OPPORTUNITY ALABAMA

Investing in Underserved Places:

Lessons from Opportunity Alabama on Reshaping Federal Policy to Drive Place-Based Investment

CONTENTS

Executive Summary

Three place-based federal policies - New Markets Tax Credits (NMTCs), Opportunity Zones (OZs), and the Community Reinvestment Act (CRA) - drive a significant amount of investment in underserved communities across the country. This report draws on seven case studies from the boots-on-the-ground placemaking work we do at Opportunity Alabama to illustrate how those incentives are working (or, in some cases, not working) to facilitate private investment. It then makes two core recommendations for how those incentives could be strengthened to deliver better results for targeted communities (with additional detail below):

1. Identify and empower local "community capacity builders" (CCBs) already working to cultivate the deal pipelines these incentives are meant to catalyze and the investor bases these incentives are meant to motivate; and
2. Make some adjustments to OZs, NMTCs, and CRA to (a) make these incentives more innovative, efficient, transparent, and widely adopted; and (b) align them with CCBs as they emerge as a recognized class.

Our recommendations are informed by our work as practitioners - not policymakers, researchers, or advocates. At OPAL, we provide direct assistance to community leaders, developers, property owners, and investors seeking to do something transformative and catalytic with real estate in Alabama's underserved communities.

Opportunity Alabama & Lessons Learned.
Our goal at OPAL is to transform Alabama's distressed places into investable ones by mitigating the endemic problem of limited access to capital. We began this work in 2018 focused on leveraging the Opportunity Zone tax incentive. We brought investors, property owners, developers, and communities together to build a pipeline of meaningful projects in OZ-designated census tracts - and provided enough technical assistance and introductions to capital to close over $300M in projects.

We learned three big lessons in our first two years: (1) quality, community-serving deals need sustained technical assistance to come to fruition; (2) quality, community-serving deals in distressed communities often appear on the wrong side of a census tract line and therefore miss out on place-based financial incentives; and (3) connecting projects to capital providers is important, but controlling capital ourselves is essential for ensuring quality deals done (and for creating a pathway to organizational sustainability in the process).

These lessons guided our development of new technical assistance programming that allows us to spend the months (and sometimes years) needed to help great deals get from predevelopment to closing in any low-income place in Alabama, not just Opportunity Zones. To deepen our impact, we formed a wholly owned for profit benefit corporation subsidiary, OPAL Investments, BC to raise capital for some of the most compelling projects we see in the state of Alabama.

With this infrastructure, we have helped multiple deals secure capital and break ground in diverse geographies across the state, including the seven profiled in the Case Studies section of this report. For projects identified and accelerated through our nonprofit programming, we have secured more than $16 million in outside investment. Direct investment by The OPAL Fund has helped leverage an additional $200+ million in investment. Projects supported by The OPAL Fund have produced more than 1,000 construction jobs, with thousands of permanent jobs anticipated as projects deliver and secure tenants. As our case studies show, federal place-based incentive programs lie at the heart of our work:

- **Carillon Oaks Heflin (Heflin, AL)** - a historical revitalization project that transformed the long-vacant county school into a state-of-the-art senior assisted living and memory care center serving a rural community, leveraging NMTCs, OZs, and state and federal historic tax credits in the process.
- **Revitalization on Water Avenue (Selma, AL)** - a series of projects along the banks of the Alabama River. One leveraged USDA funding, OZs, and historic tax credits to create Selma's only downtown hotel. The others are in predevelopment, and will leverage NMTCs, state and federal historic tax credits, program-related investments, and other sources to create new retail space for local merchants, artist studio space, community convening space, and loft apartments to bring density downtown.
- **Woodlawn Theatre (Birmingham, AL)** - a small-scale revitalization project that leveraged OZ equity to transform a vacant cinema into studio space for free music lessons and a 250-person concert venue in a historically underserved urban neighborhood of Birmingham. This project leveraged OZ investment.
- **Market Lofts on 3rd (Birmingham, AL)** - a historic revitalization transforming a 140,000+ sq ft office building into mixed-use retail and workforce housing. This project leveraged OZ investment and historic tax credits.
- **Livingston Marketplace (Livingston, AL)** - revitalization of a failing grocery store in a rural historically underserved county with high levels of food insecurity by securing a new owner. This project leveraged CDFI investment.
- **Regional East Alabama Logistics (REAL) Park (Tuskegee, AL)** - the first speculative industrial building of a multi-phase development designed to bring hundreds of jobs to one of Alabama's most underserved rural counties and meet growing logistics demand on the I-85 corridor. This building was developed with OZ equity and CRA-motivated debt.
- **The Hardwick (Birmingham, AL)** - a historic revitalization project transforming an abandoned steel bending plant into a mixed-use development with office, retail, and restaurant tenants. This project leveraged OZ investment, historic tax credits, and local incentives.

Our policy recommendations are the product of our experience using federal place-based incentives and policies to facilitate equitable and inclusive investment in some of Alabama's most economically disadvantaged places. At present, we are not a CDFI, but are planning to apply to become one. We are not a CDE, but we invest in NMTC-eligible deals. Until recently, we did not have an OZ fund but raised one - and then, realizing that OZ funds alone would be insufficient, created a tranche of our second fund as a public welfare (CRA-eligible) fund.

Incentive Implementation Challenges.

The following on-the-ground challenges in underserved localities shaped our proposals for strengthening New Markets Tax Credits, Opportunity Zones, and Community Reinvestment Act banking regulations:

- Inconsistencies and unknowns within federal programs leads to underutilization (as uncertainty and time can kill otherwise great deals);
- Odd geographic boundaries (like census tract lines) or data quirks (like the location of a college in an otherwise high-income area) confounds the process of implementing federal programs at the local level;
- Small deals often have far more difficulty leveraging incentives than large ones (and smaller deals are more prevalent in rural places);
- Lack of local input in how federal incentive programs are implemented often frustrates the intent of those same federal incentive programs;
- Federal incentives don't always align with each other or with needs on the ground, and doing great deals is more difficult (and could become increasingly difficult) as a result; and
- Lack of cogent, easy-to-access data on local federal incentive utilization makes it difficult to assess impact of these programs for specific geographies.

Policy Solutions.

We advocate for two parallel solutions to these on-the-ground challenges: one wholesale, one piecemeal.

Recommendation 1: Empower Community Capacity Builders.
Our wholesale recommendation is to require a division within the Department of the Treasury (likely the CDFI Fund) to officially acknowledge a kind of entity that currently exists across the country but has no official designation. That entity is the "Community Capacity Building" organization (CCB for short), and it takes many forms: nonprofit organization, loan fund, community development corporation, economic development organization, regional commission, development finance agency, and others. These entities are critical for the success of place-based incentive programs because they:

- keep an intentional focus on service for distressed communities (even if they also serve other non-distressed communities), including an accountability mechanism to those distressed communities (via board or otherwise);
- have a process for identifying and vetting local projects that incorporates feedback from the community and capital markets and for maintaining a database of those projects (like OPAL's Community Growth Accelerator); and
- maintain relationships with local, regional, or national capital providers that could invest in the CCB's pipeline.

Once approved, these organizations would post the deals that have moved through their approved vetting process to a searchable national database. We discuss what some parameters and tests around each of these requirements could look like in the Policy Recommendations section of this report.

To empower CCBs and encourage adoption, we recommend two policy solutions: (1) leverage CCBs to solve some of the issues identified with OZs, NMTCs, and CRA (as described below), and (2) give CCBs a flexible pool of capital to provide capacity building assistance and "creative" supplemental incentives to get deals in their pipelines done.

1. We recommend leveraging CCBs to help solve the geography, uncertainty, timing, and incentive alignment issues highlighted above, by:

- heavily prioritizing CCB deal for both NMTC and CRA scoring purposes;
- allowing investors in CCB-qualified OZ deals to forgo their initial capital gains tax instead of/as an alternative to forgiving their ultimate capital gain on exit in 10+ years; and
- creating automatic CRA, NMTC, and OZ eligibility for certain CCB-listed projects outside census tract-defined low-income communities.

2. We recommend creating a new $3 billion Community Dynamism Fund to provide working capital to CCBs to:

- provide capacity-building assistance and complete predevelopment work on the projects in their pipeline (~$1B, allocated by block grant to states for sub-allocation); and
- provide creative gap financing including subordinate investment, first-loss capital, deal-level guarantees, co-investment or matching dollars, revenue-based financing, bridge financing, or even direct subsidy to deals in a CCB's pipeline (~$2B, allocated competitively to CCBs by application).

Of critical note: we do not envision CCBs as gatekeepers. We do not want them to ever be positioned to "approve" every NMTC project, OZ deal, or CRA investment. The recommendations above give CCBs the power to enhance incentives for targeted projects, not control them.

The potential positive spillover effects from identifying and empowering these community capacity builders could be significant. The federal government is currently embarking on unprecedented spending initiatives to support infrastructure, advanced manufacturing, and innovation - most of which prioritize low-income places. CCBs could help ensure that federal spending aligns with the visions these underserved communities have for their own futures, and that the commercial development that needs to occur around these investments (in everything from workforce housing to commercial spaces) actually happens.

Recommendation 2: Make Minor Incentive Adjustments to Enhance Innovation, Efficiency, and Transparency.
Creating CCBs will require careful deliberation and new legislation. However, there are existing legislative and regulatory proposals that - if advanced today - could materially improve some of the problems highlighted above.

The NMTC Extension Act of 2023 (S.234, H.R.2539) would finally create the certainty around the program needed for broader adoption by making it a permanent program at a $5B annual allocation. It would also expand the purchaser pool of who can buy NMTCs by allowing the credits to offset the alternative minimum tax. Bringing new purchasers into the market will hopefully increase demand and improve credit pricing, delivering more subsidies to deals as a result.

The Opportunity Zones Transparency, Extension, and Improvement Act (introduced in 117th Congress, reintroduction pending) would revolutionize and substantially improve Opportunity Zones by:

- eliminating certain outlier high-income, low-poverty Opportunity Zones and allow for their redesignation by state officials;
- extending the incentive's life cycle and make up for COVID-induced delays by pushing the window for how long capital gains deferral lasts until 2028 (currently set for 2026);
- creating a $1B version of the Community Dynamism Fund explained in Recommendation 1 (above) as a way to providing work capital for Community Capacity Builder (CCB) organizations; and
- adding much-needed impact reporting and evaluation requirements to the incentive.

In addition, agencies like the Department of the Treasury and the CRA regulatory bodies could take a number of actions that would immediately improve program efficacy. We recommend the following:

- With regard to OZs, the IRS should allow Opportunity Funds that sell assets during the 10-year holding period to reinvest those gains (within a 6-12 month window) into new qualified OZ investments without incurring capital gains tax on those interim sales. This alone would open a multitude of creative new investment strategies and facilitate OZ investment in asset classes like single-family housing and operating businesses.
- With regard to NMTCs, the CDFI Fund should continue its recent efforts to prioritize smaller deals and creative investment structures, and should convene practitioners and elected officials to discuss ways to streamline the program as other reform initiatives on other incentives (e.g., CCBs, the OZ TEIA Act) move forward.
- With regard to CRA reform, the Office of the Comptroller of Currency (OCC), Federal Reserve, and Federal Deposit Insurance Corporation (FDIC) should issue a final rule that keeps separate investment and lending tests for the evaluation of a bank's record of meeting the credit needs of its assessment area. This will ensure that banks remain adequately motivated to make equity investments in all the incentives that drive our work and create a better reward structure for banks doing smaller and rural deals.

INTRODUCTION: FRAMING FOR THIS PROJECT

Every real estate development project has a set of costs for acquisition, construction, and other activities related to its development. These costs are called "Uses" of funds. Every real estate deal also has a matching set of dollars, called "Sources," that fund the project. To break ground, a commercial real estate project (nonprofit or for profit) must prove it has enough funding (from Sources) to match its Uses.

In general, and for reasons explained in the next section of this report, finding Sources to fund a deal is a lot harder than finding Uses. This is particularly true in distressed and unserved places. To combat this, the federal government has developed a raft of incentive programs to ensure quality real estate deals in low-income places can be viable and secure sufficient Sources to match Uses. These place-based incentives and programs help facilitate investment (typically by de-risking it) in specific geographies like distressed census tracts where commercial real estate deals are difficult to finance.

At Opportunity Alabama, we have years of experience working with these place-focused incentives in Alabama, where we have seen their impact across diverse geographies (from rural to urban) and project types. We are not policymakers, researchers, or advocates. Instead, we are practitioners, working to increase investment in quality commercial real estate projects in distressed, underserved, and low-income geographies across our state. Our pathway to do so is by providing boots-on-the-ground assistance to people doing deals, helping them use existing incentives and maximize their utility for quality projects.

In 2022, we partnered with the Tipping Point Fund for Impact Investing to tell the story of this work, sharing from our successes and our challenges in leveraging place-based incentives. This report is the outcome of that collaboration. It focuses on one central question: from a practitioner's perspective, how can we ensure that federal place-based incentive programs have the effect they were designed to achieve - which, at the broadest level, is to incentivize private investment in real estate development to alleviate distress in low-income places?

This report makes a series of policy recommendations - some general, and some specifically focused on Opportunity Zones (OZs), New Market Tax Credits (NMTCs), and the Community Reinvestment Act (CRA), respectively. These recommendations all come back to two common themes: **(1) innovative, efficient, and transparent incentives with the broadest user bases have the greatest impact on projects in higher-risk geographies, and (2) local participation in the deal identification and incentivization process helps ensure that incentives are delivered to projects and in the manner intended by policymakers.**

This second point is of particular importance. As the federal government makes historic investments in infrastructure, clean energy technologies, manufacturing, and innovation - with much of it focused on investment in underserved places - how can we ensure that federal investment aligns with the visions these underserved communities have for their own futures? Doing so will require a diverse, robust, resilient, and empowered network of local organizations that can identify potential investment candidates *and* provide the capacity-building resources necessary to prepare those candidates (and the broader communities they serve) for investment.

Of critical note: this report is not an assessment or comparative analysis of the efficacy of NMTCs, OZs, or CRA, all of which are necessary to perpetuate the work we engage in every day. Each incentive is a tool, and different tools have different uses, depending on the situation. No one incentive is "better" or "worse" than the others, only different in application. Our goal is to think broadly about how these incentives could function more harmoniously together in the context of creating a more robust local capacity-building network, and how minor programmatic tweaks could make each of these important programs even more effective. If anything, we hope this report underscores the critical need to expand these programs (and others like them) in the years to come.

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REAL ESTATE DEVELOPMENT & PROJECT FINANCING

Subpart 1: Intro to the Development Process. Every quality commercial real estate deal begins with a series of predevelopment activities to assess the project's feasibility and financial viability. These include identification of the highest and best uses of the property, completion of surveys and environmental assessment, development of preliminary architectural and engineering plans, and estimation of total project cost. A critical outcome of predevelopment is a detailed pro forma demonstrating the anticipated Sources of capital - debt equity, or subsidy - that can come together to cover the costs (or Uses of funds) to get the deal done. In addition, the pro forma shows cash flow over time (typically a 10-year period), once development is complete and begins to accrue rental income.

Predevelopment is a lengthy and expensive due diligence and risk assessment process, taking months or even years to determine the best final use case for the property and the composition of professional services, contractors, and financing required to begin construction. These activities help the developer and potential investors assess the likelihood that the project will be completed, secure tenants, and achieve return on investment through rental income. In many cases, a developer or property owner determines that a project is not financially viable - meaning it is unlikely to generate sufficient revenue to justify the cost of development - and abandons it altogether.

Subpart 2: Deal Financing and Sources. As predevelopment unfolds, deal sponsors working on projects in distressed communities confront a multitude of barriers. These include the limited spending power of local residents, uncertainty around demand for the product, lack of small businesses that can be revenue-generating tenants, and difficulty sourcing quality contractors and other professional service providers (which increases project costs). One of the greatest challenges to getting a deal done in an underserved place, and the focus of this report, is the difficulty in identifying the right composition of Sources (funding) that can come together to cover a project's Uses (costs). Once a project's Uses are established, financing often requires a creative capital stack, layering several different types and sources of capital to make the deal happen. Our focus is on how the federal government can influence the Sources to facilitate the development of a successful capital stack for a project located in an economically underserved or distressed place.

First, some nomenclature. The Sources of every real estate deal can be generally grouped into three rough categories - debt, equity, and subsidy. Debt is borrowed capital (typically from a bank or similar financial institution).

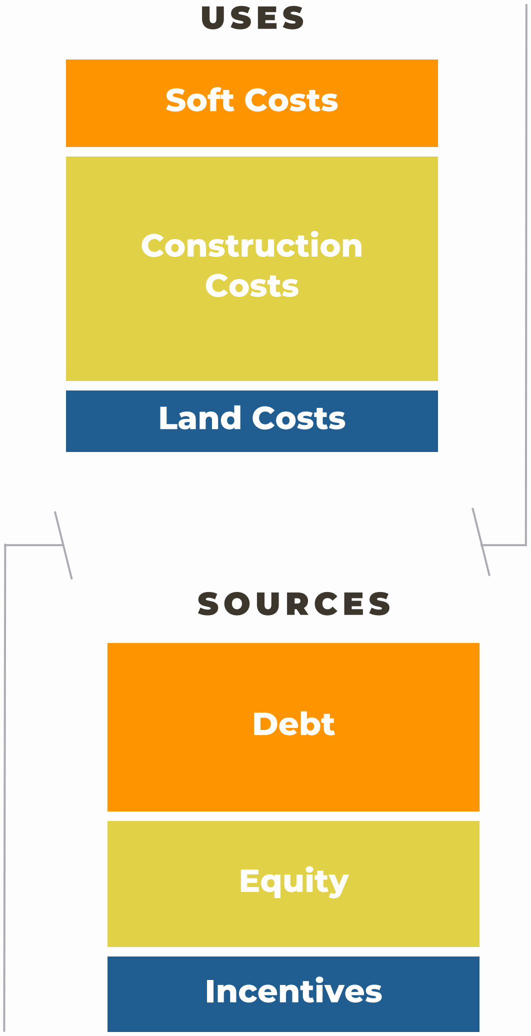

Figure 1

Equity is the owner's contribution of cash or property to the project (and can include cash from third parties, if the development is large enough to warrant it). Subsidy is "free money" for the deal, typically sourced through grants or cash obtained from the sale of tax credits, which does not need to be repaid or whose repayment will be forgiven if the project achieves certain outcomes. Note the quotation marks around "free money." Below, we explain the structural costs associated with pursuing tax credits, which can be significant and reduce the overall subsidy that comes to the project as a result.

Debt.

In development finance, debt capital typically comes from one of three sources: traditional lenders (primarily banks), alternative lenders (primarily community development financial institutions, or CDFIs), and governmental sources (like HUD or USDA at the federal level or development finance agencies at the local level). Debt is secured by a mortgage, meaning that if a deal in a distressed community does not perform, a local owner could lose a family asset. Most banks won't lend more than 50-70% of the cost or value of a deal, particularly for a project that has not yet been built. The other 30-50% must come from the owner(s) of the project in the form of equity. **The Community Reinvestment Act is the primary source of incentive tied (directly and indirectly) to debt financing explored in this report.**

Equity.

Equity refers to private dollars invested in a deal that result in ownership of the project. In some instances, the owner of the deal already owns the property, and its value may be enough to meet that equity requirement to secure a bank loan. In most commercial real estate deals, however, the owner needs to put additional equity into the deal. The larger the deal, the more "new money" that owner needs to identify. Some owners have cash available to invest this new money themselves, but many do not. These owners become deal sponsors ("general partners"), and must raise equity from third parties ("limited partners") by selling a share of their ownership in the deal. The need to raise equity poses challenges for projects in distressed communities, where equity capital is less available and ownership stake in a project may be of limited value. Selling a share of ownership also poses risks for the property owner, who reduces his or her projected income from the development and could lose control of the project altogether. **Opportunity Zone-based investment is the primary equity-driven incentive explored in this report**.

Subsidy, Grant Funding, or Tax Credit Incentive.

Incentives at the federal, state, or local level deliver direct subsidy to projects in the form of grants or cash from the sale of tax credits, which a purchaser can use to reduce her income tax liability. Deal-level direct subsidy can come from a bevy of sources. At the local and state levels, developers can negotiate sales tax abatements and cash rebates or secure public investments in infrastructure (like construction of a parking garage or water lines) to support a development. Developers can also pursue new dollars through direct grants (extremely rare) or sale of tax credits (more common).

This "free money" (which, as we'll see below, has associated costs) can make the difference between a project that can source equity and debt by showing adequate return on investment and a project that can't. Subsidy and equity are inversely related. The more "free money" subsidy a deal can attain, the less investor equity is needed in the project's capital stack to get the project "across the finish line." These incentives can either be used to improve returns for investors or to "buy down" the amount of debt on the project (making it less risky).

Tax credits allow individuals and corporations to claim a dollar-for-dollar reduction of their income tax bill. Federal and state tax credits are provided as follows: $1 of spending on a deal generates a tax credit to the developer worth a specific fraction of that $1 investment. Tax credits are allocated to a project based on a formula that is specific to the incentive program. For example, Federal Historic Rehabilitation Tax Credits generate a $0.20 credit for every $1 invested; New Markets Tax Credits generate $0.39 for every $1 invested.

Tax credits are primarily attractive to those who anticipate substantial income tax liability. Unfortunately, most real estate deals (and the equity investors in those deals) do not have enough income tax liability to actually *use* the credits, which lessens their value as an incentive.[1] Consequently, a market has developed where projects find third parties that *do* have income tax liability, sell them the credits generated by the project (at a discount), and use the cash from those sales to help finance the project. The tax credit purchaser buys a credit for less than it was worth (e.g., paying $0.30 for New Market Tax Credit worth $0.39). By selling the credit, the developer or project sponsor can take an asset he can't use and convert it into $0.30 of subsidy up front for the project. This money can be applied to project costs to reduce the amount of equity that must be raised and debt secured, or to improve the overall return profile. **New Markets Tax Credits are the primary deal-level subsidy source explored by this report.**

Subpart 3: Cost of Capital. Each Source has a different cost associated with it. Most readers will be familiar with the cost of debt, which is the interest rate paid for a loan. The cost of equity is a bit more opaque, but almost always higher than debt. This is because equity investors are in a riskier position. They will only get paid if the project performs well enough to pay the bank, and they expect returns better than the interest rate the bank is charging as a result.

Rent provides the income necessary to repay the capital put towards development. The challenge for a project in a low-income market is that the cost of development is similar to that in a higher-income market, but the rent that can be charged is significantly lower than that of an equal project in a different geography. In a distressed community, there is a lower ceiling to how much rent a deal can charge because the local market won't support it. Even if the market could support higher rents, it is problematic to finance projects with high rents charged to small business owners, disadvantaged business enterprises, and low-to-moderate income (LMI) individual renters.

How, then, do we ever create new spaces for small businesses or dwellings for individuals in rural or distressed communities? The answer is by modulating the cost of capital for those deals. There are three ways to do so, each of which puts downward pressure on the "blended cost of capital" and pushes that cost of capital closer to the rental income the project can actually produce.

- ***Making Debt Cheaper***. Through the CRA, traditional banks are required to provide capital to individuals and projects in distressed, minority, and rural communities. The Department of Treasury also has the ability to give qualified lending intermediaries free or extremely inexpensive money for investment in distressed communities. This is how the Community Development Financial Institutions Fund (CDFI Fund) works (described in greater detail below). In addition, a few specialized programs also help reduce the cost of debt by lowering the interest rate, extending the term, or removing requirements for personal guarantees or collateral. These are offered through HUD, USDA, SBA, Fannie Mae and Freddie Mac, and various other state and federal agencies.
- ***Making Equity Cheaper***. Investors with enough cash to fund deals in distressed communities have lots of alternatives for how to invest their money. (The S&P Index, for example, is still up 60% over the last 5 years.) Tax incentives like OZ investment (discussed at length below) are intended to "level the playing field" between the after-tax return profile of a deal in a distressed community and a deal in a thriving one.
- ***Making Subsidy Available***. The most straightforward way to make projects in low-income and distressed places viable is to subsidize them. If, for example, a $5M project in a distressed community can secure $2M of direct subsidy that does not need to be repaid via tax credit syndication or grants, it will only need to raise $3M of debt and equity. For the project example cited above, the project would have a lower cost and the same cash flow profile resulting in an increase on yield on cost from 3.2% to 5.3%, without needing to increase rents. At that point, the deal starts to approach the same kind of return profile of a deal in a wealthier community, making it more attractive for investors.

Financial Comparison of Project
Low vs High Income Market

Figure 2

$5M Rehab in Low-Income Market

Units	Annual Rent
2 - 5K SF Retail ($15/SF)	$150,000
10 ($750/Mo.)	$90,000
Total	**$240,000**
Building / leasing expenses	$80,000
Net Annual Income	**$160,000**

Yield on Cost = 3.2%
Net Income / Total Project Cost

$5M Rehab in High-Income Market

Units	Annual Rent
2 - 5K SF Retail ($30/SF)	$300,000
10 ($1,200/Mo.)	$144,000
Total	**$444,000**
Building / leasing expenses	$148,000
Net Annual Income	**$296,000**

Yield on Cost = 5.9%
Net Income / Total Project Cost

COMMUNITY DEVELOPMENT INCENTIVES: NMTCS, OZS, AND CRA, OH MY!

Fortunately, the federal government and its various agencies have created an incredibly wide array of incentives to help get deals in distressed communities done. For rural projects, the USDA offers a suite of loan and loan guarantee programs designed to make debt cheaper, and even some grant programs to add "free money" to deals. Federal Historic Rehabilitation Tax Credits (for historic buildings) and Low-Income Housing Tax Credits (for residential buildings) offer subsidy when properly packaged and sold.

However, only a select handful of federal incentives purport to be broadly available across distressed geographies (rural and urban) and across asset classes (all types of real estate and operating businesses). These are the **New Markets Tax Credit (NMTC) Program**, the **Opportunity Zones (OZ) incentive**, and the rules and regulations surrounding the **Community Reinvestment Act (CRA)**. While these three incentives cover similar geographies (distressed places) and are intended to accomplish the same goal (driving quality new investment into distressed places), each approaches its goal in a completely different manner. This section explores those incentives, along with some commentary on the regulatory bodies that enforce them.

Community Development Financial Institutions (CDFI) Fund.

The US Treasury Department's CDFI Fund is one of the only federal agencies focused almost exclusively on community-oriented impact investment. It runs two certification programs, one for Community Development Financial Institutions (CDFIs) and another for Community Development Entities (CDEs). Once certified, CDFIs can access multiple programs maintained by the CDFI Fund, including financial and technical assistance grants, super low-interest or no-interest loans, and other sources of capital that can then be redeployed to distressed communities across the US. CDFIs also benefit from investment by banks seeking to meet their CRA requirements; bank investment into a CDFI automatically satisfies its CRA obligations, if the CDFI serves the bank's assessment area. To be a CDFI, an organization must certify that it: (1) is a legal entity, (2) has a primary mission of promoting community development, o be a CDFI, an organization must certify that it: (1) is a legal entity, (2) has a primary mission of promoting community development, and (3) primarily serves and maintains accountability to the residents of its targeted low-income community markets (usually through an advisory board). In addition - and of critical note - there are three additional requirements all CDFIs must meet:

- Every CDFI must be a financing entity, meaning that it must have a substantive (typically 2-3 year) track record of making debt or equity investments in the low-income communities it purports to serve. This excludes any organization that does not have the capacity to finance its own deals.
- Every CDFI must offer development services in conjunction with its financing activities, meaning that it must provide substantive technical assistance to borrowers (e.g., business planning services for small business or real estate consulting services for developers). This excludes organizations without the staff or resources to provide such services.
- No CDFI can be a governmental entity or under the control of a governmental entity. This excludes any public entity (even a development finance agency that would otherwise be eligible) from pursuing CDFI status.[2]

CDFIs are a central pillar of the access to capital infrastructure for low-income places. However, because the rules around what qualifies as a CDFI are relatively restrictive and the approval process is stringent, many low-income places lack adequate access to CDFI services. For example, there is no single statewide CDFI headquartered in Alabama that focuses primarily on real estate investment (or placemaking more generally, for that matter). This leaves bank-based CDFIs (like United Bank in Atmore) or out-of-state CDFIs (many of which lack deep connections to Alabama communities) to meet the needs of projects in the state's low-income places - and, unsurprisingly, not every need gets met.

CDE certification is simpler. It only requires that an organization meet the same first set of requirements as a CDFI, namely: (1) be a legal entity, (2) have a primary mission of serving Low-Income Communities (LICs), and (3) maintain accountability to the residents of its targeted LICs.[3] Unlike CDFI status, which comes with myriad benefits, CDE status unlocks just one financing tool - access to New Markets Tax Credits.

New Markets Tax Credits.
Administered by the CDFI Fund and approved by Congress as part of the Community Renewal Tax Relief Act of 2000, the New Markets Tax Credit Program is a place-based anti-poverty program designed to incentivize investment in distressed communities. In our nomenclature above, NMTCs are a source of subsidy for deals. Because of the subsidy they offer, this incentive is highly effective at assisting high-impact, community-oriented deals that could not be funded with debt and equity-based incentives alone.

Unlike other credits, NMTCs are not a permanent part of the tax code, so every 2-3 years, Congress must renew the program and authorize the number of credits to be given away annually. Historically, Congress has authorized $3-5 billion in NMTCs on an annual basis.

NMTCs have a particularly unique allocation structure. Instead of going directly to projects, the CDFI Fund gives away large blocks of NMTC allocation - usually between $30M and $60M at a time - to a special type of community finance entity called a Community Development Entity (CDEs). CDEs are organizational intermediaries (banks, developers, CDFIs, local governments, community development corporations, etc.) that can make financial loans or investments. CDEs compete fiercely for the $3-5 billion in credits allocated each year, with around 100 or so getting allocation each year. CDEs win allocation by scoring the most points on a structured, 100+ page application. CDEs that consistently win allocation do so because they have a record of funding deals with the greatest need that create the greatest number of jobs in the most distressed communities (and in the most underserved states) with the best integration of local population services, minority-owned businesses, etc.

While point allocations vary from application to application, the same basic elements are typically prioritized:

- The level of distress of a particular census tract (e.g., how do unemployment and poverty rates, along with its median family income, compare to other tracts nationally, as measured by Census data that typically lags significantly);
- The number of permanent jobs a project will create and the types of jobs (payscale, benefits, etc.) created;
- The location of a project in a rural or urban community (with certain census tracts receiving priority);
- The potential for a project to create a critical community facility or meet a critical community need (e.g., workforce training, healthcare, education, serving underserved populations, etc.);
- The state in which the project sits (the 10 states that received the least allocation in the prior year are prioritized over all others); and
- Whether the project requires the NMTC allocation to be viable - in other words, would the deal be possible "but for" the subsidy provided by the NMTCs?

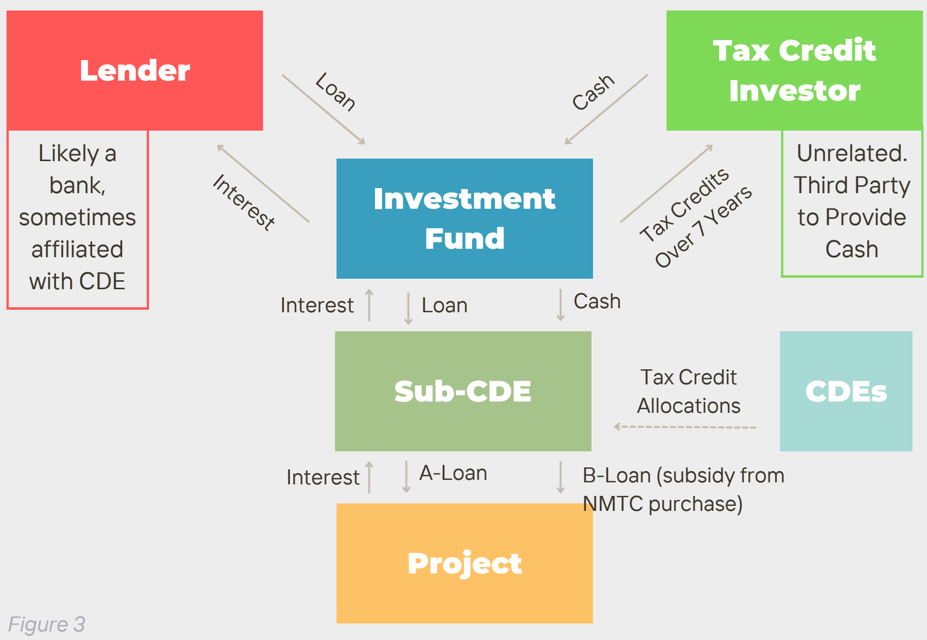

Figure 3

Key Takeaways

01 Tax credit purchaser gets tax credits, lender gets interest.

02 Transaction costs subtracted from B-loan.

03 Structure collapsed in Year 7 when Tax Credit Investor exists transaction.

The CDFI Fund does an excellent job of indicating which CDEs receive allocation each year and sharing information about how to contact CDEs with allocation. Even with that transparency, however, it can take time for a qualified deal to receive NMTC allocation. Each CDE has its own preferred asset classes (e.g., charter schools vs. industrial projects) and geographic service territory. Once a sponsor identifies one or more CDEs that could serve the deal, the sponsor must demonstrate to the CDE that the project scores well across the elements the CDFI Fund prioritizes in its application process (explained above).

Because of the annual application cycle, CDEs need to get allocation out the door quickly. CDEs with large stocks of unused allocation are far less likely to get more allocation in the future, meaning they want to maintain a pipeline with as many "shovel-ready" projects as possible. This creates a unique tension because - as described above - the development process is long and difficult, and it takes months (sometimes years) for deals to come together. Deals could be abandoned if they have a capital gap that could not be closed but for subsidy like NMTC, which may or may not materialize.

As mentioned above, a NMTC allocation provides $0.39 of tax credits for every $1 invested in a deal. But to generate those credits, every dollar of investment in the transaction needs to flow through the CDE. This requires all of the parties in the transaction - the tax credit investor, the project lender, the deal sponsor, and the CDE - to closely coordinate on the deal structure shown in Figure 3 and a legal team to produce a set of documents that typically runs into the thousands of pages for every NMTC closing.

We cannot understate the importance of NMTCs in delivering high-impact deals in distressed places.

Securing subsidy for up to 20% of a project's cost can make a deal pencil that would never otherwise work.

And, for some projects in distressed communities that do not qualify for other sources of subsidy (e.g., not in a historic building or not providing low-income housing), it is the only way a deal can get done.

Another complicating factor for NMTCs is that they are distributed to investors in roughly equal installments over the course of the 7-year NMTC compliance period. No investor is willing to pay a dollar today for a dollar of credits they will only receive over an extended period of time. As a result, each seller applies a reasonable discount rate to those credits. If we assume a 7% discount rate, for example, the credits immediately lose 24% of their value.[4] Add fees and transaction costs for all involved (the lender, tax credit investor, CDE, and project), and the actual net subsidy delivered to projects is close to $0.20 for every $1 of NMTC allocated.[5]

Outside of purchase price (which varies), NMTC transaction costs are relatively fixed, meaning that the smaller the allocation, the less net benefit a project gets. In our experience, deals smaller than $5M (which are prevalent in smaller, more rural communities) do not generate enough net NMTC subsidy to make the time, effort, and cost of pursuing them worthwhile.

Below, we share a case study of an assisted living facility in rural Heflin, Alabama that could not have happened "but for" the NMTC program.

Qualified Opportunity Zone Program.

Qualified Opportunity Zones (OZs) are designated census tracts, primarily low-income and distressed,[6] where investors receive preferential tax treatment for supporting new development or businesses. OZs and OZ tax benefits are an economic development tool introduced in the Tax Cuts and Jobs Act of 2017 to incentivize new investment in low-income places. In 2018, states drew maps designating specific low-income places as OZs, which were then certified by the CDFI Fund.

A Qualified Opportunity Fund (QOF) is an investment vehicle that, once raised, is required to invest the overwhelming majority of its funds (90%+) into projects or businesses located in designated OZs. Investors in a QOF must have capital gains if they want any benefit from their OZ investment. This means that while any taxpayer can participate in a QOF, only those that have sold an asset for a profit within the requisite time period (180 days in most cases) can enjoy OZ tax benefits.

Investors with capital gains who invest into a QOF get two big benefits:

1. Investors receive a temporary tax deferral on any capital gains invested into the QOF. However, that tax bill comes due for every Opportunity Zone investor on December 31, 2026, regardless of when they invested. In other words, all investors pay capital gains tax on their original capital gain on their 2026 tax bill, regardless of whether they invested in 2019 or 2025. As a result, this "front-end deferral" becomes less and less valuable over time as its duration shortens.
2. If investors hold their QOF investments for 10 years or more before liquidating them, they will pay no tax at all on the appreciation of their OZ investments.

In other words, if an investor puts $1 of capital gain into a distressed community project via a QOF in 2023, they can temporarily avoid paying the $0.20 of capital gains tax owed (assuming they had a long-term gain taxed at 20%) until 2026. They will pay the $0.20 owed in capital gains taxes when they file their 2026 tax return (sometime in 2027), then hold onto the investment for a few more years, until 2033. If the investor then sells that asset for $3, they will pay no tax on the $2 made on the sale (or any depreciation recapture on the depreciation taken over that period). Of the two incentives, the capital gains tax forgiveness on the appreciation of the investment becomes more motivational every day (as the value of the deferral decreases).

From a simplicity perspective, the Opportunity Zone investment process is the most straightforward of the incentives discussed in this report. All it requires is a gain event, a qualified project,[7] a lawyer (to set up relatively simple QOF formation documents), and an accountant (to make sure the deal is qualified and the fund is properly deployed). As in the Heflin example discussed below, the process is so simple that a deal sponsor can take advantage of it themselves - or, if necessary (as in the Market Lofts on Third example), pursue third-party investment motivated by the incentive. Indeed, the program might be too simple; at present, there are virtually no reporting requirements associated with OZ investing, making it extraordinarily difficult to evaluate program efficacy.

The program is currently set to expire at the end of 2026. Bipartisan legislation was introduced in April 2022 to extend and enhance the program by allowing revision of OZ maps and introducing more impact reporting and regulation, and will be reintroduced again in 2023. The greatest strength of the OZ program for on-the-ground practitioners trying to get deals done in low-income places is the ease with which a QOZ fund can be developed to secure investors for virtually any type of project. In the projects profiled below, we illustrate how a small QOF was created to support a small $500,000 historic theater redevelopment (something unthinkable for NMTCs); how a statewide fund supported industrial development in a rural, underserved community approximately ten miles from Tuskegee; and how a national fund supported revitalization of a historic hotel in Selma.

The greatest challenge for harnessing OZ capital is meeting the needs of third-party investors, who each have their own unique capital needs and can choose to invest anywhere. Like CRA, the OZ incentive is not a direct subsidy. In other words, it does not inject "free money" into a deal (like the NMTC program does) to make the deal more financeable. Instead, it offers an extra reason for a developer (like the one in Heflin) to choose to do a deal in a low-income place, and it offers investors extra motivation to allocate capital in a way that benefits low-income places. This means OZ equity does not necessarily come with a lower "cost of capital" than traditional equity. Indeed, because the exact value of the benefit is so hard to quantify (e.g., how much capital gains tax might I save 10 years from now if and when I sell this project?), many investors ignore it when calculating their OZ return profile.

The Opportunity Zone investment process is the most straightforward of the incentives discussed in this report.

The OZ benefit is the only incentive explored in this report without a "gatekeeper" (the function that CDEs and the CDFI Fund perform for NMTCs and that the OCC, Federal Reserve, and FDIC perform for CRA). OZ proponents argue that this is a cornerstone feature of the incentive that contributes greatly to the program's nimbleness and simplicity; detractors argue that it is a problem, enabling investors to prioritize deals that will not significantly benefit low-income communities to get tax relief. We explore this discussion at length in the policy recommendations below.

Community Reinvestment Act.

The Community Reinvestment Act (CRA), first passed in 1977, is one of several laws passed to confront structural racism in the financial services industry by requiring banks to extend access to credit and capital to those in low-to-moderate-income communities. Refusing to extend credit in neighborhoods deemed "hazardous" based on income levels (a practice that has come to be known as "redlining"), banks historically closed off traditional pathways for upward mobility and wealth-creation in low-to-moderate income neighborhoods, which were often majority-black, immigrant, and working-class neighborhoods. Depressed property values, blighted properties, and limited entrepreneurial activity is often the most visible direct result of place-based discrimination in lending.

The CRA mandates that banks meet the needs of all communities - including low-to-moderate income (LMI) ones - located within their geographical footprint, or "assessment area." This prevents banks from only selectively lending within the geographic area that can reasonably be served by its main office, additional locations, and ATMs. A bank's assessment area typically includes the surrounding areas where the bank originated or purchased the majority of its loans. CRA established a regulatory regime - overseen by three federal agencies (the Office of the Comptroller of the Currency, The Federal Deposit Insurance Corporation, and the Federal Reserve Board) - that monitors each bank's lending and service provision to the LMI neighborhoods in its assessment area and assigns a CRA rating accordingly. This rating affects a bank's ability to to merge with another institution or to open new branches.

According to the National Community Reinvestment Coalition (NCRC), CRA-qualified bank lending between 2009 and 2020 included $2.58 trillion in mortgages extended to LMI households or issued in LMI census tracts, $380 billion in lending to businesses in LMI census tracts, and $8.57 billion in lending to small businesses.[8] CRA's success in equitably expanding lending has made it a critical tool of place-based economic development, facilitating increased private investment in distressed census tracts. CRA regulation is complicated though, and banks are often uncertain of how to maximize their compliance under the current point system.

For the purposes of this report, CRA is an incentive that encourages low-cost debt financing for projects in low-income communities. For example, a CRA-motivated loan made the capital stack work for the industrial warehouse in Tuskegee discussed in the case studies below. CRA also indirectly promotes much of the affordable loan capital available through CDFIs and much of the bank investment in New Markets Tax Credits. This direct and indirect CRA effect stems from the current structure of the CRA assessment, which assesses the activity of large (greater than $1Bn) banks in three areas:[9]

- The Lending Test (50% of assessment) measures (among other things) the bank's loans to LMI areas relative to total loans, the bank's lending record for borrowers and businesses of different income levels, its loans made for community development, and any innovative lending practices that address LMI individuals or geographies. This is the test that captures direct loans to distressed community projects and low-cost loans to intermediaries like CDFIs.
- The Investment Test (25% of assessment) measures equity investment made by banks in "qualified community development investments." These investments include, among other things, equity investments made to purchase NMTCs and similar credits like low-income housing tax credits, and certain equity-like investments made in CDFIs.
- The Services Test (25% of assessment) focuses on low-income community service, and is not within the scope of this paper.

Thanks to guidance from the three regulatory bodies that govern CRA compliance, we know that investing with CDFIs automatically meets at least one of the prongs of the test above (depending on the nature of the investment), and that most NMTC investing will as well. Interestingly, the same guidance has *not* been provided for Opportunity Zone investing, meaning that banks have, with some notable exceptions,[10] not pursued OZ investing in the same way they have pursued tax credit investing.

However, due to pending CRA reform, this entire analytical framework could soon change. In the proposed rules published in 2022, the OCC, FDIC, and Federal Reserve proposed a new testing regime that would focus on retail lending and the provision of products and services to LMI communities. These two new tests would comprise 45% and 15% of the large bank CRA exam, respectively. All community development financing activity would be assessed under a third test (comprising 30% of the total score) that banks can meet either through lending OR through equity investment. The remaining 10% of the score would be assessed through a new community development services test.

CONTEXT FOR OUR WORK: OPPORTUNITY ALABAMA & LOCAL CAPACITY BUILDING

In 2018, Opportunity Alabama (OPAL) was formed as a statewide entity to address Alabama's endemic problem of inadequate access to capital, particularly in geographies experiencing sustained disinvestment and population loss. More than one-third of Alabama's residents (36%) live in a community identified as economically distressed by the Economic Innovation Group's Distressed Communities Index and just 14% of the state's residents reside in a prosperous one.[11] By EIG's analysis, Alabama ranks fourth - after Mississippi, Kentucky, and West Virginia - for the proportion of residents living in places experiencing economic hardship. As a result, significant portions of this predominantly rural state - which has been hit hard in the last half century by agricultural consolidation, deindustrialization, offshoring of manufacturing, and the transition to a knowledge-based economy - qualify for the kinds of federal incentive programs that are the focus of this report and our policy recommendations.

More than one-third of Alabama's residents live in a community identified as economically distressed by the EIG's Distressed Communities Index.

Alabama has historically struggled to leverage the types of incentive programs needed for renewed private investment in its underserved geographies. The state has a strong traditional banking system (Birmingham-based Regions Bank is one of the largest financial institutions in the country) but lacks a strong network of impact-oriented financial institutions with an explicit mandate to serve communities with limited access to mainstream financial services. In 2020, Alabama had just 35 certified CDFIs, according to the CDFI Coalition. Mississippi and Louisiana, states with similar economic profiles, reported 93 and 108 certified CDFIs headquartered in their states, respectively.[12] Investments made by these CDFIs had a direct impact on commercial real estate development. In 2020, Louisiana constructed or rehabilitated 575.9M square feet of real estate with CDFI investment and Mississippi constructed or rehabilitated 6.7M square feet. Alabama, by comparison, saw only 1.9M of square feet of commercial real estate development supported through CDFI investment. During the 2010s, only two states (Kansas and Nevada) received fewer CDFI Fund awards per capita than Alabama. And, just one Alabama-based CDE has received an allocation of NMTCs in the last decade.

Opportunity Alabama was formed - with the support of multiple statewide economic development entities, major corporations, and philanthropic foundations - to seize the historic chance presented by the new Opportunity Zones tax incentive and leverage that federal incentive on behalf of Alabama's economically disadvantaged places. An early trailblazer in strategizing access to capital for OZs, OPAL provided technical assistance and connections to capital to close over $300M worth of transactions in its first three years, winning recognition from Forbes in the process. OPAL became the statewide intermediary for communities, investors, and deal sponsors to secure OZ-based private investment for meaningful projects. This approach yielded several early successes including projects in Heflin, the Woodlawn neighborhood of Birmingham, and Selma - all described in greater detail in the case studies below.

The process of identifying these projects and securing capital for development clarified two challenges for building a pipeline of community-centric projects in Alabama:

1. Underserved communities often lack capacity to build a pipeline of quality projects that can be positioned - through federal incentive programs or otherwise - to attract private investment. These communities need sustained technical assistance to transform great ideas into viable real estate deals.
2. Alabama's decades-long challenge of accessing capital can't be solved through OZ investment alone. The benefit is not for every project and OZ financing is often best leveraged alongside additional incentive programs, place-based or otherwise, to close the funding gap and improve return profiles of projects in truly distressed communities. For instance, a senior care project in Heflin (described in the case studies below) layered the federal Historic Preservation Tax Incentives program with the Alabama Historic Rehabilitation Tax Credit program, New Market Tax Credits, and OZ financing - all of which were critical to that project's viability.

For Alabama's low-income places to secure the capital investment that has been historically missing, they need access to CRA-motivated lending, OZ investment, NMTCs and additional sources of funding, like HUD housing development programs, USDA loan and loan guarantees, federal grant programs, PRI investment, and CDFI lending.

To meet this need, OPAL provides sustained assistance for meaningful projects that have the potential to be catalytic for communities, working in as many geographies across the state as possible. We have built three nonprofit technical assistance programs to help communities identify quality projects and to help developers build creative and complex capital stacks:

- Through the **Community Growth Accelerator (CGA)**, OPAL works with a local team to identify a project or initiative that can deliver results for the community based on the three metrics of speed to market, cost, and community impact. We then help the local team accelerate the project's execution. Our focus is local and place-based, so each community's results are unique to their needs and opportunities at the time of the engagement.
- The **Property Development Assistance Program (PDAP)** helps property owners and emerging developers take a community-supported project through predevelopment to construction. We help individuals working in underserved markets navigate pre-development planning, budgeting, pro forma creation, and then leverage all incentives possible to make the project capable of securing investment.
- With **Grant Writing Assistance**, we connect local nonprofit entities and municipalities to state, federal, and foundation grant funding with the goal of laying the groundwork for long-term revitalization. We are sometimes able to secure grants to cover planning costs or gap financing for real estate development projects.

This comprehensive programming is designed to help low-income, under-resourced communities meet the challenges laid out so far in this report.

To bring direct investment to some of the best projects we see statewide, OPAL created a for profit benefit corporation subsidiary, OPAL Investments, BC, that raises private equity. In 2021, The OPAL Fund secured ~$18.5M AUM and deployed that capital in 2022 as OZ equity investment into several projects across the state, including the Regional East Alabama Logistics (REAL) Park, Market Lofts on 3rd, and the Hardwick, all described in the case studies below. We are now actively raising a second commercial real estate fund, "Fund II," with three tranches of capital to meet the needs of diverse investors: one for general investors interested in a statewide real estate investment strategy; the second for OZ-benefit motivated capital; and the third for CRA-motivated banks making equity investments. We have also raised an impact-oriented fund called OPAL Community Capital (OCC) to provide low-cost capital for community-supported projects in underserved markets across the state. OCC is primarily supported through PRI investment by foundations and other types of mission-driven institutional investors, and we are actively growing it into an entity that can pursue CDFI certification. Each of these investment vehicles provides equity that - alongside federal, state, and local incentives - can be leveraged for additional private investment and low-cost debt for the construction or rehabilitation of commercial real estate.

Because distressed communities routinely lack local capacity to turn ideas into projects, the very communities that are the targets of place-based interventions are often left out of the conversation about how this incentivized capital should be deployed. To re-center the incentive process on communities, OPAL prioritizes projects - for technical assistance and equity investment - that meet the needs of local communities in the following ways:

- They are informed by a community engagement strategy including charrettes, focus groups, or other targeted stakeholder engagement;
- They have secured input from a local team of community leaders;
- They have secured local validation through municipal incentive packages, zoning approvals, and other types of public support;
- They propose to meet needs identified in recent strategic plans developed by local or regional entities; and
- They meet clear social or cultural needs like historic preservation, environmental impact, housing for LMI individuals, food access, or other market needs quantified by demand or feasibility studies.

We are also committed to ensuring projects receiving capital investment from one of our family of funds, create pathways to opportunity for underrepresented Alabamians by hiring Minority- and Women-owned Business Enterprises (MWBEs) to work on their jobs sites and by creating spaces for MWBE tenants.

In the five years since OPAL was formed, the organization has served 40 of Alabama's 67 counties, with the goal of impacting all 67 by the end of 2024. We have secured more than $16 million in outside investment for projects identified and accelerated through our Community Growth Accelerator program and brought $1.48M in grant funding to several Alabama communities for initiatives to support small businesses, grow local innovation ecosystems, build LMI housing, and more. Through direct investment by The OPAL Fund, we have leveraged an additional $200+ million in additional investment. These projects have produced an estimated 1,000+ construction jobs with thousands of permanent jobs anticipated as projects reach completion and secure tenants.

After decades of stagnant growth, Alabama began seeing net migration during and after the COVID-19 pandemic, and the state has reported record levels of income tax revenue in the post-pandemic years. A healthy commercial banking industry, high quality research universities, growth of advanced manufacturing, and multiple national general contractors based in the state have all generated reasons to be optimistic about the state's future. But equitable finance is essential for creating new pathways for self-determination in the state's most distressed urban neighborhoods and rural communities, where a history of low wages and redlining depleted local resources, discouraged investment, and attracted predatory lenders. Ultimately, we believe that community-engaged projects that can measure local impact should receive priority in the approval of incentives and allocation of federal resources - and that Community Capacity Building entities like OPAL can play a critical role in facilitating that investment. Prioritizing these kinds of projects is critical to ensuring that, as states like Alabama recover from deindustrialization and agricultural consolidation, they build more resilient and equitable economies.

Ultimately, we believe that community-engaged projects that can measure local impact should receive priority in the approval of incentives and allocation of federal resources - and that Community Capacity Building entities like OPAL can play a critical role in facilitating that investment.

LESSONS FROM OPAL: 7 CASE STUDIES ON PLACE-BASED INVESTMENT

The following case studies provide greater insights into our role as a technical assistance provider and as an equity investor in projects that have been transformative for rural places and urban neighborhoods throughout Alabama. Each example highlights the role that place-based tax incentives (i.e., tax incentives to drive investment to low-income areas) played in making quality projects "pencil" in specific, economically underserved geographies.

Case Studies

Case Study #1

Carillon Oaks

Heflin, AL

City Population: 3,421
Census Tract: 01029959600
Median Household Income: $46,750
Poverty Rate: 17%
Project Details: 52K sqft Historic Revitalization of one Building and Development of a New Memory Care Building
Total Project Cost: $12M
Impact: 45 New Jobs, New High-Quality Senior Care in an Underserved Rural Market

Heflin is a small community in the foothills of the Appalachian mountains, located an hour from Birmingham and an hour from Atlanta, developed in the 1880s as a railroad stop between the two cities. Like many rural places, Heflin has a low median family income ($46,750) and an aging population.

The opening of Carillon Oaks Heflin, a state-of-the-art senior assisted living and memory care facility, was the culmination of years of effort to see Heflin's historic Cleburne County High School successfully redeveloped after its closure in 1985. The original building remained in good condition, but the owners had struggled for decades to identify a viable use case. In 2017, local economic developer Tanya Maloney initiated a series of conversations with experts in historic revitalization and tax credit strategies about how the historic school could be positioned to attract a developer. In 2018, the school was successfully added to the National Register of Historic Places.

To understand the process of revitalizing an historic property, Maloney reached out to Jerry Lathan of The Lathan Company, a Mobile-based general contractor which has overseen the restoration of national landmark properties like the Smithsonian Arts & Industry building in Washington, DC. At the time, Lathan was working with his partner Stuart Coleman on the development of a senior care facility in Mobile. The project, the first for the Lathan & Coleman development team, was a new build, but Lathan was seeking an historic school for their second project, convinced that the layout would be conducive for senior living.

The Old Cleburne County High School presented a unique opportunity for Lathan & Coleman to revitalize a historic property, all while serving the kind of rural community that struggles to secure quality senior care, which tends to go to urban centers and wealthy communities. Capital investment prioritizes projects in places with a high-concentration of rooftops, and that rule is especially true for senior living. Carillon Oaks Heflin was the first project in Alabama (and one of the first in the nation) to leverage the Opportunity Zone tax incentive with New Market Tax Credits and state and federal historic tax credits. At the time, OZ regulations were being finalized and few large impact-oriented Qualified Opportunity Funds (QOFs) existed. Lathan & Coleman worked with OPAL, to structure their equity investment in Carillon Oaks as a QOF while preserving their other incentives. Today, the revitalized property provides 39 assisted-living beds, 16 beds in a memory care facility, and a raft of other amenities for residents.

Layered incentives were essential to ensuring the project could "pencil," or show financial viability, and the development team says they would not have moved forward if some portion of the capital stack had been missing. The project received a $7 million allocation of New Market Tax Credits (NMTCs) provided by the UB Community Development, LLC (UBCD), a community development partner of United Bank, a Community Development Financial Institution (CDFI) in Atmore, Alabama. UBCD is the only community development entity (CDE) headquartered in Alabama to receive a NMTC allocation from the Treasury department in the last decade, and its investment was critical to making the project work. Additional lending was provided by the First Bank of Alabama, the oldest continuously operating bank in the state.

Construction broke ground in 2018 and the project completed at the end of 2020, at a time when the COVID-19 pandemic was continuing to hit the elderly community hardest, making senior care facilities particularly difficult to operate. Even after facing the unique challenge of opening the facility during a pandemic, Jerry Lathan sees the project as a model for how to bring the best senior care to rural communities: "despite the challenges of COVID-19, the project is a gem. It's like bringing a five-star hotel to a small town. But while you can do without the five-star hotel, every community needs quality senior care." When asked about the process of securing OZ investment and NMTCs, Lathan turns philosophical - "it's a foggy place, even for those who think they know where they are going" - but credits these incentives for making this unique project possible. Maloney describes Carillon Oaks as a "shining star in the community," which is helping to keep families intact as parents age.

Today, Carillon Oaks is fully leased, and the development team is now forming the Carillon Oaks Foundation, a nonprofit that will own and operate the facility to ensure its continued financial sustainability. This transition also aligns with the mission-driven nature of this project to support quality of life for multi-generational families, allowing elderly people to remain integrated in their communities while alleviating the challenges faced by adult children caring for elderly parents.

Case Study #2

Downtown Historic Revitalization

Selma, AL

City Population: 18,000
Census Tract: 01047956600 and 0147956500
Median Household Income: $19,049 (Average of 2 census tracts)
Poverty Rate: 28.25% (Average of 2 census tracts)
Project Details: Multi-Phased Historic Revitalization and Adaptive Reuse of 3 Historic Properties
Incentives Leveraged: OZ Investment, Federal and State Historic Tax Credits
Impact: Job Creation, Private Investment in Distressed Census Tracts, Placemaking

Overlooking the Alabama River, Selma rose to prominence during the 1800s as the center of commerce for the Black Belt region, drawing residents from throughout central Alabama to its 300+ acre business district. Today, the city is best known as the starting point for the 1965 Selma-to-Montgomery marches, led by Martin Luther King, Jr., to draw national attention to systematic racial voter suppression and the need for federal voting rights protections. Significant local effort has been made to preserve the legacy of "Bloody Sunday," and native Selmian Congresswoman Terri Sewell has tirelessly advocated for the federal resources to support placemaking. The National Park Service has developed an interpretive center and invested in the preservation of important civil rights sites, foot soldiers who participated in the marches conduct tours, and a handful of downtown upper-story units have been redeveloped as residential rental units to accommodate visitors. Local nonprofit ArtsRevive has restored at least two vacant, blighted structures on Water Avenue, near the foot of the Edmund Pettus bridge, to build an engaged community of Black Belt artists with ties to Selma.

Despite local efforts and interest from national parties, developing a sustainable pathway for long term economic recovery remains an ongoing challenge for Selma. In the 1940s, Craig Air Force Base was constructed as a national training center for military pilots, but its closure in the 1970s began a decades-long economic decline for Selma and Dallas County. One of the most economically distressed communities in the nation, nearly one-third of Selma's residents live in poverty. Selma's current median household income is approximately $30,000. The city has experienced record levels of outmigration since the 1980s, losing 14% of its population between 2010 and 2020. On January 12, 2023 an EF2 tornado touched down severely damaging several neighborhoods, which is likely to contribute to further population loss.

Bringing Vitality to Water Avenue. Selma has one of the largest historic downtown districts in the state, with hundreds of architecturally unique properties that were constructed before 1900. Many of these properties are now vacant, abandoned, or underutilized, and limited local capital exists to restore buildings and support small business tenants. To build momentum, local and statewide partners have focused efforts specifically on Water Avenue for its historic significance - marchers walked Water Avenue before crossing the Edmund Pettus Bridge - and for its scale. Overlooking the Alabama River, the Water Avenue Historic District is just 10 acres, compared to the 323 acre Old Town Historic District. The National Park Service's Selma Interpretive Center and

ArtsRevive have created a sense of place on Water Avenue, which has been essential for catalyzing private investment.

OPAL has been working to support three new developments on Water Avenue, which are critical for building a local tourism economy and capturing revenue from the thousands of visitors who visit each year. The goal is to transform Water Avenue into a vibrant place serving local residents and tourists alike, in order to catalyze sustained revitalization of the downtown area.

St. James Hotel. In 2018, the City of Selma sold the historic St. James Hotel to Birmingham-based developer and hotelier, Rhaglan Hospitality, which had recently taken over operations of the restored historic Redmont Hotel in Birmingham as a Hilton property. Originally constructed in 1837, the St. James is one of the oldest hotels in the Southeast and the only hotel in downtown Selma. It sits a block from the foot of the Edmund Pettus Bridge and overlooks the Alabama River.

Jim Lewis of Rhaglan Hospitality worked closely with Opportunity Alabama (OPAL) to build the capital stack for the project (which included Alabama Historic Rehabilitation Tax Credits and Federal Historic Revitalization Tax Credits) and to identify and secure outside investment. OPAL introduced the project to the national Woodforest CEI-Boulos Opportunity Fund, which ultimately made a $2M equity investment. The high-impact commercial real estate QOF, established by Woodforest National Bank and CEI-Boulos Capital Management, was seeking meaningful rural projects that could benefit from OZ investment and provide capital for quality projects in low-to-moderate income geographies. The project secured lending from American South Real Estate Fund. The Selma Redevelopment Authority provided additional support by facilitating a sales tax rebate on construction materials for the project. In 2021, the revitalized St. James opened as a boutique Hilton Tapestry Hotel, creating 45 jobs and offering full restaurant and bar service - and, perhaps more importantly, providing the catalyst project for Water Avenue's renaissance.

Adler Furniture Building & Harmony Club. After the success of the St. James, a handful of regional development teams contacted the City of Selma and other stakeholders with interest in properties in the Water Avenue Historic District. Through our CGA program, OPAL worked with city leaders to assess the potential of these development proposals to advance revitalization of downtown Selma. Through this process, woman-owned (and impact-oriented) InVictus Development emerged as the strongest partner with a history of successful development in the Southeast, including an affordable housing development in north Selma. OPAL has continued to work with InVictus to develop a comprehensive plan for long-term, inclusive, place-based development in downtown Selma, beginning with two catalytic historic revitalization projects on Water Avenue.

Adler Furniture Building (11,000 sq ft). Built in 1850, this two-story building operated first as a wholesale grocery store, then a furniture wholesaler. The building was built in the Italianate style with two-bay brick, cast iron quoins along the building's edges, and a bracketed cornice along the roofline. Preservation of large-paneled windows and a double leaf entrance along the storefront will be included in the redevelopment of the structure. This redevelopment will likely include an art gallery, studio space, retail space, and a few residential lofts. InVictus worked closely with stakeholders in the local arts and civil rights community, including the leadership of the successful nonprofit ArtsRevive, to create a vision for the property to support black artists, African artists, and regional creative talent. The property should be a draw for tourists while serving as a cultural hub created by and for local residents.

The Harmony Club (16,500 sq ft). This unique three-story Renaissance Revival structure was constructed in 1909 to serve Selma's prominent Jewish community. The club housed local merchants on the first floor and a private lounge, restaurant and ballroom on the upper stories. The property was partially renovated in the late 1990s. This building will be redeveloped into mixed-use commercial space with a high quality restaurant, bar, and office and event space, honoring the legacy of the building as a social club for Selma's Jewish community.

Still in predevelopment, these projects are actively pursuing Federal Historic Revitalization Tax Credits, Alabama Historic Rehabilitation Tax Credits, New Market Tax Credits, grant funding and program-related investment (PRI) for historic preservation, and CDFI Investment, all with the goal of making these impactful projects viable.[13] The project has already received a predevelopment loan from a CDFI (the Local Initiatives Support Corporation); this loan was critical to help cover the hundreds of thousands of dollars in predevelopment costs required for the project to qualify for these incentives. The project likely would have stalled out without this impact-motivated support. The deal is currently in multiple CDE pipelines for NMTC allocation but is unlikely to receive allocation until it solidifies its tenant base (i.e., gets closer to "shovel ready") - a tough proposition in a place like Selma that lacks a strong small business support ecosystem to populate commercial spaces.

Case Study #3

Woodlawn Theatre

Birmingham, AL

Neighborhood: Woodlawn
Census Tract: 01073000300
Median Household Income: $20,497
Poverty Rate: 34%
Project Details: 6,000 sqft Adaptive Reuse
Project Cost: $500K
Incentives Leveraged: OZ Investment and Nonprofit Fundraising
Impact: Revitalization of a Vacant Building: Arts Education and Creative Placemaking in Economically-Distressed Community

Located just east of Birmingham's downtown, the historic Woodlawn neighborhood was settled in 1815 as an independent farming community in the fertile Jones Valley. The area was incorporated as the City of Woodlawn in 1891 before being annexed by the City of Birmingham in 1910. For decades, Woodlawn was a thriving middle-class class neighborhood with a strong business district, but the neighborhood was hit hard by white flight in the 1970s and 80s, as families left Woodlawn and other historic neighborhoods for municipalities with independent school districts outside of Birmingham's city limits.

Today, the Woodlawn community is recovering from decades of disinvestment through coordinated efforts by nonprofit organizations, family foundations, and the City of Birmingham. Since 2010, The Woodlawn Foundation has led a holistic community revitalization effort based on the Purpose Built Communities model to end generational poverty. Family foundations, like the Birmingham-based Goodrich Foundation, have supported major investments in workforce housing development, high quality preschool, education initiatives, small businesses development, and services to improve access to healthcare. Nonprofits like REV Birmingham and the Desert Island Supply Co. have partnered with Woodlawn Foundation to make additional place-based investments, and a small business ecosystem is returning to this neighborhood.

In 2016, the Mason Music Foundation began providing free music lessons to children in Woodlawn through a partnership with a neighborhood elementary school. Mason Music, led by CEO and founder Will Mason, is a thriving music education business with multiple locations through the Birmingham area, which developed a nonprofit foundation to provide free arts education for students in some of Birmingham's underserved neighborhoods. After three years renting space, the foundation began seeking a more permanent location and learned that the vacant Woodlawn Family Theater, a former cinema that operated from 1929 to 1957, was for sale. Stakeholders throughout Woodlawn were eager to see this property in the historic business district restored, and the Mason Music Foundation developed a vision for a mission-driven education and performance space. Today, the restored Woodlawn Theatre provides music lessons in multiple classrooms and small concerts and events for audiences on the restored stage.

The scale of the 6,000 square foot project was greater than Mason originally envisioned when he first began looking for a home for the foundation. To support the expanded scope, he reached out to OPAL for assistance in developing the capital strategy for the project. Federal guidance for OZ investment had just been released, and OPAL helped a group of five local investors structure and raise a small OZ Fund called the Harmony Fund that brought $150,000 of equity to the project. Each invested $30,000 because they believed in the vision for the project. A construction loan provided the remaining capital needed.

The project was too small to qualify for New Market Tax Credits and significant alterations had been made to the building, making it also ineligible for historic tax credits. Breaking ground on construction during the pandemic increased project costs. Despite these challenges, the project has sustained momentum due to community support for its potential to contribute to Woodlawn's recovering local economy and bring equitable music education and additional concert space to a city with a rich live music tradition. Fundraising by the Mason Music Foundation for the buildout of music studios has helped to close the financing gap, and the Woodlawn Theatre hosted its grand opening event in May of 2023. At the core of this project's success was the ability of a small group of local investors to quickly come together and form a Qualified Opportunity Fund for the specific purpose of helping a small nonprofit execute an inclusive cultural placemaking vision.

Case Study #4

Market Lofts on 3rd

Birmingham, AL

Census Tract: 01073002701
Median Household Income: $66,094
Poverty Rate: 34%
Project Details: 140,000+ sqft Historic Revitalization; Mixed-use Retail, and 192 Units of Workforce Housing
Project Cost: $39.2M
Incentives Leveraged: OZ Investment, Federal Historic Rehabilitation Tax Credits, Alabama Historic Preservation Tax Credits, Local Sales Tax Abatements (Construction Materials)
Impact: Historic Restoration of Vacant Building, Creation of 192 Units of Workforce Housing, and Strong Participation by MWBEs on Job Site

In the late 1990s, Birmingham's downtown core had little residential population and a high proportion of vacant buildings, but in the decades since, the area has undergone a renaissance. Growth of the University of Alabama at Birmingham (UAB) and UAB Hospital, a new baseball stadium and public park, a generational shift in attitudes towards urban living, and the 2013 introduction of the Alabama Historic Rehabilitation Tax Credit have collectively fueled new investment in the "Loft District," where restaurants, bars, and entertainment venues (combined with upper-story residential) have made the neighborhood a nightlife destination. Stock of residential units has increased to meet growing demand, but housing units affordable for households at or below the median income are rare and difficult to finance.

Market Lofts on 3rd, which will open to its first residents in July of 2023, is bringing 192 units of naturally-occuring workforce housing and 4,000-8,000 feet of retail space to this neighborhood. Market Lofts on 3rd will serve residents who make too much income to qualify for subsidized housing but too little to afford much of the available residential in the city center. Every unit in the building will be affordable to those making between 80 and 100% of AMI (with a substantial portion of units leasing at or below $1,000 per month). The project has been developed to meet the needs of the thousands of service workers, municipal employees, and hospital staff that work in the city center, while restoring a 140,000 square foot historic building that has been vacant since the American Red Cross left in 1998.

Developed by Ed Ticheli, Phil Caccese, and Bradley Creasy, the project received its largest equity investment from Alabama-based The OPAL Fund, a nearly $18.5M OZ Fund. Alabama Historic Rehabilitation Tax Credits,[14] which are refundable, were a necessary subsidy to keep the building's rents accessible while producing market rate rreturns for investors. The development team also secured nonrefundable federal historic tax credits, syndicated to Rise Impact to bring additional equity to the project.

Minority & women-owned businesses have supplied approximately 35% of the labor on the Market Lofts on Third project to date.

The development team and The OPAL Fund have intentionally secured greater participation by MWBEs than is typical for redevelopment of this size and scale. Woman-owned Wyatt Builds is the general contractor for the project, and minority and women-owned businesses have supplied approximately 35% of the labor on the project to date. In the summer of 2021, the developer recruited seven students from Tuskegee University's Taylor School of Architecture and Construction Science (TSAC) for paid internships on the job site, learning from professionals in the construction industry while also working with the Birmingham Public Library to assist in development of a mobile library resource. Ultimately, historic tax credits were the incentive leveraged to bring the subsidy needed to keep rents at a minimum. Without that subsidy and OZ equity working in tandem, the deal would not have happened - or would only have happened as another market-rate condo deal.

Case Study #5

Rural Grocery Store Revitalization

Livingston, AL

City Population: 3,192
Census Tract: 01119011300
Median Household Income: $24,000
Poverty Rate: 31%
Project Details: 20K+ sqft Supermarket Renovation
Project Cost: $1.4M
Incentives Leveraged: CDFI Zero Interest Loan-CRA Motivated Lending
Incentives Explored: HFFI Grant Funding
Impact: Improving Food Access in a Rural, Economically-distressed County; 10-20 Jobs Created

Livingston is the largest community in Sumter County and neighboring Greene County, and an economic anchor for the western part of the state. The University of West Alabama (UWA) in Livingston is Sumter County's largest employer and a major economic driver. In 2018, UWA opened University Charter School (UCS), the first rural charter school in the state. More than 70% of Sumter County's residents are black or African-American, and the charter school is the first truly integrated school to operate in the county for decades. UCS has grown substantially over the last five years, and relied upon New Markets Tax Credits to fund a substantial portion of its new $32M campus, which kicked off construction in 2023.

Like many rural places with a dispersed population and high poverty rates, Livingston has difficulty attracting and retaining quality retail, a challenge that began with the construction of the I-59, which pulled retail to larger markets. For about 20 years, a small Walmart dominated the retail sector, bringing jobs but driving legacy retail in the historic downtown out of business. Then Walmart closed in 2005 to facilitate the opening of a Supercenter 30 miles away, dealing an economic blow for Livingston in the form of lost jobs and tax revenue. Fortunately, a locally-owned independent grocery store called the Market Place opened two years later in the property vacated by Walmart and became a flagship store for Sumter and Greene Counties.

By 2020, the Market Place was experiencing a sustained decline, with sales revenue shrinking by 30% between 2015 and 2020. This was of serious concern, because the Market Place serves a broad geography where generational poverty, food insecurity, and poor health outcomes are sustained challenges for residents. With a poverty rate of 31%, Sumter County is one of the poorest counties in the state. Nearly 20% of adults and 32.5% of children in the county experience food insecurity, and 23% of residents receive SNAP benefits, according to data compiled by Alabama Possible.[15] As the Market Place declined, many residents began regularly driving 30-50 miles to Demopolis, Tuscaloosa, and Meridian, MS, for groceries, meaning that those who couldn't were most impacted by the store's decline in quality. Improving this store (and ensuring its survival) was important for ensuring quality food access, preserving quality of life for residents of Sumter and Greene Counties, and retaining local tax revenue.

A partnership developed between the UWA's Division of Economic and Workforce Development and OPAL focused on developing a data-informed strategy to stabilize the store. Although Livingston was experiencing high rates of retail leakage, the

Market Place remained the most frequented local grocery store for residents, claiming far more of the market than a local CashSaver and two discount dollar stores. With this data, the team reached out to regional grocers seeking a new owner for the Market Place, ideally one able to address deferred maintenance and return the store to profitability.

In 2021, the Market Place was purchased by Mitchell Grocery Corporation, a family-owned business based in Albertville, AL, attracted by the potential to capture a portion of Livingston's nearly 50% retail leakage. Mitchell made initial investments to expand inventory, hire staff, and make modest equipment upgrades. To secure gap financing for renovations and equipment upgrades, OPAL introduced the project to HOPE Credit Union, a Community Development Financial Institution (CDFI) based in Jackson, MS with an explicit commitment to invest in underserved communities in the Deep South. OPAL helped Mitchell develop the materials for underwriting, and in 2020, HOPE closed on a sizable zero interest loan to support continued revitalization of the store and its return to profitability.

The two Livingston deals offer an interesting contrast from an incentives perspective. The $32M charter school was in many ways a perfect fit for NMTCs because of its location, its population, base, and its clientele (and for a CRA-motivated bank loan from SouthPoint Bank to complete construction). While the grocery store sits less than a mile from UCS and serves the parents of the same population, its price tag - at less than $1M - made it infeasible for NMTCs; but its focus on food access made it a perfect fit for national CDFIs with access to HFFI dollars. Neither deal, however, worked as an OZ investment (despite the fact that both were located in an Opportunity Zone) because one was a nonprofit institution (and as a result could not take on equity investors) and the other (Mitchell Foods) did not have a capital gain event to facilitate its investment.

Retaining quality grocery stores is an enduring challenge for the 17 counties of Alabama's Black Belt region, which rank poorly across major indices of economic well-being and report some of the worst public health outcomes in the nation. This project shows how a regional banking system with CDFIs committed to equitable lending can play a critical role in making independent grocery stores a value proposition for communities overlooked by national or regional chains.

Case Study #6

Regional East Alabama Logistics (REAL) Park

Macon County, AL

County Population: 19,500
Census Tract: 01087231500
Median Household Income: $38,003
Poverty Rate: 23%
Project Details: 168K sqft Class A Speculative Industrial
Project Cost: $17.6M
Incentives Leveraged: OZ Investment, NMTC Allocation, USDA Loan Guarantee for Public Infrastructure
Impact: 100+ New Jobs, Private Investment in a Distressed Census Tract

Macon County is a rural, underserved county in Alabama's Black Belt region, formerly a center of cotton production, where population has been steadily declining for decades. Home to the historic Tuskegee University and site of the training of the Tuskegee Airmen in 1940, Macon County is a majority-minority county where 80% of residents identify as African American. Although neighboring Lee County has experienced decades of double-digit population growth, fueled by Auburn University and new advanced manufacturing plants, Macon County has struggled to diversify its economy. With a median household income of $35,450 (ACS 5-yr) and a poverty rate of 23%, the county lacks the revenue to produce strong incentive packages to attract new industry.

For these reasons, Joe Turnham, Director of the Macon County Economic Development Authority (MCEDA) describes the new Regional East Alabama Logistics (REAL) Park as a game-changing project for Macon County. In early 2022, Farpoint Development acquired a 683-acre turf farm to facilitate a multi-phase, 6M SF Class A industrial development that could bring thousands of permanent jobs and millions in private investment to

Macon County in the coming decades. REAL Park is immediately accessible to I-85, a major corridor for advanced manufacturing in the Southeast, and strategically positioned between two major automotive manufacturing plants - the Hyundai Motor Manufacturing Alabama (in Montgomery, AL) and Kia Georgia (in West Point, GA). Its proximity to Auburn University and Tuskegee University presents opportunities for applied teaching, research, and training for high quality jobs.

Turnham says the project "almost died 1,000 times," but proved successful because of unprecedented cooperation between regional entities and a team of impact-oriented partners. This team includes local property owners Wayne and Jimmy Bassett, who own and operate the turf farm and were open to selling some of their property for industrial development, and Farpoint Development, an impact-oriented commercial real estate development firm (led by an Auburn graduate) with primary offices in Asheville, NC and Chicago, IL.

In 2020, OPAL began working with MCEDA and the developer through its Community Growth Accelerator program to strategize the capital stack for the "kickoff project" at REAL Park - a 168K SF industrial warehouse (called "Building 100") designed to provide move-in ready space for industry and put REAL Park "on the map." At the time, OPAL was also in the process of forming a wholly-owned for profit benefit corporation subsidiary called OPAL Investments, BC that would raise the OPAL Fund, a nearly $18.5M impact-oriented qualified opportunity fund.

OPAL completed its OPAL Fund raise in 2021, and in 2022, it became the lead equity investor in Building 100. A construction loan made by community development corporation of Alabama-based Regions Bank formed another critical piece of the capital stack and also helped the financial institution meet its Community Reinvestment Act obligations to invest in projects that will impact low-to-moderate income geographies or demographic groups. Without these two incentives working together, the deal would never have come to fruition.

Building 100 immediately attracted interest from manufacturers looking for move-in ready space along the I-85 corridor (many of whom would have never otherwise looked at locating in Macon County). As of the summer of 2023, the project has multiple LOIs that would, if they matriculate into leases, take up the full project and immediately create dozens of new jobs (with the potential for hundreds in just this first building in 2024 and 2025). These strong tenant discussions have unlocked NMTC allocation for the project, which has received strong interest from CDEs (led by United Bank Community Development) who remained on the sidelines while it was purely a speculative building. Much like the HTC allocation for Market Lofts on 3rd allowed for "workforce housing"-level rents to residential customers, the NMTC allocation on Building 100 will allow Farpoint to offer more competitive lease rates to industrial customers. This will help land much-needed job-creating tenants for Building 100.

Looking more broadly at future development of REAL Park, local roads capable of sustaining heavy loads, broadband, site specific water and sewer infrastructure, and an electrical substation are all necessary infrastructure to attract and support tenants. The Macon County Economic Development Authority and Macon County Commission are working together to secure a USDA loan guarantee to finance improvements to the county road entering the park based on the expectation that ad valorem taxes will be a significant source of new revenue for the county over the next decade. Public investment in site development will need to be made over the next decade to support the continued build-out of REAL Park.

MCEDA and the Macon County Commission have explored several state and federal grant funding sources to support these infrastructure investments, but most public grant funding for economic development requires a signed lease for a tenant with projected job creation numbers. As a result, a speculative project is ineligible for state Community Development Block Grant (CDBG) funding or US Economic Development Administration (US EDA) grants. The development team for Building 100 had to front these costs themselves, meaning - absent the NMTC subsidy - the project would have had to charge higher lease rates, frustrating its ability to attract tenants and create jobs. Our recommendation, to facilitate transformative economic development projects like this one, is for a small set aside of CBDG, US EDA, and/or US DOT Industrial Access grant funding to support rigorously underwritten, community-supported speculative developments in underserved geographies -

particularly ones that can show multiple partnerships and the support of a regional market expert.

REAL Park is a unique example of how OZ investment paired with local, state, and federal investment is delivering a transformative job creation project to an underserved rural county that has consistently lost population and jobs for decades. MCEDA estimates that approximately 3,000 of Macon County's 18,800 residents leave the county daily for work. By developing this park, MCEDA and its partners hope to see thousands of jobs created over the next decade in one dense location, generating new employment opportunities for local residents and a significant tax base to support a range of local public services. Ultimately, Turnham says he hopes this site becomes one of the one of the best places to work in the region and is actively exploring the potential for a range of services for workers including onsite career technical training, child care, and transportation.

Case Study #7

The Hardwick

Birmingham, AL

Census Tract: 01073004502
Median Household Income: $17,400
Poverty Rate: 34%
Project Details: 60K sqft Mixed Historical Revitalization and Adaptive Reuse of a Dormer Industrial Site
Project Cost: $28.3M
Incentives Leveraged: OZ Investment, State Historic Rehabilitation Tax Credits, Federal Historic Revitalization Tax Credits
Impact: Historic Revitalization, Job Creation, and Urban Placemaking

In 2015, the Rotary Club of Birmingham raised funds to transform a vacant railroad right-of-way, or "cut," on Birmingham's First Avenue South into a landscaped urban walking trail, which now connects this neighborhood to an urban park and other green spaces across the city. To the north is the historic downtown city center and to the south lies the University of Alabama Birmingham, a growing research university with a nationally-ranked hospital and medical school. The award winning Rotary Trail has brought increased foot traffic, improved stormwater management, and new investment to a place formerly defined by vacant industrial sites and large warehouses. A handful of architectural and design build firms and residential infill have created a unique sense of place for this neighborhood.

The local development team at Centennial was drawn to the potential for the vacant Hardwick property to support this neighborhood's continued transformation. Constructed in 1922 as a mercantile, The Hardwick building is over 100 years old and served several purposes before becoming a steel bending facility in the 1970s. Centennial (formerly Bayer Properties) had previously executed the multi-phase development of The Summit, an upscale open air shopping center, and historic rehabilitation of the Pizitz downtown department store. The development team was seeking another opportunity to contribute to Birmingham's continued revitalization. Bringing The Hardwick back into service while preserving its unique character would enhance the Rotary Trail and encourage connectivity with a development to the east, where a former Dr. Pepper syrup and bottling plant has become a vibrant complex of restaurants, retail, and office space. The project, designed by local firm Williams Blackstock, will preserve as much historic material as possible and a highly efficient HVAC system will contribute to sustainability. Light wells, skylights, and patios encourage connectivity with the outdoors. Bioswale landscaping installations with native species in the parking lot will reduce impact of storm runoff.

The Centennial team hired Opportunity Alabama (OPAL) as a consultant, based on the organization's experience building complex capital stacks and leveraging Opportunity Zone investment. At the time, a for profit benefit corporation subsidiary of OPAL was also raising the nearly $18.5M impact-oriented QOF, The OPAL Fund, and beginning to underwrite projects for investment. The developer talked to several regional and national impact funds, but ultimately needed a partner with a more specific understanding of Birmingham's neighborhoods and their local needs. In 2022, OPAL Fund closed as the lead OZ investor, and a second investor with personal ties to Birmingham brought additional equity to the project.

The Hardwick secured subsidy through the Alabama Historic Rehabilitation Tax Credit and the Federal Historic Revitalization Tax Credit programs. Local bank ServisFirst, the project's lender, purchased the federal historic tax credits. The pandemic created significant delays in the National Park Service's (NPS) review process and the project has incurred additional costs in preserving the historic character of the building; but historic preservation is central to the vision for the project and historic tax credits were essential for making the deal viable. The developers were not sure if the project could qualify for New Market Tax Credits and chose not to pursue the incentive given the cost and complexity of the process.

The project is adjacent to a major rail line that runs through downtown Birmingham, and its proximity to Norfolk Southern's right-of-way required participation from multiple stakeholders to ensure the site could accommodate this historic adaptive reuse project. The developer credits the City of Birmingham with being an aligned partner and says local incentives were critical for the project's success. The Downtown Redevelopment Authority approved a sales tax rebate on construction materials for the project, and City Council approved a sales tax share back. Centennial was further able to negotiate a complex land agreement involving purchase, lease, and land swap - with Norfolk Southern and the City - to ensure the project secured the required amount of parking.

The Hardwick has attracted regional interest with Nashville-based Epice restaurant and Georgia-based Ballard Designs and Lapeer Steak & Seafood signing leases for new job-creating locations, anticipating continued growth in the Birmingham market. The development team and its investors are working to build connectivity with the Rotary Trail, as well as a complex network of urban trails that help to unite the city's different neighborhoods. The team partnered with REV Birmingham, a place-based revitalization and economic development nonprofit, to strategize inclusive programming for community spaces along this part of First Avenue North. The developers have created a comprehensive plan for ways to collaborate with the city and build an inclusive arts and wellness culture for the neighborhood.

Alex Flachsbart & Development Team at Market Lofts on Third Construction Site

Historic St. James Hotel in Selma, Alabama

External Progress - Hardwick Project

CHALLENGES ADDRESSED

Over the last five years, OPAL has seen just about every challenge that a community-serving project can confront. We distill these challenges (some of which are highlighted in the case studies above) in this section, and then propose a series of policy recommendations to address them in the following section.

(1) Local Needs & Realities vs. National Mapping

One of the problems with leveraging federal place-based programs is that geographic quirks specific to certain communities can frustrate the broader intent of the place-based program. In Selma, for example, two projects (located less than three blocks from each other) are being advanced through one coordinated financing strategy but both cannot qualify for OZ investment due to an inconvenient census tract boundary, which splits Selma's downtown in half.

In another example, downtown Eufaula, Alabama (pop. 13,000) is divided into five separate census tracts, each of which flares out for miles in different directions into the surrounding county. Downtown Eufaula is no more than 3 blocks by 6 blocks, but walk for those three blocks, and you walk out of an Opportunity Zone, into a severely distressed community, into a high net worth one, and then back into a severely distressed one - all depending on which side of Main Street you are standing on!

At a broader level, the inclusion of a particular neighborhood, college, or housing development in a census tract can have a significant impact on its "distress level" and therefore its eligibility for particular federal incentive programs. An otherwise high net worth and growing census tract with one public housing project or a college campus (where lack of student income significantly pulls down the tract's median income level) might appear to be distressed when it is not, making it eligible for federal incentives.[16] Alternatively, a distressed census tract can appear, based on aggregate economic data, to be high-income due to the presence of just a few high-income earners. In downtown Birmingham, for example, a redrawn census tract (2020) whose boundaries do not follow local residency patterns registers as high-income due to a large high-end loft complex, despite being otherwise severely distressed. The majority of this particular census tract covers Birmingham's historic Black business district, which has suffered decades of underinvestment; but, due to the redrawing of this census tract, this area will now be ineligible for CRA-motivated bank investment. A rural census tract with a thriving rural hospital meeting critical needs for LMI residents can register as high-income due to a handful of well-paid hospital employees.

In our recommendations, we propose a structure that could facilitate more local engagement around what federal incentives apply where to overcome the challenges these quirks of geography pose to place-based incentive implementation.

(2) Incentive Structure, Timing, & Complexity Issues

Federal incentives do not always align with each other or with needs on the ground, and doing great deals is more difficult (and could become increasingly difficult) as a result.

In the NMTC space, most practitioners will admit the program "is a foggy place, even for those who think they know where they are going" (in the words of Jerry Lathan, the developer on the Heflin deal). Its complexity - and the very structure of the program itself - drives some of the transaction costs described above. That said, an entire industry has grown up around the existing NMTC structure, and because so many CDEs are affiliated with CDFIs or with CRA-responsible portions of banking institutions, a significant portion of the fees charged actually flow back to support engagement in low-income places. Indeed, from the community perspective, the biggest problem with NMTCs today is not whether the subsidy generated could be 25% vs. 20% of project costs - it is whether the subsidy will drop to 0% through Congressional inaction. Each year that Congress does not make the NMTC program permanent is another year that sponsors of deals in need of the greatest subsidy - but that will close 12-24 months from now - aren't sure whether their deal will get done (as with the Hardwick, where the sponsors chose not to pursue NMTCs for exactly this reason). We discuss a vehicle for fixing this issue in the recommendations section below.

On the Opportunity Zone front, complexity is not the issue. The OZ incentive presents a clear and simple structural path towards actual investment (which is how deals like Woodlawn Theatre can get done). Instead, one of the biggest criticisms of the incentive is that its structure - i.e., what investors actually receive in exchange for investment - is incompatible with the nature of many low-income community projects. Recall that there are two major tax benefits to OZ investment - (1) temporary deferral of capital gains tax on amounts invested into OZ funds (until 2026) and (2) permanent elimination of capital gains from the sale of the project in the distressed community (for investments held 10+ years). This incentive structure pushes investors towards prioritizing deals that will have the strongest chance to appreciate significantly over a 10+ year period. Many deals (like Livingston Marketplace or Adler Furniture) in distressed and rural communities will not have a high appreciation profile, and as a result are not well suited for OZ investors despite the critical importance of the program. Most discussions with potential OZ investors start with the attractiveness of deferring capital gains tax on an asset sale. If these investors could eliminate that capital gains tax for investing in critical community projects, rather than just deferring it, they would be far more motivated to invest in community-critical but low-appreciation deals. Most would even be willing to forgo the back side of the OZ benefit (forgiveness of capital gains taxes at exit after a 10-year period), allowing the government to recoup some of what it would lose through total capital gains forgiveness. However, because this would be such a powerful incentive, the bar for granting such up-front forgiveness should be set high. We discuss a potential implementation mechanism for this policy solution in our Policy Recommendations section.

One of the biggest needs in reducing the complexity of using place-based incentives is ensuring that each incentive actually works with its other place-based incentives - and with other incentives (like Historic or Low-Income Housing Tax Credits) as policy makers intended. Oddly enough, the greatest threat to this harmonious integration at present is CRA reform - and, specifically, the proposal to combine the lending test and the investment test. Under the old scoring system, community investment comprised 25% of the overall score and community lending comprised 50%. That 25% community investment requirement is what drives a significant percentage of the NMTC purchases that happen in the marketplace today (alongside public welfare fund investment into Opportunity Funds, like the Woodforest CEI-Boulous Opportunity Fund that invested in Selma). Under the new system, all community development financing activity would be assessed under one test that banks can meet either through lending OR through equity investment - and that would now only comprise 30% of the overall score.

This new scoring system marks a sea change for CRA regulation. Most banks have far more infrastructure for loan underwriting than they do for equity investment underwriting, and practitioners believe adoption of this weighted system with no differentiation between lending and investment could mean a mass bank migration away from tax credit investing and towards community development lending.[17] This could dry up the market for NMTCs as we know it, driving down credit pricing and dropping the actual value of the NMTC subsidy even further.

(3) Doing More Smaller Deals Well

At present, smaller and more rural deals are at a significant disadvantage when it comes to getting capital from place-based investment programs. Because of the complexity and transaction costs of NMTC, large deals (like REAL Park or University Charter School in Livingston) are possible, but most deals under $5M (like Livingston Marketplace) do not get done. Though the NMTC program prioritizes rural deals, it also prioritizes jobs - meaning that the most common NMTC allocations in rural areas go to large manufacturing facilities, not Main Street revitalization projects.

Bank CRA assessment areas create the same inherent bias against smaller, rural deals. Historically, assessment areas were driven by physical branch locations and/or provision of services to a particular geography. Unfortunately, this means that in rural areas without brick-and-mortar branch locations, there is little CRA responsibility, and thus less concentration on lending in those geographies further exacerbating the lack of access to capital caused by lack of banking services in the first place. This “CRA Desert” phenomenon is so pronounced that urban banks would, according to one study, be willing to pay over $1.20/credit in urban areas and under $0.85/credit in rural areas, primarily because of CRA motivation.[18] While CRA reform efforts have attempted to remedy this issue, it remains to be seen whether they have gone far enough.

OZs are perhaps the best example of an incentive already working to facilitate small deals (like Woodlawn Theatre) thanks to simplicity and flexibility. Unfortunately, many of those small deals (particularly in rural places) will have the same problem described above of lack of potential for significant appreciation. Low projected return profiles makes these deals less attractive for investment when placed against their competitors in other geographies. With a realignment of OZ incentives to allow for elimination of front-end capital gains tax (in conjunction with a high-bar local filter), we could see even more low-appreciation rural deals get done.

(4) Creating Better Data Reporting Infrastructure

Practitioners need cogent, easy-to-access data on local federal incentive utilization. At present, each federal place-based incentive has a completely different information collection and reporting regime. The NMTC program sets the highest standard, with complete program transparency and community benefits agreements that require deals receiving tax credits to track everything from jobs created to indirect community impact for years after an investment. Opportunity Zones are the opposite, with virtually no reporting requirements associated with the incentive. CRA tows a middle ground, with new reforms imposing substantive public reporting requirements on large banks but minimal reporting requirements on smaller ones.[19]

Given the significant variance in how these three incentives operate, there should be some variance in what can be reasonably requested from program participants. It makes sense that large banks and deals receiving direct subsidy via NMTCs should be subject to higher reporting requirements than, for example, the person with the $50,000 gain investing in an OZ project in their rural community. However, for effective policy evaluation, we need more uniform reporting about how much investment is happening, where that investment is happening, and what types of projects that investment is creating.

POLICY RECOMMENDATIONS

We advocate for two parallel solutions to the challenges these case studies raise: one wholesale, one piecemeal.

Recommendation 1

Empowering Boots-on-Ground "Community Capacity Builder" Organizations.

Through all of our work over the last five years, one constant has emerged: empowering a locally-focused, boots-on-the-ground organization with the ability to connect a pipeline of potentially catalytic projects to investors and lenders is the best way to improve program utilization. In some cases, this organization is a chamber of commerce or a local economic development organization located in a distressed community. In others, it is a governmental entity, like a development finance agency or a port or industrial authority, with a portion of its mission that focuses on distressed communities. In others, it may be a private nonprofit (like OPAL) that has a targeted mission to serve distressed communities. These kinds of organizations deeply understand community needs and have intrinsic local support because of their public or nonprofit status. They are typically aware of (and, in many cases, are the sponsors of) the most impactful projects happening in the geography they serve. And - with the right incentive structures in place - the most successful of these organizations could pull local dollars into their local deals through relationships with local capital partners.

These local "Community Capacity Builders" exist to promote private investment in exactly the kinds of deals that CRA, NMTCs, and Opportunity Zone investing are designed to support. Given their interest in development finance, many of these market makers already are (or are on a pathway to becoming) CDFIs or CDEs. Many more, however, are not, and never will be either because they (1) lack desire or capacity to become investors themselves (a necessary predicate for CDFI status) or (2) lack interest in NMTCs (a necessary predicate for setting up a CDE).

These organizations - like OPAL, which is neither a CDE nor a CDFI - are at the front lines of place-based economic development in distressed communities. They deserve the kind of special recognition that CDFIs and CDEs receive under CRA, and their projects deserve priority in allocating incentive support. Validating and empowering these organizations with a federal designation could allow them to be integrated into the process for implementing existing place-based policies (from NMTCs and OZs to CRA) while making possible whole new policies to facilitate far greater local control and input into the allocation of subsidy and incentive. Recognition of effective CCBs could enable "federalization" (as in, decentralization) of more of the decision-making process around incentive allocation and capital aggregation. This could drive investment to deals that are critical for communities but that - absent local CCG intervention - might not score highly on nationally standardized NMTC criteria or be in a low-income CRA assessment area.

There are four essential characteristics of this new class of organizations:

- Have a primary mission of serving distressed communities (even if they technically serve middle- to high-income communities as well, as in the case of a city-wide or regional development finance agency);
- Maintain accountability to residents of those distressed communities (through nonprofit status, public entity status, board service or programming);
- Have a process in place for identifying and vetting local projects that incorporates feedback from both the community and the capital markets (like the Community Growth Accelerator for OPAL), and maintaining a database of those projects; and
- Maintain relationships with local, regional, or national capital providers that could invest in the organization's pipeline.

The good news is that there is already a mechanism to recognize the local CCB organizations that have the four characteristics above. Almost every one of them would qualify under the relatively low bar set by the CDFI Fund for CDE certification.[20] At this point, however, the only reason to be a CDE is to pursue allocation of NMTCs, which many CCBs do not have the time or capital to pursue. However, if that changed - if CDE status suddenly meant that grant and technical assistance dollars could be made available and banks could receive automatic CRA credit for investing in deals sponsored by the CDE, etc. - then a whole new class of distressed community intermediaries could surface, ready to advocate for quality deals in the local markets they deeply understand.

Recognizing & Designating Community Capacity Builders. We recommend that the CDFI Fund recognize local market makers as a special brand of

CDE, called in this report the local Community Capacity Builder (CCB) organization. Critically, the CCB would not need to be a financing entity and would not need to be capable of deploying NMTCs (or any other form of capital). Instead, it would be required to have the following, in addition to the typical CDE standards:

- A demonstrable local deal identification and vetting process that solicits local feedback, with a 2-3 year track record. CCBs would draft and submit to the CDFI Fund a comprehensive plan for how this process works, update it on an annual basis, and publish deliverables mandated by plan for any deals that emerge from it. One necessary element of that plan is an explanation of how the CCB intends to provide capacity-building assistance to the deals within its pipeline (particularly for those sponsored by or that would materially impact disadvantaged or historically underrepresented groups).[21]
- A local, regional (which can include more than one state if focused on an MSA), or statewide focus - not a multi-state or national focus - to allow for better understanding of and proximity to deals in a particular geography, with letters of support from capital providers within its geography indicating their interest in investment in pipeline deals if "CCB" status is approved. In geographies where there are multiple organizations working to support underserved communities, CCB application guidelines should strongly encourage joint submissions via MOU or similar partnership agreement, and tie benefits discussed below to clear evidence of regional collaboration. [22]

If CDE status suddenly meant that grant & technical assistance dollars could be made available & banks could receive automatic CRA credit for investing in deals sponsored by the CDE - then a whole new class of distressed community intermediaries could surface, ready to advocate for quality deals in the local markets they deeply understand.

Once designated by the CDFI Fund, each CCB would post "approved deals" that emerge through its process to a central database (maintained by the CDFI Fund or a CCB trade association). Launching this process would require new resources for the CDFI Fund, which we strongly encourage.

Empowering Community Capacity Builders. Once they have emerged from the designation process, CCBs should have the power to enhance (not be a barrier to obtaining) the following incentives:

- **NMTC Prioritization.** CCB deals should receive significant "bonus points" on NMTC applications (even if not in severely distressed or rural LICs). In addition, to encourage CCBs to pursue NMTCs, the CDFI Fund should set aside some percentage of NMTC allocation for first-time "CCBs" that have a partnership agreement with a strong national multi-award year CDE and/or heavily incentivize CDE to CDE transfers where transferee CDE is a CCB.
- **CRA Certainty.** All CCB deals posted to the portal would receive automatic qualification for Community Reinvestment Act credit (regardless of mode of bank participation - direct or indirect, lending or investment, in or adjacent to assessment area).
- **OZ Enhancement.** While the existing OZ incentive cannot function effectively if new gatekeepers are added, an enhanced OZ incentive that allows front-end tax elimination could layer well with the CCB concept. We recommend that any OZ investor in a CCB-portal posted deal could - at the end of their deferral window (currently 2026) - elect total forgiveness of capital gains from their original investment when they exit their investment 10+ years from now (i.e., extending deferral window for a few more years, then eliminating deferred gain). This would trigger a requirement to pay capital gains tax on any appreciation of their investment and depreciation recapture, which could replace some of the revenue lost through front-end tax forgiveness.

In addition, we recommend two major new policy initiatives unique to CCBs that would cut across all the place-based incentives discussed above:

- **Community Dynamism Fund.** We strongly recommend that Congress create and fund the kind of Community Dynamism Fund currently contemplated by the Opportunity Zones Transparency, Extension, and Improvement Act. In the bill, states receive block-grants to sub-grant to "boots on the ground" organizations that sound just like CCBs, who (in turn) use it on coordination, education, and investment activities; community-level capacity building; human capital; and even direct investment into deals (via creative financing mechanisms maintained by the CCBs).[23] This kind of working capital for CCBs to fund the years-long process to pull quality deals together does not exist anywhere else right now (outside of small CDFI Fund TA awards, which are limited to certified and emerging CDFIs). The OZ TEA would allocate $1 billion to state governments for sub-allocation to local groups like CCBs; we recommend a number closer to $3 billion, with $1 billion reserved exclusively for predevelopment and technical assistance and the remainder available for those purposes and creative deal- or fund-level subsidy.

- **Leveraging CCBs to Address Mapping & Eligibility Problems**. A huge part of why OZs, NMTCs, and CRA are so census tract dependent is because it is difficult to devise a "fair" but subjective system for determining project eligibility at the federal level. However, the advent of the CCB deal list might finally give community advocates their long-sought opportunity to rectify the eligibility problems caused by census tract dependence. Certified CCBs should be empowered to add a select number of projects that might not qualify for NMTCs, CRA consideration, or even OZ investment because of their location outside of a statistically distressed geography to their CCB-approved lists. These projects must be (1) located close to a distressed census tract (with proximity inversely related to population density - as in, the denser the population, the closer the deal must be to a qualified tract), and (2) have a community benefits agreement in place with the CCB that clearly establishes how the deal will benefit residents. Out of all the deals they nominate to their CCB-approved lists, CCBs would only be able to identify a small number of these "out of definition" deals (perhaps no more than greater of one deal or 10% of all selected). However, their nomination would make these projects eligible for CRA, NMTCs or OZ investment, even if existing program rules would otherwise render them ineligible.

One of the biggest benefits that the new infrastructure described above would provide is certainty for project sponsors that they are actually in a queue for an incentive. The unknowns for every development are legion, and very few developers can spend hundreds of thousands of dollars in predevelopment on the hope that a community-oriented deal will get the incentives it needs to proceed.

With all of this said, one critical caveat to this recommendation is that these new "CCBs" should be organic outgrowths of local movements around revitalizing distressed places, lifting up otherwise overlooked deals for potential investment. They should not assume the role of gatekeepers "screening" otherwise great deals within the community. This entire set of recommendations is written explicitly to empower "CCBs" to enhance incentives on otherwise eligible deals and create eligibility where quirks of geography foreclose it; nowhere do we suggest that these same entities be entrusted with saying that otherwise eligible deals should not receive incentives.

Recommendation 2

Make Minor Incentive Adjustments to Enhance Innovation, Efficiency, and Transparency.

Creating CCBs will require careful deliberation and new legislation. However, there are two existing legislative proposals that - if advanced today - could materially improve some of the problems highlighted in the issue synopsis above.

The NMTC Extension Act of 2023 (S.234, H.R.2539)[24] would finally create the certainty around the program needed for broader adoption by making it a permanent program at a $5B annual allocation. For this reason alone, we strongly encourage its adoption, as the certainty created by passage would allow for even more widespread adoption - and create the stability needed for a future discussion around what NMTC 2.0 could become. However, there is another (more technical) reason to pass the Extension Act: it contains a provision that would expand the NMTC purchaser pool to anyone subject to the alternative minimum tax, meaning high net worth individuals could invest just like banks can today. Because many NMTC purchasers do so for CRA credit that counts towards the investment test - a test which would be eliminated under current CRA reform proposals - expanding the purchaser pool is critical to maintaining demand for NMTCs once the program is permanent.

The Opportunity Zones Transparency, Extension, and Improvement Act (introduced in 117th Congress, reintroduction pending) would revolutionize and substantially improve Opportunity Zones by making the following changes:

- Eliminating the small percentage of outlier high-income census tracts designated as Opportunity Zones and allowing for an equal number of low-income tracts to be designated as OZs by state officials; [25]
- Extending the incentive's life cycle and making up for regulatory delays by pushing the window for how long capital gains deferral lasts until 2028 (currently set for 2026);
- Creating a $1B version of the Community Dynamism Fund concept explained in Recommendation 1 above; and
- Adding much-needed impact reporting and evaluation requirements to the incentive.

In addition, agencies like the Department of the Treasury and the CRA regulatory bodies could take a number of actions that would immediately improve program efficacy. For example:

- ***OZ Reinvestment.*** Despite legislative silence on this point, Treasury has reiterated in rulemakings that any sales during the 10-year holding period would be taxed as capital gains, even if 100% of those sale proceeds are reinvested into other OZ investments within a six-month window. This interpretation has cut off whole asset classes from systematic OZ investment. Because of this rule, a Qualified Opportunity Fund cannot invest in for-sale single-family housing; instead, a fund can only invest in single-family residential housing if it holds the housing for 10+ years, precluding properties that give renters a pathway to homeownership. It also strongly discourages investment in startups, where most venture funds work on a model of holding portfolio companies for 3-7 years before they are acquired or go public. Allowing QOFs to reinvest capital gains from interim sales into new OZ investments directly fulfills original legislative intent by driving greater capital flows into distressed places - and allows for a far more diverse set of investments in those places. This alone would open doors to a multitude of creative new investment strategies (including single-family housing, operating business investment, etc.).
- ***NMTC Small Deal Prioritization.*** The CDFI Fund should double down on recent efforts to prioritize smaller deals and creative investment structures, and convene practitioners and elected officials to discuss ways to streamline the program as reform initiatives on other incentives (e.g., CCBs, the OZ TEA Act) move forward.
- ***CRA Reform Proposals.*** The Federal Reserve, OCC, and FDIC should issue a final rule that keeps separate investment and lending tests to ensure that banks are still adequately motivated to make equity investments in all the incentives that drive our work. In addition, providing some strong incentive for banks to invest in rural deals and in smaller deals to meet community lending and investment obligations (even if doing so means going outside its assessment area) is paramount. Finally, just as expanded NMTC purchasers could help drive demand (and improve pricing) in that program, an expanded CRA user base could do the same for multiple verticals of community development. Credit unions, loan funds, and dozens of other organizations in the financial services space that compete directly with banks and provide financial services to distressed communities have none of the same obligations as banks.[26] Broadening CRA community investment requirements to those organizations could provide a flood of new investment capital for impactful deals in underserved places.
- ***Data and Transparency.*** Data should be more readily available and easily accessible regarding (1) geographies receiving investment from CDFIs, (2) bank direct lending and investment into distressed tracts that generate community development test credit under proposed CRA reforms, and (3) geographies receiving OZ investment (once OZ TEA is passed and reporting requirements are added). Building a federal interagency data portal where multiple types of community investment are reported and aggregated in one dashboard would be game-changing for project sponsors looking for investment and for community practitioners deciding where to focus their efforts. The resources and interagency collaboration required to make this work could be a challenge, but recent examples of data synthesis efforts within agencies (like the Economic Development Administration) could provide some instruction on how to marshal the effort.

CONCLUSIONS

The number and extent of federal tools to encourage capital investment and bring subsidy to meaningful projects in underserved markets is a testament to the decades-long commitment of policy makers to facilitate equitable and inclusive investment across the country. As practitioners, we are working to leverage incentives like OZ investment, NMTCs, CDFI Fund programs, and CRA-motivated lending to turn the tide of disinvestment in Alabama, bringing new sources of capital to some of the best projects we are seeing statewide. In the process, we are creating new pathways for Alabamians - institutional investors, foundations, property owners, developers, and individuals - to invest in their own communities and build stronger, more resilient local economies. This report and the case studies herein show how federal policy is working on the local level, while also citing the significant challenges Alabama's low-income places continue to face in leveraging place-based incentives. Our policy recommendations are intended to inform the national conversation with suggestions for how to heighten the impact of these policies while closing the existing gap between the stated goals of federal place-based policy and the communities that most need this assistance. At the same time, we hope our case studies inspire practitioners and policy makers at the local, regional, and federal levels with evidence of the transformative power of these incentives and clarity about the need to develop even more. Every day, federal incentive programs are helping some of our most economically-disadvantaged geographies reshape their economic destinies through the kind of high-quality commercial real estate projects that create jobs, support small businesses and new industries, and generate new or better housing that meets the needs of local residents. With a few adjustments, they could be even better at fulfilling this mission.

CGA Site Visit in Talladega, Alabama

END NOTES

1 Most real estate deals will not generate income until well into their operational life cycle, and developers typically have access to other tax benefit programs that shield income tax liability, including interest expense and depreciation deductions. Furthermore, because most real estate deals are held as partnership assets, their investors - even though many are high net worth - are able to enjoy these same benefits on their federal taxes (and have enough loss carryforwards, charitable donations, and other deductions to offset their income tax liability without new credits). As a result, tax credits awarded to a project can go totally unused, unless the developer(s) identify a third-party to purchase them.

2 "CDFI Certification," CDFI Fund, accessed June 1, 2023, https://www.cdfifund.gov/programs-training/certification/cdfi.

3 "CDE Certification," CDFI Fund, accessed June 1, 2023, https://www.cdfifund.gov/programs-training/certification/cde.

4 Michael Novogradac and Brad Elphick, NMTC Working Group, "Comments on GAO Reports (GAO-11-318SP) and (GAO-10-334)," April 4, 2011, Novogradac, page 2, accessed June 1, 2023, https://www.novoco.com/sites/default/files/atoms/files/nmtcworkinggroupletter_gao-reports-grant_040511.

5 See SB Friedman, "New Market Tax Credit (NMTC) Program Summary," 2008, accessed June 2, 2023, https://sbfriedman.com/sites/default/files/download/NMTC%20Guide%202018_1.pdf.

6 The Economic Innovation Group, which has evaluated the demographics of Opportunity Zones, found that, between 2015 and 2019, these census tracts had an average poverty rate of 26.4% (compared to 13.4% nationally) and median family income of $44,900 (compared to $77,300 nationally). Life expectancy for residents of OZs is more than 3 years lower (75.2 years) than those not living in OZs (78.6 years). Thirty percent of prime working age adults living in OZs are not working (versus 21.5% nationally), and about 1 in 8 homes are vacant on average. This data is based on the 2015-2019 ACS. "Opportunity Zones Facts & Figures," Economic Innovation Group, accessed May 21, 2023, https://eig.org/opportunity-zones/facts-figures/.

7 To qualify, a deal typically needs to (1) be located in an Opportunity Zone, (2) be acquired after 2017 from an unrelated party, and (3) be new construction on a vacant site or a major rehabilitation of an existing structure. See IRC 1400Z-2(b) for rules regarding capital gains invested in OZs. Internal Revenue Code of 1986 (Pub. L. No. 99-514, § 2, 100 Stat. 2095 [Oct. 22, 1986])

8 "Treasure CRA," National Community Reinvestment Coalition, accessed May 14, 2023 https://www.ncrc.org/treasurecra/.

9 For more on the current and proposed percentage assessment regime for CRA regulation, see Peter Lawrence, "New Proposed CRA Rules a Marked Improvement, But Concerns Still Remain for Community Development Tax Incentives," Novogradac, June 14, 2022. See also "Banker Resource Center: Community Reinvestment Act," Federal Deposit Insurance Corporation (FDIC), updated Nov 10, 2022, accessed June 1, 2023, https://www.fdic.gov/resources/bankers/community-reinvestment-act/.

10 See Selma Case Study below, specifically investment by the Woodforest-CEI Boulos Opportunity Fund.

11 "Distressed Communities: Key Findings," The Economic Innovation Group (EIG), accessed April 23, 2023, https://eig.org/distressed-communities/key-findings/.

12 "State Fact Sheet Alabama: An Annual Snapshot of CDFI Program Awardee Activity in Alabama (FY 2020)," CDFI Coalition, 2023; "State Fact Sheet Louisiana: An Annual Snapshot of CDFI Program Awardee Activity in Louisiana (FY 2020)," CDFI Coalition, 2023; "State Fact Sheet Mississippi: An Annual Snapshot of CDFI Program Awardee Activity in Mississippi (FY 2020), CDFI Coalition, 2023.

13 Selma is one of the many communities where the Opportunity Zone boundaries do not follow local neighborhood patterns. While the Adler Furniture building is eligible for OZ investment, the Harmony Club located three blocks away does not. This is because the OZ in Selma splits Water Avenue in half, so deals on its eastern portion qualify for OZ investment but deals on the west side do not. The Harmony Club, which is the larger, more expensive project of the two, and the Adler Furniture building are both located in the same severely distressed area of Selma.

END NOTES

14 The Alabama State Legislature created the state's first historic preservation tax credit program in 2013, which helped catalyze 52 projects and $334 million in investments between 2013 and 2016. The program expired in 2017 (per its enabling act) but was quickly renewed in 2018 and was made into a refundable credit - one of just three refundable credit programs in the U.S. - meaning it does not require a complex syndication structure to realize its value. It has been a critical tool for revitalization of properties in historic downtown main street districts in large and small communities across the state. See John Sharp, "Alabama Historic Tax Credit Program Fuels Growth, Sparks Debate," Al.com, March 21, 2021, https://www.al.com/news/mobile/2021/03/alabama-historic-tax-credit-program-fuels-growth-sparks-debate.html and John Sharp, "Which Properties Benefitted from Alabama's Historic Tax Credit, Al.com, Feb 17, 2016, https://www.al.com/news/mobile/2016/02/which_properties_benefitted_fr.html.

15 "2022 Barriers to Prosperity Dashboard," Alabama Possible, 2023, accessed June 10, 2023, https://public.tableau.com/app/profile/alabamapossible/viz/2022BarrierstoProsperityDataDashboard/Story1.

16 Many of the critiques around OZs have focused on this point, and a corollary point around adjacent census tracts. In designating OZs, each state could adopt certain non-qualified census tracts as OZs if they were adjacent to OZs and met certain criteria. While that helped some geographies avoid the Eufaula problem highlighted above, it also opened the door for abuse. The OZ Transparency, Extension, and Improvement Act discussed under Recommendation 2 below solves this problem.

17 Dafina Williams and the Opportunity Finance Network, "Letter to the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of the Comptroller," August 5, 2022, accessed June 10, 2023, https://cdn.ofn.org/uploads/2022/08/05113338/OFN-Comments-to-Regulatory-Agencies-on-Reforms-to-the-Community-Reinvestment-Act_August-5_Final-2022.pdf.

18 Harvard, Cassandra Jones, "The Community Reinvestment Act, Banks, and the Low Income Housing Tax Credit Investment," Journal of Affordable Housing & Community Development Law, 26, no. 2 (2017): 415-435.

19 The proposed reform will only subject larger banks to data collection, limiting the scope of information available to policy-makers and practitioners about how CRA is motivating lending and investment in LMI. Like the authors of the public comment report published by Urban Institute and entities like the National Reinvestment Coalition and Opportunity Finance Network, we believe more robust and comprehensive data collection should be prioritized. See Laurie Goodman, et al, "Community Reinvestment Act Modernization: Comments on the May 2022 Notice of Proposed Rulemaking," Urban Institute, August 2022, https://www.urban.org/sites/default/files/2022-08/Community%20Reinvestment%20Act%20Modernization_0.pdf.

20 See pages 13-14 of this report for a discussion of how the US Treasury Department's CDFI Fund certifies CDFIs and CDEs.

21 These process plans would be publicly available, and could be used to encourage better collaboration, quicker formation of best practices, and a "cohort of practice" by and among disparate groups that have previously worked in isolation in their respective geographies.

22 The application process should require organizations serving larger geographies - e.g., whole cities or counties, metro areas or above - to do their own diligence on potential partners and strongly prioritize applicants that have memorialized those partnerships. In a large metro area, a revolving loan fund, a local housing-focused, capacity-building nonprofit, and a CDC that all focus on the whole metro area might enter an MOU to share services and list projects together. They would apply jointly, and would be warned through the application process that if each applied individually, they may not be approved. A single neighborhood-focused CDC may still apply independently, as its geographic coverage does not overlap with other potential applicants, but the scoring system should still encourage a joint application.

END NOTES

23 To review the proposed legislation, and the specific proposal to create a Community Dynamism Fund, see Text - S.4065 - 117th Congress (2021-2022): Opportunity Zones Transparency, Extension, and Improvement Act." December 13, 2022, 38-43. https://www.congress.gov/bill/117th-congress/senate-bill/4065/text. For an overview of all elements of the OZ TEIA bill see Economic Innovation Group, "EIG Applauds Bipartisan Opportunity Zones Improvements Bill," April 7, 2022, accessed May 30, 2023. https://eig.org/eig-applauds-bipartisan-opportunity-zones-improvements-bill/.

24 The New Market Tax Credits Extension Act of 2023, 188th Congress, 1st Session, introduced February 2, 2023, https://www.congress.gov/118/bills/s234/BILLS-118s234is.pdf.

25 The OZ TEIA would eliminate any OZ with a median family income in excess of 130% of AMI, except if the non-student poverty rate is equal to or above 30%. State officials may add certain other tracts that do not meet policy intent (e.g., undeveloped swampland or graveyards) to this "disqualified tracts list," then designate an equivalent number of qualifying low-income census tracts as Opportunity Zones (after consultation with impacted local jurisdictions).

26 "Community Reinvestment Act Modernization: Reflecting Changes in Technology, Consumer Preferences and the Business of Banking," American Bankers Association, accessed June 1, 2023, https://www.aba.com/advocacy/our-issues/community-reinvestment-act-modernization.

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The Economic Innovation Group (EIG) has provided substantive feedback in the development of this report and helped to connect us with dozens of policy professionals working to improve the impact of OZs, NMTCs, and CRA bank regulation across the country. To further engage these stakeholders, EIG co-hosted a roundtable policy discussion in Washington, DC, where we shared our preliminary findings, case studies, and policy recommendations to Congressional staff, White House staff, federal agency officials, and other stakeholders. Congresswoman Terri Sewell's office provided additional assistance.

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