



S T O N E H E N G E
CAPITAL COMPANY

Opportunity Zones: Investor Perspective

May 2018



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



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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.

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

Overview



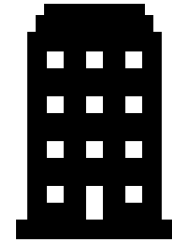
Individual and
Corporate
Taxpayers get tax
deferral on capital
gains

→
*for make timely
investments*



Qualified
Opportunity Funds
(QOFs)

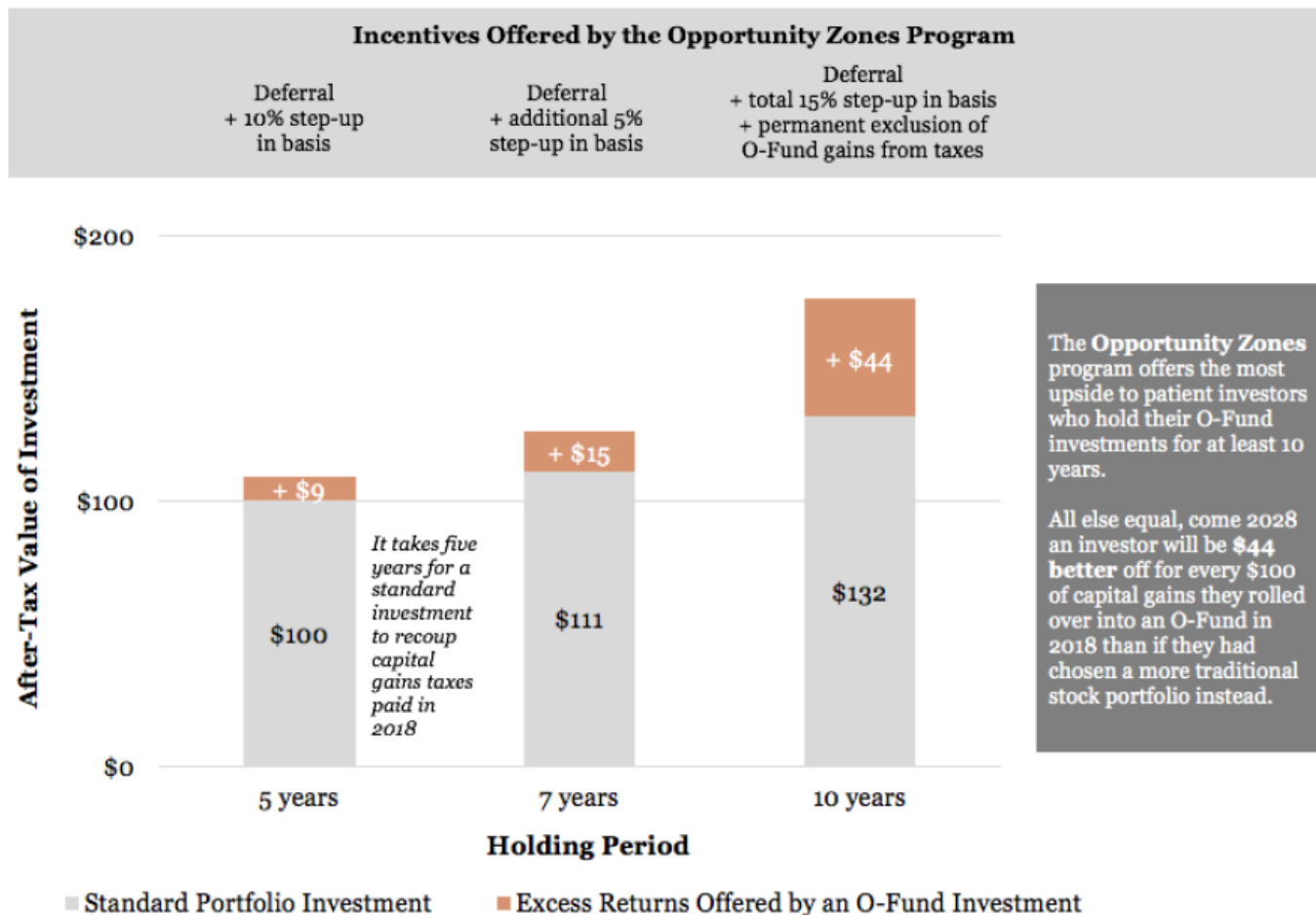
→
which invest in



Qualified
Opportunity Zone
Property

Investment Alternative to Traditional Stock Portfolio

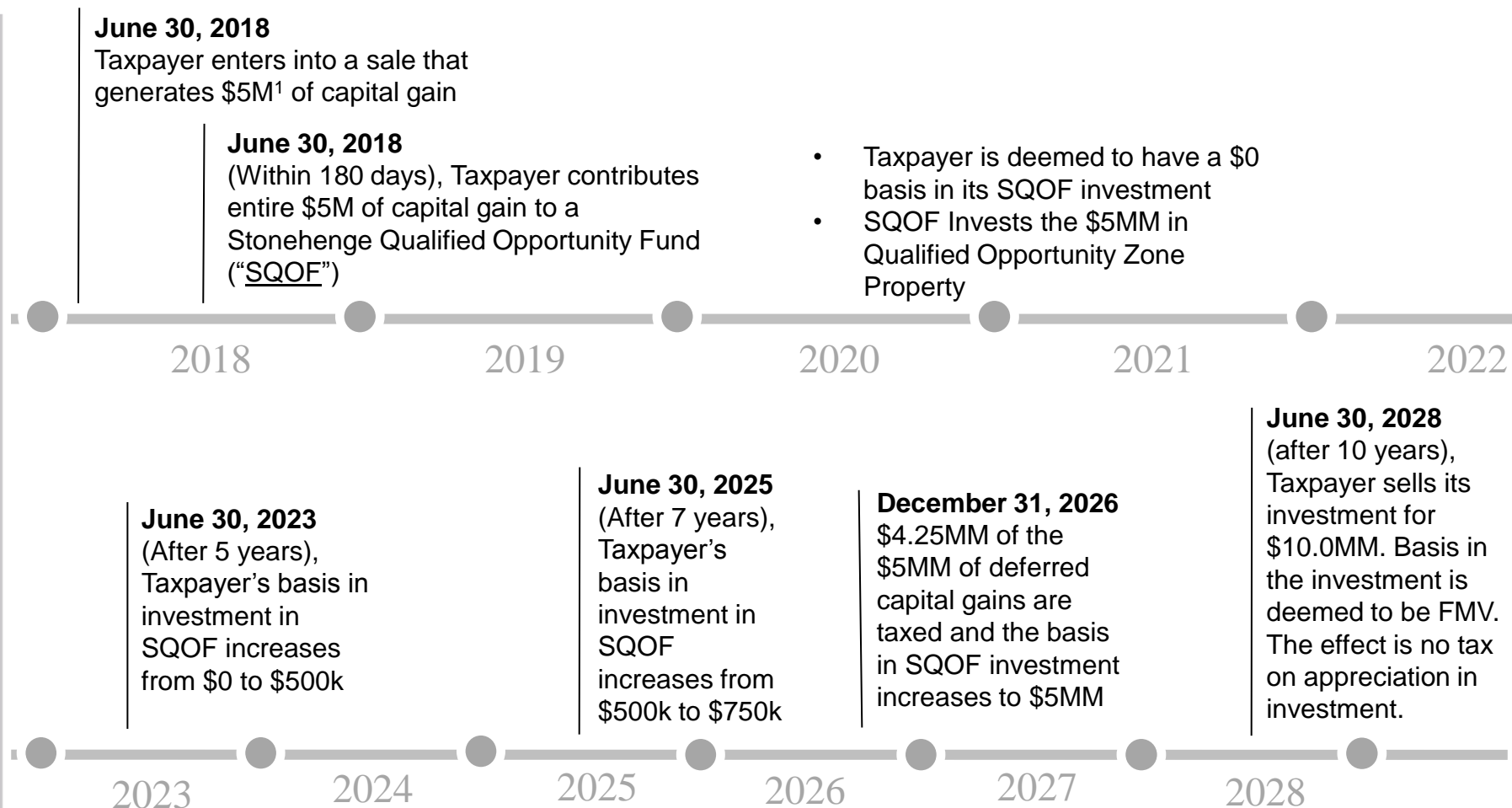
Figure 1. Investing in an Opportunity Fund vs. a Standard Stock Portfolio
Scenario: A Capital Gain of \$100 is Reinvested in 2018



* 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.

Investing in Opportunity Act

Sample Investment



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.

Pairing Opportunity Zones with Tax Credit Investments

- **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.

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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