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Opportunity Zones: Maximizing Return on Public Investment.

Background

The Tax Cuts and Jobs Act included a new federal incentive—Opportunity Zones—to spur investment in undercapitalized communities. Local areas (defined by census tracts) are eligible for selection as Opportunity Zones if they are Low Income Communities (LICs) under the high poverty or low median income definitions established for the New Markets Tax Credit program. Also eligible for selection are census tracts contiguous to LICs if median family income does not exceed 125 percent of the qualifying tract. Roughly 56 percent of tracts in the US are eligible for selection as Opportunity Zones.

Governors of the 50 states and 5 territories, and the mayor of the District of Columbia ("governors") are charged with selecting 25 percent of the eligible tracts (or at least 25 tracts for states and territories with fewer than 100 eligible tracts) as Opportunity Zones. Non-LICs can represent no more than 5 percent of tracts selected. Governors have until March 21 to make selections and can take an additional 30 days if they request an extension. Once selected, Opportunity Zones keep the designation for 10 years. There is no provision in the statute to change which communities are classified as Opportunity Zones.

Apart from the exclusion of a few "sin" businesses, the activities and projects Opportunity Funds can finance are broad. Funds can finance commercial and industrial real estate, housing, infrastructure, and existing or start-up businesses. For real estate projects to qualify, the investment has to result in properties being "substantially improved."

Given the breadth of eligible investment types, Opportunity Zones must be carefully selected to ensure the return on the public investment is maximized and will lead to gains for low- and moderate-income residents. To guide selection, we prepared a dataset, for all eligible tracts, ranking them in terms of the investment flows they are already receiving and the social and economic change they have experienced.

Continue reading.

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