LEXINGTON OPPORTUNITY ZONE

guidebook

June 2021

LEXINGTON FAYETTE URBAN COUNTY GOVERNMENT KENTUCKY 1775

ehi CONSULTANTS

Urban League of Lexington-Fayette County

Table of Contents

EXECUTIVE SUMMARY 3

INTRODUCTION 5

The Designations 5

Tax Benefits 5

Roadmap to Readiness 7

PROCESS 8

Understand 8

Align 10

Measure 12

CITY OF LEXINGTON 14

Community Profiles 15

ECONOMIC DEVELOPMENT INCENTIVES 37

State of Kentucky 37

MARKETING OPPORTUNITY ZONES 39

Recommendations for the City of Lexington 39

Phase I: Educate and Engage 39

Phase II: Involve and Collaborate 40

Phase III: Promotion 41

IMPLICATIONS AND RECOMMENDATIONS 43

Outlook for the future of the program 43

Implications and Recommendations 43

Nine Observations on the OZ Program's Deployment 44

REFERENCES 48

Executive Summary

The Opportunity Zone program was created through the Tax Cuts and Jobs Act of 2017 and offers benefits for communities and investors through a number of mechanisms. The main components of the program are Opportunity Zones – census tracts chosen by states which qualify with specific demographic characteristics – and Opportunity Funds which serve as a mechanism for investors to reduce their capital gains tax bill through investing them in Opportunity Funds which, when combined with various funding structures and credits, can provide funding for economic development projects. Opportunity Funds provide three main tax-benefits for investors to take advantage of:

- A temporary deferral of capital gains invested in Opportunity Funds being included in taxable income.
- A step-up in basis for capital gains invested in Opportunity Funds, increasing 10% for investments held in Opportunity Funds for at least 5 years and 15% after 7 years.
- A permanent exclusion from taxable income of capital gains held in Opportunity Funds

This program creates mechanisms for investors to protect the value of their capital gains while making funds available for projects in distressed areas. Projects often use equity from Opportunity Funds to leverage other funding or mechanisms such as housing tax-credits or private/public debt.

The Opportunity Zone program offers many benefits to investors, but the impact on communities is notably difficult to measure due to few federal mechanisms for evaluating and reporting Opportunity Fund activity. Most of the Opportunity Fund investment has targeted real estate assets due to the stable and predictable return on investment. However, the program also provides a mechanism for investing in businesses that open or relocate within Opportunity Zones which can produce a significant ROI if the value of that organization or company increases rapidly, although the risk is potentially higher.

The residents of Lexington and the Lexington-Fayette Urban County Government (LFUCG) will benefit the most from the Opportunity Zone program by connecting local organizations to Opportunity Funds who can help finance projects within the community. Funding can be coupled with existing local, state, and federal incentives to decrease costs and provide maximum benefits to the community. The city could also work with the philanthropy community to establish Opportunity Funds that are structured to provide equity investments that accept below-market returns for projects to accomplish altruistic outcomes. These funds could be invested into Local Community Development Corporations and other organizations who have experience obtaining various economic incentives to inject equity into existing and future development projects.

While the city's comprehensive plan, *Imagine Lexington*, promotes both infill and transit-oriented development, these methods could contribute to unintended outcomes such as displacing vulnerable communities through a rapid increase in property values and housing costs. This poses a potential issue with the Opportunity Zone program which intentionally focuses investment into communities who have historically and continue to experience marginalization and displacement.

With this understanding, the city and local developers should be intentional in how they pursue Opportunity Fund investment by leveraging additional incentives that can bring down costs and produce affordable housing, accessible employment opportunities, and services that benefit the existing community.

Additional recommendations include:

- Work with the Lexington Property Value Administration to analyze real estate activity within the seven Opportunity Zones and identify any areas of rapidly increasing home values and the potential impact on area housing costs
- Create a program that streamlines the planning process for Opportunity Fund investments that meet specific goals set by LFUCG such as business incubators, employment training centers, and/or affordable housing
- Designate a point-of-contact within LFUCG who can answer questions related to the Opportunity Zone program, organize regular Opportunity Zone roundtable discussions with Opportunity Fund investors, and connect out of state investors to state and local economic development agencies who are able to assist with building capital stacks using available incentives
- Maintain and expand connections to Opportunity Zone point-of-contacts in other cities to lobby federal agencies for increased transparency, re-orienting the program to encourage capital flows to businesses, and ensuring investment produces affordable housing

Introduction

Opportunity Zone designated neighborhoods are the building blocks of communities and economic development and are crucial in shaping Lexington's identity and vitality. In fact, the concept of community and the dynamics of public life often occur at the neighborhood level. The recommendations developed for this Guidebook are based on the concepts of authentic engagement opportunities to strengthen and connect neighborhood assets, foster unity, generate economic and neighborhood development strategies.

The Opportunity Zone program was created through the Tax Cuts and Jobs Act of 2017 and offers benefits for communities and investors through a number of mechanisms. The main components of the program are Opportunity Zones – census tracts chosen by states which qualify with specific demographic characteristics – and Opportunity Funds which serve as a mechanism for investors to reduce their capital gains tax bill through investing them in Opportunity Funds which, when combined with various funding structures and credits, can provide funding for economic development projects.

The Designations

Opportunity Zones were identified at the census tract level. In early 2018, the governor of each State and Territory nominated census tracts to be designated as Opportunity Zones. To be eligible for nomination, census tracts were required to meet the criteria outlined in Section 45D(e) of the Internal Revenue Code that define a low-income community as having —

- A poverty rate of at least 20%; or
- A median family income of no more than 80% of the statewide median family income (for census tracts not located in a metropolitan area) or a median family income of no more than 80% of the greater of the statewide median family income or the metropolitan median family income (for census tracts located in a metropolitan area).

Governors could also nominate a limited number of non-low-income community census tracts to be Opportunity Zones, provided the non-low-income community tract was adjacent to a low-income, Opportunity Zone-nominated tract, and the median family income of the non-low-income tract did not exceed 125% of the median family income of the adjacent Opportunity Zone-nominated tract. By June 2018, the U.S. Department of the Treasury had approved 8,762 Opportunity Zones across all 50 States, five Territories, and Washington, D.C. Two additional tracts were later designated in Puerto Rico, bringing the final, total count to 8,764. Within Lexington and Fayette County the Opportunity Zone Census Tracts are: 1.01, 1.02, 2,3, 9, 11, 13.

Tax Benefits

Opportunity Funds provide three main tax-benefits for investors to take advantage of:

- A temporary deferral of capital gains invested in Opportunity Funds being included in taxable income.
- A step-up in basis for capital gains invested in Opportunity Funds, increasing 10% for investments held in Opportunity Funds for at least 5 years and 15% after 7 years.
- A permanent exclusion from taxable income of capital gains held in Opportunity Funds

Tax-advantaged private investments in Opportunity Zones are made through a new investment vehicle called Qualified Opportunity Funds (QOFs). Taxpayers establish QOFs by completing Internal Revenue Service (IRS) Form 8996 and filing it with their Federal tax return. U.S. taxpayers are eligible to receive certain tax benefits on realized capital gains that are reinvested in Opportunity Zones through QOFs. Tax benefits increase with the length of time that the investment is held.

The benefits of investing in Opportunity Zones can be grouped into three major categories:

Temporary Deferral of Capital Gains Taxes — Investors will not be taxed on the capital gains invested in a QOF until they exit the fund or December 31, 2026, whichever comes first.

Step Up in Basis — Investments held for a minimum of five years will be taxed at the reduced rates of 90% for investments held for at least five years (10% basis increase) and 85% for investments held for at least seven years (15% basis increase).

Tax-Free Gains After Year Ten — If an investor holds a reinvestment for ten years, capital gains achieved by the QOF investment during that ten-year period will not be taxed. *This is a permanent exclusion from taxable income.*

This program creates mechanisms for investors to protect the value of their capital gains while making funds available for projects in distressed areas. Projects often use equity from Opportunity Funds to leverage other funding or mechanisms such as housing tax-credits or private/public debt.

The Opportunity Zone program offers many benefits to investors, but the impact on communities is notably difficult to measure due to few federal mechanisms for evaluating and reporting Opportunity Fund activity. Most of the Opportunity Fund investment has targeted real estate assets due to the stable and predictable return on investment. However, the program also provides a mechanism for investing in businesses that open or relocate within Opportunity Zones which can produce a significant ROI if the value of that organization or company increases rapidly, although the risk is potentially higher.

Primary Audience

This Guidebook is developed primarily for an audience of local leaders, investors, neighborhoods, community development professionals, nonprofit organizations, civic leaders, workforce professionals, lenders, and other local economic development stakeholders (i.e., Commerce Lexington) who share an interest in the economic well-being of the Lexington community as a whole and within the federally designated Opportunity Zones. Although the Guidebook is developed primarily to guide local leaders in planning for economic development in the Opportunity Zone, anyone interested in participating in the Opportunity Zone — including current and potential investors — may find this resource invaluable when assessing the land availability, land use, zoning, demographics, and neighborhood dynamics, that are contained in this Guidebook to be a resourceful tool.

Guidebook Tips

Within this Guidebook, local leaders will find a variety of recommendations, ideas, and models for implementation. Leaders will find guidance to help them accomplish the following:

- Layer and leverage Federal, State, and local funding programs to attract Opportunity Zone investments.
- Capitalize on local programs to improve infrastructure and enhance Lexington's capacity to market, attract and absorb investment.
- Add to the "Lexington capital stack" — that is, the layers of financing or other resources that can be used to support projects in the community — low-cost funds or other improvements that can make an individual project, or a neighborhood as a whole, more attractive for future investment.
- Strengthen and complement Opportunity Zone investments in a way that ensures equitable outcomes that meet the needs of both the neighborhood and its residents.

- Ensure that residents are actively engaged in the decision-making outcomes that will have a positive social and economic impact on their community.
- Promote the recommendations of the Neighborhoods in Transition Task Force to minimize and reduce any unwarranted economic displacement of long-term residents residing in Opportunity Zone neighborhoods.
- Community Benefits Agreements is a way to address incomed inequality in underserved neighborhoods. A CBA is a contract between a community group and a developer in which the developer agrees to provide a slate of economic benefit in exchange for the neighborhoods support.

Policy Considerations

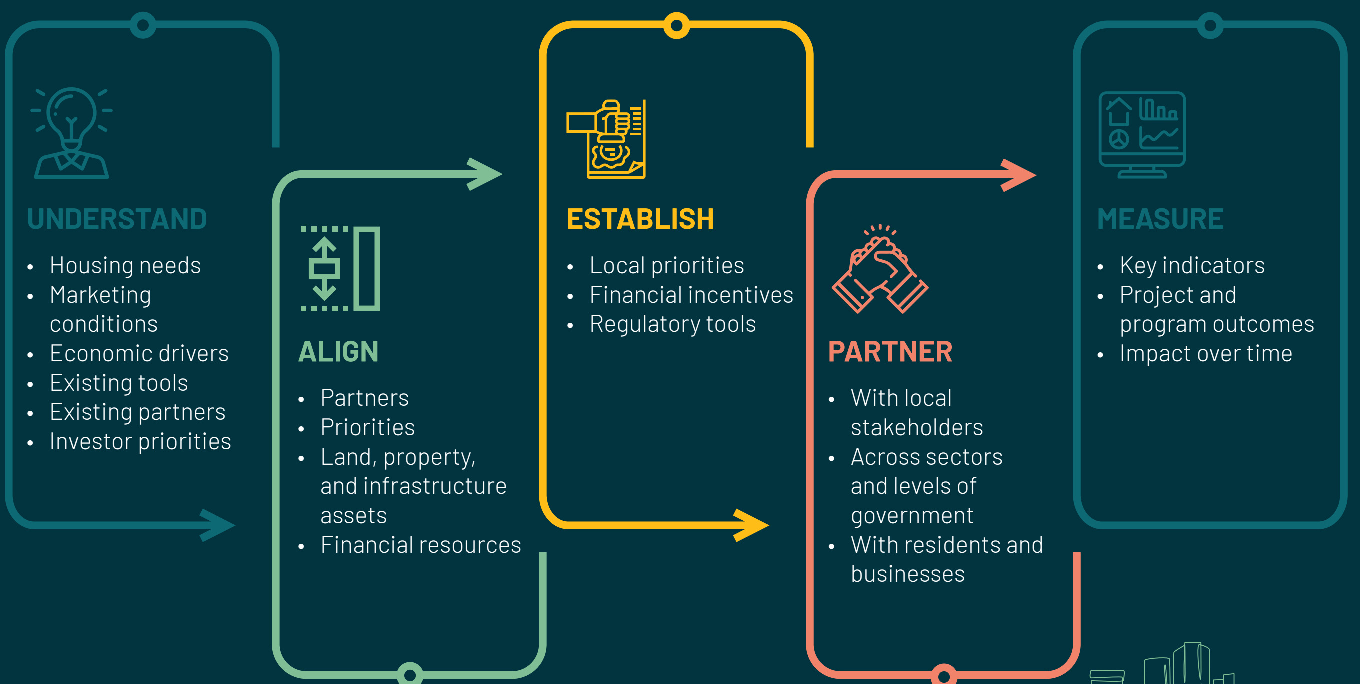
The Guidebook is designed to highlight the neighborhoods located within the Opportunity Zone to ensure that investments align one or more of five neighborhood key policy areas: **Economic Development, Entrepreneurship, Safe Neighborhoods, Education and Workforce Development,** and **Measurement**.

Organizational Concepts

This Guidebook is organized around "A Roadmap to Readiness" that identifies five critical steps in planning the strategic alignment of resources to promote economic development within the Opportunity Zone Neighborhoods:

- **Understand** the current environment, including assets, needs, opportunities, and potential partners
- **Align** place-based assets and resources to steer market investment toward community economic development
- **Establish** policy tools and incentives to promote local objectives for community economic development
- **Partner** with aligned organizations to support equitable and inclusive opportunities
- **Measure** impact of local initiatives and make adjustments, as necessary.

Roadmap to Readiness



Process

Public officials, nonprofits, and community development organizations in Lexington and its neighborhoods seeking to attract new investments must partner with QOF managers. These managers' decision-making will heavily involve financial considerations. This dynamic may present a challenge to the city's local leaders who have an in-depth understanding of each neighborhood and its needs, but oftentimes find it difficult and too cumbersome of a process of promoting those needs to the private sector. Likewise, private investors looking for ways to invest in QOFs most often are not familiar with the local dynamics of the city and its neighborhoods, as well as being fully apprised of Lexington's development and regulatory mechanisms necessary when pursuing investment and development opportunities. Incentives and support that can be provided to expedite and improve these processes can make community-based investing less costly, less risky, or more development friendly.

QOF's managers and investors must ensure they meet the key timing requirements in the regulations and could require leaders and the process to make decisions or take action for support of projects that require actions, such as permitting, land use decisions, or financial support. Consequently, it is important that leaders always be guided by a long-term view of how Opportunity Zone investments will fit with the neighborhood's overall vision for economic and community development to benefit local residents. Oftentimes these goals and visions are developed through the small area plans for the neighborhoods and should be adhered to when making those development and investment decisions.

In addition to attracting private capital through QOFs, the neighborhoods that are designated as an Opportunity Zone should be able to catalyze additional public and private investments. These investment initiatives if done correctly should encourage and incent stakeholders to reconsider how economic development intersects with social justice and wealth- building in a neighborhood. The Guidebook is designed to create excitement and develop interest from residents, investors and developers created by this designation. This designation will also provide local leaders the opportunity to understand, identify and, in some cases, develop innovative approaches to local economic development. The Guidebook details Federal, State, and local government agencies that have realigned many existing programs and created new incentives to reinforce the Opportunity Zone designation, creating the opportunity to strategically focus attention and resources on distressed communities in a way that will yield benefits well into the future.

The Guidebook details a multi-step approach that community leaders should take to maximize the community and economic development impacts of the Opportunity Zone designation through the organizational concepts of the Guidebook: **understand, align, establish, partner,** and **measure.**

Understand

To become successful those participating in the OZ process must clearly understand the priorities and interests of different types of investors, as well as how investors evaluate opportunities and risks. Hosting investor networking events and consulting available QOF directories are among the ways that communities can learn more about investor priorities and interests.

Understanding the social equity and justice component of any Opportunity Zones initiative may encourage the creation of new pools of impact-investing capital. Engagement of the neighborhood at the project design stage, will save time and build relationships that can evolve into community partners instead of adversaries. The following elements are vital for communities to consider and understand when developing effective, comprehensive plans for revitalization and ongoing economic growth in the Opportunity Zones:

Market Conditions

In addition to understanding housing needs, leaders should understand Lexington's current conditions of the local commercial real estate market and the impacts of the market within transitioning and developing neighborhoods (market assessments, appraisals, property taxes, market trends, conditions, and valuations). Local leaders should conduct a commercial real estate assessment to better understand current office, retail, hotel, and industrial uses within Opportunity Zones. This assessment should involve conversations with local real estate brokers and developers to learn about development barriers and opportunities. A list of active or planned projects in and around their Opportunity Zones would be a good indicator of the market viability.

Housing Needs

Increasing the stock of quality affordable housing is a Lexington identified community priority. A variety of housing options at different price points promotes stronger and more inclusive neighborhoods. Housing is a critical component of the neighborhood's economic ecosystem, and quality affordable housing is a stated consideration in Lexington's small area neighborhood plans. Lexington has several housing market studies (2009 and 2014) and its 2020 Consolidated Plan for Housing are documents that should be reviewed when making housing development decisions in the Opportunity Zones. Engaging with residents, especially those who are either in need of housing or vulnerable to displacement, is critical to understanding the most urgent needs of the community and to ensure that new public and private investments are deployed effectively to address these needs.

Economic Drivers

Developers who want to serve commercial markets and investors who finance new business enterprises both need to understand the overall economic strategy and trajectory of the region, county, and city. Commerce Lexington and other local economic development organizations already maintain plans that include a comprehensive description of business-support systems, such as entrepreneurship programs, incubators, and accelerators. Planning and engagement around economic drivers and available support systems will enable community leaders and partners to target opportunities for business investment within the Opportunity Zones.

Workforce

The status and prospects of the local workforce are two of the most important determinants of success in the Opportunity Zone process, for both neighborhoods seeking investment and investors with an interest in making investments. Companies being recruited as tenants by commercial developers need to know that a skilled workforce is available. Likewise, neighborhood residents need to know that training opportunities will allow them to qualify for newly created well-paying jobs. Subsidies and incentives for workforce training should be coordinated through State-level Workforce Investment Boards. These public-private boards usually are well known to local economic development entities, which work closely to apply such incentives to the needs of new or expanding businesses in exchange for jobs and economic benefits for the community.

Tools for Economic Development

Investors in new business enterprises need to know not only where growth is coming from but also how the community supports it. Leaders should be prepared to explain to QOF managers and investors the full range of economic development tools that are available to support economic and business development in Opportunity Zones. This inventory should include local, regional, and statewide incentive policies and financing tools, as well as Federal and even philanthropic programs. These could include financial incentives, such as tax credits and abatements, or local programs to support workforce development or business incubation.

Infrastructure

Often times in economically distressed neighborhoods, inadequate infrastructure is a result of historic disinvestment and can stand in the way of attracting renewed investment. To support Opportunity Zone projects, public infrastructure investment should be aligned with the city's capital improvement and EPA Consent Decree plans with the infrastructure improvements that are needed most by the industry sectors expected to drive demand for space within the Opportunity Zone.

Align

Place-based assets and resources are necessary to steer market investments towards Opportunity Zone neighborhood economic development. What is needed in Lexington is a shared understanding of neighborhood needs and investment opportunities among potential investors and local stakeholders. Lexington community leaders must strive to position the alignment of a neighborhood's assets and resources to achieve a common interest. This Guidebook includes recommendations and practices from both traditional strategies for economic development and emerging techniques for community wealth building.

Vacant and Underutilized Properties

Lexington has identified vacant and underutilized land and property, which can be a critical tool for catalyzing development in the Opportunity Zones. An inventory of such properties has been identified and recently updated in the 2020 Sustainable Growth Study. Identify who owns these properties and their zoning and development potential can be critical assets to be used toward community development goals.

Neighborhood Infrastructure

Inadequate infrastructure is a result of historic disinvestment in the older urban neighborhoods located in the Opportunity Zone, which can be a hinderance in attracting sustainable investment. To support Opportunity Zone projects, local leaders should align their capital improvement plans with the infrastructure improvements that are needed most by the industry sectors expected to drive demand for space in the city. Major infrastructure needs have been achieved as a result of the city's efforts to implement the EPA Consent Decree towards stormwater and wastewater improvements. There still remains a need for curbs, gutters, sidewalks, and broadband deployment within the neighborhoods. QOF investors may commit voluntarily to community-benefit agreements that provide for privately financed infrastructure improvements. In other cases, it may be necessary to employ such funding mechanisms as a Tax Increment Financing district, which has been and is currently being used for improvements, to be paid for out of increased future tax revenues from what will then be a higher value use of the property.

Leverage Resources

Resources of human capital and financial support exist to facilitate QOF projects, as well as parallel efforts in community revitalization and wealth building and should be fully explored when considering community-based projects. In many cases, one source of financial support can reinforce another. Neighborhood and community-based organizations should seek out funding that can both support a QOF project and improve the environment for follow-on investments.

Establish

It is more effective for tools to be under a community's direct control than to rely on leveraging external programs that may have been designed for some other more general purpose. In fact, local leaders have the option to establish their own targeted policy tools.

Neighborhood Outcomes

The process of developing local policy instruments must begin with identifying the desired community outcomes. Examples of possible outcomes include growth in specifically targeted industries or sectors; promotion of entrepreneurship among community residents; equity and inclusion in local hiring; blight reduction; Brownfield activation; low-income housing development; and prevention of displacement. These outcomes are not mutually exclusive, but the priorities of a given neighborhood will shape the development of the most effective local policy interventions. Some of the needs identified in the "Understand" action step will serve to pinpoint the highest-priority outcomes for QOF investments. In other cases, communities should work backward from assessment tools, as described in the local neighborhood assessments in this Guidebook.

Incentives

Lexington local government and neighborhood organizations should leverage existing tools and programs or create new ones to facilitate or better leverage QOF investments. Provided that the desired outcomes for an Opportunity Zone have been identified and agreed upon, the designation offers the opportunity to layer additional, highly targeted incentives at the local level, leveraging the more general support available from other levels of government and from the private sector, while preserving local government as the government closest to the community.

In addition to financial incentives, other functions under local control can affect which projects become easier and more attractive for investors to support and for developers to execute, either as part of a QOF-financed project or as a follow-on investment in community renewal. Examples of regulatory policy changes those localities should explore include the following:

Up-zoning, which allows for increased density than was previously permitted in an area, thereby making certain projects more financially attractive than they would be otherwise.

- Targeted **zoning changes**, which enable uses that might not otherwise be permitted in a neighborhood.
- **Expedited permitting and reviews**, which reduce the time and, ultimately, the overall cost of property redevelopment.

Partner

Partnerships should be encouraged with aligned organizations to support equitable and inclusive opportunities. Neighborhood and developer-based partnerships are critical for advancing economic development within the Opportunity Zones. Creative place making and ingenuity can play an important role in creating and strengthening partnerships among public, private, and philanthropic sector stakeholders. Locally led efforts can also ensure that residents and local businesses are engaged in Opportunity Zone plans and programs. This engagement will increase the likelihood that the Opportunity Zone activities are aligned with the neighborhood's highest priorities.

Stakeholder Partnerships

Building a robust "community capital stack" is key to effectively harnessing the catalytic potential of an Opportunity Zone designation and specific QOF-financed projects. In a narrow sense, the phrase refers to the multiple layers of financing that can be brought to bear on a project within an Opportunity Zone, with some partners providing investment capital and others offering subsidies or other supports that are motivated by public interest. More broadly, the phrase refers to the range of stakeholders who bring nonfinancial capital — such as knowledge, advice, and neighborhood support — to community development. Building an effective community capital stack requires the creation and maintenance of strong partnerships across sectors.

- **Residents**
- **Small Business**
- **Real Estate Developers**
- **Community Organizations**
- **Higher Education**
- **Hospitals & Health Systems**
- **Economic Development Districts**
- **Workforce Investments Boards**
- **Corporations**
- **Investors**

Neighborhood Based Organizations

Lexington has several Community-Based Organizations (CBOs) that are working in the Opportunity Zone neighborhoods, they generally focus on providing services to residents. These CBO's are crucial to the success and local leaders should work hard to build strong relationships between CBOs and LFUCG housing, planning, community, and economic development offices. Partnerships built on mutual trust will empower communities to choose and support activities that best advance equitable and inclusive growth within the Opportunity Zone.

Business Engagement

LFUCG, Commerce Lexington, and other local organizations are making special efforts to engage industry in the community capital stack. Business leaders should be drawn proactively into dialogue about community development. The focus should extend well beyond such financial institutions as banks to include operating businesses in the Opportunity Zone, as well as the larger businesses that have a greater impact on the community. Lexington's Opportunity Zone initiative should seek to influence future investments in the underserved areas, not just by the specific tenants targeted by a property developer, but by the regional business community as a whole. The more regional industry leaders know about positive developments in the Opportunity Zone, the more likely they are to consider future investments in it.

Engage Residents

Lexington's Opportunity Zone initiative of communitywide partnerships will be important to the success of neighborhood revitalization efforts that build on Opportunity Zone designations and benefits. Understanding complex systems and making investments constructively requires many different perspectives and players in addition to residents and local business owners. Working in coalitions and the development of Community Benefit Agreements can align the vested interests of individual organizations by uniting action and broadening legitimacy through effective community engagement. Local leaders should build formal partnerships that create synergy and enable community support for rapid change and development.

Measure

It is important to create metrics that can measure the impact of local initiatives and make adjustments, as necessary. Depending on the nature of the partnerships developed between Opportunity Zone residents and other components of the community capital stack, it may be important to track different measures of success. Guided by the specific outcomes agreed to at the local level, leaders should plan to measure not just the number and value of QOF-financed investments, but also their direct impacts on employment opportunities and housing stock, along with the indirect results of community improvements that are stimulated by newly mobilized government resources or by new private investments. Ongoing monitoring allows stakeholders to identify obstacles or opportunities and suggests when changes to the program could produce greater community benefit. One key metric that should be strictly monitored is the displacement of vulnerable residents within an Opportunity Zone neighborhood, to ensure that no involuntary residents or businesses are displaced as a result of an Opportunity Zone project. The recommendations from the Neighborhoods in Transition Task Force should be considered as a primary metric.

Depending on the nature of the partnerships struck between Opportunity Zone residents and other components of the community capital stack, it may be important to track different measurements of success. Guided by the specific outcomes agreed to at the local level, leaders should plan to measure not just the number and value of QOF-financed investments, but also their direct impacts on employment opportunities and housing stock, with the indirect results of social equity and justice and community improvements that are stimulated by newly mobilized government resources or by new private investments. Ongoing monitoring allows stakeholders to identify obstacles or opportunities and suggests when changes to the program could produce greater community benefit.

Metrics

When identifying the most useful metrics to track based on locally agreed-upon goals, leaders should be guided by several broad principles.

Ensure objectivity. To ensure objectivity in measuring and assessing impact, local leaders should explore opportunities to partner with external entities that are not involved in managing the initiative and do not stand to benefit. Colleges, universities, and other research organizations may prove reliable, objective, and credible partners for this purpose. Involving an objective partner at the earliest stage will help ensure that reasonable metrics are tracked.

Isolate program impact. The measurement methodology used should go beyond the traditional measurement of change in the value of baseline socioeconomic indicators. A valid measurement must distinguish the impact of the projects from changes in socioeconomic variables that would have occurred in the community even if it had not received benefits from the Opportunity Zone initiative. The net impact of the initiative on the target community may be measured by employing one of the following techniques:

1. comparing the outcomes of the initiative to the outcomes that likely would have occurred had the initiative not been implemented, or

2. comparing the outcomes of the initiative with those of the neighborhood that do not have designated Opportunity Zones.

Collect Information

To be useful, an evaluation regime must collect data on a project's impact over time. The neighborhood and local leaders should be aware that Federal agencies are working hard to make data available that is useful in this process. Data collection and analysis will provide a snapshot into the success and viability of the program and will assist in determining the level of success and impact on a neighborhood and its residents. Forms of data collection include:

1. IRS Form 8996 — Census data provides rich information on a broad range of outcomes of interest. Yet this information has its greatest value if matched to data on QOF investments. IRS Form 8996, used by QOFs to report their activities, promises increasingly useful information over time. In December 2019, the IRS released a revised Form 8996 that now requires QOFs to report on the location, amount, type, and date of their investments. At the time this was being written, the U.S. Department of the Treasury was considering making aggregated data from Form 8996 available to the public in a manner similar to the Statistics of Income Data, which would enable better analysis of impacts from Opportunity Zone activity. For information on Form 8996, and examples of aggregated IRS statistics, see the two resources below.

2. HUD Opportunity Zone Grant Certification Form — HUD has announced its intention to begin collecting data necessary to assign preference points to applications for grant and technical assistance that address Opportunity Zones. It is likely that some of the data collected will be made public.

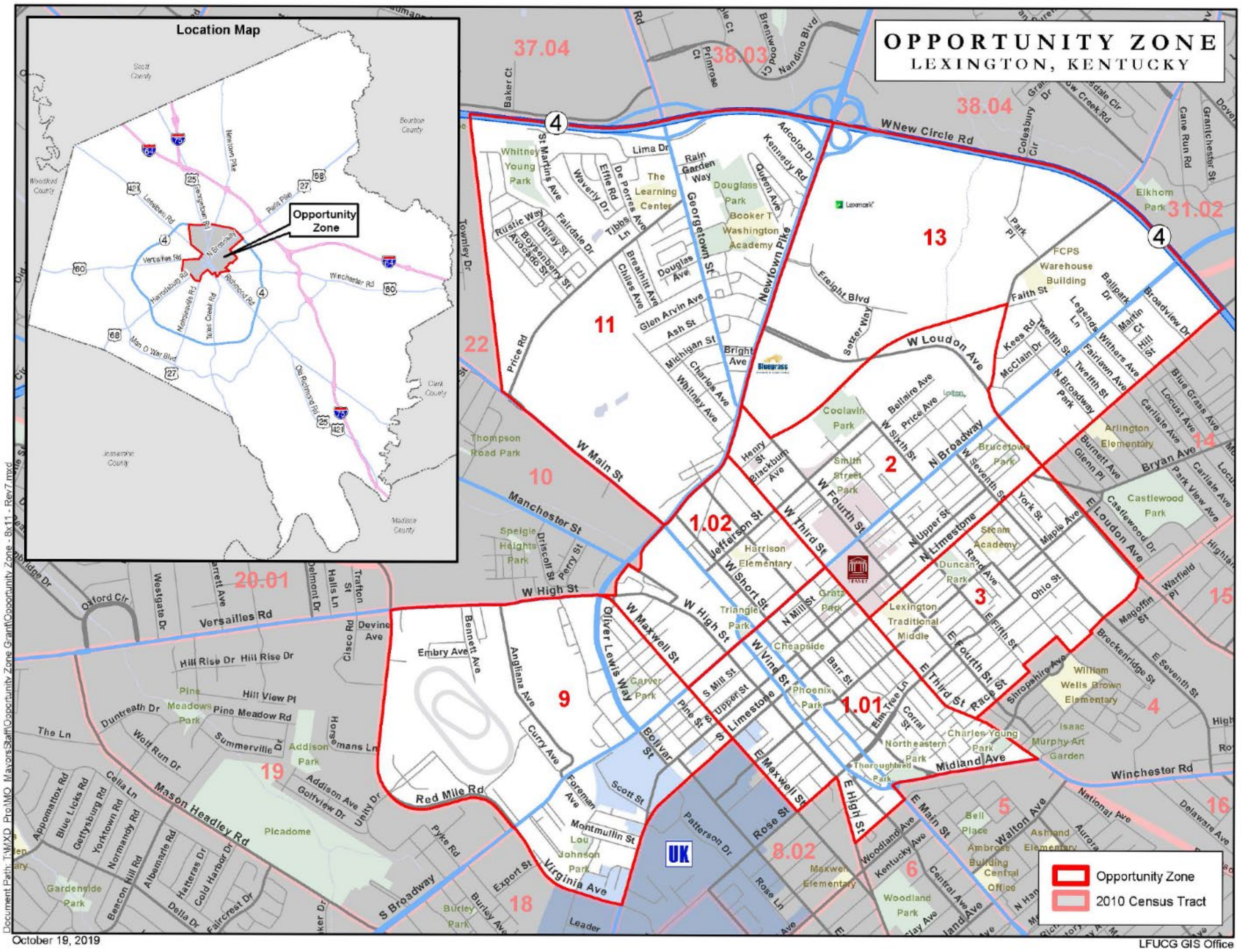
City of Lexington

Several of the neighborhoods located within Lexington's opportunity zones have been cornerstone neighborhoods for Lexington's African American community, East End, West End/ Georgetown St., and Davis Park were welcoming neighborhoods for freed African Americans both before and after the civil war and provided segregated places for residents to live work and play. Through the efforts of redlining and public disinvestment, these policies contributed to the urban decline of our communities. It was not until federally subsidized urban renewal and community development programs came along in the 1960's and 1970's that the neighborhoods began to see redevelopment efforts. It is these underserved minority communities that will benefit the most from a successful Opportunity Zone program in the City of Lexington, by applying the organizational concepts described earlier in the report.

Asset Inventory, Neighborhood Demographics, and Vacant Zoning and Underutilized Properties form the actual case studies for the application of the organizational principles and creates a land inventory, demographic and market database that can be used in the implementation and development of Opportunity Zone projects.

The Opportunity Zone program is designed to connect local organizations and development associations such as, The Urban League, Community Ventures, Lexington Community Land Trust, Habitat, and neighborhood associations to Opportunity Funds who can help finance projects within the community. Funding can be coupled with existing local, state, and federal incentives to decrease costs and provide maximum benefits to the community. The city could also work with the philanthropy community to establish Opportunity Funds that are structured to provide equity investments that accept below-market returns for projects to accomplish altruistic outcomes. These funds could be invested into Local Community Development Corporations and other organizations who have experience obtaining various economic incentives to inject equity into existing and future development projects.

Each of the seven districts offer unique opportunities for development that can satisfy housing, employment, and service shortages that the city and development community can help provide through the program. The following section includes profiles of each Lexington Opportunity Zone that include an existing asset inventory, neighborhoods within each Opportunity Zone, and an analysis of the demographics , and zoning for existing vacant lots in order to help address the needs of each community.



Community Profiles

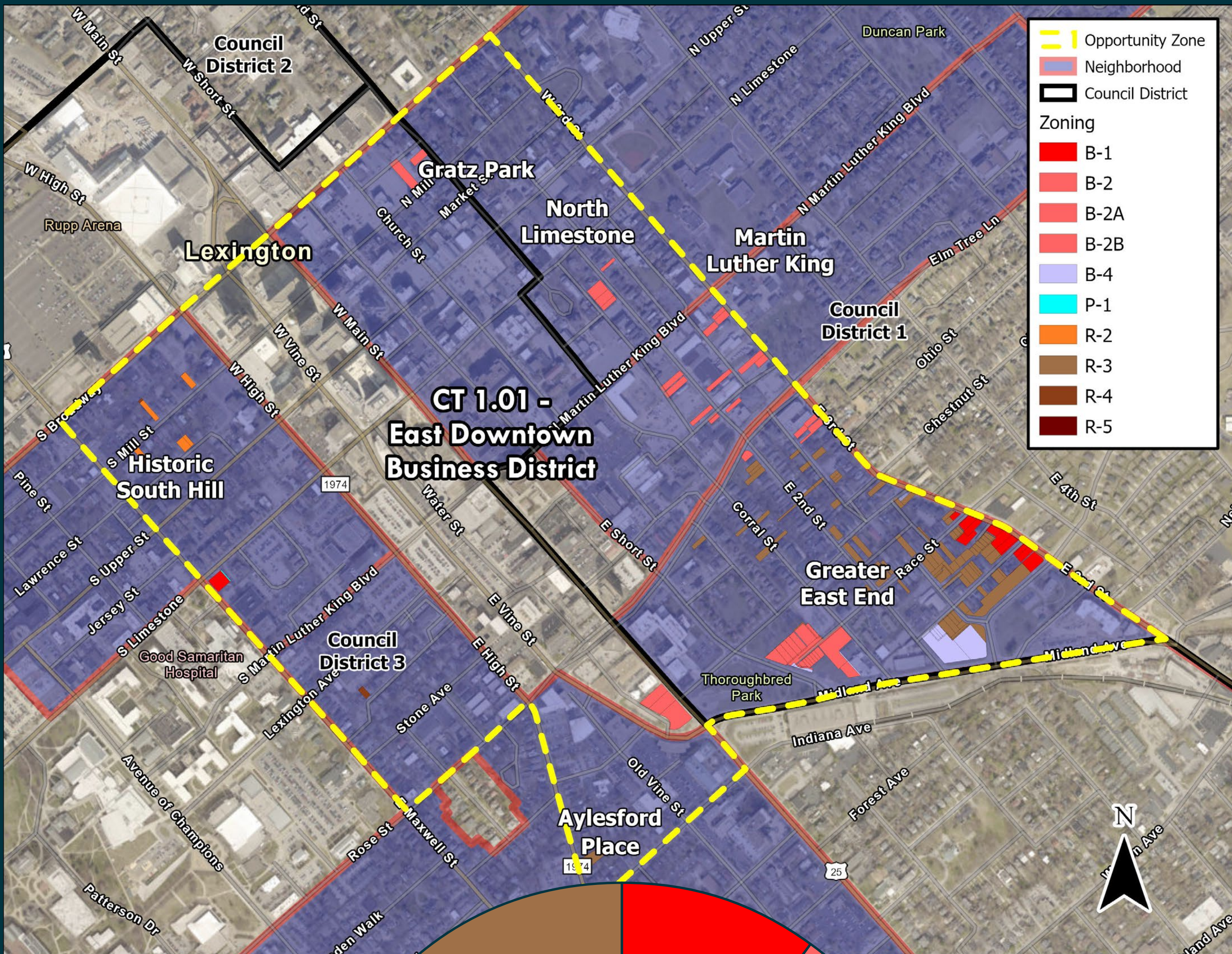
1. Existing asset inventory – Each community profile contains an asset inventory, which includes the collection and documentation of the positive attributes and features of the targeted area: both physical atributes such as buildings and parks, and social assets like residents, businesses, and organizations.

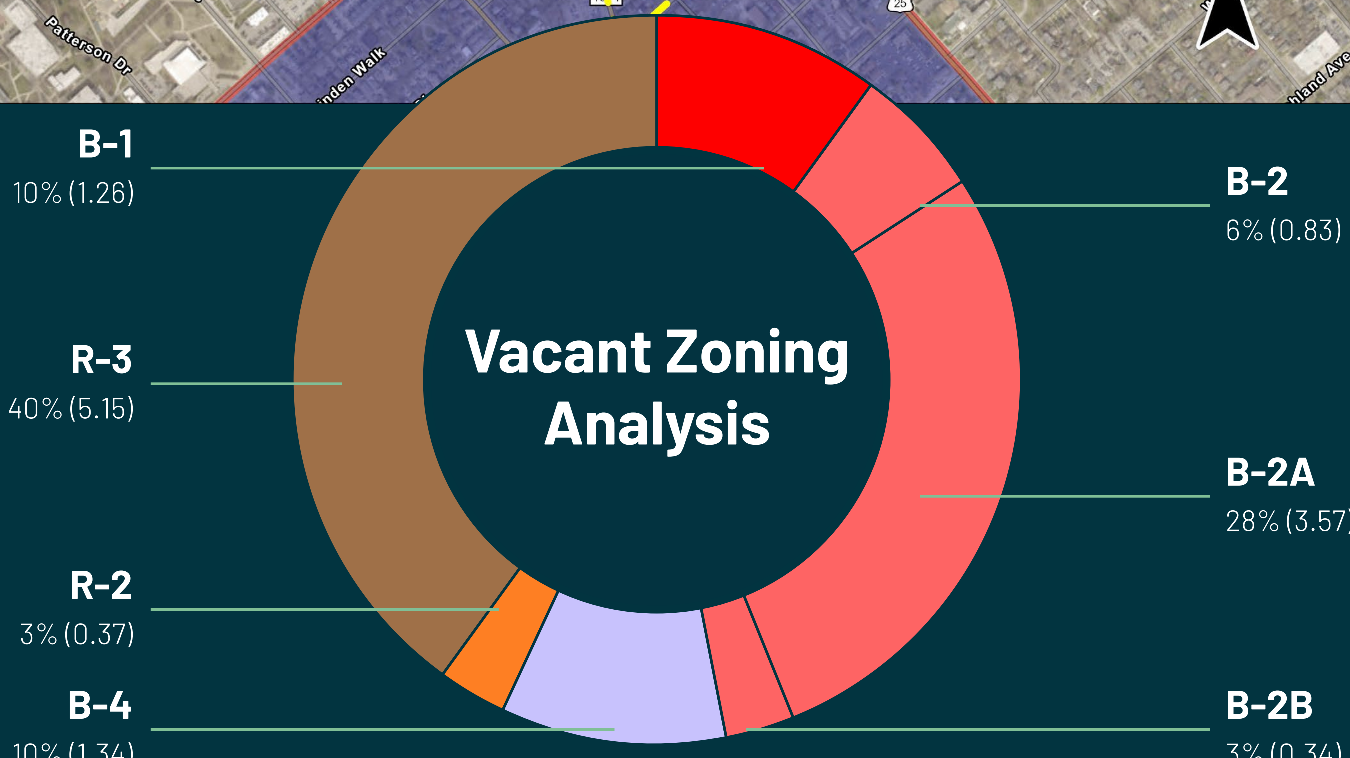
2. Neighborhoods within – Depicted are the boundaries of each neighborhood that is located within the targeted district.

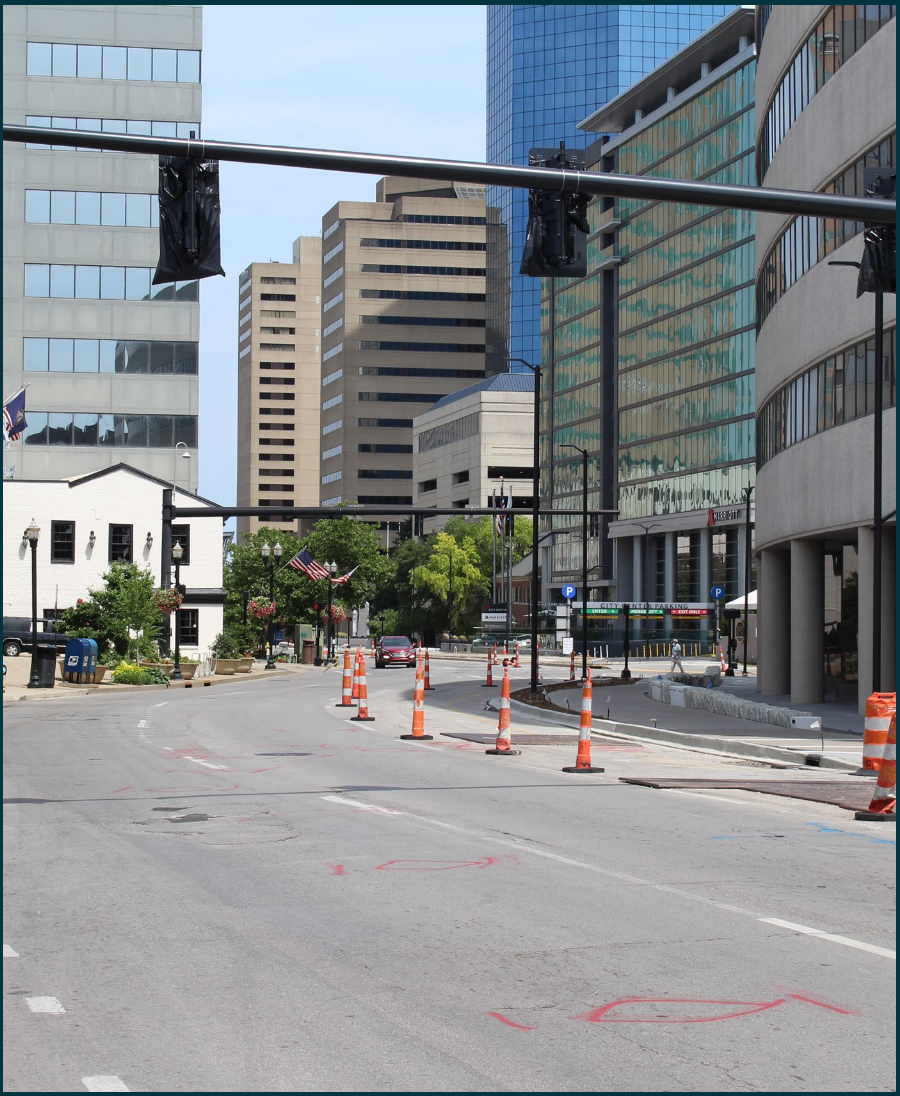
3. Demographic summary – The demographic analysis depicts the collection and analysis of broad characteristics about each district. This data is useful for potential investors and businesses to understand how to market to consumers and plan strategically for future trends in consumer demand.

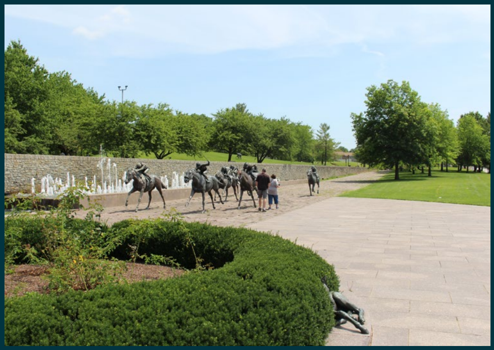
4. Vacant & underutilized zoning analysis – This section includes the inventory of sites that have potential for development and can include non-vacant and underutilized sites. Underutilized buildings may be defined several ways, depending on one's perspective. Real estate professionals, appraisers and developers may define an underutilized property in economic terms, that it has not achieved its "highest and best use," or its maximum profitmaking capacity.

CT 1.01 - EAST DOWNTOWN CIVIC DISTRICT









Assets

- Public Library
- Kentucky Theatre
- Sayre School
- Lextran Transit Center
- First African Baptist Church (National Historic Register)
- Civic Buildings – Fayette County Attorney's Office, LFUCG, Fayette County District Court, Robert F. Stephens Courthouse Plaza
- Town Branch Commons
- Thoroughbred Park
- Charles Young Park

Neighborhoods

- North Limestone, MLK, Aylesford Place, South Hill Historic, Greater East End

Demographic Summary

- The district has a population of 3,063 people across 1,891 households according to census estimates. The median age is 33, which is just below the median age of the county (36) and the second lowest of any opportunity zone in Lexington. White collar jobs make up 72% of the jobs with blue collar contributing 12%, services contributing 16%, and an unemployment rate of 22.8%. Residents have a median household income of $30,701. The median home value is $321,264 with mortgages and basics averaging $4,310 monthly and median rents costing $550 monthly. 53% of residents receive a Bachelor's degree or higher, ranking highest across Lexington Opportunity Zones and well above the county average of 46%.

Vacant Zoning Analysis

- The district has 239 vacant or underutilized lots totaling 12.93 acres according to most recent available data. Of these lots, 5.59 acres are zoned for various densities of residential and 7.34 acres zoned for various densities of commercial development. Vacant properties are concentrated to the east of the district with many lying within the Greater East End Neighborhood.

DEMOGRAPHIC SUMMARY

KEY FACTS

Population
3,063

Median Age
32.9

Households
1,891

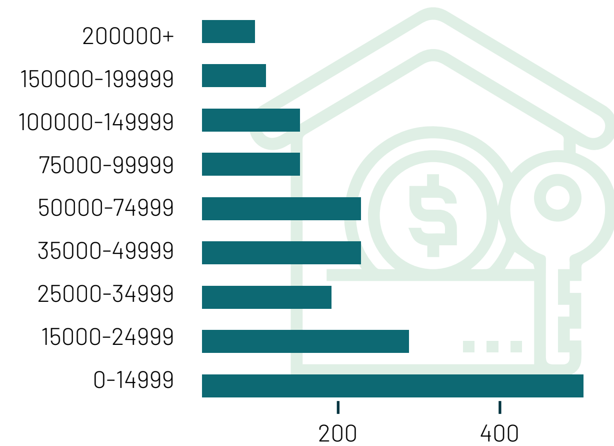
Median Disposable Income
$25,485

INCOME

Median Household Income
$30,701

Median Net Worth
$10,490

Per Capita Income
$35,082



EDUCATION

8% No High School Diploma

13% High School Graduate

27% Some College

53% Bachelor's / Grad / Prof Degree

EMPLOYMENT

72% White Collar

12% Blue Collar

16% Services

22.8% Unemployment Rate

RACE AND ETHNICITY

Indicator	Value	Difference
White Alone	67.03	-5.64
Black Alone	24.94	+9.71
American Indian/Alaska Native Alone	0.26	+0.07
Asian Alone	3.07	-1.49
Pacific Islander Alone	0.03	-0.04
Other Race	2.02	-2.07
Two or More Races	2.64	-0.56
Hispanic Origin (Any Race)	4.47	-3.278

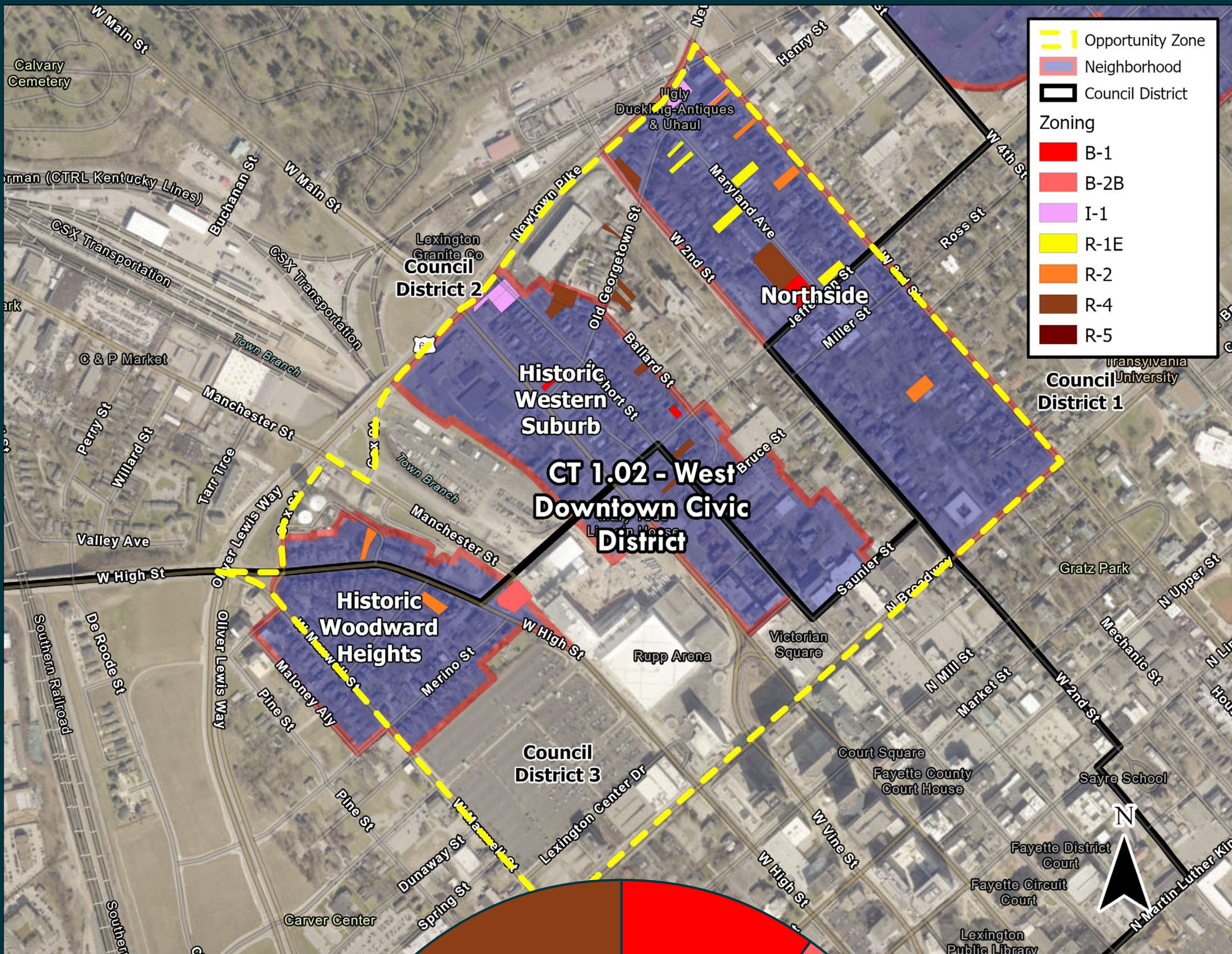
HOUSING STATS

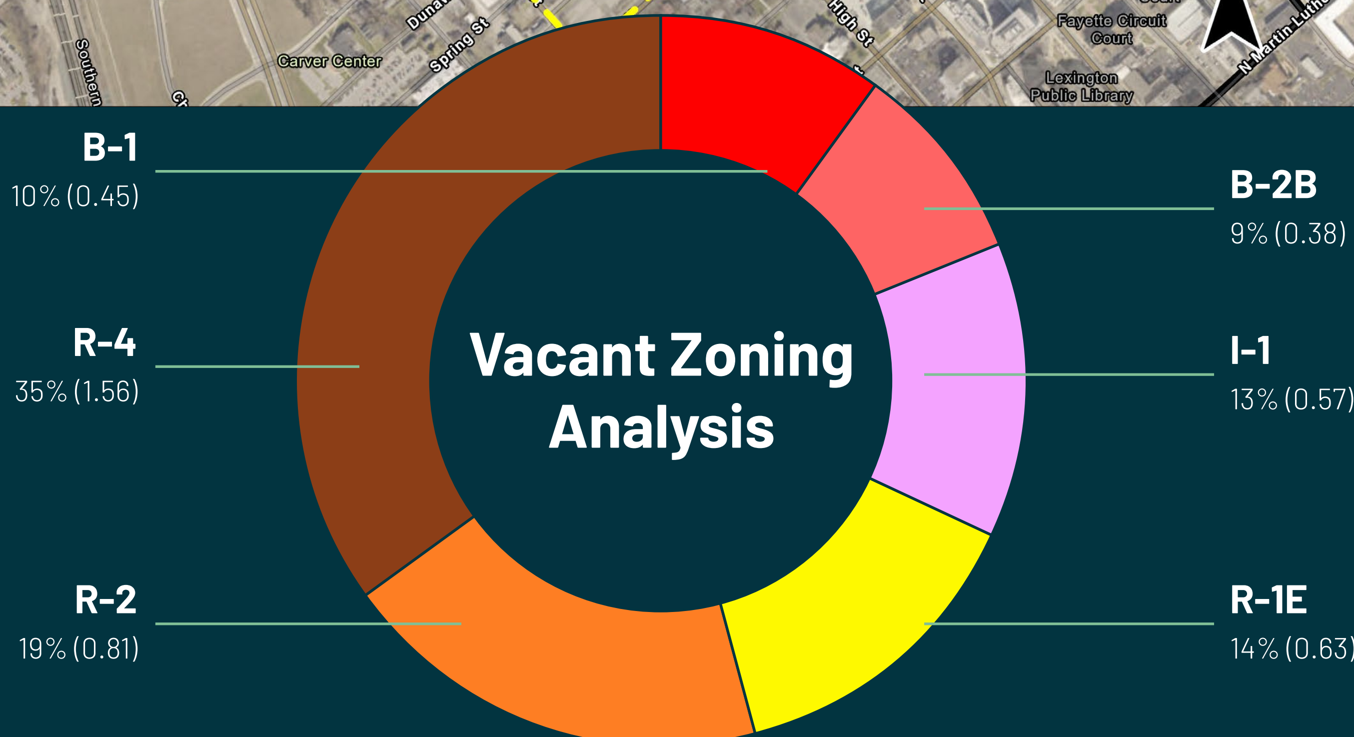
$321,264
Median Home Value

$4,310
Average Spent on Mortgage & Basics

$550
Median Contract Rent

CT 1.02 – WEST DOWNTOWN DISTILLERY DISTRICT





Assets

- Rupp Arena
- Central Bank Convention Center
- Town Branch Park
- Explorium of Lexington
- Lexington Opera House
- Triangle Park

Neighborhoods

- Woodward Heights, Western Suburb, Northside

Demographic Summary

- This district has a population of 1,616 people across 1,039 households which is the lowest population of any Lexington Opportunity Zone (LOZ). The median age is 51 which is the highest of any LOZ and well above the median age of the county (36). White collar jobs make up 72% of employment with blue collar contributing 8%, services contributing 20%, and an unemployment rate of 19.7%. Residents have a median household income of $32,609. The median home value is $241,509 with mortgages and basics averaging $4,328 and median rents costing $513. 40% of residents obtain a Bachelor's degree or higher which is below the county average of 46%.

Vacant Zoning Analysis

- This district has 42 vacant lots totaling 3.84 acres according to most recent available data. Of these vacant lots, .84 are zoned commercial, .57 are zoned industrial, and 3.01 are zoned various densities of residential use. These properties are most concentrated near the intersection of W 3rd St. and Newtown Pike.

DEMOGRAPHIC SUMMARY

KEY FACTS

Population
1,616

Median Age
50.8

Households
1,039

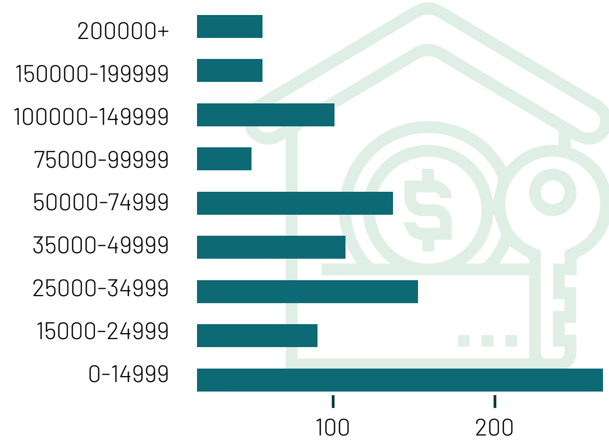
Median Disposable Income
$27,675

INCOME

Median Household Income
$32,609

Median Net Worth
$12,733

Per Capita Income
$39,570



EDUCATION

7% No High School Diploma

22% High School Graduate

31% Some College

40% Bachelor's / Grad / Prof Degree

EMPLOYMENT

72% White Collar

8% Blue Collar

20% Services

19.7% Unemployment Rate

RACE AND ETHNICITY

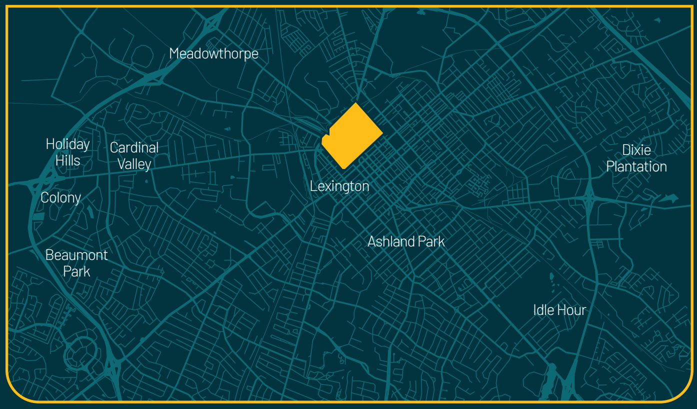
Indicator	Value	Difference
White Alone	67.20	-5.47
Black Alone	27.23	+12.00
American Indian/Alaska Native Alone	0.43	+0.24
Asian Alone	2.23	-2.33
Pacific Islander Alone	0.00	-0.07
Other Race	0.74	-3.35
Two or More Races	2.17	-1.03
Hispanic Origin (Any Race)	3.77	-3.97

HOUSING STATS

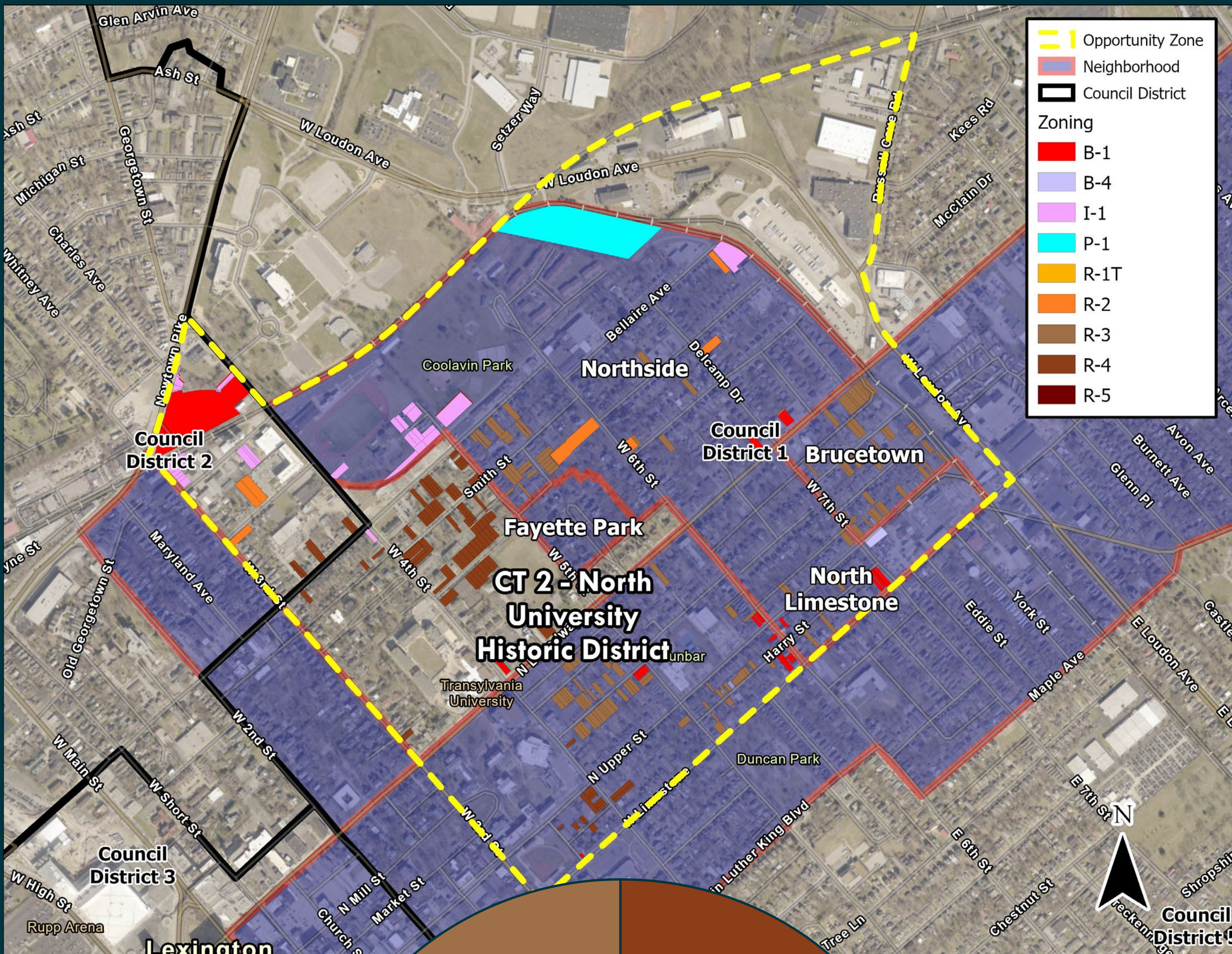
$241,509
Median Home Value

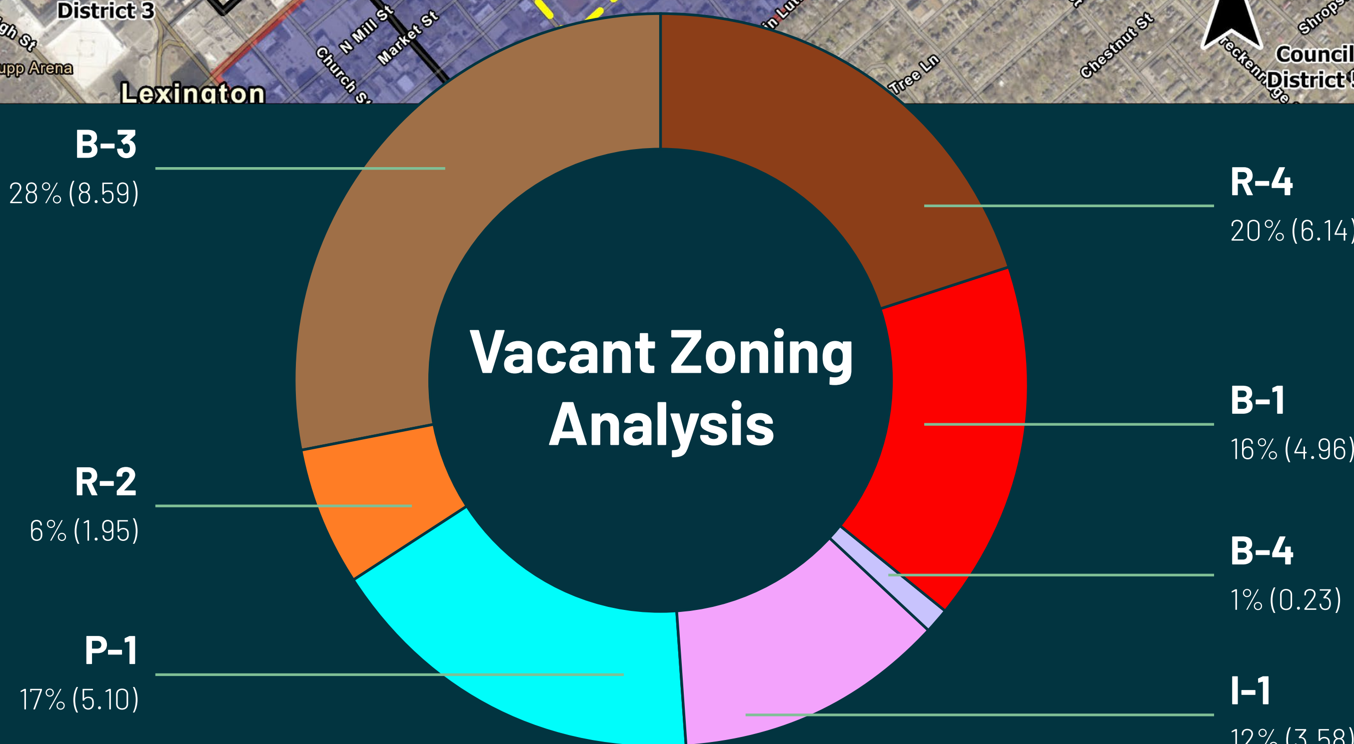
$4,328
Average Spent on Mortgage & Basics

$513
Median Contract Rent



CT 2 – NORTH UNIVERSITY HISTORIC DISTRICT





Assets

- Transylvania University
- Coolavin Park
- Dunbar Community Center
- Lexington Parks & Recreation
- Legacy Trail

Neighborhoods

- North Limestone, Northside

Demographic Summary

- The district has a population of 3,661 across 1,286 households. The median age is 27 which is much lower than the county average (36). White collar jobs contribute 59% of the employment pool with blue collar jobs contributing 24%, services contributing 17%, and an unemployment rate of 23.1%. Residents have a median household income of $35,333 which is the highest of any LOZ. The median home value is $125,203 with mortgages and basics averaging $4,647 and median rents costing $496. 29% of district residents obtain Bachelor's degree or higher which is far below the county average of 46%.

Vacant Zoning Analysis

- The district has 328 vacant lots totaling 21.86 acres according to most recent available data. Of these vacant lots, 5.19 acres are zoned commercial, 3.58 acres are zoned industrial, 5.1 acres are zoned professional office, 3.58 acres are zoned industrial, and 16.67 acres are zoned residential. Significant opportunities exist for residential development opportunities along Smith St. between W 6th St. and W 4th St. as well as several blocks around Dunbar Park.

DEMOGRAPHIC SUMMARY

KEY FACTS

Population

3,661

Median Age

27.0

Households

1,286

Median Disposable Income

$27,967

INCOME

Median Household Income

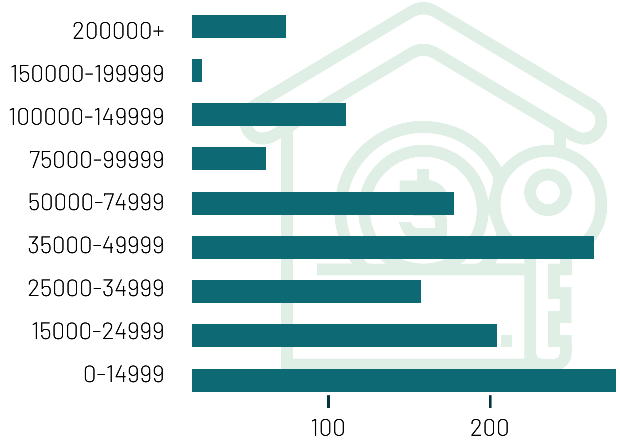
$35,333

Median Net Worth

$13,661

Per Capita Income

$22,914



EDUCATION

16% No High School Diploma

28% High School Graduate

27% Some College

29% Bachelor's / Grad / Prof Degree

RACE AND ETHNICITY

Indicator	Value	Difference
White Alone	55.34	-17.33
Black Alone	36.90	+21.67
American Indian/Alaska Native Alone	0.19	0
Asian Alone	0.85	-3.71
Pacific Islander Alone	0.25	+0.18
Other Race	2.92	-1.17
Two or More Races	3.55	+0.35
Hispanic Origin (Any Race)	6.31	-1.43

EMPLOYMENT

59% White Collar

24% Blue Collar

17% Services

23.1% Unemployment Rate

HOUSING STATS

$125,203

Median Home Value

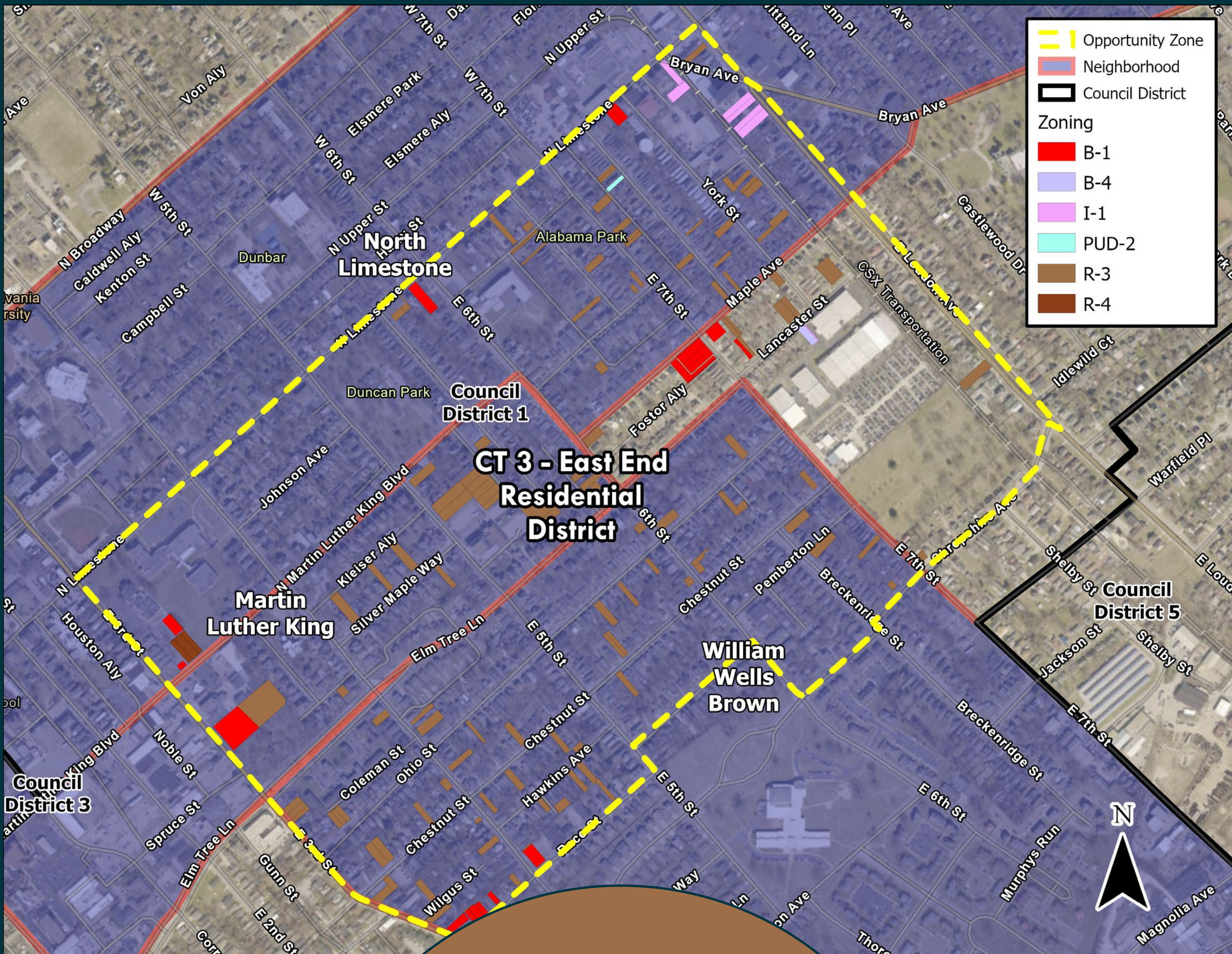
$4,647

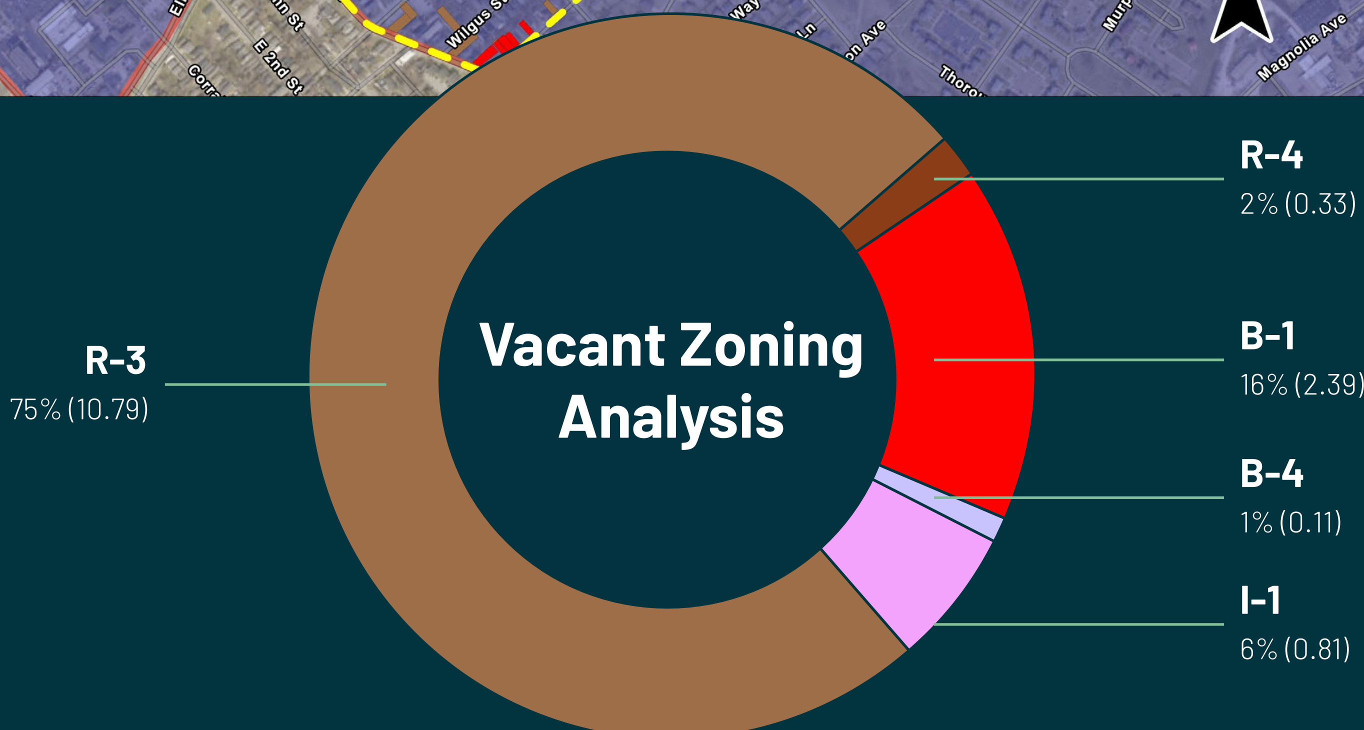
Average Spent on Mortgage & Basics

$496

Median Contract Rent

CT 3 – EAST END RESIDENTIAL DISTRICT





Assets

- Lexington Traditional Magnet School
- William Wells Brown Elementary School
- Lexington Community Radio
- Steam Academy
- Lexington Fire Department Headquarters
- The Nest – Center for Women, Children, and Families
- Lexington Community Radio

Neighborhoods

- William Wells Brown, North Limestone, Martin Luther King

Demographic Summary

- The district has a population of 3,342 across 1,415 households. The median age is 42 which is higher than the county average (36). White collar jobs contribute 48% of the employment pool with blue collar jobs contributing 29%, services contributing 22%, and an unemployment rate of 27.1%. Residents have a median household income of $31,630. The median home value is $111,408 with mortgages and basics averaging $4,253 and median rents costing $538. 16% of district residents obtain Bachelor's degree or higher which is far below the county average of 46%.

Vacant Zoning Analysis

- The district has 166 vacant or underutilized lots totaling 13.62 acres according to most recent available data. Of these lots, 2.5 are zoned commercial, .81 are zoned industrial, and 11.12 are zoned residential. The residential opportunities are concentrated near Elm Tree Lane while commercial vacancies exist along Race St., E 3rd St., and Maple Ave.

DEMOGRAPHIC SUMMARY

KEY FACTS

Population

3,342

Median Age

41.6

Households

1,415

Median Disposable Income

$26,168

INCOME

Median Household Income

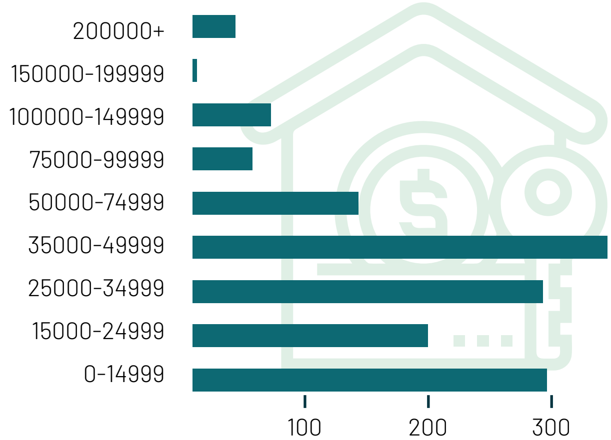
$31,630

Median Net Worth

$13,711

Per Capita Income

$18,652



EDUCATION

28%	25%	31%	16%
No High School Diploma	High School Graduate	Some College	Bachelor's / Grad / Prof Degree

EMPLOYMENT

48%	29%	22%	27.1%
White Collar	Blue Collar	Services	Unemployment Rate

RACE AND ETHNICITY

Indicator	Value	Difference
White Alone	34.26	-38.41
Black Alone	56.64	+41.41
American Indian/Alaska Native Alone	0.48	+0.29
Asian Alone	0.30	-4.26
Pacific Islander Alone	0.06	-0.01
Other Race	4.31	+0.22
Two or More Races	3.95	+0.75
Hispanic Origin (Any Race)	10.26	-2.52

HOUSING STATS

$111,408

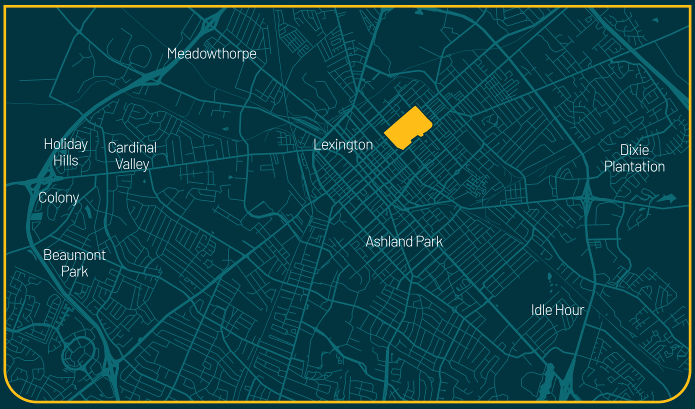
Median Home Value

$4,253

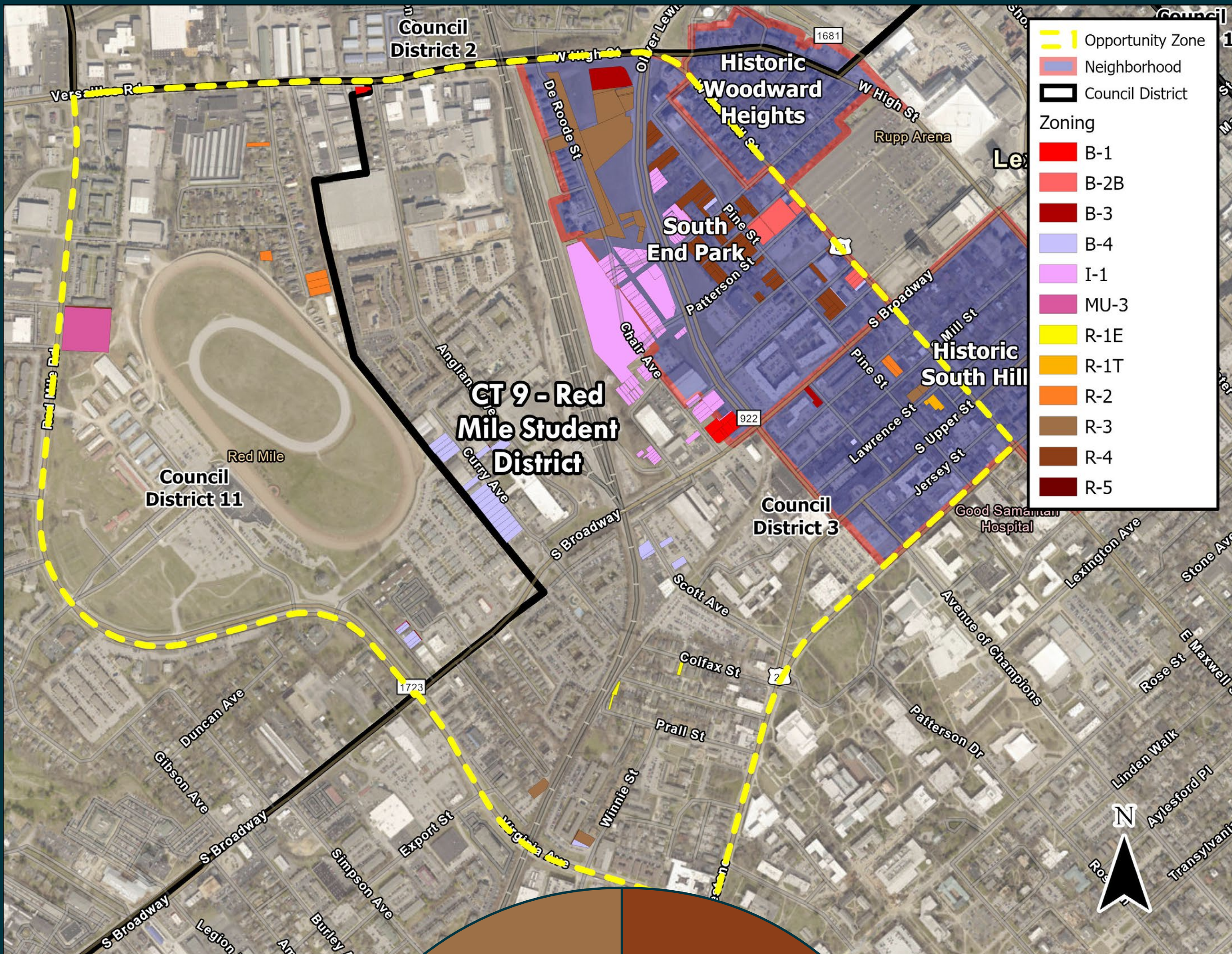
Average Spent on Mortgage & Basics

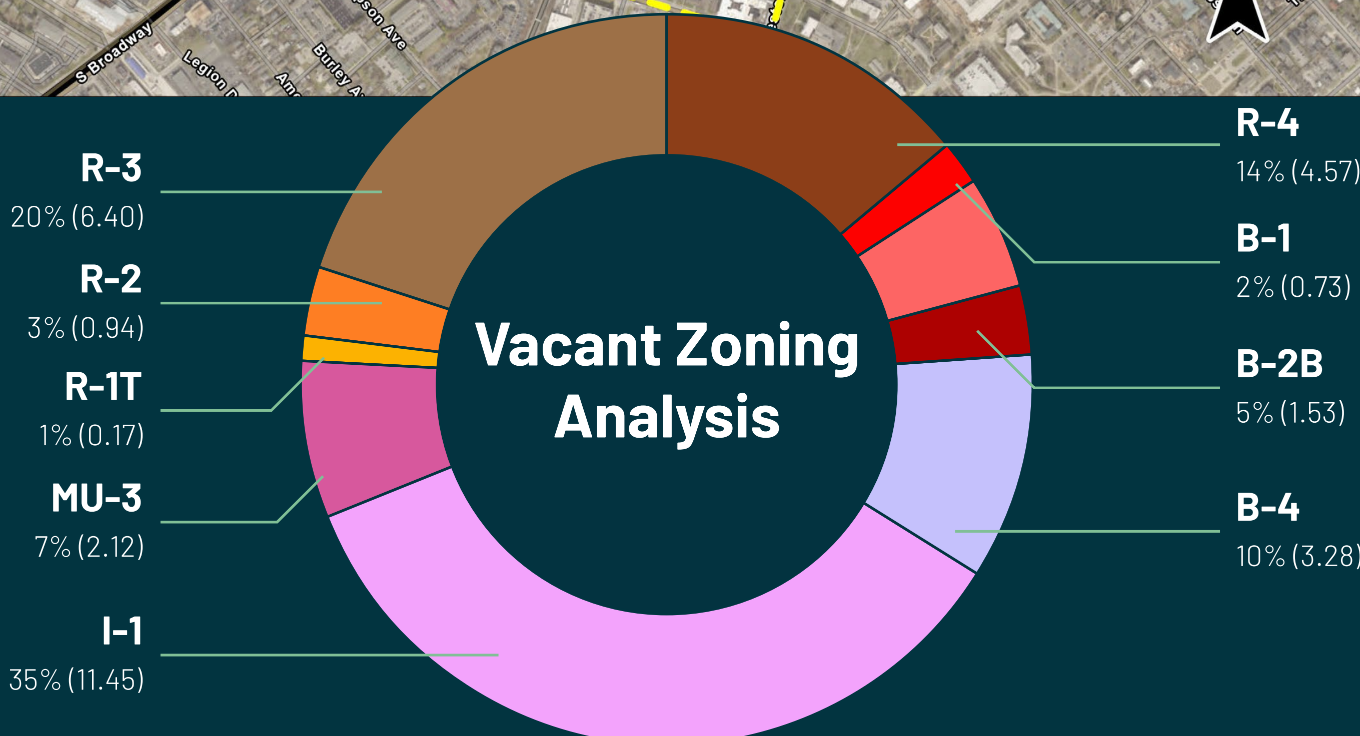
$538

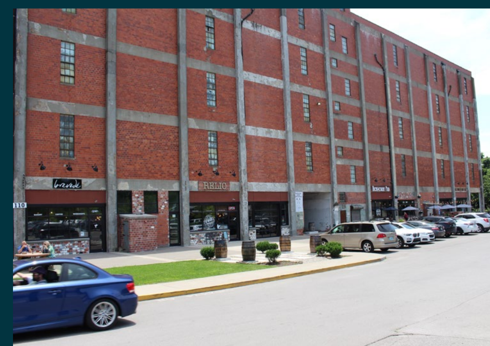
Median Contract Rent



CT 9 – DAVIS PARK / RED MILE DISTRICT







Assets

- Davis Park Community Land Trust
- Red Mile
- UK Center for Drug Addiction and Alcohol Research

Neighborhoods

- South End Park, South Hill

Demographic Summary

- The district has a population of 4,673 across 1,415 households. The median age is 23 which is lower than the county average (36) and lowest of all LOZ. White collar jobs contribute 66% of the employment pool with blue collar jobs contributing 19%, services contributing 15%, and an unemployment rate of 24.6%. Residents have a median household income of $18,689 which is the lowest of any LOZ. The median home value is $215,152 with mortgages and basics averaging $1,724 which is the lowest of any LOZ and median rents costing $797 which is the highest of any LOZ. 46% of district residents have a Bachelor's degree or higher which is level with the county average of 46%.

Vacant Zoning Analysis

- The district has 292 vacant or underutilized lots totaling 18.77 acres according to most recent available data. Of these lots, 6.54 are zoned commercial, 11.45 are zoned industrial, and 12.23 are zoned residential. Most development opportunities in this district are within the South End Park Neighborhood and Davis Park.

DEMOGRAPHIC SUMMARY

KEY FACTS

Population
4,673

Median Age
23.1

Households
2,062

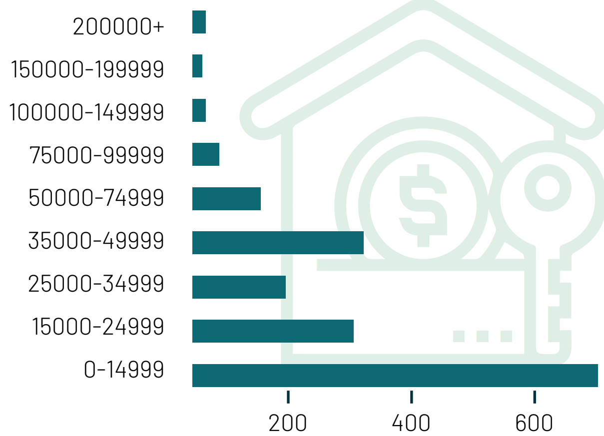
Median Disposable Income
$17,005

INCOME

Median Household Income
$18,689

Median Net Worth
$8,708

Per Capita Income
$13,819



EDUCATION

12% No High School Diploma

21% High School Graduate

21% Some College

46% Bachelor's / Grad / Prof Degree

EMPLOYMENT

66% White Collar

19% Blue Collar

15% Services

24.6% Unemployment Rate

RACE AND ETHNICITY

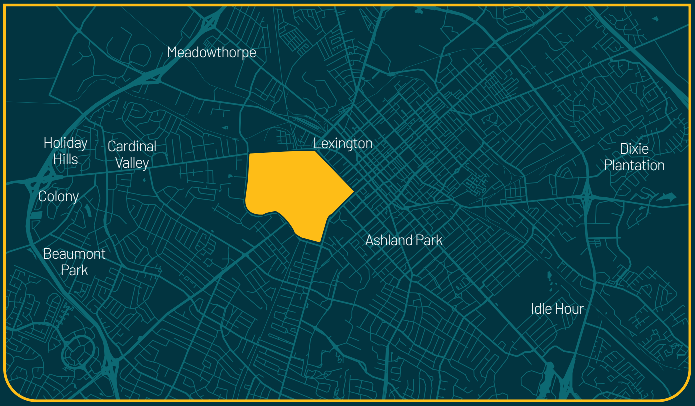
Indicator	Value	Difference
White Alone	73.59	+0.92
Black Alone	15.75	+0.52
American Indian/Alaska Native Alone	0.26	+0.07
Asian Alone	4.69	+0.13
Pacific Islander Alone	0.00	-0.07
Other Race	3.19	-0.90
Two or More Races	2.53	-0.67
Hispanic Origin (Any Race)	6.81	-0.93

HOUSING STATS

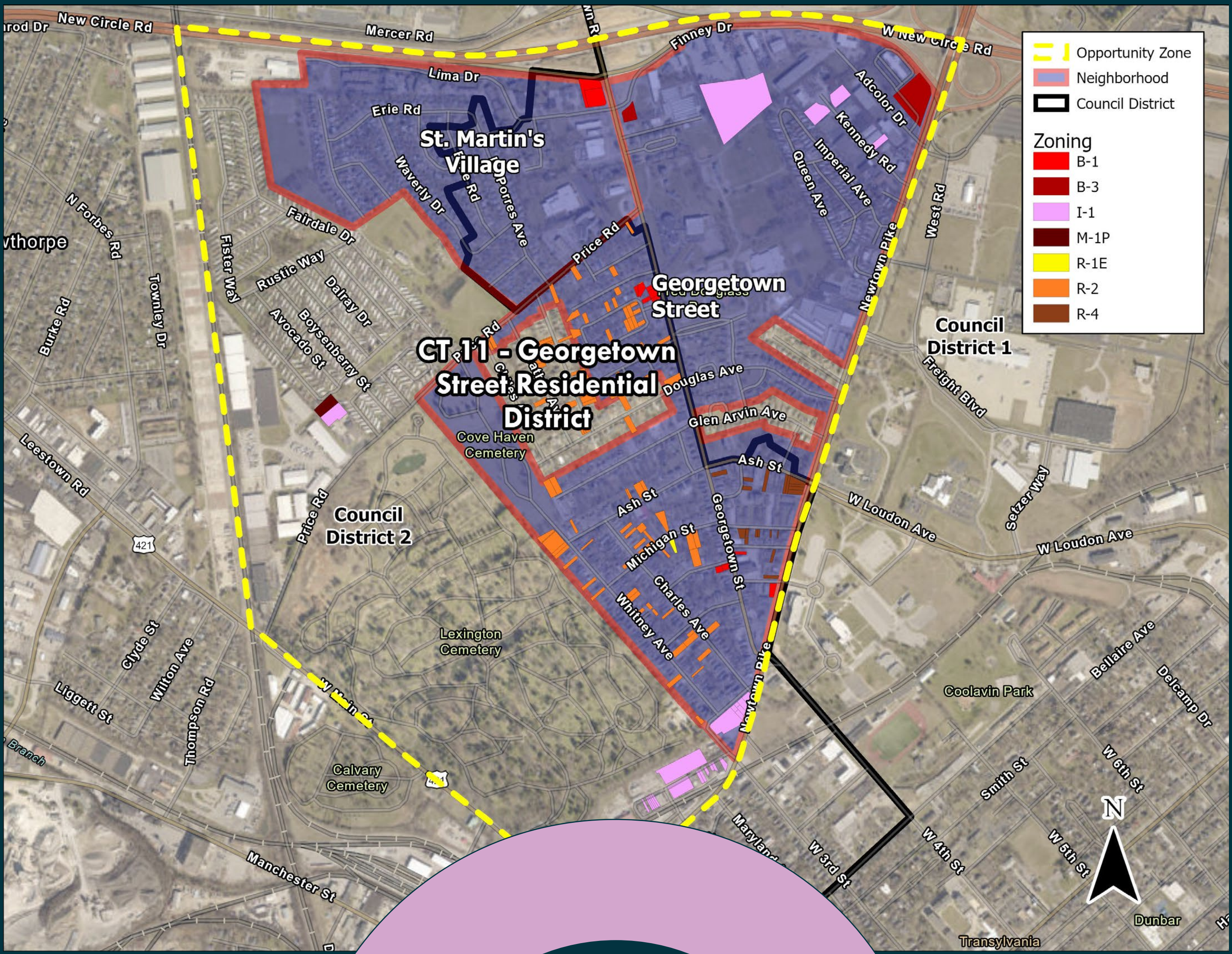
$215,152
Median Home Value

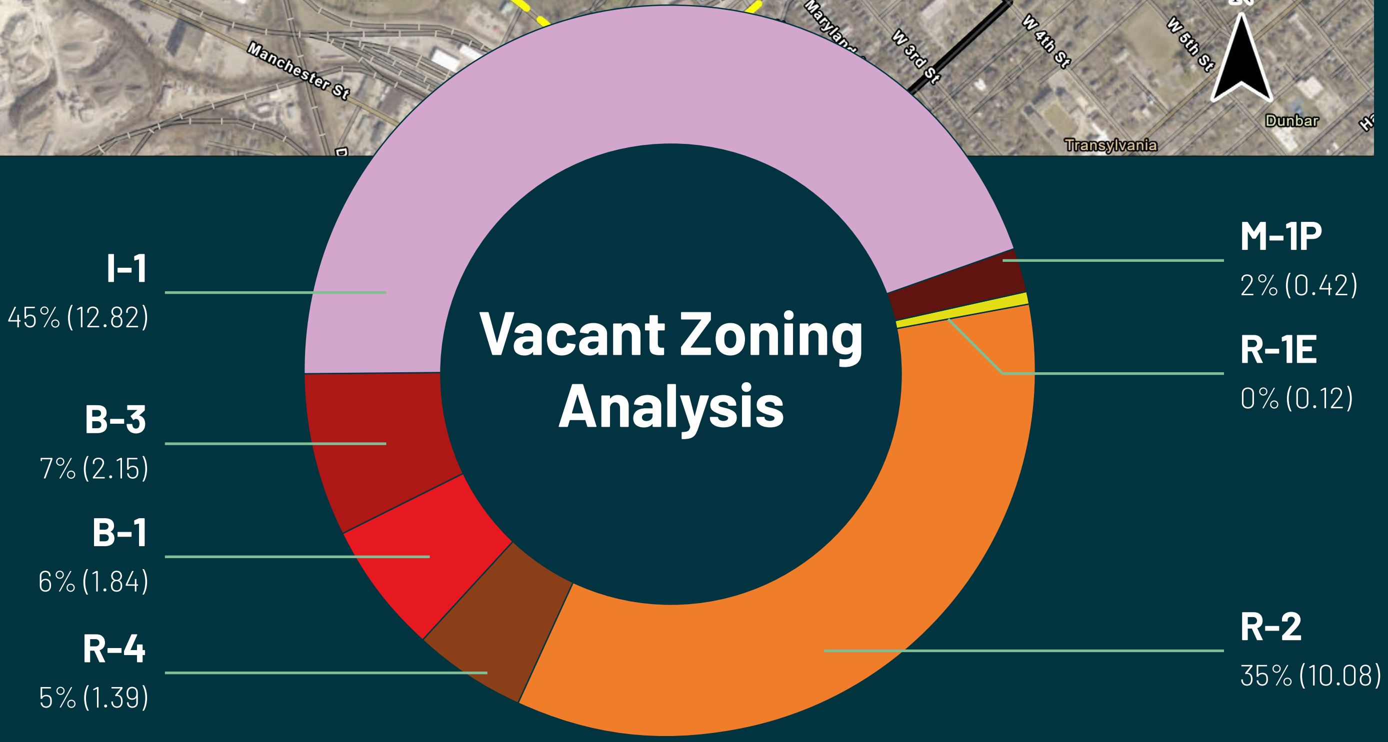
$1,724
Average Spent on Mortgage & Basics

$797
Median Contract Rent



CT 11 – GEORGETOWN STREET CORRIDOR DEVELOPMENT DISTRICT





Assets

- Douglass Park
- Booker T. Washington Elementary
- The Learning Center

Neighborhoods

- St. Martins Village, Georgetown Street

Demographic Summary

- The district has a population of 5,027 which is the highest of any LOZ and is distributed across 2,053 households. The median age is 40 which is higher than the county average (36). White collar jobs contribute 24% of the employment pool with blue collar jobs contributing 33%, services contributing 35% - both of which are the highest of any LOZ - and an unemployment rate of 9% which is the lowest of any LOZ. Residents have a median household income of $30,290. The median home value is $49,636, the lowest of any LOZ, with mortgages and basics averaging $3,570 and median rents costing $542. 9% of district residents obtain Bachelor's degree or higher which is far below the county average of 46%.

Vacant Zoning Analysis

- The district has 23.27 acres of vacant or underutilized land according to most recent data. Of these lots, 3.26 acres are zoned commercial, 8.65 acres are zoned industrial, and 11.45 acres are zoned residential. Significant opportunities for residential development exist along the blocks west of Georgetown St. while opportunities for industrial or manufacturing development exist at the south edge of the district along Newtown Pike and the north edge near Finney Dr.

DEMOGRAPHIC SUMMARY

KEY FACTS

Population

5,027

Median Age

39.5

Households

2,053

Median Disposable Income

$25,642

INCOME

Median Household Income

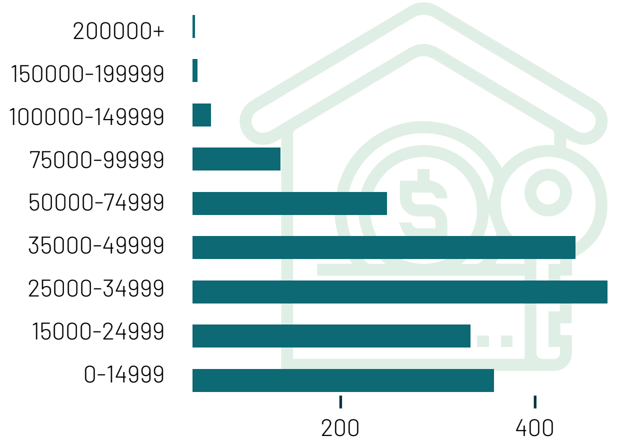
$30,290

Median Net Worth

$26,687

Per Capita Income

$14,611



EDUCATION

24% No High School Diploma

33% High School Graduate

35% Some College

9% Bachelor's / Grad / Prof Degree

EMPLOYMENT

36% White Collar

29% Blue Collar

35% Services

27.4% Unemployment Rate

RACE AND ETHNICITY

Indicator	Value	Difference
White Alone	32.48	-40.19
Black Alone	51.68	+36.45
American Indian/Alaska Native Alone	0.48	+0.29
Asian Alone	0.38	-4.18
Pacific Islander Alone	0.02	-0.05
Other Race	11.94	+7.85
Two or More Races	3.02	-0.18
Hispanic Origin (Any Race)	22.32	+14.58

HOUSING STATS

$49,636

Median Home Value

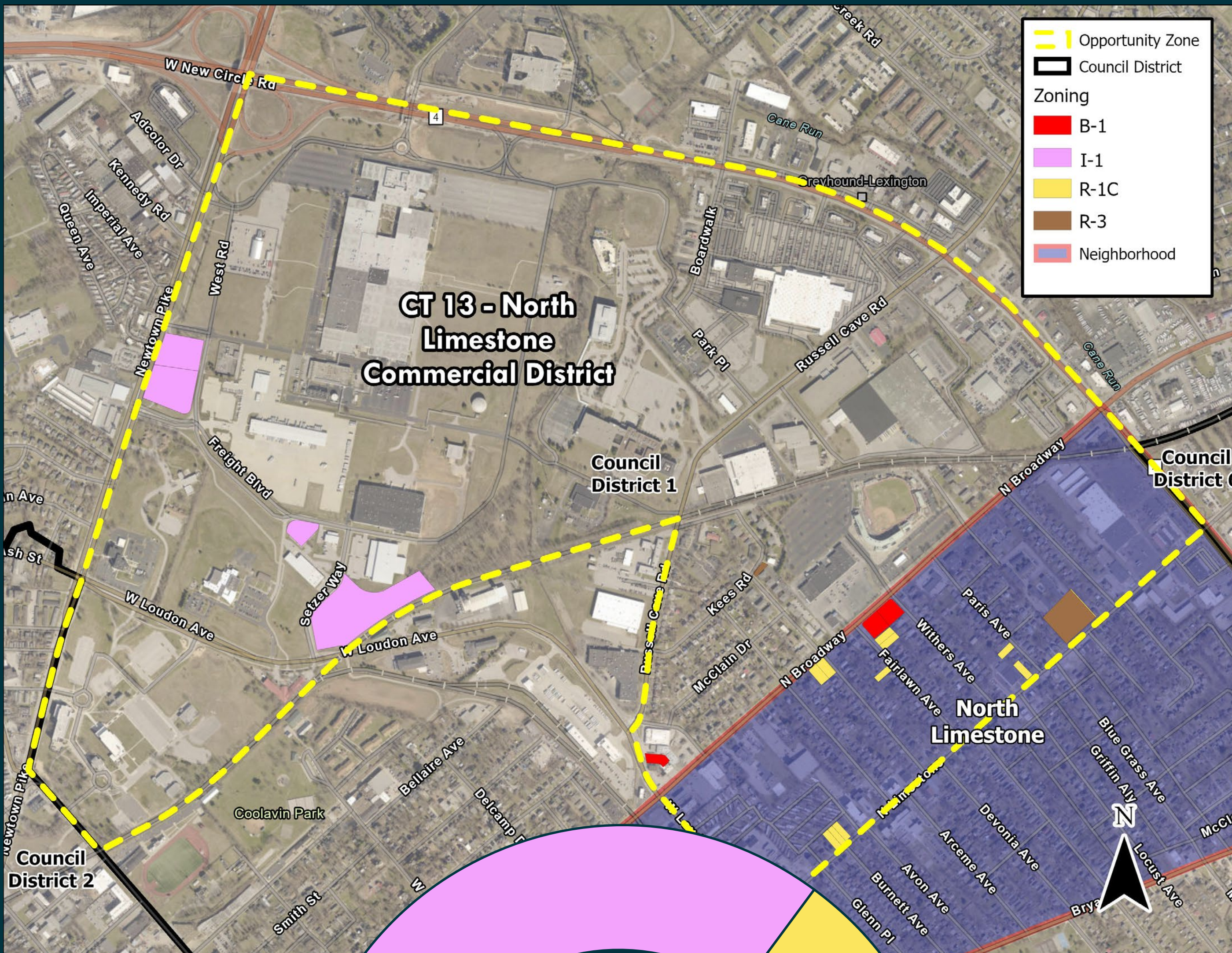
$3,570

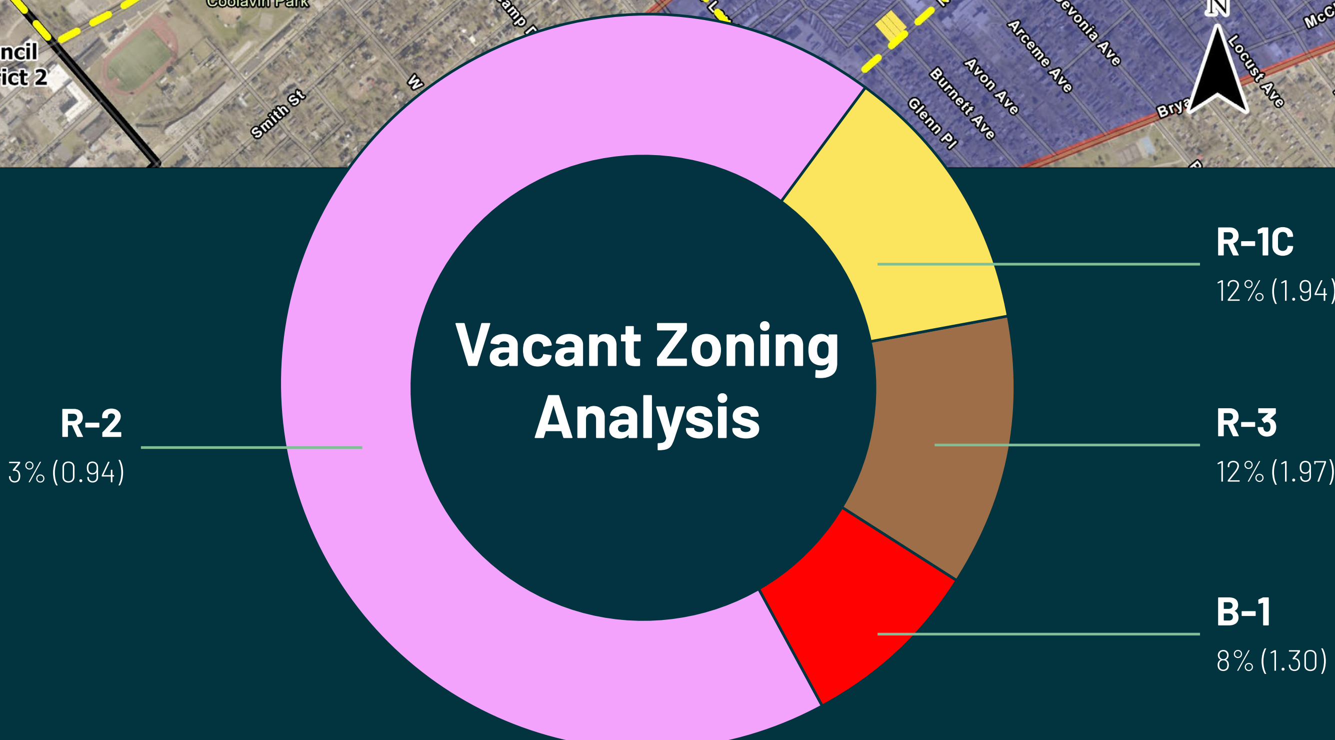
Average Spent on Mortgage & Basics

$542

Median Contract Rent

CT 13 – NORTH LIMESTONE COMMERCIAL & INNOVATION DISTRICT





Assets

- Bluegrass Community & Technical College
- Hope Center
- North Lexington YMCA
- Health Department
- Lexmark
- Legacy Trail
- Whitaker Bank Ballpark
- Julietta Market
- Greyline Station
- WLEX 18

Neighborhoods

- North Limestone

Demographic Summary

- The district has a population of 2,272 across 772 households, the lowest of any LOZ. The median age is 40 which is higher than the county average (36). White collar jobs contribute 32% of the employment pool, the lowest of any LOZ, with blue collar jobs contributing 35%, the highest of any LOZ, services contributing 33%, and an unemployment rate of 24.5%. Residents have a median household income of $31,779. The median home value is $93,802 with mortgages and basics averaging $3,991 and median rents costing $439, the lowest of any LOZ. 13% of district residents obtain Bachelor's degree or higher which is far below the county average of 46%.

Vacant Zoning Analysis

- The district has 21 vacant or underutilized lots totaling 21.86 acres according to most recent available data. Of these lots, 5.19 are zoned commercial, .10.76 are zoned industrial, and 3.92 are zoned residential. The area surrounding the Lexmark headquarters present significant opportunities for industrial or manufacturing development while most business and residential opportunities exist along Limestone St. and Broadway.

DEMOGRAPHIC SUMMARY

KEY FACTS

Population

2,272

Median Age

39.6

Households

772

Median Disposable Income

$26,449

INCOME

Median Household Income

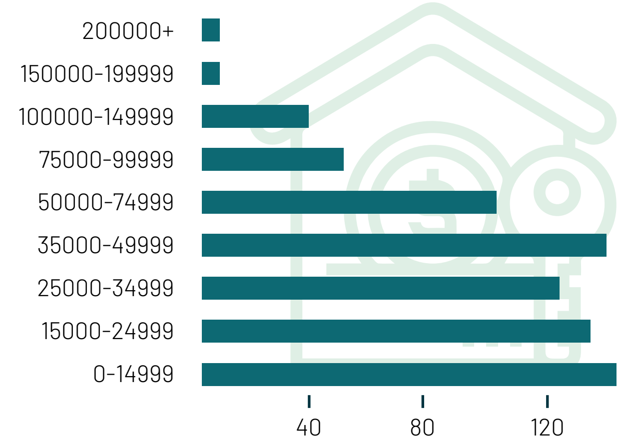
$31,779

Median Net Worth

$14,367

Per Capita Income

$14,767



EDUCATION

37% No High School Diploma

28% High School Graduate

23% Some College

13% Bachelor's / Grad / Prof Degree

EMPLOYMENT

32% White Collar

35% Blue Collar

33% Services

24.5% Unemployment Rate

RACE AND ETHNICITY

Indicator	Value	Difference
White Alone	54.36	-18.31
Black Alone	22.05	+6.82
American Indian/Alaska Native Alone	0.40	+0.21
Asian Alone	0.66	-3.90
Pacific Islander Alone	0.40	+0.33
Other Race	17.61	+13.52
Two or More Races	4.53	+1.33
Hispanic Origin (Any Race)	27.11	+19.37

HOUSING STATS

$93,802

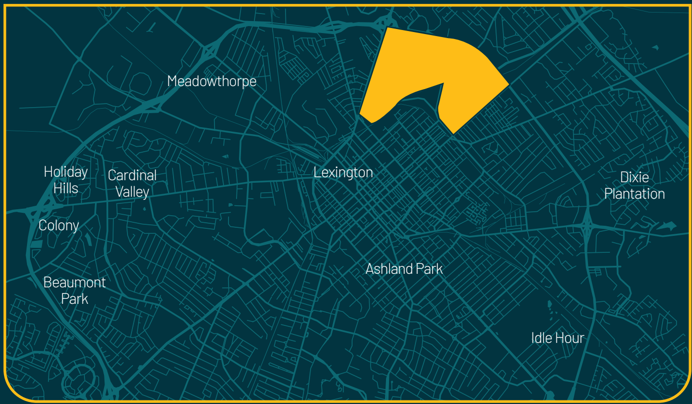
Median Home Value

$3,991

Average Spent on Mortgage & Basics

$439

Median Contract Rent



Economic Development Incentives

State of Kentucky

The State of Kentucky offers several incentives through the Cabinet of Economic Development that could be coupled with equity from Opportunity Funds to provide funding for or offset costs of development projects in Opportunity Zones:

Kentucky Enterprise Initiative Act (KEIA)

- Eligible company must incur a minimum investment of $500,000 and is eligible to receive a refund of sales and use tax for items purchased during the term of the project including:
  - Building and construction materials
  - Research and development equipment
  - Electronic processing equipment

Kentucky Environmental Stewardship Act (KESA)

- Eligibility requires the company manufacture an environmental stewardship good, defined as any new or improved product that has a reduced adverse effect on human health and the environment or provides for improvement to human health or the environment when compared with existing products that serve the same purpose.
- Eligible projects must incur a minimum of $5,000,000 of costs towards the construction, rehabilitation, or improvement of facilities necessary to produce the environmental stewardship product.
- Recovery costs include 100% of necessary skills training and 25% of equipment costs.

Kentucky Industrial Revitalization Act (KIRA)

- Eligible company must invest in the rehabilitation of manufacturing or agribusiness operations that are in imminent danger of permanently closing or that have closed temporarily and retain or create 25 jobs.
- Approved costs for recovery include up to 75% of the rehabilitation or construction of buildings and updated machinery and equipment.

Certified Historic Structures Income Credit

- An income tax, or franchise tax for institutions, credit of 30% of the qualifying expenses for owner-occupied property and 20% for all other properties

Voluntary Environmental Remediation Property Income Tax Credit

- Income tax credit up to $150,000 per taxpayer for expenditures to remediate contamination on qualifying voluntary remediation property

Kentucky Economic Development Finance Authority (KEDFA)

- Provides below market interest rates business loans to supplement other financing. Loans are available for financing land, buildings, and equipment and must support agribusiness, tourism, industrial ventures, or the service industry with a maximum loan amount is $500,000.

Community Development Block Grant Loans

- Low-interest loans available through federally funded CDBG system that are available through city and county governments. Federal regulations require at least 51% of those hired for CDBG projects be low and moderate-income individuals.

Tax Increment Financing

A tool to use future gains in taxes to finance current improvements that will create those gains. The state participates with local governments in three TIF programs:

- Commonwealth Participation Program for State Real Property Ad Valorem Tax Revenues (requires a $10,000,000 minimum capital investment)
- Signature Project Program (requires a $200,000,000 minimum capital investment)
- Mixed-Use Redevelopment in Blighted Urban Areas requires a minimum capital investment between $20,000,000 and $200,000,000)

Marketing Opportunity Zones

RECOMMENDATIONS FOR THE CITY OF LEXINGTON

Lexington is a city in transition. Though growth, revitalization and development are needed in the designated Opportunity Zones, care should be taken to not displace residents. In marketing the Opportunity Zones (OZ) the following recommendations are made.

Phase I: Educate and Engage

WHO TO INCLUDE

Organize and convene a list of internal and external stakeholders. Include representatives from impacted neighborhoods, community development organizations, business owners, community organizations, education leaders, elected officials, city government representatives, financial institutions, healthcare leaders, philanthropic foundations, developers, investors, faith leaders, and insightful community members.

Identify and include subject matter experts to answer questions (Neighborhoods in Transition Committee members, Mayor's Commission for Racial Justice and Equality team, City officials from Zoning/ Planning, Economic Development, Council, tax consultants, financial advisors, realtors, Commerce Lexington, etc.

Meeting Notification *Avenues:* The *Imagine Lexington* website highlights a Public Engagement Toolkit that could serve as a method for gathering such information, including notification methods on pages 18 – 20.

WHAT TO INCLUDE

Opportunity Zones not carefully managed have the potential of gentrifying neighborhoods. "In fact, studies of similar programs found that instead of creating new jobs, jobs were just moved from place to place, and very few new ones were created. Analysis after analysis shows that this program will not spur useful economic growth, but instead incentivize gentrification." Recommendations from the Task Force on Neighborhoods in Transition and the Mayor's Commission on Racial Justice and Equality report should be used and reiterated when educating the community. Each of the aforementioned reports include recommended city directives. Meeting these directives will prove beneficial to the Opportunity Zone efforts. These and other items are listed below.

1. **Task Force on Neighborhoods in Transition Recommendations:**

- The Division of Planning should use the identified priority areas to direct surveys, studies, and/or small area plans that summarize a neighborhood's history, character, and urban fabric.
- Require developers to have community meetings with notice and attendance requirements for zone change requests in priority areas before Planning Commission public hearings.
- Planning should conduct small area plans, surveys, or studies for neighborhoods in priority areas that will experience a direct impact from major local investment by LFUCG for projects of $5 million and above. These studies should address displacement, social impact, and include an assessment of neighborhoods' history, character, and urban fabric.
- Community Development Organizations should establish and execute Community Benefit Agreements to detail a project's contribution to the community with investors and businesses located in priority areas.

- Incentivize private developers to set aside portions of developments for quality, affordable housing by advocating for state low-income tax credits, local low-income tax credits, or inclusionary zoning (or equivalent from a positive approach).
- Planning should create a pamphlet that briefly describes Lexington's growth strategy, place builder, and the zone change process; something that could accompany the zone change notification letters.

2. Mayor's Commission on Racial Justice & Equality

- The city must put in place mechanisms to keep housing affordable. It is possible to stem the tide of gentrification, while creating more housing opportunity for all Lexingtonians.
- The city must financially invest in gentrifying neighborhoods and neighborhoods that are at risk of gentrifying where disinvestment and displacement has occurred, and is occurring.
- The City should implement a program encouraging minority business inclusion in the gentrifying neighborhoods in the city.
- The City must issue an official statement regarding gentrification, displacement, and affordable housing and launch an education campaign regarding the history of housing in Lexington.
- The city must implement actions to curb predatory investors.
- The premise is that work is being done to address these recommendations and Opportunity Zone projects are highly encouraged to follow these guidelines to be neighborly in their efforts.

3. Educate the community

- Educate the community about Opportunity Zones and how they are intended to benefit the community. Each community will have its own ideas for what should be included for economic development, therefore the City should host 7 meetings to collect input from the identified districts listed above.
- In addition to the recommendations, the agenda would educate attendees on what an Opportunity Zone is, where Lexington's opportunity zones are, this guidebook, existing plans, aforementioned city directives status, proformas, provide feedback on the neighborhood analysis, and accept public comments for economic development opportunities.

Phase II: Involve and Collaborate

This new legislation on Opportunity Zones is missing is a coordination between federal and local governments, however with a dedicated staff person, the work in Lexington could be made more cohesive on the federal, state, and local levels.

Involve citizens in the planning and zoning process. Currently developers and investors do not have to report their project to the city unless there is a zone change needed. Therefore a recommendation of our team is for OZ projects to fully disclose and residents be made aware of the following.

- Who: Who is leading the OZ work in Lexington, who will the efforts benefit (community benefits agreement), and who does someone contact if there is a question or opposition to a proposal, who is the investor/developer in the project
- Where: Where can I find out information on what is proposed in my neighborhood, where do I go to see plans for what is proposed
- How: How do I find out who is a part of a particular project, how do I participate in the process

Many of these answers should be located on the website that we propose, further is this guidebook.

HOST WEBINARS WITH DEVELOPERS AND INVESTORS

Hosting webinars to provide more detailed information and respond to questions and comments for this stakeholder group will help educate and facilitate relationships between investors and developers.

Outline the preferred process for Opportunity Zones. Offer incentives for projects that report to the City about their projects. The City of San Antonio offers several Incentive Programs for development and business investment such as Tax Abatement, Fee Waiver Program, Center City Housing Incentive Policy and Tax Increment Financing.

Partner with the Kentucky Career Center to aid individuals living in the Opportunity Zone in securing employment with business related Opportunity Zone projects. Appetizing would be programs within the KCC that cover the new hires compensation while both the business and employee determine if they are a fit for one another.

Phase III: Promotion

- Online presence- Create a content-intensive website with the option to translate into various languages.
    - Lexington currently has several reports and analysis that have been conducted over time. It would be beneficial to overlay that work (especially those that cover Opportunity Zones) to recognize common themes, strengths, weaknesses, opportunities, and threats thereby giving a more comprehensive picture of neighborhoods.
    - Work with the City of Lexington and the state Opportunity Zone (OZs) platform to synchronize efforts.
    - Hire a marketing firm to handle successful website creation, ease of flow, connection to other local, state, and federal information on OZs, and generate traffic and downloads from the site of this guidebook.
    - The site should include a local map/mapping tool that provides the prospectus, qualified OZ funds, links to community feedback, the community benefits agreements. Include public comment section to allow continuous feedback. Create an algorithm that will help match developers with potential investors and visa versa.
    - The site should make the OZ easy to understand and easily identify steps to move forward with a project
    - Opportunity Zone Success tracker to identify completed projects and what they brought to the community
    - The site should also follow the progress on city directives listed in the racial justice recommendation report and the neighborhoods in transition report.
    - Sample website - https://miopportunityzones.com/
- Press Announcements
    - The Mayor to host a press conference about the Opportunity Zones including what they are, high points about the process, and what Lexington expects from projects (see recommendations from task force and mayor's commission)
    - Separate press announcement about the website launch and its capabilities including explaining the process, identifying current and completed projects, and its ability to match investors, developers, and community needs.
- Newsletter – Individuals who visit the website or attend community/neighborhood association meetings are given the option to subscribe to a newsletter with frequency to be determined. The newsletter would keep individuals and corporations apprised of collaborations and projects underway or in the making. It should also include economic opportunities for

residents within the OZ and list how the project meets the community benefits agreement or recommendations made through other platforms and feature human interest stories.

- Newspaper – Keep the community involved through local news stories on developments, job creation, etc.
- Printed materials – Distribute printed materials at neighborhood association meetings, share printed and online information to OZ-related entities like tax advisors, investment agencies, etc.

KEY FINDINGS OR RECOMMENDATION

OUTLOOK FOR THE FUTURE OF THE PROGRAM

IMPLICATIONS AND RECOMMENDATIONS

Based on our interviews, the OZ incentive appears least workable for projects that could have the highest impact. When mission-oriented projects have succeeded, it typically only happens after organizing creative structuring and partnerships: searching for partners who prioritize mission over profits, pairing OZ finance with other sources, and making concessions on issues (i.e., 10-year exits).

The program proves useful for financing projects that yield substantial community benefit, but it has disadvantages in crucial areas.

Four Crucial Areas

1. The structure provides the largest financial benefits to projects providing the highest returns. Luxury housing in appreciating neighborhoods may receive much larger support than affordable housing.

2. Because the incentive has capital gains limits, few people qualify to make OZ investments.

3. Also, the 10-year time horizon is too long, too illiquid, and too fixed for use in non-real estate investments.

4. OZ incentives promote financing that does not suit most equitable development uses. OZ financing alone cannot unlock the small business growth, or the development of community institutions and amenities needed for equitable growth.

Mission Actor OZ Strategies

Coping strategies enable the use of OZ incentives. These include combining multiple subsidies, partnering with anchor institutions, and developing two-round financing structures.

Philanthropies can further work to support high-impact OZ projects by pooling resources, using junior equity positions, and using equitable development frameworks in grantmaking.

State and local governments have options to help mission-aligned projects: create added benefits for QOFs, connect projects with investors, serve as project coordinators, and provide tax abatements and other incentives.

Broader Changes

Principles that can reshape OZ incentives include better support for investments in small business, weighing profitability against social impact, removing the capital gains restriction for investors, and implementing a rigorous certification process for QOFs.

It is important to recognize that as neighborhoods continue to implement economic recovery efforts, OZs have a role to play, not only to compel new economic activity in communities, but through revisions to the incentive it can create truly equitable development.

KEY TAKEAWAYS OF THE OPPORTUNITY ZONE PROGRAM

1. **OZs Reach Investors Not Previously Engaged With Community Development**

   The OZ tax incentive, designed to generate a broad marketplace of investments, sought to draw capital into disinvested communities. Almost any individual or corporation with capital gains can invest in a qualified opportunity fund, with no cap on the amount one can claim.

   OZ incentives encourage equity investments over a relatively long-term investment horizon—generally 10 years—and can unlock valuable forms of capital.

   The OZ incentive has attracted interest from actors across the country, including those engaged in equitable development. The flexibility of the program has resulted in a range of mission-oriented projects. Impact areas include affordable housing, health care, food and agriculture, arts, small business development, renewable energy, and neighborhood revitalization.

   Many of these projects happen outside the auspices of a community development corporation (CDC) or community development finance institution (CDFI). Black communities are particularly engaged with the program.

2. **OZs Spur Community Development Efforts**

   OZs have brought together coalitions that represent the diversity of actors engaging in them. The incentive has engaged entities unseen with other federal initiatives.

   The federal government has sought to align incentives and integrate OZs across other federal agencies. Several states, regions, and cities have set up nonprofit OZ intermediary organizations to match projects and investors. Several cities have designated OZ coordinators to build localized pipelines of mission-oriented projects, serve as matchmakers between potential investors and projects, and help convene potential sources of capital. States have also aligned or created new incentives around OZs and supported local community planning. Nonprofit organizations promoted the use of OZs for positive social impacts in different ways.

   The vast range of engaged stakeholders and depth of these engagements has significance. However, the ultimate investment of these efforts has yet to prove itself. Many coordinating and facilitative structures have yet to demonstrate a consistent ability to connect projects to capital. The OZ Structure Lacks Encouragement for Resident or Intermediary Engagement.

   Since the Model Cities program began in 1966, federal programs have attempted to ensure that residents have a voice about using resources in their communities. Examples include the Empowerment Zones program and the Community Development Block Program. These encourage residential engagement.

   However, The OZ program provides no opportunity for citizen input about proposed projects. Additionally, the OZ incentive does not require a social impact mission. Despite the lack of requirements in this regard, there are concerns that requiring community engagement would impede the flow of capital.

   There are case studies across the US of creative instances of sponsors engaging with community members around OZs: a community development program funded by a hospital, financing for a grocery store in a high-poverty neighborhood, and community planning for mixed use development.

3. Many Mission-Based Project Sponsors Struggle to Find OZ Investors

Potential OZ investors include institutional investors, family offices, high-net-worth individuals, banks, and basically any individual or corporation with capital gains. Yet, most mission-oriented practitioners that our team met with reported difficulty building relationships with potential investors. Reasons include the following:

Lack of connections: The capital gains requirement reduces the pool of investors. For project sponsors whose networks do not encompass taxpayers with capital gains, this limitation has a crippling effect.

Track record and experience: As OZs have attracted new actors into the community development space, part of the struggle to connect with investors has to do with project sponsors' track record and inexperience working with investors.

Project sponsors who have a track record, and enjoy high visibility and trust from local stakeholders, report more success.

Transaction costs: Transaction costs have long presented hurdles to accessing capital through community development programs. Though the OZ program is indeed simpler than community development tax credits, it is not immune to cost barriers. These costs can include elevated search costs—such as hiring a broker to find investors—in addition to legal and accounting costs.

Deal size: Any investment that carries significant transaction costs needs to reach a certain scale before the transaction costs are worth it. Our conversations with investors confirmed that sponsors usually need a relatively large deal to attract interest, at least from institutional OZ investors.

Return: For many mission-oriented actors, their projects simply do not generate a return high enough to interest many investors.

With illiquid investments, most OZ investors want to cash out at the earliest possible opportunity while maximizing the tax benefits—at year 10. This may seem long from the investor's perspective, yet most mission-driven practitioners seek to hold the asset still longer. Thus, project sponsors must plan an exit strategy for their investors—in many cases, they report, at the expense of the social impact components of their projects.

Considerations include rapidly appreciating property values and associated tax burdens.

4. OZ Investors Demand Higher Returns Than Social Impact Projects Can Provide

Sponsors struggle to find equity support for their social impact projects. Even when they can raise OZ capital, they often need to pair it with other sources. After the challenge of finding and connecting with potential investors, sponsors of mission oriented projects find themselves facing requests for market-rate or near-market-rate returns, tax credits, tax deferrals, and liability reductions. These internal rates of return (IRR)—even near-market—are in most cases unachievable for sponsors of mission-driven projects.

Why do most investors demand double-digit pretax returns for OZ investments? Consider the following.

Incentive architecture: The OZ benefit structure represents a significant factor driving investor goals for return. The OZ incentive starts with a low capital account and exits with the highest gain possible. Gains are tax-free: the larger the gain, the larger the financial support in the form of forgone tax. High-end apartment buildings and hotels provide larger incentives than food banks, supermarkets in food deserts, or affordable housing projects.

Ten-year hold: For investments held at least 10 years, investors pay no taxes on any capital gains produced through their investment in a QOF. However, during this 10-year holding period, investments are illiquid. Investors naturally respond to long, illiquid holding periods by boosting the returns they demand.

Shallow subsidy: OZ is a relatively shallow subsidy that adds somewhere between 150 to 300 basis points to the return for most deals. Thus, for a typical project, the incentive does not provide the return that investors seek.

5. Designed to Spur Job Creation, Most OZ Capital Flows into Real Estate

Deployment rules and rigidity around investment time frames hinder the use of OZs for equity investments in operating businesses. For startup operating businesses, it may seem easier to raise investment with a short time horizon.

Investors might feel interested in a stable, longstanding business where they can invest equity, leave it for 10 years, and then take it out easily.

But these are not the businesses that most need the investment promised by the OZ program. Few small businesses can generate the kind of growth that would provide attractive returns to equity investors.

Indicates **Lowest** Number Across All OZs

Indicates **Highest** Number Across All Ozs

	Census Tract 1.01	Census Tract 1.02	Census Tract 2	Census Tract 3	Census Tract 9	Census Tract 11	Census Tract 13	Urban Services District	Fayette County
Key Facts									
Population	3,063	1,616	3,661	3,342	4,673	5,027	2,272	308,391	323,809
Households	1,891	1,039	1,286	1,415	2,062	2,053	772	129,814	134,883
Median Age	32.9	50.8	27.0	41.6	23.1	39.5	39.6	35.3	35.6
Median Disposable Income	$25,485	$27,675	$27,967	$26,168	$17,005	$25,642	$26,449	$46,337	$47,225
Education									
No High School Diploma	8%	7%	16%	28%	12%	24%	37%	8%	8%
High School Graduate	13%	22%	28%	25%	21%	33%	28%	19%	19%
Some College	27%	31%	27%	31%	21%	35%	23%	28%	28%
Bachelor's/Graduate/ Professional Degree	53%	40%	29%	16%	46%	9%	13%	46%	46%
Income									
Median Household Income	$30,701	$32,609	$35,333	$31,630	$18,689	$30,290	$31,779	$55,426	$56,448
Per Capita Income	$35,082	$39,570	$22,914	$18,652	$13,819	$14,611	$14,767	$34,531	$35,048
Median Net Worth	$10,490	$12,733	$13,661	$13,711	$8,708	$26,687	$14,367	$74,244	$78,934
Race and Ethnicity									
White Alone	67.03%	67.20%	55.34%	34.26%	73.59%	32.48%	54.36%	72.48%	72.67%
Black Alone	24.94%	27.23%	36.90%	56.64%	15.75%	51.68%	22.05%	15.40%	15.23%
American Indian/Alaska Native Alone	0.26%	0.43%	0.19%	0.48%	0.26%	0.48%	0.40%	0.18%	0.19%
Asian Alone	3.07%	2.23%	0.85%	0.30%	4.69%	0.38%	0.66%	4.55%	4.56%
Pacific Islander Alone	3.00%	0.00%	0.25%	0.06%	0.00%	0.02%	0.40%	0.06%	0.07%
Other Race	2.02%	0.74%	2.92%	4.31%	3.19%	11.94%	17.61%	4.10%	4.09%
Two or More Races	2.64%	2.17%	3.55%	3.95%	2.53%	3.02%	4.53%	3.23%	302.00%
Hispanic Origin	4.47%	3.77%	6.31%	10.26%	6.81%	22.32%	27.11%	7.74%	7.74%
Employment									
White Collar	72%	72%	59%	48%	66%	36%	32%	70%	70%
Blue Collar	12%	8%	24%	29%	19%	29%	35%	17%	17%
Services	16%	20%	17%	22%	15%	35%	33%	13%	13%
Unemployment Rate	22.8%	19.7%	23.1%	27.1%	24.6%	27.4%	24.5%	18.1%	17.9%
Housing Statistics									
Median Home Value	$321,264	$241,509	$125,203	$111,408	$215,152	$49,636	$93,802	$196,117	$199,821
Average Spent on Mortgage & Basics	$4,310	$4,328	$4,647	$4,253	$1,724	$3,570	$3,991	$8,542	$8,798
Median Contract Rent	$550	$513	$496	$538	$797	$542	$439	$711	$713

REFERENCES

1. *Opportunity Zones Toolkit Volume 2: A Guide to Local Best Practices and Case Studies*.

   (2020, May). U.S. Department of Housing and Urban Development.

2. *Task Force on Neighborhoods in Transition*. (2021, April).

   https://drive.google.com/file/d/17wC4uSxcY6Gpdo4CccPheINGyx87ZeQe/view

3. U.S. Environmental Protection Agency's Technical Assistance Services for Communities

   (TASC) program. (2020, November). *Five Strategies for Engaging Opportunity Zone Investors*. U.S. Environmental Protection Agency (EPA), Office of Community Revitalization. https://www.epa.gov/sites/production/files/2021-01/documents/five_strategies_engaging_oz_investors.pdf

4. White House Opportunity and Revitalization Council. (2019, September).

   OPPORTUNITY ZONES TOOLKIT | VOLUME 1: A ROADMAP TO PLANNING FOR ECONOMIC DEVELOPMENT WITHIN OPPORTUNITY ZONES. U.S. Department of Housing and Urban Development. https://opportunityzones.hud.gov/sites/opportunityzones.hud.gov/files/documents/Opportunity_Zones_Toolkit_Roadmap_FINAL_Edited_092319.pdf

LEXINGTON FAYETTE URBAN COUNTY GOVERNMENT
KENTUCKY
1775

ehi
CONSULTANTS

Urban League of
Lexington-Fayette County