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Whether Opportunity Zones Help Low Income Residents May Fall On Mayors.

City leaders are faced with how to prepare for a major economic development opportunity "with very few guardrails at the federal level."

BOSTON — Foundation and nonprofit leaders are advising mayors to take proactive steps to ensure low-income residents benefit from a major tax incentive created by last year's federal tax overhaul.

At the U.S. Conference of Mayors annual meeting in Boston, Rockefeller Foundation President Rajiv Shah heralded the new "Opportunity Zones" as "the biggest single opportunity for driving private sector investment into lower income communities since World War II." However, without local leaders stepping up, it's unclear whether existing residents will end up benefiting from these economic development opportunities.

"Whether or not all of that investment capital—that many estimate will be in the scale of tens of billions of dollars of year—actually generates the kind of effect of lifting up families of lower income individuals is really up to those of us around this table and the actions we choose to take," Shah told the assembled mayors at the Council on Metro Economies and the New American City Task Force meeting on Friday.

The Opportunity Zones tax provision provides an infusion of capital to low-income communities by offering investors deferred taxes on previous investments for up to a decade if they reinvest their capital gains into designated opportunity zone communities. The law is designed for investments to be highly flexible, allowing investors to put money in anything from real estate to small businesses. However, with little federal guidance—or precedent—for a tax incentive of this scale, mayors and nonprofit allies of low-income communities are attempting to identify the best ways to ensure the investment is not just fruitful for the investors, but supportive of those who currently live in the designated communities.

The zones—selected by governors and then approved by the U.S. Treasury Department—do focus on areas that need investment, Shah said. The approved zones have an average unemployment rate of 13 percent, with 31 percent of residents living in poverty and a median income of $33,000. However, despite the fact that the incentive program is technically already active across most of the country, money is not yet flowing to those communities.

That is likely because no one knows how the law will ultimately work in practice.

"The law left a lot of questions unanswered," Scott Hoekman, president and CEO of Enterprise Community Asset Management, Inc., explained to the mayors. "There's been very little guidance from IRS and Treasury to date and it's uncertain when further guidance will be forthcoming."

Before an investor is going to make an investment, Hoekman explained, "they need to have assurance they are actually going to get this benefit and that requires getting some additional guidance."

Those waiting, though, should not expect much of a regulatory structure from the Treasury Department, according to Hoekman. The opportunity funds investors will need to set up, for example, will "self-certify." He also expects "very few, if any" reporting requirements or monitoring of impacts to be put in place nationally.

"This was intentionally designed with very few guardrails at the federal level," Hoekman said.

That means local leaders will be on the front lines for ensuring funds going to designated opportunity zones support the existing community.

As Shah put it to the mayors, there is "the challenge of unintended consequences." For instance, Shah said that the majority of these communities had low rent and affordable housing. That could change if opportunity funds start to see low-income area real estate as a tax haven.

Many opportunity fund investors see this as a chance to be part of the next Williamsburg, Brooklyn-type real estate boom, Hoekman said.

"That may sound terrific news for some cities that have been very underserved by capital, but it may be concerning for others that are concerned about communities being pushed out," Hoekman said. "I would encourage cities to put measures in place to drive some transparency and reporting on how are these investments actually benefiting your community."

Mayors are not without tools, however. Most large city mayors have some experience working with public-private partnerships and using zoning to shape how economic development flows into their communities.

In Ohio, Columbus Mayor Andrew Ginther's city has 44 of the state's 320 designated opportunity zones. Ginther explained how his fast-growing metropolis has already begun reviewing the city zoning codes to ensure that investment does not displace lower income communities, but rather builds mixed-income communities that raise the income of all residents.

"If we don't focus on density and affordability, this tool, this great opportunity will actually perpetuate and drive the chasm that much further between those who are sharing the promise of success and those that have it," Ginther told his fellow mayors. "This is an incredible tool, but it has to be used with intentionality and purpose."

Baltimore Mayor Catherine Pugh described how her city has invested in infrastructure around new developments to provide incentives for developers, a method that allowed the city to leverage their investment to ensure community priorities were included in redevelopment.

Other mayors may be concerned about their opportunity zones being passed over by investment altogether. Shah pointed out that foundations could be helpful in this regard. The Rockefeller Foundation is collaborating with other foundations to create methods and venues for city leaders to put forward "a genuine pipeline of investment opportunities" to opportunity funds.

Detroit Mayor Mike Duggan suggested the U.S. Conference of Mayors may be in a unique position to help the administration or Congress ultimately put a more comprehensive framework around the new community investment program to ensure it properly supports low-income residents.

Mayors and federal officials may not have much time to adjust, though. According to Hoekman, the way the law is written, investment before the end of 2019 is likely to be more lucrative than waiting. This means investors have an incentive to move their money into communities as quickly as possible.

With perhaps more questions than answers for the time being, Louisville Mayor Greg Fischer simply ended the discussion by saying, “At the next meeting in January we’ll all be celebrating these great investments or be we’ll be saying, ‘this thing didn’t come to light.’”

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