

OPPORTUNITY ZONES

Opportunity Zones are low-income census tracts into which investors can move capital gains with relatively low tax deductions through vehicles called Opportunity Funds. While these funds hold promise, many worry that Opportunity Zones may not deliver the positive economic impacts to the populations they purport to serve. This session will cover what Opportunity Zones are and how they function, why mayors can play a critical role in their implementation, and how to use them as a vehicle for pushing forward a number of values-based agendas.

RESOURCES

PAGE

1

“Opportunity Zones 101,” Local Initiatives Support Center, 2018, accessed July 5, 2019, <http://lisc.org/our-resources/resource/opportunity-zones-101>.

5

“Opportunity Zones: The Map Comes Into Focus,” Economic Innovation Group, June 15, 2018.

9

Howard Wial, “What It Will Take for Opportunity Zones to Create Real Opportunity in America’s Economically Distressed Areas,” Initiative for a Competitive Inner City, April 2019.

17

“Prioritizing and Achieving Impact in Opportunity Zones,” The U.S. Impact Investing Alliance and The Beek Center, June 2019.

23

J. Brian Charles, “States, Cities Add Sweeteners to Attract ‘Opportunity Zone’ Investors,” *Governing*, April 17, 2019.

25

Joshua Pollard, “Is Your City Prepared for the Opportunity Zone Impact?” *Forbes*, March 28, 2019.

27

Brett Theodos and Brady Meixell, pages excerpted from: “How Chicago and Cook County Can Leverage Opportunity Zones for Community Benefit,” Urban Institute, January 2019.

33

Bruce Katz and Ken Gross, “Before You Begin,” Accelerator for America, accessed July 5, 2019, <https://acceleratorforamerica.com/OZGuide/before-you-begin-2>.

38

“Opportunity Zone Investment Prospectuses,” Accelerator for America, accessed July 5, 2019, <https://acceleratorforamerica.com/tools#prospectuses>.

39

Pages excerpted from: “Opportunity Zones Prospectus,” The City of Columbia Office of Economic Development, 2018.

59

Tom Barton, “Republicans Hope to Save Rural South Carolina, But Will Investors Follow?” *The State*, January 25, 2019.

SPEAKERS

MAYOR STEPHEN BENJAMIN, CITY OF COLUMBIA, SC

At 29 years old in 1999, Benjamin was appointed to Governor Jim Hodges’ cabinet as director of the Department of Probation, Parole and Pardon Services. Mayor Benjamin’s administration has been characterized by his firm belief in Columbia’s potential and intense focus on job creation. Combined with the rebirth of Main Street, these accomplishments have drawn national attention. He has twice been named to The Washington Post’s “The Root 100 List” as well as the 2014 GRIO 100 and was honored to receive a 2014 Triumph Award from the National Action Network as their 2014 Public Servant of the Year. Mayor Benjamin introduced the “Justice for All” initiative in 2014, which implemented new training, competitive pay, diverse representation and community engagement to strengthen the foundation of trust and accountability that exists between community and law enforcement agencies. In December 2017, Mayor Benjamin initiated city ordinance 2017-109, which banned the attachment of bump stocks and trigger cranks in Columbia, making Columbia the first city in the nation to do so.

RUDY ESPINOZA, INCLUSIVE ACTION FOR THE CITY

Rudy Espinoza is the Executive Director of Inclusive Action and an urban planner with a passion for neighborhoods, entrepreneurship, and financial empowerment. He specializes in designing and managing place-based initiatives, identifying profitable investment opportunities in low-income communities, building private/nonprofit partnerships, and training the working poor to participate in the socio-economic revitalization of their neighborhoods. Rudy holds a Masters Degree in Urban Planning from UCLA and a B.S. in Business Administration.

JULIA PARZEN, SUSTAINABILITY CONSULTANT

For more than three decades, Julia Parzen has been helping to lead the way on urban sustainability. She co-founded the Urban Sustainability Directors Network. She also co-developed USDN’s Equity Training Initiative. She co-founded Partners for Places with the Funders’ Network for Smart Growth and Livable Communities. She also was a co-founder and Chief Executive Officer for Working Assets Money Fund, one of the early social investment funds. She co-authored Credit Where It is Due: Development Banking for Communities (Temple University Press, 1990) and The Guide to Greening Cities (Island Press, 2013). She co-edited Enterprising Women (OECD, 1990) and co-authored Financing Transit Oriented Development, a chapter in The New Transit Town: Best Practices in Transit-Oriented Development, edited by Hank Dittmar and Gloria Ohland (Island Press, 2004).

BRETT THEODOS, URBAN INSTITUTE

Brett Theodos directs the Community Economic Development Hub at the Urban Institute where he is a senior fellow in the Metropolitan Housing and Communities Policy Center. His work focuses on economic and community development, neighborhood change, affordable homeownership, consumer finance, and program evaluation and learning. He is currently leading several efforts to study and inform the implementation of Opportunity Zones. His other work includes studies of the Economic Development Administration, the New Markets Tax Credit program, small business loan and investment programs, and HUD’s Community Development Block Grant and Section 108 programs. He is studying how capital flows (or fails to flow) into communities, and the roles of mission finance actors like CDFIs. He is investigating the effects of several large place-based initiatives. Mr. Theodos also co-directs Measure4Change, which provides technical assistance to nonprofits in performance measurement and facilitates a peer learning community.



Accessed July 5, 2019: <http://www.lisc.org/our-resources/resource/opportunity-zones-101>

Opportunity Zones 101

Below we cover common questions related to Opportunity Zones design, timeline and impact.

Opportunity Zones Design

Opportunity Zones Designations

Q: What are Opportunity Zones?

A: Opportunity Zones are economically-distressed communities, designated by states and territories and certified by the U.S. Treasury Department, in which certain types of investments may be eligible for preferential tax treatment. The tax incentive is designed to spur economic development and job creation in distressed communities by providing these tax benefits to investors. Effective June 14, 2018, Treasury certified Opportunity Zones of all states, territories and the District of Columbia. Opportunity Zone [designations certified by Treasury](#) will remain in effect until December 31, 2028.

Opportunity Funds and Businesses

Q: What is an Opportunity Fund?

A: A Qualified Opportunity Fund is any investment vehicle organized as a corporation or partnership with the specific purpose of investing in Opportunity Zone assets. The fund must hold at least 90% of its assets in qualifying Opportunity Zones property.

Q: Who can create an Opportunity Fund?

A: Any taxpaying individual or entity can create an Opportunity Fund, through a self-certification process. A form (expected to be released in the summer of 2018) is submitted with the taxpayer's federal income tax return for the taxable year.

Q: What can Opportunity Funds invest in?

A: Opportunity Funds can invest in any Qualified Opportunity Zone property, including stocks, partnership interest or business property (so long as property use

commences with the fund, or if the fund makes significant improvements to the qualifying property).

Q: Will Opportunity Zone businesses need to conduct most of their business within Opportunity Zone tracts, or will it be sufficient if the majority of the business' assets are located in Opportunity Zone tracts (property, equipment, etc.)? For example, would a trucking business based in an Opportunity Zone, but serving a whole region, qualify for Opportunity Fund financing?

A: To qualify as an eligible Opportunity Zone Business, a business must demonstrate that substantially all its tangible business property is located within a Qualified Opportunity Zone. No such stipulations have been made regarding the service area of the Opportunity Zone Business in the statute, but this may nonetheless be an item that the IRS chooses to address in future guidance or regulations.

Q: What happens if a business located in an OZ moves? Is there a recapture risk?

A: There is no recapture risk, but an opportunity fund that fails to meet the 90% asset requirement of the fund will be required to pay a penalty for each month it fails to meet the requirement. The penalty is not designed to be catastrophic, but rather, to ensure that funds stay within the zone's parameters. Once an asset no longer qualifies, there will be a period of time in which the asset can be disposed of before incurring penalties.

Q: Can an Opportunity Fund make investments in multiple Opportunity Zones?

A: Yes, so long as an Opportunity Fund has at least 90% of its assets in Qualified Opportunity Zone property, the fund may invest in as many qualified tracts as desired.

Q: Can an investor invest directly into an Opportunity Zone business to qualify for associated tax incentives?

A: No, an investor must invest in an Opportunity Zone business through a Qualified Opportunity Fund in order to qualify for associated tax incentives.

Q: What tax benefits are available for investors that invest into an Opportunity Fund?

A: There are primarily three benefits available to investors that invest previously realized capital gains into an Opportunity Fund, with increasing benefits the longer the investment is held in the Fund:

- *Deferral of capital gains taxes.* An investor that re-invests capital gains (within six months of realizing the gains) into an Opportunity Fund can defer paying federal taxes on those realized gains until as late as December 31, 2026.
- *Reduction of capital gains taxes.* Investors that hold the investment in the Opportunity Fund for at least five years can reduce their tax bill on the deferred capital gains by 10%. This reduction increases to 15% for investors that hold the investments in the Opportunity Fund for at least seven years.

- *Elimination of taxes on future gains.* Investors that hold the investment in the Opportunity Fund for at least ten years will not be required to pay federal capital gains taxes on any gains realized from the investment in the Opportunity Fund.

Q: Can Opportunity Zones tax incentives be realized beyond 2026?

A: The tax incentive itself does not expire in 2026. Investors in Opportunity Funds that hold investments for at least 10 years will still be able to take advantage of the favorable tax treatment of gains related to the investments into Opportunity Funds, even if realized after 2026.

Q: Are there minimum or maximum investments?

A: There are no minimum or maximum investments required by Opportunity Zone legislation.

Q: What kind of returns are investors likely to expect?

A: We anticipate a broad range of investor return expectations. On one end of the spectrum, Opportunity Funds may raise capital from socially responsible, high net worth investors that would otherwise be contributing to donor-advised funds with a principal preservation focus and a low return expectation (e.g., less than 5%). On the other end of the spectrum are private equity fund investors that are expecting double-digit returns based on the risk of providing equity capital to real estate or business investments. In the middle are preferred equity investment models with 6-10% annualized return expectations.

Q: Once an Opportunity Fund is established, is there a timeframe within which investments must be made?

A: This timeframe will be determined in the IRS rule making process. Based on the legislation, an Opportunity Fund may need to have 90% of its capital invested in Opportunity Zone Property within the first six months of the taxable year of the Opportunity Fund. There may be some timing relief in the rule making to enable a 12-month investment window. Also, to receive the tax benefits, the investor must deploy their capital into an Opportunity Fund within six months of realizing the capital gain being invested.

Q: Do you anticipate the creation of single-use or single-purpose funds? For example, could a developer that does business in an Opportunity Zone create an Opportunity Fund for a specific project?

A: Yes, given the expected ease of certifying an Opportunity Fund and the timing constraints of investing the capital in Opportunity Zone Property, we anticipate that single-asset funds will be utilized.

Q: Will Opportunity Zones be compatible with LIHTC and NMTC investments?

A: As of today, we think Opportunity Zone investments could be combined with the

Low Income Housing Tax Credit and New Markets Tax Credit, though we won't know for sure until the Treasury Department releases its guidance.

Opportunity Zones Timeline and Impact

Q: What is a reasonable timeframe in which we might see the first Opportunity Fund investments deployed?

A: It will take some time for the IRS to establish regulations and guidance relating to the certification of Opportunity Funds and the eligible use of proceeds. It is possible that the first Opportunity Funds will be deployed in late 2018, though we anticipate this happening in 2019.

Q: What sort of efforts can be made to ensure that the Opportunity Fund investments truly benefit the residents of the Opportunity Zones?

A: Mitigating displacement tied to gentrification will be one of the main challenges of a market-based initiative, and is something LISC and its partners are already trying to address. Specifically, we submitted a [comment letter](#) to the Treasury Department suggesting the creation of certification guidelines to manage where and how investments are made to avoid exacerbating displacement trends in certain tracts; and that Treasury collect data on an annual basis so that there is transparency with respect to the investments that are made by the Opportunity Funds. In addition, we recommend advocating to your state and local officials to consider creating companion incentives – whether new programs or the direction of existing resources – for Opportunity Fund investments that are targeted towards serving the residents of the Opportunity Zones (e.g., through the creation or preservation of affordable housing; through community benefit agreements targeting jobs for community residents; or for community facilities such as child care facilities, charter schools or health centers). Finally, to the extent these are going to be large scale investments, local zoning and approval processes would probably be triggered, which hopefully will offer an opportunity for community engagement.



Accessed July 5, 2019: <https://eig.org/news/opportunity-zones-map-comes-focus>

Opportunity Zones: The Map Comes Into Focus

6.15.2018

Key takeaways:

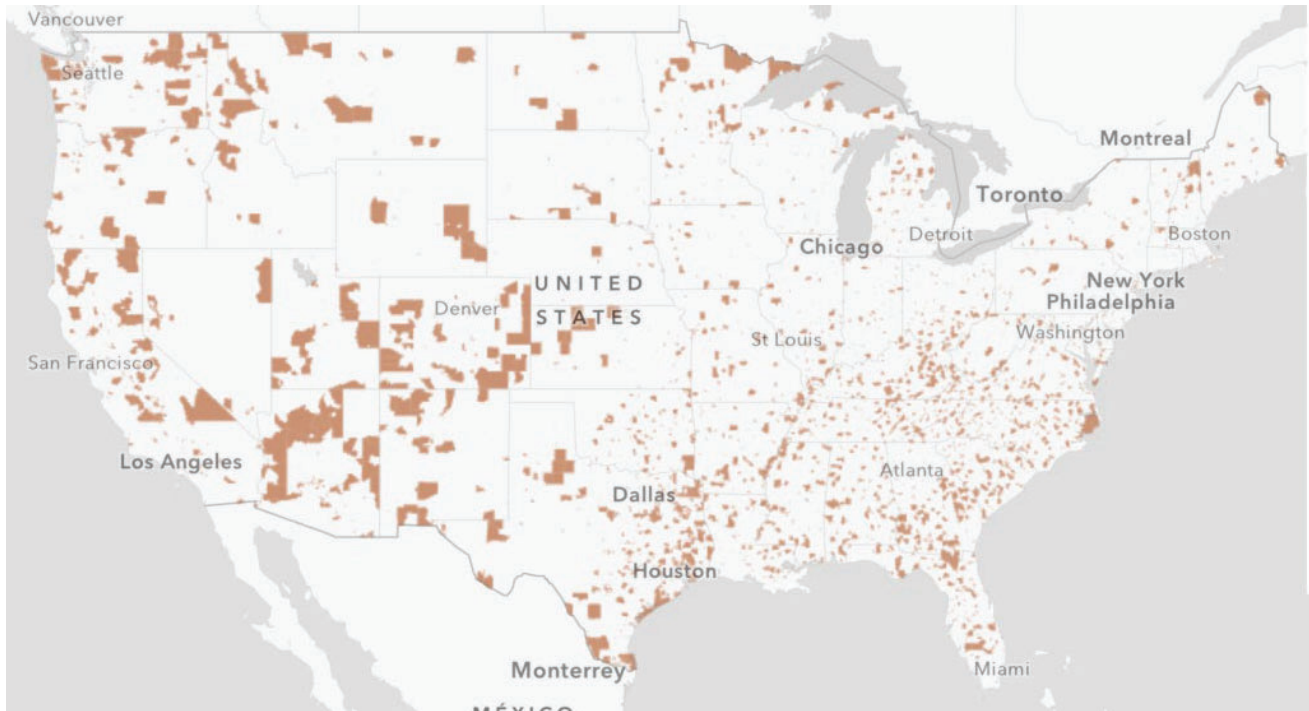
- The first phase of Opportunity Zones implementation is now complete: The U.S. Treasury Secretary has now certified the census tracts nominated by the governor of every U.S. state and territory and the mayor of Washington, D.C. For the next ten years, private investors will be eligible for certain tax benefits in return for investing in these low-income communities.
- Governors tailored their selections to the needs and potential of their communities. They relied heavily on public and local government engagement, rigorous analytics, peer-learning, and interagency collaboration to determine their zones.
- Governors prioritized higher-need places. Zones have an average poverty rate of nearly 31 percent, well above the 20 percent eligibility threshold, and an average median family income of only 59 percent of its area median, compared to the 80 percent eligibility threshold.
- Selected tracts have high need as well as proven growth potential. The country's Opportunity Zones already contain 24 million jobs and 1.6 million places of business. Many can harness some positive momentum as well: Three-quarters of zones are located in zip codes that experienced at least some level of post-recession employment growth from 2011 to 2015.
- Less than 4 percent of zones have recently experienced high levels of socioeconomic change, a proxy for gentrification and displacement risk. The average Opportunity Zone's housing stock has a median age of 50 years, more than ten years older than the U.S. median—a sign that many of these neighborhoods urgently need reinvestment.

It's official: The national map of Opportunity Zones is now in place. On June 14th, the Department of the Treasury certified the final round of states' nominations, bringing the total number of qualified census tracts to more than 8,700 across all states, territories, and the District of Columbia.

Recent economic growth has too often bypassed the kind of communities where Opportunity Zones are found. Now, thanks to a new provision of the tax code, investors willing to take a risk on these domestic emerging markets will get a series of benefits tied to the longevity of their investments. If the policy is successful, it will help seed the next generation of enterprise and opportunity in the country's left-behind locales.

In one of the country's boldest recent experiments in federalism, Congress called on the chief executives of every state and territory (henceforth "governors") to nominate up to a quarter of the low-income communities (LICs) in their jurisdictions as Opportunity Zones. The challenge was for governors to identify places with clear needs, but also clear capacity to attract and absorb new investment—places where an incentive for private capital could catalyze a broader economic turnaround if combined with the right local strategies.

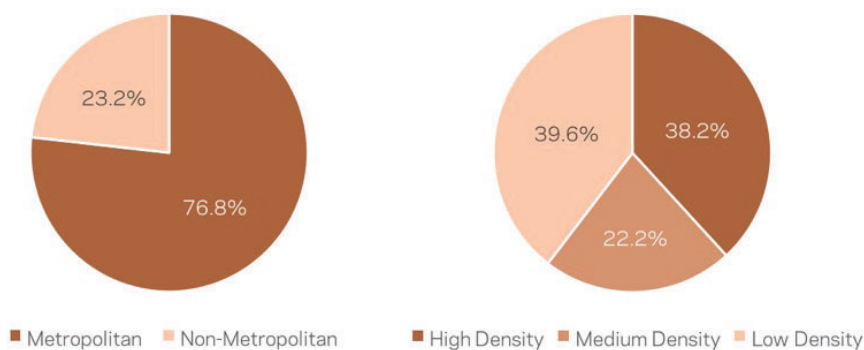
The results show that governors embraced the task, adapting the selection process to their own unique circumstances in order to strike a delicate balance between need and opportunity at the local level.



What does the average Opportunity Zone look like?

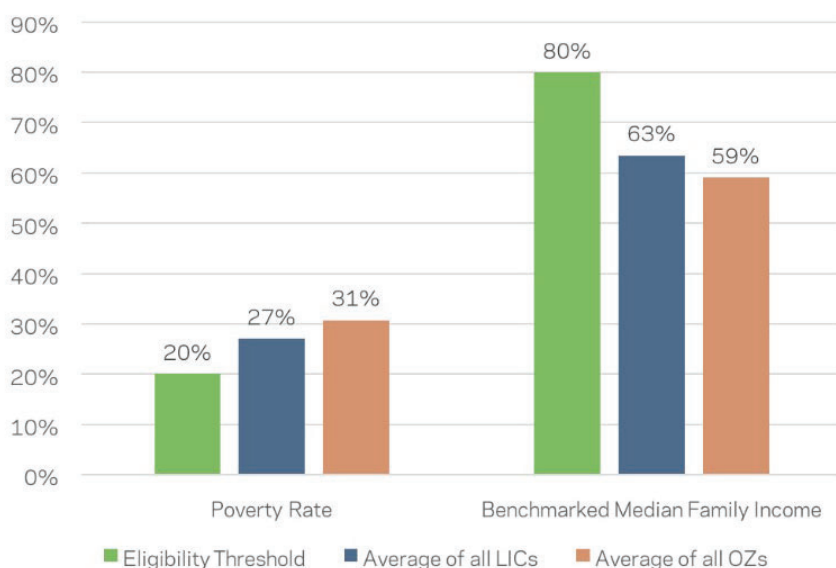
Within the 50 states and D.C., Opportunity Zones are home to 31.3 million people (all figures reported here are sourced from the American Community Survey's 5-year estimates for 2011-2015, the dataset that determined a census tract's eligibility). The figure rises to 35 million including Puerto Rico and the other territories. Fifty six percent of Opportunity Zones residents in the 50 states plus DC are minorities, compared to 54 percent of the population of all LICs and 38 percent for the country as a whole. Over three-quarters of certified tracts lie within metropolitan areas, but Opportunity Zones are nearly evenly split between high density (urban) zip codes and low density (rural) ones, with the remaining 22 percent in medium density (suburban) communities. Many states included explicit set-asides for tribal areas, resulting in 294 Opportunity Zones that contain Native American lands—proportional to their share of all eligible LICs (this definition is slightly broader than exclusively tribal census tracts, which the [Urban Institute studied](#)).

Source: EIG analysis of American Community Survey data



The statute established a national baseline of eligibility for Opportunity Zones designations based on economic need. Governors, however, treated the federal LIC eligibility criteria as only a starting point in determining their selections. The designated Opportunity Zones across the 50 states and D.C. have an average poverty rate of nearly 31 percent, well above the 20 percent eligibility threshold and nearly four

points higher than the average across all LICs. Adjusting for tracts with high populations of college students, which sometimes skew data, still results in an average poverty rate of 30 percent. Median family incomes also underscore the emphasis states placed on need: The average Opportunity Zone has a median family income equal to only 59 percent of its area median, compared to the 80 percent eligibility threshold. On average, the unemployment rate in these communities is 14.4 percent, and 38 percent of prime age adults are not working—a figure that is nearly 10 points higher than the country as a whole.



Source: *EIG analysis of American Community Survey data (2011-2015 5-year estimates)*

Furthermore, 69 percent of the population in Opportunity Zones resides in a census tract that is “severely distressed” according to the CDFI Fund, meaning in a community with especially high poverty or unemployment rates, or especially low median family incomes. In Florida in particular, nearly 94 percent of Opportunity Zone residents live in such a tract, and in Georgia, that number spikes to over 99 percent.

Because of the wide latitude afforded governors in the selection process,

some observers worried they would simply target already-gentrifying areas that had little need for a new incentive to attract investment. However, less than four percent of Opportunity Zones experienced high levels of socioeconomic change from 2000 to 2016, according to a dataset developed by the [Urban Institute](#). A number of states took Urban’s dataset into account when vetting zones, and [Oregon](#) created its own indicator of gentrification pressures. In fact, the average Opportunity Zone’s housing stock has a median age of 50 years, more than ten years older than the U.S. median. Half of Opportunity Zones are also communities eligible for the Low-Income Housing Tax Credit. And more than two-thirds contain brownfield sites tracked by the Environmental Protection Agency. These results speak to the widespread and urgent need for reinvestment across the nation’s Opportunity Zones, and should allay many of the initial concerns about the potential for displacement of local residents.

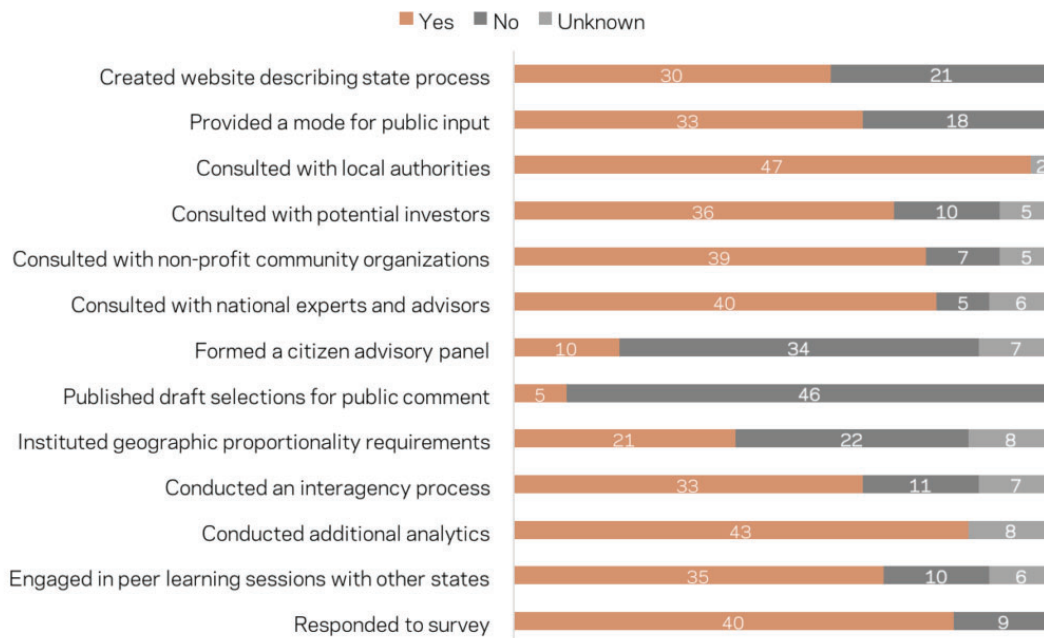
While governors clearly emphasized need, they also sought tracts with real *potential* for revitalization. The country’s Opportunity Zones are presently home to 24 million jobs and 1.6 million business establishments according to ESRI’s Business Data. These figures establish a critical baseline against which success can be measured down the road. And there is real reason for optimism: 75 percent of Opportunity Zones are located in zip codes that experienced at least some level of employment growth from 2011 to 2015, and 64 percent in zip codes with increases in business establishments over the period. Opportunity Zones can help add greater momentum and reach to these fragile local recoveries.

How did state leaders select Opportunity Zones?

EIG conducted a survey to memorialize how each state went about selecting its zones. Responses from 41 state officials involved in the selection process were augmented with information gleaned from press releases, websites, and other sources to produce the most complete assessment yet of how this new map of Opportunity Zones took shape.

States consulted extensively with their municipalities, counties, and local and regional economic development organizations. It appears that every state augmented the baseline eligibility criteria with additional data analytics customized around their own priorities ([Colorado](#) was an early mover, and its rigorous data-informed approach to balancing need and opportunity served as a model for several others). States varied more on public transparency: 29 states plus DC stood up a website that described in varying degrees of detail the governor’s selection process. 32 states plus DC provided some sort of portal, application, or email address to solicit public input. California, DC, Michigan, Nevada, and Vermont set the gold-standard for transparency by releasing draft recommendations to the public for comment *before* making submissions to the Treasury Department. In the case of [California](#), this led to a fifth of their initial recommendations being overturned.

What elements did states incorporate into their zone selection processes?



At least 10 states (e.g. [Indiana](#)) stood up some sort of external advisory panel of citizens or public leaders to vet final recommendations. We estimate that two-thirds of states engaged in an interagency process (involving the economic development, workforce, and housing departments, for example). The vast majority consulted with national experts, advisors, and peers as well.

States took various approaches to balancing the geographic distribution of zones. Just under half of states appear to have established strict proportionality rules that every county with an eligible tract would receive at least one, for example. A handful of states took a different approach, standing up competitive application processes that only awarded the most intentional and strategic local plans with zones (e.g. [Iowa](#)). Several anchored their selections in overarching visions—of revitalizing Gateway Cities in [Massachusetts](#), for example, or of galvanizing rural entrepreneurship in several western states. [Michigan](#) and [New York](#) took care to align their Opportunity Zones behind the considerable investments the states are already making to revitalize communities. [New Jersey](#)'s Department of Community Affairs saw the chance to support sustainable [transit-oriented development](#) and improve access to job centers.

While the quality of the process matters more than the quantity of elements incorporated into it, the diversity of elements governors incorporated speaks to a thoughtful and rigorous process to identify their Opportunity Zones.

Next steps: Turning Opportunity into Reality

Looking forward, the action now shifts to engaging the marketplace and recruiting investment. Treasury and the Internal Revenue Service must issue technical rules and guidance to give investors additional clarity. [State and local leaders](#) must develop comprehensive strategies for nurturing a new market around a new asset class—their Opportunity Zones—to take shape. They should work in tandem with investors and fund managers, entrepreneurs and business owners, anchor institutions, property developers, philanthropies and community stakeholders to help a new Opportunity Zone investment ecosystem emerge. The tool is now in hand and the map is now in place, but the work is just beginning.

What It Will Take for Opportunity Zones to Create Real Opportunity in America's Economically Distressed Areas

HOWARD WIAL

**Senior Vice President and Director of Research,
Initiative for a Competitive Inner City**

The Opportunity Zone program, created by the federal Tax Cuts and Jobs Act of 2017, is the nation's latest public policy attempt to spur economic development in economically distressed areas by encouraging private investment.¹ Under the program, an individual or organization can defer paying federal income tax on the capital gain from the sale of an asset by investing that gain in a Qualified Opportunity Fund (QOF). QOFs are required to invest at least 90 percent of their assets in businesses or real estate located in economically distressed areas that are designated as Opportunity Zones. If the investor holds the investment for a long enough period of time, the capital gains tax is reduced or even eliminated.²

The federal law required each state's governor to designate Opportunity Zones from among the high-poverty or low-income census tracts in the state. All governors made their designations in 2018. These designations cannot be changed during the life of the program.

Will Opportunity Zones create real opportunities for the residents of distressed areas? It's too soon to tell. The record of similar programs in the past (such as Enterprise Zones and Empowerment Zones) is at best mixed.³ However, Opportunity Zones have far fewer restrictions than those programs. That may unleash more capital,

which could lead to more development. But the Opportunity Zone program lacks critical safeguards that would ensure that investments go where they are most needed, make economic sense for and meet the needs of local communities, and can be monitored and evaluated.

Because the federal law doesn't require such safeguards, it's up to social impact investors to abide by them voluntarily. The responsibility falls on local governments to encourage and, where possible, provide incentives for investors to do so. That leaves community organizations, anchor institutions, foundations, and other organizations with a stake in the economic progress of low-income communities to establish standards and persuade investors to follow them. Four fundamental principles that embody the necessary safeguards should guide Opportunity Zone investments to ensure that they benefit the existing residents of distressed areas.

The Opportunity Zone program lacks critical safeguards that would ensure that investment goes where it's most needed, makes economic sense for and meets the needs of local communities, and can be monitored and evaluated.



ICIC

Initiative for a Competitive Inner City

APRIL 2019

One.

Focus on places in need.



A census tract was eligible to be designated as an Opportunity Zone if it had either a poverty rate of at least 20 percent, a median family income not more than 80 percent of the higher of the metropolitan or state median (for tracts located in metropolitan areas), or (for nonmetropolitan tracts) a median family income not more than 80 percent of the state median. (Some tracts in rural counties could qualify based on slightly higher income limits if they were experiencing outmigration.) Governors could also designate a limited number of tracts contiguous to those otherwise eligible if their median family income was no higher than 125 percent of that of a contiguous eligible tract.

In general, states chose relatively low-income areas as Opportunity Zones, although they didn't target the most distressed areas that were eligible. However, they were allowed to (and in some cases did) choose places that presented good investment opportunities but for which the program is not appropriate:

- University districts, even if their high poverty rates or low incomes were due to their large student populations.⁴
- Locations of state prisons, even if inmate populations accounted for the bulk of their poverty and low-income populations.⁵
- Places that don't lack investment despite their high poverty rates or low incomes.⁶
- Isolated pockets of poverty that are not surrounded by larger high-poverty areas.⁷
- Tracts where low-income residents are being displaced or are at risk of being displaced by gentrification (and where ill-chosen investments have the potential to accelerate gentrification and displacement).⁸

- Other places where development is likely to happen without the Opportunity Zone tax incentive.⁹

It is possible to identify the zones with these characteristics. State and local governments, community organizations, and foundations should encourage QOFs to avoid such places, although there should be exceptions for investments that primarily benefit the zones' current residents, such as affordable housing in expensive, rapidly gentrifying cities.

In addition, impact-oriented investors should give special consideration to zones that exhibit other indicators of socioeconomic disadvantage in addition to those required for zone designation, such as high child poverty rates, low educational attainment, large minority populations, and a lack of existing business activity.¹⁰ Although not all zones with all these characteristics are disadvantaged and not all zones that lack them are unworthy of tax-subsidized investment, considering these characteristics will make it possible for more investment to flow to places in need.

In general, states chose relatively low-income areas as Opportunity Zones, although they didn't target the most distressed areas that were eligible. However, they were allowed to (and in some cases did) choose places that presented good investment opportunities but for which the program is not appropriate.

Two.

Focus on non-real estate business investments that make economic sense for low-income communities.

Much of the discussion of Opportunity Zones in the news media and the investment community focuses on real estate.¹¹ But investment in real estate alone, especially residential real estate, has rarely developed low-income communities. The investments that will make the most difference for the current residents of those communities are investments in new or existing non-real estate businesses.

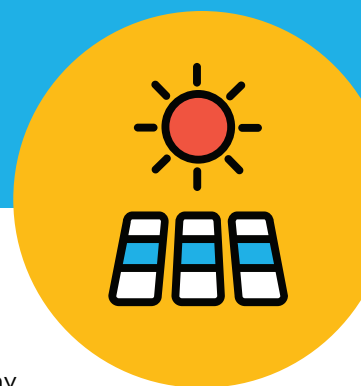
To choose the kinds of businesses that make the most economic sense for a community, investors should begin with the industry clusters that are the economic foundations of the community. Industry clusters—closely related and interconnected businesses that operate within a specific geography and benefit from their geographic proximity—reflect the economic strengths of a geographic area.¹² The strongest clusters in an area (those whose share of the area’s employment is highest compared to their share of nationwide employment) are the ones on which the community’s economy currently depends the most. One strategy for targeting investments is to prioritize investment in the clusters that are strongest in an Opportunity Zone or the larger high-poverty areas that surround the zones that are the best candidates for investment. That strategy is one of reinforcing existing economic strengths. Another approach is to target clusters that are not currently strong but are emerging in the area. A third option is to pursue a strategy of “related diversification”—investing in clusters that are not currently strong but are related to strong clusters by common technologies, workforce skill needs, supply chains, or consumer preferences.

A final option is to pursue “unrelated diversification”—investment in firms whose clusters are not related to any current or emerging economic strengths.

This is a risky strategy to pursue because it doesn’t draw on an area’s current strengths in any way, but it can sometimes work, for example, if it is based on a technology developed by a local university or involves suppliers or potential suppliers to a large company that is moving into the area or a large-scale government investment.

To succeed, business investments often need complementary investments in such things as workforce skills, infrastructure, the technological capacities of supplier firms, or the financial literacy of potential customers. With the partial exception of infrastructure investments, QOFs cannot receive tax advantages from making these complementary investments, many of which are better undertaken by governments or nonprofit organizations than by private companies.

Although Opportunity Zone investments should go primarily to non-real estate businesses, there is a limited role for real estate developers to take advantage of the zones’ benefits. QOFs should invest in commercial real estate that directly supports new or existing businesses, for example, by building, renovating, or preparing sites for commercial or industrial buildings. Residential real estate investment, though, should generally be limited to affordable housing, especially in areas that are experiencing or are poised for rapid price appreciation.



Three.

Guide investments to meet public and community priorities.



Local governments, community organizations and residents, and other organizations with a public mission have no legally mandated role in the Opportunity Zone program. Nevertheless, there are many opportunities for them to influence the kinds of investments that take place in the zones.¹³

Local governments can use a combination of carrots and sticks to influence QOF investments in their jurisdictions. On the positive side, they can, put together Opportunity Zone “prospectuses” that give an economic overview of their jurisdictions and Opportunity Zones and highlight investment opportunities in the zones.¹⁴ A number of cities, including Stockton, California, and Louisville, Kentucky, have already done this.¹⁵ The prospectuses are marketing documents but they can also steer investors toward the investments that local governments favor. Local governments and foundations can also encourage investment in QOFs that abide by the principles described in this policy brief by providing principal-protection guarantees, direct investments, or first loss capital to these funds. Although governments and foundations can’t receive any tax benefits, they can use their roles in these funds to favor projects that meet their priorities.

Local governments also have tools at their disposal to help them discourage or even prohibit Opportunity Zone investments that don’t meet their priorities. They can apply their laws—including zoning, permitting, business licensing, local hiring, wage regulation, disadvantaged business preference, and business tax incentive laws—to Opportunity Zone investments, just as they can to any other development projects. (Boulder, Colorado, is already taking this approach.¹⁶) If a QOF proposes a project for which it is seeking a benefit (such as a local tax incentive) or a discretionary change in the law (such as a zoning variance), local

officials have legal leverage to reshape or block developments that they find undesirable and to require the Fund to make the kinds of disclosures (described below) that would inform the public about proposed investments. Even in cases where they don’t have that leverage, they can use their power of public persuasion to accomplish these goals.

The people most directly affected by Opportunity Zone investments—the residents of the zones—should have a prominent voice in influencing investments in their zones. Community organizations should weigh in on proposed investments and organize residents to support or oppose them. Local governments should amplify community voices by creating Opportunity Zone advisory councils.¹⁷ The councils should include residents of the zones and representatives of community organizations that are active in the zones. Local officials should consult the councils in developing their positions on investments in the zones.

Foundations, anchor institutions, and other organizations that care about the economic progress of low-income communities can also help push QOF investments toward meeting public and community priorities. They can do so by investing in or providing downside protection for QOFs that have committed to specific social impact covenants, as the Kresge Foundation has done with two Funds.¹⁸ They can also use their own powers of public persuasion to establish norms that the best impact investors would follow and that could have some influence on other investors as well. For example, if a number of foundations and anchor institutions, nationally or in particular states or regions, were to endorse the principles advocated here, they could create informal but powerful expectations about what Opportunity Zones should be.

Four.

Build in transparency and accountability.

The Tax Cuts and Jobs Act doesn't require any kind of public disclosure or evaluation of QOFs' investments. (An early draft of the legislation required this but the law as enacted does not.) Without transparency and accountability, there is no way for anyone other than the individual investors to know what kinds of investments are being made in the zones and by whom, and no way to evaluate whether the zones are serving their intended purpose.

In each year of their operation, QOFs should publicly disclose the identities of their investors; the locations, recipients, and amounts of their investments; key performance indicators such as the number of jobs created and revenues generated by the businesses in which they invest; and the aggregate tax savings received by their investors. This would enable local governments, community organizations, and residents of the zones to know what kinds of investments are being made in their neighborhoods, who is making them, and what tax benefits investors are receiving. That information is essential if local governments and communities are going to attempt to influence Opportunity Zone investments.

Disclosure of jobs created and revenues generated by businesses receiving QOF investments is also critical for evaluating the Opportunity Zone program. The job and revenue performance of those businesses can be compared with that of similar businesses located in comparable census tracts that were eligible to be designated as Opportunity

Zones but were not designated. Such a comparison would provide a rough indication of whether the zones were contributing to business growth.

QOFs should also disclose other information about the businesses in which they invest, including average and median wages, availability of health and retirement benefits, employment of people who live in low-income neighborhoods, employment of people with less than a bachelor's degree, employment of women and people of color, and the presence of female entrepreneurs and entrepreneurs of color, to name a few. Although these characteristics of Opportunity Zone businesses cannot readily be compared with those of businesses located in eligible non-designated tracts, they can be used to gauge whether businesses receiving Opportunity Zone investments are meeting or exceeding national or local benchmarks.¹⁹

Without transparency and accountability, there is no way for anyone other than the individual investors to know what kinds of investments are being made in the zones and by whom, and no way to evaluate whether the zones are serving their intended purpose.



Putting It All Together

Opportunity Zones should be seen as part of a broader set of policies to attack the problem of concentrated poverty. They should complement existing place-based policies, such as the New Markets Tax Credit and Low-Income Housing Tax Credit, as well as place-neutral antipoverty policies, such as policies to improve workers' skills and the quality of low-wage jobs.

Opportunity Zones, even if used in the best possible way, are unlikely to benefit the very poorest areas. A capital gains tax incentive, even one as generous as that of the Opportunity Zone program, simply won't be enough to make investments in those places profitable. Those places need a more direct government role. For the most part, investments that follow the four principles advocated in this policy brief will favor zones that are not already developing rapidly or poised to do so, but not so poor that the tax incentive will be insufficient.

Nevertheless, if a critical mass of impact investors, local governments, and other relevant organizations were to follow those four fundamental principles, the Opportunity Zone program could help create real opportunity for the residents of many of America's economically distressed communities:

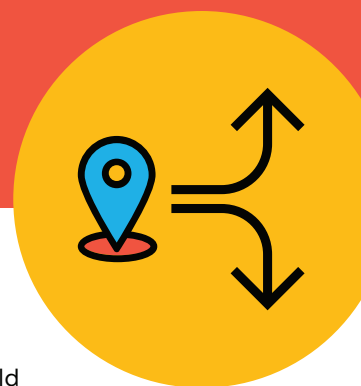
- Investors would invest in places with genuine needs—not necessarily the most distressed areas, but not areas that would develop without the aid of the tax incentive.
- They would invest mainly in non-real estate businesses and would do so in ways that made economic sense for the communities in which they invested, catalyzing further development as part of a well-grounded economic development strategy.

- Local governments, community residents and organizations, and other relevant organizations would ensure that investments met public and community priorities.
- Robust transparency and accountability requirements would help them do so and would also make it possible to evaluate the Opportunity Zone program. Congress would use the evaluation results to decide the program's future.

That's the best-case scenario—the “high road” for Opportunity Zones. Unfortunately, there's also a “low road,” a scenario in which:

- Investments occur mainly in places that would develop on their own.
- Zones facilitate widespread gentrification and displacement of low-income residents.
- Investments make economic sense for private investors but not necessarily for local communities.
- There is no public or community influence over investments.
- Only investors know anything about investment outcomes (probably only about financial outcomes).
- There is no way to know whether the program is succeeding.

The more that investors, local governments, and other organizations follow the principles described here, the more likely it is that the high-road scenario will occur. That's what it will take for Opportunity Zones to live up to their promise.



Endnotes



- 1 The requirements of the Opportunity Zone program are found in sec. 13823 of the Tax Cuts and Jobs Act of 2017, Public Law 115-97, 131 Stat. 2054, available at <https://www.congress.gov/115/plaws/publ97/PLAW-115publ97.pdf>.
- 2 Describing this as “very favorable treatment,” Adam Looney estimates that “[i]ndividuals in a high-tax state and with short-term capital gains can avoid \$7.50 in taxes for each \$100 they invest, even before considering any return on their Zone investments.” Adam Looney, “Will Opportunity Zones Help Distressed Residents or Be a Tax Cut for Gentrification?” Brookings Institution *Up Front* blog, February 26, 2018, <https://www.brookings.edu/blog/up-front/2018/02/26/will-opportunity-zones-help-distressed-residents-or-be-a-tax-cut-for-gentrification>.
- 3 For a review of the evidence on the impacts of such programs, see David Neumark and Helen Simpson, “Do Place-Based Policies Matter?” *Federal Reserve Bank of San Francisco Economic Letter* 2015-07, March 2, 2015.
- 4 Hilary Gelfond and Adam Looney list 33 Opportunity Zones that include college campuses and have populations consisting of at least 85 percent college students. Among the well-known colleges included in Opportunity Zones are the University of Southern California, the University of Maryland, the University of Illinois at Urbana-Champaign, and Penn State University. Hilary Gelfond and Adam Looney, *Learning from Opportunity Zones: How to Improve Place-Based Policies* (Washington: Brookings Institution, 2018), p. 9.
- 5 Gelfond and Looney note that one of Florida’s Opportunity Zones is a correctional facility. Gelfond and Looney, *loc. cit.*
- 6 Brett Theodos and co-authors rank all tracts that were eligible to be designated as Opportunity Zones on their relative amounts of capital investment and find that “[t]he actual Opportunity Zone designations reflect only minimal targeting of the program toward disadvantaged communities with lesser access to capital relative to all eligible tracts.” Brett Theodos, Brady Meixell, and Carl Hedman, *Did States Maximize Their Opportunity Zone Selections?* (Washington: Urban Institute, 2018), p. 3.
- 7 Timothy Bartik has criticized the Opportunity Zone program for this reason, among others. See John Gallagher, “Experts Doubt New Tax Break Will Help Detroit As Advertised,” *Detroit Free Press*, February 13, 2019, <https://www.freep.com/story/money/business/john-gallagher/2019/02/13/detroit-opportunity-zones-tax-incentives-gentrification/2846284002>. In some places, such as Chicago, many Opportunity Zones appear to be located in larger high-poverty areas. See Brett Theodos and Brady Meixell, *How Chicago and Cook County Can Leverage Opportunity Zones for Community Benefit* (Washington: Urban Institute, 2019), p. 5.
- 8 Theodos and co-authors identify Opportunity Zones that rank well above the national average on their 2000-2016 change in an index of four characteristics that may indicate gentrification: the share of residents with at least a bachelor’s degree, median family income, the share of non-Hispanic white residents, and average housing cost burden. Theodos, Meixell, and Hedman, *op. cit.*, pp. 11-12.
- 9 See Gallagher, *op. cit.*
- 10 Gelfond and Looney have ranked Opportunity Zones on these criteria, among others. Gelfond and Looney, *op. cit.*, pp. 3-5.
- 11 See, e.g., Jim Tankersley, “Investors Eagerly Await Trump Rules on Opportunity Zones,” *New York Times*, March 17, 2019, <https://www.nytimes.com/2019/03/17/us/politics/opportunity-zones.html>.
- 12 See Joseph Cortright, *Making Sense of Clusters: Regional Competitiveness and Economic Development* (Washington: Brookings Institution, 2006).
- 13 On the need for such organizations to help shape Opportunity Zone outcomes, see Rachel Barker and Alan Berube, “Opportunity Zones and Shared Prosperity: Emerging Principles from Cleveland,” Brookings Institution *The Avenue* blog, September 19, 2018, <https://www.brookings.edu/blog/the-avenue/2018/09/19/opportunity-zones-and-shared-prosperity-emerging-principles-from-cleveland>.
- 14 Bruce Katz and Evan Weiss, *From Transactions to Transformation: How Cities Can Maximize Opportunity Zones* (Philadelphia: Nowak Metro Finance Lab, Drexel University, 2018), pp. 12-13.
- 15 See City of Stockton, *Opportunity Zones Prospectus*, Stockton, California: A Guide to Finding the Right Investment for You (Stockton, CA: City of Stockton, 2019), <http://www.stocktonca.gov/files/StocktonOZProspectus.pdf>; New Localism Advisors in collaboration with the City of Louisville, *Louisville Opportunity Zone Prospectus: A Platform for Action* (n.p., 2018), https://louisvilleky.gov/sites/default/files/louisville_forward/louisville_prospectus_version_13_11.5.2018.pdf.
- 16 See the City of Boulder’s Opportunity Zone webpage, <https://bouldercolorado.gov/business/opportunity-zone-program>.
- 17 For a similar proposal, see Wendy Patton and Michael Leonard, *Assessing Opportunity Zones in Ohio* (Cleveland: Policy Matters Ohio, 2018), pp. 12-13.
- 18 Kresge Foundation, “Kresge Foundation commits \$22M to back Arctaris, Community Capital Management Opportunity Zone Funds,” March 18, 2019, <https://kresge.org/news/kresge-foundation-commits-22m-back-arctaris-community-capital-management-opportunity-zone-funds>.
- 19 The Opportunity Zones Reporting Framework, developed by the U.S. Impact Investing Alliance and the Beeck Center at Georgetown University, provides an even more comprehensive list of suggested metrics for individual OOFs. These could easily be integrated into the transparency and accountability recommendations presented here. See U.S. Impact Investing Alliance and the Beeck Center, “Prioritizing and Achieving Impact in Opportunity Zones” (n.p., 2019), <https://static1.squarespace.com/static/5c5484d70b77bd4a9a0e8c34/t/5c61f945fa0d605af5448daf/1549924682936/Opportunity+Zones+Reporting+Framework+-+February+2019.pdf>.

Prioritizing and Achieving Impact in Opportunity Zones

Opportunity Zones have captured the attention of investors, fund managers, policy makers and community advocates. Proponents anticipate that the policy will unlock billions of dollars to support vital community development projects and create economic opportunity in distressed areas. As interest in Opportunity Zones increases, it is important that early participants in the Opportunity Zones market maintain focus on achieving the purpose for which the policy intended: positive economic and social outcomes.

The tax benefits associated with the Opportunity Zones policy will allow investors to leverage more capital for projects in these communities while also reducing their capital gains tax bill. Many of the investors entering this market are doing so with an explicit goal of creating positive social, economic and environmental impact. But even where an investor's objectives are purely commercial, successfully investing in the Zones will require careful attention to existing community assets, needs and priorities.

For residents of these communities, and for the investors who will bring those dollars to bear, a clear approach to Opportunity Zones investment, guided by a shared set of principles and implemented through a common and flexible reporting framework, offers the best chance to deliver on the promise and potential of the Opportunity Zones policy.

The U.S. Impact Investing Alliance, the Beeck Center at Georgetown University, and the Federal Reserve Bank of New York recognized that a broad range of actors will benefit from a shared approach. Last year, the 3 entities convened multiple roundtables with community development investors, researchers, policy makers and other practitioners to discuss how to ensure that these investments result in meaningful and inclusive economic development. Following those discussions, the U.S. Impact Investing Alliance and the Beeck Center partnered to develop such an approach that we believe will allow stakeholders of all kinds to link their work to the emerging nationwide body of Opportunity Zones practice. Simultaneously this will enable each stakeholder to effectively measure and manage for the impact and outcomes they seek to achieve.

This document is specifically focused on how Opportunity Fund managers can thoughtfully deploy the capital they raise from investors. Fund managers will be responsible for identifying and tracking Opportunity Zones investments and as such will be well placed to collect basic market and impact data. Proactive efforts to do so will enable fund managers and their investors to understand the impact of investors and enable independent evaluators and researchers to more deeply analyze the long-term outcomes of the overall policy. This approach includes:

- **Guiding Principles:** We agree that Guiding Principles are core to effective and equitable Opportunity Zones investment and implementation.
- **Reporting Framework:** We agree that a Reporting Framework is necessary to promote beneficial Opportunity Zones investment at scale. This common approach should include a set of core criteria, while maintaining the flexibility to be effectively deployed by diverse stakeholder groups across a wide range of asset classes.

- **Shared Goal of Measuring Outcomes:** We understand that different entities including state and local government, industry groups and other organizations, serving multiple stakeholder groups, may seek out different types or amounts of data. We believe that the approach we outline here allows for each organization to develop deeper layers of data collection, building on the common Reporting Framework. We also believe that this approach is the most effective pathway to widescale deployment of the Framework and, ultimately, achievement of the outcomes sought by the Opportunity Zones policy.

Guiding Principles for Opportunity Zones Stakeholders

We are optimistic about the possibilities that Opportunity Zones and Opportunity Funds offer to combat economic inequality and barriers facing low-income and underinvested communities. We also believe that doing so will require focus on these goals, as well as diligent efforts to avoid unintended outcomes. These principles are designed to guide stakeholders, of all kinds, as they conceptualize and implement their Opportunity Zones activities.

1. **Community Engagement:** Opportunity Fund investors should request that fund managers integrate the needs of local communities into the formation and implementation of the funds, reaching low-income and underinvested communities with attention to diversity.
2. **Equity:** Opportunity Fund investments should seek to generate equitable community benefits, leverage other incentives and aim for responsible exits.
3. **Transparency:** Opportunity Fund investors should be transparent and hold themselves accountable, with processes and practices that remain fair and clear.
4. **Measurement:** Opportunity Fund investors should voluntarily monitor, measure and track progress against specific impact objectives, identifying key outcome measures and allowing for continuous improvement.
5. **Outcomes:** Opportunity Fund metrics should track real change, with an understanding that both quantitative and qualitative measures are valuable indicators of progress.

Opportunity Zones Reporting Framework

The Opportunity Zones Reporting Framework contains criteria that represent the shared, common and collective metrics that should be utilized by all stakeholders across the Opportunity Zones landscape. By introducing these consistent data points at the inception of Opportunity Zones implementation, we can ultimately gain a deeper understanding of activity across the Opportunity Zones landscape – what is working, where hidden barriers lie, and where policy adjustments or enhancements may be needed.

By enabling various entities, including state and local government, industry groups and other organizations, to develop additional layers of data collection on top of this common Framework, we seek to enable innovation in measurement, and impact, across asset classes and stakeholder types.

I. Investment Intention and Community Engagement: Opportunity Fund managers should proactively report information that will encourage effective market formation and enable community engagement before and during investments.

Prospective Information

- Geographic focus (state, zip code, urban focus, rural focus, etc.)
- Intended investment focus (housing, small business, growth business, etc.)
- Target investment size
- Mission statement or impact objective

Basic Fund Demographics

- Size of fund
 - Total assets
 - Eligible deferred gain assets
- Type of investor (corporate, individual filer)
- Tax-paying residence of investors (aggregated by state and portion of fund assets)
- Structure of fund (single, multi-asset)
- GP demographics (including racial and gender composition)

Community Engagement

- Community support indicators
 - Community engagement narrative
 - Community needs assessment
 - NGO partnership
 - Public notice of development
- Engagement with regional economic development strategies
 - *Example – Fund manager has conducted consultations with the relevant economic development agency.*

II. Impact Measurement and Reporting: Opportunity Fund managers should commit to tracking and reporting basic transaction-level data, a core set of community impact metrics that are widely applicable to Opportunity Funds and additional metrics applicable to the specific investment thesis and impact vertical(s) of the fund. These should be reported in a common standard to allow for regional and national aggregation of data.

Transaction Data Reporting

- Size of investment
- Location of investment (census tract or address)
- NAICS code of operating business
- Type of qualifying property

Core Community Impact

- Jobs
 - Number of employees
 - Permanent
 - Seasonal
 - Construction
 - Net new jobs created
 - Number of employees from LMI communities
 - Employment of targeted disadvantaged groups (i.e., returning citizens, veterans, etc.)

- Entrepreneurship (if applicable)
 - NAICS code of commercial tenants (real estate)
 - Percentage of woman- or minority-owned enterprises
 - Percentage of first-time business owners
- Real Estate (if applicable)
 - Affordable housing
 - Net new number of affordable units
 - Number of net additional individuals housed based on development
 - % of units that are affordable
 - Number of affordable units renovated
 - Square footage of real estate
 - Commercial
 - Residential
 - Infrastructure improvements

Investment Thesis Reporting – Fund managers should additionally select, measure and report on metrics specific to the investment thesis and impact vertical of the fund. Where possible, this should be done in alignment with validated third-party evaluation methodologies. There are many widely accepted methodologies, including, but not limited to AERIS, BLab, IMP, IRIS, iRR, etc.

- *Example:* Education and Training (if applicable)
 - Student transition rate (% of students transitioning from one level to the next)
 - Dropout rates
 - Truancy rates
 - Number of people receiving vocational or technical training for 21st century jobs
- *Example:* Environment (if applicable)
 - LEED certification/compliance
 - Other environmental impact standards

III. Lasting Community Impact: Opportunity Fund managers should seek opportunities to create durable community benefits by prioritizing responsible investment exit strategies where feasible.

Responsible Exits

- Attention should be given to exit considerations at the outset of investment. Side letters, term sheets or non-binding exit plans could provide various considerations, including:
 - Stakeholder first right of refusal
 - Employee stock ownership plans
 - Management continuity
- These formal provisions may not be appropriate for all funds and investors. In such cases, a broad commitment to preserve community wealth could be issued by fund managers without obligating specific action.

IV. Transparent Outcomes Reporting: While it is beyond the expertise and scope of most fund managers to perform rigorous impact outcomes assessments themselves, managers should commit to working forthrightly and transparently with independent evaluators and researchers.

Towards a Common Goal

Opportunity Zones are a powerful tool to provide improved quality of life and economic empowerment for underserved communities across the United States. We believe that, by utilizing the common approaches articulated in this document, we can enable an important collective step towards a shared and equitable future.

DRAFT Sample Reporting Form

Mission statement: Key target impact of investments.

Investment Thesis: What are the sectors or industries in which the fund seeks to invest and why?

Commitment to report publicly: Yes/No

Fund information

- Size of the fund
- Location of capital deployment (census tracts)
- Type of qualifying property or business
- GP demographics (race and gender composition)

Intended impact: Defined for each fund and investment. [There are existing tools available for fund managers to help define, measure and quantify impact].

- Intended impact, e.g. (not limited to)
 - Education – high school graduation rates, school retention rates, job retained
 - Affordable housing – number of affordable units created as % of development
 - Jobs – number of jobs retained within community, % of salary increase for lowest paid employees
 - Entrepreneurship – number of new businesses started, number of female and minority owned businesses created
 - Access to healthy food
 - Environment impact

Community Engagement

- Method of community engagement
- Type of feedback incorporated
- Partnerships with local organizations and type of partnership
- Community needs assessment or alignment with established community priorities
- How investment is aligned with local/regional economic development strategies

Post-Exit Evaluation

- Community impact beyond hold period
- Variation from original intention

GOVERNING

THE STATES AND LOCALITIES

States, Cities Add Sweeteners to Attract 'Opportunity Zone' Investors

With 8,700 low-income communities competing for private investment, some places are topping on the incentives to make themselves stand out.

BY J. BRIAN CHARLES | APRIL 17, 2019 AT 3:23 PM

Opportunity, it is said, only knocks once. So when it comes to attracting private developers to invest in so-called opportunity zones, several states and cities are working hard to make themselves stand out.

The zones were created in the 2017 federal tax overhaul as a way to entice companies to invest in underdeveloped areas. A company can reduce the capital gains taxes it owes on previous investments if it invests in low-income communities that have been designated as opportunity zones. On Wednesday, the Trump administration released new guidelines for the program.

But with 8,700 opportunity zones across the country -- many in big cities that already attract considerable development dollars -- some places are worried about distinguishing themselves. What would make an investment in, say, Oklahoma City any more attractive than one in Boston?

How 'Opportunity Zones' Could Transform Communities

So state and local governments are adding incentives to help make themselves even more desirable.

West Virginia lawmakers are looking at an income tax exemption for new opportunity zone investment. Florida is trying to align its opportunity zones with preexisting enterprise zones, which would give investors the benefits of both programs. In Connecticut, some legislators want to exempt historic preservation requirements in opportunity zones if the building has been vacant for more than five years. Maryland lawmakers are considering two bills -- one that would offer tax credits to opportunity zone businesses that hire former inmates and another that would offer historic preservation tax credits to businesses that locate in opportunity zones.

“You’re seeing OZs prompt a number of common-sense reforms,” says John Lettieri, president and CEO of the Economic Innovation Group, the Washington, D.C.-based think tank that drafted the opportunity zone legislation.

At the local level, five mayors -- of Erie, Pa.; Louisville, Ky.; Oklahoma City; South Bend, Ind., and Stockton, Calif. -- have released an investment plan aimed at attracting opportunity zone investment.

Oklahoma City's downtown opportunity zone also covers its tax increment financing district, allowing investors to benefit from both programs. And thanks to a 2017 ballot initiative in which voters approved \$50 million for job creation, the city is able to negotiate additional tax incentives for businesses in return for an agreed-upon number of jobs to be created. Mayor David Holt says he plans to use all the tools available to attract opportunity zone businesses to his city.

“If you are looking for ways for cities to not just sit back and wait for people to invest in opportunity zones,” Holt says, “we have a little to play with.”

Still, attracting businesses to small and midsize cities remains a challenge. Oklahoma City, for all of its efforts, has not yet secured an investment in any of its 117 opportunity zones.

But Holt remains optimistic. He says the opportunity zone program has already put cities like his on the map and that investors are considering places they may not have looked at in the past.

“If nothing else, opportunity zones get people looking around at places around the country,” Holt says. “So maybe people look at the best deal in OKC and invest here instead of the 200th best deal in Los Angeles.”



[J. Brian Charles](#) | Staff Writer | jbcharles@governing.com | [@JBrianCharles](#)

Is Your City Prepared For The Opportunity Zone Impact?



[Joshua Pollard](#) Contributor

I share insights on real estate investing and Opportunity Zones.

The second round of Opportunity Zone regulations is currently under review by the federal government's Office of Management and Budget (OMB). Final rules should be released in the next week or two, and there are wide expectations that the 50 percent test for business investments in Opportunity Zones as well as many of the real estate-specific aspects of the legislation will be clarified.

In the meantime, what are local governments and municipalities doing to prepare for an acceleration of Opportunity Zone investments?

Despite having to wait for final rules—or perhaps *because of it*—states and cities across America that are building infrastructures to implement the OZ program strategically are prioritizing social impact for low-income communities, working to avoid the ill-effects of gentrification: the displacement of residents or pricing them out of neighborhoods they've lived in for generations.

Accelerator for America is an organization leading the way in helping cities to achieve all that. It's a nationwide consortium of "mayors and leaders from the labor, business and non-profit sectors" that supports economic development solutions across the country. Under its guidance, 30 cities to date have drafted Investment Prospectuses, clearly outlining their preparations for OZ impact.



"We are helping cities highlight assets, partnerships and investible projects and businesses that will directly help the communities and families to whom the legislation was targeted," says Aaron Thomas, Accelerator for America's Director of Economic Development and Opportunity Zones.

Nearly vacant American mall, an example of the downward trend of brick and mortar retail since the popularity of online shopping - GETTY

By having cities draw up Investment Prospectuses, Thomas explains, “We’re saying, ‘If you’re going to put capital into these communities, here are the communities that are ready, and these are the things the community actually wants to do.’ ”

Kansas City, MO, shows it’s ready for an influx of capital by “bringing together an ecosystem of stakeholders” to actualize its mission of building wealth and increasing economic mobility for the people who currently live within the boundaries of its designated OZ’s.

Erie, PA, tells investors that, “Projects in the zones should result in jobs that provide wages that support a dignified standard of living, full benefits and workers’ rights, and safe and healthy working conditions.”

Other regions are moving forward independently. City, county and municipal leaders in the Cleveland, OH, area are partnering with banks, investors, philanthropists and nonprofit groups in what’s collectively known as Opportunity CLE, a “cohesive economic development ecosystem unlike any other in the nation.” Together, they’ve drafted their own Investment Prospectus, which includes a digital portal for investors to connect and submit proposals.

State-level solutions are under way, too. During the first quarter of 2019, Maryland Governor Larry Hogan and his administration created an OZ Task Force that just held its first of many-planned regional summits to “align Opportunity Zone goals with state and local economic and cultural priorities,” According to a statement by Lt. Gov. Boyd K. Rutherford.

Gov. Hogan has also proposed the “More Opportunities for Marylanders Act of 2019 to extend a 10-year tax credit for each new job created by a company that locates or expands in a Maryland Opportunity Zone” (*Source: Maryland.gov press release, Jan. 3, 2019*).

Workforce development grants and technology investments are being put into place, and millions of dollars have been allocated by the State of Maryland to support various aspects of OZ revitalization, from affordable housing construction to demolition funding of dilapidated structures.

All of these examples should give communities and residents reason to be hopeful that good change is coming: that jobs will be created and that necessary investments will materialize.

And yet, some cities still aren’t on board with Opportunity Zones. They’re either taking a wait-and-see approach, or they’re skeptical that the legislation can actually make good on its potential, or they doubt the program can effectively do anything to address the needs of their residents.

But failing to be proactive could create unintended consequences.

Says Aaron Thomas of Accelerator for America, “The potential downsides are precisely why it’s important that the people and organizations already living and working within Opportunity Zones lead the way in improving these communities.”

When private capital and communities work closely together, the best outcomes are the likely result.

Joshua Pollard Contributor



How Chicago and Cook County Can Leverage Opportunity Zones for Community Benefit

Brett Theodos and Brady Meixell

January 2019

In December 2017, Congress passed the Tax Cuts and Jobs Act, which included the Opportunity Zone tax incentive meant to spur economic development in communities lacking access to capital. The incentive is the largest new federal economic development program enacted in years. In each state, territory, and the District of Columbia, governors (and DC's mayor) selected Opportunity Zones from a large pool of eligible census tracts—roughly 56 percent of all tracts nationally—which were then subject to US Treasury Department approval. Of the tracts designated eligible, governors could designate 25 percent (or at least 25 tracts in states with fewer than 100 qualified tracts) as Opportunity Zones. In making their selections, governors relied on various factors, including data and metrics. The metrics we provided to states publicly in advance¹ were created to align with the incentive's aspirations to drive capital to undercapitalized neighborhoods while not spurring gentrification.

Compared with eligible tracts that were not selected, selected communities tended to have lower median incomes, higher poverty rates, and higher unemployment rates, but little targeting was done around access to capital (Theodos, Meixell, and Hedman 2018). With the first Internal Revenue Service (IRS) regulations released in October 2018, the focus now turns to local governments and the extent to which they can draw investment to Opportunity Zones and ensure these investments yield the maximum benefit for communities, particularly low- and moderate-income residents. An additional challenge is that there are no statutory requirements for impact reporting, posing challenges for monitoring and evaluation.

The Opportunity Zones selected in Cook County broadly fulfilled the incentive's spirit, targeting areas that were more economically distressed. To ensure the greatest benefit from Opportunity Zones, the City of Chicago, Cook County, philanthropy, community development financial institutions, community development corporations, and other institutional actors need to align their efforts and

How Chicago and Cook County Can Leverage Opportunity Zone Investments

Chicago and the state of Illinois made a substantial effort to target communities with greater economic need when selecting Opportunity Zones. Selecting the Opportunity Zones is only the first part of the process, however. Now it is up to local government, philanthropy, and impact investors and developers to ensure that new capital is attracted to these 181 neighborhoods and that this capital aligns with community goals to better the lives of long-standing residents across all income bands.⁶

While developing a strategy, it is important to remain grounded in the structure of the Opportunity Zone incentive and the kinds of investment for which it does and does not provide incentives. The tax advantages may, in sum, be large. But for any project, the incentives will not provide deep enough subsidy to underwrite deals that are not already fairly close to viable. In this way, the deferral, basis step-ups, and exclusion of gains will behave differently than other tax credits such as low-income housing tax credits, which are closer to guaranteeing a return over the first several years of the investment. Additionally, not every Opportunity Zone will be equally attractive to investors, and most investment will be from those only seeking market-rate returns with no impact objectives.

To harness the power of Opportunity Zones to spur new investment in areas of need, local officials, impact investors, and philanthropy need to understand the types of neighborhoods that are Opportunity Zones, explore which strategies can best serve these different groupings, and leverage available policy levers to compel private action in line with community interests. We detail several action steps below.

Leverage Community Planning and Bring Stakeholders to the Table

Informed by existing community planning efforts, local government and philanthropy are well situated to use their convening power to define priorities within specific Opportunity Zones and to forge and implement a strategy to ensure maximum community benefit. Chicago has a long history of neighborhood-based planning,⁷ and these plans can be considered in light of Opportunity Zones. Community development financial institutions can draw on their long-standing position as trusted intermediaries already operating in many of these communities. Each Opportunity Zone's strengths, weaknesses, and goals should be considered as stakeholders identify potential projects and investors for specific Opportunity Zones. Block by block, stakeholders should develop strategies for the businesses or real estate projects that might be attractive, determine how well such projects might yield community benefit, and determine what barriers could be lowered to encourage these types of development.

Local community development organizations and developers, as well as, impact and mission investors, should be brought into the discussion, figuring out how to weave together streams of capital that can fill vital needs given the new incentive. We expect that the Opportunity Zone incentive can be a powerful and productive platform for mobilizing discussion, but in most communities, it will be useful to

engage existing resident groups and forums and build upon existing plans, rather than replicating a new program-specific visioning process.

Diagnose Neighborhood Types and Match Strategies Accordingly

At the outset, a community and its key stakeholders should undertake a thorough market analysis to understand the extent of current capital flows, disparate access to capital, and where capital gaps exist. Theodos, Hangen, and coauthors (2018) discuss approaches to assess community needs, track capital flows, and measure capital gaps. From here, neighborhood conditions, needs, and goals of various Opportunity Zones can be built out. Some Opportunity Zones will attract capital better than others, but Opportunity Zones will also attract different investments (e.g., some might attract industrial property, and others might attract retail corridor investments).

There is a clear distinction between Opportunity Zones that have seen little capital and those that have experienced a significant infusion of new investment postrecession. For the former, strategies should be developed to jump-start and accelerate growth. For the latter, guardrails must be put up to ensure that newly attracted investment does not simply benefit land speculation and fuel gentrification that upends low- and moderate-income residents, particularly residents of color. These areas, in addition to other gentrifying communities, should be flagged at the outset of community diagnoses to allow for precautions that new investment is properly targeted and that affordable housing stock is preserved. Only careful and coordinated community action around Opportunity Zones can ensure that the residents meant to benefit from upgraded neighborhood services and better access to employment are not simply displaced to other disinvested areas. In part because of careful Opportunity Zone selections, Chicago and Cook County will need to focus on accelerating Opportunity Zone economic growth within their boundaries.

We anticipate that the neighborhood plans and analyses and the development of public and philanthropic approaches will need to be codified and shared as part of a strategy document. Stakeholders will need to decide on the intended audience (e.g., government and philanthropy or more of a prospectus for investors) (Katz et al. 2018). If investments focus more on investors, we anticipate government and philanthropy will still need some alignment around strategy and may benefit from a shared guide. Rather than only an abstract document, community development financial institutions, local nonprofits, and impact investors could undertake early work to locate and detail a list of “shovel-ready” projects that provide clear community benefit.

A final point in strategy development is to consider whether and how to focus on certain Opportunity Zones. Given local budgets that are stretched thin and the large number of Opportunity Zones designated in Chicago and Cook County, leaders will need to prioritize certain areas and direct limited resources and regulatory changes for localized incentives (detailed further below) to these targeted Opportunity Zones that can best benefit from them.

Provide Public and Philanthropic Resources

Local governments and philanthropies have several tools at their disposal to leverage resources to sweeten the deal for potential Opportunity Zone investors while introducing requirements that ensure new capital fulfills local goals. In exchange for further incentives, additional locally important requirements for community benefit could be put in place (e.g., affordability stipulations on housing or specific requirements around local hiring).

CREATE NEW STATE, LOCAL, AND PHILANTHROPIC INCENTIVES

State and local governments could create supplemental funding to make projects viable. States and localities are experimenting with adding new incentives, subsidies, and preferences to attract Opportunity Zone capital. Ohio is considering such an approach with legislation introduced in the state house of representatives that would provide a 10 percent state tax credit for any investor that invests more than \$250,000 in a given year within qualifying Ohio Opportunity Zones.⁸ The Council of Development Finance Agencies has inventoried several incentives in development in other states (Rittner, Kramer, and Fisher 2018). And localities are developing new incentives aligned with Opportunity Zones, such as the Erie, Pennsylvania, and Louisville, Kentucky, Opportunity Zone-related investment prospectuses for investors (New Localism Advisors, n.d.).⁹ Incentives can also take the form of a reduced regulatory burden, as has historically been done through the building code in Chicago and Cook County. For instance, a hastened permitting process could be offered for Opportunity Zone investments that provide various community benefits.

Philanthropies can also create tools to attract Opportunity Zone capital consistent with philanthropic goals. These tools can be available from community foundations or focus on only certain Opportunity Zones or cities.¹⁰ A national example is the Kresge Foundation and the Rockefeller Foundation's partnership of up to \$50 million in resources, grants, and guarantees in support of investments aligning with specific criteria.¹¹ Philanthropy or the public sector could also lower associated risks for investments within their Opportunity Zones through loss reserves and other credit enhancement strategies. Such tools could attract Opportunity Fund investments. Philanthropy can also finance the coordination work of supporting small, job-creating businesses to be tenants in these real estate investments, and they can support construction or rehabilitation of buildings to create business incubators.

But developing new incentives comes with trade-offs, such as giving up current or future revenues that could be used for other community development needs. Public and philanthropic actors will need to consider which incentives are cost-effective in steering new investment through Opportunity Zones that meets community need.

LEVERAGE EXISTING INCENTIVES

Aligning existing incentives with Opportunity Zones may require as much work as creating new incentives. States and localities have many tools to support developers and businesses. But program regulations and requirements may be written in a way that makes them unusable or unattractive in combination with Opportunity Zones. Although there may be reasons to leave current policies as they

are, many would benefit from being updated to align with Opportunity Zones without significant public cost. But changing existing incentives will be a labor-intensive task, as program officials need to learn from investors what changes are needed and to consider these revisions in light of any demands they make on program budgets and of community need and targeting. In Chicago and Cook County, tax increment financing (TIF) has long been the favored public tool for economic development. TIF districts could be restructured and financing reallocated in conjunction with Opportunity Zones to encourage greater investment and to require specific community benefits of projects. Local governments can think creatively about how to use available TIF tools to attract Opportunity Zone investments. They could create an exit pool inside the relevant TIFs to provide the take-out debt financing on projects that need to exit Opportunity Zone investors if they hit certain benchmarks. Second, they should revisit how they are using their 108 loans and target them to certain Opportunity Zone investments.

Opportunity Zones could provide a 3 to 4 percent layer of return to projects (depending on capital gains accrued from the investment). This is especially useful when paired with other bonds or tax credits, including low-income housing tax credits, New Markets Tax Credits, and Section 108 at the federal level and municipal bonds and TIF at the local level. The ability to layer multiple incentives together to finance a deal makes the strong case for localities and states to think through their programs and tax incentives and how these can best be structured in conjunction with the new Opportunity Zone incentive. Combining multiple streams in this fashion can be greater than the sum of its parts, allowing new developments to pencil out that would not have happened before.

At the local level, leaders could put together a centralized list of national, state, and local incentives, creating a strong tool for compelling investors to look to specific Opportunity Zones, such as those in Cook County. By providing complete information, it also increases the likelihood of compelling investors to consider a new project before deemed implausible.

USE VACANT LAND

Beyond what is already part of their stock, localities and philanthropy could purchase additional vacant or underused properties within Opportunity Zones. They could then offer already-owned or newly purchased properties at a low cost to Opportunity Funds willing to meet specified community needs. As of May 2018, the City of Chicago owned more than 10,000 individual properties (a portion of which fall in Opportunity Zones).¹² Earlier in 2018, Cook County put 3,189 vacant lots up for sale to spark redevelopment of these areas through its Cook County Land Bank Authority.¹³ Similarly, philanthropies can support land banks in this work. Public and philanthropic use of vacant and dilapidated properties within Opportunity Zones has multiple benefits: it encourages blight removal and allows a direct hand in development decisions. Moreover, it could prevent land speculation with vacant and dilapidated properties. Local governments can also exert influence on these properties in the regulatory and zoning processes. Conditional zoning—accepting proffers in exchange for rezoning—and the permitting process are two key junctures for public intervention. Without public or philanthropic involvement, investors could buy these properties and reap tax benefits while sitting on undeveloped land with only a modicum of investment. This is allowable under the proposed IRS regulations, which apply the

substantial improvement clause—requiring that investors spend at least as much to improve property as they paid for it—only to buildings and not their underlying land.¹⁴

INVEST IN PHYSICAL AND HUMAN ASSETS

States and localities can increase their attractiveness to investors. These same rules apply to drawing a larger share of the Opportunity Zone pot of investment to local Opportunity Zones. Attracting and retaining businesses and investment is often linked more to human capital, transit, and infrastructure than to tax advantages (Randall et al. 2018; Theodos, Boddupalli, and Randall 2018). Education, workforce, transit, and infrastructure systems operate on broader levels than Opportunity Zones, but it will be possible to align certain features. For example, it is possible to link a community college or workforce training program with small business industrial needs in Opportunity Zones or reroute bus service in an Opportunity Zone that needs improved transit access to be attractive to investors. Within Chicago and Cook County, a recently strengthened community college system could make the region more attractive for investment. In rural areas across the country, public officials could improve access to high-speed broadband. Philanthropy can cultivate high-performing nonprofits to provide these supports and services and raise awareness about local needs.

Include Transparency and Monitoring

Although the federal incentive does not contain robust requirements about what data should be submitted, any state or local paired incentive would be able to add nonintrusive reporting obligations. These would allow the tracking of capital flows resulting from these incentives to monitor and properly assess their impact. Or property-based Opportunity Zone investing data could be obtained as a new field on local building permit applications. Properly structured, it would be easy to require in the permit application basic Opportunity Zone information on the investors providing capital, businesses receiving investment, amount invested, date of investment, location of investment, and where these investments were made. As this information will already likely be kept internally by Opportunity Funds, it would add minimal burden. Without this record keeping, any understanding of the success of Opportunity Zones (and any paired state or local incentives) will be imprecise, be incomplete, and be a poor basis for communities to make future economic decisions. Even beyond long-term evaluation, monitoring of investments through this incentive would allow communities a greater ability to further encourage good investments, discourage investments that fail to yield benefit, and prevent attempted fraud.

Looking Ahead

Given the 10-year investment horizon for excluding taxes on new gains, the Opportunity Zone incentive is set up to reward patient investors. Investments centered around physical assets will best fit into this model to achieve maximum return on investment while minimizing risk. As such, we expect the incentive to spur a sizable degree of real estate investment, and investment in businesses to make up a smaller proportion of new capital.

Accessed July 5, 2019: <https://Acceleratorforamerica.Com/Ozguide/Before-You-Begin-2>

BEFORE YOU BEGIN

KEY ELEMENTS OF THE INVESTMENT PROSPECTUS & HOW TO USE THIS GUIDE

An Investment Prospectus best acts as a “pre-qualification statement” for a city, providing the economic and governmental context—at the metro, city and Zone scales—to attract capital and drive smart investments. Local entities will need to go the “last mile” and identify and market actual investable projects, providing the first-hand deep knowledge that only exists in each community itself.

Each Investment Prospectus should, at a minimum, do the following:

Set the Context

All Opportunity Zones exist within the broader context of urban and metropolitan areas as well as broader regional economic ecosystems. To that end, an Investment Prospectus should situate the Opportunity Zones on several levels. It should set the economic context for the Opportunity Zones, providing information on driving clusters, sectors, institutions and companies that define the *raison d’être* of a given place and unveil the strongest economic growth opportunities given general trends and dynamics. It should explore recent trends in entrepreneurship, company formation and growth and venture funding.

An Investment Prospectus should also act as an introduction to city governance, providing an overview of government structure/leadership, indicating which state and local entities (and who in particular) are in charge of the Opportunity Zone effort and making transparent any local resources and incentives. To the greatest practicable, such information should be made available on a widely promoted website.

Drill-Down into Zones

After setting the context, an Investment Prospectus should present a granular assessment of the competitive position and prospects of each Opportunity Zone. To that end, information should provide specificity on growth dynamics, investment patterns and catalytic projects. To the greatest extent practicable, an Investment Prospectus should clearly show how the attributes of particular Opportunity Zones relate to the contextual macro strengths of the city and metropolis. For example, cities should discuss Opportunity Zones' strategic location near infrastructure or areas of economic growth, the availability of land and buildings for economic use or the presence of anchor institutions like universities, hospitals and major employers.

Given that “capital follows capital,” an Investment Prospectus should identify public, private and civic initiatives that have already been undertaken in Opportunity Zones. These should include public investments in transportation (e.g., roads, transit) and other infrastructure, company expansions and investments in capital assets, university support for centers of excellence, commercialization and entrepreneurial assistance, the designation of Innovation or other special districts, the transformation of public or assisted housing, the creation of special high schools or workforce intermediaries and the design and implementation of “buy-local” procurement efforts by major employers.

Catalyze Inclusive Growth

Given the intent of this tax incentive, an Investment Prospectus should also strive to show how each city is working to maximize economic benefits for low and moderate-income people and places. The Prospectus should, at a minimum, include an analysis of human capital issues in each city/community and show how skill building connects to capital investment dynamics. While there are many dimensions to poverty reduction, cities should focus on how to best increase income across the population by upgrading the education and skills of children and young adults, who will become part of the workforce during the life of this tax incentive.

While the Investment Prospectus will be written for individual cities, it is being developed with a more universal perspective. Investors look for repeated patterns across places—similar spatial geographies, common product types—so that markets can be routinized and friction reduced. New Localism Advisors has created a typology of census tracts across the country that uses the ratio of jobs to residents to unveil the special economies and investment possibilities of distinct urban geographies (e.g., central business districts, anchor districts, industrial districts, airport districts and residential areas).

An Investment Prospectus should rely on objective quantitative evidence as well as qualitative local knowledge. To the greatest extent practicable, it should use readily accessible data that can help investors uncover investable projects and help cities and their stakeholders build inclusive growth strategies and create new (or repurpose existing) institutions to market Opportunity Zones, leverage public, private and civic investments and enhance the linkage of

local residents to resulting employment opportunities. The robust use of national data that is locally relevant will also help cities build accountability systems to measure Zone performance and inclusive growth outcomes.

TIPS ON CREATING A PROSPECTUS AND USING THE GUIDE

The development of the Investment Prospectus tool in the 5 test cities has already yielded some helpful insights about the design and potential of Opportunity Zones.

Getting Started

It is our firm belief that every city can produce an Investment Prospectus. One way to get started is to establish an Opportunity Zone Task Force led by public, private and civic institutions that delegates responsibilities and firm deadlines. This will ensure that a broad mix of city, anchor and community leaders can build a Prospectus with community input and market the Prospectus and provide additional incentives with community oversight and in accordance with the community vision.

One timely place to start: some 238 cities prepared comprehensive overviews of their assets and advantages as part of the recent competition for the second headquarters of Amazon. We highly recommend that these cities review their bids and use these assessments to inform and build an Opportunity Zone Investment Prospectus. In many cases, cities identified publicly owned assets that could be part of an Amazon campus; many of those assets are located in Opportunity Zones and could find a productive purpose.

We fully recognize that many small and even medium-sized communities face capacity challenges that may impede the creation of an Investment Prospectus. To that end, we highly recommend that a community engage the low-cost services of an entity like [PolicyMap](#). PolicyMap gives cities access to critical data on demographics, real estate, jobs and more and provides easy-to-use online mapping that is a core element of the Investment Prospectus tool. States could also play a critical role in helping small communities design and deploy Investment Prospectuses, either in concert with or separate from an organization like PolicyMap.

Using a Common Template to Communicate Distinctive Assets

Each city should use the Investment Prospectus to project its authentic self, grounded in hard evidence and local knowledge. Each of our test cities, for example, have strong educational and health institutions (“eds and meds”) and experienced a burst of multi-family construction and hotel and amenity development in their downtown and near-downtown neighborhoods.

Opportunity Zones were smartly selected to reinforce these common trends and assets and build on smart city investments and strategies. Yet there the similarities end. The Investment Prospectuses for each city reveal highly distinctive economies with diverse histories and pathways for growth and investment, which yield different possibilities for public, private and civic investors.

South Bend, Indiana is a relatively small, older industrial city, anchored by a globally significant university growing in scale and impact. The University of Notre Dame is consistently ranked among the best American universities, boasts the 10th largest university endowment in the United States and is rapidly expanding its research base and commercialization capacity.

Erie, Pennsylvania is also a relatively small, older industrial city that has a heavy concentration of private and civic institutions—Erie Insurance Company, Gannon University, UPMC Hamot—co-located in the downtown area. In recent years, Erie Insurance has led an effort to create a Downtown Development Corporation with the capacity and capital to drive major regeneration.

Louisville, Kentucky is a competitive mid-sized city and is one of the most successful examples of a city/county consolidation in the United States, yielding a strong fiscal base and solid bond ratings. It has strong traction in hospitality (Bourbonism, Kentucky Derby), logistics (UPS), advanced manufacturing (Ford) and wellness/health care (Humana).

Oklahoma City, Oklahoma boasts a growing economy with outsized positions in hospitality as well as advanced energy, aerospace and health care. For 25 years, its voters have consistently backed—and its business community has consistently supported—a series of public referenda which have invested at scale in the redevelopment of the greater downtown and schools, providing a strong foundation for market growth.

Stockton, California is a moderately sized city that is strategically located near Sacramento, the state capitol, as well as San Francisco and Silicon Valley. Given its location and role as an inland port, the city continues to play a substantial role in production and logistics.

Mobilizing Resources

An Investment Prospectus is written initially to unveil competitive assets and attract private capital that is enticed by federal tax incentives. But the Prospectus does not solely focus on private investors. The transactions that most cities seek to drive inclusive growth (e.g., investments in workforce housing and local businesses) will require a blended “capital stack” of debt, subsidy and equity. Cities will, therefore, need to align broader pools of public, private, and civic capital and create new forms of innovative financing that can be captured, codified and transferred from city to city. Weak market cities will also need to create business demand by increasing employment density within nodes of Opportunity Zones (e.g., the downtown initiative pursued by Erie, PA). The major observation here is that wealth doesn’t just reside in technology capitals like Silicon Valley or New York City but is distributed across the nation. To

this end, cities do not have a capital problem but an organizing challenge and the Investment Prospectus is an impetus for unlocking local wealth and driving smarter local investment and location decisions.

The Investment Prospectus offers cities, in short, an opportunity and format by which to organize how they think about and carry out inclusive economic development. Our hope is that city governments will use the Prospectus to organize their own powers and incentives in ways that advances inclusive growth. Such resources could include zoning, joint ventures, low cost or no cost land, tax increment financing, tax abatements and the like. At the same time, the Prospectus should be a vehicle for organizing private, civic, university and community assets in novel and imaginative ways.

Harnessing Philanthropy

Philanthropies could play a critical role in helping cities design an Investment Prospectus and realize its full economic and social impact. Foundations often possess the community legitimacy necessary to convene disparate urban stakeholders and reach “consensus on reality.” They have the discretionary capital necessary to enhance the capacity of local government, community development enterprises and other local institutions so these organizations can co-create an Investment Prospectus and leverage Opportunity Zones. They have the patient, risk-tolerant capital necessary to invest in Qualified Opportunity Funds, aligned funds or individual transactions. And they have the respect for evidence-driven decision making that is conducive to catalyze, capture, codify and communicate new norms and models as they emerge.

Moving towards Investment Prospectus 2.0 and 3.0

The Investment Prospectuses written to date have relied on quantitative data that is available nationally, primarily from federal agencies. Our view is that we have created an initial platform that is well positioned for further data collection and analysis. We are encouraged that financial institutions like MasterCard have volunteered to build on our initial work and apply their sophisticated data around consumer spending patterns at the census tract level. We also believe that true economic and social impact will be realized only when local data is collected and purposefully applied. For example, the Opportunity Zone Investment Prospectus tool may be a catalyst for cities understanding and displaying information about market relevant information (e.g., public asset ownership) with greater granularity.

INVESTMENT PROSPECTUSES

Accessed July 5, 2019: <https://acceleratorforamerica.com/tools#prospectuses>

The use of the word “prospectus” for the purpose of the work contained herein is not to advertise about, endorse or in any other way to promote or offer specific investment opportunities. The urban investment prospectus is a template designed to help unify city leaders around a plan, to show what might occur in a city and to use as a tool to promote the city and its plans. The prospectus has been prepared for discussion purposes only and not to induce anyone to enter into any agreement or transaction. For the avoidance of any doubt, the distribution of this prospectus does not constitute an offer to sell or a solicitation of an offer to buy any assets or equity securities or any investment of any kind.

[Download a Zip file of all the Prospectuses](#)

[Atlanta Metro, GA](#)

[Azusa, CA](#)

[Baltimore, MD](#)

[Birmingham, AL](#)

[City of Atlanta, GA](#)

[Cleveland, OH](#)

[Colorado Springs, CO](#)

[Columbia, SC](#)

[Columbus, OH](#)

[Dayton, OH](#)

[Erie, PA](#)

[Houston, TX](#)

[Kansas City, MO](#)

[Lafayette, LA](#)

[Lancaster, CA](#)

[Lansing, MI](#)

[Louisville, KY](#)

[Madison, WI](#)

[Marina, CA](#)

[Mesa, AZ](#)

[Norfolk, VA](#)

[Oklahoma City, OK](#)

[Ontario, CA](#)

[Pittsburgh, KS](#)

[San Bernardino, CA](#)

[San Jose, CA](#)

[South Bend, IN](#)

[St. Louis, MO](#)

[Stockton, CA](#)

[Tacoma, WA](#)

[Vancouver, WA](#)

[Waterloo, IA](#)

COLUMBIA, SC OPPORTUNITY ZONE PROSPECTUS

Prepared by
THE CITY OF COLUMBIA OFFICE OF
ECONOMIC DEVELOPMENT



We Are Columbia



Columbia
COMPASS

Envision 2036



Equitable Development

Opportunity Zones in Columbia will Promote Equitable Development.

EQUITABLE DEVELOPMENT IS development that empowers communities by bringing positive social and environmental changes, and economic returns will be prioritized and incentivized in Columbia.

By working with investors to promote smart growth and social equity via mechanisms that support a broad community vision, we believe that we can help to ensure investment that yields the greatest returns.

We look forward to working together to ensure that the lives of the residents in our designated census tracts are enhanced by development that is community-driven and informed, and aligned with neighborhood plans.

INTRODUCTION TO

OZ Prospectus



The recent introduction of the federal government's Opportunity Zone legislation presents one of the most unique and exciting opportunities for communities across the country.

Both cities and rural communities will now have access to a new and incredibly powerful tool to help strengthen, support and drive investment into distressed and largely forsaken areas. With great expectation and vigor, the City of Columbia has put together this prospectus in an effort to educate interested parties and spur collaboration so that the selected zones may truly capitalize on this opportunity.

Columbia, South Carolina continues to be an attractive destination for residential, commercial and industrial development. With 8 census tracts selected as zones, Columbia looks forward to engaging with investors, developers, property owners and community leaders to ensure each identified area may see the development and rejuvenation it desires.

At the core of every zone is not merely a census tract based on a zip code; it is a community where people live, work, worship and grow their families. As we display the city's zones, we hope investors will remember the great opportunity it is to not only invest in a property, but to also invest in the people of Columbia.

Steve Benjamin

Steve Benjamin, Mayor



Contents

Purpose	5	Transformative Capital Investments	14
Investor Benefits	6	Key Takeaways: Strengths	15
Opportunity Zones	7	Focus Areas	16
Opportunity Zone Population	8	Zone Strategies	17
Social and Economic Overview	9	Potential Projects	22
MSA Employment Profile	10	South Carolina Statewide Incentives	26
Largest Non-Governmental Employers	11	State and Local Discretionary Incentives	28
Employer Locations	12	Recruitment and Workforce Training	29
Employment Percent Change	13		

Prospectus Purpose

01

INFORM

Inform interested parties of the potential for growth and development in the City of Columbia, and promote our strengths and assets to maximize the impact of the Opportunity Zone program on our local community

02

ENCOURAGE

Encourage long-term economic/community development and job creation, and develop “win-win” projects and solutions that can maximize both development and social impact for all parties involved

03

CREATE

Create a unified vision and goals for new growth between investors, developers, community stakeholders, citizens, and the business community

04

INCENT

Identify and incentivize projects that yield high social and economic benefits

05

COMMUNICATE

Create a clear and coherent message for potential partners and help connect them with ideal development opportunities within the City of Columbia

COLUMBIA, SC

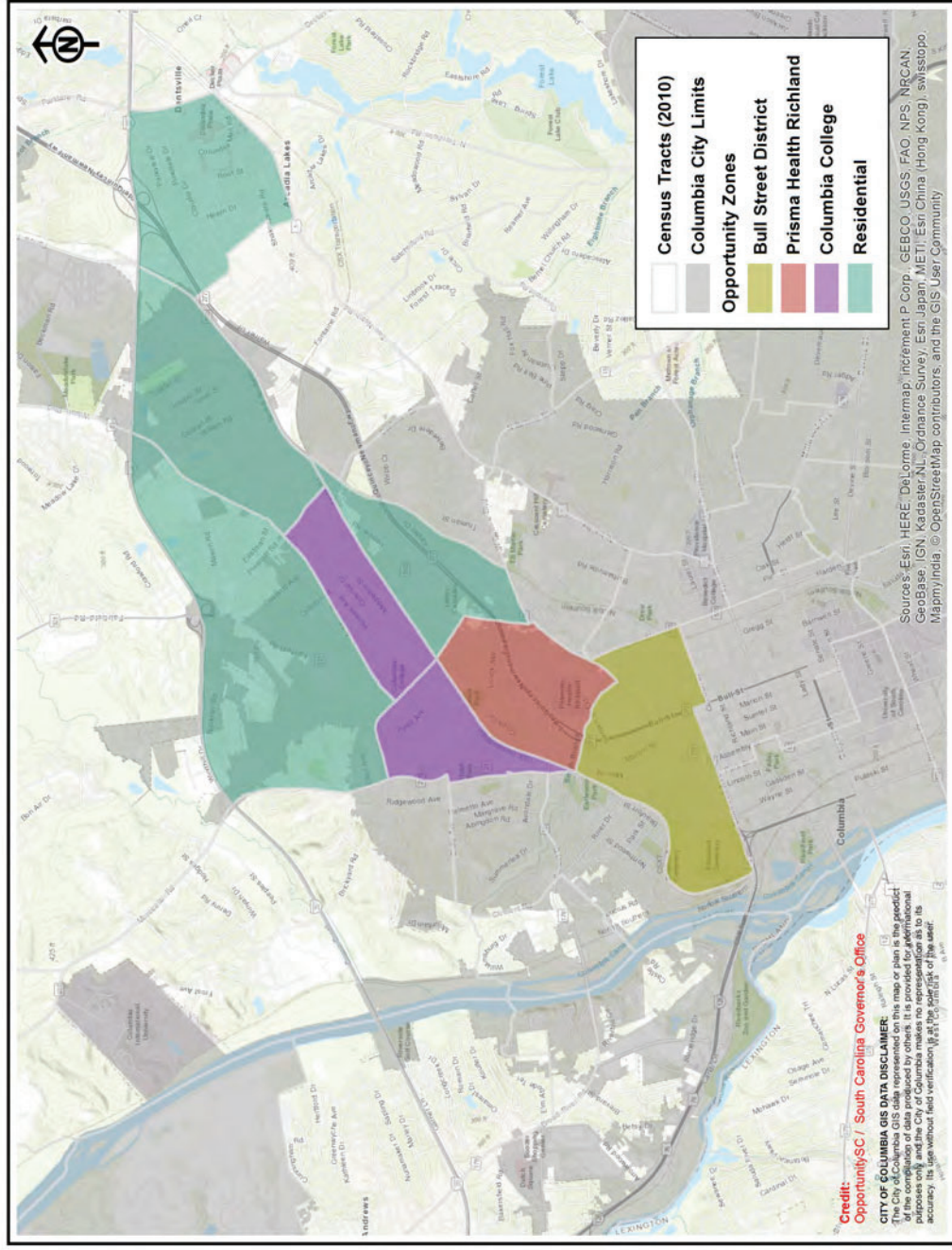
Opportunity Zones

Columbia, SC is home to 8 Opportunity Zone Tracts

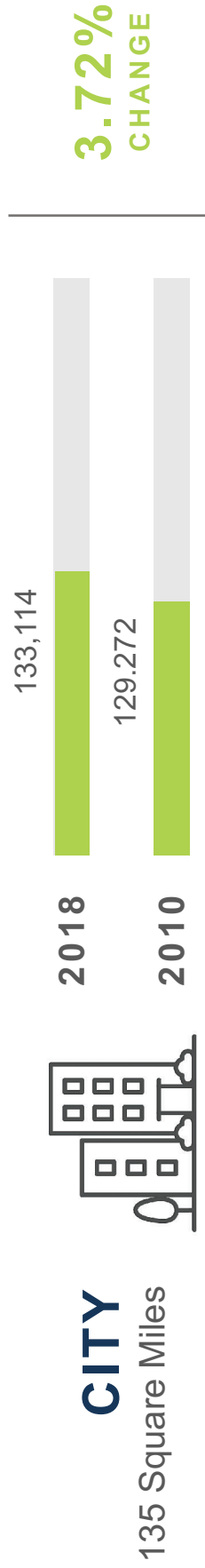
Total OZ Population is 22,629 (based on ACS 2016 Five Year Survey)

OZ population 16 years and over is 16,334

OZ population 25 years and over is 13,048



Opportunity Zone Population



Social and Economic Overview

	BLACK	HISPANIC	FOREIGN BORN	POVERTY	MEDIAN HOUSEHOLD INCOME
MSA	34.07	5.75	5.28	15.10	\$54,480
CITY	41.10	5.80	5.40	22.90	\$42,875
ZONES	74.99	3.31	2.35	33.40	\$29,784
STATE	27.30	5.70	4.80	15.40	\$46,898
US	13.40	18.10	13.20	12.30	\$55,322

	% WITH BA+	% WITH HS DEGREE+	% NO HS DEGREE	% UNDER 18	% OVER 65	UNEMPLOYMENT
MSA	31.90	21.60	10.20	22.30	14.60	5.30
CITY	44.20	19.70	9.80	16.80	9.60	5.70
ZONES	19.33	23.67	16.92	21.75	13.38	19.65
STATE	28.00	20.30	12.60	22.00	17.20	5.80
US	32.00	20.40	12.00	22.60	15.60	5.30

Source: US Census Bureau America Fact Finder 2016 5-Year Estimates, 2017 1-Year Estimates

MSA Employment Profile

	INDUSTRY CODE	2017 COUNT	2017 SHARE	2002 COUNT	2002 SHARE	DIFFERENCE
ALL INDUSTRIES	10	372,793	100	319,401	100	---
ACCOMMODATIONS & FOOD SERVICE	72	35,263	9.46	25,109	7.86	10,154
CONSTRUCTION	23	17,690	4.75	17,222	5.39	468
EDUCATIONAL SERVICES	61	33,594	9.01	32,318	10.12	1,276
FINANCE AND INSURANCE	52	22,562	6.05	20,644	6.46	1,918
HEALTH CARE AND SOCIAL ASSISTANCE	62	52,610	14.11	38,881	12.17	13,729
INFORMATION	51	5,840	1.57	7,251	2.27	-1,411
MANAGEMENT OF COMPANIES & ENTERPRISES	55	2,868	0.77	2,268	0.71	600
MANUFACTURING	31-33	28,056	7.53	34,073	10.67	-6,017
PROFESSIONAL, SCIENTIFIC & TECHNICAL SERVICES	54	15,339	4.11	12,521	3.92	2,818
PUBLIC ADMINISTRATION	92	34,710	9.31	28,911	9.05	5,799
RETAIL TRADE	44-45	41,713	11.19	37,694	11.80	4,019
TRANSPORTATION AND WAREHOUSING	48-49	13,165	3.53	8,544	2.68	4,621
WHOLESALE TRADE	42	13,785	3.70	11,124	3.48	2,661

LARGEST NON-GOVERNMENTAL

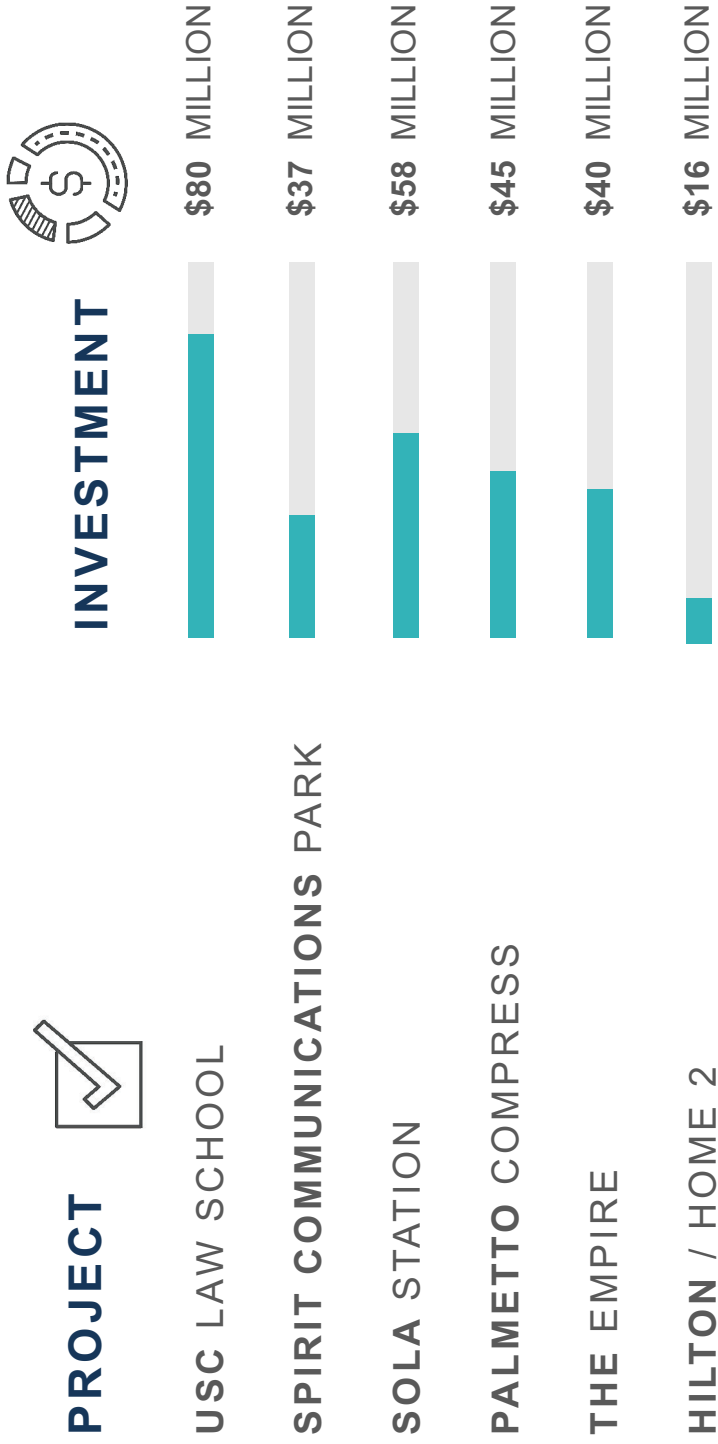
Employers

01		EMPLOYMENT 650	05		EMPLOYMENT 611
02		EMPLOYMENT 1,200	06		EMPLOYMENT 15,000
03		EMPLOYMENT 2,100	07		EMPLOYMENT 1,625
04		EMPLOYMENT 1,200	08		EMPLOYMENT 800

LARGEST NON-GOVERNMENTAL Employer Locations

1. Aflac
2. Allied Universal
3. AT&T
4. Colonial Life
5. First Citizens Bank
6. Prisma Health
7. Providence Hospital
8. Wells Fargo

Transformative Capital Investments



TOTAL INVESTMENTS

\$3,374,357,289

TOTAL RESIDENTIAL / COMMERCIAL INVESTMENT SINCE 2008

Key Takeaways: Strengths



A well educated, diverse, young and growing population base



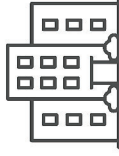
Over 60,000 higher education students annually



Low cost of living and competitive wage rates



City's average household income (\$48,034) exceeds the state median (\$46, 898)



Growing number of multifamily, hotel, and student housing oriented developments

Focus Areas



01 THE BULLSTREET DISTRICT



Excellent for mixed-use projects, particularly residential, retail, commercial and hospitality



02 BUCKNER ROAD & I-20



Ideal for industrial, distribution / logistics, and commercial



03 NORTH MAIN



Optimal for mixed-use projects, residential, retail and commercial

04 FARROW ROAD



Ideal for mixed use, residential, commercial or healthcare

05 FAIRFIELD ROAD

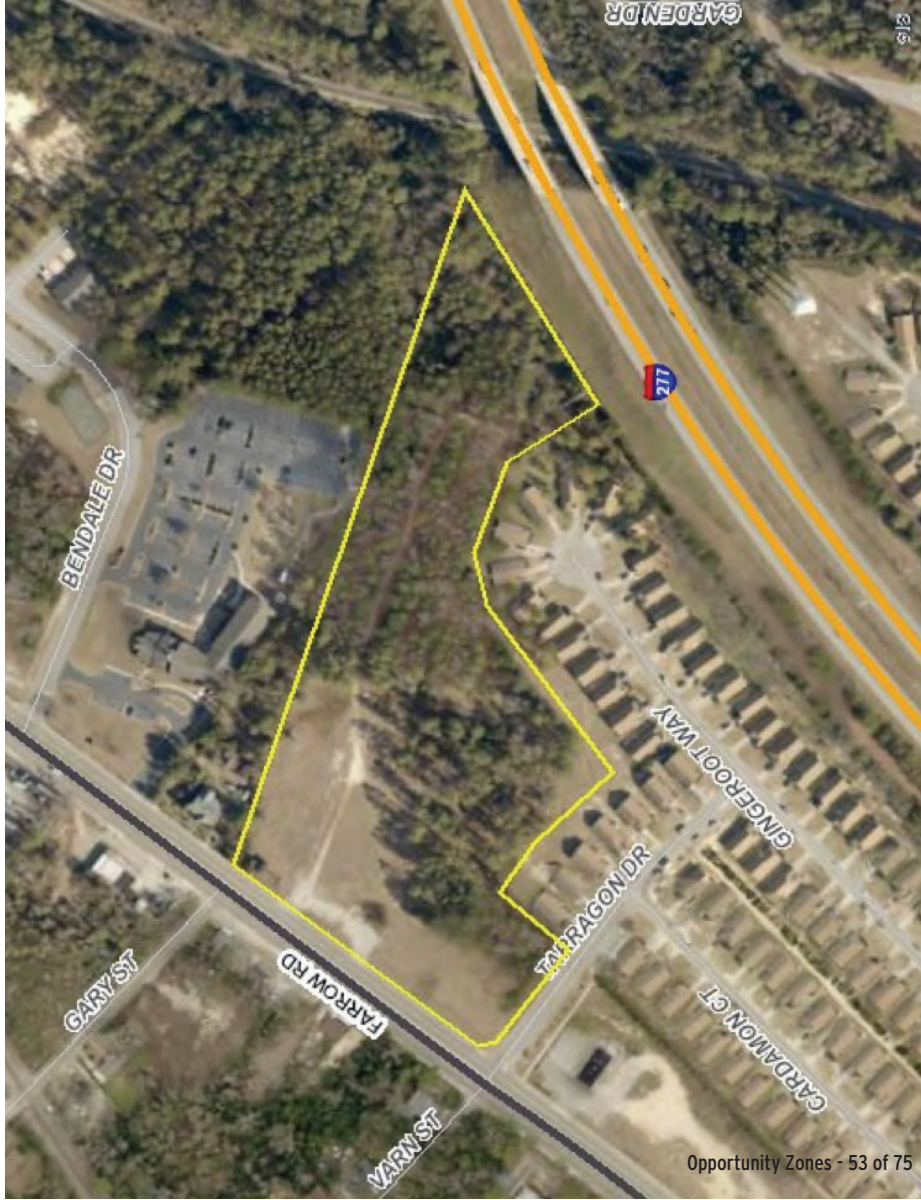


Ideal for residential, retail, and commercial

06 COLUMBIA COLLEGE



Attractive location for residential and retail

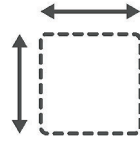


POTENTIAL RESIDENTIAL / COMMERCIAL PROJECT:

Farrow Road



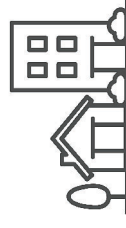
ADDRESS
5406 Farrow Road



ACREAGE
9.9 Acres owned by
the City of Columbia



ZONED
GC Central
Commercial



IDEAL USE
Mixed use, residential
use, office and retail

South Carolina Statewide Incentives

01

No state property tax

02

No local income tax

03

No inventory tax

04

No sales tax on manufacturing machinery, industrial power or materials for finished products

05

No wholesale tax

06

No unitary tax on worldwide profits

07

Favorable corporate income tax structure

State and Local Discretionary Incentives

01

Corporate income tax &
incentives

04

State discretionary
incentives

02

Local property taxes &
incentives

05

Workforce training

03

Sales and Use tax
incentives

06

City of Columbia incentives
are available on a case-by-
case basis

State and Local Discretionary Incentives (Cont.)

JOB TAX CREDIT (JTC)

5

YEAR

Income tax reduction
Up to **50%** per year

1

NEW JOB

= \$750-\$9,000

Four tiers available

15

YEAR

Carry forward for
unused credits

JOB DEVELOPMENT CREDIT (JDC)

Lowers assessment ratio
between **10% and 6%**

OTHER CREDITS & INCENTIVES

Fee-in-lieu of property taxes (FILOT)

Tax rate lock **20-30** years

JOB RETAINING CREDIT

Possible **43%** savings

Recruitment and Workforce Training

Training is provided at little to no cost to qualifying companies.



Training since 1961

289,000 +

Served Companies:

GE | Michelin | Bridgestone
Boeing | BMW | Mercedes Benz
Nephron

2016 Excellence Award



819 Apprenticeship Programs

17,458 Apprentices Served

Apprenticeship News:

BMW apprenticeship program trains
workers

BlueCross BlueShield of SC leads
IT apprenticeships

**COLUMBIA ECONOMIC
DEVELOPMENT**

Ryan Coleman, Director

P: (803) 734-2700

E: ryan.coleman@columbiasc.gov

1201 Main Street, Suite 250
Columbia, SC 29201





Republicans hope to save rural South Carolina, but will investors follow?

[BY TOM BARTON](#)

JANUARY 25, 2019 06:18 PM, UPDATED JANUARY 26, 2019 04:13 PM

U.S. Sen. Tim Scott, R-North Charleston, addresses a gathering of S.C. investors, developers, business and civic leaders in Columbia during a summit about new federal legislation aimed at helping revitalizing poor communities across the U.S.

TOM BARTON TBARTON@THESTATE.COM

COLUMBIA, S.C.

A \$15 million hotel, a \$16 million apartment complex and a \$9 million affordable housing project are in the works in South Carolina as investors begin making investments under new federal tax guidelines.

“This program can engineer growth in the state,” said Mark Elliott, managing partner of the Greenville-based South Carolina Opportunity Fund, which is making those investments. “Already, we’ve got about \$200 million worth of projects lined up thus far in South Carolina” — from the Upstate to the Midlands.

More than 200 S.C. investors, developers, business and civic leaders gathered in Columbia on Friday to discuss strategies to revitalize poor S.C. communities.

Headlined by Gov. Henry McMaster and U.S. Sen. Tim Scott, R-Charleston, the summit focused on a new community development initiative passed by Congress as a part of the Tax Cuts and Jobs Act of 2017. The tax incentive is designed to encourage long-term private investments in communities left behind by the recent national economic expansion.

Sponsored by Scott, the “opportunity zones” allow investors who direct money into low-income rural and urban areas that are starved for economic activity to defer taxes on their capital gains for up to 10 years.

“This is a phenomenal way for us to invest our resources in a way that does good and gets a good return,” Scott said of the tax breaks.

Earlier this year, McMaster announced the submission and approval of 135 Opportunity Zones in South Carolina by the U.S. Department of Treasury. He said the zones will help promote the economic competitiveness of communities in every corner of the state.

The zones are spread out across South Carolina, including 96 that qualify as urban areas.

Luring investors to poor, rural areas will require joint ventures and partnerships among neighboring counties to pool added local incentives, said Walter Davis, founder of Peachtree Providence Partners.

And it will require state leadership, added Elliott of the South Carolina Opportunity Fund.

McMaster, for example, wants the Legislature to spend \$100 million to allow the S.C. Department of Commerce to focus on bringing new jobs and investment to 28 of the state's poorest school districts.

"If we can get rural South Carolina cooking as some of the other areas (in the state are, that) will be a great thing," McMaster said.

Proponents say the zones could spur development of affordable housing, and support new and expanded business and retail development in underserved areas.

Critics worry the tax breaks will prove a subsidy to displace poor residents in already gentrifying, up-and-coming areas, not help more troubled ones. They also fear money will concentrate in high-cost cities and benefit wealthy real estate developers, not local start-up businesses.

"Most places that are poor are not in danger of displacement from gentrification. They're in danger of displacement from decline," said John Lettieri, chief executive at Economic Innovation Group, a bipartisan Washington, D.C.,-based group that worked with Scott to draft the legislation.

"They're areas with excess housing and excess industrial capacity and hollowed-out downtowns," Lettieri said. "These are the things opportunity zones were designed to address, and we're already seeing that take place," in Maryland, Pennsylvania and elsewhere.

Republicans are battling perceptions the program is a hastily conceived handout to the rich, following reports that President Donald Trump, his son-in-law and senior adviser Jared Kushner, and Trump friend Richard LeFrak have business interests in Opportunity Zones.

The Treasury Department also is still in the process of writing regulations that will govern parts of the program.

Despite some flaws, the zones present an opportunity to attract capital to neglected areas, Columbia Mayor Steve Benjamin, a Democrat, has said.

For example, Meeting Place Church of Greater Columbia and Spotlight Cinemas remodeled and reopened the former Capital 8 cinema earlier this month.

The theater is in a building that had sat vacant for nearly a decade. It is located in an S.C. Opportunity Zone on the church's 23-acre strip-mall site, south of Columbia Place Mall.

Scott, who grew up in a single-parent household in North Charleston mired in poverty, has traveled the country on an "Opportunity Tour" to visit designated zones and meet with community, business and local government leaders.

"Our nation is the nation that has redefined poverty for the world," he said. "If we are going to continue to be that nation, we are going to have to have a compassionate form of capitalism deployed for our most vulnerable citizens who are working paycheck to paycheck.

"(I)t will require us to take a second look at areas ... where hope seems to vanish like a vapor."

TOM BARTON, 803-771-8304

Tom Barton covers South Carolina politics for The State. He has spent more than a decade covering local governments and politicians in Iowa and South Carolina, and has won awards from the S.C. Press Association and Iowa Newspaper Association for public service and feature writing.



Tapping The Opportunity Zone Program to Accelerate an Equitable Clean Economy

Julia Parzen and Graham Richard¹

May 29, 2019

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.

¹ Julia Parzen (julia@juliaparzen.com) is a co-founder of Working Assets, one of the first social investment fund families, and Urban Sustainability Directors Network and co-author of *The Guide to Greening Cities*. Graham Richard (gr@grahamrichard.com), an expert on clean economy investment in Opportunity Zones, is the former CEO of Advanced Energy Economy and mayor of Fort Wayne, Indiana.

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

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 Report⁵, 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

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

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

¹⁵ <https://fti-intelligence.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.

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

²⁰ <https://fti-intelligence.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

²⁵Esther 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

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 the 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 Report³³ captured that building owners report that green buildings commanded on average a 7 percent increase in asset value over conventional buildings.

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 through 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

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.

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

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 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/>