Stonehenge Capital

Introduction

Stonehenge Capital Company, LLC (“Stonehenge” or the “Company”) is a nationally recognized specialty finance company with expertise in structured tax credit finance, community development and private equity.

Stonehenge’s Legacy:

Since 1999, Stonehenge has operated at the nexus of finance and community development. Today, these values remain unchanged and are evident through the firm’s three core business lines: Tax Credit Services, Growth Capital and Community Development.

Stonehenge’s People:

Founding partners, former managing directors of Bank One Capital Markets (now JPMorgan Chase), are experienced in investment banking, merchant banking, investment advisory and insurance operations.

The firm has 60+ employees in seven states with executive oversight in Baton Rouge, LA and Columbus, OH with additional offices in AL, CT, FL, NY and TX.
Stonehenge Capital
Business Line Introduction

Community Development:
$1.1 Billion Invested
Community Development Lending through Federal & State New Markets Tax Credit Allocations.
- 11 Federal New Market Tax Credit awards totaling $700.5 million.
- 13 State NMTC funds totaling $548 Million.
- 125 total NMTC investments in 27 states and 83 cities.

Growth Capital:
$875 Million Capital Raised
Manage state targeted funds focused on small businesses and economic development.
- 18 state targeted investment funds
- 7 SBICs capitalized by 3rd party institutions
- 2 State RBIC Programs Pending
- Focused on debt and growth equity investments.

Tax Credit Services:
$3.0 Billion Transacted
Participate in a variety of state and federal tax credit programs.
- Film Tax Credits: $975 million
- Historic Tax Credits: $730 million
- CAPCO: $640 million
- Renewable & Tech: $155 million
- Other Tax Credits: $725 million
Opportunity Zone Investor Benefits

The Opportunity Zones program offers three tax benefits for investing in low-income communities through a qualified Opportunity Fund:

1. A **temporary deferral** of inclusion in taxable income for capital gains reinvested in an Opportunity Fund. The deferred gain must be recognized on the earlier of the date on which the opportunity zone investment is disposed of or December 31, 2026.

2. A **step-up in basis** for capital gains reinvested in an Opportunity Fund. The basis is increased by 10% if the investment in the Opportunity Fund is held by the taxpayer for at least 5 years and by an additional 5% if held for at least 7 years, thereby excluding up to 15% of the original gain from taxation.

3. A **permanent exclusion** from taxable income of capital gains from the sale or exchange of an investment in an Opportunity Fund if the investment is held for at least 10 years. This exclusion only applies to gains accrued after an investment in an Opportunity Fund.

Source: Economic Innovation Group (EIG)
Partial Forgiveness of Deferred Capital Gains and Forgiveness of Additional Gains

**Investments held at least 5 years:**
- Basis increased by 10% of the deferred gain
- Up to 90% taxed

**Investments held at least 7 years:**
- Basis increased by 15% of the deferred gain
- Up to 85% taxed

**Investments held at least 10 years:**
- Basis is equal to Fair Market Value
- Forgiveness of gains on appreciation of investment
- Requires a special election
Qualified Opportunity Zone Business Models

- New Businesses
- Joint Ventures with Existing Businesses
- Subsidiaries of Existing Business (Sponsored Spin-offs)
- Commercial Real Estate
- Nonprofit Joint Ventures
- Pairing OZ with Tax Credit Investments
  - No Statutory Prohibition
  - Rev Proc. 2018-16

Source: Novogradac & Co.
Overview

Individual and Corporate Taxpayers get tax deferral on capital gains for make timely investments which invest in Qualified Opportunity Funds (QOFs) Qualified Opportunity Zone Property.
Investment Alternative to Traditional Stock Portfolio

Figure 1. Investing in an Opportunity Fund vs. a Standard Stock Portfolio
Scenario: A Capital Gain of $100 is Reinvested in 2018

Incentives Offered by the Opportunity Zones Program
- Deferral + 10% step-up in basis
- Deferral + additional 5% step-up in basis
- Deferral + total 15% step-up in basis + permanent exclusion of O-Fund gains from taxes

The Opportunity Zones program offers the most upside to patient investors who hold their O-Fund investments for at least 10 years.

All else equal, come 2028 an investor will be $44 better off for every $100 of capital gains they rolled over into an O-Fund in 2018 than if they had chosen a more traditional stock portfolio instead.

*Note: Assumes long-term federal capital gains tax rate of 23.8%, no state income tax, and annual appreciation of 7% for both the O-Fund and alternative investment.

Source: Economic Innovation Group (EIG)
Investing in Opportunity Act
Sample Investment

**June 30, 2018**
Taxpayer enters into a sale that generates $5M\(^1\) of capital gain

- **June 30, 2018**
  (Within 180 days), Taxpayer contributes entire $5M of capital gain to a Stonehenge Qualified Opportunity Fund ("SQOF")

- **June 30, 2018**
  Taxpayer is deemed to have a $0 basis in its SQOF investment

- **SQOF Invests the $5MM in Qualified Opportunity Zone Property**

**June 30, 2023**
(After 5 years), Taxpayer’s basis in investment in SQOF increases from $0 to $500k

**June 30, 2025**
(After 7 years), Taxpayer’s basis in investment in SQOF increases from $500k to $750k

**December 31, 2026**
$4.25MM of the $5MM of deferred capital gains are taxed and the basis in SQOF investment increases to $5MM

**June 30, 2028**
(after 10 years), Taxpayer sells its investment for $10.0MM. Basis in the investment is deemed to be FMV. The effect is no tax on appreciation in investment.

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\(^1\) The capital gain is contributed to the Stonehenge Qualified Opportunity Fund.
Pairing Opportunity Zones with Tax Credit Investments

- **Low Income Housing Tax Credits**
  - Investment holding periods line up nicely – 15 years v. 10 years.
  - Appreciation not as likely for tax credit investor but tax on negative capital could be avoided.
  - Zero basis Opportunity Fund investment likely to limit loss deductions unless share of liabilities are sufficient to absorb.
  - Substantial rehabilitation rules for LIHTC ($3,000/unit over 24 months) don’t line-up with substantial rehabilitation rules opportunity zones ($1 over beginning basis over 30 months).

- **New Markets Tax Credits**
  - Investment holding periods don’t line up – 7 years vs 10 years.
  - Appreciation not as likely for tax credit investor but tax on negative capital could be avoided.
  - Debt doesn’t qualify under Opportunity Zones.
  - Leverage likely to counter zero basis in investment.

Source: Novogradac & Co.
Historic Tax Credits

- Investment holding periods don’t line-up - 6-7 years vs. 10 years.
- Appreciation not as likely for tax credit investor but tax on negative capital could be avoided.
- Zero basis may limit ability to claim credits and/or deduct losses under a direct investment structure unless liabilities are sufficient to absorb.
- Master tenant investments, loans or prepaid leases common to pass-through structures are likely to be nonqualified financial property.

Renewable Energy Tax Credits

- Investment holding periods don’t line-up - 6-7 years vs. 10 years.
- Appreciation not as likely for tax credit investor but tax on negative capital could be avoided.
- Zero basis may limit ability to claim credits and/or deduct losses under a direct investment structure unless liabilities are sufficient to absorb.
- Master tenant investments, loans or prepaid leases common to pass-through structures are likely to be nonqualified financial property.
IIOA and NMTC

Why each tax incentive is important, complementary, and not duplicative

• **We need more economic development tools, not less.**
  – NMTCs can leverage only a tiny fraction of the total needs in low-income communities.

• **The IIOA and NMTCs work best as complementary tools.**
  – The IIOA will bring a larger scale and more nimble investment, but a shallower incentive to any one investment. The NMTC brings a deeper financing incentive for any one single investment but is limited in scale.

• **IIOA and NMTC will drive capital to areas where the other would not in any given year.**
  – States can only designate so much of their census tracts for inclusion in an Opportunity Zone. NMTCs will continue to be a critical tool in those low-income eligible communities that are not designated by the state.

• **IIOA and NMTC differ in the form of investment and stage when it is invested.**
  – IIOA is a better fit for early-stage investment in entrepreneurial ventures. NMTC will help finance more mature high community impact projects in need of a greater financing incentive to realize the community and economic benefits.

• **NMTCs and IIOA will draw from different investor pools.**
  – It will take time for Treasury to start up the IIOA. The NMTC must at a minimum be maintained during this interim period.

• **If NMTCs are repealed immediately, approximately $14 billion of investments will be denied to low-income communities while IIOA is implemented.**
  – It will take time for Treasury to start up the IIOA. The NMTC must at a minimum be maintained during this interim period.

• **If IIOA is abandoned in favor of the NMTC, then billions in capital on the sidelines won’t be invested in low-income communities.**
  – The NMTC will never be able to consistently reach every low-income community in need at scale; the IIOA can tap under-utilized capital where it is needed most.

Source: Novogradac & Co.
**What Investors Need to Make a Deal Work**

- Evaluation of:
  - Risk
  - Liquidity
  - Duration

- Talk with Fund Managers:
  - Does the Fund Manager have a track record of investing in Low Income Communities?
  - What is the Opportunity Fund’s diversification strategy?
  - What types of assets will the Investor be investing in?
  - What is the exit strategy?
Summary

The Opportunity Zone Program is designed to reward long-term investments in distressed communities.

Finding a community focused, impact investor will be key.
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