

# Opportunity Zones and the City of Milwaukee

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# Redevelopment Authority of the City of Milwaukee

- Independent public corporate body created by state statute in 1958
- Governed by 7 member board
- Appointed by Mayor; Approved by Council
- Mission

“...eliminate blighting conditions that inhibit neighborhood reinvestment, to foster and promote business expansion and job creation, and to facilitate new business and housing development.”

# Redevelopment Authority of the City of Milwaukee

- Tools for Economic Development
  - Acquisition and disposition of property
  - Preparation and implementation of redevelopment plans
  - Issuance of Bonds
  - Approval of Tax Incremental Financing Districts
  - Creative roles in tax credit deals – NMTC and LIHTC

# Capital Stack

## Federal, state, and local tax credits and incentives

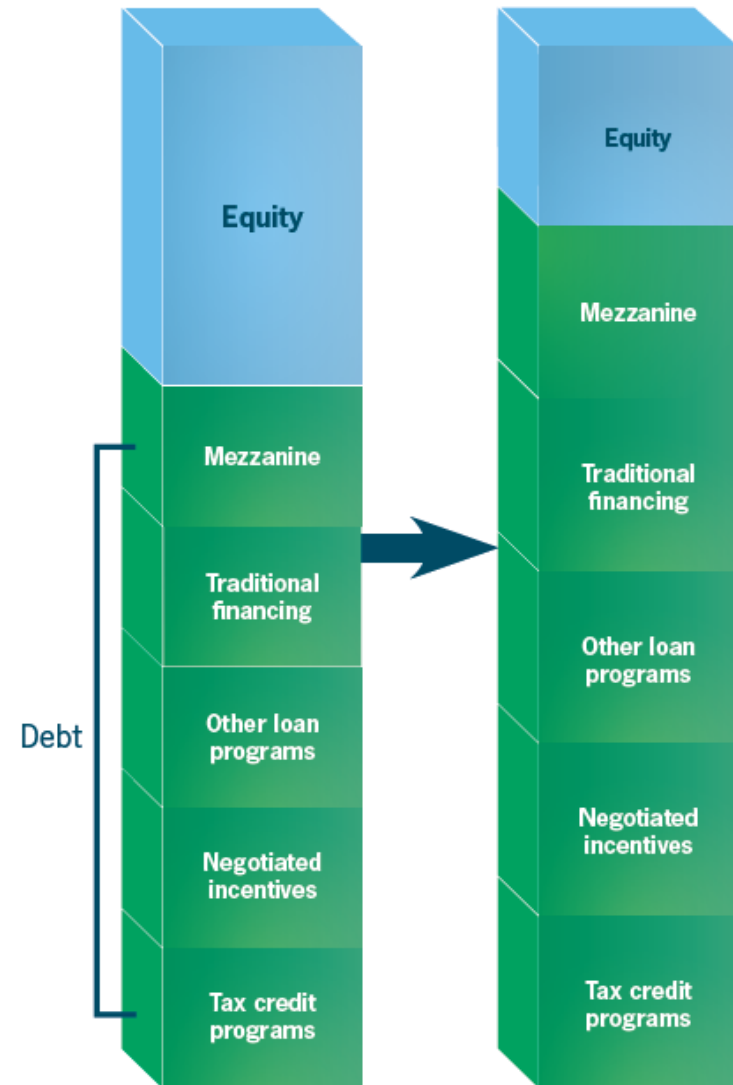
- > New Markets Tax Credits
- > Low-income housing
- > Historic preservation
- > Energy related credits
- > Other geographic/project type credits

## Negotiated incentives

- > Tax Increment Financing
- > Discretionary grants and forgivable loans
- > Low-cost land or lease rates
- > Utility rate reductions
- > Infrastructure improvements
- > Other geographic/project type incentives

## Loan programs

- > State and federal bonding programs
- > Local economic development loans
- > Characteristic based loans, such as:
  - Brownfield
  - Small business
  - Minority
  - Rural
  - Energy



# Local Redevelopment Financing Tools

- TIF (Tax Incremental Financing)
- City of Milwaukee Grants for: Façade, White Box, Retail Investment Fund & CDBG
- MEDC (Milwaukee Economic Development Corp.)
- RACM (Redevelopment Authority of the City of Milwaukee)

# Opportunity Zones

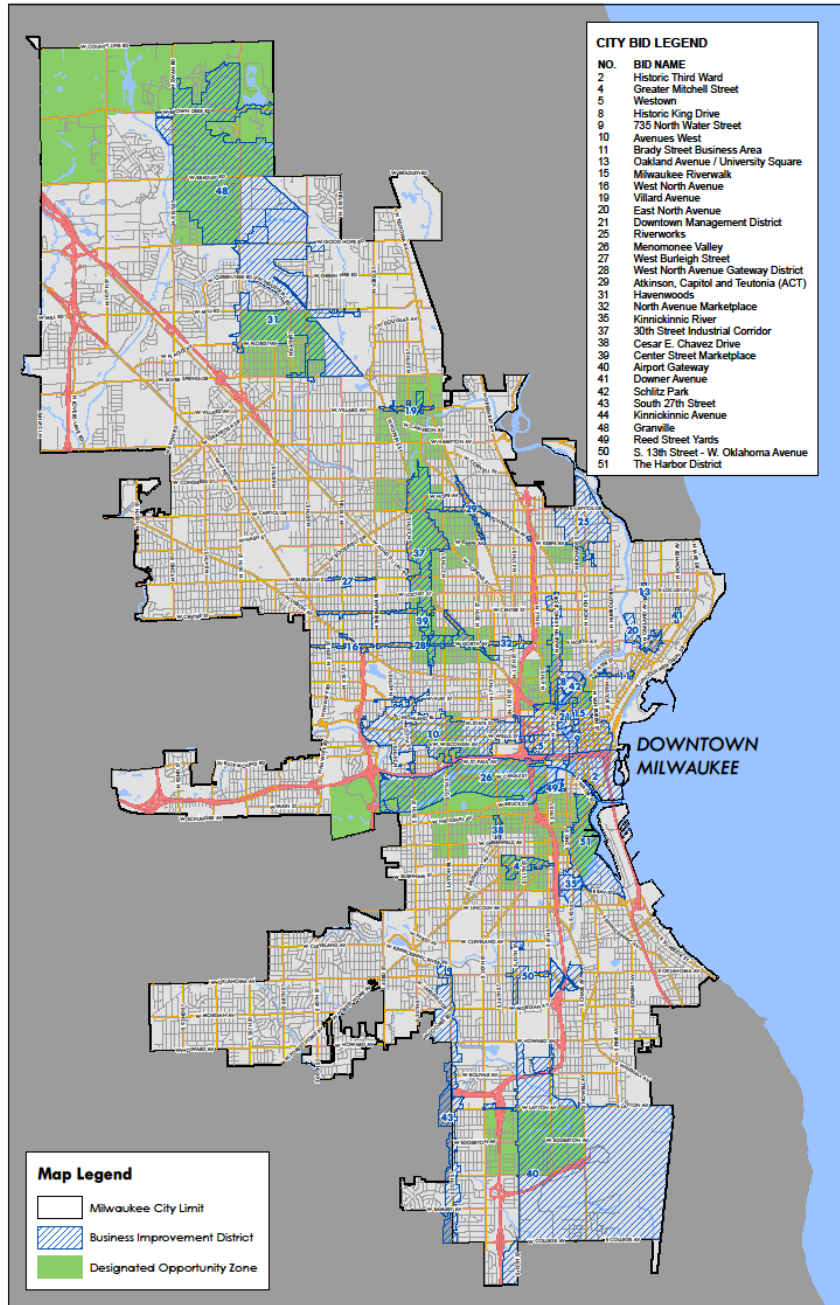
- Established by the Tax Cuts and Jobs Act of 2017 to incentive to stimulate significant economic development and encourage investments in certain low-income communities

# Opportunity Zones

- States designate Qualified Opportunity Zones (QOZs)
- IRS Notice 2018-48 includes an official list of all population census tracts designated as QOZ
- There are over 8,700 certified QOZs in all 50 states, DC, Puerto Rico and the Virgin Islands (11% of US designated)

**OPPORTUNITY ZONE DESIGNATED TRACTS**  
**CITY OF MILWAUKEE**

Prepared by the City of Milwaukee Department of City Development, 2/12/2019  
 Source: City of Milwaukee, US Census Bureau, WREDA



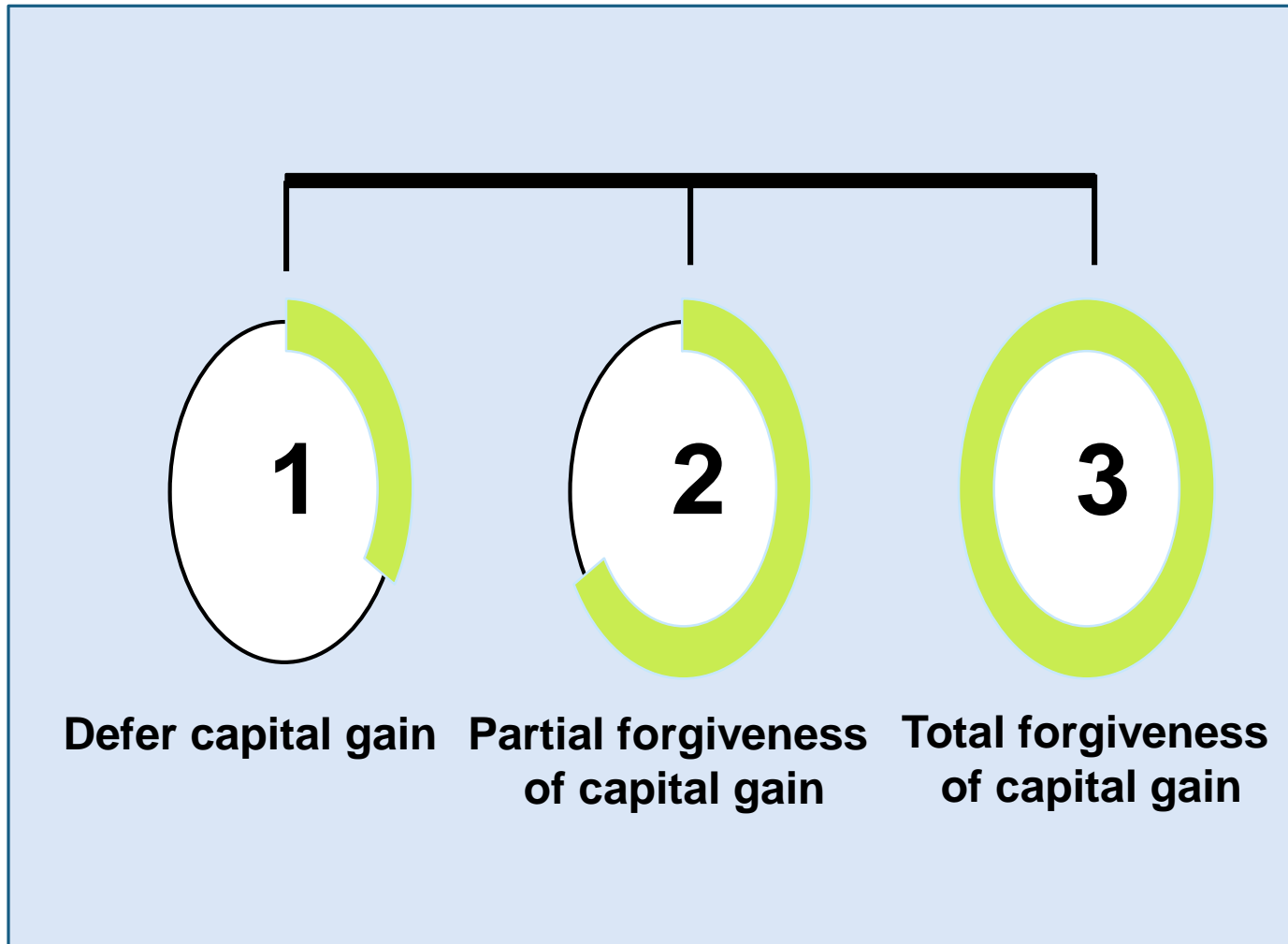
**Handout**



# Opportunity Zones

- Potential to defer and permanently reduce capital gain
  - Deferral and reduction of gain, NOT a credit or deduction
- Requires reinvestment of the capital gain into Qualified Opportunity Fund
  - Similar to 1031 gain but gain does not have to come from a real estate investment
- Still fairly new, somewhat-tested, additional guidance produced in December 2019

# Three tax incentive benefits for investment in a QOZ



# Readily Identifiable Investment Types in Opportunity Zones



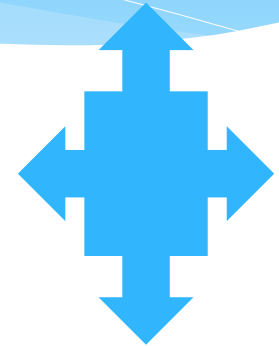
Commercial Real Estate  
Development and  
Renovation in  
Opportunity Zones



Opening New  
Businesses in  
Opportunity  
Zones



Expansion of  
Existing  
Businesses into  
Opportunity  
Zones



Large Expansions of  
Businesses already  
within Opportunity  
Zones

Taxpayers can get  
capital gains  
tax deferral  
(& more)



*for making  
timely  
investments in*

Qualified  
Opportunity Funds  
(QOFs)



*which  
invest in*

Qualified  
Opportunity Zone  
Property or  
Business



# Qualified Opportunity Fund

- Statutory definition:

An investment vehicle organized as a corporation or a partnership for the purpose of investing in Qualified Opportunity Zone Property (QOZP).

- Opportunity Funds self certify

- Noncompliance Penalty

90% asset test

Per month penalty equal to % of shortfall x underpayment rate

No penalty for reasonable cause

# Qualified Opportunity Zone Business Property (QOZBP)

- Tangible property used in a trade or business
- Acquired by purchase from an unrelated party (20% standard) after December 31, 2017
- During substantially all of holding period, substantially all the use is in a QOZ
- Original use in the QOZ commences with the taxpayer  
OR
- Taxpayer substantially improves the property during any 30-month period after acquisition, additions to basis exceed an amount equal to the adjusted basis of such property at the beginning of such period

# Qualified Opportunity Zone Businesses (QOZB)

- A trade or business in which substantially all of the tangible property owned or leased by the taxpayer is qualified opportunity zone business property (QOZBP)
- No “sin businesses” permitted:
  - A private or commercial golf course, country club, massage parlor, hot tub facility, suntan facility, racetrack or other facility used for gambling, or any store the principal business of which is the sale of alcoholic beverages for consumption off premises

# Takeaways for Real Estate Developers

- New construction in an OZ works well
- Renovations of existing structures must meet substantial improvement test
- Potential that “original use” test could be applied to vacant structures
- If the QOZB is an operating company, the company may only need to locate in an OZ but not construct or substantially improve a structure
- OZ capital can be layered with other financing incentives



# Takeaways for Municipalities

- Know your Opportunity Zones and the assets in them
- Add OZ notifications on any marketing materials for city-owned real estate in OZs
- Consider alignment with Tax Incremental Districts
- Communicate with core developers and corporate stakeholders about OZ benefits
- Consider facilitating a local fund for local projects
- Consider creating a dedicated OZ webpage

# Takeaways for Investors

- Timing of investment
- Don't forget to file elections!
- Ability of Fund to change or restrict investments
- Exit strategies
- Experience of Fund manager

# Opportunity Zones and the City of Milwaukee

More Information:

[https://city.milwaukee.gov/DCD/CityRealEstate/  
OpportunityZones#.XHcFYYd8CmQ](https://city.milwaukee.gov/DCD/CityRealEstate/OpportunityZones#.XHcFYYd8CmQ)