STONEHENGE

CAPITAL

Opportunity Zones

September 2019

Stonehenge History and Overview

Business Lines

STONEHENGE
CAPITAL

Tax Credit Services:

$3.9 Billion Transacted

Participates in a variety of state and federal tax credit programs.

- Film Tax Credits: $1.12 billion
- Historic Tax Credits: $1.12 billion
- CAPCO: $649 million
- Renewable & Tech: $224 million
- Other Tax Credits: $839 million

Community Development:

$1.2 Billion Invested

Community Development Lending through Federal & State New Markets Tax Credit Allocations.

- 11 Federal New Market Tax Credit awards totaling $700 million
- 13 State NMTC funds totaling $548 Million
- 125 total NMTC investments in 27 states and 83 cities

Growth Capital:

$875 Million Capital Raised

Manages state targeted funds focused on growth capital for small businesses and economic development.

- 18 state targeted investment funds
- 7 SBICs capitalized by 3rd party institutions
- 2 State RBIC programs closed
- Focused on debt and growth equity investments

Opportunity Zones
Overview

for making timely investments in

which invest in

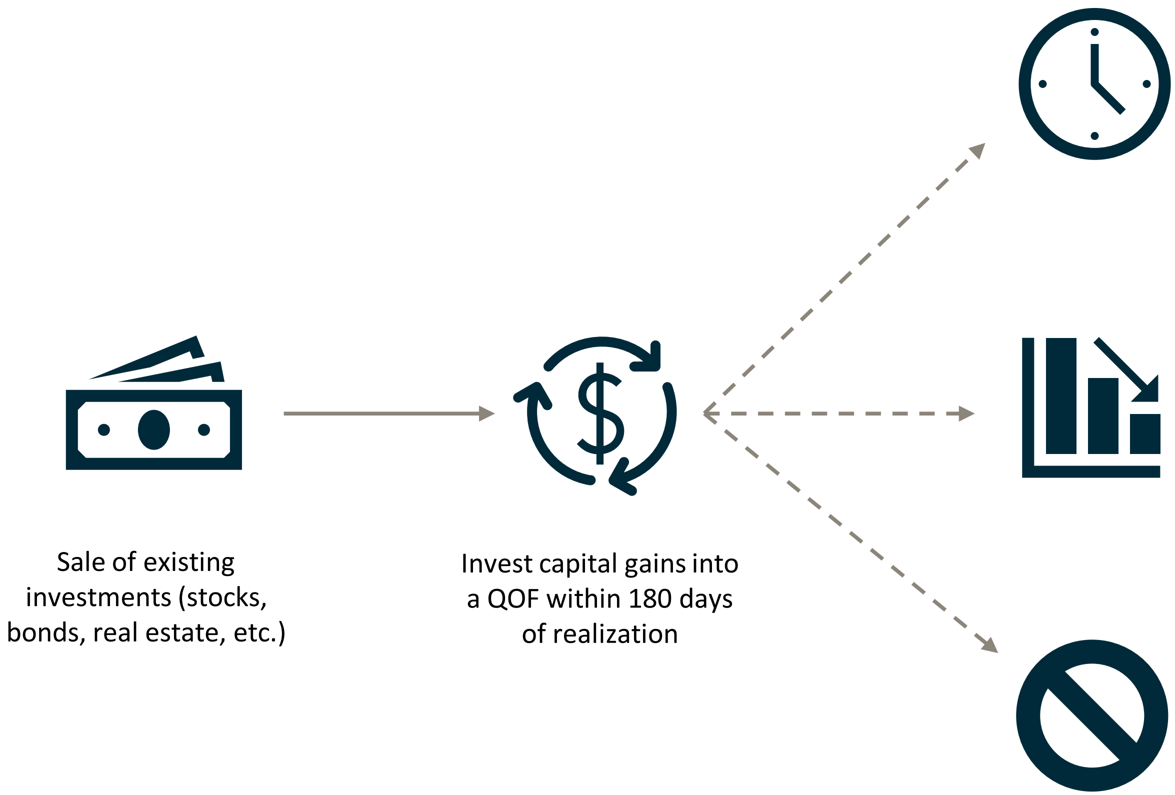
Individual and Corporate Taxpayers get
tax deferral on capital gains

Qualified Opportunity Funds (QOFs)

Qualified Opportunity Zone Properties

Opportunity Zones
Benefits

Investing in a Qualified Opportunity Zone allows taxpayers to defer and potentially discount/exclude capital gains. Three benefits are available:



1) Temporary Deferral of Original Capital Gains Taxes:
Deferral of capital gains taxes until the earlier of (a) the date the new investment is sold or (b) December 31, 2026 if those gains are reinvested in Opportunity Zones within 180 days from the sale or exchange of the investment

2) Reduction of Original Capital Gains Taxes: If investors hold their investment for at least five years, the investor will owe taxes on 90% of the deferred capital gains; if investors hold their investment for at least seven years, the investor will owe taxes on 85% of the deferred capital gains

3) Exemption of New Capital Gains Taxes: Permanently exclude incremental capital gains on reinvested capital in Opportunity Zones held for at least 10 years

Opportunity Zones
Background

- ***December 31, 2017***: the "**Incentive**" was included in the Tax Reform Act of 2017; however, a bill was filed before tax reform. Senator Cassidy, along with fellow Senate Finance Committee colleagues which included Senator Scott from SC, Senator Portman from Ohio and Senator Booker from New Jersey were instrumental in getting the legislation approved.

- ***April 20, 2018:*** Governor John Bel Edwards nominated 150 census tracts in Louisiana.
    - These Census Tracts were among the nearly 600 low-income census tracts eligible for inclusion in the Opportunity Zones program.

- ***June 14, 2018***: Treasury and IRS announced final round of opportunity zone designations.

- ***October 19, 2018:*** Department of Treasury released a first round of Opportunity Zone regulations.

- ***April 17, 2019:*** Department of Treasury released a second round of Opportunity Zone regulations.

- **June 24, 2019**: IRS issued updated Opportunity Zone FAQs.

Opportunity Zones

Timeline for an investment in 2019

Investment of Original Capital Gain

Sale of assets

- Sell assets for $11M with a basis of $1M during 2019
- Realize $10M of capital gains
- No capital gain tax paid at sale if invested in QOF within 6 months

5 Year Basis Step-Up

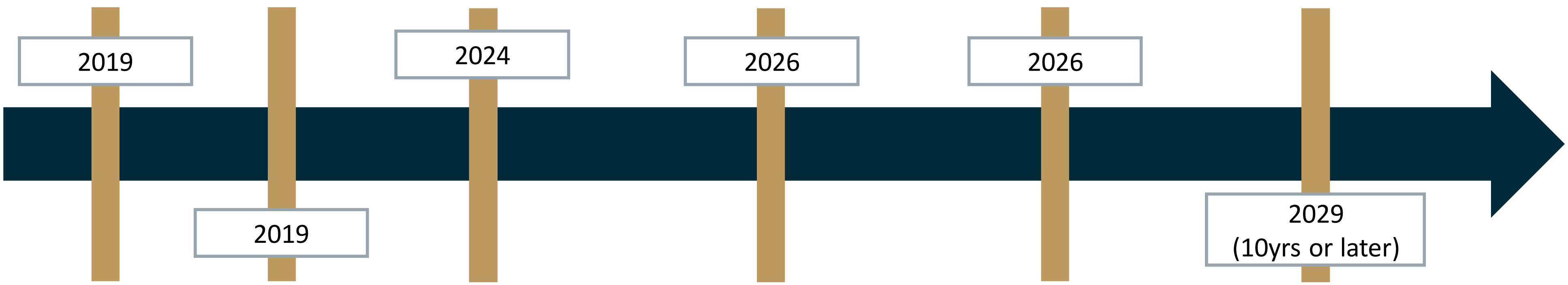
- 10% Basis Step-Up
- Capital gain reduced to $9M

7 Year Basis Step-Up

- 5% Basis Step-Up
- Capital gain reduced to $8.5M

Deferred Gain Recognized

- On December 31, 2026
- $8.5M of the $10M of deferred capital gains are taxed and paid
- Basis in QOF increases to $10M



New Opportunity Zone Investment

New investment

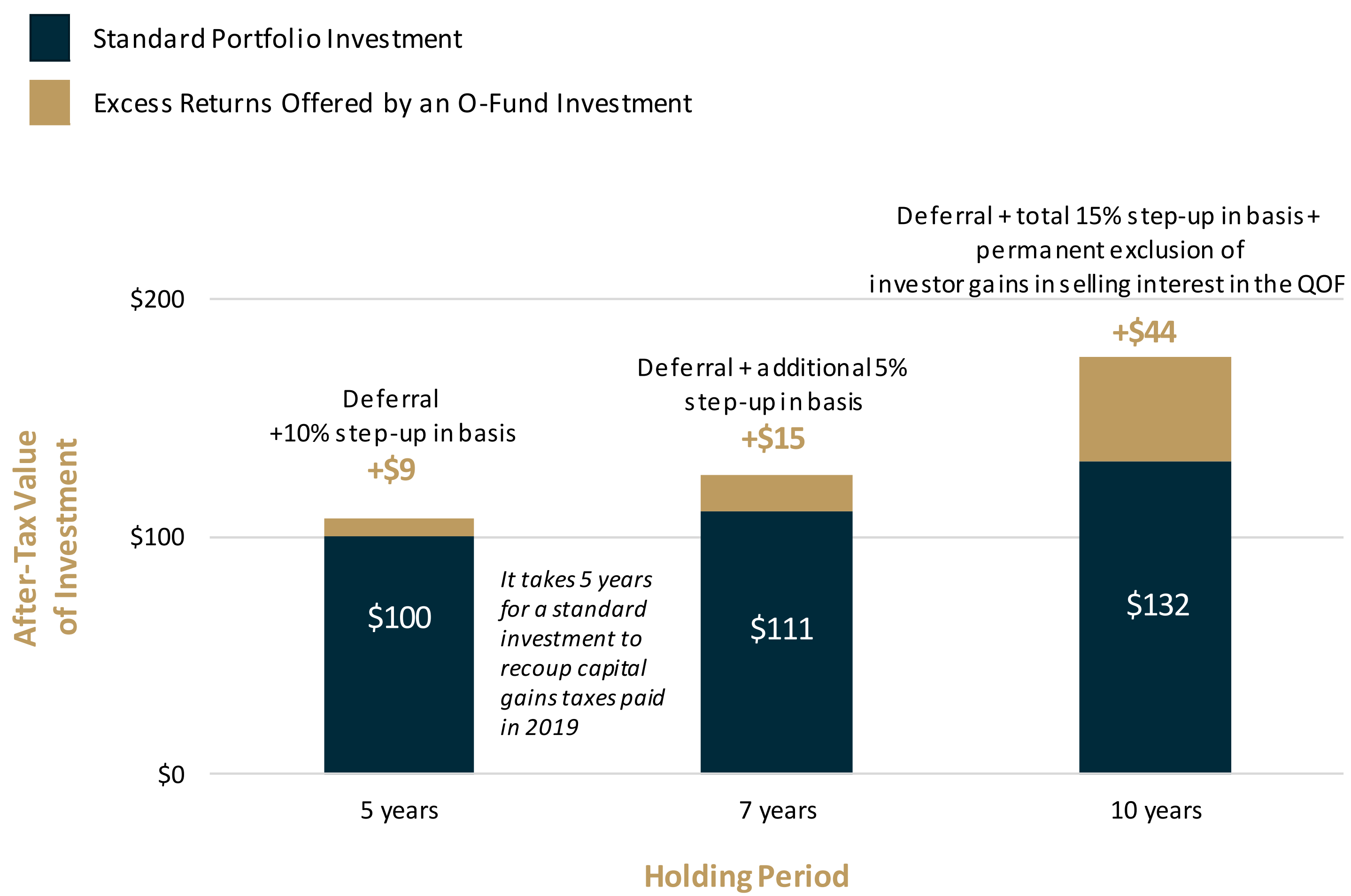
- Invest $10M
- Realized capital gain of $10M is deferred
- Basis of taxpayer in QOF deemed to be $0

New investment sale

- Sell investment for $22M
- Basis in the investment is deemed to be FMV
- Incremental realized capital gain of $12M excluded from tax

Opportunity Zones

Investment Returns above a Standard Investment



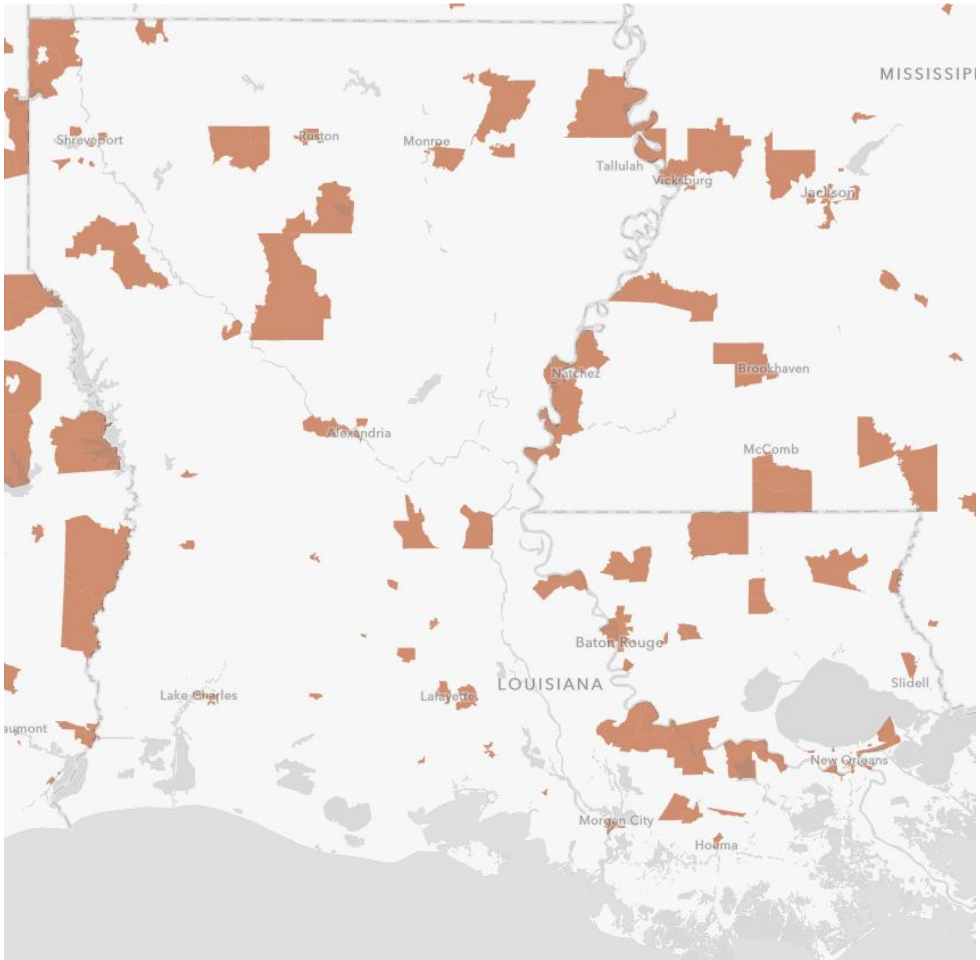
**Note: Assumes long-term federal capital gains tax rate of 23.8%, no state income tax, and annual appreciation of 7% for both the O-Fund and investment.*

Opportunity Zones
Eligible Areas

There are 150 census tracts in Louisiana that are qualified opportunity zones. These low-income tracts were nominated by Gov. John Bel Edwards and certified by the Secretary of the Treasury. Louisiana's 150 tract recommendations were determined based on a strategic review of feedback from local, state and federal elected officials; economic and community development organizations; private developers; private equity firms; non-profit organizations; churches; and individuals.

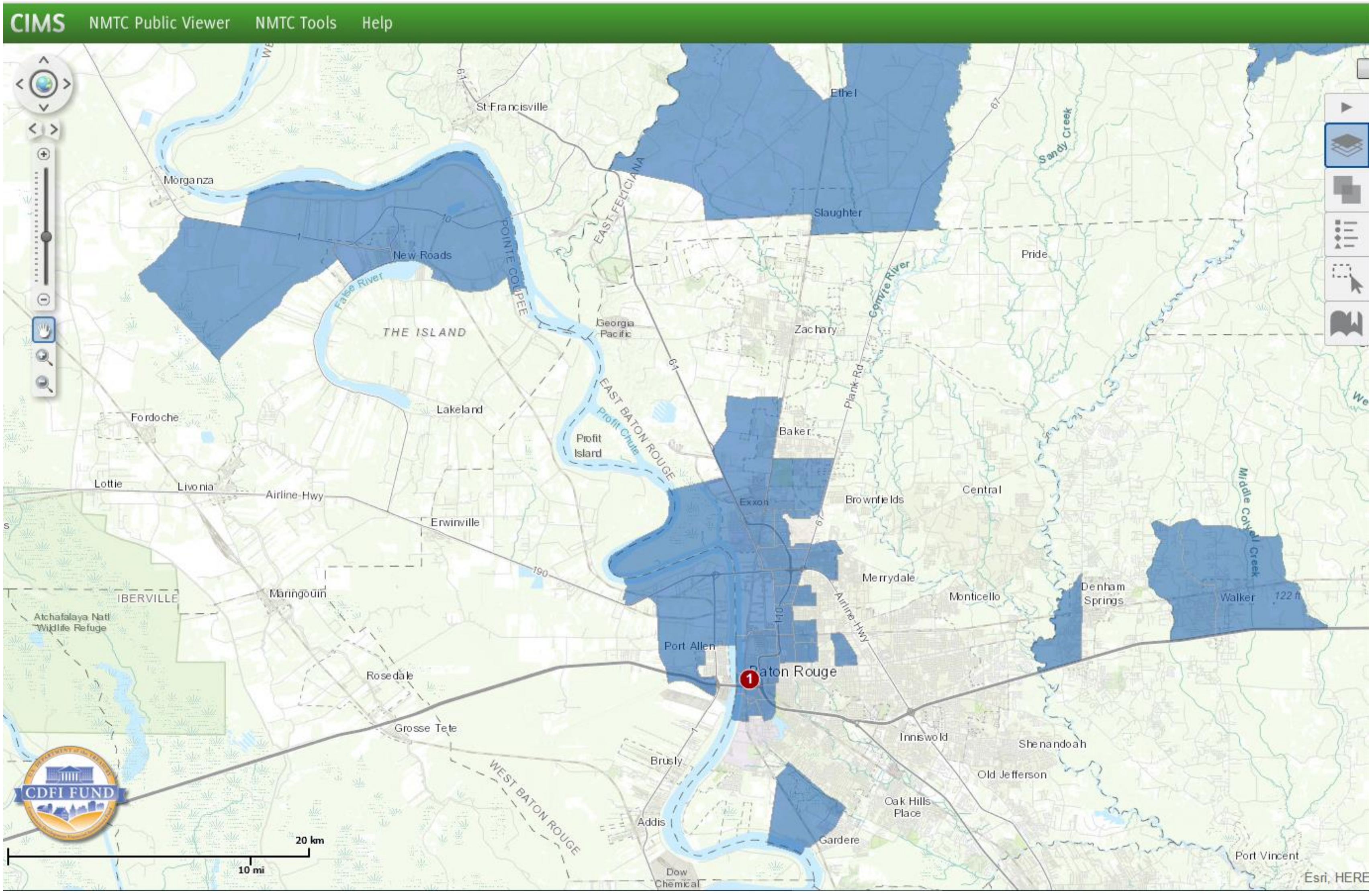
Top Distribution of LA Opportunity Zones

- Orleans – 17%
- East Baton Rouge – 15%
- Caddo – 5%
- Jefferson – 5%
- Lafayette – 5%
- Calcasieu – 3%
- Iberia – 3%
- Ouachita – 3%
- St. Landry – 3%
- St. Mary – 3%



Opportunity Zones

Eligible Areas



The Capitol Region is well represented by 33 eligible tracts (22%) of the total in the state: East Baton Rouge – 22 eligible tracts, Livingston – 3, Ascension – 2, Pointe Coupee – 2, Iberville – 1, West Baton Rouge – 1, East Feliciana – 1, St. Helena - 1

Opportunity Zones

Louisiana OZ Web Portal

- Louisiana Economic Development (LED) has launched an online service to connect investors with Louisiana properties eligible for the federal Opportunity Zone program. Through the new Louisiana Opportunity Zones web portal, investors can explore potential projects in Opportunity Zones throughout the state.

- Investors and other stakeholders can access the portal at www.LouisianaOpportunityZones.com to view specifics on Louisiana's Opportunity Zone projects.

Frequently Asked Questions

Who can Invest?

Who can invest?

- Anyone with unrealized capital gains -- institutional investors and investment banks, impact investors, CDFIs, multifamily offices, venture capital partnerships, angel groups, REITs and more can invest in or establish their own Opportunity Funds.
- We expect funds to differentiate themselves along multiple lines, from geographic scope to investment type to management style.
- Funds will have to self-certify but should expect few restrictions beyond the statutory requirements.

Who are the potential "winners" of QOF investments?

Real Estate Owner	Source Directly	New Business	Owners of Stocks	Regular STCG
Existing owners of real estate in desirable QOZs	Developers with experience in these areas who can source investors directly	Taxpayers looking to start an operating business within a QOZ	Owners of a large publicly traded single-stock position who can generate capital gains as needed to meet capital calls	Hedge fund managers who have STCG on a regular basis

Frequently Asked Questions

What are an investors key considerations?

The Opportunity Zone incentive is designed to reward long-term investments in distressed communities. Identifying a community focused, impact investor will be key to fully understand the risk, liquidity options and duration of the investment.

Risk

Liquidity

Duration

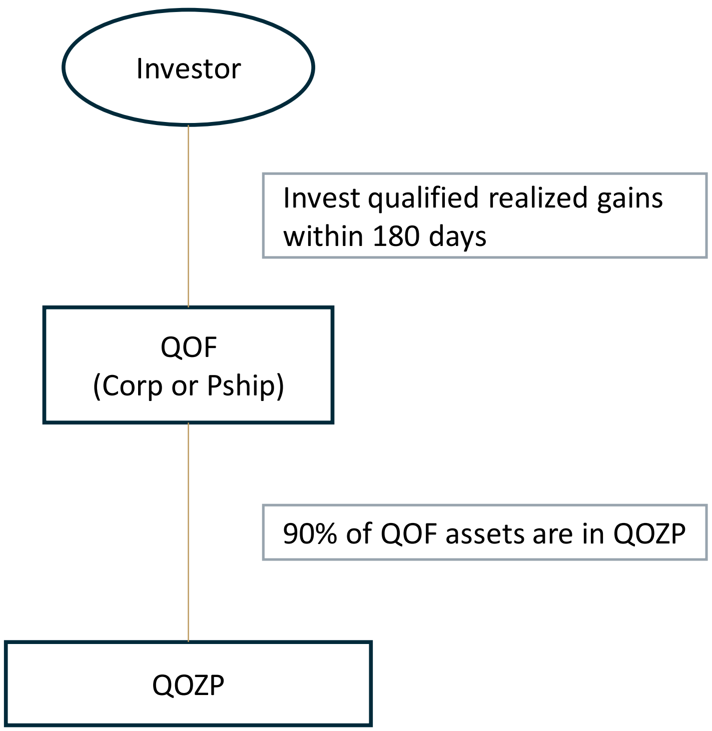
Talk with Fund Managers:

- 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?

Frequently Asked Questions

What are the basic requirements of a QOF?

Basic Structure for QOF



QOF Terminology

- Qualified Opportunity Fund ("QOF") – a QOF is an investment vehicle that is set up as either a partnership or corporation for investing in eligible property that is located in a Qualified Opportunity Zone.
- Qualifies Opportunity Zone Property ("QOZP") – Includes:
  1. Qualified Opportunity Zone Business Property ("QOZBP")
  2. Qualified Opportunity Zone ("QOZ") Stock
  3. QOZ Partnership Interest
- QOZBP – tangible property used in trade of business

Frequently Asked Questions

What are the basic structural requirements for a QOF?

Direct Ownership (Single-tier structure)

Investor

QOF
(Corp or Pship)

Operate a QOZBP directly, property is used in a QOF's trade of business

90% of total assets =
QOZBP
(Tangible Property)

No other requirements
- No additional restrictions on financial property
- No working capital safe harbor
- No prohibition on certain "sin businesses"
- No specific reference to the lease of property by a QOF

Indirect Ownership (Two-tier structure)

Investor

QOF
(Corp or Pship)

90% of QOF assets are in QOZP operating as a QOZB

QOZP operating as a QOZB

(QOZ stock or QPZ partnership interest)

70% of tangible assets = QOZBP

Other requirements
- Working capital safe harbor applies
- Restriction against certain "sin businesses"
- Allows lease of property by QOZB

Frequently Asked Questions

What are the additional requirements of a QOZB?

- QOZB must be a trade or business where:
  - At least 50% of total gross income is derived from the active conduct of the business.
  - A substantial portion of the intangible property is used in the active conduct of the business.
  - Less than 5% of the average aggregate unadjusted basis of property is attributable to nonqualified financial property.

- Safe harbor for working capital of QOZB:
  - Provides more flexibility for 70% “substantially all” test
  - Working capital for the acquisition, construction and/or substantial improvement of tangible property in a QOZ.
  - Written schedule for the expenditure of the working capital within 31 months of the receipt of assets by the QOZB.

- QOZB cannot be a “sin business”.

Frequently Asked Questions

What is substantial improvement?

Substantial Improvement Test

- Property is treated as "substantially improved" if during any 30-month period after the acquisition of property, total additions to the property exceed the adjusted basis of the property at the beginning of such period.
- In other words, the cost of improvements must exceed the original basis of the property after 30 months.

Differences between Land vs. Building

- For a purchase of property that includes land and a building, only the building would need to be substantially improved but not the land.
- Substantial improvement is not required for the land upon which the building is located.

Frequently Asked Questions

What is the difference between a 1031 and an OZ investment?

The like-kind exchange provisions of section 1031 of the tax code have offered opportunities to defer taxation of gains on the sale or exchange of real estate. The introduction of OZones provides new options for tax planning which, in many respects, are less restrictive than like-kind exchanges, offer potentially more beneficial tax incentives.

IRC § 1031 Like-Kind Exchange	IRC § 1400Z-2 Opportunity Zone Investment
All proceeds from the original sale must be reinvested within 180 days of the exchange.	Only the realized gain portion of the original sale must be reinvested within 180 days of the sale to defer gains.
Deferred gain is recognized upon a taxable sale of the new property.	Deferred gain is recognized upon the earlier of the sale of the property or December 31, 2026*.
Basis in the new property is equal to the basis in the original property exchanged.	Basis in the OZone property is zero until the deferred gain is recognized.
Future like-kind exchanges may be applied.	No future deferrals are allowed after the first election.
No limitation on location of like-kind exchange property.	Location limited to designated OZones.
There is no basis step-up or gain reduction as a result of holding the new property for a period of time.	There is a basis step-up in the new property if held for 5 or 7 years of 10% or 15% of the deferred gain, respectively. After 10 years, the basis is equal to the fair market value of the investment when sold.
Generally, exchanges may occur between related parties.	The original sale or exchange of the property must be to an unrelated person.
Under the 2017 Tax Act, section 1031 only applies to real property exchanges.	Investment in new property can be any property if it meets the definitions of qualified opportunity zone property.

*The deferred gain recognized may be reduced to the extent the fair market value of the investment is less than the deferred gain.

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