide is intended for government officials, community members, education leaders, entrepreneurs, investors, funders, and others who are eager to create pathways of prosperity for children growing up in OZs, and their families. It outlines ways in which the tax incentive can be leveraged to build a supportive ecosystem for children and their families, highlights projects from mission-driven groups that are ready for investments, and offers strategies for state and local governments, community anchors, and philanthropic organizations focused on improving child outcomes in our nation's most distressed communities. Creating an environment where vulnerable children can thrive is a first-order priority as we look toward strengthening national resiliency. Everyone has a role and vested interest in rising to meet this moment.



2

Introduction



Fallout from the COVID-19 pandemic has laid bare the fragility of underfunded community ecosystems designed to support disadvantaged families and children. As schools transitioned to remote-learning and places where children spend time outside of the home and classroom were forced to close, social inequities became clear. Under-resourced families became increasingly strained and left without viable options to both work and care for children. During this time, issues like the digital divide and the availability of affordable childcare have been brought to the forefront of a national dialogue about systems breakdowns that threaten the prosperity of large segments of our population. Those most likely to be left behind live in Opportunity Zones and similarly distressed communities—places that have long lacked access to opportunity.

When it comes to well-being and economic prosperity, place matters. Children living in communities with high-quality care and education options, safe places to play, and adequate economic resources have a higher level of opportunity. According to the Child Opportunity Index, nine out of 10 OZs have low or very low scores when it comes to child opportunity. More than 7.5 million children live in OZs, 37 percent of whom live below the poverty line. The communities in which children grow up and the schools they attend have an outsized impact on their current well-being and future economic outcomes. Residents living in OZs have a reduced life expectancy of four years, and economic mobility for children living in OZs is far worse compared to their peers in other locations. On average, 6.7 percent of high school-aged students are not enrolled in school in OZs, compared to 4.1 percent of students in other communities, threatening educational attainment and future earnings potential.

The pandemic has shifted an entire generation of students to remote-learning environments, highlighting the disparities in access to broadband internet and technologies that foster learning outside of the traditional classroom environment. Approximately 22 percent of children in OZs have been disconnected because they lack access to broadband internet, threatening educational attainment for students of all ages. The digital divide is yet another symptom of the historic divestment in OZs. This retreat of capital has left residents on a fragile platform from which to realize economic success and overall well-being.

To address disparities in opportunity, policymakers and advocates often respond by moving children and families from distressed places to neighborhoods with better schools, opportunities for employment, and stronger systems for delivering support. However, doing so does not address the underlying conditions in the thousands of communities that lack those attributes due to decades of divestment in the first place, nor does it do anything for the far more numerous residents of struggling communities for whom "moving to opportunity" is not an option. The solution for broadscale change has to be a "yes, and" approach. Yes, create more opportunities for disadvantaged families to live in communities of opportunity *and* be intentional about driving the public and private investment needed to spur economic growth in distressed communities like OZs. Investing in projects and businesses located in OZs expands access to jobs, spurs additional investment, and generates tax revenue which cities and states can then use to provide services to disadvantaged residents and advance public projects, like modernizing school facilities.

OZs were enacted in the *Tax Cuts and Jobs Act of 2017*, creating tax incentives and a new investment vehicle for driving capital to low-income communities. It is the most recent and innovative federal place-based tax policy for community revitalization and economic recovery. Governors identified more than 8,700 census tracts for OZ designation shortly after enactment. Real estate projects and businesses located in these census tracts are now better positioned to attract equity investment from private investors, and subsequent targeting of federal, state, and local government funding has further improved their prospects of securing additional sources of financing. A national investment marketplace and a new ecosystem for economic and community development have formed in the short two-year window since zones were designated, facilitating billions of investment to support a long backlog of projects poised to strengthen communities and the businesses that support them.

OZ investment has been deployed to create new space for charter schools and develop homes that are affordable to those working in jobs, such as teaching, which are critical to local economies. Local leaders throughout the nation have been working in collaboration with cross-sector partners to put forth projects that will deliver a benefit to their community and also appeal to private investors. For instance, OZ investment is currently being explored to support a daycare center for homeless mothers, a new YWCA facility connected to affordable homes, space for a public STEAM school in a new Innovation District, and many other activities to strengthen local education and childcare ecosystems. Further, models for investing in technology companies and expansion of open-fiber internet are emerging and can be tailored to meet the needs of residents, including the 7.5 million children living in OZs.

Cities and states throughout the nation have established frameworks for their respective OZs, acknowledging the inherent value of driving private capital to places that have lacked new investment for years, if not decades. By collaborating with local employers, community development organizations, funders, and anchor institutions, government leaders have developed pipelines of high-impact projects, and created incentives to attract private capital and directly engage with socially-motivated investors interested in OZ investments. Through this work, new community development ecosystems have been formed, demonstrating that local stakeholders of all stripes have both a vested interest and a role to play in improving neighborhoods and expanding access to opportunity for community members.

Impactful, successful OZ investment strategies are underpinned by value creation for both investors and communities. They require active engagement from local leaders, policymakers, community anchors, and other mission-aligned partners like philanthropic organizations. Addressing the geographic disparities in educational and economic success is a cause that investors and communities should rally behind together. Indirectly, OZ investments generally support projects and businesses that create tax revenue for states and localities which can subsequently be used to invest in schools and provide support services that are critical to residents living in OZs. This alone is a compelling reason for communities to engage OZ investors and drive investment in local priorities. Yet direct, transformational impact for residents may be accelerated if local partnerships find ways to harness OZ investment to address facilities financing needs of schools and childcare providers, grow education technology companies that are revolutionizing the way children learn and teachers interact with families, and create affordable housing and similar community assets that strengthen ecosystems of support for children. This guide aims to accelerate such types of investments in order to get this new provision of the tax code delivering for OZ families and children as quickly as possible.

3

Opportunity Zones primer

The Opportunity Zone policy provides an incentive and investment vehicle for individuals and businesses to support place-based revitalization and recovery efforts in low-income communities. Cities and states across the nation have launched community-led planning processes and engaged cross-sector partners in collaborative efforts to attract investment. New community development ecosystems have emerged, challenging outdated notions about community investment. The locally-driven process through which OZs were designated relied on the knowledge of state governors and was by-and-large informed by local stakeholders. For local leaders, the process for designating OZs and subsequent attempts to articulate the value proposition to private investors have increasingly led them to adopt an abundance mindset when considering the assets in their communities—itself an important shift.

From Hawaii to Maine, OZs have encouraged local government, businesses, residents, traditional community development organizations, and others to think differently about the resources and partners available to tackle some of the most intractable challenges plaguing our most vulnerable neighborhoods. Flexibility embedded in the policy design allows local leaders to tailor OZ strategies to fit the unique opportunities and needs in their communities and has encouraged participation from a diverse set of actors. This has resulted in an expansion of the number of stakeholders actively engaged in economic and community development and the pool of capital available to revitalize low-income communities.

The policy is already yielding investment into businesses and real estate projects in communities of every size. OZ investments have supported a wide-range of revitalization activities that have historically been ineligible for or underfunded through traditional federal programs. Among those, OZs have catalyzed business expansions, blight removal, brownfield redevelopment, historic preservation, the creation of affordable and workforce housing, development of industrial facilities, activation of new or vacant commercial storefronts and retail spaces, development of office and co-working spaces, and the creation of spaces used for education and childcare.

Incentive structure

OZ incentives consist of favorable tax treatment with respect to capital gains. Benefits accrue to investors based on the amount of time their capital is held in an Opportunity Fund. The policy design encourages long-term investment which must be deployed in low-income communities designated as OZs.

Tax incentives for investments made in Opportunity Funds

- **Temporary tax deferral:** Taxes on capital gains invested in an Opportunity Fund can be deferred until 2026.
- **Reduction in tax liability:** Tax liability on capital gains invested in an Opportunity Fund is reduced by 10 percent if invested for five years, and 15 percent if invested for seven years prior to 2026.
- **Tax exemption:** Once taxes are paid on the capital gains invested in an Opportunity Fund, appreciation earned on that investment is exempt from taxes if invested for 10 years.

Equity capital

OZs are distinct from other place-based policies in that they harness private equity capital. This type of capital is often scarce in low-income communities, but it is an especially potent type of financing for economic and community development. Equity provides direct cash infusions that allow businesses to grow and real estate projects to advance. In exchange for their investment, equity investors get an ownership stake in the recipient company or project—meaning a stake in that entity's long-term success.

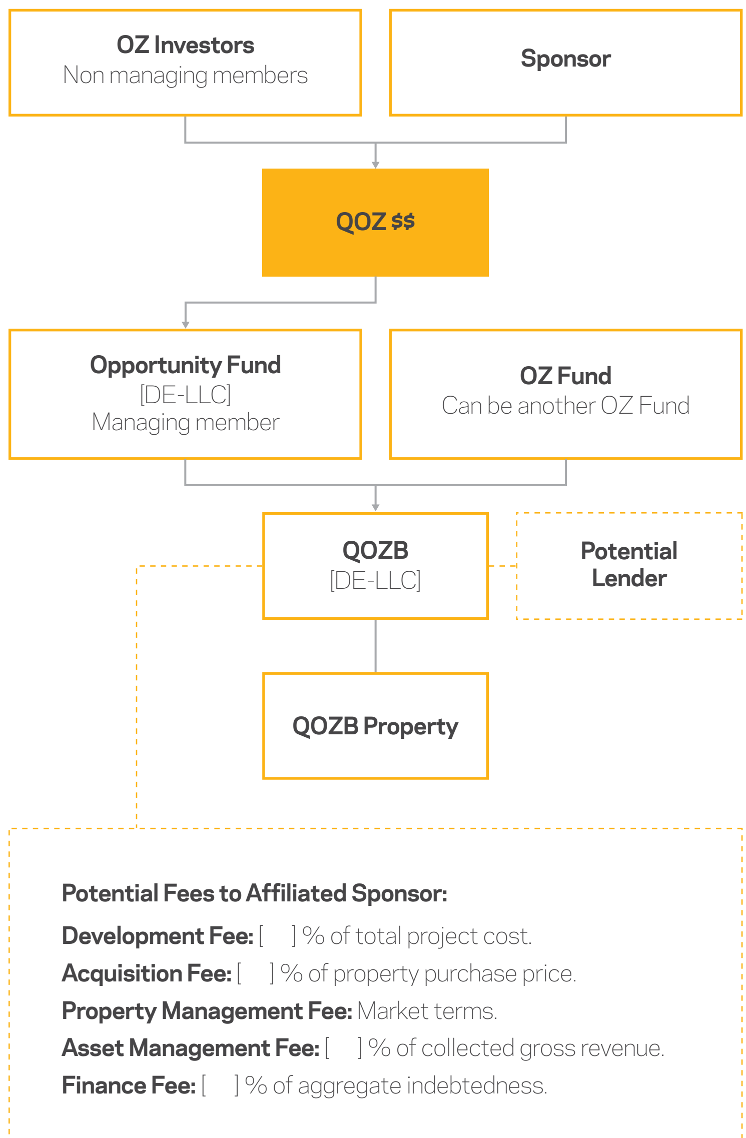
Unlike debt, equity financing traditionally does not require businesses or project sponsors to immediately begin repaying capital. Instead, investors recoup capital at the backend (when they exit a deal) and benefit from appreciation of the asset. This means that investors have a long-term vested interest in the performance of the businesses and real estate projects they invest in. Their aligned stake in achieving successful outcomes means that equity investors can be great partners, providing expertise and attracting other sources of capital in addition to their investment.

Equity investors assume a higher level of risk, and therefore often demand higher return thresholds relative to other sources of financing. However, if structured properly with other sources of capital, equity can lower overall costs of real estate development. Access to third-party equity allows young businesses and community organizations to preserve capital on their balance sheet, which is important for the near-term impact and long-term solvency of these groups.

To demonstrate how OZ investment can be incorporated to support project financing, The Governance Project has partnered with The

A model for Opportunity Zones investment

The investment structure has been provided by Polsinelli, a legal service provider with expertise in OZs. This does not constitute legal advice. Seek legal counsel when structuring OZ transactions to ensure compliance with the policy. View the Economic Innovation Group's July 2020 OZ webinar for more information.



Opportunity Exchange to create a free tool called GroundUp. The modeling tool can be used to structure hypothetical development scenarios, identify financing gaps, and articulate return projections to investors.

Investor base

The tax incentives associated with OZs provide holders of unrealized capital gains a vehicle through which to invest in real property and businesses—structures, refurbishments, startups, and company expansions—that create value in low-income communities.

Investors that make OZ investments do so in part because they have a capital gains liability. Many are also guided by mission, personal values, and ties to their hometown or current community. The OZ investor-base consists mainly of high-net-worth individuals, corporations, and family offices. It can include entrepreneurs who just sold a company, financial institutions with a private wealth platform or trading portfolio, or others. A map recently published by Novogradac & Company in partnership with the Sorenson Impact Center provides insights on where OZ equity has been raised.

Those without capital gains liability can still make investments in or alongside Opportunity Funds. For example, a person may choose to invest ineligible capital through an Opportunity Fund to support the expansion of a local project. While this investor will not receive OZ tax benefits, the Opportunity Fund provided an investment vehicle through which to support a project aligned with their values.

Opportunity Funds may have investment minimums that are out of reach for retail investors. Crowdfunding platforms have been used to source small-dollar investments that are then invested alongside OZ investments through a sidecar equity fund. In Philadelphia, local developer Mosaic raised non-eligible investments from community members on the Small Change crowdfunding platform. Mosaic used this capital alongside an OZ investment and other sources of financing for two projects: Golsaki Labs and Sharswood. While investors in these sidecar funds will not receive the same tax benefits as Opportunity Fund investors, they will benefit from the appreciation of their investment. This model can help maximize benefit to communities by empowering residents and businesses to share in the value created.

Federal landscape

Final regulations

On December 19, 2019, the Department of the Treasury released final OZ regulations, providing the certainty and clarity needed to grow and diversify the OZ marketplace. A number of measures in the final regulations granted increased

flexibility for communities to leverage OZ investment to address vacancy and blight, as well as favorable rules on leasing and certain sales by state, local, and Tribal governments.

Measures that are particularly positioned to influence impact-oriented investment and local OZ strategies are listed below. These rules have the effect of directing OZ investment toward the rehabilitation of underutilized properties and remediation of contaminated properties by making it easier for investors to meet the requirements of the policy. They also empower the public sector to actively engage in local OZ strategies and encourage Opportunity Funds to coordinate or partner with government stakeholders when making investments.

The rules treat certain property as "original use," so the substantial improvement requirements are not applicable. This treatment can reduce the amount of investment required and result in cost savings for project sponsors and those occupying the property in the future.

- Substantial improvement requirements are not applicable to vacant property if a substantial majority (80 percent) of a property has been vacant for three years or if the property was vacant prior to and on the date of the OZ designation and through the date of acquisition.
- Substantial improvement requirements also do not apply to brownfields sites. The Opportunity Fund or Qualified Opportunity Zone Business (QOZB) must take steps to properly remediate the site to meet proper environmental and safety standards, and OZ investment can be used to improve both the land and any existing buildings. This provides flexibility to Opportunity Funds and encourages the activation of blighted properties that could expose residents to toxins and unsafe conditions.

Substantial improvement property and original use property

In general, to qualify as an OZ business property, the property must be acquired after December 31, 2017 and the original use of the property in the OZ must commence with the QOZB. Vacant property and new equipment used in the active conduct of a business operating on the property are considered original use and are not subject to the substantial improvement requirement.

If a QOZB purchases a property that is not original use, the QOZB must meet the substantial improvement test mandated by the OZ policy. Additional investment in that property must be made equal to the value (basis) of the building on the property. The value of the land is not included in the calculation of basis. The QOZB has 30 months to substantially improve the property.

The rules also provide flexibility on the original use and substantial improvement requirements for certain properties. A number of methods can be applied in order to meet requirements for additional investment in existing property. These methods reflect the wide range of rehabilitation and adaptive reuse projects that can be supported by OZ investment. Strategies for leveraging this flexibility to expand and renovate education and childcare facilities are noted in Section 5.

- Substantial improvement requirements do not apply to real property that is purchased from a state, local, or Tribal government if the government acquired the property as a result of an involuntary transfer, such as through abandonment, bankruptcy, foreclosure, or receivership.

Neither the original use nor substantial improvement requirements apply to leased property. However, the terms of the lease must be market rate (a requirement that is presumed satisfied if the property is leased from an unrelated person). Further flexibility is extended to state, local, and Tribal governments which are exempt from the market-rate leasing requirement that otherwise requires tangible property to be leased at market-rate rents in order to qualify as QOZB property. This better positions QOZBs to activate government-owned property. For example, school districts may be able to lease property at discounted rates to QOZBs that are expanding access to public schools or childcare services.

On June 4, 2020, the Internal Revenue Service (IRS) released additional guidance related to investments in OZs, extending key deadlines and providing much-needed flexibility for Opportunity Funds and investors to help ensure their activities are not negatively impacted by the COVID-19 pandemic.

White House Opportunity and Revitalization Council

In December 2018, the Administration signed an Executive Order to establish the White House Opportunity and Revitalization Council (WHORC). WHORC is an interagency council dedicated to better coordinate federal economic development resources in OZs and other distressed communities. As of June 2020, WHORC has taken more than 300 actions to align federal resources and programs and reduce regulatory burden to encourage private investment in undercapitalized communities.

The targeting of resources is especially important for nonprofit organizations, like the 85 YWCAs headquartered in OZs, providing critical services to disadvantaged residents and businesses. These now have a competitive advantage when applying for federal funding and need not participate in OZ transactions in order to be eligible.

The Council's Education and Workforce Development workstream is jointly led by the Department of Education (DOEd) and Department of Labor. Actions taken aim to 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. Twenty-seven DOEd programs or initiatives now prioritize activities in OZs.

Early market activity

Cities and states throughout the nation have implemented policies and provided regulatory relief to encourage the type of investment activity they hope to attract. OZ Investment Prospectus documents have been developed by communities of every typology to market their competitive advantages, trigger local partnerships, and identify sound projects that are ready for public, private, and civic capital. Success in leveraging OZs to drive community-informed investment is most prevalent where public-sector leadership, engaged anchor institutions, civic entrepreneurship, and committed private-sector stakeholders are present.

An initial assessment of OZs released by the White House Council of Economic Advisers (CEA) in August 2020 estimated that Opportunity Funds had raised $75 billion in private equity by the close of 2019. Most of that capital would not have been deployed in OZs without the incentive. The CEA projected that this level of investment has the potential to lift one million people out of poverty and into self-sufficiency, decreasing poverty in OZs by 11 percent. While the majority of early investment activity was concentrated in real estate, the final OZ regulations provided investors with the clarity and certainty needed to increase investment in operating businesses. Information provided by OZ market leaders such as Novogradac & Company LLP and NES Financial have indicated that Opportunity Funds responded accordingly by increasing their focus on this segment of the marketplace.

Of the wide variety of projects supported by OZ investment, many have demonstrated that OZ equity can be activated alongside traditional community development tax credit programs. For example, in Cincinnati, OH, 3CDC financed a $51 million infill project in part by combining OZ financing with New Markets Tax Credits (NMTC), Low-Income Housing Tax Credits (LIHTC), state and federal Historic Tax Credits (HTC), and city programs. In Newark, NJ, OZ financing was used alongside NMTC and HTC to transform the historic St. Michael's Hospital into a center for arts education and creative co-living space.

The flexibility embedded in the OZ policy has allowed institutional innovation to flourish and encouraged cross-sector collaboration and public-private partnership. The City of Coatesville, PA, recently announced the Coatesville Impact Fund, a $25 million fund managed by Activated Capital to support single- and multi-family housing, small commercial properties, and local businesses aligned in the city. Blueprint Local made an investment through its Opportunity Fund to support the modernization of Baltimore's Penn Station in conjunction with a $90 million upgrade project funded by Amtrak. In San Bernardino, CA, RevOZ Capital financed and developed a build-to-suit medical office building that will be leased to the County of San Bernardino for its Children's Department of Behavioral Health.

4

ANALYSIS:

Indicators of child opportunity

Where a child grows up has important consequences for his or her life outcomes far into the future. Low-income neighborhoods have been shown to restrict upward social and economic mobility, thus dramatically affecting lifetime earnings, the chance of being incarcerated or interacting with the justice system, and even teen birth rates.[1] Children residing just blocks away from one another can experience vastly different lives based largely on their neighborhood characteristics.

Opportunity Zones across the country are among the most distressed places to live when evaluated on nearly every available social and economic measure. Over 7.5 million children live in an OZ, and in the average OZ, 37 percent of children live in poverty—nearly double the national rate.[2] Economic mobility for children from poor backgrounds is even worse for those living in OZs than outside. Only 7 percent of children born to poor parents in the average OZ manage to climb into the top one-fifth of the income distribution upon adulthood. That number stands at 13 percent on average for poor children not living in OZs.[3]

Yet many of these communities are home to valuable institutions that can contribute to better life outcomes for the children in and around the neighborhoods in which they are located. Children growing up in low-income neighborhoods may lack an economically successful role model or mentor in their daily lives, but studies show that programs providing low-income children with exposure to these types of individuals can lead to better social and economic outcomes for the children who participate.[4] Community anchors such as universities, community colleges, hospitals, major corporate headquarters, charter schools, and "third spaces" like YMCA/YWCA locations all have the potential to improve the health and economic wellbeing of children in their communities.

Over *7.5 million* children live in an Opportunity Zone, and in the average OZ, 37 percent of children live in poverty—nearly double the national rate.[2]

Overview of Opportunity Zones conditions

Opportunity Zones are among the highest-need communities in the United States with 31.5 million people calling these neighborhoods home, 57 percent of whom are non-white. One in four residents are Black, making up nearly twice as large a share of the OZ population as they do the national population.

Children in particular can suffer long-term consequences from living in socially and economically left-behind communities. The Child Opportunity Index (COI)[5] measures and maps the quality of resources and conditions that enable children to develop in a healthy way in the neighborhoods where they live. Nearly nine out of 10 OZ tracts have low or very low child opportunity scores, meaning residents often lack quality early childhood and K-12 education options, have inadequate access to economic opportunities, and miss out on safe places for their children to live and play.[6]

Family dynamics often differ in OZs from other communities. In total, 40 percent of all children in OZs, or three million all together, live in single-parent households (compared with just under one-third of children outside OZs). Many of those single parents are out of work—a situation that has likely become more dire with the economic fallout from the COVID-19 pandemic. The share of children living in a household with a single parent not in the labor force was twice as high in OZs as in non-OZs before the pandemic. In the typical OZ, 12 percent of families consist of children living with a single mother not in the labor force, more than double the rate in other communities nationwide.

In total, *7.9 million* Opportunity Zones residents live below the poverty line.

In the average OZ, 28 percent of residents live in poverty—double the national poverty rate of 14 percent. Among those living below the poverty line, 2.7 million are children, placing the child poverty rate for OZs at 37 percent.

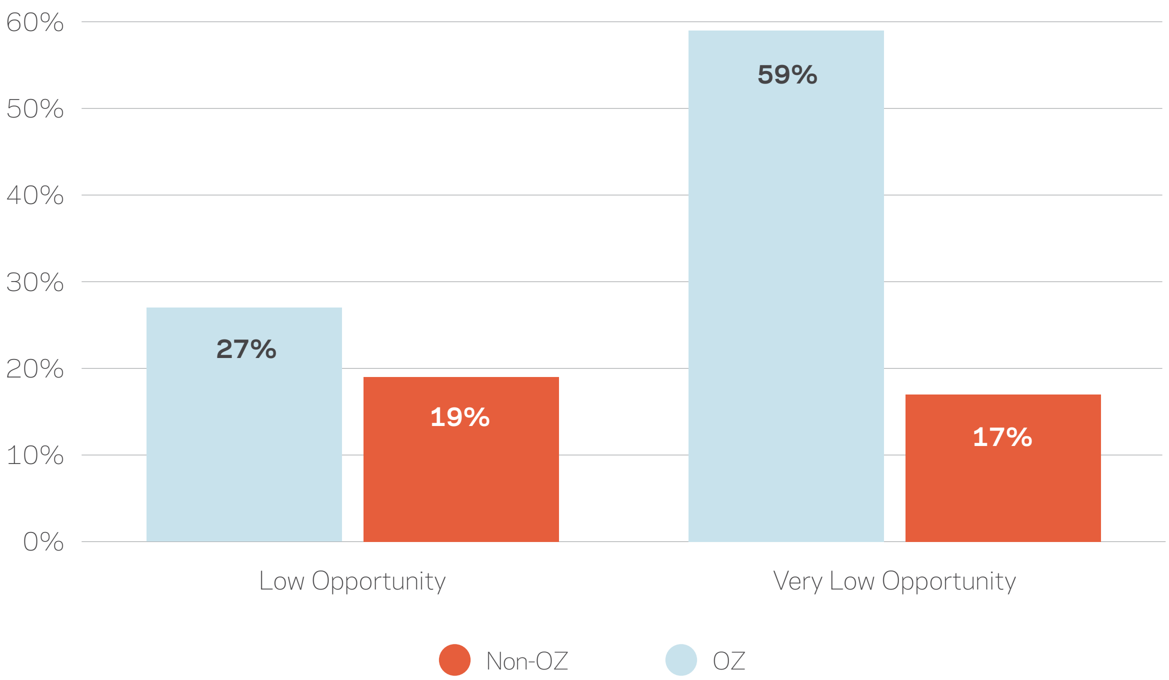
Comparing Opportunity Zones on measures of socioeconomic well-being

Figure 1. Source: EIG analysis of the U.S. Census Bureau's American Community Survey 5-Year Estimates 2014-18 and U.S. Centers for Disease Control and Prevention Small-Area Life Expectancy Estimates 2010-15.

Geography	Median Family Income	Poverty Rate	Child Poverty Rate	Minority Share	Adults (25+) without a High School Diploma	Adults (25+) with a Bachelors Degree	Prime Age Population (25-54) Not Working	Life Expectancy
United States	$74K	14%	20%	39%	12%	32%	22%	79
Opportunity Zones	$47.3K	28%	37%	56%	21%	18%	31%	75

Share of "low" and "very low" child opportunity index scores

Figure 2. Source: Diversitydatakids.org Child Opportunity Index 2.0 Database, 2015



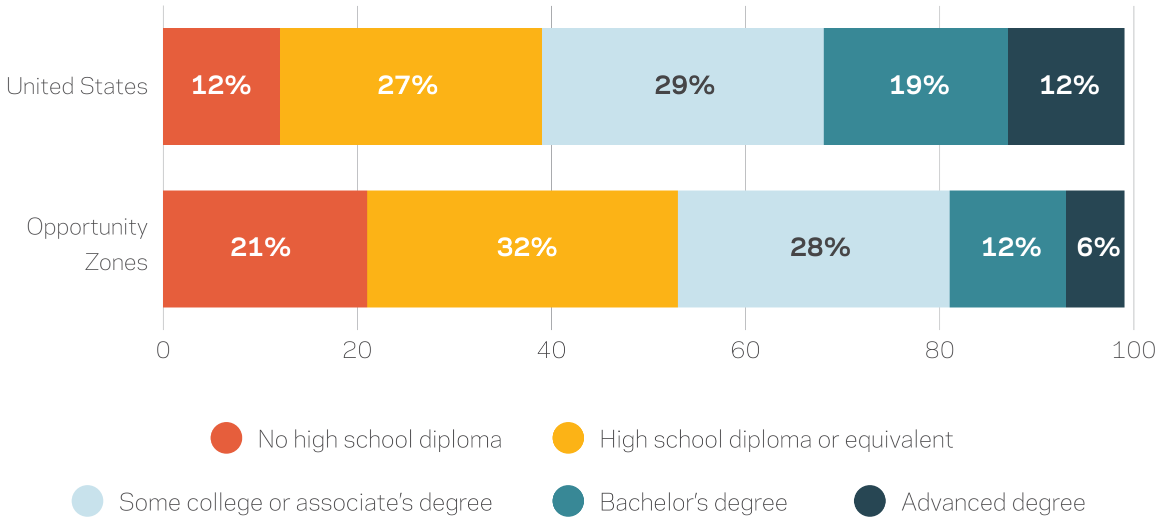
Research indicates that this type of family situation can be particularly detrimental to boys as compared to girls, leading to worse academic outcomes and increased likelihood of interaction with the justice system.[7]

Given the elevated poverty rates and prevalence of out-of-work parents, family incomes are typically far lower in OZs than elsewhere in the country. The median family income (MFI) in the average OZ is $47,300, compared to $74,000 nationally. Three-fifths of zones have an MFI below $50,000. Even as MFI increased by 17 percent at the national level between the 2006-2010 and 2014-18 periods, incomes declined for the median family in 27 percent of OZs even before adjusting for inflation. After adjusting for inflation, the median family in half of zones saw the buying power of their income decline between the two periods.

Educational attainment in OZs is also lower than the nation as a whole, with 18 percent of adults 25 and older having obtained at least a four-year college degree compared to 31 percent of adults nationally. Tellingly, more adults in OZs lack a high school diploma than have a four-year college degree. Having a parent who attended college provides children with valuable "cultural capital" that helps them navigate the transition to college. According to the National Center for Education Statistics, the "lack of cultural capital negatively affects even those first-generation students who are academically well-prepared for college."[8] Nationally, just 58 percent of high-school graduates whose parents lack college degrees enrolled in postsecondary schooling within three months of graduation, compared to 78 percent among those who have at least one parent with a bachelor's degree.[9] In OZs, too many vulnerable students never complete high school at all.

Highest level of educational attainment among the population 25 years old and over

Figure 3. Source: EIG analysis of the U.S. Census Bureau's American Community Survey 5-Year Estimates 2014-18



Among high school-aged young adults in the average OZ (16-19 years old), 6.7 percent were not enrolled in high school compared to 4.1 percent in non-OZ tracts. That is equivalent to about 102,500 young people living in OZs who should be attending high school but were not.

A significant portion of OZ residents lack access to fresh and affordable food. Poor nutrition is detrimental to child development, causing a range of harmful health effects including deficits in brain function.[10] In total, 2,225 OZs, or 28 percent of all zones, are U.S. Department of Agriculture designated food deserts.[11] While OZs represent around 11 percent of all census tracts, they account for 24 percent of the nation's food deserts. Approximately 2.4 million children live in OZs that are food deserts.

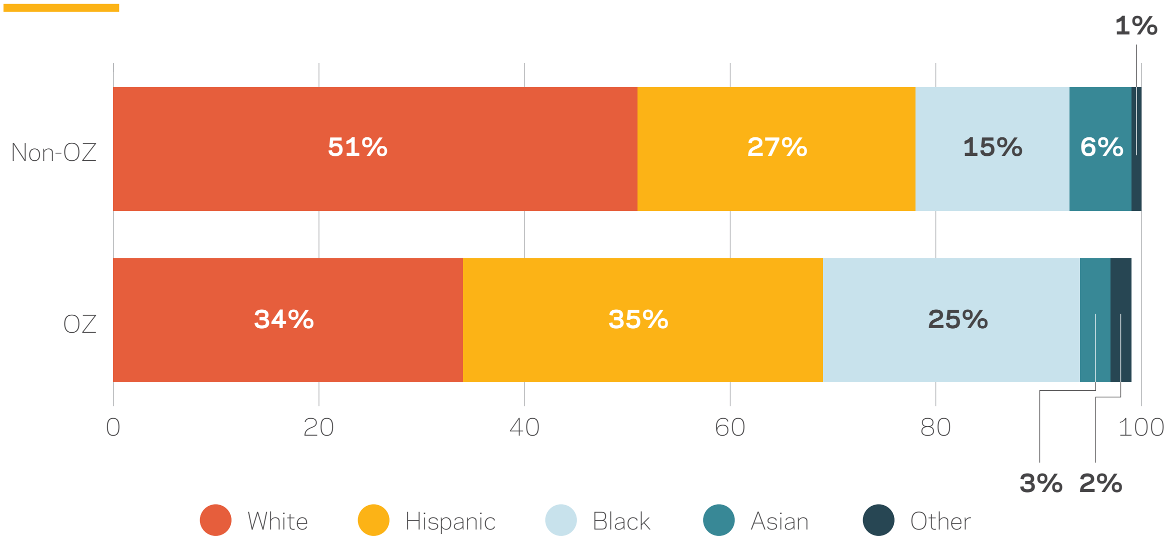
A similar concern for many distressed communities is access to reliable broadband internet, particularly those in rural parts of the country. Looking at the population under 18 years old, there is a clear access gap to broadband internet in OZs. On average, 78 percent of children in OZs have access to a computer and broadband internet in their household, 10 percentage points lower than non-OZ tracts. Eight percent of children in OZ households lack even basic access to a computer, nearly double the average rate in non-OZ households.

Educational landscape of Opportunity Zones

There were 5.9 million children aged three and above enrolled in public and private K-12 schools in OZs nationwide as of 2018. The public school system provides the bulk of primary and secondary education to students living in OZs. Around 88 percent of students in OZs attend a public school (at any level from pre-K to 12) compared to 83 percent of students who do not live in an OZ. According to the 21st Century School Fund, there are 13,536 elementary or secondary public schools located in OZs nationwide.

Race of public school student population

Figure 4. Source: EIG analysis of data from PolicyMap



On average, 71 percent of students in these schools come from low-income families, and 67 percent of students in OZs are eligible for free and reduced lunch, 20 percentage points higher than in non-OZ communities.[12] Many schools in OZs participate in the free and reduced price meal program through its community eligibility option provision, which allows the nation's highest poverty schools to provide free breakfast and lunch to all students without collecting household applications.

The racial breakdown of the public-school student population in OZs varies greatly from that outside of zones, particularly for white and Black students. While white students make up slightly more than half of the public-school population outside of OZs, they constitute just over one-third in OZ public schools, which is on par with the Hispanic student population in OZs. Black students represent one-quarter of public-school students in OZs—ten percentage points higher than the total for public schools located elsewhere in the country.

Free and reduced price school lunch program participation

Figure 5. Source: EIG analysis of data from PolicyMap

	Participating with Community Eligibility Option	Participating Without Community Eligibility Option	Not Participating
Opportunity Zones	38%	45%	17%
Non-Opportunity Zones	20%	62%	18%

Total public and charter schools located in or proximate to Opportunity Zones

Figure 6. Source: EIG analysis of National Center for Education Statistics from PolicyMap and National Alliance for Public Charter Schools

	Opportunity Zones	Proximate to Opportunity Zones
Total Public Schools	11,187	26,345
Total Charter Schools	1,587	2,465

Many of these schools are also struggling on various performance metrics, likely reflecting the distressed communities they are serving. GreatSchools provides a snapshot of school quality based on data indicators and found that the average rating for schools located in OZs was four out of 10, compared to 5.2 for those located outside an OZ. On the GreatSchools scale, scores of 1-4 signal that the school is "below average," 5-6 indicate "average," and 7-10 are "above average."

At the other end of the age spectrum, about 15 percent of the nation's pre-K students attend schools in OZs. Among the population of students attending pre-K, about four in five students in OZs attend a public school; in non-OZs, only about three in five students attend a public pre-K. There does not appear to be a significant pre-K access gap between OZ tracts and non-OZ tracts: in OZs, 8.3 percent of the school-aged population is enrolled in pre-K on average, while outside of OZs that figure is only slightly higher at 8.6 percent.

Charter schools offer another educational option in many communities. However, 70 percent of OZs are located in charter school deserts, meaning that they are part of three or more contiguous census tracts with moderate or high poverty and no charter elementary schools.[13]

Top ten states with charter schools in Opportunity Zones

Figure 7. Source: EIG analysis of data provided by PolicyMap

State	Number of Charter Schools in Opportunity Zones
California	261
Texas	141
Ohio	118
New York	102
Arizona	99
Michigan	98
Florida	89
Pennsylvania	58
Illinois	51
Minnesota	47

While many OZs lack proximity to charter schools, the young industry disproportionately services OZs at the national level. In total there are 1,587 charter schools in OZs, or 21 percent of the nation's total as of the 2016-17 school year. Twelve percent of all schools in OZs are charter schools, compared to seven percent of schools outside of OZs. Charters are unevenly concentrated in particular states, in part reflecting differences in state regulatory environments. California, Texas, Ohio, and New York lead the pack with more than 100 charter schools located in OZs.

Many of these schools have opened over the past decade, as 44 percent of charter locations in OZs began serving students since the 2010-11 school year. On average about 100 opened each school year in OZs from 2010-11 to 2016-17. Mirroring the national trend, about four out of five new charter schools were startups rather than conversions.

An additional 2,465 charter schools are located in tracts that neighbor an OZ, two-thirds of which are also low-income communities. In other words, charter schools are disproportionately active in providing education in OZs.

Community anchors

Numerous and varied community assets exist in OZs and are often referred to as anchor institutions or community anchors. The term "anchor" is illustrative of their role in communities. They can be magnets for human talent, hubs for community activity, and platforms for the provision of care or other services that support child development. As such, community anchors can play an outsized role in strengthening the neighborhoods in which they reside. These institutions are well-positioned to help improve the outcomes of children living in OZs by engaging in collaborative partnerships, deploying human talent and expertise, and leveraging the assets they own. Strategies for doing so are detailed in Section 7.

Community anchors in OZs include:

- Third-spaces
- Colleges and universities
- Incubators and accelerators
- Major employers
- Hospitals

Third-spaces

Community spaces where young people can gather in safe and structured environments, such as libraries, Boys and Girls Clubs, and other community institutions, form a critical complement to the formal K-12 education system. They provide spaces for homework, computer access, socialization, and unstructured learning, and many face the same funding shortfalls that afflict education facilities. In addition, as private (although typically non-profit) actors, they may more easily be able to enter into partnerships with OZ investors to find creative ways to meet their facilities' needs.

There are approximately 1,300 libraries located in OZs across the country that offer many of these valuable services and can anchor educational and other extracurricular activities for children in the community.[14] YWCA USA has identified 85 YWCA headquarters located in OZs across 33 states and is in the process of evaluating owned-assets and capital needs at these locations in the hopes of engaging OZ investors in an effort to spur revitalization and create value for the children and families served.[15]

Colleges and universities

In an increasingly knowledge- and services-based economy, the attainment of a post-secondary degree is becoming ever more relevant as a requirement for high-wage jobs. OZs and their neighboring communities are home to a vast array of higher education institutions. There are a total of 972 four-year colleges or universities, community colleges, or other technical and trade schools located in OZs nationwide.[16] That represents about 18 percent of all such institutions across the country. At least 47 of those are HBCUs, or Historically Black Colleges and Universities, and a further 16 are tribal colleges. An additional 1,585 colleges, universities, and community colleges are located in a census tract that borders an OZ.

Approximately 2.4 million full-time students were enrolled in these institutions of higher learning in OZs during the 2017-18 academic year. An additional 1.4 million students were enrolled part-time.

Colleges and universities in OZs are primely positioned to pilot new ways to extend their reach and impact deeper into the K-12 ecosystems in their neighborhoods. These institutions can leverage available land for education and childcare purposes, partner with local high schools on workforce development programs, and spur partnerships between the education and tech sectors.

Incubators or accelerators

There are at least 284 entrepreneurship incubators or accelerators in OZs.[17] Several Opportunity Funds are investing to expand the number of these sites, which can be bastions of innovation and lower the barriers to starting a business for women, minorities, and other disadvantaged and underserved potential entrepreneurs. Their presence can help increase young people's exposure to entrepreneurship, making it a more tangible and less distant goal for children in underserved communities.

Major employers

Seventy-eight Fortune 500 companies are headquartered in OZs nationwide. The states with the highest number of headquarters in OZs were: Texas (9); Ohio and Michigan (7); Connecticut (5); and New Jersey, Oklahoma, and Rhode Island (4).[18]

Hospitals

Hospitals offer a major source of employment and partnership opportunities within OZs. As of 2018 there were approximately 1,146 hospitals located in OZs nationwide.[19] Those locations represent approximately 20 percent of all hospitals and were distributed among 989 OZs. An additional 1,818 hospitals were located in a tract bordering an OZ.

Higher education in Opportunity Zones

472

colleges, universities, and professional schools

309

community colleges

191

technical and trade schools

5

STRATEGIES:

Advancing child development and education

Diversity Data Kids anchored its Child Opportunity Index on the thesis that "place" matters when it comes to improving the well-being and economic success of children. The condition of a neighborhood shapes children's experiences and access to resources. Those factors often influence health outcomes, educational attainment, and whether a child is exposed to risks that can hinder development. This is especially evident in Opportunity Zones and similarly distressed communities.

Child development is shaped by local education options, health and local environmental conditions, as well the availability of social and economic resources. Levels of opportunity increase when high-quality child care centers and schools are within reach, when students excel academically and graduate high school, when families have access to affordable healthcare and fresh food, when levels of employment are high and poverty is low, and when there are safe spaces for children to live and play.

At its core, OZs is a place-based policy designed to improve neighborhoods and expand opportunity for residents and businesses. Early adopters have developed models for investment and partnership that deliver community-oriented impact. Many of these models can be replicated or adapted to support activities that create a supportive ecosystem for children, like investments in school facilities or "third-spaces," such as YWCAs.

When asked about what conditions need to exist in communities in order to attract private investment, current and prospective OZ investors have underscored the importance of both local leadership and the capacity of organizations working on-the-ground. Investors are attracted to places where they can partner with strong public- and private-sector stakeholders to advance projects and businesses. They are looking for indications from government leaders that proposed activities are a local priority, and that there is a demand for the services investment will enable. Investors are also interested in working with communities where committed and capable partners are engaged, like real estate developers, charter school operators, or philanthropic organizations. While investors seek a return on their investment, they also want to mitigate risk. For this reason, investors want to deploy capital in communities where local leaders and partners also have a vested interest in the success of the project or business in which they invest.

Partnering with local leaders and aligned organizations can create certainty for investors and help mitigate perceived and actual investment risk. OZ investors are motivated to invest in places where there is community support, and risks around timely capital deployment can be controlled. For this reason, investors are increasingly working alongside government leaders to finance community-identified priorities. Doing so also lends itself to public-private financing structures that can lower project costs and mitigate investor risk. These structures blend OZ equity with traditional community development financing tools, such as subsidy and debt with preferential terms. Creative partnerships with local philanthropy, employers, community organizations, and anchor institutions have also been used to ensure that financing is available and support services and programs are aligned to maximize the benefit of OZ investments.

The OZ policy is driving long-term equity investments in a wide range of activities, a number of which are well-suited to improve the institutions and resources families and children rely on. The high-level of need and lack of child opportunity in OZs demands replicable models for investment and partnership and new local policies geared toward creating a supportive ecosystem for children living in OZs. Those models and policies should be grounded in three strategic areas of focus:

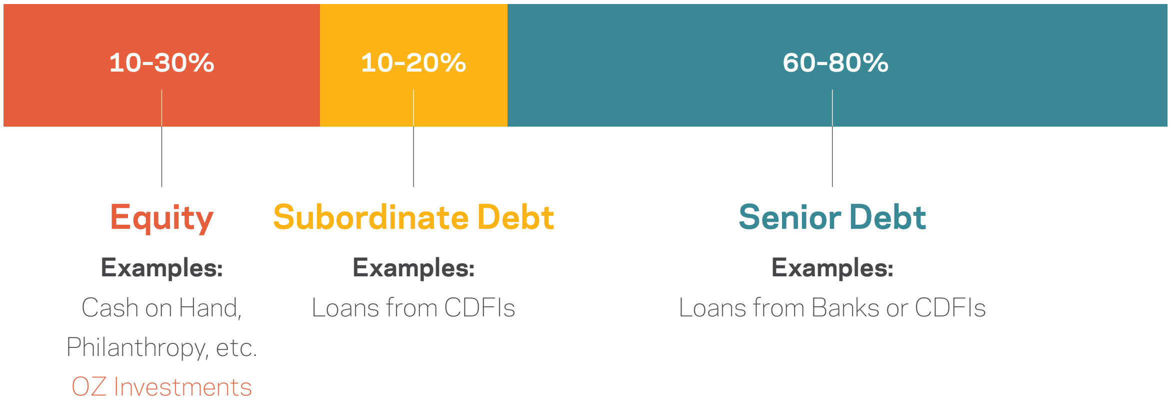
- Expanding and improving spaces for learning and care
- Strengthening businesses that improve the delivery of education and care
- Building local workforce capacity

Expanding and improving spaces for learning and care

A recent survey conducted by Arctaris Impact Investors asked local leaders throughout the nation to identify priority investment activities in OZs.

Charter school facility capital stack

Figure 8. Source: Local Initative Support Corporation and Pacific Charter School Development.



Responses from more than 60 rural, suburban, and urban communities indicate a robust untapped pipeline of projects targeted to expanding and improving spaces for learning and care. Projects such as new early childhood centers or the modernization of school facilities are not advancing because financing is limited due to municipal budget shortfalls or unavailable because the uses are not eligible for public funding. OZ financing can be used to reduce the amount of debt, owner equity, or grant capital needed to advance projects.

In practice, the onus of advancing these meaningful projects often falls on those whose core competencies do not include real estate development and finance, like charter management organizations or childcare providers. These groups face numerous hurdles while navigating the process of identifying facilities, assembling project financing, and developing or improving facilities that meet the needs of the children and families they serve. Promisingly, OZs has been a catalyst for strengthening underdeveloped relationships between child-oriented organizations, developers, and investors interested in expanding and improving spaces for learning and care.

OZ financing can help reduce overall project costs. For example, developers with access to OZ equity during the early-stages of project development are often able to forgo high-cost debt products, like construction and bridge loans, and save money on interest costs. OZ financing can provide the capital needed to advance projects when organizations cannot access traditional financing, which has resulted in overall cost savings. When schools and childcare providers are unable to tap the bond market, access private debt, or raise philanthropic capital to meet facility needs, OZs provide an additional financing option.

Strategies for using OZ investments to support the facility needs of schools and childcare providers include:

- Creating space within a mixed-use development
- Developing build-to-suit property
- Improving or expanding existing facilities

Strategies for securing long-term interest in facilities

Negotiating a sale-leaseback, right of first refusal, or lease-to-own arrangement at the outset of a transaction can create long-term certainty and wealth building opportunities for tenants of OZ-financed properties.

Sale-leaseback

This model allows asset-rich public- and private-sector stakeholders to leverage and improve their property while retaining the right to use that property over the long-term. A QOZB can acquire land, build or improve a facility, and then lease space within the facility to the original owner, as long as the QOZB is otherwise engaged in a trade or business. A QOZB will likely be in compliance with the requirement for engagement in a trade or business if it actively manages the property, charges rents that will enable it to make a profit, and does not charge through the costs of taxes, maintenance, etc. to the tenant.

The parties to the sale-leaseback will need to ensure that the transaction is respected as a sale-leaseback for tax purposes, because the IRS may scrutinize sale-leaseback transactions to determine whether the attributes of true ownership have passed to the owner. For example, if the price paid is not based on the fair market value of the property, and the parties intend that the seller will repurchase the property, the transaction may be recharacterized as a financing arrangement.

First right of refusal

Schools and childcare providers can negotiate a lease that includes a right of first refusal to purchase the property. This model has been used in Cleveland, OH, where local developer Sustainable Communities Associates is positioned to purchase PNC Bank's equity stake in their project, The Tappan, once PNC Bank exits the deal.

For those not interested in or financially positioned to purchase the property, their right of first refusal could be assigned to a third-party. In Washington, DC, the Tenant Opportunity to Purchase Act (TOPA) provides right of first refusal to tenants living in residential buildings. Tenants often choose to assign this right to a third-party that then finances the acquisition and makes necessary improvements to the property. Agreements between the tenant and developer sponsor often include restrictions on rent increases and use of the property. This partnership model could be applied to education and care facilities.

Lease-to-own

Similar to a right of first refusal, a lease-to-own model empowers current tenants to determine future use of the property once investors exit the deal and create wealth while renting the property. Opportunity Fund manager Blueprint Local has explored a lease-to-own model, where a portion of rent payments are placed in escrow over the term of the investment, and then ultimately tapped by the tenant to purchase the property from the investor. Care must be exercised in drafting a lease-to-own arrangement to ensure that it will be respected as a lease instead of a conditional sale and that it satisfies the regulatory requirement that there be no intent to acquire the property at other than fair market value at the time of the ultimate purchase (without regard to the prior lease payments).

Space within a mixed-use development

There are a number of models for co-location, where education and childcare groups operate within a mixed-use building or share space with another organization. Project sponsors view high-performing charter schools and childcare organizations whose services are in demand and even oversubscribed as ideal tenants. The same can be said for public schools that can enter into long-term contracts. These organizations will likely pay rent on-time and in-full through the life of the lease due to high local demand or existing sources of funds that cover operating expenses.

Additionally, the presence of schools and childcare centers on-site can attract people to the property. Increased foot traffic and purchases may buoy the success of retail tenants, and there may be a higher demand for the property's residential and office space because schools and childcare are within close proximity.

Locating education and childcare space within close proximity to mission-aligned businesses and nonprofit organizations in a mixed-use format can foster creative partnerships that strengthen the delivery of services and expand access to opportunity for children and families in OZs. Similarly, incorporating tenants that expand access to healthcare and healthy food can support positive health outcomes in the community.

Lancaster, PA: An underutilized commercial property in Lancaster is being transformed into a mixed-use property that could include affordable homes, space for storefront businesses, a healthcare provider, and a childcare center. The property owner purchased the site in 2006 with plans for redevelopment, but plans did not move forward until OZs were designated. OZs served as a "turning point," according to the owner, catalyzing an effort to crowdsource more than $2 million in OZ equity and advance the project.

Build-to-suit property

Many of the communities that responded to a recent survey conducted by Arctaris prioritized education- or childcare-related investment activities in their OZs. Facilities for these uses are in demand, but assembling capital and executing development plans can prove difficult for public school districts, charter school operators, organizations providing child care services, and other mission-aligned groups. Public resources used to finance facilities are limited, and these groups may lack the network, expertise, and time needed to raise private capital, structure transactions, and lead efforts to develop or improve facilities. When moving to a new space or building a new school, charter school operators will often partner with a third-party that has expertise in facility identification, financing, and development. This strategy can be used by schools and childcare providers to accelerate facility expansion and improvement plans, tapping OZ financing to do so.

Facilities financing for charter school expansion and replication

Charter schools often access the bond market for facilities financing, but not all schools have the credit rating needed to access the market or secure affordably-priced financing. Further, bonds issued in one state cannot be leveraged to finance facilities in another, making it difficult or time consuming to open schools in new states.

A number of charter schools received funding from the U.S. Department of Education (DOEd) in April 2020 to support five-year expansion and replication plans. These schools are positioned to tap OZ equity to accelerate expansion plans or compliment other sources fo financing, given that many of the proposed school sites are located in OZs.

IDEA Public Schools

Headquartered in Weslaco, TX, IDEA Public Schools (IDEA) operates 96 schools in six regions. During the 2019-2020 school year, IDEA served more than 50,000 students from pre-kindergarten to 12th grade. Over the next five years, IDEA will more than double the number of schools in their network increasing enrollment to nearly 100,000. Currently 28 IDEA schools are located in OZs, and more than 9,000 students reside in the 11,000 square miles of OZs located in IDEA's service area.

Twenty of the schools included in IDEA's expansion plan are located in OZs. Fourteen in Texas' Rio Grande Valley, four in the Austin, TX, metro area, and two in Baton Rouge, LA. IDEA will direct funding from its recent DOEd award to open two schools in OZs located in Hidalgo County, TX.

Fortune School of Education

Fortune School of Education is working to close the African American achievement gap in Sacramento, CA. Fortune School of Education operates six schools and will open two more in the near future. Two of their current schools are located in OZs and another two are located adjacent to OZs.

Their newest school, Tecoy Porter College Prep (TPCP) is slated to open this fall in a Sacramento OZ. Fortune anticipates that 51-75 percent of TPCP students will live in OZs. They have not finalized the location of the additional school they are slated to open, but Fortune anticipates it too will be located in an OZ.

Responsive Education Solutions

Responsive Education Solutions (ResponsiveEd) views its educational mission as a key component to community revitalization and local economic growth. They serve more than 20,000 students on approximately 70 campuses across Texas and Arkansas.

The DOEd grant will be leveraged to replicate or expand 27 high school campuses, 20 of which will serve OZs. Thirteen of the 14 new schools proposed as part of ResponsiveEd's replication strategy will serve an OZ. Those schools will be located throughout Texas and Arkansas, specifically: Houston, Corpus Christi, South Fort Worth, Eastland, East Dallas, Lubbock, Amarillo, West Memphis, Jonesboro, and Texarkana.

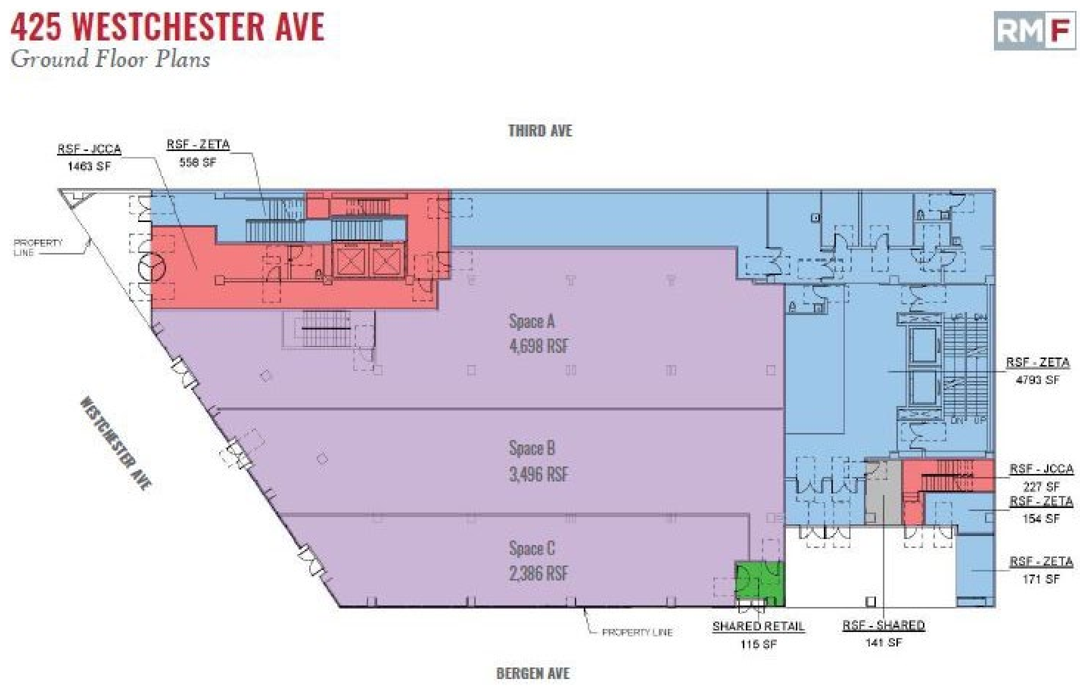


Photo credit: Bronx Opportunity Zone Project Moves Forward with Construction by Think Forward Financial

Under this model, fund managers will deploy capital to a project sponsor (QOZB) charged with building or improving the facility. The project sponsor could be a school or childcare operator, developer, property owner, or mission-aligned third party, as long as they are engaged in a trade or business. Space is then leased to an unrelated school or childcare operator, likely for a term of 10 years. The transaction may be structured with favorable terms dependent upon additional sources of capital, and other assets, like land, leveraged for the project. Many charter schools rent facilities from local government, nonprofit organizations, or developers, so this model should feel familiar. The differentiating factors may be the level of engagement and input provided at the front end, as well terms negotiated at the outset of the partnership to empower the school or childcare operator once the investor exits the deal.

Zeta Charter Schools

Location: 425 Westchester Avenue, New York City, NY
Project: Mixed-use development anchored by PK-8 charter school
School benefit: Replication and expansion of charter school
Community benefit: Expansion of high-quality, affordable education

Zeta Charter Schools (Zeta) plans to open a new PK-8 school across the street from the La Central development in the South Bronx, which includes a new YMCA and 992 affordable homes. Zeta's second school will anchor a new $75 million mixed-use building, which was supported by a $21 million OZ investment from Starwood Capital's Qualified Opportunity Fund. In addition to the school, the 147,000 square foot property will include office space and ground floor retail and is being delivered by local developer AB Capstone. Demand for alternative education is high in the South Bronx, one of New York City's fastest-growing boroughs. Zeta's new school will expand options in the community and is expected to serve hundreds of local families.

Schools and childcare organizations derive benefit from this strategy in a number of ways. It allows for the deferral of capital expenditures associated with new facilities and aligns these groups with investors and developers that have the expertise needed to deliver projects. Money that would otherwise have been used for new facilities can be redirected to support programming in the near-term and even fund efforts to raise the capital needed to purchase the facility once the investor exits. With a right of first refusal in place, these groups are positioned to capture value created by the investment and empowered to dictate use of the property over the long-term.

Facility modernization or expansion

As schools and childcare operators work toward safely reopening facilities in the midst of the pandemic, investment in modernization, maintenance, or reconfiguration may be required. With limited availability of public resources, some of these groups may need to consider private financing, which could include OZ equity under certain conditions.

Investments made to acquire existing properties must also meet a threshold for value creation evaluated in terms of the substantial improvement requirement laid out in the OZ statute. This is why OZ financing is a great fit for new construction and redevelopment projects but more difficult to leverage for light rehabilitation or modernization of buildings. However, final OZ regulations provided flexibility that may support facilities' modernization, maintenance, and reconfiguration.

1. The substantial improvement test can be met by purchasing original-use personal property and aggregating the value of the purchased property and the physical improvement of the property. The personal property must improve the functionality of the property being substantially improved and be used during the regular course of operations of the business occupying the property.

For example, newly purchased personal property (i.e. new furniture or electronic equipment) can be counted toward the additional basis required to meet substantial improvement requirements of an acquired property. Again, the personal property must be linked to the functionality of the tenant occupying the facility, such as a school or childcare operator.

Zeta Charter Schools cont.

In 2019, South Bronx charter schools were oversubscribed by more than 300 percent, receiving 17,234 applications for only 4,453 seats. A high-demand for services coupled with the school's strong track-record makes Zeta an ideal tenant. Securing a stable anchor tenant, like Zeta, creates project certainty and can help alleviate underwriting concerns for investors. The school's 10-year lease lines up with the graduated structure of the tax incentive, which encourages investments of 10 years or more.

The charter school has also benefited from the partnership. Zeta's founder Emily Kim has said that the biggest challenge for high-performing but relatively new schools like hers is finding a facility at a reasonable price. The school was able to contain costs by leasing space that was less appealing for traditional tenants at discounted prices. Co-locating with other tenants could better position Zeta to collaborate with mission-aligned organizations and attract and retain talent. A nonprofit aligned with Zeta's mission is slated to move to the property, and the ground floor retail may include restaurants and coffee shops that will cater to teachers, parents, and families.

2. A QOZB that owns several buildings on a single-deeded parcel or on a series of adjacent parcels can treat these parcels as a single piece of property in order to meet the substantial improvement requirement. To do so, the QOZB will aggregate the value of improvements made among all properties.

   For example, if a childcare facility only requires light renovation, the substantial improvement test can still be met if the cost of redeveloping and outfitting other eligible properties exceeds the adjusted basis of the purchased properties. Since multiple properties can be considered a single property, the test is applied in the aggregate. Eligible properties are defined as two or more buildings on a single deeded property and certain buildings on contiguous properties. Buildings on contiguous properties must be operated exclusively by the Opportunity Fund or QOZB, operated in coordination with one or more of the trades or businesses, and share business resources (e.g., accounting or other back office functions) or employees. To meet the substantial improvement requirement, the amount of basis added will be the total basis of each building.

In a third scenario, a local government could sell a property that was vacant or acquired by involuntary transfer to a QOZB engaged in a trade or business. The QOZB would then invest in the single- or mixed-use property and lease it back to the government under a sale-leaseback structure. The QOZB must actively manage the property, charge rents that will enable it to make a profit, and must not charge through the costs of taxes, maintenance, etc. to the tenant(s).

The scenarios offered in this guide do not constitute legal advice. Seek legal counsel when structuring OZ transactions to ensure compliance with the policy.

Vacant properties and real estate acquired by local government through involuntary transfer is considered original use, allowing the QOZB to make necessary improvements without needing to substantially improve the property.

Strengthening businesses that improve the delivery of education and care

OZ equity can be a meaningful source of capital for startups and high growth businesses. While initially the OZ marketplace skewed toward real estate, there has been increased interest in investments for operating businesses due in part to the certainty and clarity provided by the final OZ regulations in December 2019. Examples of the types of operating businesses that support child well-being and economic success and are primed for OZ investment include:

- Education technology companies
- Childcare providers and Education Management Organizations
- Internet service providers and companies expanding open-access networks

Education technology companies

Companies in the education technology (edtech) sector work to facilitate and enhance the academic success of students by creating tech solutions that combine IT tools and effective education practices. The pandemic has accelerated a transition from on-site to online learning, and edtech companies can deliver solutions that improve the capability of school and childcare operators to interact with students and families. GSV Ventures, an early-stage venture fund that partners with edtech startups and entrepreneurs, believes increased use and innovation will position digital education to scale to a $1 trillion market by 2027. However, geographic disparities in child outcomes may increase if the proliferation of edtech solutions is not informed by and available to education and care providers in OZs and similarly distressed communities.

Investment groups and venture capitalists, such as Social Capital, NewSchools Ventures Fund, Kapor Capital and New Markets Ventures Fund, are already focused on supporting the edtech sector. Venture studios focused on the education ecosystem, such as Entangled Group (recently acquire by Guild Education), incubate high growth businesses as they prepare for and secure venture capital. A number of recent announcements demonstrate that OZ investment is being deployed as venture and growth capital for technology companies serving various sectors. For example, the Center on Rural Innovation (CORI) Innovation Fund has made OZ investments in technology companies that advance skilled nursing and address behavioral and mental healthcare. Tech solutions help scale efficiencies for users and accelerate positive outcomes for those they serve. If applied to edtech, OZ investments could improve the delivery of education and childcare services.

Childcare providers and education management organizations

OZ investments can support for-profit childcare providers and Education Management Organizations (EMOs) by providing immediate infusions of capital that can support the growth and financial stability of these businesses.

The pandemic brought to light the extent to which local economies depend on childcare providers. As cities pivot to economic recovery and resilience strategies post-pandemic, many local leaders are focused on expanding options for affordable childcare as a means to support their workforce. Public sector resources can be leveraged to support facilities financing, but childcare providers will also need additional capital to hire employees to staff facilities and support company growth. Coastal Enterprise Inc. (CEI), a leading partner in the Woodforest-CEI Boulos Opportunity Fund, received $800,000 through the U.S. Department of Health and Human Services' Community Economic Development program to support their Growing Good Jobs in Rural Maine Initiative. A portion of this grant is earmarked to provide working capital to a new childcare business that will enable more parents to enter and stay in the workforce. Working capital will be used to purchase equipment and furniture as well as fund salaries for employees.

While grant funding is available to support growth, availability is limited. Opportunity Funds can step in to provide working capital much as traditional venture capital or private equity investors would to support similar growth-related activities. While the terms of equity financing are very different from those of a grant, OZ investments can help fuel the expansion, hiring, and outfitting of a business. In the critical early stages of a new company, OZ financing can help build their capacity and track record, better positioning them to access other sources of financing in the future.

A number of states have enacted universal Pre-K measures, increasing demand for early childcare centers and presenting an opportunity for OZ investors. Illinois recently committed funds to provide Pre-K for all four-year old children in the state. In response, Chicago International Charter Schools (CICS) is expanding 10 of its 14 K-12 charter schools in Chicago to include Pre-K programming. OZ investments can build the capacity of for-profit childcare providers and EMO's that support public charter schools, so that these organizations can similarly respond to a growing need for early education.

Broadband infrastructure and service providers

The pandemic also brought to light the digital divide that threatens to leave behind a generation of students in OZs and similarly distressed communities. Government funding is being used to expand broadband access in OZs. Additionally, a handful of Opportunity Funds are exploring models for investing in open access fiber-optic network infrastructure and broadband service providers.

According to Education Superhighway, tremendous progress has been made since 2012 to upgrade internet access in every public-school classroom in America. Today, 99 percent of public schools have access to broadband due in large part to the federal ERate program. While there is room for improving bandwidth in classrooms, the largest hurdle in addressing the digital divide lies outside the classroom.

Seventy percent of teachers provide homework assignments that require the internet for completion, yet 9.7 million students do not have reliable internet connectivity at home. Even for connected students, there is a large discrepancy in the quality of their internet and the devices used to access it. This dynamic is referred to as the homework gap, and now the remote-learning gap.

Opportunity Zone investments to support operating businesses

The final regulations provided the clarity investors, fund managers, and businesses needed to activate OZ equity with increased certainty. The various ways in which capital is being deployed to support operating businesses are listed below. These models can be combined or executed separately in certain cases.

Venture capital

The most straightforward model of a direct OZ investment in a business comes in the form of a traditional equity or venture capital-style deal. In these scenarios, the Opportunity Fund acquires a direct equity stake in the firm via new, original-issue shares. This model is especially fitting for new or young high-growth firms.

Equipment purchase

OZ financing can be used to acquire new capital equipment. Under this scenario, the OZ investment is channeled to purchase new equipment that the business either owns or leases at a market rate. For example, an organization could reach an agreement with a private investor whereby the investor purchases equipment and leases it to the organization. The organization could then acquire the equipment at a market rate in the future.

Legacy preservation

Owners of existing businesses can sell their stake in a company to an OZ investor in exchange for an equity infusion that meets the substantial improvement requirements of the statute. In this model, a long-time owner near retirement, for example, could sell the business to an outside investor committing to inject new life into it with a significant investment. The initial owner could also acquire a profit interest in the renewed enterprise, staying on as a manager or employee. While their investment may not be eligible for the OZ incentive, or their investment may be capped at a certain percent, this strategy allows legacy business owners to profit from additional value creation while also remaining involved in the future of the company.

Relocation

A firm can use a capital gain to acquire, build, or substantially improve property in an OZ and move into the property. Alternatively, it could work with an outside owner and operator of the newly constructed or substantially improved property to achieve the same result. The firm itself could become a QOZB eligible to receive OZ investments once it relocates to an OZ.

Opportunity Zone investments to support operating businesses cont.

Multi-angle

Referred to by some OZ stakeholders as an “OpCo + PropCo,” strategy, this model refers to one in which OZ investments are made to support both the operating business (OpCo) and the property where it resides (PropCo). OZ financing can be used to invest both in a new or expanding business and in the physical infrastructure it needs to thrive. For example, OZ investors can invest directly in an edtech company as well as the building in which it is located and the equipment needed to operate.

Build-to-suit

OZs can be applied in the more traditional economic development setting of site location and business expansion by being used to construct build-to-suit office, industrial, or warehousing space. In this model, an expanding firm solicits bids for a new office or facility. In response, a developer works with a project team to assemble financing and bid on the deal. The OZ capital is used alongside other sources to construct the facility, which the expanding firm then leases. In this model, the expanding company does not receive a direct investment using OZ money, but it is an indirect beneficiary of the OZ real estate deal. This diagram offers a model for an OZ investment in an operating business.

Inadequate access to reliable internet and devices with reduced functionality (i.e. access through a phone versus a computer) can negatively impact academic performance and disqualify students from enrolling in schools that provide education online.

Federal grants and loans have recently been leveraged to expand broadband access in rural OZs in Virginia and West Virginia. In Okemah, OK, the Thlopthlocco Tribal Town is using federal funding to support a three-year effort to install fiber-optic networks and expand access to computers for residents in its OZ. While rural and tribal communities experience acute disparities in connectivity, inadequate internet access plagues students and families across the nation, including in many urban settings.

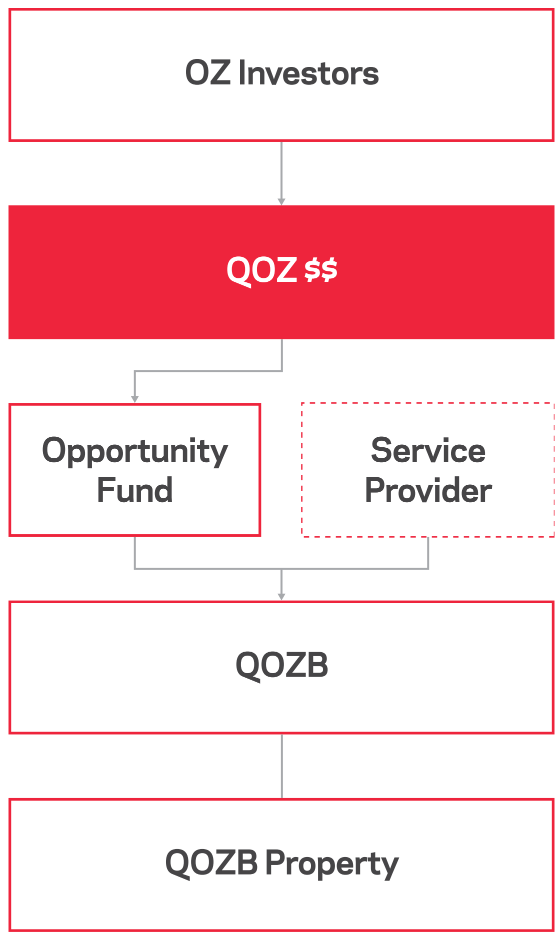
The federal government's increased focus on broadband expansion in OZs could motivate OZ investors to invest in network infrastructure and make direct investments in broadband service providers. Neighborly launched its Neighborly's Infrastructure Opportunity Fund to invest in open access fiber-optic network infrastructure within OZs. Initial efforts will expand access in Stockton, CA, and in South Portland and the Katahdin Region of Maine.

Models for supporting operating businesses in OZs

Models for supporting operating businesses through the delivery of OZ financing have emerged and are being replicated across the country. These early models can be applied and tailored to meet the needs of companies located in OZs actively working to improve the delivery of education and care.

A model for Opportunity Zones investment in an operating business

The investment structure has been provided by Polsinelli, a legal service provider with expertise in OZs. This does not constitute legal advice. Seek legal counsel when structuring OZ transactions to ensure compliance with the policy. View the Economic Innovation Group's July 2020 OZ webinar for more information.



Build local workforce capacity

The Child Opportunity Index states that factors such as a community's employment rate, adult educational attainment, quality of teachers, and level of economic resources can influence child development. OZ investments can be leveraged to improve local conditions across these factors by supporting activities that help communities:

- Attract and retain talent
- Build a pipeline of new highly skilled workers
- Activate latent talent

Attract and retain talent

Local leaders throughout the nation have been charged with creating strategies for maximizing the potential of OZs to improve livability. The qualities of a livable community can include ease of access to amenities and retail options, the extent to which good jobs are available, and the availability of quality affordable homes. When employers assess relocation and expansion sites, livability is often a key factor as it influences their ability to attract and retain talent. As local leaders strive to attract employers by improving livability, expanding the stock of affordable workforce housing has been a top priority.

Bozeman, MT: Communities looking for ways in which to attract talent should fortify local housing stock to ensure that homes are affordable to the local workforce. The city of Bozeman, MT, recently conducted a local housing assessment and found that more than 6,000 new homes are needed over the next five years, more than half of which need to be priced below the current market in order to be affordable to the local workforce.

A recent OZ investment from Catalyst Opportunity Funds will support the development of 60 new homes priced at 66 percent of Area Median Income. These homes will be attainable for workers who earn just above the threshold for subsidized housing but are still very much in need of an affordable place to live. Catalyst Opportunity Funds hopes the OZ investment will support Bozeman's efforts to increase housing options for residents that are the backbone of its local workforce, "including public safety officials, nurses, and teachers."

Orlando, FL: OZ investment was used in Orlando, FL, to support the development of 120 new, energy-efficient apartments in the Parramore neighborhood. Parramore Oaks will increase housing options in the community, which is a key principle in the Parramore Comprehensive Neighborhood Plan. Of the 120 homes created, 96 are affordable to residents earning 60 percent of Area Median Income. These homes will remain affordable for the next 50 years and rent restrictions could reduce housing costs by as much as 50 percent compared to market-rate rent in this neighborhood.

The comprehensive plan also outlines efforts to anchor revitalization efforts in education through the Parramore Education and Innovation District (PEID) initiative, which is led by the University of Central Florida. Last year the University of Central Florida and Valencia College opened campuses in the community expanding opportunities for traditional educational institutions to coordinate efforts with other organizations to strengthen the pipeline to college. A K-8 school, Academic Center for Excellence, within the district also includes space for the Rosen Foundation's daycare center, a Boys & Girls Club, and a health clinic. Parramore

Oaks is positioned as an asset in the community, providing housing options for teachers and others supporting the PEID and ensuring children living in this OZ have an affordable place to live and can take advantage of the strong academic ecosystem.

Teachers Village National: RBH Group has created a model for developing workforce housing specifically dedicated to supporting local education professionals. The real estate financing, development, and management firm formulated the Teachers Village model to help address the high rates of teacher turnover in certain communities. The high cost of living in major metros affects quality of life for local teachers and can negatively impact schools' ability to attract and retain talent.

Teacher experience influences child development, and high turnover rates can have a deleterious effect on students' academic performance. The Teachers Village model is oriented toward helping schools attract and retain talent by improving livability for education professionals. The concept comprises co-locating aligned uses and supporting local revitalization efforts through the master development of large-scale mixed-use projects. The model has already been implemented in a number of cities. Teachers Village Newark includes workforce housing, schools and daycare facilities, and retail. Teachers Village in Chicago includes workforce housing, office and flex space for nonprofits, and community space for continuing education. RBH is targeting designated OZs for future Teachers Village projects and leveraging the incentive to accelerate replication. Section 6 includes details about the group's latest project in Atlanta. See section seven for more details.

Build a pipeline of new highly skilled workers

For most Americans, educational attainment is inextricably linked to earnings potential. On average, 6.7 percent of high school-aged students (or 102,500 children age 16-19 years old) living in OZs were not enrolled in high school, and not graduating high school dramatically curtails lifetime earnings potential. In mid-2020, their median weekly earnings were $630, or nearly $160 less each week relative to high school graduates.[20] The pandemic has highlighted the consequences: By June 2020, employment for Bachelor's degree holders was only two percent below pre-pandemic levels, however for those without a high school degree, it dropped by 26 percent. High drop-out rates can lead to concentrations of high unemployment and poverty rates, strains on limited public resources, and stunted growth for students and their communities.

Engaging students early in workforce preparation and mentorships could provide the guidance and motivation they need to improve academic performance and graduate with a job in their desired field. This can be done through partnership with local universities or employers and through dedicated career and technical education (CTE) programming, among other creative options for collaboration.

Photo credit: Electric Works

OZ investments can be leveraged to support facility needs of schools with CTE programming focused on preparing students for local jobs. The average high school graduation rate for CTE concentrators was 95 percent in 2017. CTE is associated with reduced rates of dropout and higher rates of on-time graduation, particularly when courses are taken in 11th and 12th grade.

Electric Works

Location: 1030 Swinney Ave, Fort Wayne, IN 46802
Project: Public STEAM school opening in mixed-use innovation district
School benefit: Students benefit from strategic partnerships with employers
Community benefit: Expansion of high-quality, affordable education

In June 2020, the Fort Wayne County School Board approved a 10-year lease at Electric Works, an innovation district being developed in an OZ just south of the city's downtown. The new Science, Technology, Engineering, Art and Mathematics (STEAM) public high school will open its doors for the 2022-2023 school year, occupying 25,000 square feet in an active mixed-use district. Through partnerships with local and regional employers, students will be immersed in hands-on and project-based learning, preparing them for college and high-tech, high-wage jobs.

The Electric Works project constitutes the redevelopment of an 18-building General Electric campus that has long sat vacant. Project sponsor and developer Ancora has embarked on an effort to preserve the historic nature of the 39-acre property, while transforming it into a mixed-use district focused on innovation, energy, and culture where residential, office, retail, education, and community uses will be co-located. Ancora has explored OZ equity as a potential source of financing.

The school's location at Electric Works will place students amongst the industries and careers they want to pursue and facilitate connections with entrepreneurs, innovators, and mentors. Future tenants like the Indiana University Research and Technology Corporation and not-for-profit healthcare provider Parkview Health will further expand access to opportunity to the surrounding community and students at the STEAM high school.

Strengthening CTE programs could meaningfully reduce the number of unenrolled students in OZs and increase educational attainment and employment.

Hillsborough County, FL: In Hillsborough County, FL, the school district engages business partners to hire student interns enrolled in CTE programs. As companies expand or relocate to OZs, they should proactively engage local schools for opportunities to deploy their expertise and provide mentorship and internship opportunities for students. Investors and fund managers can work with school superintendents and charter schools on facilities financing needs to strengthen CTE and other workforce development offerings.

Collaboration between education and childcare providers and aligned institutions, companies, and entrepreneurs can also garner a pipeline of students who graduate from high school ready to work. Embedding education and childcare space within OZ-financed mixed-use developments presents the opportunity to create partnerships that immerse children in the careers or industries about which they are passionate. This is one reason why the Fort Wayne Public School System in Indiana chose to open a STEAM high school in the new Innovation District emerging at Electric Works.

Activate latent talent

The U.S. Chamber of Commerce Foundation views childcare as a crucial support for the nation's current workers and future workforce. For working parents, the availability of affordable and flexible childcare influences their ability to enter, re-enter, or stay in the workforce. Recent reports conducted in Louisiana, Maryland, Georgia, Washington, Idaho, Iowa, Mississippi, and Pennsylvania estimate that these states lose between $637 million and $3.47 billion annually as a result of breakdowns in the widespread and accessible provision of childcare. Given how important early education is to child development, the lack of access to childcare today may also undercut the potential of our workforce and economy in the future.

Plank-Calumet/Oswego mixed-use development

Location: 3538 Plank Rd, Baton Rouge, LA 70805
Project: YWCA early childcare center in mixed-use development
YWCA benefit: New facility co-located with housing and mission-aligned nonprofit
Community benefit: Expansion of high-quality, affordable childcare

A new mixed-use development is slated to replace an underutilized property in a corner of Baton Rouge, LA, suffering from concentrated blight and vacancy. The project is part of the first phase of the Plank Road Master Plan. The plan was finalized in 2019 after a year-long urban planning and community engagement effort.

The three-story building will have ground floor commercial space and 30 apartments, 51 percent of which will be affordable to residents earning less than 80 percent of Area Median Income. Commercial space on the ground floor is already pre-leased by the YWCA Baton Rouge and the city's redevelopment authority, Build Baton Rouge. The YWCA will operate an early childcare center at the property.

Financing for the $10.7 million development may include subsidy through the Community Development Block Grants program, below market-rate financing, and private equity. Additional information about this project can be found on The Opportunity Exchange.

Nearly half of children live with a single parent in the average OZ, compared with just under one-third of children in family households outside of OZs. For 850,700 children in OZs living in a single-parent household, that parent is not participating in the labor force. Leveraging OZ investment to expand childcare options proximate to these families could expand opportunity for parents and children alike.

In July 2020, the U.S. Chamber of Commerce Foundation released research that found working parents relied on a range of childcare options including Pre-K (20 percent), childcare centers (15 percent), and Head Start and Early Head Start programs (5 percent). In 2019, the Office of Head Start encouraged organizations delivering services in OZs to apply for funding through its Early Head Start Expansion–Early Head Start-Child Care Partnership. Half of the 78 awardees proposed to deliver services in OZs. In aggregate, these childcare providers now have $75 million to cover operating expenses such as facilities costs.

OZ investments in childcare providers or facilities where Pre-K, childcare centers, and Head Start and Early Head start programs are present can help activate the latent talent of non-working adults and build a foundation for their children's economic success. In Baton Rouge, LA, childcare is anchoring a mixed-use project and serves as a model for childcare centers and similar "third-spaces."

6

FROM CONCEPT TO CLOSING:

Investment-ready projects

Across the nation, communities have established local economic development ecosystems geared toward maximizing the potential of their Opportunity Zone designations and driving investment to deals that will strengthen residents and businesses. While the OZ marketplace is still in the early stages of formation, a critical mass of talented, socially-driven fund managers, developers, and businesses have stepped into the landscape to develop and replicate models for high-impact investment. A number of projects that aspire to improve local education and childcare ecosystems are currently anywhere between the stages of concept and design to closing financing. The three projects listed below are illustrative of the OZ marketplace activity and offer opportunities for mission-aligned investors and partners to engage.

Teachers Village Atlanta

Overview

RBH Group (RBH) has gained national recognition for its visionary leadership in advancing economic growth and inclusive impact through its unique Teachers Village model. RBH is leveraging the built environment to support local education ecosystems by developing charter schools, daycare facilities, affordable apartments targeted to teachers, locally-based retail, and so much more. The impact thesis driving RBH's Teachers Village model is simple: attract the best and brightest teachers and reduce the high rates of teacher turnover by expanding options for affordable living in the communities in which they teach.

They have worked with local leaders, anchor institutions, and community developers in Newark, NJ; Chicago, IL; and Hartford, CT, to redevelop more than 500,000 square feet of mixed-use space centered around the community and its educators. In downtown Newark, RBH acquired and redeveloped 77 different parcels of land along 11 blighted blocks for the SoMa master plan, of which the first phase development was the Teachers Village Newark project. Through public-private partnership, RBH delivered a new six-building LEED Neighborhood Development that includes three K-8 schools, a daycare facility, 65,000 square feet of retail space operated by local entrepreneurs, and more than 200 apartments with rents that are affordable for teachers. Smart classrooms are available to residents and the surrounding community to provide after-hours learning opportunities in arts, technology, design, and professional growth for teachers and other professionals. RBH has also engaged the community and local artists, helping to lead the 4 Corners Public Arts program, which commissioned 14 murals throughout the downtown arts and education district where Teachers Village Newark resides.

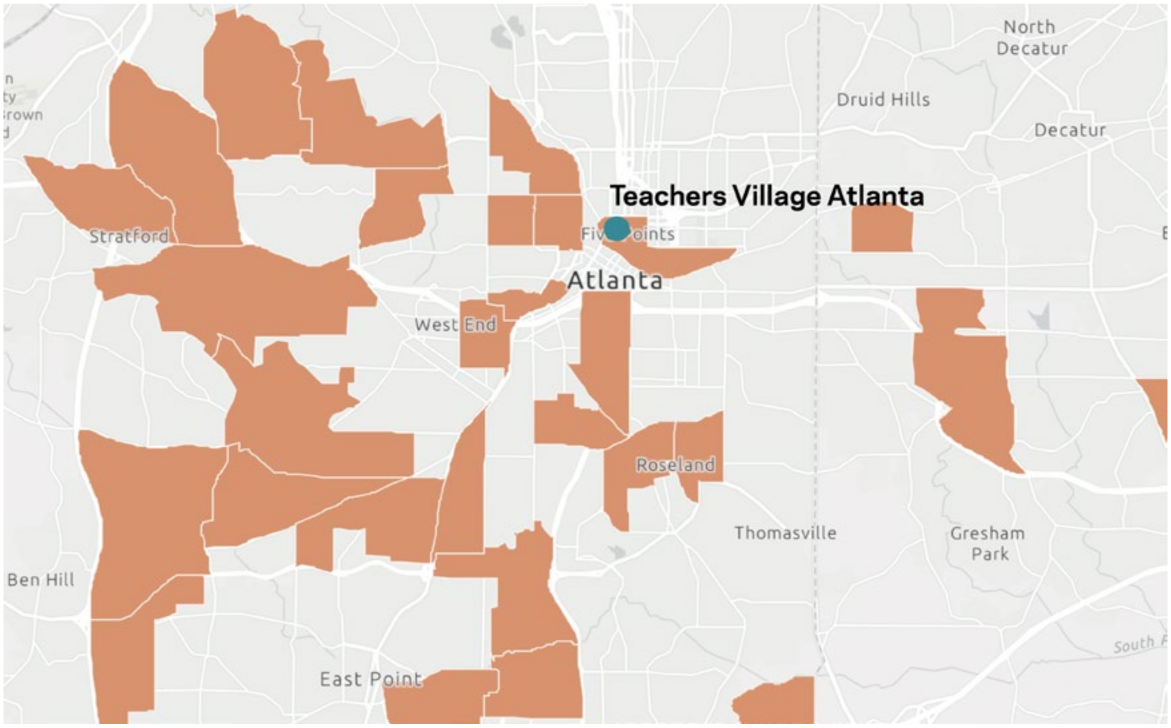
RBH will be scaling their impact in coming years by replicating the Teachers Village model in OZs throughout the nation. Their latest venture is Teachers Village Atlanta.

Investment opportunity

Teachers Village Atlanta will provide new homes affordable to the city's workforce and targeted to serve local teachers and other education professionals. Additional features of the project include housing for middle-income seniors, workforce housing for health care professionals, retail space, a life-long learning center, and space for amenities and parking. RBH has site control of the property and is in the planning and pre-development phase. They are also currently assembling financing, including OZ equity, for the project.

Photo credit: RBH Group

Opportunity Zones near Atlanta



OZ tract: 13121011900

MFI: $31,827

Poverty rate: 35.3%

Adults not working: 21.4%

Minority population: 67.3%

Bachelor's degree or higher: 48.1%

Lack HS diploma: 8.9%

Housing vacancy: 11.8%

Housing cost burden: 43.5%

Child opportunity index score (Metro-normed): 8 (Very low)

Children living in OZ: 239

Children in poverty in OZ: 172 (72%)

Children living with single parents in OZ: 214 (96%)

MSA 12060: Atlanta-Sandy Springs-Roswell, GA

MFI: $77,320

Poverty rate: 13.1%

Adults not working: 20.5%

Minority population: 52.3%

Bachelor's degree or higher: 37.8%

Lack HS diploma: 10.8%

Housing vacancy: 8.2%

Housing cost burden: 47.1%

Child opportunity index score (Nationally-normed average of MSA census tracts): 50 (Moderate)

Children living in OZs: 76,900

Children in poverty in OZs: 35,847 (51% MSA OZ average)

Children living with single parents in OZs: 37,968 (62% MSA OZ average)

Community context

Of the 239 children living in the OZ where Teachers Village Atlanta will be located, 72 percent are living in poverty, and 96 percent live in single-parent households. The MFI for these families is less than half of the MFI for families living in the MSA, and the Child Opportunity Index provides the community a very low score of 8/100.

One elementary and one charter school reside within the OZ and a K-8 charter school is in close proximity. The city suffers from a high rate of turnover among education professionals. A 2015 study conducted by the Georgia Professional Standards Commission found that 13 percent of Georgia's newly hired teachers left after their first year. After five years, 44 percent of those newly hired in 2010 were no longer teaching. Low compensation has often been cited as the top reason why teachers leave. However, despite a recent increase in salaries, more than 3,000 teachers left their jobs during the 2018-2019 school year, leaving 700 teaching positions vacant. The high rate of turnover extends beyond teachers. The annual principal turnover rate is 19 percent. Schools that struggled most with academic achievement experienced higher rates of principal turnover. These schools often have high percentages of students living in poverty and/or a large minority student population.

High turnover rates may be attributed in part to community livability. Forty-seven percent of residents living in the Atlanta MSA are overly burdened by housing costs. A lack of options for affordable-priced homes coupled with low compensation, even with salary increases, could be attributing to high turnover rates. One of the leading reasons teachers left their jobs during the 2018-2019 school year was to work at a different school district, further indicating that community livability may be a factor leading to turnover.

Desired impact

Teachers Village Atlanta will expand the supply of homes that are affordable to teachers and other education professionals. Those living at Teachers Village Atlanta may be employed at the three schools located within close proximity of the property, or given its central location in Downtown Atlanta, and access to mass transit, throughout the MSA. Affordable living may have the effect of reducing turnover rates, which may in turn relieve the staffing burden borne by local schools and improve the quality of education provided to students. An added advantage of the project will be the opportunity for like-minded individuals to share their knowledge across generations, advance their degrees, learn a new skill, and impart their knowledge to others as a function of living together in one place and not having to commute long distances from work to home. Additionally, the activation of this site will generate tax revenue for the city, which could then be used to invest in schools and provide support services for low-income residents.

Key partners

Invest Atlanta: Invest Atlanta leads the city's OZ efforts and is anticipated to make public investments to support Teachers Village Atlanta. As Atlanta's economic development authority, Invest Atlanta works to advance the city's global competitiveness by growing a strong economy, building vibrant communities, and increasing economic prosperity for all residents. The organization leads cross-sector coalitions, creates programs and initiatives that foster public-private partnerships, and allocates the city's economic and community development financing resources.

University partner: RBH will invite a university to lead programming at the "Q," the life-long learning center at Teachers Village Atlanta, replicating the model for program delivery at Teachers Village Newark. RBH will also reach out to Atlanta-area universities and community organizations to assist with curriculum development and workshops for residents as well as members of the surrounding community. Given the intergenerational nature of the development, it is anticipated that some content will be generated organically, focused on health and wellness and interaction between teachers and senior citizens. A combination of hybrid in-person and online learning will be offered in the Q, which will be a gathering place for continuing education in the heart of downtown Atlanta.

Contact Ron Beit at ron@rbhgrp.com for more details on Teachers Village Atlanta.

Photo credit: RBH Group

American Life Phase II

Overview

Ed Ticheli of EPT Holdings, LLC made national news in April 2019 when mayors and OZ leaders from across the nation joined him to announce plans to transform the former American Life Building (Phase I) into 140 workforce homes. It was a milestone for the OZ marketplace as the project was one of the first to publicly announce use of OZ financing.

The massive building in downtown Birmingham, AL, had sat vacant for more than three decades, but is now slated to reopen in Q3 2020. Twenty percent of the homes have been pre-leased, and a long list of potential residents are signed up to tour the property. Five of the apartments are reserved at discounted rates for clients of the Dannon Project, a local nonprofit dedicated to helping people reintegrate into the workforce.

Plans are now underway to rehabilitate a building which formerly housed the Red Cross (American Life Phase II) and is located just one block away from Phase I. EPT Holdings, LLC is advancing the project through a joint venture with co-developers LMS Real Estate Investment Management and Gladstone Equity Partners. Similar to the Phase I model, the team plans to leverage Historic Tax Credits and OZ equity to deliver workforce housing and create additional value to the community by partnering with a local nonprofit.

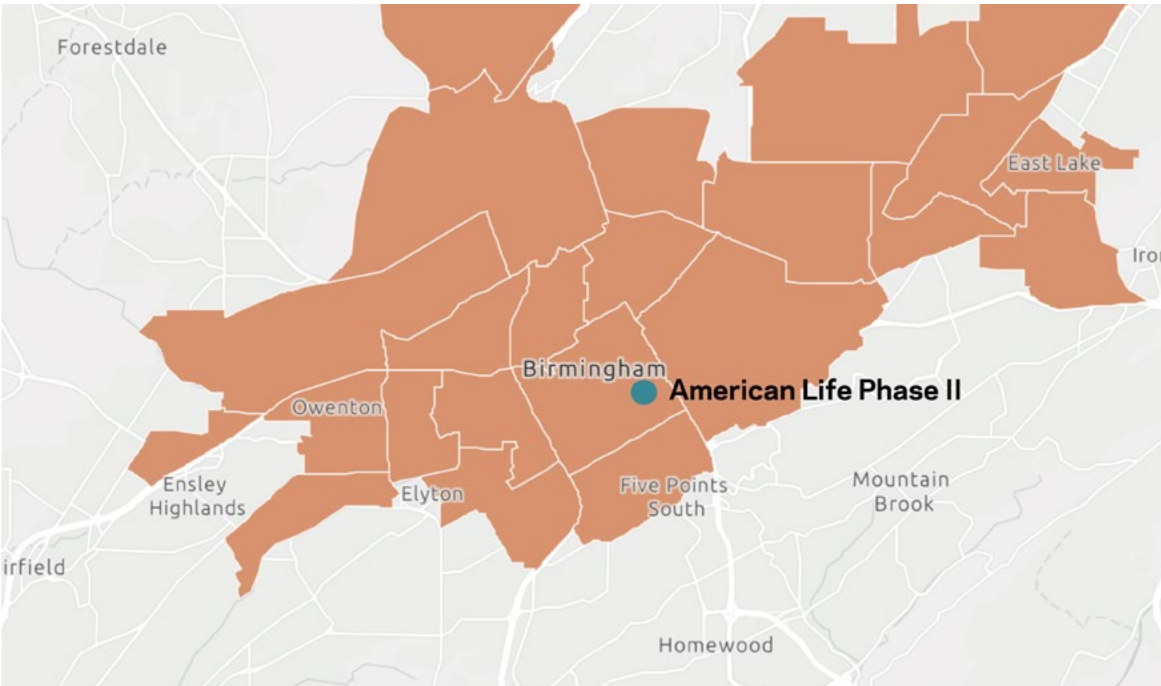
Investment opportunity

Phase II is the adaptive re-use of the former Red Cross building in downtown Birmingham, AL, into workforce housing and ground-floor commercial space. The ground floor will provide space for Pathways to operate a childcare center dedicated to serving homeless mothers. This will be the state's first childcare program for homeless mothers.

Project sponsors—EPT Holdings, LLC, LMS Real Estate Investment Management, and Gladstone Equity Partners—have site control of the property and are currently in the concept and planning phase of this project. Efforts to raise OZ equity and assemble additional financing are underway, and construction is tentatively scheduled to commence in the summer of 2021.

Photo credit: EPT Holdings, LLC, LMS Real Estate Investment Management, and Gladstone Equity Partners

Opportunity Zones near Birmingham



OZ tract: 1073002700

MFI: $57,500

Poverty rate: 37.5%

Adults not working: 52.8%

Minority population: 58.2%

Bachelor's degree or higher: 31.0%

Lack HS diploma: 21.2%

Housing vacancy: 18.8%

Housing cost burden: 48.0%

Child opportunity index score (Metro-normed): 7 (Very low)

Children in OZ: 211

Children in poverty in OZ: 47 (25%)

Children living with single parents in OZ: 101 (58%)

Pre-K enrollment: 24 students

MSA 13820: Birmingham-Hoover, AL

MFI: $69,323

Poverty rate: 15.2%

Adults not working: 24.5%

Minority population: 36.7%

Bachelor's degree or higher: 29.6%

Lack HS diploma: 11.6%

Housing vacancy: 13.1%

Housing cost burden: 43.6%

Child opportunity index score (Nationally-normed average of MSA census tracts): 42 (Moderate)

Children living in OZs: 27,365

Children in poverty in OZs: 11,350 (47% MSA OZ average)

Children living with single parents in OZs: 1,265 (66% MSA OZ average)

Pre-K enrollment: 17,593 students

Community Context

Of the 211 children living in this OZ, 58 percent live in single-parent households. Fifty-two percent of adults in the OZ are not working, which is more than double the rate of non-working adults in the MSA. The OZ's poverty rate of 37 percent is also more than double that of the MSA. One fifth of residents lack a high school diploma, and the Child Opportunity Index provides the community a very low score of 7/100.

Desired impact

The new daycare center at American Life Phase II will provide homeless children in Birmingham a platform for learning and will be a valuable resource for their mothers to pursue work and education opportunities. Approximately 64 families in the Birmingham area are homeless, and that number may rise given the economic fallout of the COVID-19 pandemic.

Forty-eight percent of residents in the OZ and 43 percent of residents in the MSA are overly burdened with housing costs. The expansion of workforce housing will meaningfully create affordable housing options for the community, including those in the education and childcare professions. Additionally, the rehabilitation and activation of the former Red Cross building will support job creation and increase local tax revenue, which can then be invested back into the community.

Key partners

The project sponsors worked closely with city and state-level OZ stakeholders during Phase I and will continue to do so throughout Phase II. They will also partner with Pathways, a local nonprofit organization.

The Birmingham Inclusive Growth Partnership: The BIG Partnership (BIG) will help promote and support the Phase II project locally as efforts to raise capital ramp up and project sponsors move from concept to construction. BIG was launched by the city in 2019 to ensure that the OZ policy was wielded as a tool for revitalizing neighborhoods and creating quality jobs. Through BIG, public- and private-sector partners are working together to direct OZ investment to projects and businesses that both enhance the quality of life for residents and produce tangible returns to investors.

Opportunity Alabama: In conjunction with its partnership with BIG, the project sponsors will continue to engage Opportunity Alabama to help identify potential sources of financing. Opportunity Alabama is a nonprofit dedicated to driving capital into distressed communities throughout the state. The organization was launched in response to the enactment of OZs and has since become a national leader in the OZ ecosystem. Efforts to engage investors and develop a pipeline of high-impact investment opportunities have already created a tremendous impact throughout the state.

Pathways: The nonprofit will operate a daycare center for homeless mothers on the ground floor of Phase II. Pathways' mission is to empower women and children on their path out of homelessness, providing housing and supportive services to approximately 1,500 Birmingham residents each year.

Contact Ed Ticheli at edticheli@gmail.com for more details on American Life Phase II.

DreamHouse 'Ewa Beach

Overview

An ambitious group of Teach for America alumni joined forces with community leaders in 2012 with the vision of creating a charter school focused on developing local, homegrown leaders for their community. The team launched DreamHouse 'Ewa Beach (DreamHouse) in O'ahu, HI, with a promise to parents: "your child will graduate 12th grade from our school." In August 2019, the school opened its doors to 100 6th grade students, and their expansion plan is already underway. By 2026, the school will grow to serve 700 students in grades six through 12, just in time to make good on their initial promise to pioneering parents.

During its first school year, the team successfully adapted to a remote-learning format as a result of the pandemic. The entire sixth grade class presented final projects over Zoom to complete the school year, and a survey conducted by the Hawaii State Department of Education found that DreamHouse outperformed many of its peers during the health crisis. On the question of "Did your school provide a meaningful Distance Learning experience for your child?" DreamHouse received a score of 90, while the state average was 56.

While effectively handling problems posed by the pandemic, school leadership also was successful in landing an expansion site. DreamHouse was launched in a previously vacant office space located on the second floor of a shopping plaza. Now the school is ready to double in size, add new jobs, and move to a larger, revitalized space.

Investment opportunity

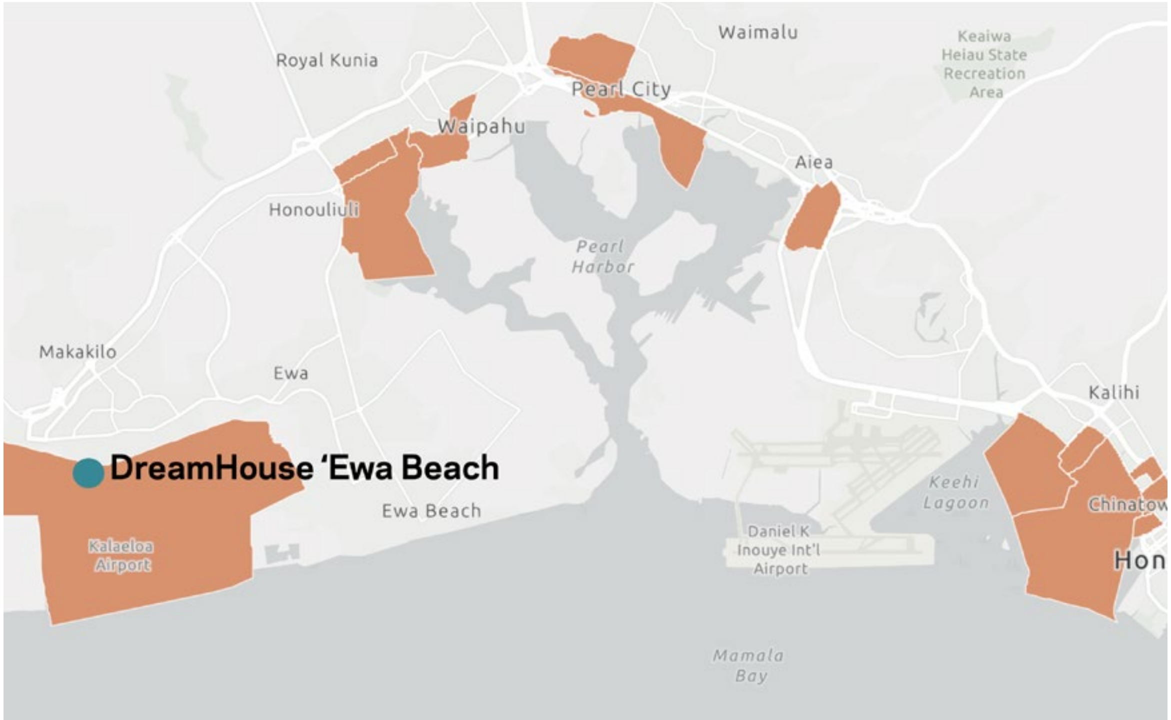
The school's three phase expansion plan spans from 2019-2026. Phase I consisted of launching in the vacant office space. In Phase II, the school will relocate to a former military building and expand its capacity to include grades six through eight. DreamHouse will finalize its full expansion plan in 2022 (Phase III) serving 700 students in grades six through 12.

DreamHouse is now in Phase II of its expansion plan. The school's new building is located in an OZ in the Kalaeloa community, which is surrounded by vacant parcels. Both a long-term ground lease or third-party acquisition of the school site and vacant parcels are viable options for the current property owner. In Phase III, DreamHouse hopes to work with partners to create a 21st-century learning and leadership development complex.

The Phase III expansion plan could be executed vertically on the current site or include a mixed-use master development of multiple sites. A mixed-use build out of multiple parcels could include uses such as retail, coworking, office space, and housing. School leadership has explored scenarios in which DreamHouse acquires the Phase II building either outright or with an OZ investor, or an OZ investor purchases the site and rents the property to Dreamhouse through a ground lease or conventional tenant lease. In the scenario of a lease structure, the school is interested in retaining right of first refusal with an option to purchase the improvement and/or land once the investor exits.

DreamHouse can contribute approximately $6 million towards the Phase III expansion, but additional investment and capital support will be required. Sources could include conventional financing, support from local philanthropic organizations, and/or public financing in addition to OZ equity. This investment opportunity is one of two listed on Hawaii's registry for community-based projects in OZs.

Opportunity Zones near Honolulu



OZ tract: 15003008502

MFI: $90,694

Poverty rate: 28.5%

Adults not working: 28.3%

Minority population: 84.2%

Bachelor's degree or higher: 13.2%

Lack HS diploma: 10.9%

Housing vacancy: 16.7%

Housing cost burden: 59.4%

Child opportunity index score (Metro-normed): 4 (Very low)

Children in OZ: 446

Children in poverty in OZ: 9 (3%)

Children living with single parents in OZ: 79 (29%)

MSA 4652: Urban Honolulu, HI

MFI: $97,139

Poverty rate: 8.7%

Adults not working: 18.6%

Minority population: 81.5%

Bachelor's degree Or higher: 34.3%

Lack HS diploma: 8.3%

Housing vacancy: 6.2%

Housing cost burden: 54%

Child opportunity index score (Nationally-normed average of MSA census tracts): 66 (Moderate)

Children in OZs: 10,214

Children in poverty In OZs: 1,903 (19% MSA OZ average)

Children living with single parents in OZs: 2,630 (37% MSA OZ average)

Community Context

Of the 446 children living in this OZ, 29 percent live in single-parent households. The poverty rate in this OZ is 28 percent, which is well above the 8 percent poverty rate in the MSA. Nearly 60 percent of residents are burdened by housing costs, and the Child Opportunity Index provides the community a very low score of 4/100.

The Kalaeloa, Kapolei, and greater ‘Ewa areas show rising populations of families and K-12 children over the next 25 years. Per DreamHouse, local families have expressed a strong demand for new and more education options that are responsive to different learning approaches. As the Leeward region continues to grow, high-quality and affordable education options will be vital.

Desired impact

Through human-centered design and community partnership, DreamHouse has envisioned a learning environment where students gain the 21st-century leadership and service skills needed to advance their future and the future of the state. Seven hundred new public-school seats will be created by the end of Phase III, providing local families with an affordable option to provide their middle and high school students a high-quality education.

A potential mixed-use master development of multiple parcels will position DreamHouse at the epicenter of an innovative, cross-functional, and collaborative environment. Partnerships with adjacent businesses could provide workforce training, networking, and learning opportunities for students. This exposure to community leaders and local businesses while still in school could help students build their resume and graduate high school prepared for high-skill jobs.

Further, activation of currently vacant and underutilized land will support job creation and increase local tax revenue. The retail, coworking, and office space could provide opportunities for new and expanding businesses to flourish and support community needs.

Photo credit: DreamHouse 'Ewa Beach

Key partners

DreamHouse already has a long list of supporters in the community, including local residents, businesses, and philanthropic organizations, and is looking to grow through additional partners and collaborators. Their circle of support includes a variety of philanthropic organizations and businesses: the Clarence T.C. Ching Foundation, the Harold K.L. Castle Foundation, the James & Abigail Campbell Family Foundation, the Atherton Family Foundation, the Central Pacific Bank Foundation, the HMSA Foundation, The Kosasa Foundation, the Reverend Abraham Kahu Akaka Ministries Foundation, Kamehameha Schools, Hoku Scholars, the Leadership For Educational Equity, 4.0 Schools, O'ahu Air Conditioning, Matson, Standard Enterprises, Premier Supply Group, Wells Fargo Employee Match, and Starbucks.

Contact Alex Teece at alexteece@dreamhouseewabeach.org for more details on DreamHouse ʻEwa Beach.

Additional opportunities for investment and partnership

Franklin School site

Rock Island, IL, is a small town with 4,000 residents just a stone's throw from Davenport, IA. The Rock Island-Milan School District owns a vacant 3.75-acre parcel that can be developed for neighborhood businesses and services, office space, retail and restaurant space, or mixed-income multifamily housing. The school district and surrounding community are keen on ensuring development of the site provides a social benefit for residents and businesses.

View the Quad Cities Region Opportunity Zone Prospectus for more information on the Franklin School and Skip-A-Long Daycare sites.

Dasdi Academy STEAM Innovation Center

Brown Toy Box is developing a Pre-K-6 STEAM school called Dasdi Academy in Atlanta, GA. Dasdi Academy will build 21st-century skills and career pathways for Black children through early exposure to STEAM education, cultural representation, and purposeful play. Brown Toy Box is raising $1.5 million in equity to be used for the purchase and remediation of an existing building and to support operations, workforce development, programming, and marketing.

View the Dasdi Academy STEAM Innovation Center profile on The Opportunity Exchange for more information.

Briarwood mixed-use development

This $65 million mixed-use development is located steps away from the City of Atlanta's public transit system (MARTA) and will include new homes, a medical office building with an urgent care facility, retail space, and a Community Empowerment Center. These uses are aligned with a recent study on current and future needs in the Greenbriar neighborhood, which found that residents needed educational facilities, quality housing, and access to healthcare, among other things. Riddle Property Group has site control of the 11-acre property and is pursuing development.

View the Briarwood Mixed-Use Development profile on The Opportunity Exchange for more information.

7

STRATEGIES:

Stakeholder engagement

The most dynamic Opportunity Zone activity is occurring in the cities and states where public sector leaders, anchor institutions, civic entrepreneurs, local philanthropy, and the private sector are working together toward the same goal. Cross-sector collaboration can maximize the policy's potential, accelerating gains to create exponential impact. Communities such as Baltimore, MD, Birmingham, AL, and Erie, PA, have developed successful models for engagement, demonstrating that everyone has a role to play in community revitalization and economic development efforts. The OZ incentive itself only has limited applicability to the predominantly public and non-profit realm of education, yet it contains huge potential. It is up to local leadership, networks, and partnerships to deploy this new tool creatively and use it to unlock capital for sorely needed purposes. Improving the well-being and economic success of children in OZs will require engagement and leadership from key stakeholder groups including:

- State and local government
- National and local philanthropy
- Community anchors

State and local government

State and local leaders from across the nation have implemented strategies to maximize the potential of OZ designations. Throughout the nation, state and local governments have partnered in and led efforts to directly engage investors in priority OZ activities. Events hosted by the cities of Kansas City, MO, Erie, PA, and in the states of Maryland, Minnesota, and Utah have provided forums for businesses and project sponsors to pitch investment opportunities. Similar events were scheduled in 2020 in Detroit, MI, and Lafayette, LA, but have been postponed due to the COVID-19 pandemic. In addition to direct engagement with potential investors, the following tactics can be taken to encourage investment in projects and businesses that support the well-being and economic success of children in OZs.

- Ground OZ strategies in the local education and childcare ecosystem
- Leverage vacant, underutilized, and surplus property
- Target and enhance public resources and incentives
- Remove regulatory hurdles

Ground OZ strategies in the education and childcare ecosystem

Strategies to attract OZ investment can be grounded in the assets and investment opportunities within a community's education and childcare ecosystem. For example, the Muncie-Delaware County Indiana Economic Development Alliance and city of Muncie identified different revitalization initiatives occurring within the city's OZs. Muncie's OZs Investment Prospectus identified a "Live Learn Neighborhood," which holds the potential to link job development with education by leveraging the proximity of Muncie Central High School, Ivy Tech Community College, Ball State University, and Purdue Polytechnic Institute. Investment opportunities within the Live Learn Neighborhood include the potential to partner with an existing daycare provider.

Leverage vacant, underutilized, and surplus property

The final OZ regulations provided increased flexibility for state, local, and Tribal governments to activate and create value on publicly-owned vacant, underutilized, and surplus property. Vacant property sold or leased to an Opportunity Fund or QOZB is not required to meet the substantial improvement test, and discounted rates can be offered to QOZBs leasing property owned by a state, local, or Tribal government. These rules empower the public-sector to actively engage in local OZ strategies, and leverage assets to attract desired investment activity.

For example, Florida currently has a program that allows school districts to lease vacant, underutilized, and surplus property at discounted rates to eligible charter schools through its Schools of Hope program. Absent regulatory flexibility, eligible charter schools would be subject to market-rate rents if OZ financing were to be leveraged to improve or rehabilitate the facility.

Target and enhance public resources and incentives

States across the nation are mirroring the federal government's efforts to align programs and resources to OZs. Targeting and enhancing public-sector resources serves to encourage and incent desired activity in OZs and give states a competitive advantage in attracting OZ investment. The following examples of state-level reforms can be replicated and tailored to drive investment in businesses and projects that support the local education and childcare ecosystem.

The Alabama Incentives Modernization Act enacted a number of measures to facilitate high-impact investments in OZs, including a benefit on state capital gains for investments made in impact-oriented Opportunity Funds and state tax credits that can be claimed if return thresholds are not met on eligible projects. These measures help to mitigate risk to the investor and drive OZ investment to high-impact businesses and projects. States can tailor this approach to limit eligibility to education and childcare investment activity.

Communities, nonprofits, developers, and other OZ stakeholders supporting impact-oriented projects in Illinois can tap a $12 million capital fund to finance infrastructure, utility, remediation, and other site preparedness costs for affordable housing, community development, and commercial real estate projects. States can establish similar predevelopment capital funds for projects that have dedicated space for education and childcare.

New Jersey doubled the value of its Angel Tax Credit for investments made in early-stage technology companies in OZs and similarly distressed communities, as well as women- and minority-owned businesses. Louisiana has also enhanced its Angel Investor Tax Credit for investments in OZs. Similarly structured tax credits on investments that support edtech companies in OZs could expand the pool of venture capital available for innovation in the education and childcare sectors.

Select Maryland communities and the state of West Virginia have enacted new tax exemptions that serve to strengthen the balance sheet of businesses in OZs by waiving sales tax on equipment and supplies (Maryland) and exempting taxable income from corporate net income tax and personal income tax over a determined period of time (West Virginia). Measures to enhance existing job-creation tax credits and create a similar tax rebate have been introduced in South Carolina and Connecticut, respectively. Business tax exemptions, credits, and rebates can be targeted to businesses supporting education and childcare services. These incentives can help fortify company balance sheets and grow the number of jobs in this sector.

Maryland has also targeted its EARN workforce development grant program to OZs and allocated an additional $3 million to establish a job training program for businesses in OZs called "Opportunity Works." In Washington, DC, real estate projects in OZs that create career pathways for residents are prioritized for workforce development funds. Project sponsors and businesses located in OZs that participate in DC's On the Job Training Opportunities program can be reimbursed for up to 75 percent of wages for six months per trainee. Similar workforce development programs can be established for businesses that collaborate with schools to train and recruit students in OZs. Workforce programs can be structured to provide reimbursements to education and childcare providers in OZs, helping those organizations reduce costs associated with attracting and retaining talent.

The proposed Rural Vermont Workforce Incentive Program includes measures to provide additional down-payment assistance and up to $20,000 in student-loan repayment to qualifying buyers who purchase a home in an OZ and participate in the state's Down Payment Assistance Program. This proposal can be replicated and tailored to target education and childcare professionals as an additional measure to attract and retain talent in OZs.

Cities and states can also wield their toolkit for economic and community development financing, such as project-based tax credits and incentives, mezzanine financing, grants for tenant improvements, and first loss capital in structured loan funds.

Remove regulatory hurdles

Opportunity Funds and QOZBs are bound by strict timing mandates tied to the deployment of capital. When making decisions on where to place capital, Opportunity Fund managers will evaluate factors such as whether projects can move through the approvals and entitlement process with certainty and whether charters or licensing can be secured within a certain window of time. One way state and local governments can mitigate that risk and attract investment is by removing unnecessary hurdles where possible.

Regulatory requirements and fees may dissuade an investor or aligned-partner from entering a local market. To encourage participation and locally-aligned investment activity, Florida has expanded the communities eligible for its Schools of Hope program to include OZs. The program provides certain benefits to charter schools operated by designated Hope Operators, including an expedited application process to establish a new school and exemption from permitting and licensing fees, impact fees, and similar assessments. The Schools of Hope Revolving Loan Fund Program extends credit to Hope Operators for facility financing and startup costs, and the state gives priority to Hope Operators seeking funding through the Public Charter School Grant Program.

Hope Operators also have access to underutilized, vacant, and surplus facilities owned by school districts at reduced rates. In addition to potential cost savings, it can be easier to secure by-right approvals and relief from local regulatory requirements and fees when government-owned assets are leveraged. Even when publicly-owned property is not used, state and local governments can facilitate streamlined entitlements and grant regulatory relief for projects that support education and childcare uses.

National and local philanthropy

The charitable and philanthropic sector can have an outsized impact in driving OZ investment toward local priorities. Grant funding can be deployed to build the capacity of mission-aligned Opportunity Funds, fortify local OZ ecosystems, and expand local efforts to improve child outcomes in OZs. Further, philanthropic stakeholders have a suite of community investment tools which can be leveraged to enhance or encourage investment in priority activities, such as driving capital to Opportunity Funds committed to high-impact investments as well as impact measurement and reporting.

In Erie, PA, the Erie Community Foundation is working in partnership with Erie Insurance and Arctaris to collectively invest $40 million to accelerate the city's downtown revitalization efforts. Two foundations in Wausau, WI, the Judd S. Alexander Foundation and the Dwight and Linda Davis Foundation, have partnered to launch the Wausau Opportunity Zone Fund. Through the fund, the foundations have pooled resources to purchase the Wausau Center Mall to facilitate and partner on the city's downtown redevelopment strategy. The foundations received a $1 million loan from the city to support their efforts. These are just two recent examples. Early engagement by national and local foundations have demonstrated that philanthropic organizations can facilitate desired outcomes in OZs by:

- Supporting capacity building initiatives
- Participating in OZ transactions
- Partnering with Opportunity Funds

Capacity building initiatives

Grants can be leveraged to seed programmatic activities, such as workforce readiness initiatives, support organizations participating in the education and childcare ecosystem, and cover operating expenses related to the expansion and replication of schools or childcare centers. One such example is the Parramore Education and Innovation District initiative in Orlando, FL. Additional details are provided on page 71.

Another example is the Spark Opportunity Grants Program, a partnership between the Walton Family Foundation and Local Initiatives Support Corporation (LISC) to deploy funding to high-quality public charter schools serving students in OZs and similarly distressed communities. Grants will be used to support planning activities as charter schools work toward identifying appropriate and permanent facilities, as well as financing for subsequent facilities. Twenty-six schools were selected in the first round of funding, including Frontier STEM High School in Kansas City, MO, the DC Prep-Anacostia Middle Campus in Washington, DC, and Compass Rose Academy in San Antonio, TX. In total, grants delivered in round one of the Spark Opportunity Grant Program will support the creation of 20,000 additional seats for public charter school students in distressed communities. Round two applications are currently being considered.

A number of foundations across the nation have supported efforts to fortify local OZ ecosystems. The Abell Foundation provided a grant to the Baltimore Development Corporation (BDC) to fund the city of Baltimore's OZ coordinator position. In Kansas City, MO, The Ewing Marion Kauffman Foundation was one of three partnering organizations that launched the city's OZ initiative, We Grow KC, and Opportunity CLE in Cleveland, OH, was supported by The Cleveland Foundation and The George Gund Foundation. This capacity building model can be tailored to focus specifically on child outcomes. For example, grant funding can be used to support a national or regional OZ coordinator focused specifically on driving OZ investment to organizations participating in the education and childcare ecosystem.

Participating in OZ transactions and partnering with Opportunity Funds

OZ equity is typically layered with other sources of public and private financing. Foundations can activate their full suite of community development financing tools to drive positive outcomes for children in OZs. Program-Related Investments, grants, guarantees, and even equity investments in Opportunity Funds can all be used to attract OZ investment to businesses and projects supporting the education and childcare ecosystem.

Equity investments: While investments made by foundations generally will not be eligible for the OZ tax benefit, it's worth noting that foundations can still find good reasons to make equity investments through an Opportunity Fund. Foundations will receive a return on their investment. They can choose to reduce or forgo this return in order to lower the cost of capital for investment recipients and direct the fund toward lower-return, higher-impact investments. Their investment in a fund may be catalytic in attracting additional OZ investment, growing the amount of capital available for targeted activities. Also, as an investor in an Opportunity Fund, the foundation could negotiate the right to review investment opportunities and mandate that capital is deployed to businesses and projects that facilitate desired outcomes.

A foundation should exercise caution when making equity investments in an Opportunity Fund, especially when the Opportunity Fund would be treated as a partnership, in order to avoid the potential application of the unrelated business income tax (UBIT) or, in the wrong circumstances, potential loss of tax-exempt status. Foundations should also seek to ensure that any equity investments in an Opportunity Fund qualify as Program-Related Investments, as described below.

Program-related investments: Foundations often make Program-Related Investments (PRIs) to provide low-interest or high-risk capital that support mission-aligned businesses and projects. In general, a PRI is an investment for which the primary purpose is to accomplish one or more of the foundation's exempt purposes, production of income or appreciation of property is not a significant purpose, and influencing legislation or taking part in political campaigns on behalf of candidates is not a purpose. The IRS has provided examples of eligible uses for PRIs, all of which can be tailored to support the education and childcare ecosystem. Ways in which PRIs can be used include:

- Low-interest or interest-free loans
- Investments in high-risk projects that produce a social benefit
- Low-interest loans to small businesses owned by members of economically disadvantaged groups, where commercial funds at reasonable interest rates are not readily available
- Investments in businesses located in low-income areas that are delivering a social good, like employment or training for unemployed residents, as part of a broader economic revitalization plan

PRIs can be delivered either in the form of equity or debt and are often structured as mezzanine financing or first-loss capital. These structures can meaningfully help strengthen the financial position of projects and businesses, helping to attract other sources of financing including OZ investment.

Guarantees: Foundations can provide credit enhancement to Opportunity Funds and investments into mission-aligned projects financed with OZ equity. For example, the Kresge Foundation has partnered with two experienced fund managers operating impact-oriented Opportunity Funds to provide a $22 million guarantee commitment that provides risk mitigation and first-loss protection. Kresge's guarantee commitment has been leveraged to create principal-protected Opportunity Funds, which has allowed the fund managers to attract additional investment capital and pursue high-impact deals that may carry additional risk. In addition to principal protection at the fund-level, foundations can credit enhance specific projects and businesses in order to attract financing, including OZ investments.

Grants

Grants can be used to support the activities of Opportunity Funds when those activities further an organization's charitable purposes. For example, a grant could be used by a community development organization for real estate predevelopment and acquisition activities. Grants can also be used to seed or fully capitalize revolving loan funds that extend credit with favorable terms to mission-aligned businesses. Under the revolving loan fund structure, once a loan is repaid, the principal and any earned interest can then be recycled to support future lending activity.

Recoverable grants could also be used to fund mission-aligned Opportunity Funds. A recoverable grant is similar in some respects to a PRI but is structured as a grant that only provides a contingent return on capital if certain conditions are met.

In an interview, a leader in the education sector noted the need for grant funding that could support the creation of a technical guide geared toward school districts and charter schools. The technical guide could include sample pro formas for deal structuring as well as template lease and partnership agreements. Grants can also be used to support efforts by Opportunity Funds to convene investors and other OZ stakeholders, create and market local prospectus documents, and support data collection and measurement activities.

Philanthropic support for businesses in Opportunity Zones

Philanthropic capital can be used as an accelerant for businesses that are ready to grow. National and local philanthropy can leverage their suite of financing tools to directly support individual businesses and support the ecosystems that allow them to flourish.

Small business and entrepreneurial ecosystems

Small and undercapitalized businesses often lack access to mentors and industry expertise, as well as the capacity to efficiently manage operational needs. Working within support ecosystems like venture studios, innovation campuses and co-working spaces can help address these challenges. Philanthropic capital can be deployed to seed or support these environments, encouraging new business formation and the growth of businesses operating within them.

Through its Rural Innovation Initiative (RII), the Center on Rural Innovation (CORI) works alongside communities to create innovation hubs and supportive entrepreneurial ecosystems in rural communities. When selecting RII sites, CORI considers the following factors: prevalence of OZs, access to high-speed broadband, existing partnerships with colleges and universities, and local leader and non-profit organization preparation to raise matching funds and lead the initiative. This model provides a clear example for how national and local philanthropy can step in to attract outside capital and expertise and build the capacity of organizations and initiatives operating within OZs.

In Colorado, the state agency leading OZ efforts has partnered with a local business accelerator to launch the Opportunity Zone Capital Accelerator Program. Over the course of one year, the Colorado Office of Economic Development and International Trade and the Colorado Center for Innovation for Community Capital will provide businesses training on assembling capital, guidance on developing business plans, and connections with investors through an online portal and other engagements.

Philanthropic capital can also be used to support incubation programs aimed at helping QOZBs, nonprofits, and other would-be fund managers launch mission-oriented Opportunity Funds. The research and development costs associated with launching and managing an Opportunity Fund can create a considerable market-entry barrier for small or undercapitalized, yet capable, organizations. This is especially true for QOZBs seeking to attract OZ investment by launching their own proprietary Opportunity Funds, as well as non-profit organizations or small investment firms guided toward high-impact investing. Kresge provided a grant to Calvert Impact Capital to support an incubator program for fund managers interested in launching Opportunity Funds. The grant supported provision of technical assistance to help with fund structuring and other legal, tax, and accounting considerations. One participant of this program, the Renaissance HBCU Opportunity Fund, has gone on to become an active OZ investor, helping Historically Black Colleges and Universities formulate and execute plans to attract OZ investment.

Philanthropic support for businesses in Opportunity Zones cont.

It could be particularly powerful to combine these models to create a dedicated incubation platform for OZ businesses and Opportunity Funds that is connected to OZ investors and other sources of capital.

Direct investment

While philanthropic stakeholders have traditionally directed capital to nonprofit organizations, national and local philanthropy have increasingly been seeking opportunities to support B Corporations and similar public-interest organizations regardless of their tax status. As noted above, there are a number of ways in which philanthropic organizations can support for-profit businesses. Tax-exempt organizations may also be able to wield the OZ tax benefit to attract capital for priority activities.

For example, if someone is interested in receiving tax benefits on ordinary income through charitable donations and on capital gains through an OZ investment, that person could place grant and investment capital with a charter school to finance a new facility. Tax-exempt organizations will need to carefully consider a number of potential issues in such structures, including the possible imposition of UBIT, the attribution of business activities to the exempt organization that could lead to loss of its tax-exempt status, and the potential for prohibited private benefit.

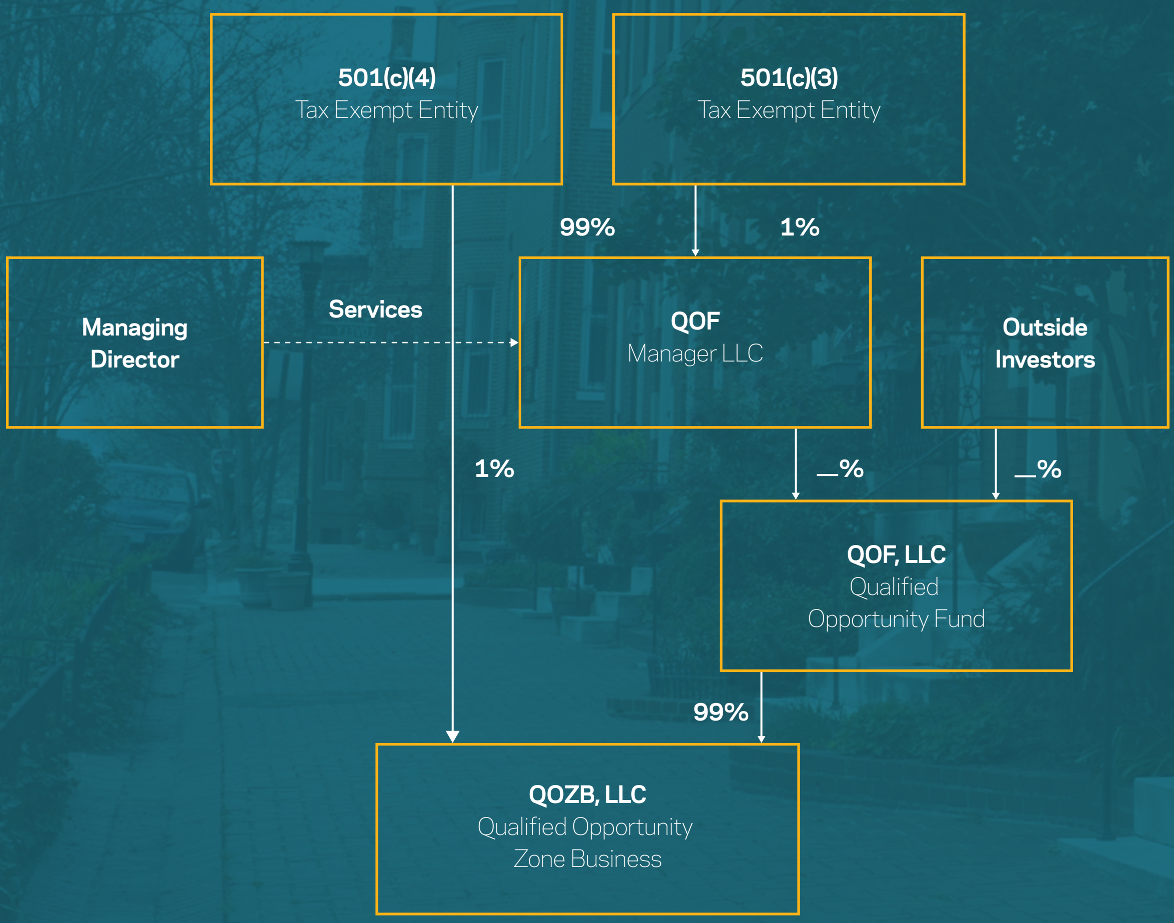
This diagram offers a hypothetical model for investing through a tax-exempt organization to support a taxable, for-profit QOZB. The QOZB could be a mission-aligned operating business or real estate project.

Similar to how accelerators, incubators, and innovation campuses foster a supportive environment for businesses, programs exist to strengthen leaders in the education field and support efforts to implement their early-stage ideas. 4.0 Schools selects fellows focused on creating a more equitable future for the education sector. During the fellowship, participants are provided the resources needed to test pilot programs and business models, some of which may ultimately be positioned for the equity investment needed to grow.

Philanthropic support for businesses in Opportunity Zones cont.

A model for Opportunity Zones investment through a tax-exempt organization

The investment structure has been provided by Polsinelli, a legal service provider with expertise in OZs. This does not constitute legal advice. Seek legal counsel when structuring OZ transactions to ensure compliance with the policy. View the Economic Innovation Group's July 2020 OZ webinar for more information.



Community anchors

Community anchors, such as major employers, universities, and colleges, have a vested interest in the improvement of their surrounding community and an outsized role to play in strengthening OZs. Active engagement in the neighborhoods where they reside can help to strengthen the local workforce, revitalize overlooked or blighted pockets of the community, spur innovation and new companies, and of course, improve well-being and economic outcomes for residents, including children.

For example, in Birmingham, AL, an Investment Board and Community Investment Board has been established to advise the city's BIG Partnership effort. The Investment Board includes the president of a local university, community business leaders, and basketball player-turned entrepreneur Charles Barkley. The Community Investment Board is composed of leaders in the faith community, representatives from local colleges and universities, and the head of the Birmingham Education Foundation, among other community leaders.

Community anchors can leverage their financial assets, human talent, real estate, and networks, to actively work alongside education and childcare leaders as well as entrepreneurs to improve child development in OZs.

Across the nation, local employers, universities, and colleges have engaged in local OZ strategies to:

- Create Opportunity Funds and support OZ transactions
- Leverage vacant, underutilized, and surplus property
- Partner on projects and initiatives

Create Opportunity Funds and support OZ transactions

Community anchors, including many major employers, are positioned to launch proprietary Opportunity Funds or participate as minority investors in Opportunity Funds supporting activities in their community.

Erie, PA: The city's only Fortune 500 company, Erie Insurance, launched a $50 million Opportunity Fund to support local economic development and entrepreneurship. For anchors that do not want to pursue proprietary Opportunity Funds, options to invest as a minority partner with another fund manager can still achieve the result of capitalizing projects and businesses positioned to strengthen communities.

Beyond OZ investments, anchors can deploy an arsenal of grants and preferable debt similar to public-sector and philanthropic stakeholders. Financing with preferable terms can serve to lower project costs, unlock other sources of capital, and enhance the impact of a project or business. It can also accelerate project timelines. Erie Insurance created a credit facility that provides low-cost long-term debt to QOZB Erie Downtown Development Corporation (EDDC). EDDC accesses the facility to assemble land and finance site preparation activities prior to tapping OZ equity to finance the construction or rehabilitation of properties in the city's downtown core. Leveraging the credit facility and OZ investment in a coordinated fashion has allowed EDDC to accelerate the city's timeline for revitalizing its downtown.

Leverage vacant, underutilized, and surplus property

Leveraging privately owned assets can be the cornerstone of high-impact OZ investments. Anchor institutions tend to have a large presence in the communities where they are located, and they often own vacant, underutilized, and surplus land and property that can be activated to create value for both the anchor and the community. A ground lease can be used to reduce project costs and allow the anchor to retain ownership of the underlying asset.

Tuscaloosa, AL: Stillman College is partnering with the Renaissance Equity HBCU Opportunity Fund, a hospitality group, and Opportunity Alabama to develop a teaching hotel and mixed-use project on campus. These new community amenities will help efforts to recruit students and education professionals, and the hotel will offer a new opportunity for hands-on learning for students focused on hospitality. Stillman College executed a ground lease with project sponsors and plans to purchase the new buildings for its long-term use at the end of a holding period.

There are 472 colleges, universities, and professional schools and 309 community colleges located in OZs. Organizations in the education and childcare sectors can partner with these higher-ed institutions and leverage their site control of land to foster investment in child development. For example, charter schools, childcare providers, or edtech companies can work with a QOZB to create space on campus by building a new property on vacant land, rehabilitating underutilized or vacant facilities, or leasing space in a mixed-use development.

There are numerous benefits to this model. Immersive learning and internship programs can be developed to provide a practical experience for students focused on business administration or education. Edtech companies will benefit by being proximate to innovation networks that often flourish at colleges and universities. Co-locating schools and childcare centers with anchors can create a cradle-to-college experience that exposes children to an environment of higher education starting at a young age. Doing so can also expand childcare solutions for the institution's staff and students.

Community anchors are especially powerful partners when they take a multi-pronged approach in leveraging and deploying assets and organize other local stakeholders to do the same.

Honolulu, HI: Kamehameha Schools is leading efforts on the Kapalama Kai Plan, a new vision to create a community of innovation. Kamehameha Schools has site control of large swaths of land throughout the state, including in many OZs. The school also has a large endowment and is working to improve opportunity in Hawaii by leveraging its land and financial assets through coordinated strategies.

The Kapalama Kai Plan is a long-term revitalization effort to create an inclusive, mixed-income community on 105 acres of land located in OZs. The opportunity is to build on Kapālama's proven performance as an economic resource and job center to stimulate industry and commerce and host new ventures. There will also be opportunities to foster physical and programmatic connections that advance educational outcomes and foster the next generation of local leaders. Kamehameha Schools owns the majority of property located within the Kapalama Kai planning area. Honolulu Community College, the State Department of Hawaiian Homelands, and other state agencies are also preparing master plans for property that they own within the Kapalama Kai planning area.

Partner on projects and initiatives

Community anchors can also collaborate with mission-aligned partners on education and innovation initiatives that support child development in OZs. They can also execute agreements to occupy space or offer on-site services at future OZ developments, proving to be powerful partners in advancing OZ strategies and investments.

A similar multi-stakeholder initiative is underway in Memphis, TN, and is poised to improve connectivity and educational attainment for OZ residents, in addition to a host of other positive outcomes for the city.

Memphis, TN: The University of Memphis has partnered with the city, Downtown Memphis Commission, and local startup accelerator Start Co. on an ambitious revitalization project called Union Row. The large-scale redevelopment project will create a hub for innovation, support the city's entrepreneurial ecosystem, and expand housing, retail, and green space for residents. Efforts are underway to raise a $50 million Opportunity Fund, $15 million of which will be dedicated to venture capital investments in operating businesses.

The investment in Union Row is enhanced by the partners' commitment to provide laptops, expand internet access, and provide literacy and education services to 1,000 local families. Memphis ranks last in the nation for internet speed, and the homework gap for teens without internet and computer access is between 20 and 45 percent. 5G wireless will be integrated throughout Union Row in order to expand internet access in the community and attract innovation and tech companies.

OZ communities located proximate to universities and colleges are well positioned to benefit from their startup, tech transfer, and technology commercialization strategies. Business incubators and accelerators are often affiliated with or drawn to universities and colleges for this reason.

Edtech companies and other education-related startups can flourish in these environments, and if located in an OZ, are better positioned to attract venture capital from OZ investors.

The expertise and resources that reside within community anchors can also be leveraged to support community-led initiatives geared toward strengthening local education and childcare ecosystems.

Parramore Education and Innovation District

A diverse group of community anchors are actively partnering to improve child outcomes in the Parramore neighborhoods of Orlando, FL, which includes two OZs and multiple others in surrounding communities. This model for collaboration and the activities that have occurred within the Parramore Education and Innovation District (PEID) serve as a blueprint for how community anchors can ground initiatives that strengthen local ecosystems in OZs.

The University of Central Florida leads PEID in close partnership with Valencia College, Orange County Public Schools, the City of Orlando, the Rosen Foundation, the Early Learning Coalition, and other community-based and faith organizations. A number of investments have been made to develop and enhance an educational ecosystem in the Parramore neighborhood by creating a pathway for students to earn postsecondary credentials and increasing resident engagement and educational attainment.

- The new Academic Center for Excellence K-8 school opened in August 2017, and includes space for the Rosen Foundation's daycare center, a Boys & Girls Club, and a health clinic.
- The University of Central Florida and Valencia College opened a new campus adjacent to the neighborhood in August 2019, expanding opportunities to residents through proximity and programming. For example, Valencia College's Center for Accelerated Training provides a workforce development and vocational training program open to Parramore residents.
- In October 2019, the city of Orlando announced a new workforce development and vocational training program, Blueprint 2.0, will be offered at the Central Florida Urban League Empowerment Zone in Parramore. Participants will receive a certificate in their field of interest and a $125 monthly stipend to help cover living expenses when taking classes.

The PEID initiative recently secured $2 million in grant funding from the Helios Education Foundation, JPMorgan Chase & Co., and the Kresge Foundation to further efforts to create a Pre-K through PhD education ecosystem in Parramore. A local program designed to provide youth mentorship and enhance academic performance, Parramore Kidz Zone, has also secured additional grant funding from Heart of Florida United Way to expand its work.

Jacksonville, FL: A new K-6 public charter school is currently under construction in a Jacksonville OZ. Jacksonville Classical Academy is affiliated with Hillsdale College through its Barney School Charter Initiative (BSCI). Through BSCI, the college provides technical assistance to local residents interested in launching a charter school. They support the school through its charter application process and help design curriculum and teacher training. Colleges and other anchor institutions can replicate and tailor this model to provide technical assistance to schools, childcare providers, and education-related businesses working to strengthen OZs, independent of whether the anchor is located in the OZ or not. By providing free expertise and support, anchors can help build the capacity of these groups and their ability to support children in OZs.

Lastly, QOZBs and Opportunity Funds can secure agreements from community anchors to lease space as lead tenants in future OZ projects. The project could become a supportive ecosystem for children and families if schools, childcare, education-related businesses, grocers, and/or healthcare providers occupied space in the development as well.

Baltimore, MD: Morgan State University will anchor a new mixed-use OZ development adjacent to its campus. The university's commitment to lease space in both Phase I and Phase II of the North Commons project added certainty for investors and amenities for students and staff. North Commons will also include space for healthcare, resident services, and traditional retail. This model can be replicated in other communities and tailored to include high-impact retail, commercial, and community space.

8

Call to action

Opportunity Funds have already invested billions of dollars of private equity to improve conditions in distressed communities, rejuvenating economic growth and expanding opportunity for residents and businesses. Models for investment and partnership are ripe for replication, and increased regulatory clarity has positioned Opportunity Zone stakeholders to scale strategies and engage a broader base of community actors. Now is the time to double down on efforts to drive capital to the people and projects best positioned to create value for residents and businesses in OZs.

Decades-long divestment has resulted in fragile service delivery systems and limited access to opportunity across thousands of U.S. neighborhoods, many of them now OZs. Social and economic mobility is already restricted for many residents living in OZs, and the impact of the COVID-19 pandemic has put educational attainment and economic success even further out of reach. Without strategic intervention and broad-scale investment, those who were already vulnerable may disproportionately carry the burdens of increased health risks and weakened local economies well into the future. This is particularly true for the 7.5 million children currently residing in OZs, and for them, the stakes have never been higher.

The needs of children residing in OZs are great. Their access to opportunity falls well below that of other children throughout the nation, largely due to the conditions in their neighborhoods. The rate of children living in poverty in OZs is nearly double that of the national rate, and only 7 percent of children born to disadvantaged families in OZs have managed to climb into the top one-fifth of the income distribution upon adulthood. More than 20 percent of residents in OZs currently lack a high school diploma, and approximately 102,500 should-be high school students living in OZs are not attending school. The high level of need and limited prospects for mobility should serve as a call-to-action for public- and private-sector leaders committed to ensuring the nation's most vulnerable children are not left behind.

Strategic partnerships and investments that build supportive ecosystems for education and childcare can help carve a pathway for children and their families to gain stability through the pandemic and beyond. To support these efforts, OZs can be leveraged to:

- Expand and improve spaces for learning and care
- Strengthen businesses that improve the delivery of education and care
- Build the capacity of a local workforce

Projects identified in Birmingham, AL, Atlanta, GA, and O'ahu, HI, as well as throughout the guide, provide OZ investors and other aligned partners opportunities for immediate engagement that will make a meaningful impact.

To advance local efforts to maximize the potential of OZs and drive capital to priority projects in designated communities, government leaders should:

- Ground OZ strategies in local education and childcare ecosystems
- Leverage vacant, underutilized, and surplus property
- Target and enhance public resources and incentives
- Remove regulatory hurdles

Philanthropic organizations should support capacity-building initiatives, participate in OZ transactions, and partner with Opportunity

Funds to facilitate desired investment outcomes. Similarly, community anchors such as local employers, universities, and colleges can enhance, and in some cases lead, OZ strategies by creating Opportunity Funds and supporting OZ transactions, leveraging real estate assets, and partnering on OZ projects and initiatives.

The emerging and proposed models outlined in this guide are offered to inspire action that will support the well-being and economic success of the children and families living in OZs. The accompanying OZ Convening Guide provides additional information for local stakeholders ready to advance strategies and investment. Public and private stakeholders of all stripes have a stake in the outcomes of children and families living in OZs. Together they can work to maximize the potential of OZ designations and attract the investment and resources needed to build a supportive ecosystem in these distressed communities.

9

Endnotes

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5. Diversitydatakids.org Child Opportunity Index 2.0 database http://data.diversitydatakids.org/dataset/coi20-child-opportunity-index-2-0-database
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