

# Opportunity Zones 101

## Opportunity Zone Basics

- Opportunity Zones are a new economic development program established by Congress to encourage **long-term investments** in low income communities across the US.
- The areas eligible for investment are spread all across the United States and are historically populated by minorities and those with low socio economic demographics.
- The program is currently set to run until December of 2026.
- Investors who have a realized capital gain, may make a long term investment into qualified projects in these areas, through an opportunity zone fund, in exchange for tax relief, and potential tax avoidance.
- Qualified projects must be substantially improved, ensuring investor dollars provide stimulus to these areas, through these such improvements.
- Most significant tax break in history, from an investor perspective.
- Economic development tool of the next 7 years, likely coming in three phases.
- Can be paired with other federal and state tax breaks, including but not limited to, the 1031 Exchange, New Markets Tax Credits, Low Income Housing Tax Credits, Renewable Energy Tax Credits, and Tax Increment Financing.



# Opportunity Zone Map

- There are over 8700 areas of the country which vary in size and are dubbed “opportunity zones”.
- A tool which benefits mostly wealthy investors can be used by local community leaders as a jumpstart for investment into their own neighborhoods.

## Designated Opportunity Zones Coverage Area





# Opportunity Zone Index – New Mexico

Albuquerque is home to one of the most attractive opportunity zone metropolitan areas in the country, ranked number 38, according to a recent opportunity zone index.

Rank	Metro Name	State	Score	Population	Population Growth	Retail Sales	Household Income	Home Value	Bachelor's Degree	Unemployment Rate
38	Albuquerque	NM	61.39	102,510	0.75%	\$110,849,500	\$45,015	\$163,056	14.05%	8.57%

Rank	County	State	Score	Population	Population Growth	Retail Sales	Household Income	Home Value	Bachelor's Degree	Unemployment Rate
29	Bernalillo County	New Mexico	76.30	70,162	1.24%	\$145,640,165	\$44,645	\$170,962	16.37%	6.82%

Rank	State	Score	Population	Population Growth	Retail Sales	Household Income	Home Value	Bachelor's Degree	Unemployment Rate
32	New Mexico	38	275,110	0.28%	\$86,040,194	\$42,929	\$149,647	12.15%	8.33%



# Opportunity Zone Index – Comparable Markets

Unranked: Amarillo TX, Tucson AZ, Colorado Springs Colorado

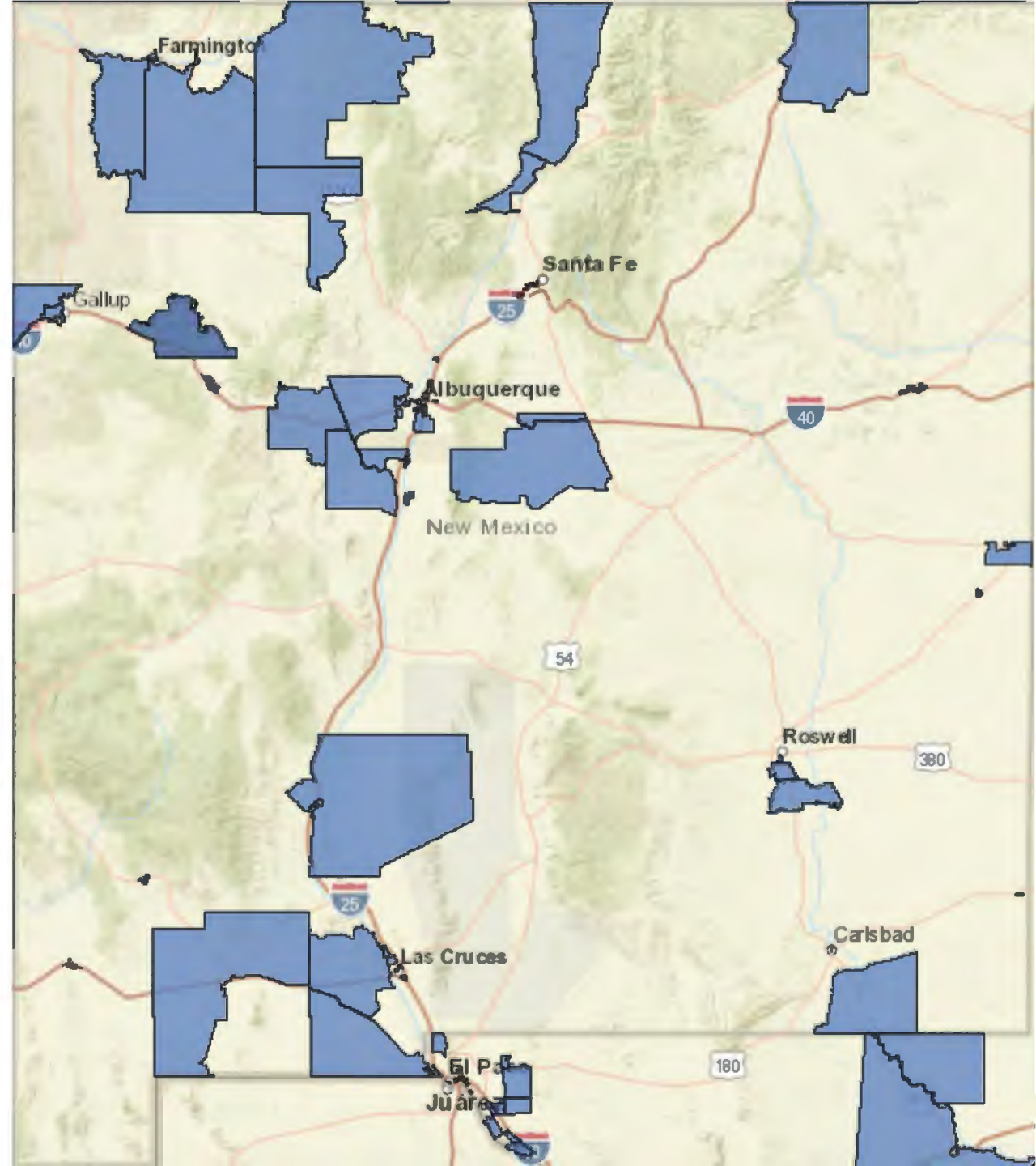
Rank	Metro Name	State	Score	Population	Population Growth	Retail Sales	Household Income	Home Value	Bachelor's Degree	Unemployment Rate
4	Salt Lake City	UT	93.03	85,984	1.56%	\$294,204,864	\$57,427	\$226,322	16.13%	6.77%

Rank	Metro Name	State	Score	Population	Population Growth	Retail Sales	Household Income	Home Value	Bachelor's Degree	Unemployment Rate
7	Denver-Aurora-Lakewood	CO	89.81	150,705	1.64%	\$131,038,871	\$49,093	\$247,478	15.84%	5.34%

Rank	Metro Name	State	Score	Population	Population Growth	Retail Sales	Household Income	Home Value	Bachelor's Degree	Unemployment Rate
25	Phoenix-Mesa-Scottsdale	AZ	69.97	415,478	1.51%	\$113,994,917	\$42,961	\$167,929	11.19%	7.69%

# New Mexico: OZ Geography

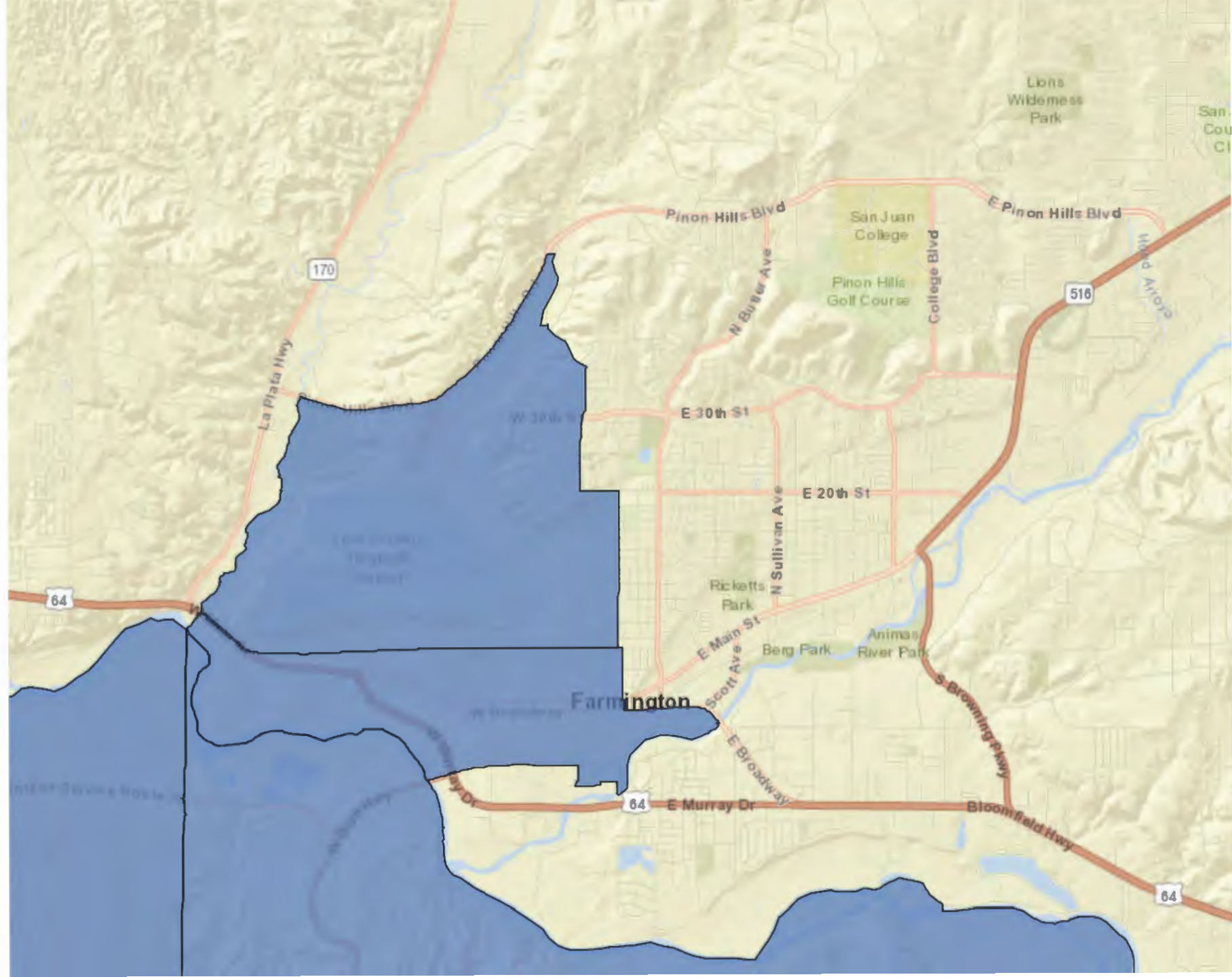
Source: opportunitydb.com





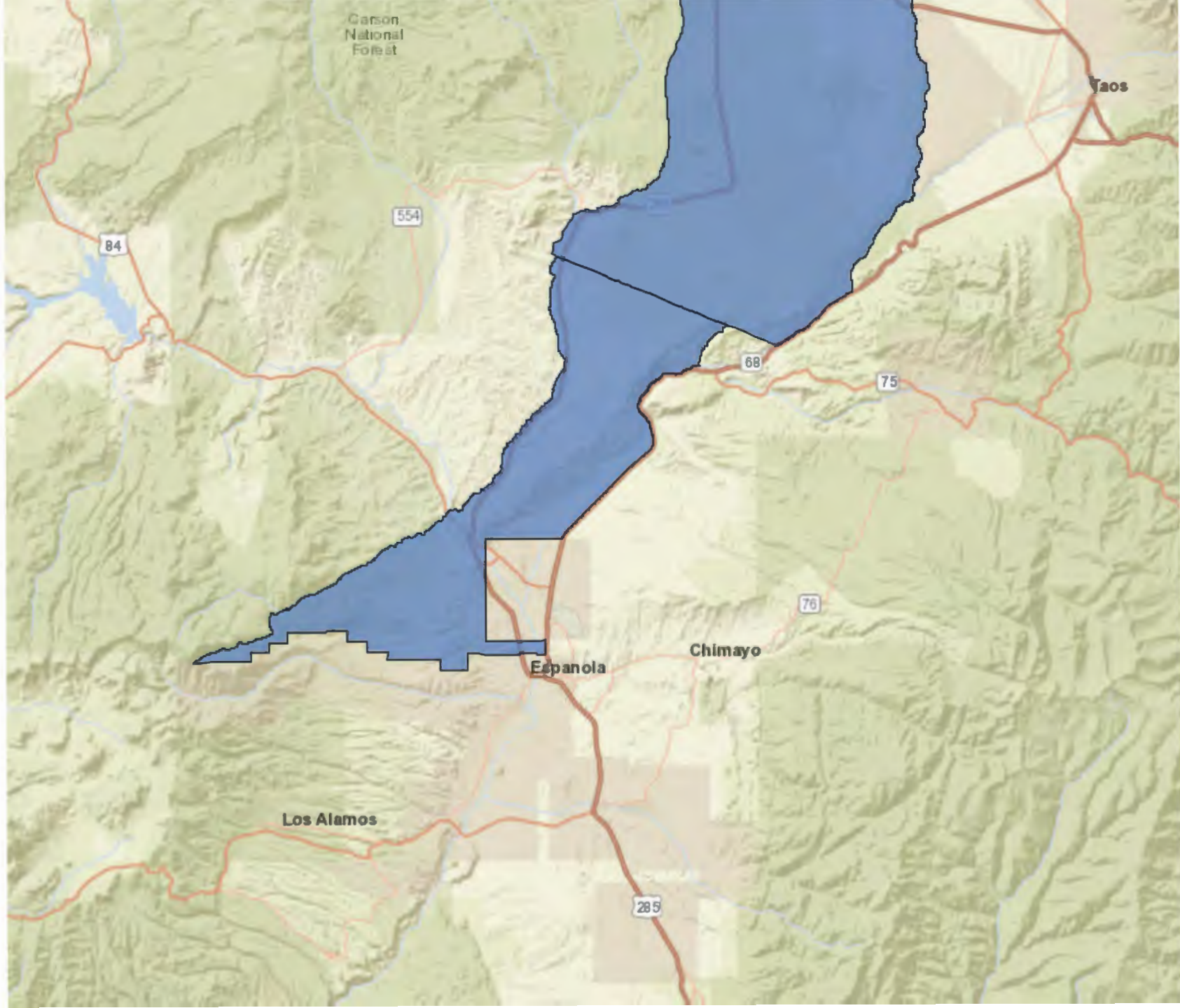
# New Mexico: OZ Geography

Source: opportunitydb.com



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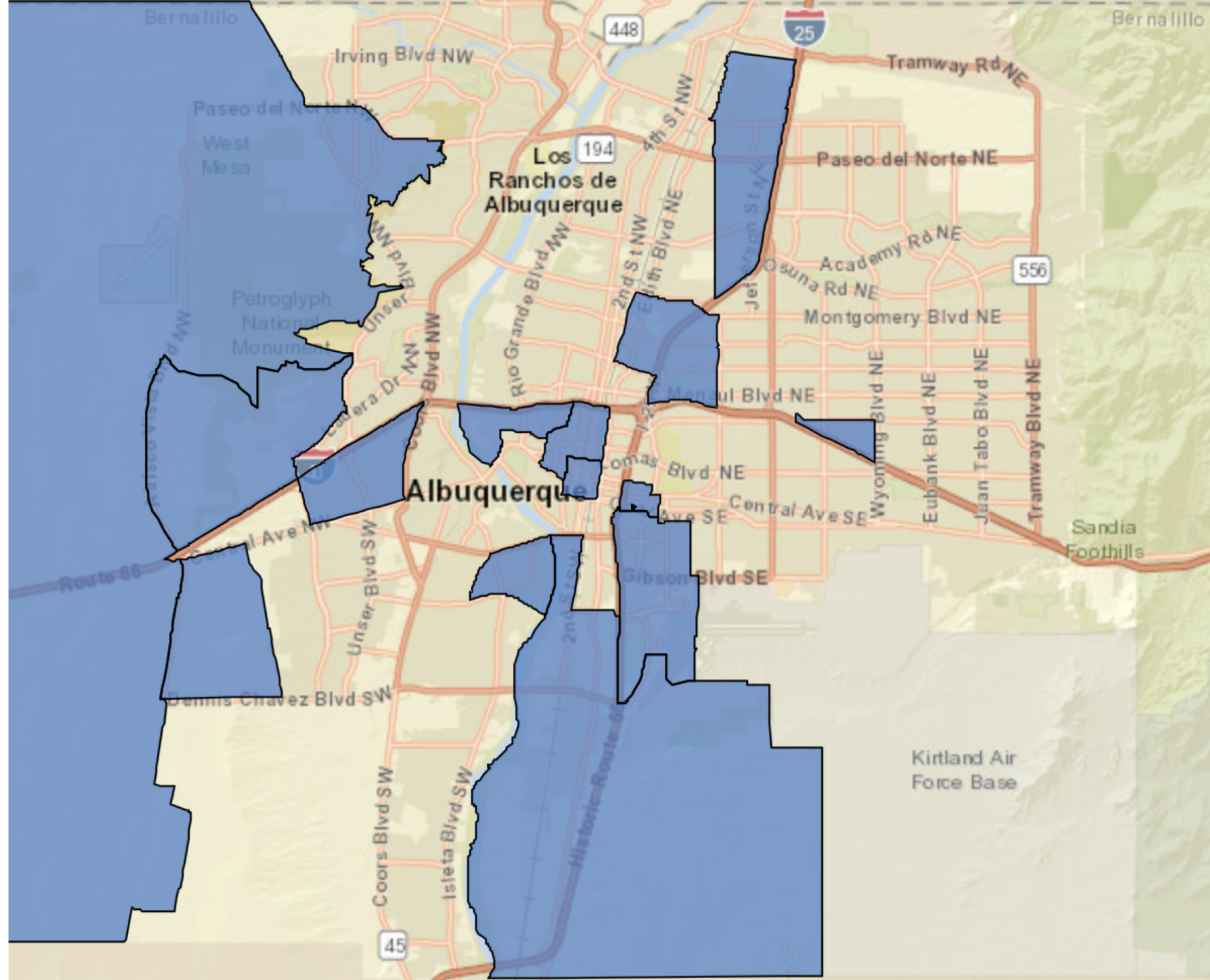
Source: opportunitydb.com





# New Mexico: OZ Geography

Source: opportunitydb.com



# New Mexico: OZ Geography

Source: opportunitydb.com





# Opportunity Zone Property

## Eligible Investments

**Opportunity Zone Stock** is original issue stock in a domestic corporation acquired after Dec. 31, 2017, solely in exchange for cash.

The corporation must be a Qualified Opportunity Zone Business (“OZB”) at the time of issue, or be organized as such and continue to qualify for substantially all the fund’s holding period.

**Opportunity Zone Partnership Interest** is any capital or profits interest in a domestic partnership acquired by OF after Dec. 31, 2017, from the partnership solely in exchange for cash.

The partnership must be, or be organized to be, a qualified OZB at the time of acquisition and must remain so for substantially all the fund’s holding period.

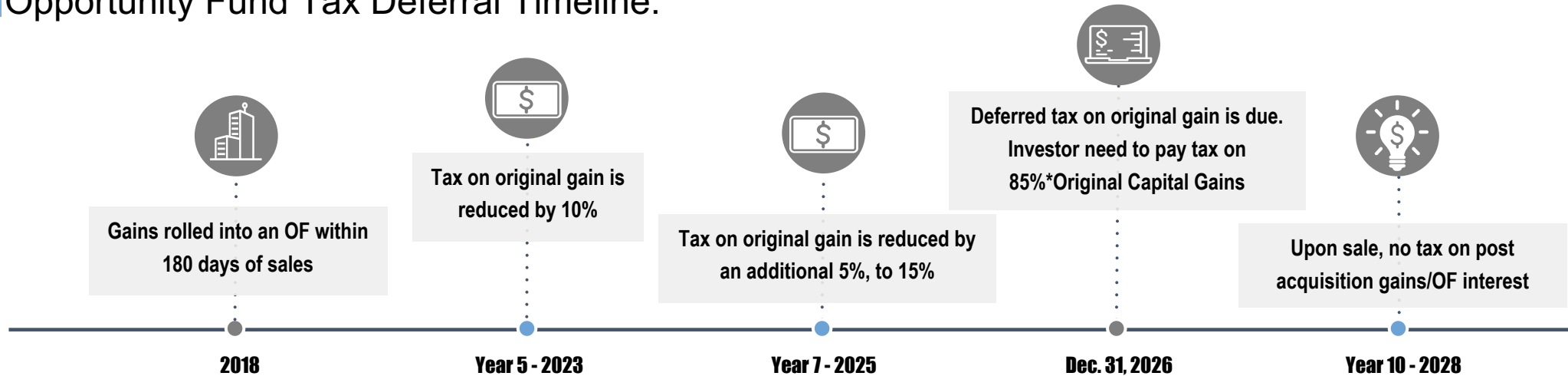
**Opportunity Zone Business Property** is tangible property used in a trade or business of the OF which:

- 1) is purchased after Dec 31, 2017;
- 2) originally used or substantially improved by the qualified OF, and
- 3) used in a qualified OZ during substantially all of the fund’s holding period

\* E.g. Commercial buildings and multi-family complexes

# Opportunity Fund Incentives

## Opportunity Fund Tax Deferral Timeline:



### 1 Deferral of Capital Gains Taxes

Capital gains from the sale of any asset (if reinvested within 180 days) are deferred until the sale of the new investment, or December 31, 2026, whichever is earlier

### 2 Reduction of Capital Gains Taxes

Any investment re-invested and held for 5 years gets a tax basis increase of 10%, and any investment held for 7 years gets a tax basis increase of 15% -- thereby reducing the original capital gains tax by that amount

### 3 Permanent Elimination

Investments held for 10 years will pay no capital gains tax on the post-acquisition gains. This permanent exclusion only applies to the gains accrued in an Opportunity Fund



# New Mexico: Opportunity Zone Supporting Mechanisms

## New Market Tax Credits

- The New Markets Tax Credit (NMTC) was established in 2000. Congress authorizes the amount of credit, which the Treasury then allocates to qualified applicants.
- NMTC investors provide capital to community development entities (CDEs), and in exchange are awarded credits against their federal tax obligations.

## Low Income Housing Tax Credits

- Created by the Tax Reform Act of 1986, the LIHTC program gives State and local LIHTC-allocating agencies the equivalent of nearly \$8 billion in annual budget authority to issue tax credits for the acquisition, rehabilitation, or new construction of rental housing targeted to lower-income households.

## State and Federal Incentives

- Tax Increment Development Deductions, Industrial Revenue Bonds, LEDA Funding, and JTIP are examples of government incentives and subsidies that can be paired with Opportunity Zone Funds
- There is no limit to the amount of government incentives that you can stack on top of qualified OZ project financing

## Community Reinvestment Act

- The Community Reinvestment Act was enacted in 1977, against a backdrop of urban decay and a lack of investment in communities. Congress found that banks have a continuing and affirmative obligation to help meet the credit needs of their local communities, including low- and moderate-income (LMI) neighborhoods where they are chartered, consistent with the safe and sound operations of the institutions.

## PACE Financing

- Commercial and residential PACE programs share a common foundation. PACE programs allow a property owner to finance the up-front cost of energy or other eligible improvements on a property and then pay the costs back over time through a voluntary assessment. The unique characteristic of PACE assessments is that the assessment is attached to the property rather than an individual.



## New Mexico: Opportunity Zone Features

- 63 Designated Opportunity Zone census tracts
- 62% of Opportunity Zone census tracts are urban (66% of state census tracts are urban)
- Median Household Income - \$36,672
- Poverty Rate – 28.11%
- Unemployment Rate - 11.23%
- Median Home Value - \$123,000
- 50% Hispanic
- 25% Younger than 18
- 50% of 25+ years old have a HS diploma
- 18% of 25+ years old have a college degree

# Problems and Observations

A complex network of glowing blue nodes and connections is visible in the background, set against a dark blue gradient. The nodes are small circles, and the connections are thin lines, creating a web-like structure that spans the width of the image.



## QOZ Regulations Favor Investor Flexibility Over Community Protection

- New Business is sighted in new regulations but workarounds exist:
  - OZ funds can buy undeveloped land (that is, land without a building or other structure on it) without investing new capital to improve the land. They must use the land as part of a “business,” but this test is usually easy to satisfy. For example, an investor could buy unimproved land and run a parking lot business on the land as it rises in value. After ten years, the owner can sell the land to a developer tax free.
  - Similarly, if an OZ fund buys a building that was vacant for at least five years, the fund doesn’t have to make any investments to rehabilitate the building. It could run a low-investment business on the property, such as leasing the building to a storage facility operator, and sell the building ten years later tax free.
  - OZ funds can invest in businesses that lease property (rather than own it) and these businesses don’t need to make any improvements to the leased property. Indeed, a business that already operates in an OZ and owned its own building before the 2017 tax law could sell the building and lease it back from the buyer, and the building would help the fund qualify for tax breaks even though no new investment occurred.





## Great Tax Shelter, No Results

- Research suggests place-based incentive programs redistribute rather than generate new economic activity, subsidize investments that would have occurred anyway, and displace low-income residents by increasing property values and encouraging higher skilled workers to relocate to the area.
- While opportunity zones present certain budgetary and economic costs, it is unclear whether opportunity zone tax preferences used to attract investment will actually benefit distressed communities.
- In the 1980s, Margaret Thatcher's government first tested the idea by creating 11 "enterprise zones" in the U.K. that offered a range of tax breaks and regulatory relief. The Clinton administration created a related program in 1994 that set up "empowerment zones." In their exhaustive study of 75 enterprise zones in 13 states, Alan Peters and Peter Fisher, professors of urban and regional planning, found that the tax incentives had "little or no positive impact" on economic growth.

# Lack of Focus on Economic Development and Citizen Centricity



**Economic Development**  
Increase in a citizen's quality of life

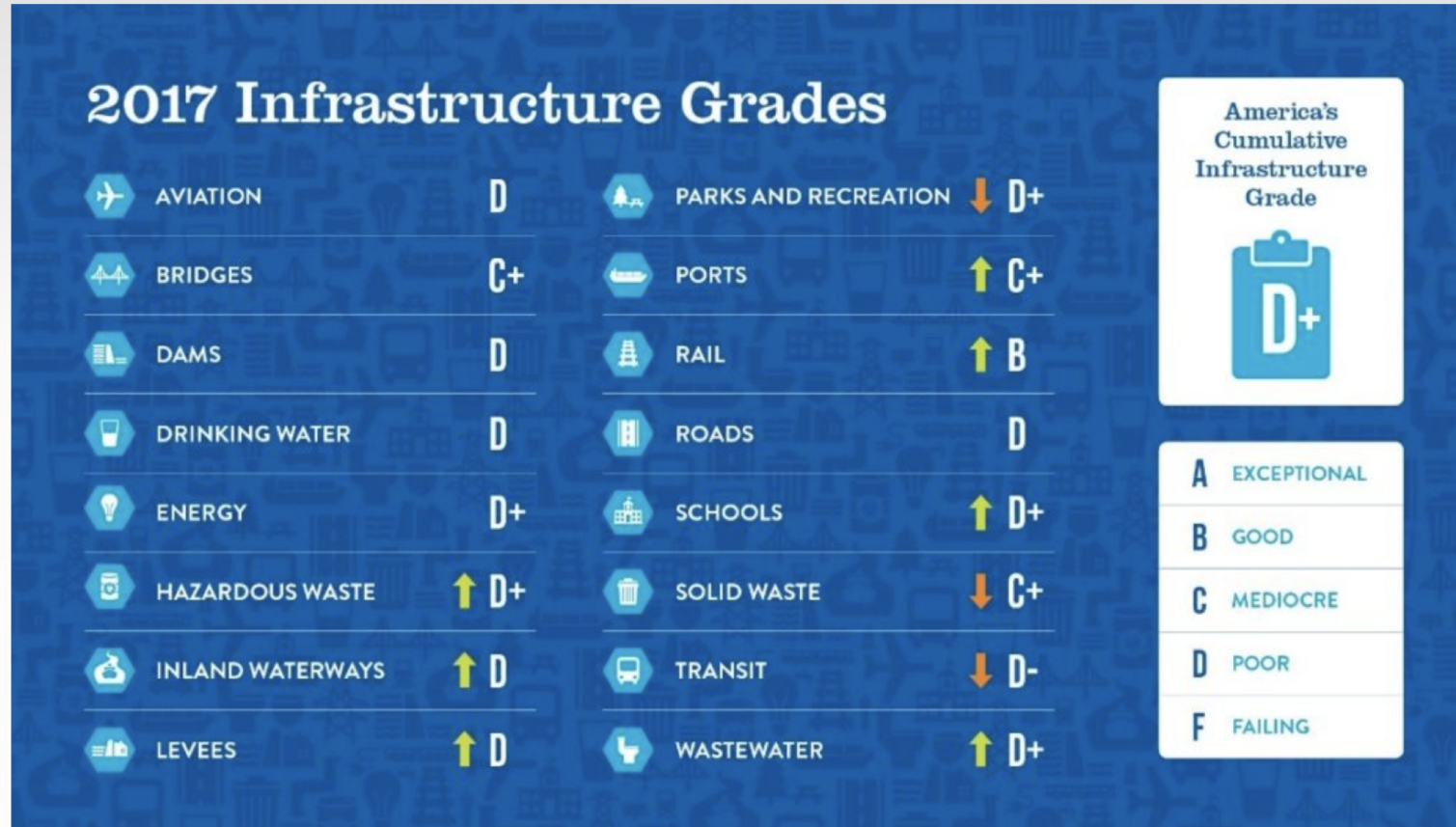


**Economic Growth**  
Demonstrated by an outward shift in the production possibility curve



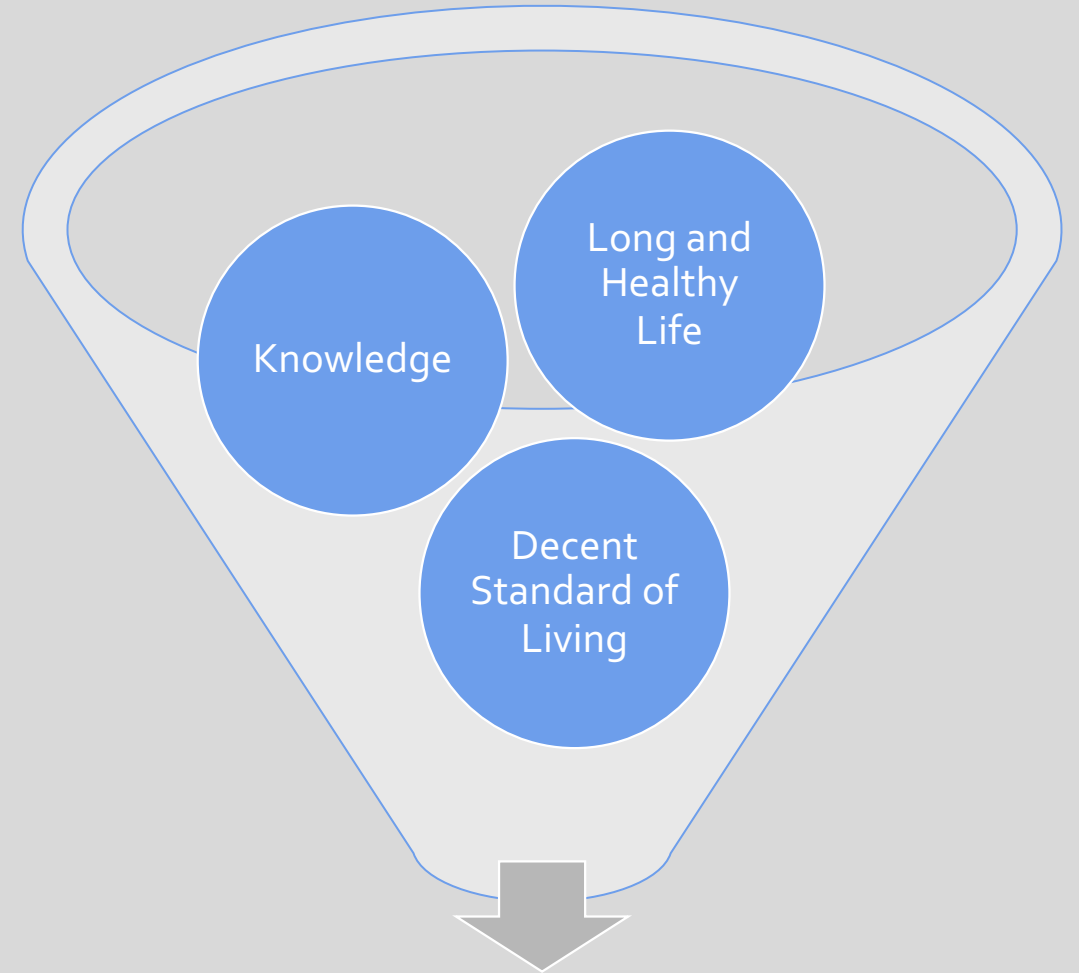
# United States Infrastructure

- Received a D+ grade from the American Society for Civil Engineers



# Human Development Index (HDI)

- The United States ranks 13th in the world with a score of 0.924
- US Environmental and Social Sustainability scores rank in the middle and bottom third percentiles across the globe, with inequality being one of the main drags on an otherwise impressive score



**Human Development Index**



# Barriers to Entry

## Citizens

- Potential for lack of community improvement and impact.
- Inability to participate in the returns

## Traditional Investors

- Must be qualified investor (\$200K per year/ min).
- Perception that areas of need will not yield an appropriate ROI.

## Fund Creators

- Lack of up front capital to form and operate fund.
- Inability to raise private capital to substantiate fund.

# Solutions and Approaches

# Alternative Financing





emtechglobal  
intelligent ventures. smart design

# Smart City Infrastructure Funds and Investments

Concept to Execution: Powered by Emtech Global and BeQOZ

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October 28, 2019



# Smart City Infrastructure



# Value

Middle English, "worth, high quality," borrowed from Anglo-French, noun derivative from feminine of valu (going back to Vulgar Latin \*valūtus), past participle of valer, valeir "to be worth, have value," going back to Latin valēre "to be well, have strength" — more at WIELD

Verb

Middle English valuen, borrowed from Anglo-French valuer "to estimate, be worth," verbal derivative of value  
VALUE entry 1

noun use of fem. past participle of valoir "be worth," from Latin valere "be strong, be well; be of value, be worth" (from PIE root \*wal- "to be strong"). The meaning "social principle" is attested from 1918, supposedly borrowed from the language of painting.

Value is a kind of social contract. The stronger and wider reaching the contract, the greater the value.

A contract is a trans active agreement of performance to insure and protect the quality of mutual and aligned values.

Enter: smart contracts.

Investment in the quality of life provided by next generation infrastructure yields high returns across the board and generates new opportunities for growth and additional investment.



## What is Smart City Infrastructure

- Water Quality
- Power and Energy Systems
- Fiber and Communications
- Public Works
- Air Quality
- Waste 2 Energy
- Industry 4.0 Businesses
- Transportation





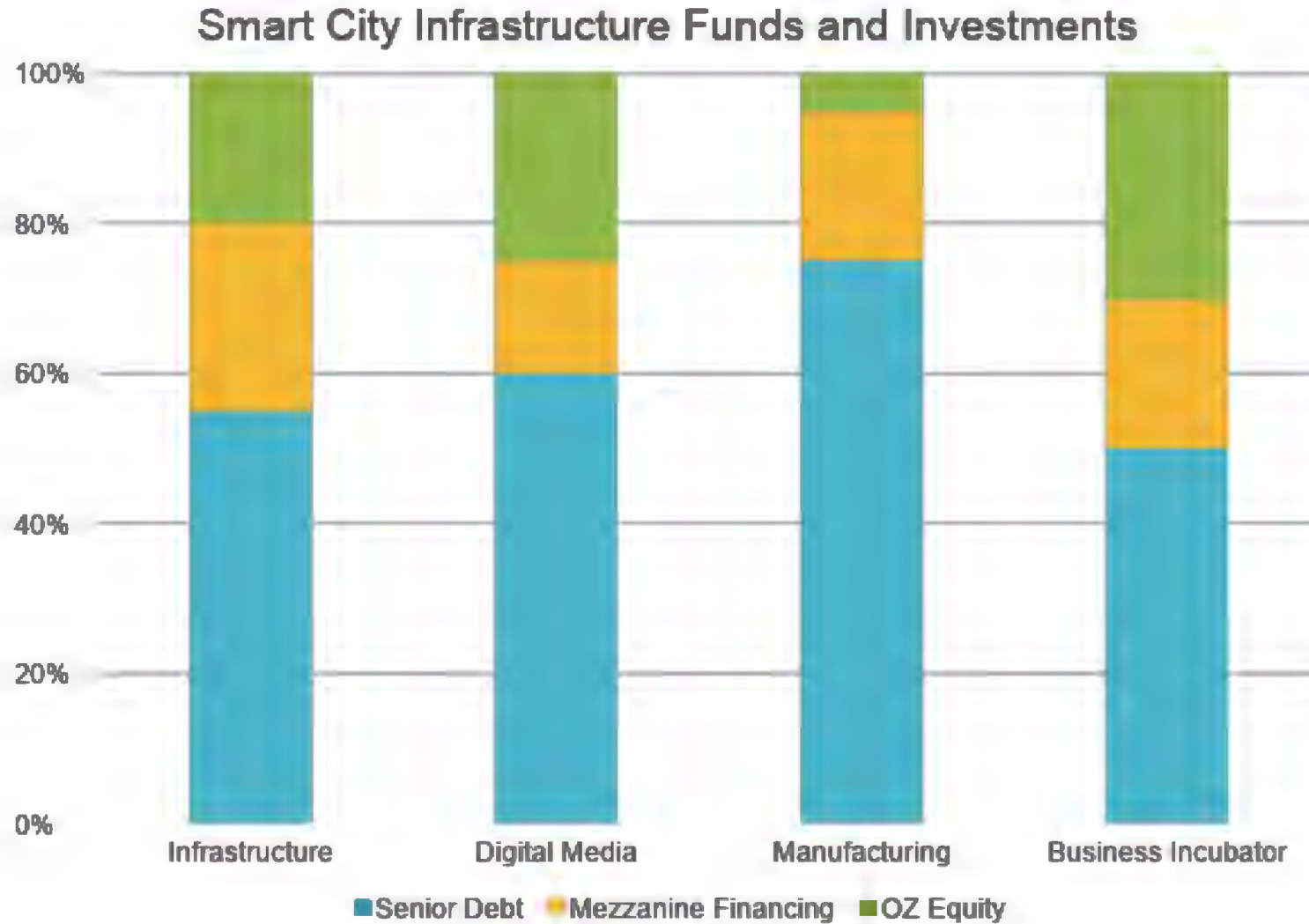
## Programmatic solution – SCIFI

- Shared revenue streams from smart city infrastructure create the potential for community participation in each utility’s upside.
- Constructing a value chain of synergistically aligned “why’s” creating win-win solutions for all stakeholders including: citizens, investors, and fund creators.
- Creates the platform and vehicle to facilitate QOZ agency.
- Creates the opportunity to invest in collateralized property improvement initiatives, ensuring community development.
- Creates opportunities for derivatives and community investment.
- Places social impact value as a superior investment vehicle.
- Creates potential for direct investment from community members.

# The NEST - Nascent Evolutionary Science & Technologies

The NEST is an industry 4.0 SMART city technologies venture studio advocating for generational development the improvement of communities and quality of life.

# Capital Structure

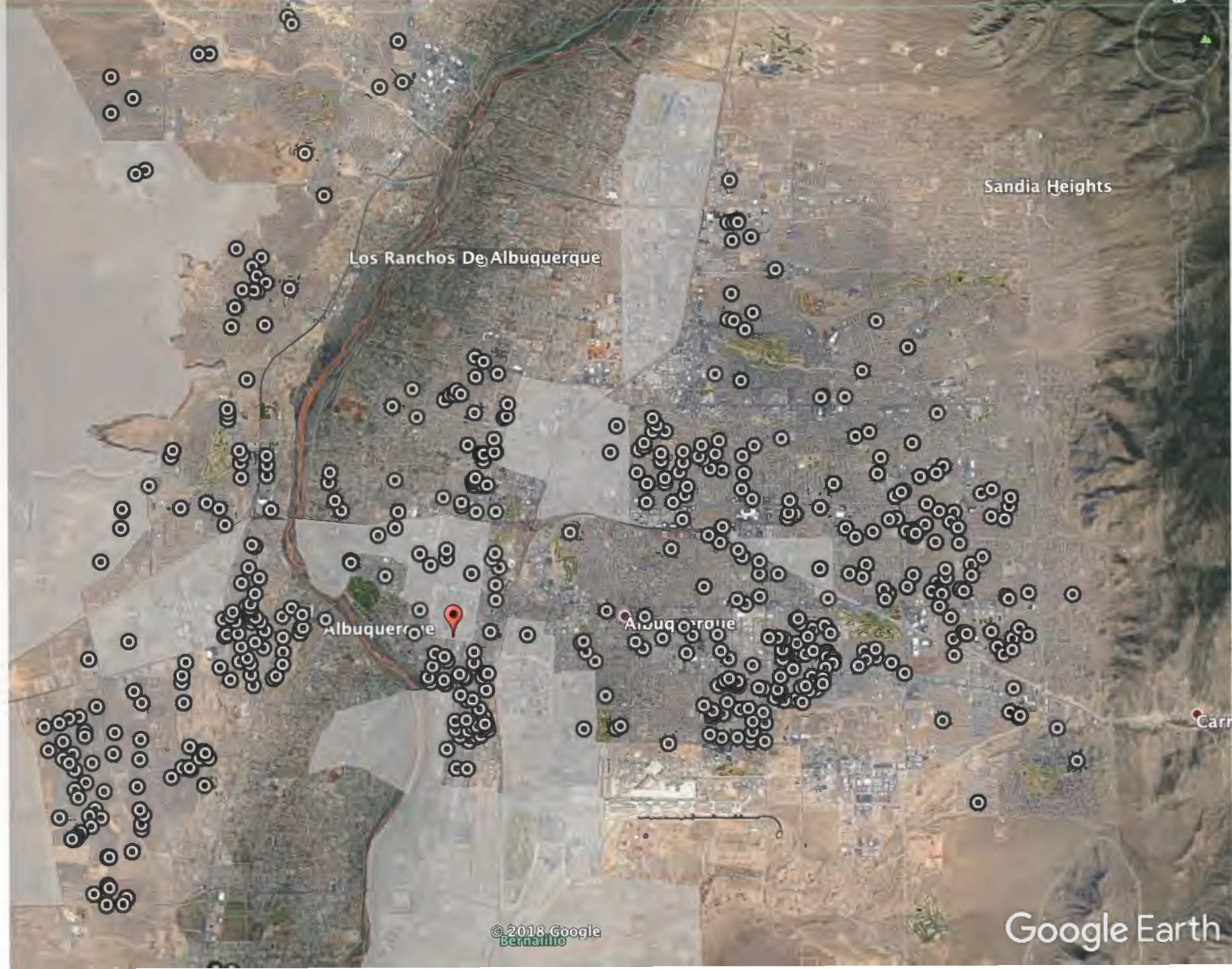


The Mission is a systematic approach to systemic value creation in chronically underserved areas, particularly those existing outside of qualified opportunity zones.





Practically all of the city identified condemned properties, lie outside of the benefit that qualified opportunity zones provide.



# Future Legislation



# New Mexico Opportunity Zone Legislation

- Mirror Federal Capital Gains incentives
- Expand program to include more census tracts
- Extend state program life beyond 2026
- Build on NMEDD initiatives to target small businesses
- Consider the supporting state investment funds that could match investment in these areas



## ☰ Who is EmTech Global?

EmTech Global is a SMART and Connected Community Development Group focused on cyberphysical design, evolutionary finance, and emergent technologies in economic development with a particular focus on emerging economies.



WESTWIND



## What we do.

*“By twinning infrastructure into digital assets, we can uncover informational inefficiencies that change how we value, price, and invest in infrastructure”*

*- M. Perry, Global Head of Product, Center for Infratech Finance, University of Michigan*

- Cyber-Physical Infrastructure Systems: Monitoring, Diagnostics, Insights
- Smart Infrastructure Financing: Valuing digitization of Real Assets
- Financial Technology: Fractionalization and tokenization
- Developing public private partnerships, facilitating SMART infrastructure projects, in areas with an underfunded tax base
- SMART contracts tied to value added services and data markets drive incremental revenue.

# Questions







# Contact Us

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## Executive Team

**Zachary Chavez** is the Director of Evolutionary Finance for Emtech Global, Inc., and Founder and Chief Executive Officer of BeQOZ. Previously Zachary worked as a Vice President with Virtua Partners, leading their internal opportunity zone initiative. Prior to that Zachary was a senior Trader at The Vanguard Group. Zachary has a decade of capital markets experience and holds his FINRA series 7, 63, and 57 licenses. Zachary graduated from Northwestern University with a BA in Political Science.





# Executive Team

Derrick D. Clyburn Ballard is Chief Executive Officer and Founder of EmTech Global, Inc., a SMART City and Connected Communities research, design, and development group. With a diverse professional background in Architecture, Engineering, and Film, he has performed as a lead consultant on projects and competitions in excess of \$500M. Derrick has received numerous awards and honors nationwide as a designer and has taught and lectured internationally, receiving publications in architectural textbooks and film industry journals. His signature is creating immersive and interactive environments at the scale of policy, and is an animated and willing resource of mentorship, education, and innovation.

- Chief Innovation Officer of the Connecticut based Microsoft OEM WhartonBrooks
- New Mexico State Emergent Media and Technologies Coordinator
- Interim Director for the JFK Policy Center with a focus on Space and Tech Transfer
- Lead Project Designer, Antoine Predock Architect.
- Art Director/Set Designer
  - Maze Runner: The Scorch Trials
  - Independence Day
  - Lone Survivor
  - The Book of Eli
  - Lead Set Designer for the Emmy award winning Series Breaking Bad (Seasons 1,2 and 5).

