
In the Land of OZ (Opportunity Zones) Who Will Benefit?

Proposed Guiding Principles for Opportunity Zones to Fuel an Inclusive Economy and Drive Social Impact

What if economic tax incentives designed to improve the place you call home don't consider your needs? What if tax benefits, instead, focus on high-end projects that don't require a federal tax subsidy to be successful, creating a new economic reality that feels far from the home you know. Opportunity Zones are a brand-new mechanism established by Congress, designed to drive private capital into distressed areas through deferred taxes on capital gains in the United States. How can these Zones and the Opportunity Funds which will invest in them be carefully constructed with the people who are living in underserved communities at the heart of decisions?

Place based strategies are commonly employed by community development practitioners and policymakers to achieve social impact. Opportunity Zones have the potential to enhance and bolster existing place based strategies that currently benefit low-income communities, including Promise Zones, New Markets Tax Credits and Choice Neighborhoods. Opportunity Zones also have the potential to do harm, as Ada Looney contends in his recent Brookings post. And Opportunity Zones, as emphasized in the recent article by Rachel M. Cohen in the Intercept, can sometimes have unintended consequences.

Consistent with our belief that economic policies should be implemented in a way that considers and serves the people in the communities affected, the Beeck Center for Social Impact at Georgetown University, in partnership with the Kresge Foundation, convened an expert group of community development practitioners to explore how Opportunity Zones can drive capital to communities in a way that truly benefits the individuals and families that currently live and work there. We asked ourselves a simple question: How can Opportunity Zones be used as a tool for community development and not solely a tool for financial gains.

In response to this question, we drafted proposed guiding principles for the designation of Opportunity Zones. The principles are intended to serve as a starting place to help guide the designation process and, ultimately, the creation of Opportunity Funds that can best serve the people currently living and working in these areas, which by definition in the statute, must be low-income census tracts. The following principles are presented as a straw-person for discussion. These principles are not meant to be prescriptive; but rather to engage conversation and embrace the opportunity for social impact. We invite feedback by sending an e-mail to me at lisa.hall@georgetown.edu. Comments will be collected and shared with the working group.

Proposed Guiding Principles for Opportunity Zones to Fuel an Inclusive Economy and Drive Social Impact

1. Recognizing that Opportunity Zones will deliver publicly funded tax incentives and subsidy to communities across the US, the state selection process should include as a key objective, the goal of delivering public benefit to a range of stakeholders, not limited solely to private investors, but also benefitting current residents of low-income communities, community development organizations,

community service organizations, and social enterprises.

2. Where possible, Opportunity Zones, should be selected in combination with state tax incentives and allocations by states for other government programs that directly benefit low-income households and communities, such as the Low-Income Housing Tax Credits and New Market Tax Credits. Benefits generated in Opportunity Zones should be additive to existing efforts and not cannibalize existing or prospective community development investments like those motivated by the Community Reinvestment Act.

3. Impact objectives for Opportunity Zones should be established and tracked, including but not limited to goals for raising the standard of living for current residents. Examples include output goals like number of new businesses created, living wage jobs created and affordable housing units. Outcome goals, like increased median household income and improvement in health statistics should also be considered.

4. States should adopt methodologies for selecting Opportunity Zones that are consistent with effective evaluation standards and best practices for research design to facilitate ongoing monitoring of zones, leveraging evaluation resources available from academic institutions.

5. The selection process for Opportunity Zones should consider the capacity of neighborhoods to absorb private capital and existing infrastructure needed to enable investments in businesses as well as real estate. States should seek to integrate investments generated by the tax benefit to complement and leverage existing and prospective economic activities in designated Opportunity Zones.

6. Opportunity Zones should be selected with consideration given to environmental issues. States should encourage or mandate that businesses located in Opportunity Zones adhere to environmental best practices.

7. Efforts should be made to ensure that current residents of Opportunity Zones are able to remain in neighborhoods or can benefit from rising property values. Examples include state and local tax abatements for low-income homeowners.

8. A balance of rural and urban neighborhoods should be selected to diversify investment activity and to ensure that rural areas are eligible for investment. Opportunity Zones should be selected in a geographically targeted manner so there can be a sufficient investment of resources in each Opportunity Zones.

9. States should identify and support community development intermediaries, like CDFIs and community banks, that can provide debt financing to support businesses and real estate that will benefit from equity investments from Opportunity Funds.

10. In addition to prohibited business activities like gambling and liquor stores, states should discourage the creation of new businesses in Opportunity Zones which disadvantage low-income communities like payday lenders.

Speed is of the essence to put these principles into practice. Several groups including the Economic Innovation Group and The US Impact Investing Alliance have been advocating for and helping to craft what was originally known as the Investing in Opportunity Act. And many in the community development field and impact investing world have embraced the concept of Opportunity Zones and Opportunity Funds, successfully incorporated with bi-partisan support into the Tax Cuts and Job Acts passed at the end of 2017. State governments and territories have also embraced the new legislation and are already selecting Opportunity Zones, to comply with the legislative requirement that Governors designate low-income census tracts prior to a March 21, 2018 deadline. Some states have hit the ground running, launching websites to solicit input and comments on the designation process. Local and national non profit organizations including Enterprise Community Partners, Council on Development Finance Agencies, and LISC are supporting efforts to raise awareness about the program, providing resources and analysis of the legislation, and by engaging community development organizations in the state by state designation processes.

We believe this new tax benefit creates an opportunity to improve low-income communities in underserved rural and urban areas by attracting more private capital to finance small businesses, community services and social enterprises. But, if Opportunity Zones and Opportunity Funds are designed in ways that solely benefit activities and projects that do not need subsidy to succeed, including high end, real estate based projects, then the legislation will not meet its potential for delivering meaningful impact. Opportunity Zones can and should create living wage jobs, improve community assets, and help build wealth for people in places that have not yet recovered from the global recession.

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