

By Casey Cowell

Welcome to the Land of OZ!



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Our federal tax law, adopted in December 2017, had an interesting and largely overlooked piece of policy tucked in.

The measure began in February 2017 as a separate bipartisan effort in the Senate to incentivize increased private investment in the poorest communities in the country. It didn't make it through all the steps to approval on its own, but it was left largely intact and was included in the wider December 2017 tax bill.

It allows for the nationwide designation of "Opportunity Zones" ("OZs") based on household income by census tract.

Rather than asking local governments to reduce property taxes to make development or redevelopment more appealing to investors, this Opportunity Zone legislation reduces an investor's capital gains tax exposure while leaving local government tax revenue (such as from property taxes) untouched. The longer the capital is left invested in the Opportunity Zone, the higher the benefit to investors — and there is no cap on investment.

Vance Maulsby, a tax and investment adviser and seasonal area resident, brought this Opportunity Zone legislation to our attention at Boomerang Catapult. Megan Crandall of B-C teamed up with Kent Wood of the Chamber of Commerce and others to advocate for a local Opportunity Zone. Our journey down this yellow brick road led to official designation by Governor Snyder in April.

Our community now boasts a Qualified Opportunity Zone in Garfield Township. A map of its boundaries can be seen at: boomerangcatapult.com/OZ. The OZ stretches from the corner of 14th Street and U.S. 31 to Hartman Road, across South Airport to east of Garfield Road and south of Hammond. It's the area directly south of Traverse City proper and close to everything from downtown to the airport.

Thus far, our OZ has been little noticed and under-appreciated. It has tremendous potential benefit for our community. It is specifically designed

to encourage investment of money and effort in our city without draining resources from our local government!

Rules and guidance aren't yet finalized, but here are the basics we understand so far from the IRS and Department of the Treasury:

— Investments must be made through a Qualified Opportunity Fund (QOF), which can be a partnership or corporation and is self-declared (no approval needed) and invests only in OZs. These funds can invest in multiple OZs.

— Investors can defer tax on a prior gain until the new OZ investment is sold or Dec. 31, 2026, whichever is earlier.

— If investors hold the new OZ investment at least 10 years, its basis may be increased up to the fair market value of the investment at the time of sale. This could eliminate capital gains.

— Investments can be real estate, stock or a partnership interest in a business located in an OZ.

These are just some basics from a layperson's view. Be sure to do some research before jumping in to make sure you have a solid understanding of the rules and implementation.

Eliminating capital gains taxes on investments is a stunningly valuable gift to our area. Garfield Township, the city and the county can pull together with our leading community institutions and organizations, like Venture North, the Chamber, Rotary Charities, Groundwork Center and the Community Foundation, to create a vision of this area that can attract and inspire investment and development. This can significantly tackle the needs of our region as we grow, including affordable housing, transportation improvements and skill-building employee training.

These partnerships could imagine new use and redevelopment of both mall properties through creative redesign that could include housing, recreation trails and children's parks, healthcare, business, restaurants, or craft incubation and makers' spaces. There is a high concentration of low-income housing currently within our OZ. Decades-old housing

complexes in need of renovation could be reimagined as multi-type housing developments, particularly if other new housing units are created elsewhere in the zone. Access to amenities could be strategized and the overall health of this area could improve dramatically.

And what about catapulting more Boomerangs? With this OZ tax incentive, how might we attract the attention of innovative investors interested in reimagining some of our busiest corridors south of downtown Traverse City?

Our OZ offers the Chamber, Venture North and Traverse Connect a strategic opportunity to encourage investment aimed at forward-thinking growth. This zone already includes innovative businesses like Britten Banners, TentCraft, and Promethient, all of which promote employee development and add value and jobs to our community. With the OZ designation, this area is the ideal place to support new ventures that create more high-quality jobs. TCAPS has already converted Sabin Elementary at Hartman and Cass Roads into its data center. Other private-sector data centers could be added along this stretch, taking advantage of the fiber loop and fueling positive growth.

Where's the downside? There isn't any. NMC, TCAPS, Garfield Township, and the city still receive their tax revenue.

Where's the upside? Throughout the zone, and fast. As investment is made, property values go up and public institutions begin benefitting right away. If additional public-sector investments are made — think fiber connectivity, transportation and access, upgrades to schools and parks, and other services — everyone wins.

It doesn't take a wizard to see the great potential of our OZ. With thoughtful development and public/private partnering, we can all imagine how this area can grow in ways that enrich our city and our lives. We have a unique chance here to reimagine the way our community uses a large section of land and attract private investment to help us get there. Let's capitalize! **GTB**