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Some low-income and ripe-for-redevelopment areas in St. Cloud could soon be injected with thousands of dollars in private investments.



Traffic moves along U.S. Highway 10 Wednesday, May 16, in St. Cloud. (Photo: Dave Schwarz, dschwarz@stcloudti)Buy Photo

ST. CLOUD — Some low-income and ripe-for-redevelopment areas in St. Cloud could soon be injected with thousands — even millions — of dollars in private investments.

Some of the city's poorest census tracts — spanning Stearns, Benton and Sherburne counties — were nominated last month by Gov. Mark Dayton as federal "opportunity zones," which were established by Congress in the 2017 tax bill to encourage long-term investments in low-income urban and rural communities.

The idea is to attract private investment by providing investors a way to avoid capital gains taxes by investing money for a certain period of time in the opportunity zones.

The U.S. Treasury officially designated the three tracts as opportunity zones on Friday, according to the Minnesota Department of Employment and Economic Development.

The zones include downtown St. Cloud, the East Side out to the airport industrial park in Benton County, and a pie-shaped wedge of Sherburne County that includes the U.S. Highway 10 corridor.

"We see this as a big deal, a huge opportunity for dramatic investment," said John Uphoff, executive director of the Benton Economic Partnership Inc.

Nationally, the new program could unlock about \$6 trillion in unrealized capital gains, but it's too early to know how much money could be injected locally into St. Cloud.

"We don't have any idea," Uphoff said. "There is no way to speculate, but there are big numbers that would be unlocked here."

Jolene Foss, executive director of the St. Cloud Downtown Council, described the Opportunity Zones program as similar to other economic development tools such as JOBZ, which ended for most businesses in 2015.

"This is a brand new economic development tool," she said.

Uphoff described the new program as encouraging private investment without the burden of the high capital gains tax.

Once a fund has been set up, he said, at least 90 percent of the money in the fund has to go into a qualified opportunity zone. But the money can be used to invest in land — for commercial, residential or industrial purposes — or to buy into a partnership in a business.

He used the example of someone having \$1 million from selling stock.

"This is a brand new economic development tool."

Jolene Foss, St. Cloud Downtown Council executive director

"Let's say I've got a million dollar asset now. ... The problem with that right now is I've got to pay 23.8 percent to the government. I've got to send them a capital gains tax check as soon as I sell that stock," Uphoff said. "So the aim of this program is to get me out of having to pay that 23.8 percent. So I can now take that million dollars and put it into this opportunity fund."

If the investment is held for at least 10 years, it is permanently excluded from taxable income of capital gains from the sale or exchange of an investment.

The goal of the program is to make investing less cumbersome and spur development in low-income areas.

"That's the beauty of this economic development program. It's all private-sector driven. There is no collection of money from the government and then a redistribution of that money. There is no bureaucracy," Uphoff said. "It's literally a new investment device or tool or class."

The downtown council, along with the Greater St. Cloud Development Corp., St. Cloud's economic development authority and county staff will follow the program as the treasury releases more details, which are expected by this fall.

Uphoff and Larry Hosch, business development director for GSDC, organized the different entities during the application process. The three counties applied for the program in April.



Traffic moves along U.S. Highway 10 Wednesday, May 16, in St. Cloud. (Photo: Dave Schwarz, dschwarz@stcloudti)

Uphoff commended the collaboration between the three counties and area cities, especially because of the short time table for application. Congress passed the law late last year, and the deadline to apply was just a few months later.

"When we talk about collaboration often among the three counties in the city of St. Cloud, it's usually negative. It's, 'the counties can't seem to get along to figure out how to solve X, Y or Z,'" Uphoff said. "In this case, under very tight timelines, the three counties were able to get

together and collaborate and come up with a strategy that we felt would be better than if each county submitted its application individually."

In the initial application, the state mandated the submitted census tracts be among the "most distressed" census tracts — which the downtown/campus tract was not — so the original application included a tract that stretched farther south to include the County Road 75 corridor. But after the counties submitted the original application, they were contacted by the state and allowed to change their first choice of Stearns County tract to the downtown/campus tract.

This helped the application because all the tracts are contiguous, Uphoff said.

Other eligible census tracts included on the application are sites in St. Cloud's Pantown Neighborhood, Waite Park, Paynesville, Sauk Rapids and Sartell. But Uphoff and others knew not all their desired census tracts would be approved as Opportunity Zones.

"I think ultimately our submission to the state — our regional submission — was the right submission," Uphoff said. "You could have people argue that the Electrolux site should have been included. Well, we submitted that to the state. That was part of our application. We didn't get to choose, and given the competitive nature of the whole process, we know that each county was probably only going to get one census tract."

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The clock is ticking on the program, and investors will need to soon create funds, pool money and make plans, said Hosch.

"That time is of the essence because there is a nine-year window of investing your funds and being able to realize the greatest benefit from these opportunity zones," he said. "It's got to happen really fast."

Uphoff predicted some of the early adopters will be Wall Street investment groups, but said markets such as St. Cloud will be more served by local investment groups. Uphoff and other organizers have started reaching out to those groups.

"They see the potential to invest their capital gains in their own back yard," he said.

Spurring redevelopment will be a boon for St. Cloud, and this new program could allow for growth in residential, commercial and industrial sectors.

"From a 30,000-foot macroeconomic level, this is going to force inflation ... but that in this case is a good thing," Uphoff said. "Wages are going to go up, property values are going to go up."

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