



# Opportunity Zones in Massachusetts

Presentation to SRPEDD Regional Economic Strategy  
Committee – Taunton, MA – April 16, 2019



# Opportunity Zone Program

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- Created under the federal Tax Cuts and Jobs Act of 2017, the Opportunity Zone Program allows **investors in Opportunity Funds to enjoy preferential federal capital gains tax treatment**. These benefits are:
  1. Tax Deferral;
  2. Tax Reduction;
  3. Gain Forgiveness.
- The same act gave **Governors the power to designate certain census tracts as Opportunity Zones**. In order for an Opportunity Fund to qualify for tax benefits, 90% of its assets must be invested in Opportunity Zones.
- In Massachusetts, **Governor Baker designated 138 Census Tracts** as Opportunity Zones.



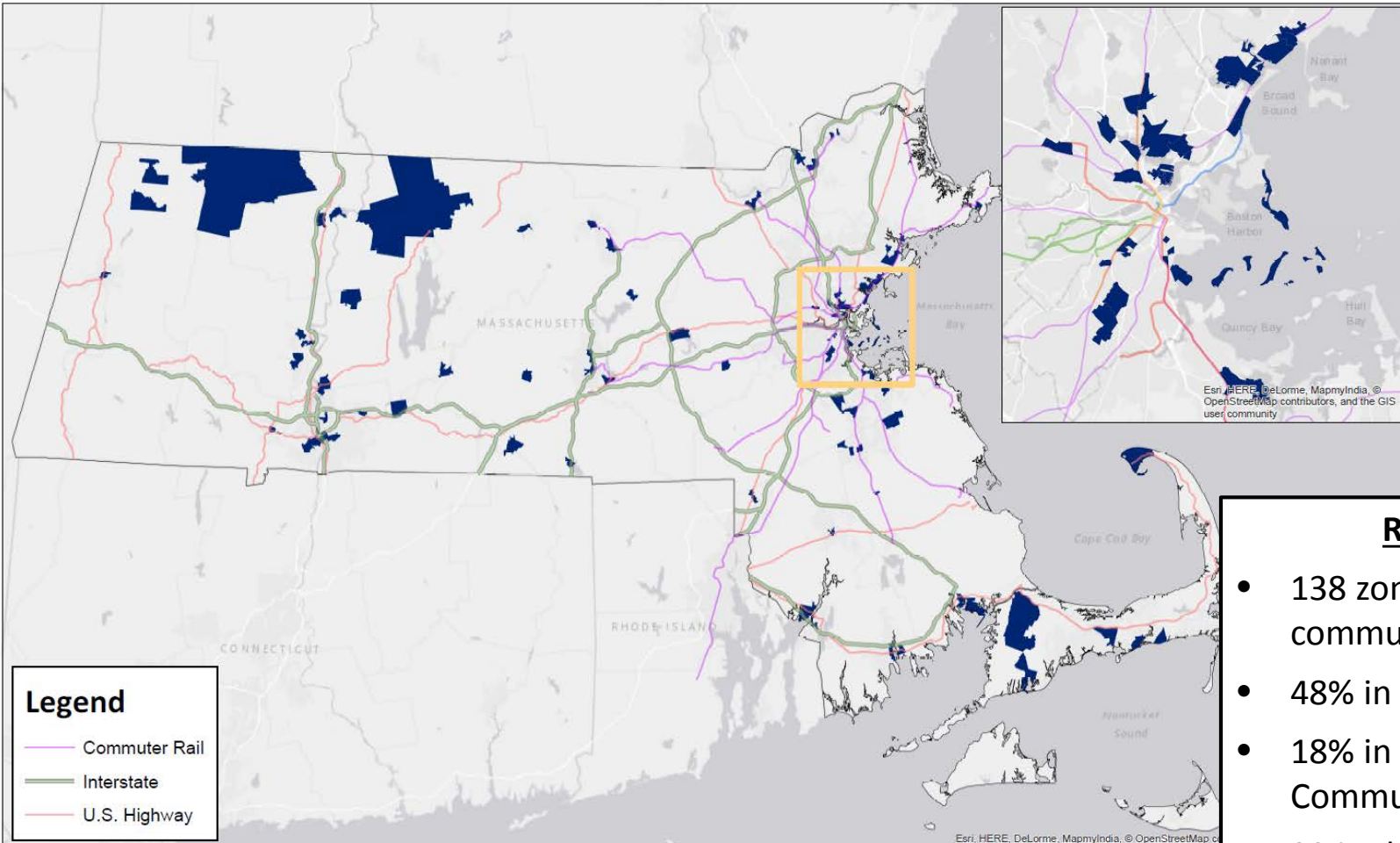
# Designation Process

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- Massachusetts administered a **competitive process** for communities to apply for Opportunity Zone designation, and engaged with all 110 communities that had eligible tracts.
- The Commonwealth prioritized municipal input, and **engaged with municipalities an average of once per week throughout February and March** to inform, educate, and solicit feedback on the program.
- Zone nominations were evaluated by HED against three major criteria:
  - **Opportunities:** sites and businesses that are opportunities for private investment and development;
  - **Planning:** community describes the planning work done in the tract or tracts identified in the application;
  - **Demographics:** poverty rate, median family income, and unemployment rate in the tract or tracts in the application, and in the wider community.



# Designation Results

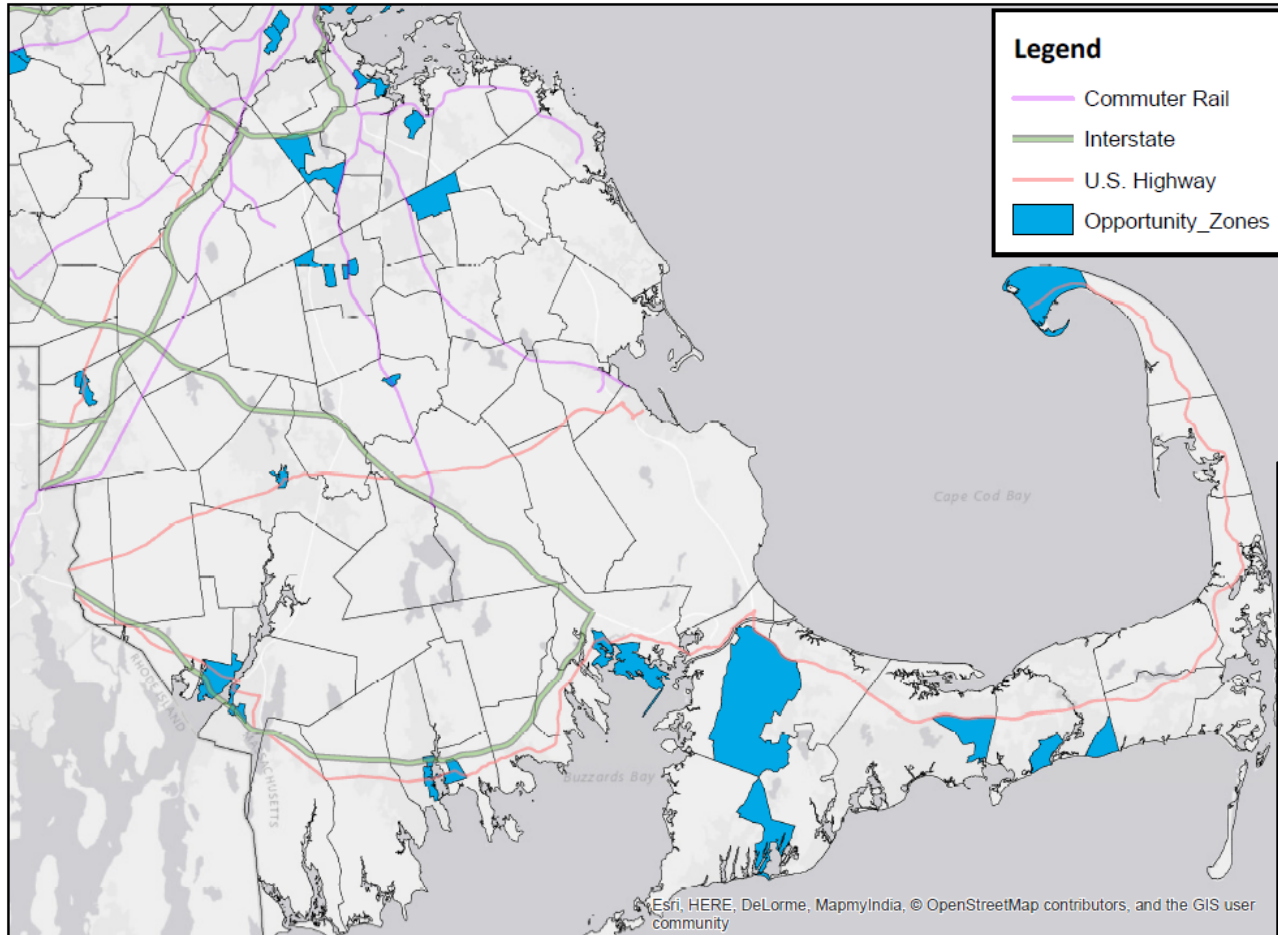


## Results

- 138 zones in 79 communities.
- 48% in Gateway Cities.
- 18% in Rural Communities.
- 32 in the 10 communities with lowest MFI.



# Designation Results: South East and Cape Cod



- 30 Opportunity Zones across Barnstable, Bristol, Norfolk, and Plymouth counties.
- 115,848 residents in Zones.
- 4 OZs each in Brockton and New Bedford, 3 in Fall River.
- Wide range of communities – from Brockton to Provincetown.



# Regulations

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- **First round of draft regulations** issued October 19, 2018
  - Clarified that only capital gains are eligible for tax benefits from any part of the program
  - Extended the timeline for exit through 2047, to prevent a rush-to-the-exit, and subsequent asset devaluation
  - Created a working capital safe harbor to allow recipients of investments to spend down the Fund investment over 31 months
  - Clarified that the anti-flipping portion of the law, which requires funds to double the value of real estate over a 30-month period, does not apply to land value
  - Clarified that businesses only qualify for investment if they have at least 70% of their assets in the Opportunity Zone. Any business cash, or cash equivalents, are counted as non-qualified Opportunity Zone property, and thus count against the 70% rule.
- **Second round of regulations** was sent to the Office of Management and Budget for review on March 12, 2019
  - Expected to offer clarification on location determination, business operations, and Fund reinvestment.



# Opportunity Zone Effects

- The Opportunity Zone Program provides **tax benefits to investors** who invest in real estate and businesses.
- The effect is to **decrease the cost of capital for real estate development and business expansion in Opportunity Zones.**

## Frequently Asked Questions

### **Can I change Opportunity Zone designations, or expand the zone at all?**

- No. Census tracts are defined by the U.S. Census Department during each decennial census, and cannot be subsequently changed. Opportunity Zones were finalized in May, and, barring additional federal legislation, cannot be changed.

### **Will the state disburse funds?**

- There are no state discretionary funds involved in the Opportunity Zone program. Private funds, and investors, will choose where to invest based on their own goals and risk tolerance.

### **With Opportunity Zones, can I do [X]?**

- Yes. Anything you could do before Opportunity Zones, you can still do. The program only changes the tax rate that certain investors pay on projects located within Opportunity Zones.



# Examples of Community Goals

## Boston

- Build and preserve housing that is affordable to residents across the income spectrum.
- Use publicly owned land, and assets, to facilitate equitable economic growth.
- Revitalize existing affordable housing using public-private partnerships.

## Springfield

- Use Opportunity Zones to complement the recently-opened MGM Springfield and spur investment in the downtown area.
- Redevelop the former Court Square Hotel.
- Spur investment into the small business in local maker spaces and incubators.

## Worcester

- Build on the success of the City Square revitalization.
- Continue to improve the Theatre District, leveraging the state-funded technical assistance.
- Redevelop industrial mill buildings and fill vacant space in the Greendale Mall and former St. Gobain campus.

## North Adams

- Develop the Greylock Glen Outdoor Center.
- Redevelop industries spaces in the town center.
- Create more diverse housing for all income levels.
- Support small business growth and foster a more robust customer base for downtown.

## Fall River

- Create market-rate housing.
- Increase job opportunities and area median income.
- Promote mixed-use development.
- Redevelop City Pier and the Waterfront, along with commercial properties that have historic tax credit opportunities.

## Yarmouth

- Create year-round employment.
- Support business growth.
- Unlock redevelopment on commercial lots, including combining small lots and sharing parking.
- Targeted redevelopment on Rt. 28 using zoning and regulatory incentives.





# Opportunity Zones Conference Impact

- Held in December 2018 in Lowell as an opportunity to convene stakeholders, share best practices, and discuss relevant programs.
- Nearly **350 attendees**, evenly spread across government, real estate, financial services, and non-profit sectors.
- **41 speakers and panelists** from diverse backgrounds, from within Mass. as well as outside the state.





# Community and Investor Asks

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## **Improve Capacity**

- Help communities prepare for success by getting projects shovel-ready.

## **Support Marketing**

- Provide assistance to help communities identify and pitch zones and projects.

## **Provide Resources**

- Layer state Opportunity Zone programs to further support affordable commercial space and housing development.

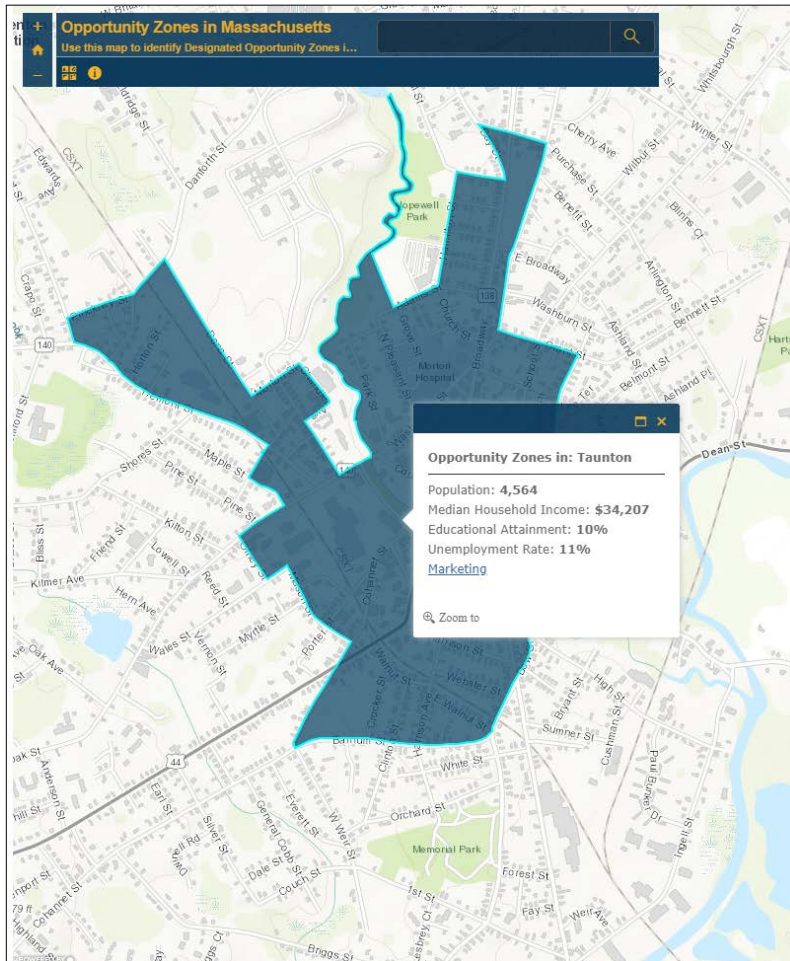
## **Convene**

- Continue to use the state's convening power to bring together thought leaders and stakeholders.

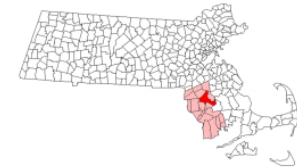


# New Resource Announced at Conference

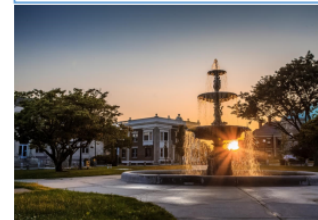
EOHED unveiled new resources, including an online map of the 138 Opportunity Zones, enhanced with community information provided by the municipalities.



## City of Taunton



Taunton is one of Massachusetts' Gateway Cities, a mid-sized city transitioning from its historic identity as an industrial powerhouse for more than 150 years to a new, 21st century role as a complete city that combines a vibrant downtown core, a diverse mix of opportunities in housing and jobs, and exceptional access to natural recreation. At times the transition has been difficult, but with diligent efforts and strong partners the city has been laying the foundation for transformation through investment in industrial parks, infrastructure, downtown revitalization, brownfields remediation, and environmental improvements.



### Economy

- Excellent location along routes 24, 140, 44, and 495 make it attractive for businesses
- The Myles Standish Industrial Park is one of the largest and most productive industrial parks in the state. It is home to more than 100 companies and 8000 workers
- A network of community colleges and universities provides local employees with an educated and trained workforce
- The city's affordable home prices, good school system, and variety of recreational offerings make it an attractive place to live, work, and raise a family

### Recent Success

- Business Improvement District establishment in 2010 led to a close relationship between property owners, businesses and the City
- Downtown area quality of life improvements, including major infrastructure upgrades, new businesses, and a wide range of activities and festivals
- Conversion of a courthouse into the District Center for the Arts, a new performance & event center in the downtown

### Opportunity Zone Goals

- Support small business growth
- Create a diverse mix of residential, retail, restaurant, office and institutional uses that attract residents and visitors
- Expand economic opportunities to all city residents and generate high-quality, high-wage jobs
- Create new open space opportunities that will enhance the quality of life for local residents

### Contact

Kevin Shea | 508-821-1030  
kshea@taunton-ma.gov



# Massachusetts

- Global draw for international students at 125 colleges and universities
- Inspiring millennials to come as students, employees and residents
- Best higher education institutions in the world
- Strong investment in high quality pre-K through 12 education
- Most innovative universities
- Significant pipeline of capital for emerging companies
- Top incubator for life science and technology companies
- World-renowned research centers
- Coordinated public and private investments that support important clusters
- Development partnerships focused on growth
- Most advanced academic medical centers in the world
- A global hub for international air travel





# Massachusetts is a Growth State

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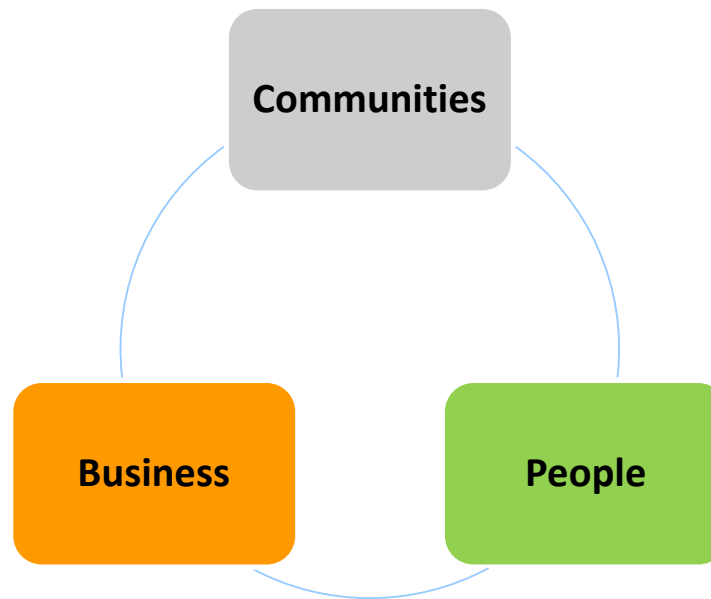
- Between 2015 and 2018 the Commonwealth's working age population grew by nearly 150,000
- Over the same period, the private sector has added more than 200,000 new jobs
- 14 straight months of unemployment at or below 3.6%
- September 2018 Labor Force Participation rate represented at a 15-year high
- Construction has added 10,300 jobs in 2018
- 9.5% growth in median household income – 1.5% faster than the US
- Q1 2018 per capita GDP 30% higher than the US average
- #5 state based on measurements of growth, employment, and business environment



# Our Economic Development Strategy: *Opportunities for All*

To **promote the vitality of communities**, *Opportunities for All* calls for empowering municipalities and providing them with the tools to unlock local and regional priorities.

To **grow businesses**, *Opportunities for All* emphasizes the need to streamline state support, reduce the cost of doing business, and encourage cluster development in high-priority industries.



To **support the prosperity of residents**, *Opportunities for All* calls for investments in workforce training, and increasing links between training providers and employers to better prepare people for the economy of the future.

**EOHED does not anticipate creating a new incentive program focused solely on Opportunity Zones. However, the state's existing toolbox offers various programs that can provide direct support for growth and development both within and beyond the Zones.**



# MassWorks Infrastructure Program

- The Administration awards more than \$80M annually in public infrastructure funding that lays the groundwork for economic development.
- MassWorks is Massachusetts' most flexible grant program to support economic development infrastructure.
- Since 2015, the Administration has held four competitive rounds, and awarded more than \$357M to 176 projects in 129 communities, which have resulted in over 11,000 housing units, 29,000 full/part time jobs, while leveraging more than \$6.9 billion in private investments throughout the state.



The **MassWorks program** has invested nearly **\$7M** in **Worcester** during the past three competitive rounds. Awards support **critical improvements to City Square** to unlock private development opportunities, along with improvements to the **Main Street Central Business District**, transportation safety and efficiency improvements to **Quinsigamond Ave**, and the **relocation of Stearns Tavern**.



A **\$1.1M MassWorks award** to Framingham supports the **Marble Street Improvement project**, which will widen the terminus of Marble Street to Blandin Ave, creating a formal throughway that will support a **new 270 unit transit-oriented development project on former MBTA site**. The improvements will enhance a top 200 crash location as rated by MassDOT, while supporting the very first TOD housing project under Framingham's new downtown zoning.



# Housing Development Tools and Program

- The **Housing Development Incentive Program** provides 25% of Qualified Project Expenditures, up to a \$2M per-project cap, in tax credits to developers to build market rate housing in Gateway Cities
- Massachusetts is one of only ~20 states with a state companion to the federal **Low Income Housing Tax Credit** program
- The Baker-Polito Administration has committed **\$100M to workforce housing projects**
- The **40R program** allows municipalities to designate zones for **dense, multi-family housing construction**, with bonus payments to the municipality for each unit constructed
- **43D** allows municipalities to designate certain zones that provide expedited permitting decisions for developers

## Housing Development Incentive Program

In 2017, Malden used the HDIP program to support the revitalization of Malden Center by redeveloping the old City Hall and Police Station as mixed-use retail, residential, and office space.







## Other Programs

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- The **Brownfields Redevelopment Program** has invested \$1.6M in 11 projects including over 30 acres of land, and 400,000 square feet assessed or remediated. These projects will unlock more than 300 new affordable housing units and support expansive commercial redevelopment and reuse.
- The **Site Readiness Program**, which helps municipalities to create large, well-located, and project-ready sites, has awarded more than \$4.2M to 26 projects in 21 communities, covering 2,300 acres, helping communities better plan for current and future industrial parks and business centers.
- The **Transformative Development Initiative** is a place-based development program for Gateway Cities designed to enhance local public-private engagement and community identity; stimulate an improved quality of life for local residents; and spur increased investment and economic activity. The program provides technical assistance to help cities revitalize districts, and makes capital investments designed to spur follow-on investment.



# Opportunity Zone Support Local Governments

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- **Opportunity Zones ONLY change the cost of capital** for certain real estate projects and businesses.
- The other costs associated with real estate development (design, construction, materials, etc) remain the same, as do the soft costs (zoning, permitting, community engagement, etc).
- Business start-up and expansion costs remain consistent as well (technical expertise, customer engagement and retention, etc).
- Local governments looking to support Opportunity Zone investment should focus on standard economic development best practices:
  - Build necessary infrastructure;
  - Create marketable, well-located, and shovel-ready sites;
  - Streamline local permitting and zoning processes to avoid long delays;
  - Work to mitigate cost concerns where necessary.



# Opportunity Zone Programs

## Local Nonprofits

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- **Two Massachusetts non-profit organizations recently released RFPs around Opportunity Zones.**
- **LOCUS**
  - LOCUS is a real estate group that recently released an RFP for a 5-month program to help communities prepare for, and attract, Opportunity Zone investment.
- **LISC Boston**
  - LISC, a community development organization, recently released an RFP focused on helping community organizations encourage equitable development in Opportunity Zones.
  - Community Organizations must partner with municipalities in order to be eligible.



# THANK YOU

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**Commonwealth of Massachusetts**  
Executive Office of Housing and Economic Development

Presenter:  
**Juan R. Vega**  
Assistant Secretary for Communities & Programs

617-788-3661  
juan.vega@mass.gov

[www.mass.gov/hed](http://www.mass.gov/hed)