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## Questions About the Opportunity Zones Program.

This post highlights four questions we have heard during conversations and meetings with community development professionals and experts regarding the Opportunity Zones program created in December's Tax Cuts and Job Act. The responses below provide context, but not necessarily answers to these questions. For more details on what is known about Opportunity Zones thus far, see our companion CD360 Notebook post.

**Will Opportunity Fund investments displace current Opportunity Zone residents and small businesses?**

There is some risk that an Opportunity Zone designation may increase the potential for displacement. For example, the zones could attract higher-income families and the businesses that cater to them, displacing current residents and small businesses in the process. The amount of risk depends on a number of factors. For instance, the Internal Revenue Service is currently developing guidance about the certification of Opportunity Funds and eligible investments in Opportunity Zones. Definitions of the latter will influence whether Opportunity Zone investments positively affect residents, such as by developing or refurbishing affordable residential property accessible to current residents, or investing in businesses that benefit local commerce and labor markets.

**Will Opportunity Funds give tax breaks to projects that are already likely to happen?**

Some areas that qualify as potential Opportunity Zones may already be attractive for investment capital. For example, some low-income census tracts may already have access to transit, low-priced land, attractive housing stock, and other characteristics that make them strong investment opportunities. In these cases, investors may receive a tax break for underwriting development that was likely to happen anyway. In this regard, several facets of the Opportunity Zone program deserve attention:

- *Timeline.* To fully realize the tax savings for reinvested capital gains, Opportunity Funds must be formed and have investments made by the end of 2019, yet full guidance on Opportunity Funds is not expected until later in 2018. This short time frame may encourage Opportunity Fund managers to search out areas and partners that already have the capacity to build complex financial deals or have projects that are close to starting.
- *Complexity.* Development deals involving similar programs, like the New Markets Tax Credit Program, initially had high overhead costs owing to their complexity. These upfront costs could be a barrier to participation by community-based organizations that might not have the capacity to confront them.
- *Equity.* Opportunity Funds require equity investments. Some small businesses may be skeptical of or resistant to yielding an equity stake to an unknown investor as compared to pursuing debt financing.

**How will local community development organizations factor into the investment decisions of Opportunity Funds?**

It’s unclear how Opportunity Funds and local decision makers will interact regarding Opportunity Zone investments. Managers of Opportunity Funds have incentives to invest in properties and businesses that produce returns, but also must meet guidelines for eligible investments. Local leaders, nonprofits, and community development financial institutions that work in the Opportunity Zones could provide useful information to Opportunity Funds and help make connections with eligible investment opportunities.

**Will researchers be able to evaluate the impact of Opportunity Zones?**

With the designation process leaving a large number of selected and non-selected census tracts, researchers may provide insights into the effects of the program by comparing community and economic development outcomes between selected and non-selected tracts. However, Opportunity Funds are not required to report on metrics that can be important when assessing the impact of the program, such as the number of affordable housing units or jobs created. Researchers may need to use other methods to estimate the amount and types of investment influenced by the Opportunity Zones program in the selected census tracts.

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