

Open Work Session
Opportunity Zone Enhancement Program – House Bill 1260
April 2, 2019

Mr. Dave Ryan, Executive Director of Salisbury-Wicomico Economic Development, Inc. (SWED) came before Council, and said he would like to give an overview of the Federal Legislation on Opportunity Zones, an overview of where the State stands on Opportunity Zones, and an overview of where they are at as a County with the economic development initiative for Opportunity Zone. He explained, the Zones were created through Federal Legislation with the Tax Cuts and Jobs Act of 2017, and, theoretically, the investors with capital gains can invest those gains in an Opportunity Fund, which then can invest in an Opportunity Zone. He said, in exchange for investing the gains into a fund, the investor is, primarily, yielded three benefits, one being the deferral of tax on those gains, and second is a step-up in basis, which, in effect, is a tax cut when the tax on those gains are paid. He said the third benefit is, if they keep the money invested in the fund for a period of ten years, it is tax exempt, so, on the front side, there are really considerable incentives for the investors to put private capital into Opportunity Funds. He said, on the backside, those funds then seek tangible property, real property, personal property, or business operations within the Opportunity Zone with the theory being to invest in areas that need the investment the most. He said that is, in theory, how Opportunity Zones works, and how the funds work. He said Governor Hogan, through his Legislative initiative, offered the Opportunity Enhancement Act, which takes some of his key programs that exist and enhances or adds benefits. He said the Job Creation Tax Credit is a \$3,000 credit, but, if it is in the Opportunity Zone, it is \$3,250. He said, in Enterprise Zones, on the wage side there is a \$1,000 tax credit for employees, but, if it is in the Opportunity Zone it is \$1,100. He said the More Jobs for Marylanders Act, the One Maryland Program, the Buyer's Security Tax Credit, and the Cyber Security Biotechnology Tax Credit are the same type of thing, so, if someone is using existing programs within the zone, they are enhanced benefits, and it is as simple as that.

Mr. Ryan said they have been following the Legislation for some time, and Wicomico has a pretty large swathe of land within the Opportunity Zone. He said they reached out to developers and brokers about six months ago trying to uncover potential projects, and learned about the program itself. He said it is on their website, and they worked with the Planning and Zoning Department on maps, one in PDF form, and one where the person can type in the address and it will immediately see if the property is in the Opportunity Zone in Wicomico County. He said they put a form on their website that anybody can fill out describing their property, and they will seek to match that particular project to particular fund managers, or Opportunity Funds around the Country, which they do from a google search on who is running these funds, and then call blindly. He said most of the time they get no's, but they are finding that the closer the fund is to their region, the more traction they get. He said the challenge right now is uncovering projects, quite frankly, and that is why he appreciates the invitation to come before Council just to get the word out. He said they spread the word on their social media channels, and it has been widely circulated about the Opportunity Zones. He said, in his opinion, it has been off to a slow start around the Country, and Wicomico County, with the primary reason being lack of knowledge about the Zones, but, more importantly, not all the guidelines are out yet, so investors are taking somewhat of a leap of faith and investing in certain projects without the surety of what the rules are. He said they play the game and are not quite certain of the rules, but they know, for the most part, what they are, and other guidelines will be forthcoming. He said they are out there trying to uncover projects, and there are three or four they are working on at this point in time. He said each fund has different parameters, different structures, and different capital stacks, so it is a wide variety of funds, but they are seeing a large amount of private capital going into communities around the Country, Wicomico being one.

Mr. McCain said he remembers talking about this a couple of years ago, and a lot of the talk was around establishing local fund investors, but it appears now that the invested funds have become more of a larger regional investment coming from private funds. He then asked if his observation is correct, to which Mr. Ryan responded, no, he does not think so as he thinks it is a wide variety of funds. He said he thinks they are all over the board, from a developer realizing one event that triggers a capital gain of \$500,000, to a bank that has a \$500-million-dollar fund. He said Mr. McCain is right in the fact that he is seeing a lot of banks and hedge funds out there, but they have not had a problem identifying funds. He said they are in contact with probably half a dozen funds ranging from \$30 million up to \$400 million.

Mr. Hastings said there was a Bill for angel tax investments, and he does not know what happened with that, but he thinks that is what Mr. McCain was getting at. He said there were a lot of folks around St. Michaels who were looking to invest, but then they could not do so because there was no benefit to do so. Mr. Ryan said he apologizes if that is what Mr. McCain was referring to, and that may be a different topic, but, for this program, the funds have to be capitalized through a gain in 180 days within that gain. Mr. McCain said it is a glorified 1031 exchange, to which Mr. Ryan responded, kind of but that is real estate, and this is an enhanced version because they can realize sale of stock for capital gain.

Mr. Holloway asked why sole proprietorship is excluded, to which Mr. Ryan responded, he really does not know, but to qualify for the fund, they just said it had to be an LLC, partnership, or corporation.

Mr. Cannon said, when the Lieutenant Governor came to town with the task force, one of his speakers got up and had a poignant moment where they said they do not understand what they do. He then asked if there are any laymen's terms for the general public where Mr. Ryan could break this down for someone who has property. He said he guesses it would be good to know where this property is located since they do not have a map today, but he knows it is the northeast quadrant on Route 13 towards Delmar, Delaware, to which Mr. Ryan responded, correct. He said someone could go to SWED.org, and it will be the first button they see. He said it is a button they put there on purpose that says Opportunity Map so they can find the map. He said, basically, it covers Northwood Industrial Park, goes up the eastside of Route 13, up to Route 54, over to Pittsville Road, down to Dagsboro Road, down Holt Road to Parsonsburg Road, gets into Route 50, goes around the Bypass, and comes back into Fruitland on the eastside. Mr. Cannon asked, if someone owns a piece of property, what exact opportunity could they have, to which Mr. Ryan responded, as an example, they could have a 5-acre parcel of land, and they want to construct a multifamily unit on that parcel. Mr. Cannon asked if someone could come to Mr. Ryan, and he would find someone who wanted to do a multiunit, to which Mr. Ryan responded, they could do that, and they are happy to help, but something like that would be a qualifying or eligible project for someone investing in the Opportunity Zone. He said it has to be in the Zone, and it has to be within the parameters of the fund they want to do. Mr. McCain asked what incentives there are to the owner of the parcel. He said he understands the incentives to the investors, but what about the owner who has that property in the Opportunity Zone, to which Mr. Ryan responded, it is important to keep in mind that the investments are in the form of equity, so it is not a loan, but equity investment. He said the project owner must be willing to seed some equity into that project, at least for a period of time, and this is where they could really use some additional guidelines. He said one fund that he is familiar with works in that they will invest 70 percent of the project cost as equity for a ten-year period of time, 20 percent conventional, and then 10 percent from the principle. He said, in ten years they want their money back on the equity side, so they would refinance, and it is a fairly attractive stack of financing for that particular project paying interest only on that 70 percent for a period of ten years. He said the

benefit would be, if someone does not have access to capital and they have a good project, then they could, perhaps, do it where otherwise they may not.

Mr. Cannon asked if this is going to be steered towards investors who then come to Mr. Ryan, who would then connect them with someone who has a property in the Zone, or would that come from the landowner, to which Mr. Ryan responded, he believes it should not be a single entry point. He said he thinks they can call whoever has a project, and he will try to connect them with funds, but they would not have to go through SWED, so they could do their own project, and an investor could do their own project. Mr. Cannon asked, if an individual who has five acres called Mr. Ryan and asked what he has for him, is that so far-fetched, to which Mr. Ryan responded, they could, and he would ask the location of the property, and what they are trying to do with it. Mr. Cannon said he does not think the landowner will have anything to do with the property, but just say it is their property, and ask what they can do with it now that it is in an Opportunity Zone, and he thinks they are looking for someone to invest. Mr. Ryan said they have to have an idea of what they want to do with it. He said, otherwise, they are going to go to a fund manager with \$50 million dollars with ten acres and ask what they are going to do with the land, and they will not know, to which Mr. Ryan responded, they have to have a project to present. He said, once they realize that gain, they have 180 days to invest in something, so there is not a lot of time to try to find what to do with the land, and they have to have a project ready to go. Mr. Cannon asked if SWED is sort of a clearinghouse for this because, what he is trying to get at is that they have the landowner, and then they have the investors, but how do they meet? He said the investors may not even be sure there is any property that is good for their investment, or anyone willing, so somehow or another there has to be some type of catalyst, to which Mr. Ryan responded, they try to get the word out as best as they can that they have this Opportunity Zone, and about the program, and they can call SWED anytime. He said Mr. Cannon sent a couple of landowners to SWED, which is not going to work out, but he thanks him for the referral. He said, again, they really have to have a project because there is no time for someone, especially outside their market area, to really understand the marketplace, and go through a process to say whether a hotel would work or a multifamily unit, for example.

Mr. Holloway said it sounds to him like a lot of this area is not going to be able to be used anyway. He said they would not put a multifamily unit on Line Road five miles out of Delmar because there is no septic, to which Mr. Ryan responded, it could be a commercial property, industrial property, or investments in business operations. Mr. Holloway said, from the way Mr. Ryan has talked, a lot of it is zoned agricultural, to which Mr. Ryan responded, he did not draw the map. He said he gets calls from people in Fruitland asking why they are not in the Zone, and he tells them all of the various zones have to start and stop somewhere, but, for those people, it always stops at the wrong spot, and he wishes that was not the case. He clarified, SWED had no influence because they did not want any influence. He said they tried, but they said "thanks, but no thanks". He said they do have a large swathe, and there will be projects within that Zone done that otherwise would not have happened, in his opinion.

Mr. Holloway said, going from Salisbury to Delmar, they must have had a heck of an Opportunity Zone on the north side of the Delaware line because they are building a lot of stuff up there. He said maybe this will pick up, to which Mr. Ryan responded, he thinks there will be some projects that will happen that otherwise would not have happened, and he thinks that is a good thing.

Mr. Hastings said for the last two years he chaired the Rural Maryland Council, and he is still on the Executive Committee, but they are highly interested in doing a regional event here that maybe they could fund, or help host. He said it sounds like that would be a great partnership, and he can put Mr. Ryan in touch with Charlotte if he would like. He said, to Mr. Cannon's point, it would be great getting

that connection, but he does not know how they do that, to which Mr. Ryan responded, there is no magic bullet. He said it is on their website, the State of Maryland has an exchange, and SWED has properties and projects on that exchange, which is how he developed relationships with certain funds and different market areas within Maryland. He said they are on that exchange and utilize it, so they are trying their best to get it out. He said he thinks it has been widely publicized that there are Opportunity Zones, but the devil is always in the details, and that is why he thinks that for either the persons starting their own fund, or someone who has a project, it is probably a nickel well spent to have a conversation with somebody. He clarified, he is not saying he knows, but rather somebody who understands a little bit about the project, and a little bit about the fund parameter because each fund is different. He said one fund will just want to invest in businesses, another will just want to invest in multifamily units, and another will just want to invest in retail, so they are all over the board, and there is no magic bullet to reach everyone. He said, for those who have a project, they can feel free to contact SWED. He said if they can bridge that gap, they want to, and identify projects themselves that they see locally.

Mr. Cannon thanked Mr. Ryan, and said Council appreciates him taking the time to explain this to them, and they will have him back for an update on how successful it has been, to which Mr. Ryan responded, to get the most benefit from an investment side, they would invest by the end of this year. He said there is a seven-year holding period, so seven goes to 26, and 2026 is when the initial gains taxes are due. He clarified, that does not mean they cannot invest in projects after that, but just that the most benefit can happen by the end of the year. He thanked Council for having him. There was no further discussion.



John T. Cannon, President



Larry W. Dodd, Vice President, District 3



Ernest F. Davis, District 1



Marc Kilmer, District 2




Josh Hastings, District 4



Joe Holloway, District 5



William R. McCain, At-Large



Laura Hurley, Council Administrator