

OPPORTUNITY ZONES MEETUP

CAPITAL STACKS



GUIDE

prepared by
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DAKIN CAPITAL LLC

<https://www.meetup.com/Opportunity-Zones/>



The Opportunity Zones Meetup is sponsored by the following organizations

DAKIN CAPITAL LLC



Karl Dakin provides services in investor profiling, crowd building and capital campaign planning, staging and management.

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CASE STUDY

This Guidebook is part of a series of publications developed to assist individuals, communities, businesses and property developers and Opportunity Zone investors in understanding how Opportunity Zone investments may benefit by rolling over capital gains into communities to address local challenges.

Programs, guides and video recordings of the Opportunity Zones Meetup group may be found at:

<https://www.meetup.com/Opportunity-Zones/>



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OPPORTUNITY ZONES

The Tax Cuts and Jobs Act passed in December of 2017 authorized tax incentives for investments into businesses and properties located within designated geographic areas – Opportunity Zones. The incentives are intended to influence investors to provide capital to distressed economic communities to generate jobs and aid the local economies. The IRS is completing the rules and regulations governing Opportunity Zone investments, but the opportunity to invest in and obtain investments within an Opportunity Zone is available now.

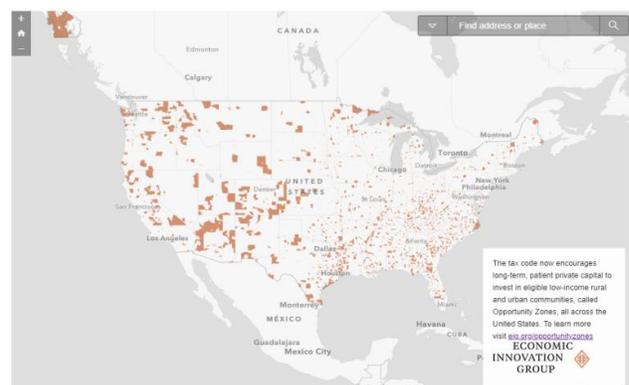
An investor who holds capital assets (stocks, real estate and other forms of property) with an appreciated value over the original purchase price may sell those assets and roll over their gains within 180 days into one or more Opportunity Zone Funds. The Funds re-invest the money into Opportunity Zone Businesses and/or Properties. The payment of taxes on the capital gains is deferred until the earliest of 2026 or the date when an investor sells their investment in the Fund. If an investment in a Fund is held for 5 to 7 years, the tax liability is decreased. The greatest benefit is that if the investor leaves their investment in the Fund for 10 years or more, all gains on the Opportunity Zone Fund investment are tax free.

Analysis by different investment advisors project that an investment in an Opportunity Zone Fund will earn 3% more money after taxes than an investment in a standard stock portfolio. Investments in successful businesses and property developments will realize even greater tax savings.

An Opportunity Zone Fund may be structured as a single investor, single purpose fund where an investor places their money to place their money with a specific Opportunity Zone Business or Property. A Fund may also be a multiple investor, single or multiple purpose fund in the form of a private equity or hedge fund. A Fund may participate in a syndicate of Funds on large projects. A Fund may also be collaboration with local, state or federal government agencies or districts as part of a community improvement project.

All existing laws governing the sale and purchase of securities apply to investment in Opportunity Zone Funds with standard restrictions on the participation of non-accredited investors, publication of the offerings and regulatory reporting.

8,700 Opportunity Zones have been certified in each of the fifty States and United States territories. A national map of Opportunity Zones and the history of the legislation may be obtained from the Economic Innovation Group at: <https://eig.org/opportunityzones>. Additional information with local maps and projects may be obtained from the economic development offices of each state. Local communities have been advised to create a ‘prospectus’ of Opportunity Zone investment opportunities within their local areas.



As proven by the JOBS Act and investment crowdfunding, a business seeking investment through an Opportunity Zone Fund must recognize that the establishment of a new capital source does not automatically result in an investment. An investor will not simply make an investment because of the new tax advantages. To gain the greatest benefits, an investment in an Opportunity Zone Fund is a long term investment that requires ‘patient capital’. Many investor candidates may be unwilling to place their money into a business or property development for this period of time.



The Opportunity Zone Business or Property Developer must be ‘ready to receive capital’ by developing a capital campaign where it clearly communicates its potential to qualified investor candidates that have a high interest in the success of the Business or the Property. This Opportunity Zone Business or Property may be able to obtain money from a large Opportunity Zone Fund or it may be necessary for it to create its own Fund as a pass through vehicle for its own use.

An Opportunity Zone Business or Property must compete for investment money by making itself more attractive than other investment opportunities. In addition to all of the common activities that may make an investment more attractive, some actions that may enhance the appearance of the opportunity and reduce the perception of risk include:

- Investments that include land, buildings, equipment or other capital assets that serve as collateral
- Quantification of social metrics representing ‘impact’ benefits to a community or a cause
- Joining with other Opportunity Zone Businesses or Properties where the investor is investing into a pool of investments
- Participating in an economic development project where part or all of the risk may be shifted to a government agency, foundation or other organization



Interest in Opportunity Zones is growing quickly as investors with capital gains seek to reduce their taxes and businesses, property developers and communities position themselves to raise money from this source. A variety of programs are being launched to help make this type of investment happen.



CASE STUDY: CAPITAL STACKS

The tax incentives to help distressed economic communities – Opportunity Zones – may benefit from or amplify outcomes by combination with other types of capital from other sources.

A ‘capital stack’ is defined as “A description of the totality of capital invested in a project, including pure debt, hybrid debt, and equity. <https://financial-dictionary.thefreedictionary.com/capital+stack>

Opportunity Zone investments come in one flavor – equity.

This type and source of capital may not meet the entire capital needs of a project.

This type and source of capital may have a cost of fund raising and price of use that may be too high if used to fund 100% of a project.

This type and source of capital when employed in a classical approach may not be attractive enough to have investors change their investment decisions and make investments in Opportunity Zones instead of economically affluent communities.

CAPITAL STACK



ROLE OF OPPORTUNITY ZONE INVESTMENTS

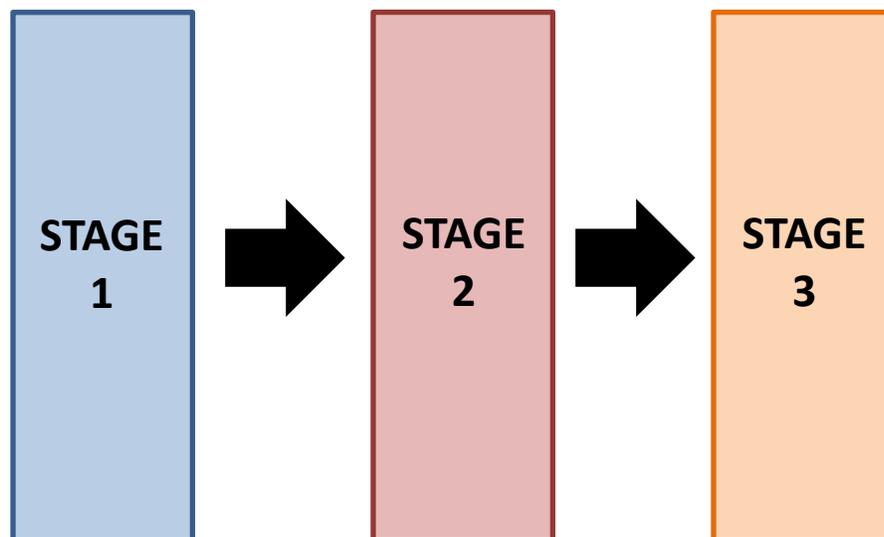
Consider 'Opportunity Zone Investments' like a character in a story whose role will vary with the story and whether the story is an adventure, murder mystery, fairy tale, western, science fiction or biography. The timing, importance and interaction with the other characters will vary greatly.

Each Opportunity Zone project, like any business or property development that needs to raise money is unique. Even otherwise identical projects, started on the same date with the same characters will be different as markets change.

Timing

A project may require funding at different times. It is common in a property development or business life cycle that as milestones are achieved the risk of the project falls and more types of capital become available from more sources at a lower price of money.

All of the money needed by a project may come from Opportunity Zone investments. In such event, the money will probably come through different Opportunity Zone Funds because of the restrictions upon the time limits to deploy the funds.



Foundation

Because Opportunity Zone money must take the form of cash in an equity investment, as a form of capital it may serve to support addition of other types of capital from other sources that require a debt to equity ratio.

An Opportunity Zone investment may serve as a down payment that qualifies a project for standard or specialty debt financing. A business or a property developer may be able to obtain financing in multiples of the amount of the Opportunity Zone investment. This serves to allocate the profit of the larger project over fewer investors resulting in a higher rate of return.



Combining an Opportunity Zone investment may serve to lower the total cost of money for a project. Investors in an Opportunity Zone Fund will participate in the profits and losses of the business or property development. Commonly, the price of this money is lower than interest on a common bank loan. Therefore, borrowing money to leverage the Opportunity Zone investment will lower the capital costs. This difference may determine whether a project is economically viable or not.



Seed

In order to obtain Opportunity Zone investments, a project must be ready to receive funding. Commonly, it will be necessary to develop a business plan, cash flow projections, a deal structure or offering and promote the offering to investor candidates. If a project needs to establish its own dedicated Opportunity Zone Fund, it will be necessary to create a new entity and craft the documents for its management and interaction with the project.

To make a project fundable may require a substantial amount of money before it will receive Opportunity Zone investments. In such case, a project must look to the founders, private equity funding or grants to bear the cost of preparation.

Currently, the cost of preparing to raise funds presents an insurmountable problem to many businesses and property developers within Opportunity Zones. New specialty funding programs may need to be established by local, regional, state or federal government programs to address this gap.



PROJECTS

A review of common Opportunity Zone projects reveals how capital stacks may be utilized to enable complete funding of a project.

Jobs

Opportunity Zone investments may stand alone or be combined with other types of capital to create jobs through operation of a business or construction of a development.

Housing

Opportunity Zone investments may be combined with standard mortgage financing, special home ownership programs for veterans, specialty and other groups. Affordable housing may include New Market tax credits and other mechanisms to incentivize investors.

Funding of housing projects may be tiered with Opportunity Zone investment used for land acquisition, improvements, part or all of the down payment or part of the mortgage payments.

Commercial Development

Funding of housing projects may be tiered with Opportunity Zone investment used for land acquisition, improvements, part or all of the down payment or part of the mortgage payments.

Larger projects may receive property tax waivers, foreign investment (EB-5), economic development assistance or assumption of part or all of the costs by a municipality or redevelopment agency.

Infrastructure

Opportunity Zone investment may be used stand alone or in combination with a variety of common or specialty funding to create or upgrade water, waste and power systems.



QUESTIONS AND CHALLENGES

When is Opportunity Zone Investment Better Than or the Best Choice of Funding?

A business or property developer within an Opportunity Zone should not assume that raising funding from Opportunity Zone investors is the best source of money.

The cost and complexity of establishing an Opportunity Zone Fund may make that form of investment more expensive.

Even with the tax incentives, certain Opportunity Zone businesses and property developers may not be able to attract equity investment from an Opportunity Zone Fund.

Any capital strategy will need to compare and contrast the cost of raising money and the price of the money between Opportunity Zone investment and other types of capital.

How Can a Capital Stack Help an Opportunity Zone Investment Compete Against Other Projects?

Combining Opportunity Zone investments with other can create higher yields to Opportunity Zone investments.

Combining Opportunity Zone investments from outside a community with local investments from within the community may help to capture some of the profits from a project and hold them within the community. In addition, local investors may be willing to accept lower yields to gain the non-monetary benefits of more jobs, new housing, upgrade infrastructure and other attributes of more economic activity.

What Approaches May be Used to Raise Other Types of Capital?

All of the common approaches to raising funds including the newer approaches of investment crowdfunding may be applied to create seed funding, raise money into an Opportunity Zone Fund or to create matching funding.

How Can a Capital Stack Serve to Maximize Opportunity Zone Tax Incentives?

It is possible to allocate income between Opportunity Zone investors and other investors in order to focus long term capital gains to the Opportunity Zone investors and ordinary gains to the non-Opportunity Zone investors.



RESOURCES

State of Colorado

The State of Colorado has launched a matchmaking tool on the website for the Office of Economic Development and International Trade:

<https://www.colorado-invest.com/>

The State of Colorado also provides information on a variety of resources regarding Opportunity Zones including an interactive map of all Zones within the State.

<https://choosecolorado.com/opportunity-zones/>

Economic Innovation Group

This organization helped engineer the tax legislation authorizing Opportunity Zones. This site has a national interactive map of Opportunity Zones.

<https://eig.org/opportunityzones>

Internal Revenue Service

Frequently Asked Questions - <https://www.irs.gov/newsroom/opportunity-zones-frequently-asked-questions>

Proposed Regulations - <https://www.irs.gov/newsroom/treasury-irs-issue-proposed-regulations-on-new-opportunity-zone-tax-incentive>

Opportunity Zones Meetup

Programs, video recordings and guides on different Opportunity Zone projects and challenges with links to other sources of information.

<https://www.meetup.com/Opportunity-Zones/>

Video recordings of each Opportunity Zones Meetup are posted on YouTube on the Karl Dakin channel.

Bridge to Opportunity Conference

The initial production of the video recordings of the Bridge to Opportunity Conference has been completed.

All recordings may be viewed on YouTube on the Karl Dakin channel.

Links to individual videos are listed below with a description of the content and identification of the speakers.



1. Opportunity Zones - Bridge to Opportunity Conference - Part 1 - Opening & OZ Basics

This video is the first part of a five-part series of the Bridge to Opportunity Conference held on November 19, 2018 in Aurora, Colorado. The video includes opening remarks by Maxine Pryor of MAXX Impact Group and Crystal Murillo of the City of Aurora. Then, Marc Shultz of Snell & Wilmer makes a presentation on Opportunity Zone Fundamentals.

<https://youtu.be/iiFl6VLeyVE>

2. Opportunity Zones - Bridge to Opportunity Conference - Part 2 - Investors

This video is Part 2 of a five-part series on the Bridge to Opportunity Conference held on November 19, 2018 in Aurora, Colorado. It features Jim Howard of DV Financial Services and Ryan Kirkpatrick of the Colorado Impact Fund presenting their respective approaches to the establishment of an Opportunity Zone Fund and investor thinking on making an Opportunity Zone investment.

<https://youtu.be/VkzVeE3MJII>

3. Opportunity Zones - Bridge to Opportunity Conference – Part 3 – OZ Examples

This video is Part 3 of a five-part recording of the Bridge to Opportunity Conference held on November 19, 2018 in Aurora, Colorado. This Part features a panel comprised of Mickey Willis of NetZero Colorado PBC on the Sugar Beet District, Vaneesha Dutra on Brown Equity Properties and Mike Graham of Sebastian Partners on Avelon that is moderated by Karl Dakin of Dakin Capital.

https://youtu.be/dN_ulgHLhtw

4. Opportunity Zones - Bridge to Opportunity Conference - Part 4 - Support Programs

This video recording is Part 4 of a five-part series on the Bridge to Opportunity Conference held on November 19, 2018 in Aurora, Colorado. It includes a presentation by Jana Persky of the Colorado Office of Economic Development and International Trade (OEDIT), Tiana Patterson of the Enterprise Community and Carra Kelly of OEDIT on programs of the State of Colorado and other resources to support Opportunity Zone Funds, Businesses and Properties. The recording also includes comments by Stephanie Copeland of OEDIT.

<https://youtu.be/A6kRdEBzyaQ>

5. Opportunity Zones - Bridge to Opportunity Conference - Part 5 – Closing

This video recording is Part 5 of a five-part series on the Bridge to Opportunity Conference held on November 19, 2018 in Aurora, Colorado. Karl Dakin of Dakin Capital presents a summary of the benefits and challenges of Opportunity Zones in aiding communities.

<https://youtu.be/A8HgMfUx3Ag>



AUTHOR

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Mr. Dakin is a professional entrepreneur with 40 years' experience in innovation commercialization. Mr. Dakin is a:

- Respected educator
- Extraordinary communicator;
- Developer of innovative funding approaches, and
- Small business advocate.

Mr. Dakin is engaged in new product, business and economic development. He splits his time between helping organizations raise funding, leading individual projects and sharing information on entrepreneurship, strategy development and early stage capital formation.

He is the:

- Owner of Dakin Capital LLC where he coaches organizations in designing, developing and conducting capital campaigns;
- CEO of Invest Local Colorado LLC, an investment crowdfunding platform services provider and registered Intermediary in Colorado.

A frequent writer, speaker and instructor on entrepreneurship and raising capital, Mr. Dakin is a member of the Board of Editors for the Journal on Technology Transfer and Entrepreneurship published by Bentham Science Publishers. He leads a Meetup group on Opportunity Zones and is supporting several projects.

Mr. Dakin was named to Who's Who in Impact Investing – Rocky Mountain Region – 2017 by the Denver Business Journal.

He is a licensed attorney in Colorado.



OPPORTUNITY ZONES MEETUP

This Guide is intended to supplement the Opportunity Zones Meetup events with additional information. I appreciate all feedback on how to make this publication of greater value to the Members of the Opportunity Zones Meetup group.

Sponsorship is sought to cover the cost of presenting, recording, broadcasting and promoting the Opportunity Zones Meetup. A business, government organization, or foundation may sponsor a single event, a group of events or the entire 2019 program. Sponsors will be recognized at the events, in the videos and guides and in other promotional efforts.

With sponsorship, I am interested in expanding the Opportunity Zones Meetups to host events in additional cities across the United States.

Questions concerning this Opportunity Zones Meetup Guide, sponsoring the Opportunity Zones Meetup or hosting Opportunity Zones Meetups in other cities should be directed to:

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SCHEDULE A – CAPITAL STACK CANDIDATES

