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Learning from Opportunity Zones: How to Improve Place-Based Policies.

Congress created Opportunity Zones to funnel investment to economically distressed neighborhoods, in its 2017 tax bill. Opportunity Zones offer favorable capital gains treatment for taxpayers who invest in designated low-income communities. While the program was intended to target distressed areas, eligibility was broad—57 percent of all neighborhoods in America qualified—and not all were truly distressed. State governments, which had broad discretion to select from qualifying areas, faced a conflict between selecting deeply distressed areas versus already improving or gentrifying areas that were more likely to provide tax benefits to investors.

We now have a complete list of all areas designated as Opportunity Zones. Some are areas clearly in distress. Others, not so much. That's a problem for the program's impact; poor geographic targeting reduces the impact of the program and limits the benefits that accrue to poor residents. While federal criteria helped direct state's choices to relatively disadvantaged places, in some cases states sought loopholes or picked places that did not need the help. And regulations released in October 2018 allow as much as 30 percent of Opportunity Zone funds to be invested outside of qualified Zones.

As one illustration, some neighborhoods were eligible to be picked as Opportunity Zones because they are college towns, with large numbers of students that make the neighborhood appear poor, even when clearly not disadvantaged. Dozens of neighborhoods that weren't poor but had many college or graduate students were picked.

Continue reading.

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Friday, October 19, 2018