Tapping The Opportunity Zone Program to Accelerate an Equitable Clean Economy

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Summary

Advancing an equitable clean economy by leveraging the new federal Opportunity Zone program could greatly magnify the economic development benefits of Opportunity Zones and accelerate the U.S. shift to clean energy and resilience. Opportunity Zones were codified in The Tax Cuts and Jobs Act of 2017 in a new section of the Internal Revenue Code (1400Z1), which established tax incentives for investors in Opportunity Funds (OZones). The OZone provision was designed to spur investments of patient capital in predominately low- and moderate-income communities across the United States.

The first and second set of federal rules for OZones have made it clear that equitable clean economy projects are eligible for OZone investment. However, it will take creative ideas, new structures, and cooperation across sectors and disciplines, including the private sector, government, and community organizations, to fully tap the opportunity in ways that deeply benefit low- and moderate- income communities.

This paper is intended to help spread the word about the opportunity to advance an equitable clean economy in OZones and provide ideas for those who see themselves as stakeholders – impact investors, developers already working in low- and moderate-income communities, community organizations, local governments, and community foundations -- to plug in. The paper describes the potential benefits of a clean economy play in OZones, the way that OZone rules support such a play, the interest of investors in an equitable clean economy in OZones, the emergence of Opportunity Funds focused on clean economy, how experienced community Investors are innovating around clean economy in Opportunity Zones, the continuing financing challenges (which are gradually being addressed), and the capacity gap that can be addressed if given attention now.

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The opportunity is too big to miss. Darren Walker, Ford Foundation, has said that the Opportunity Zones program is the biggest economic development initiative in 50 years to spur investments of patient capital in predominately low-income communities. Some market watchers are predicting $200 to $300 billion in investment. The lower cost of capital that Opportunity Zones offer means many more clean economy projects that are located in low- and moderate-income neighborhoods may now become financially attractive. The urgency to address climate change, curtail its disproportionate impacts on low- and moderate-income people, and create new economic opportunity in low- and moderate-income neighborhoods is palpable.

The key players are gathering. Opportunity Fund investors are increasingly interested in clean economy. Clean energy developers are more slowly, but also, entering the zone. Community investors experienced in working in low- and moderate-income neighborhoods are rapidly innovating around clean economy in opportunity zones.

All of the interest, innovation, and leadership will lead to a growing pipeline of deals in Opportunity Zones. Still, the process could be faster and the impact multiplied if there were broader knowledge of the opportunity, coordination, sharing, and rapid dissemination of models and processes to support local deal development, help local governments set the table, and ensure projects maximize the benefits for communities.

Why Make an Equitable Clean Economy Play in Opportunity Zones: Accelerated investment in clean energy and resilience is essential to reduce the impacts of climate change. Investment in local power production, microgrids, EV charging, batteries, and broadband also can improve the resilience of projects and neighborhoods.
At the same time, clean energy investments can lower energy costs and improve the economic position of the 16 million Americans paying more than 10% of their total income on utility bills.[2] According to a new report from Brookings Institution, workers in clean energy earn higher and more equitable wages when compared to all workers nationally and many of the relevant occupations have lower educational requirements than average. At the same time, the current clean energy economy workforce is less racially diverse than other occupations nationally.[3] There also is a largely missed opportunity to grow minority-owned businesses through investments in the clean energy economy. NGOs like GRID Alternatives and Elevate Energy have demonstrated the potential through their linkage of projects to not only training for local residents, but also contracts for minority owned businesses.

Many Opportunity Fund investors will appreciate the clean economy opportunity. According to Cushman & Wakefield, the opportunity zone program has visibility with high net-worth investors, many of whom have been driving greater interest in social

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[2] Patrick Sabol, Groundswell, From Power to Empowerment: Plugging Low Income Communities into the Clean Energy Economy, https://s3.amazonaws.com/groundswell-web-assets/documents/frompower_to_empowerment.pdf

[3] https://www.brookings.edu/research/advancing-inclusion-through-clean-energy-jobs/

impact funds and calls for “socially responsible investing.” [4] Millennials are leading the charge (86% vs. 75% of the total population in 2017) for social impact, according to the Institute for Sustainable Investing’s 2017 Sustainable Signals report. Julia Shin, VP & Managing Director Impact Investing, Enterprise Community Investment, Inc., believes that the rubric of climate change, renewables, and resilience is resonating with these investors. Offering clean economy opportunities is a way to stand out from the crowd.

Most Opportunity Fund investors are looking for *appreciation* of Opportunity Zone projects. Making sure OZone projects are green buildings can enhance appreciation. According to findings of a study produced for USGBC, Dodge Data &Analytics World green Building Trends 2016 SmartMarket Report[5], increasing consumer demand has pushed the world’s green building market to a trillion-dollar industry. Building owners reported a 14 percent savings in operational costs over five-year savings for new green buildings and 13 percent savings in operational costs over five years for green retrofit and renovation projects. Building owners also reported that green buildings—whether new or renovated—***commanded on average a 7 percent increase in asset value over conventional buildings.*** In addition, investment in local power production, microgrids, EV charging, and batteries will improve the energy resilience of projects and neighborhoods.

Some developers that want to rehab buildings will find it hard to meet the OZone requirement to double the adjusted basis in their property. Adding solar and energy efficiency using existing local, state, and federal incentives in many cases can be revenue positive, contribute to the 100% increase in adjusted basis, and improve affordability for residents. Katie Roskam, Varnum LLP in Grand Rapids, has noted that real estate developers in Opportunity Zones are trying to find costs they can capitalize into property development to increase value.[6]

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[4] Cushman & Wakefield, In the Opportunity Zone, November 2018.

[5] http://fidic.org/sites/default/files/World%20Green%20Building%20Trends%202016%20SmartMarket%20Report%20FINAL.pdf

[6] Andy Balaskovity, West Michigan Developer Targets Opportunity Zones for Solar Projects, MiBiz, February 3, 2019.

The Optimistic Approach to Clean Economy in OZones: One of the areas where it is worth taking a position of optimism is clean economy investing in Opportunity Zones. The lower cost of capital that OZones offer means many more clean economy projects that are located in low- and moderate-income neighborhoods may now become financially attractive, according to Bert Hunter, Connecticut Green Bank. Opportunity Zone-based community solar projects can generate an IRR that is as much as 30% higher due to the OZone federal tax benefits. The launch of the OZones program already has accelerated experimentation and innovation around clean economy and resilience investment that benefits low- and moderate-income communities and neighborhoods, creating an opportunity to escalate the growth of this market.

There is almost universal agreement now that clean economy investments qualify for Opportunity Fund investment. Renewable energy projects have similar characteristics to real estate. They both are long-term, place-based investments. Renewable energy and energy efficiency produce a reliable stream of revenue as real estate does. These projects can meet the Opportunity Zone 90 Percent Asset Test, the requirement to provide substantial improvement to the property, and the requirement to derive income directly from business in the Opportunity Zone. (In order to ensure that the designated zones receive benefits from the program, the QOF must hold at least 90 percent of its assets in qualified opportunity zone property. These assets must be newly constructed, or substantially improved and the business must derive 50 percent of gross income from active conduct of business in an opportunity zone.) [10] In addition, there is extensive overlap in the type of property that qualifies for the QOZ incentive, the investment tax credit (ITC), and production tax credit (PTC) for renewable energy products, which may boost the value of the ITC and PTC even while the credit rates are sun-setting. Specifically, all three incentives require an

[9] https://www.confluencephilanthropy.org/Will-Opportunity-Zones-Benefit-Marginalized-Communities

[10] https://www.lexology.com/library/detail.aspx?g=d11aec93-c35a-41d8-99d2-e6a161c5dd36

ultimate investment in tangible property that is used in a trade or business (ITC and PTC qualified assets also must be personal property).[11]

The second tranche of Opportunity Zone guidance addressed the biggest outstanding legal questions facing clean energy investment by Opportunity Funds. One major question was whether utility scale renewable energy could meet the requirement for earning its revenue in the Opportunity Zone if the power is sold outside of the OZone. The most recent guidance allows projects to look not just at where customers are located, but alternatively at the location of employee hours, tangible property, or management functions of the business. The second tranche of regulations also addresses part of the concern about depreciation recapture, which had muted enthusiasm for solar because it would have eroded the tax-free 10-yr exit. Depreciation recapture could still discourage multi-project funds, but there seem to be ways around it. [12]

Because of other clarifications in the second tranche of federal guidance for the OZone programs, brownfield sites also have potential for clean economy development, where it is the highest and best use of the property. Jon Grosshans, US EPA, sees Opportunity Zones as made for brownfields redevelopment because so many brownfields are in zones and properties that have been vacant for 5 years are not required to double their adjusted basis. The 2018 Federal Brownfields Utilization, Investment, and Local Development (BUILD) Act funding prioritizes the development of renewable energy and energy-efficient projects.[13] Grants even include job training so that developers can include a workforce component. Driven by this change and new state policies, such as the requirement in the Illinois Future Energy Jobs Act ("FEJA") that the Illinois Power Agency acquire RECs from new brownfield site solar photovoltaic projects, demand for solar on brownfields is growing.[14]

Additional clarifications in the second tranche of regulations related to the gross receipts of businesses earned in Opportunity Zones and a working capital safe harbor have improved opportunities for clean economy business development. These change are encouraging investors to invest in operating businesses in OZones, including providing growth capital to clean energy developers.

Opportunity Fund Investors Are Increasingly Interested in Clean Economy: According to Chris LeWand, Global Clean Energy Practice Co-Leader at FTI Consulting. "Commitments are being made to renewable energy projects [in OZones], and these are incremental to the capital pool traditionally available. There will be a high level of demand for shovel-ready renewable energy projects, as only investments made in 2019 will benefit from the full 15% capital gains reduction. However, post-2019, Opportunity Zones will continue to offer significant benefits to investors from a capital

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[11] https://www.jdsupra.com/legalnews/renewable-energy-leveraging-the-68512/

[12] http://opportunityalabama.com/2019/04/22/treasury-releases-second-round-of-opportunity-zone-guidance/

[13] https://www.natlawreview.com/article/making-lemonade-out-lemons-opportunity-zones-brownfields-redevelopment-and

[14] Dan French, Brownfield Listings.

gains deferral or avoidance perspective."[15] Bert Hunter, Chief Investment Officer, CT Green Bank, also expects investments in clean energy to be increasingly attractive to Opportunity Funds because they have low technology risk, generate stable or growing cash flow, generally are low/moderate risk to equity investment, offer cash flows that last for 15-25 years, offer straightforward ongoing project management and can be leveraged through bank loans.[16]

Mainstream investors in Opportunity Funds are pursuing clean energy portfolios. The Obsidian Opportunity Fund managers say they have a large pipeline of shovel-ready utility-scale solar projects in Oregon. They expect Obsidian's Opportunity fund to provide hundreds of millions of dollars initially, with later capacity to invest $1 billion in solar PV. Decennial Group, a new Opportunity Fund plans to invest $1 billion in development projects throughout the U.S. Heartland, including renewable energy investments, which are led by David Pavlik of Chicago renewable energy firm 11 Million Acres.[17] For an extensive new life science and wellness community on the old Michael Reese Hospital site, Decennial anticipates including a microgrid to power buildings development through solar, geothermal and other forms of renewable energy.

Cody Evans, Homecoming Capital, has secured capital from an investment group that wants to invest in sub-utility and small utility scale solar (distributed generation) in low-income communities across the US. Evan's initial goal is to figure out the most efficient method of pairing Opportunity Fund investment with the ITC. For sub-utility projects, he is interested in rooftop and ground level solar projects and both single family and multi-family residential buildings, including naturally occurring affordable housing (NOAH).

Impact investors also are interested in clean economy. Arctaris Impact Fund, LP, which received $15 million in investment guarantees from the Kresge Foundation, intends to raise $750 million for projects that offer market rates of return and will range from $10 million to $50 million. 30% will be investments in alternative energy, telecommunications infrastructure (ex. 30 miles of broadband), and real estate infrastructure projects. One project is a solar field that is part of an industrial park in Flint, Michigan. The solar field will help to attract businesses to the park because of the savings on electricity and rent.[18]

CapZone Impact Investments LLC is developing Opportunity Zone projects and other Environmental, Social and Governance plus Resilience investments for Social Impact at Scale, including multifamily affordable housing and sustainable energy projects that benefit low-income communities. CAPZone is exploring the potential to create an open

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[15] https://fti-intelligenceresearch.com/are-opportunity-zones-truly-an-opportunity-for-renewables/

[16] Connecticut Green Bank, http://www.brbc.org/images/downloads/OZ-Increase--Investment-Renewables-Energy-Efficiency.pdf Bert Hunter, Chief Investment Officer, CT Green Bank, bert.hunter@ctgreenbank.com.

[17] https://www.stltoday.com/business/local/new-opportunity-zone-fund-includes-clayco-crg/article_9ad76129-28cc-5e65-8ab5-ff6886deadb9.html

[18] Jonathan Tower, On Kresge Foundation Webinar, May 9, 2019.

source platform to help identify dead malls and other properties for sub-utility scale solar installations. CapZone also is in discussion with the Coalition for Green Capital about investing in a Green Bank Solar Fund that would itself investing in individual solar project LLCs.

Ross Baird, the founder of Village Capital, recently launched Blueprint Texas, the first in a planned series of geographically focused investment funds of $50 to $100 million each to promote inclusive economic growth. Blueprint Texas is an Opportunity Fund that will make clustered investments in ecosystems of real estate and operating businesses that serve community needs and create local jobs. The firm is exploring models in which, for example, it eventually sells real estate holdings to community-resident shop-owners, who have been tenants in one of the portfolio's developments.[19] According to Graham Richard, Blueprint Texas is seeking developers for Net Zero buildings/development.

Additional Opportunity Zone Funds that report that renewable energy is part their investment focus include 1787 Capital, Activated Capital, Cresset-Diversified, D.R.E.A.M., Garnett Station Partners, HeroHomes.com, Propel, and SC. Some of these, like Cresset-Diversified, will only look at the clean energy market after they have proven basic real estate investments. According to Matt Reilein, the Cresset-Diversified QOZ Fund will focus on basic real estate transactions in the short term. However, they will look at the energy market in the medium term. Reilein believes other funds are likely in the same place. A lot of rural OZones, in particular, could be prime candidates for wind or solar. In one or two years, when the OZone system has been tested and there is clarity about regulations.

A variety of residential and commercial developers and solar developers are creating Opportunity Funds to help scale their pipelines, including Norfolk Solar QOZ Fund, Chart House Energy LLC, Teachers Village Qualified Opportunity Fund, Solar Chicago Investment Fund, and Menkiti Group and LISC.

The Norfolk Solar QOZ Fund is offering to install solar at no cost on businesses and non-profits in *qualified opportunity zones in* Lamberts Point, Park Place and Berkley as well as other neighborhoods. The Fund also is working with solar installers to offer residents in those communities on-the-job solar training.

Chart House Energy LLC, another solar developer, is targeting Opportunity Zones for solar projects in Michigan, also while also hiring project teams from the neighborhood and providing job training for them. Rob Rafson, founder of Chart House has created an Opportunity Fund for the $15 million of projects it expects by 2020. Chart House has completed OZone solar projects in Ypsilanti and Detroit and has projects underway in Muskegon Grand Rapids and Flint.

The Coalition for Green Capital (CGC) is piloting a concept for Opportunity Fund investment in Iowa where a solar developer wants to construct and operate solar generation in 11 facilities at a cost of $12 million.

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[19] https://impactalpha.com/blueprint-local-texas-fund-is-a-blueprint-for-investors-betting-on-their-hometowns-and-the-businesses-bringing-them-back/

More **Clean Energy Developers Are Noticing Opportunity Zones:** According to Chris LeWand, Global Clean Energy Practice Co-Leader at FTI Consulting, a top financial consulting firm, one of the largest the concept of OZones is ***beginning*** to be understood by the renewables industry because of recent presentations to WEEA, SEEA, and other trade associations.[20] Woolsey McKernon, Senior VP at CleanFund, one the largest direct lenders of C-PACE, believes that interest will grow and many marginal and smaller clean energy projects will be developed in smaller OZone communities with commercial PACE. CleanFund is marketing the alignment of C-PACE and OZone investment.[21]

Some solar developers that already focus on access for low and moderate-income residents quickly leveraged Opportunity Zone advantages. See the Norfolk Solar QOZ Fund and Chart House Energy LLC examples above. According to Jon Bonanno at New Energy Nexus, the Opportunity Zone program also likely will expand the addressable market for Class B and Class C C&I solar. Developers will be able to take more risks on Power Purchase Agreements, which could open up this market. More could step up. National Trust Community Investment Corporation (NTCIC), which has completed 1.5 billion in tax credit deals, is encouraging solar developers and sponsors in OZones to seek equity from Opportunity Funds as a possible means to reduce development costs and bring in less expensive capital than current debt providers.[22]

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[20] https://fti-intelligenceresearch.com/are-opportunity-zones-truly-an-opportunity-for-renewables/

[21] CleanFund and KPMG, Webinar C-PACE in Opportunity Zones, January 30, 2019.

[22] Merrill Hoopengardner and Karin Berry.

There Are Financing Barriers to Address: Much of this innovation is addressing the remaining financing challenges for clean economy in Opportunity Zones. One challenge is depreciation recapture where federal tax rules require recapturing the

[25]Esther Toporovsky, Senior Program Director.

[26] Merrill Hoopengardner and Karin Berry.

depreciation deduction as income when a property is sold. Another challenge is the desire of Opportunity Fund investors to exit at 10 years and to achieve capital appreciation through their investments. A third challenge is finding a way to fund energy efficiency using Opportunity Fund equity, perhaps by expanding the use of Power Purchase Agreements (PPAs) for energy efficiency. A major challenge is the increased deal complexity and cost of adding an additional (and separate) equity investor combined with the difficulty of aggregating what are often small projects. For those seeking to maximize community benefit, another challenge is to find ways to build resident ownership of projects. Innovators are making progress and piloting solutions. A valuable step could be to bring together the innovators and leaders on both the supply and demand side to co-design realistic and achievable models for accelerating equitable clean energy in OZones.

Depreciation Recapture: Depreciation recapture will be a challenge for some clean economy projects. Depreciation recapture is the gain received from the sale of depreciated capital property that must be reported as income. While real estate is an appreciating asset, solar installations are depreciating assets. Depreciation recapture is assessed when the sale price of an asset exceeds the tax basis or adjusted cost basis. The difference between these figures is thus "recaptured" by reporting it as income. The Department of Treasury created a mechanism to help partners in QOFs avoid having to pay at least some depreciation recapture at sale.[27] Depreciation recapture can be avoided on a sale of the membership interest in a QOF, but not on a QOF's sale of its underlying assets.[28] According to DL Piper, this disparate treatment would encourage the use of single project funds.

According to Jonathan Tower, Managing Partner, Arctaris Impact Fund, OZone rules will allow deals to be carefully structured to avoid depreciation recapture in the case of solar farms, capital equipment under Section 45, and buildings with solar under section 1250. Arctaris Impact Fund includes some bank leverage and the debt provides a basis in the partnership that makes it possible to pay out the depreciation benefit.[29] The rules for Opportunity Zones allow Preferred Stock or Preferred Interest as an allowable form of equity, which can allow CDFIs to reduce operating risk, improve the likelihood of an exit for the investor, and retain community ownership and/or adherence to the mission.[30] This also may help with depreciation recapture.

10-Year Exit: Opportunity Fund investors want to exit in 10 years, while many solar investments are 20 years or more. Investors will want an early exit, which could be difficult to structure. This is not a problem just for solar projects. According to Rip Rapson, Kresge Foundation's President, none of the 141 applicants that applied for support for Opportunity Funds had a theory about how they expect investors to exit

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27 http://opportunityalabama.com/2019/04/22/treasury-releases-second-round-of-opportunity-zone-guidance/

28 Michael Wiener, DLA Piper LLP.

29 Jonathan Tower, On Kresge Foundation Webinar, May 9, 2019.

30 Charles Tansey and Michael Swack, University of New Hampshire, The Potential Role for CDFIs in Opportunity Zones, March 2019, Prepared for Enterprise Community Investment.

funds.[31] According to Suzanne Kim, SPIC Partners, which provides strategic financial advisory and consulting services for the sustainable real assets sector, it will be possible to refinance sub-utility scale solar projects to pay out Opportunity Fund investors at the end of 10 years. The projects will by then have proven their cash flows to commercial banks.

Obsidian Fund says it has a workable structure for taking out Opportunity Fund investors in utility scale solar projects in rural Oregon after 10 years. It is creating pools of solar equipment (property) in OZs. The energy produced is leased through power purchase agreements of 25 years. It attracts both equity and debt investors in the portfolio. The debt investors are paid out within the first 10-year period. The pool then owns the equipment, which still has 5, 10, even 15 years left on a power purchase agreement. Thus, it is possible to calculate a net present value of the cash flow that can be used to calculate what that ownership is worth. Obsidian sells the equipment back to the party that has the power purchase agreement at a price based upon remaining cash flow.[32]

In January 2019, George Ashton (by way of Emily Robinson, Elevate Energy), who is leading LISC work on Opportunity Zones, said the 10-year buyout challenge is driving LISC to single asset funds. There has been concern that multi-asset funds would have to find someone willing to buy the whole fund out at the 10-year mark when OZ investment gains become tax-free. Ashton believes it is more likely to find someone to buy one building/project, not a bunch of small projects. Ashton added, however, that it might be that someone would purchase an entire portfolio of solar investments at year 10. In the most recent tranche of OZone guidance, Treasury created a defined process for winding down a multi-asset fund that is far more straightforward than the previous process. Still unresolved (awaiting the third tranche of guidance), is treatment of interim gains from sales during the 10+ year holding period.

Desire for Capital Appreciation: Another challenge is the desire of Opportunity Fund investors for capital appreciation. The biggest attraction for Opportunity Fund investors is that there are no capital gains taxes on the *appreciation* of Opportunity Zone projects rather than that there are savings on capital gains taxes on the prior capital gain invested in he Opportunity Fund. For some investors, rooftop solar and building energy efficiency may provide the appreciation they seek. As mentioned earlier, Dodge Data &Analytics World green Building Trends 2016 SmartMarket Report[33] captured that building owners report that green buildings commanded on average a 7 percent increase in asset value over conventional buildings.

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[31] https://kresge.org/content/mission-money-markets-6-takeaways-opportunity-zones-lois

[32] 26 states allow electricity customers to obtain power from an entity other than their local utility trough a power-purchase agreement. Some that don't allow Power Purchase Agreements (PPAs) allow solar leases (as in Florida) allow solar leases. In a PPA, the buyer only pays for the electricity produced by the solar panels. In a solar lease they pay a fixed monthly payment for the panels and can offset costs through electricity savings, which is why PPAs generally are preferred.

[33]http://fidic.org/sites/default/files/World%20Green%20Building%20Trends%202016%20SmartMarket%20Report%20FINAL.pdf

It may be possible to reduce the amount of appreciation investors will require by setting the table for these investments with care. Local governments can make these projects easy for the developer so that they will not require as much appreciation. They can put together preferences and incentives and capital stacks to attract developers and investors.

Mission-driven investors and investors who are tied to specific communities may find the returns sufficient even where there is not substantial anticipated appreciation. Alternatives envisions PRIs from family offices and foundations that are looking for a close to market rate of return. David Nikoloff, vice president for real estate lending at Community First Fund, a nonprofit loan fund based in Lancaster, Pennsylvania, is depending on local investors who care about the region. He is targeting high-net-worth individuals with potential capital gains in the region and who know about the region.[34]

A few community foundations are part of discussions about funding for OZone projects and filling investment gaps. The Oregon Community Foundation was at one point considering hiring someone to explore the potential for creating an Opportunity Fund for its donors. Community foundations are not only grant-makers, but also investment managers for their donors who are just the people who are likely to have appreciated business and real estate assets they may be ready to liquidate.

Structuring Energy Efficiency Projects to Fit Opportunity Fund Requirements: A challenge for energy efficiency is that Opportunity Fund investors need to receive all or most of their returns in capital gains. LLCs and partnerships commonly own assets and enter into PPAs for solar, fuel cells and CHP, which will produce capital gains. This is less common for energy efficiency improvements.[35] However, there is interest in expanding PPA use for energy efficiency. Elevate Energy, for example, is hoping to explore the use of energy service agreements for energy efficiency improvements in NOAH multifamily housing.

The Increased Deal Complexity of Adding an Additional (and Separate) Equity Investor: Completing solar deals is further complicated by the fact that there must be an investor to take the renewable energy tax credits and another to put up the capital not provided by a bank or the renewable energy tax benefit investor. Often there is a need for additional structures like PACE. Sophisticated structures and multiple investors mean high costs for structuring and documentation and legal agreements. Even a $25 million pool of capital is small when there could be $ 1 million in

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[34] https://nextcity.org/daily/entry/small-cities-feel-the-clock-ticking-on-opportunity-zones

[35] Connecticut Green Bank, http://www.brbc.org/images/downloads/OZ-Increase--Investment-Renewables-Energy-Efficiency.pdf Bert Hunter, Chief Investment Officer, CT Green Bank, bert.hunter@ctgreenbank.com.

documentation cost and fees. With OZones there must be a fourth party, which is the Opportunity Fund investor, adding complexity and cost.[36]

According to George Ashton (by way of Emily Robinson, Elevate Energy), who is leading LISC work on Opportunity Zones, there will need to be a minimum fund/project size in order to cover the cost of paperwork and legal and accounting for OZ fund investments. He believes the minimum will be around $5M. Another estimate is that a deal will have to be at least $2.5 million in size to be economical.[37] If a fund tries to meet that threshold with multiple smaller solar or EE projects, an issue is how to get the OZ funds spent within 30 months on all the smaller projects.

The Difficult of Aggregating Small Projects: Many clean economy projects in OZones will be too small to meet the minimum size unless there is a way of aggregating projects, which is no easy matter, although some people are working on it. According to Suzanne Kim, SPIC Partners, each solar project has its own funding customization. It is difficult to cluster buildings using a similar financing strategy because there is a very fragmented market of smaller multifamily properties. As mentioned earlier, SPI Partners is trying to work through this challenge as it explores the possibility of developing a $100 million tranche of small solar projects (under a MW) that would use concessionary debt capital and Opportunity Fund equity capital.

Building Resident Ownership of Projects: Financing solar projects in a way that leads to local resident control is even more difficult.[38] Co-Op Power is testing a tax-equity flip partnership (outside of the OZone context). Usually outside investors front the cash for a community solar installation, and in turn they receive the tax credits. The tax-equity flip allows the tax-equity investor to achieve their targeted return, and then flips their ownership from 95 percent to five percent. The 95 percent interest shifts to the community partner, giving them control of the installation. Cooperative Energy Futures, Co-Op Power in Massachusetts and New York and Local Clean Energy Alliance in Oakland are part of an informal group of community-focused solar energy developers trying to find creative ways to finance solar installations.[39] The group has formed a People's Solar Fund and is seeking more solar developers to join so that there will be scale and potential to negotiate better terms.

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[36] Connecticut Green Bank, http://www.brbc.org/images/downloads/OZ-Increase--Investment-Renewables-Energy-Efficiency.pdf Bert Hunter, Chief Investment Officer, CT Green Bank, bert.hunter@ctgreenbank.com.

[37] Charles Tansey and Michael Swack, University of New Hampshire, The Potential Role for CDFIs in Opportunity Zones, March 2019, Prepared for Enterprise Community Investment.

[38] Timothy DenHerder-Thomas of Minnesota-based Cooperative Energy Futures in https://nextcity.org/daily/entry/community-solar-developers-get-creative-to-finance-big-projects?utm_source=Next+City+Newsletter&utm_campaign=223bd4102a-Daily_781_COPY_01&utm_medium=email&utm_term=0_fcee5bf7a0-223bd4102a-43838217.

[39] https://nextcity.org/daily/entry/community-solar-developers-get-creative-to-finance-big-projects?utm_source=Next+City+Newsletter&utm_campaign=223bd4102a-Daily_781_COPY_01&utm_medium=email&utm_term=0_fcee5bf7a0-223bd4102a-43838217

There is a Capacity Gap that Stands in the Way of Accelerating Deal Flow: The Innovators will find financial structures that address many of the financing barriers. Perhaps more daunting is the capacity gap that stands in the way of accelerating deal flow. Especially small and medium size local governments do not have the capacity to set the table for Opportunity Zone investment and many smaller communities feel that they have no leverage to make demands of investors. Rachel Reilly, Director of Impact Strategy at the Economic Innovation Group, says she is seeing lots of investors trying to find investment in OZone communities while these communities struggle with capacity issues.[40] Michelle Moore, CEO of Groundswell, suggests the same is true for clean economy investment. Opportunity Zones can make a difference if there is help for the right people in the right places to structure projects.

Given the limited capacity to set the table for OZone investment, it is not surprising that there is not a bigger focus on clean economy yet at the local government level for Opportunity Zones. Even in California, where every local community has a climate action plan as required by law, few local governments initially explored the clean economy potential.

Local governments need a support program for advancing the clean economy in Opportunity Zones. Andrea Leweki, president of the Solar Foundation, believes that local governments need help with coordination, community outreach, and planning to make renewables attractive to investors.[41] Dan Carol, who was the Senior Advisor to Governor Jerry Brown on Infrastructure and Energy, agrees that the success of Opportunity Zones will hinge mainly on whether or not small and medium sized cities have access to upfront project predevelopment, de-risking and expert technical assistance to help them develop an "investable" pipeline of projects.

Governors will do the most to assist local governments and this could include clean economy investment. For example, new governors from California, Colorado, Connecticut, Illinois, Maine, Michigan, Nevada, Oregon, and Wisconsin all support 100% clean energy. The State of California will have lessons to share, as it is supporting clean energy projects (solar, energy storage, hybrid, EV charging, EV fleet leasing, etc.) in the large majority of its DACS that also are OZones. DACS are disadvantaged communities most burdened by pollution that are targeted for investment of proceeds from the State's cap-and-trade program.

Other local actors that are key partners for local government also need to be activated. Local government sustainability directors, for example, could have a positive influence on Opportunity Zone strategy in their jurisdictions. Many local communities have climate action, energy, or sustainability plans that are not being considered in OZone

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[40] https://nextcity.org/daily/entry/these-opportunity-zone-investors-want-to-support-local-businesses?utm_source=Next+City+Newsletter&utm_campaign=72bb9299de-Daily_781_COPY_01&utm_medium=email&utm_term=0_fcee5bf7a0-72bb9299de-43935421

[41] Solar Foundation has relationships with about 40 communities that are solar ready.

strategy development. Many sustainability directors already are working hard to advance clean energy, local sustainability, and equity.

The City of Atlanta, which is part of the U.S. Department of Energy Better Buildings Clean Energy in Low Income Communities Accelerator (as is Rochester, Cleveland, and DC), is partnering with Southern Alliance for Clean Energy, Southface Energy Institute and Partnership for Southern Equity to help residents of low-income neighborhoods to reduce their energy costs through energy efficiency appliances and distributed renewables. Southface is providing consulting support for additional Southern cities on how to take advantage of Opportunity Zones to implement sustainability work.

DC has had a Solar for All program since 2016, the goal of which is to provide the benefits of solar electricity to 100,000 low-income households, and to reduce their energy bills by 50% by 2032. Staff members who run this program are interested in finding ways to aggregate rooftops to lower costs and find ways to tap into Opportunity Zone capital.

Community organizations must have a leading role. According to staff members at Enterprise, many people in the community development space have begun to wonder how they can support sustainability through Opportunity Zones. Sustainability directors and community development leaders could be natural allies in urging equitable and sustainable projects for OZones, creating and an inside and outside game.

Community foundations could play an important role as conveners and investors. In Louisville and Baltimore community foundations are funding local government OZone staff champions. The Bland Foundation in Atlanta convened stakeholders to consider together how they could leverage Opportunity Zones. The Erie Community Foundation supported the creation of the Flagship Opportunity Zone Development Company as a one-stop shop for investors and project sponsors. Bert Feuss, senior vice president of investments at the Silicon Valley Community Foundation has said his organization may provide loans that improve the return to Opportunity Fund investors.[42] The Oregon Community Foundation is collaborating with the Meyer Memorial Trust and The Ford Family Foundation to help ensure that capital from Opportunity Funds is targeted to rural and underserved communities throughout the state of Oregon.

Concluding with Optimism: The potential to leverage Opportunity Zones to advance an equitable clean economy is great. All of the interest, innovation, and leadership will lead to a growing pipeline of deals in Opportunity Zones. Still, the process could be faster and the impact higher if there were coordination, sharing, and rapid dissemination of models and processes to support local deal development, help local governments set the table, and ensure projects maximize the benefits for communities. A valuable step would be to bring together the innovators and leaders on both the supply and demand side – investors, developers, local governments, to co-design realistic and achievable models and processes for accelerating equitable clean energy in OZones.

[42] https://www.ai-cio.com/news/largest-us-community-foundation-sees-opportunity-zone-program-role/