Opportunity Zones: State-Level Analysis

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Introduction

On the same day that Amazon announced it would locate its new headquarters (HQ2) in Long Island City, New York, Goldman Sachs announced that it planned to invest $83 million in the same neighborhood.[1] Sweetening an already-sweet deal, investments in the HQ2 complex would benefit from preferential tax treatment because the site was located in a newly designated "Opportunity Zone." Opportunity zones, an economic development tool introduced by the Tax Cuts and Jobs Act of 2017, are "designed to spur economic development and job creation in distressed communities."[2] Although Amazon later withdrew from the Long Island location, some questioned whether a neighborhood that was attractive enough for the tech giant needed help from a federal incentive for distressed areas.[3] Over the next few years, developers and investors are expected to place many of their projects in designated Opportunity Zones, and hundreds of funds have already been formed.[4] As developers and investors begin to take advantage of this new investment strategy, critics worry that many of the benefits may be enjoyed more by wealthy investors than local residents.[5] This report contextualizes state engagement with Opportunity Zones through five case studies and recommends actions states can take to encourage this initiative to achieve its stated goal of revitalizing distressed communities.

History of Community Development Financing in the U.S.

Opportunity zones are one of the more recent tools designed to promote economic growth and address poverty, but similar policies date back to at least 1936.[6] Through economic development incentives, federal, state, and local governments provide direct financial benefits to businesses to incentivize their opening, expansion, relocation or retention.[7] Anywhere between $70 billion and $98 billion is spent each

[1] J. Brian Charles, "Amazon HQ2 Was an 'Unfortunate Distraction' From 'Needy Communities'," *Governing*, February 20, 2019. https://www.governing.com/topics/urban/gov-amazon-hq2-new-york-opportunity-zones.html.
[2] "Opportunity Zones Frequently Asked Questions" *Internal Revenue Service*, accessed November 25, 2019. https://www.irs.gov/newsroom/opportunity-zones-frequently-asked-questions#general.
[3] https://www.governing.com/topics/urban/gov-amazon-hq2-new-york-opportunity-zones.html
[4] Brett Theodos, Cody Evans, and Brady Meixell, "An Opportunity Zone Guide for Governors and a Case Study of South Carolina," *Urban Institute*, September 2019. https://www.urban.org/sites/default/files/publication/101071/an_opportunity_zone_guide_for_governors_and_a_case_study_of_south_carolina_3.pdf.
[5] Adam Looney, "Will Opportunity Zones Help Distressed Residents or Be a Tax Cut for Gentrification?" *Up–Front* (blog), *Brookings Institute*, February 26, 2018. https://www.brookings.edu/blog/up-front/2018/02/26/will-opportunity-zones-help-distressed-residents-or-be-a-tax-cut-for-gentrification/.
[6] The use of incentives to address social inequality goes at least as far back as 1936, when Durant, a small town in Mississippi, successfully used an industrial revenue bond to induce Real Silk Hosiery Mills, and its 4,000 knitting-machine operators, to relocate from Indianapolis. Joseph Parilla and Sifan Liu, "Examining the Local Value of Economic Development Incentives: Evidence from Four U.S. Cities," *Metropolitan Policy Program at Brookings*, March 2018, 7. https://www.brookings.edu/wp-content/uploads/2018/02/report_examining-the-local-value-of-economic-development-incentives_brookings-metro_march-2018.pdf.
[7] Joseph Parilla and Sifan Liu, "Examining the Local Value of Economic Development Incentives: Evidence from Four U.S. Cities," *Metropolitan Policy Program at Brookings*, March 2018, 7. https://www.brookings.edu/wp-content/uploads/2018/02/report_examining-the-local-value-of-economic-development-incentives_brookings-metro_march-2018.pdf.

year on these kinds of incentives.[8] Although economic development incentives are now a common facet of policymaking at every level of government, experts and advocates remain divided as to their effectiveness.[9]

Economic development incentives theoretically have the potential to enhance the public good by rectifying market failures and directing needed resources to underserved communities. Municipalities, states and the federal government can leverage incentives to change the behavior of firms, to help industries sustain a competitive advantage and to spur the revitalization of economically depressed communities. Policymakers also have a political incentive to produce near-term economic growth for their constituents and use these incentives to accelerate the provision of new economic opportunities for communities.

However, these policies also have the potential to misdirect resources or to create adverse incentives that undermine the benefits to local residents.[10] With the deployment of each new national incentive program, concerns on their efficacy abound. There are worries that there is a disconnect between the economic gains generated through the incentives and the material improvement of social welfare. Often there is a mismatch between the benefits provided and the expressed needs and objectives of the community. It is commonly thought that economic drivers such as labor costs are more important to companies making decisions to invest, rather than tax incentives—and these incentives rarely end up delivering promised benefits to the populations of interest.[11] As such the central question that arises in the discourse on economic incentives is: "How can the government orient its economic development tools in a way that generates and enhances the well-being of local communities?" These concerns are central and essential to the Opportunity Zone incentive.

What are Opportunity Zones and How do They Work?

Opportunity Zones are individual census tracts designated by state governors and approved by the U.S. Department of the Treasury that meet the definition of low-income, or, in certain circumstances, is

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[8] Joseph Parilla and Sifan Liu, "Examining the Local Value of Economic Development Incentives: Evidence from Four U.S. Cities," *Metropolitan Policy Program at Brookings*, March 2018, 8. https://www.brookings.edu/wp-content/uploads/2018/02/report_examining-the-local-value-of-economic-development-incentives_brookings-metro_march-2018.pdf.

[9] Jared Berstein and Kevin A. Hassett, "Unlocking Private Capital to Facilitate Economic Growth in Distressed Areas," *Economic Innovation Group*, March 2015. https://eig.org/wp-content/uploads/2015/04/Unlocking-Private-Capital-to-Facilitate-Growth.pdf; Timothy Weaver, "The Problem With Opportunity Zones," *CityLab*, May 16, 2018, https://www.citylab.com/equity/2018/05/the-problem-with-opportunity-zones/560510/.

[10] Adam Looney, "Will Opportunity Zones Help Distressed Residents or Be a Tax Cut for Gentrification?" *Up–Front* (blog), *Brookings Institute*, February 26, 2018. https://www.brookings.edu/blog/up-front/2018/02/26/will-opportunity-zones-help-distressed-residents-or-be-a-tax-cut-for-gentrification/.

[11] Joseph Parilla & Sifan Liu, "Examining the Local Value of Economic Development Incentives: Evidence from Four U.S. Cities," *Metropolitan Policy Program at Brookings*, March 2018, 8. https://www.brookings.edu/wp-content/uploads/2018/02/report_examining-the-local-value-of-economic-development-incentives_brookings-metro_march-2018.pdf; Timothy Weaver, "The Problem With Opportunity Zones," *CityLab*, May 16, 2018. https://www.citylab.com/equity/2018/05/the-problem-with-opportunity-zones/560510/.

adjacent to a low-income tract.[12] Opportunity zones are designed to spur economic development by providing tax benefits to investors.[13] Opportunity Zones are meant to encourage investment of capital gains into the approximately 8,764 census tracts designated as Opportunity Zones across the country.[14] Qualified investments within these tracts receive one or more of the following benefits: (1) a temporary deferral of taxes on previously earned capital gains, (2) a discount of 10 or 15 percent on owed capital gains taxes, and potentially (3) the permanent exclusion of taxable income on new gains representing returns on the Opportunity Zone investment.[15] To qualify, the gain must be invested in Qualified Opportunity Fund during a 180-day period that begins on the date of the sale or exchange that generated the gain.[16] In simplest terms, a taxpayer who recognizes a gain from, for example, selling stock can, within 180 days invest the gain in an opportunity fund and postpone taxes on those gains until 2026, and, at most, can avoid paying taxes on the returns from the opportunity zone investment.[17]

Commentators have noted that the eligibility requirements for opportunity zone investments are minimal compared to other federal community economic development tools.[18] Several conditions determine whether an investment qualifies. As noted above, investments must result from a taxpayer's recently realized capital gains. Other requirements include that eligible capital must be provided as an equity investment, not debt (though debt could be part of a larger financing package); that real estate investments make "substantial improvements" to the property or be an "original use"; and that businesses and projects receiving funding have a sufficient amount of their income (or staffing, salaries, or tangible property) in an Opportunity Zone to qualify. Specifically, opportunity zone funds must invest 90 percent of the capital they raise from investors in either physical assets, such as real estate or equipment, that are located in opportunity zones or ownership interests of businesses that operate at least partially in opportunity zones (opportunity zone businesses).[19] However, the other 10 percent of

[12] Tax Cuts and Jobs Act, U.S. Code 26, § 1400Z–1. Eligible tracts include those that qualify as a "low-income community" under the New Markets Tax Credit, U.S. Code 26, § 45D(e), or tracts that are contiguous with a low-income community and where the median family income of the tract does not exceed 125 percent of the median family income of the low-income community with which the tract is contiguous.

[13] "Opportunity Zones Frequently Asked Questions" Internal Revenue Service, accessed November 25, 2019. https://www.irs.gov/newsroom/opportunity-zones-frequently-asked-questions#general.

[14] Brett Theodos, Cody Evans, and Brady Meixell, "An Opportunity Zone Guide for Governors and a Case Study of South Carolina," *Urban Institute*, September 2019, 2. https://www.urban.org/sites/default/files/publication/101071/an_opportunity_zone_guide_for_governors_and_a_case_study_of_south_carolina_3.pdf.

[15] See Tax Cuts and Jobs Act, U.S. Code 26, § 1400Z–2; "Opportunity Zones: A New Tool for Community Development," *Novogradac & Company LLP*, 2018. https://www.novoco.com/sites/default/files/atoms/files/novogradac_opportunity_zones_fact_sheet_121318.pdf; "What Are Opportunity Zones and How Do They Work?" *Tax Policy Center*, accessed November 25, 2019. https://www.taxpolicycenter.org/briefing-book/what-are-opportunity-zones-and-how-do-they-work.

[16] U.S. Code 26, § 1400Z–2(a).

[17] "Opportunity Zones: A New Tool for Community Development," *Novogradac & Company LLP*, 2018. https://www.novoco.com/sites/default/files/atoms/files/novogradac_opportunity_zones_fact_sheet_121318.pdf.

[18] Samantha Jacoby, "Potential Flaws of Opportunity Zones Loom, as Do Risks of Large-Scale Tax Avoidance," *Center on Budget and Policy Priorities*, January 11, 2019, 4. https://www.cbpp.org/sites/default/files/atoms/files/1-11-19tax.pdf.

[19] The definition of "Opportunity Zone Businesses" includes subsidiaries of larger businesses that largely operate elsewhere. U.S. Code 26, § 1400Z–2; Samantha Jacoby, "Potential Flaws of Opportunity Zones Loom, as Do Risks of Large-Scale Tax Avoidance," *Center on Budget and Policy Priorities*, January 11, 2019, 4. https://www.cbpp.org/sites/default/files/atoms/files/1-11-19tax.pdf.

capital that an opportunity zone fund raises isn't subject to any restrictions and can therefore be invested outside of opportunity zones. Although investments in some "sin" businesses are not eligible for the opportunity zone incentive, there is no requirement that, for example, new apartments be rented to low-income residents or that investors establish an oversight board of community development experts and representatives to review projects.[20]

One crucial way that states can encourage investment in OZs is to conform state tax law to the federal Internal Revenue Code. This offers a deferral and reduction in state tax on capital gains that are invested in qualified opportunity funds (QOFs). To date, 41 states have either lacked a tax on capital gains already or conformed to the federal OZ provisions.

Nationwide Trends

Regulating OZs

The Federal Government has been slow to provide clear guidelines for investors. Though the final round of opportunity zones were selected in June of 2018, the first guidelines were not issued until October of that year, with the second set of guidelines not being issued until April of 2019.[21] Still, a third round of regulations have not yet been released, stymying efforts of investors to take full advantage of the incentive.

Federal Government Support

In 2018, the Economic Development Agency made opportunity zones eligible for its grant funding.[22] This move included opportunity zones that did not meet the federal government's economic distress criteria.[23]

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[20] Brett Theodos, Cody Evans, and Brady Meixell, "An Opportunity Zone Guide for Governors and a Case Study of South Carolina," *Urban Institute*, September 2019, 2. https://www.urban.org/sites/default/files/publication/101071/an_opportunity_zone_guide_for_governors_and_a_case_study_of_south_carolina_3.pdf.

[21] "IRS Issues Guidance Relating to Deferral of Gains for Investments in a Qualified Opportunity Fund," *Internal Revenue Service*, accessed November 25, 2019. https://www.irs.gov/newsroom/irs-issues-guidance-relating-to-deferral-of-gains-for-investments-in-a-qualified-opportunity-fund.

[22] "Opportunity Zones," *U.S. Economic Development Administration*, accessed November 25, 2019. https://www.eda.gov/opportunity-zones/.

[23] States, counties and municipalities can submit applications for communities to receive investment assistance. To be eligible, these locales must meet one or more of the following criteria: (i) an unemployment rate that is one percentage point greater than the national average employment rate, (ii) per capita income that is 80 percent or less than the national average per capita income or have special needs as determined by the EDA. U.S. Economic Development Administration, *Applying for EDA Investments: Eligibility Requirements and Criteria*, accessed November 25, 2019, https://www.eda.gov/archives/2016/how-to-apply/files/Eligibility-Requirements-and-Criteria.pdf.

In June 2019, the opportunity zones program was named one of EDA's five investment priorities.[24] In keeping with this move, the White House Opportunity and Revitalization Council is holding OZ roundtables with community partners across the country.[25] In similar efforts to encourage investment in OZs, the Federal Housing Administration, through the US Department of Housing and Urban Development, has increased the financing allowance of up to $50,000 for homes located in opportunity zones, $15,000 more than homes not in OZs.[26] Meanwhile, the US Department of Education has initiated an initiative to expand charter schools in opportunity zones by awarding funding to new charter schools in these zones through a competitive application process.[27]

State Basics

Intervention and Support

While engagement varies from state to state, most states have provided an online resource as a bare minimum. This resource will typically provide a list or map of the opportunity zones, and contact information for a point person, if one exists. Some states have gone above and beyond this minimum requirement, taking an active approach to connecting communities, developers, and investors and matching needs accordingly. This is happening both at the state-wide level and a more dispersed, local level.

Types of Investments

Real estate has been the primary type of investment in most areas, as it offers a familiar investment environment for funders and developers alike. Commercial and housing developments, such as hotels, office buildings, and apartment buildings have primarily been the first developments.

Well known during the time of census tract selection was the mismatch of the sentiment of the bill with the technical requirements of the bill — states used outdated data to select tracts that, while previously were low-income, were now substantially changed, enough so that some had already been experiencing displacement. As expected, many of the first projects have been in tracts that have recently been experiencing socioeconomic change, or have been projects that were already in the works when the legislation was signed into law. With the opportunity to select contiguous tracts, it was clear that this incentive would encourage investment in these tracts that would with a faster, higher return on investment. As many investors have been explicit about their approach to capitalizing on this incentive in these ways, these investments allow for a lower-risk, high-reward return on investment (ROI). While

[24] "Opportunity Zones," *U.S. Economic Development Administration*, accessed November 25, 2019. https://www.eda.gov/opportunity-zones/.
[25] "Opportunity Zones," *U.S. Economic Development Administration*.
[26] U.S. Department of Housing and Urban Development, *Secretary Ben Carson Announces New Incentives Package for Purchase or Rehabilitation of Single Family Properties in Opportunity Zones* (November 22, 2019), https://www.hud.gov/press/press_releases_media_advisories/HUD_No_19_170.
[27] U.S. Department of Education, *Secretary of Education Betsy DeVos Announces New Initiative to Support Opening and Expanding Charter Schools in Opportunity Zones* (October 10, 2019), https://www.novoco.com/sites/default/files/atoms/files/new_initiative_to_support_opening_and_expanding_charter_schools_in_opportunity_zones_101419.pdf.

qualified opportunity funds can also be invested in a qualified opportunity zone business (instead of real estate), the financial packaging of those deals has been cited as complicated, and the ROI has been less clear for many.

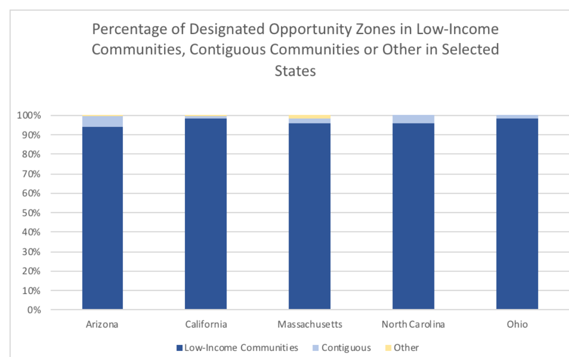
In addition to real estate, investments in renewable energy have shown promise. In Virginia, the Norfolk Solar Qualified Opportunity Fund has proven that market ROIs for investing in solar can be successful, and has further shown that working with the community to determine how the development proceeds can also be worthwhile. The fund has trained and hired local residents to install solar panels, and the model is being closely watched by other developers and investors across the country.

Skepticism and Hesitancy

As of yet, there are only a handful of examples of investment for social good in opportunity zones. Since the legislation was enacted in 2017, real estate analysts have observed a decreasing share of investments in opportunity zones.[28] In the first fiscal quarter of 2019 10.54% of all real estate investments across the country were made in opportunity zones.[29] Some experts attribute this trend to the lack of information and clarity on the rules of the program, while others claim that more time is needed for investors to take advantage of OZs.[30] Additionally, since March of 2018 the average sales value for assets located in opportunity zones has decreased. [31] Limitations of opportunity zones have been noted by experts at the national level, and the House has begun to act on some of these concerns, proposing bills that would either limit or overturn the Opportunity Zone incentive.[32]

Data Analysis

Opportunity for Whom?



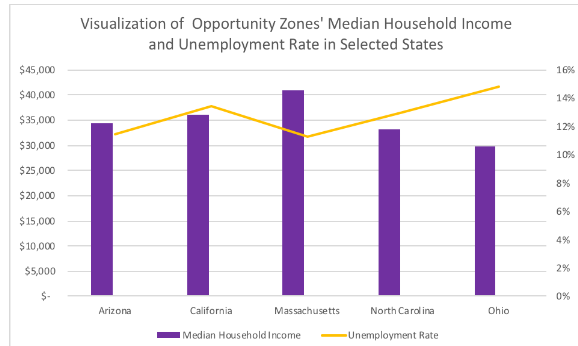
Based on data analysis from the Urban Institute, it is important to highlight that California designated the highest percentage of opportunity zones to low-income census tracts, while Ohio, Massachusetts, North Carolina and Arizona all had up to 5% of

[28] “National Opportunity Zone Trends,” *Reonomy*, accessed November 26, 2019, https://www.reonomy.com/opportunity-zone-trends.
[29] “National Opportunity Zone Trends,” *Reonomy*.
[30] *Ibid.*
[31] *Ibid.*
[32] “Congresswoman Rashida Tlaib Introduces Bill to Repeal Controversial Opportunity Zones,” *Representative Rashida Tlaib*, November 22, 2019, https://tlaib.house.gov/media/press-releases/congresswoman-rashida-tlaib-introduces-bill-repeal-controversial-opportunity.

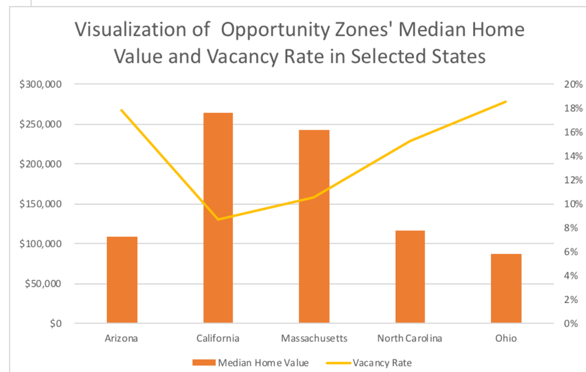
their opportunity zones in areas contiguous to low-income communities.

By another measure of well-being, Massachusetts is an outlier, having a high median income and low unemployment rate relative to the other states in this analysis. Comparatively, Ohio's opportunity zones have a median income that is about 20% lower than Massachusetts and an unemployment rate that is nearly 5% higher.

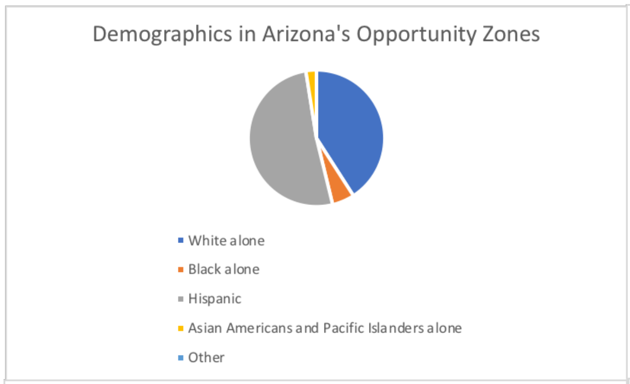
The states also vary in their geographic designation of opportunity zones — whether zones lie in either metro areas, micro areas or neither, called "non–core-based statistical areas." Opportunity zones in California and Massachusetts are primarily in metropolitan areas (area with a high-population density core and strong economic ties in the neighboring areas, having a population of at least 100,000), while North Carolina and Ohio have a higher percentage of zones in micro-areas (urban cluster area with population between 10 and 50,000).

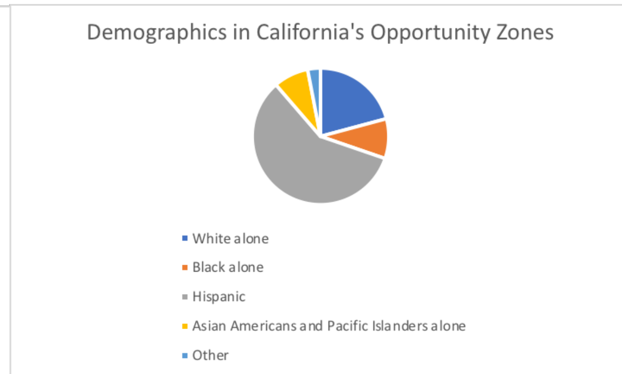


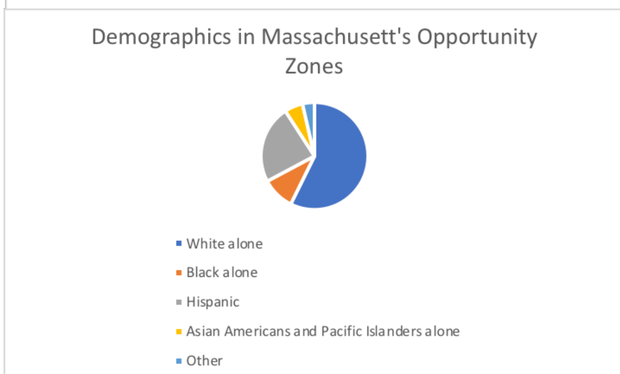
In comparing median home values and vacancy rates, California and Massachusetts boast the highest median home value in opportunity zones, with Arizona, Ohio, and North Carolina lagging far behind. Not only does California has the highest median home value, but it also has the lowest vacancy rate, while Arizona and Ohio have the lowest median home values and highest vacancy rates.

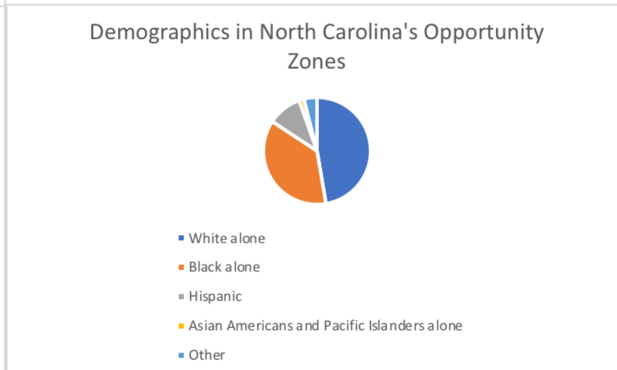


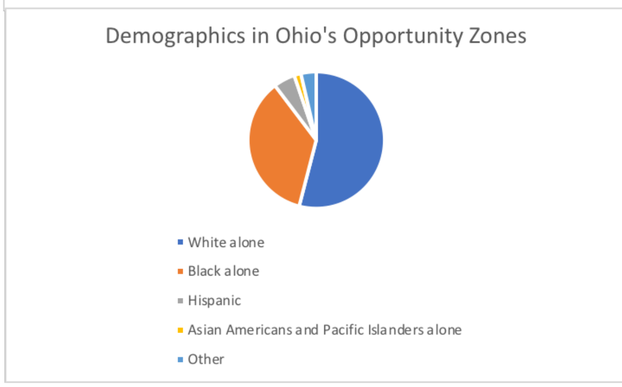
Racial and ethnic demographic characteristics of the opportunity zones in the sampling of states varied significantly. While the majority of residents in California's and Arizona's opportunity zones are Hispanic, most residents in Ohio, Massachusetts and North Carolina's opportunity zones are white. These statistics highlight the diversity present in the country's opportunity zones — each state's population has unique economic characteristics within its population, dependent on its history, industry, and culture.


Demographics in Arizona's Opportunity Zones
White alone
Black alone
Hispanic
Asian Americans and Pacific Islanders alone
Other


Demographics in California's Opportunity Zones
White alone
Black alone
Hispanic
Asian Americans and Pacific Islanders alone
Other


Demographics in Massachusett's Opportunity Zones
White alone
Black alone
Hispanic
Asian Americans and Pacific Islanders alone
Other


Demographics in North Carolina's Opportunity Zones
White alone
Black alone
Hispanic
Asian Americans and Pacific Islanders alone
Other


Demographics in Ohio's Opportunity Zones
White alone
Black alone
Hispanic
Asian Americans and Pacific Islanders alone
Other

Case Studies

California

Overview: Why California?

California's Business Environment and Investment Climate

California's economy is the largest in the United States. At $2.6 trillion, the Golden State accounts for approximately 15% of the national economy and in the last five years its gross domestic product has grown by 3.8%.[33] It achieved a record 113 consecutive months of job growth in August, 2019.[34] Relative to the rest of the country, California has a strict tax regime. The state holds the nation's highest statewide sales tax rate at 7.25% and it has the highest personal income tax rate for its residents making between $53,000 and $269,000 at 9.3% and 13.3% for those making $1 million or more.[35]

California placed 32nd out of the 50 states in CNBC's America's Top States for Business Ranking. Forbes and Chief Executive Magazine also ranked California 43 out of 50 for business costs. [36] Though the state has consistently been ranked low for business friendliness and the cost of doing business, it is a leader in economic investment and business development.

California has the highest success rates for business startups and expansions in the United States. In 2015, businesses in the state received more than 57% of United States venture capital and more than half of all venture capital dollars invested in small businesses and startups during the first three months of 2018 went into the state of California. [37] Over the last decade, California companies have raised over $330 billion in venture capital.

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[33] Samuel Stebbins and Grant Suneson, "Does Texas or Russia Have the Larger GDP? Here's How US States Compare to Other Countries," *USA Today*, April 17, 2019, https://www.usatoday.com/story/money/2019/04/17/how-gdp-of-us-states-compares-to-countries-around-the-world/39295197/.
[34] Adam Beam, "California's 113-Month Job Growth Ties Record Set in 1960s," *Associated Press*, August 16, 2019, https://apnews.com/da64cccb2282417c8f627d653df0dde2.
[35] Judy Lin, "The Open Secret About California Taxes," *Cal Matters*, May 8, 2018, https://calmatters.org/explainers/the-open-secret-about-california-taxes/.
[36] Evan Harris, California's Business Climate Continues to Receive Poor Scores, *Pacific Research Institute*, July 16, 2019, https://www.pacificresearch.org/californias-business-climate-continues-to-receive-poor-score/.
[37] "Money Tree Report Q1 2018," *PricewaterhouseCoopers*, 2018, https://www.pwc.com/us/en/technology/assets/MoneyTree_Report_2018_Q1_FINAL.pdf

OZ Selection

Despite long being considered a policy innovator, California is one of only four states that have not conformed their tax code to take advantage of national opportunity zone legislation.[38][39] Without full conformity, opportunity zone investors will have to pay the state capital gains tax of 13.3%, "almost nullifying the tax benefits of the federal program."[40] With the largest amount of net capital gains in the country of $114,954.8 million, these gains comprise nearly 8.1% of California resident's total adjusted gross income (only Nevada, Washington, and New York have a higher share per adjusted gross income).[41] With such a large amount of capital gains, California's non-conformity affects nearly 20% of realized capital gains in the United States.

California has 879 Opportunity Zones, approximately 10% of the national total, selected based on local input and income requirements. California qualified opportunity zones (CAQOZs) are home to more than 3 million residents, representing 25% of low-income communities in the state and are dispersed through 57 of its 58 counties. In spring of 2019, CA Fwd and Golden State Opportunity released a study indicating that between $745 million and $1.2 billion of new economic activity could be generated in Opportunity Zones this year alone, with additional activity in subsequent years.[42]

According to the Urban Institute's analysis of Opportunity Zone data, California's selection of zones represents a generally diverse group of census tracts. While there are some census tracts in downtown urban areas that are of concern for potential gentrification across multiple analyses, there are also a number of zones that could likely benefit from increased investment with appropriate policy guardrails. Compared to other states of similar caliber, such as New York, California has significantly fewer census tracts that were already experiencing socioeconomic change before their designation as opportunity zones (3.87%), offering faster and greater return on investment for investors. However, of California's *eligible* census tracts that were not chosen as opportunity zones, a lower 2.68% of those tracts had been experiencing socioeconomic change. This difference is similar to the national data where of eligible tracts, those that were chosen had socioeconomic change flags 3.12% of the time, while those that were not chosen had 2.36% identified as experiencing change. This similarity suggests that California is relatively standard in their approach to selecting census tracts that have already seen a fair amount of socioeconomic change within the past few years.

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[38] Frederick J. Boehmke and Paul Skinner. "State Policy Innovativeness Revisited." State Politics & Policy Quarterly 12, no. 3 (2012): 303-29. www.jstor.org/stable/24710887.

[39] "State Tax Code Conformity - Personal Income," *Opportunity Zones Resource Center*, Novogradac & Company LLP, November 21, 2019, https://www.novoco.com/resource-centers/opportunity-zone-resource-center/guidance/state-tax-code-conformity-personal-income#ca.

[40] Joseph Pimentel, "Opportunity Zones Could Flop In California," Officials Warn, *BisNow*, August 15, 2019, https://www.bisnow.com/los-angeles/news/opportunity-zones/strong-unlikelihood-california-will-conform-to-opportunity-zone-tax-advantages-100351.

[41] Elizabeth McNichol, "State Taxes on Capital Gains," *Center on Budget and Policy Priorities*, December 11, 2018, https://www.cbpp.org/research/state-budget-and-tax/state-taxes-on-capital-gains.

[42] "Making California Opportunity Zone Ready Will Boost Critical Housing and Clean Energy Projects," *California Forward*, September 6, 2019 https://cafwd.org/reporting/entry-new/making-california-opportunity-zone-ready-will-boost-critical-housing-and-cl.

By The Numbers

California's tracts are predominantly Hispanic or African American, with a median household income of $36,134 (compared to California's state-wide median household income of $69,549). Residents in these tracts experience unemployment at a rate of 13.41% compared to the state's 9%, and live in neighborhoods with a poverty rate nearly double that of the state's.

Statewide Actions: Government and Non-Profit

California has established a policy presence around opportunity zones and serves as a potential model for states to advocate for innovative policies around this investment opportunity. California's stated goal within their OZ Strategy is to "[b]uild an equitable and sustainable pipeline of investable projects" through four different components: state interagency OZ working group and web portal, local project pre-development activity, catalytic foundation support, and community partnerships and roundtables.[43] These efforts will lead into anchoring OZ projects through local economic ecosystems and strategies, existing state and local project and planning investments, and community anchors such as educational, medical, schools, utilities, workforce, and entrepreneurs. The California state government's administration has excelled in providing easy access to resources and elected officials have taken a critical stance on offering further incentives to investors.

Easy Access to Resources

Beginning with an easily-accessible website with numerous resources for investors and communities alike, California has taken a proactive stand on both encouraging OZ investment and highlighting the cautions that should be taken with investment.[44] The website offers a clear explanation of Opportunity Zone legislation as a tax tool for investment (rather than a grant program) and directs users to multiple useful resources: an FAQ page, the state's designated OZ policy and engagement strategy, repositories of state actions, and resources to learn more about the concerns around potential gentrification.

To date, the state of California has designated opportunity zones and created an inter-agency workgroup within the governor's office, intending to work with both communities and stakeholders to prepare for investment and the potential challenges of investment.[45] So far, the workgroup has begun to work with partners in community engagement through non-profits and foundations, while also meeting with investors. To address concerns of gentrification, the workgroup has started to identify policies that can be enacted locally to "serve as OZ co-investment tools," and urge those with knowledge of such programs to contact the workgroup to add to the inventory of policies. The workgroup also provides contact information for the workgroup and highlights each department that is part of this group.[46] The website also offers a robust FAQ section that addresses questions related to tax conformity, OZ designation, and concerns about gentrification.

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[43] "California's Opportunity Zone Strategy," *CA Opportunity Zones*, accessed November 25, 2019, opzones.ca.gov/strategy/.
[44] "About Opportunity Zones," *CA Opportunity Zones*, accessed November 25, 2019, https://opzones.ca.gov/about/
[45] "Actions," *CA Opportunity Zones*, accessed November 25, 2019, https://opzones.ca.gov/actions/
[46] "State Agency Contacts," *CA Opportunity Zones*, accessed November 25, 2019, opzones.ca.gov/state-agency-contacts/.

The state highlights four articles that discuss the concerns about gentrification, most of which are dated in April, 2018.[47] Although this component of their website could be strengthened, providing more recent information for residents, the articles offer a range of opinions on Opportunity Zones and the potential local impact. To more specifically address concerns of adverse local impact, the state created a "Local Get-Ready Guide" that identifies strategies for local municipalities to prepare for potential opportunity zone investment. Each component has a short explanation and links to additional resources for communities. The state also allows communities to request support from the government to host a roundtable in anticipation of OZ investment. The California Association for Local Economic Development offers a similar strategy for municipalities.[48]

Controversial OZ Vote

Most recently, California's elected officials rejected Governor Newsom's bill that would have created a state tax incentive complementing the federal incentive. According to the bill, in order to receive the tax break on capital gains via the state tax code, an opportunity fund investment would have to fund affordable housing or green energy. The bill was criticized as being a mechanism that would not generate more investment and would rather be a deeper giveaway for the wealthy, as many of the investments were likely to happen regardless of the additional incentive. This criticism was supported by the Legislative Analyst's Office, a non-partisan, quasi-government think-tank, which additionally noted that this method of encouraging affordable housing would further concentrate low-income housing in low-income census tracts, though current state-level policies are encouraging affordable housing investment in higher-income areas to generate greater diversity.[49] The California Tax Reform Association also encouraged to lawmakers to reject the bill, while organizations such as CalOZ, among others, strongly supported the bill and publicly advocated for its passing.[50]

Opportunity in the City: Stockton and Fresno

Rather than creating entirely new schemes and programmatic structures, municipalities in California are aligning and restructuring their existing economic development projects and initiatives to take full advantage of opportunity zone incentives. They are employing innovative strategies to align opportunity zone investments with the specific needs of communities. As such, city officials have identified "shovel-ready" projects in specific locales that will help them to achieve the goals outlined in their city planning documents. Recent developments in Stockton and Fresno illustrate this process.

Stockton

The City of Stockton partnered with Accelerator of America, a collaborative network and advisory council of mayors and leaders from the labor, non-profit and business sector, to create an opportunity

[47] "Gentrification Issues," *CA Opportunity Zones*, accessed November 25, 2019, https://opzones.ca.gov/gentrification-issues/.
[48] "Opportunity Zone Resources," *California Association for Local Economic Development*, accessed November 25, 2019, https://caled.org/opportunity-zone-resources/.
[49] "Opportunity Zones," *Legislative Analyst's Office*, May 11, 2019, https://lao.ca.gov/Publications/Report/4038
[50] Roy Ulrich and Samantha Corbin, RE: Opposition to Opportunity Zone Trailer Bill Language, *California Tax Reform Association*, September 2019, https://src.bna.com/Lho.

zone investment prospectus for the community.[51] The prospectus outlines the city's preferred sites for development, highlights why investment opportunities in these sites are unique and advantageous, and identifies specific projects that investors can assist with. Case in point, between 2011 and 2012 Stockton developed and finalized a Downtown Revitalization Plan, and are attempting to use the opportunity zone incentive structure to advance its completion.[52] They have created an opportunity for investors to collaborate with Ten|Space, a local real estate revitalization company on their Open Window Project.[53] The project aims to redevelop existing buildings for mixed-income artist lofts and 92,000 square feet of commercial space in the region.

Fresno

In 2016, Fresno joined the Transformative Climate Communities Program (TCC).[54] TCC aims to fund the creation of community-led climate action plans. Projects under the TCC serve not only to reduce greenhouse gas emissions but to generate social benefits and economic growth as well. Over a year-long series of community meetings, a 160 member steering committee of Fresno residents and business owners proposed 62 projects.[55] Of these 62 ideas, 37 were deemed eligible for funding under the TCCI. The city is now attempting to see how these community-proposed and led initiatives can leverage and capitalize on opportunity zone incentives.[56] These projects include:

- The development of 56 affordable housing units
- The installation of solar in over 200 homes
- The construction of 17 acres of parks and community gardens
- The creation of a new satellite campus for the West Fresno City College

Additionally, the officials from the mayor's office are currently in talks with the Fresno County Economic Development Corporation and the Central Valley Community Foundation and are attempting to amass resources to develop a local opportunity fund.[57]

First Movers

As of July 2019, there were twelve opportunity funds listed in the National State Housing Agencies Fund Directory that had a geographic focus in California. Most of these funds focus on the provision of

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[51] City of Stockton, *Opportunity Zones Prospectus*, January 2019, http://www.stocktongov.com/files/StocktonOZProspectus.pdf.
[52] "Downtown Revitalization," *City of Stockton*, May 6, 2015, accessed November 25, 2019, http://www.stocktongov.com/government/council/goalsDwnRevit.html.
[53] "Downtown Redevelopment and Construction Projects," *Downtown Stockton Development Alliance*, accessed November 25, 2019, https://www.downtownstockton.org/invest/downtown-development/.
[54] "Transforming Disadvantaged Communities," *California Strategic Growth Council*, accessed November 25, 2019, http://sgc.ca.gov/programs/tcc/vision/.
[55] California Strategic Growth Council, *Transform Fresno: Transformative Climate Communities*, 2018, https://opzones.ca.gov/wp-content/uploads/sites/9/2018/08/20180802-TCC_Awardee_Fresno.pdf
[56] "Featured California Investment Opportunities," *California Strategic Growth Council*, accessed November 25, 2019, https://opzones.ca.gov/Featured-California-Investment-Opportunities/.
[57] Edward Smith, "Land of Opportunity Zones: Fresno, Other Communities Primed for Capital Investment," *The Business Journal*, May 2, 2019, https://thebusinessjournal.com/land-of-opportunity-zones-fresno-other-communities-primed-for-capital-investment/.

affordable housing or the development of the commercial property. However, a few are focused on niche industries or have an emphasis on social justice. This includes the Sola Impact Fund and Crop One Holdings.

The Sola Impact Fund

Sola is a socially responsible investment firm that renovates properties and provides affordable housing in economically depressed sections of South Los Angeles.[58] Through a new opportunity zones fund, founder Martin Muoto has raised $100 million to build between 1,500 and 25,000 affordable housing units and create a business incubator, the Beehive, to jumpstart the local business economy. This entity is well-positioned to take advantage of opportunity zones because of their history in community-based development of affordable housing.[59] This use of the opportunity zone incentive helps Sola diversify both their investor clientele and their tenants. Historically, Sola has worked with local partners to prioritize low-income families and individuals from marginalized backgrounds such as veterans and the homeless in their investment funds. These organizations and programs include Getlove, LIFT, the HUD-Veterans Affairs Supportive Housing program, CHIRP Los Angeles and the Community Coalition.[60] Typically, Sola has had to use the personal funds of its founder or investments from a few wealthy families. Now, with the opportunity zone fund, hedge fund managers and small business owners are interested in participating.[61]

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[58] *SoLa Impact*, accessed November 25, 2019, https://www.solaimpact.com/.
[59] Paul Sullivan, "Is an Opportunity Zone the Right Investment for You?," *New York Times*, May 17, 2019, https://www.nytimes.com/2019/05/17/your-money/opportunity-zone-investment.html.
[60] "SoLa Impact Partners," *SoLa Impact*, accessed November 25, 2019, https://www.solaimpact.com/copy-of-community-partnerships.
[61] Anne Field, "Tapping Opportunity Zones, Social Impact Investor SoLa Raises Its Biggest Fund," *Forbes*, May 31, 2019, https://www.forbes.com/sites/annefield/2019/05/31/tapping-opportunity-zones-social-impact-investor-sola-raises-its-biggest-fund/#332c84de3b18.

North Carolina

Overview: Why North Carolina?

Business Environment and Investment Climate

With a GDP of $484.3 billion[62], North Carolina consistently ranks in the top five states in the U.S. to do business due to low costs, a highly educated labor force, and a growing population. Since Forbes started rating the business climates of the 50 states annually in 2006, North Carolina has appeared in the top spot twice, including in 2019. In fact, to create their rankings, Forbes looks at 41 metrics across six main categories: business costs, regulatory environment, economic climate, growth prospects and quality of life, and North Carolina was the only state to rank among the top 12 in all six categories. North Carolina's labor, energy and tax costs are the second lowest in the U.S. overall and the corporate tax rate is the lowest in the country. Currently, North Carolina has a 2.50% corporate income tax rate, 5.05% personal income tax rate and 6.25% sales tax rate. In addition, North Carolina boasts a growing and highly educated labor supply fueled by countless colleges and universities. Job growth and gross state product growth are expected to rank among the strongest in the country over the next five years and the population is growing twice as fast as the U.S. average.[63]

North Carolina is one of the nine states that treats capital gains invested in QOFs differently than the federal tax code. In fact, North Carolina was one of only two states to specifically opt out. North Carolina's government presumably believed that the revenue loss to the state exceeded the marginal benefits from the Opportunity Zone incentive, or they decided to dampen the effect of the incentive. On the other hand, several states are considering additional financial incentives, in addition to conformity, to encourage and direct OZ investments within their states.[64]

With a similarly strong economy to California, North Carolina's non-conformity makes understanding North Carolina's statewide perspective and approach to Opportunity Zones especially important.

OZ Selection

There are 252 zones that were nominated and chosen as Opportunity Zones.[65] [66] Although there were 1,414 eligible census tracts to be selected as opportunity zones, the state allowed for an open submission

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[62] Samuel Stebbins and Grant Suneson, "Does Texas or Russia Have the Larger GDP? Here's How US States Compare to Other Countries," *USA Today*, April 17, 2019, https://www.usatoday.com/story/money/2019/04/17/how-gdp-of-us-states-compares-to-countries-around-the-world/39295197/.

[63] Kurt Badenhausen, "The Best States For Business 2018: North Carolina Leads The Way," November 30, 2018, https://www.forbes.com/sites/kurtbadenhausen/2018/11/28/the-best-states-for-business-2018-north-carolina-leads-the-way/#40b9719f3c30.

[64] Michael Novogradac, "State, Local Governments Work to Steer Opportunity Zones Investment," *Novogradac & Company LLP*, April 1, 2019, https://www.novoco.com/periodicals/articles/state-local-governments-work-steer-opportunity-zones-investment.

[65] Herman Spence III and Curtis Strubinger, "Tax Incentives for Investments in Opportunity Zone Funds," *Charlotte Business Journal*, March 21, 2019, https://www.bizjournals.com/charlotte/news/2019/03/21/charlotte-lawyers-tax-incentives-opportunity-zone.html.

[66] https://public.nccommerce.com/oz/NorthCarolinaDesignatedQOZs.xlsx

process to solicit tract and program recommendation. It aimed to select at least one Opportunity Zone in every county and to allow each county 25% of their total low-income tracts. Finally, it prioritized both local recommendation and development goals, as well as state industrial site development initiatives.[67]

The 252 tracts chosen represent about 1,123,000, or 10.82% of the population. It affects about 45,000 families with children in poverty, 50,000 business establishments and over $580 million in received public and private investments over the past 5 years.[68]

By the Numbers

North Carolina's tracts are predominantly Caucasian and African American, with a median household income of $33,203 (compared to state-wide median household income of $51,268).[69] Residents in these tracts experience unemployment at a rate of 12.97% compared to the state's 8.79%, and live in neighborhoods with a poverty rate of 29.3% compared to the state-wide rate of 17.8%.[70] Of the tracts that were chosen, only 1.59% of the tracts exhibit signs of socioeconomic change risk, only one percentage point lower than at the state-wide level, and lower than the national average.[71]

Statewide Actions: Government and Non-Profit

Several partners and government agencies, like the North Carolina Department of Commerce, have been involved in helping investors and developers in North Carolina take advantage of Opportunity Zone legislation. Like other states, North Carolina has a limited website that helps users identify the census tracts and identifies points of contact. For example, LISC and the Ford Foundation have collaborated and released a Community Playbook for Opportunity Zones that is available on multiple North Carolina regional websites. The regional sites also advise that local governments will need to prepare prospectuses and may follow the guidance and template offered by Accelerator for America to do so. Finally, regional sites, like the one for the Piedmont Triad, offers contact information to assist communities in the preparation of their Qualified Opportunity Zones.[72]

Opportunity in the City: Charlotte

Charlotte

The U.S. Census Bureau estimated the population of Charlotte at 872,498 in 2018, making it the 16th-most populated city in the United States.[73] Out of 252 opportunity zones in the state of North Carolina, a

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[67] https://www.nccommerce.com/news/press-releases/low-income-census-tracts-all-100-counties-selected-potential-north-carolina
[68] "North Carolina Opportunity Zones Program," *NC Opportunity Zones*, accessed November 25, 2019, https://public.nccommerce.com/oz/.
[69] "North Carolina Opportunity Zones Program," *NC Opportunity Zones.*
[70] *Ibid.*
[71] *Ibid.*
[72] "Piedmont Triad Opportunity Zones," *Piedmont Triad Regional Council*, accessed November 25, 2019, https://www.ptrc.org/services/economic-development/opportunity-zones.
[73] "Charlotte, North Carolina," *U.S. Census Quick Facts*, accessed November 25, 2019, https://www.census.gov/quickfacts/fact/table/charlottecitynorthcarolina/POP060210.

total of 17 of them are in Mecklenburg County, the most of any county in the state.[74] The zones are primarily in the north and western parts of Charlotte.

Given Charlotte's large number of zones and influence in state policy, a senior administrator at the White House visited Charlotte as part of a day-long event about opportunity zones in August 2019. Ja'Ron Smith, a special assistant to President Donald Trump on domestic policy, spoke to local and state government officials, developers, fund managers, nonprofits, affordable-housing groups and others in attendance. The day-long event ended with a tour of opportunity zone corridors in Charlotte, attempting to highlight affordable housing projects and opportunities.

The city of Charlotte has taken an active role in trying to influence and encourage opportunity zone investments. The city's website aims to track and connect opportunity zone funds, developers and other relevant parties. It also highlights key opportunity zones in Charlotte in different parts of the city and larger metro. Finally, it encourages developers to layer opportunity zone investments with other programs meant to support economic development in and around the city. These include business matching grants for cities located in "Business Redevelopment Corridors," business investment grants, tax increment grants, and a housing trust fund.[75]

The city provides the added benefit of an Enhanced Review option to shorten the timeframe for certain types of development projects, including opportunity zones.[76] Looking to the future, a group of local developers, residents, nonprofits and others began meeting in September 2019 to discuss and expand the city's role in opportunity zones.

First Movers

The first movers in North Carolina are overwhelmingly focused on multi-family residential development, with interest from both out-of-state and local investors alike.

Outside interest in North Carolina development has certainly flourished in recent years. In 2019, Los Angeles based Avanath Capital and Opportunity Assets Group launched a qualified opportunity zone fund with a target of raising $300M. The investment would renovate three existing multifamily properties, one of which is the Arbors of Cary in Cary, North Carolina.[77] Similarly, the Chicago hedge fund Origin Investments raised over $100 million within the first day of launching their opportunity fund, pledging

[74] "Opportunity Zones," *Metropolitan Housing and Communities Policy Center*, Urban Institute, 23 Oct. 2019, www.urban.org/policy-centers/metropolitan-housing-and-communities-policy-center/projects/opportunity-zones.
[75] "Opportunity Zones," *City of Charlotte*, accessed November 25, 2019, https://charlottenc.gov/ED/Development/Pages/OpportunityZones.aspx.
[76] "Investors Eye Risks and Rewards as Deadline Looms for Opportunity Zones," *Charlotte Business Journal*, June 12, 2019, https://www.bizjournals.com/charlotte/feature/table-of-experts/investors-eye-risks-and-rewards-as-deadline-looms.html.
[77] Joseph Pimentel, "Creating Opportunities: Avanath Capital Launches Opportunity Fund To Uplift Minority Neighborhoods," *Bisnow Los Angeles*, April 14, 2019, https://www.bisnow.com/los-angeles/news/economic-development/avanath-development-launches-opportunity-fund-looking-to-raise-300m-98419.

the funding to three opportunity zone properties already under contract. These investments include plans to build about 1,000 new apartments along the Sugar Creek Station in Charlotte.[78]

Massachusetts

Overview: Why Massachusetts?

Business Environment and Investment Climate

With a GDP of $490.2 billion, Massachusetts' economy is often considered one of the strongest in the nation.[79] This is often attributed to the state's robust education system and the ready availability of high paying tech jobs.[80] In 2019, 24/7 Wall Street designed an index to assess the best states for business. Using 46 measures across eight categories including business costs and regulatory systems, they found Massachusetts to be the best state for business in the country. In large part, this placement was attributed to the states highly skilled labor force. Forty-three percent (43.4%) of Massachusetts adults have

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[78] Brian Rogal, "Opportunity Zones May Benefit Rising Neighborhoods First," *Chicago Bisnow*, November 29, 2018, https://www.bisnow.com/chicago/news/economic-development/opportunity-zone-fund-successfully-attracts-investors-95430.

[79] Samuel Stebbins and Grant Suneson, "Does Texas or Russia Have the Larger GDP? Here's How US States Compare to Other Countries," *USA Today*, April 17, 2019, https://www.usatoday.com/story/money/2019/04/17/how-gdp-of-us-states-compares-to-countries-around-the-world/39295197/.

[80] Samuel Stebbins and Grant Suneson, "Looking to Start a Business? These are the Best and Worst States for Companies," *USA Today*, March 1, 2019, https://www.usatoday.com/story/money/business/2019/03/01/best-states-business-massachusetts-tops-list-louisiana-worst/39094995/.

bachelor's degrees, the highest percentage in any state.[81] In 2014, the state was ranked first in access to capital by CNBC and according to Bloomberg's US State Innovation Index it ranks as the second most innovative state in the country.[82] Yet, Massachusetts business costs, specifically labor, energy and taxes are second only to Hawaii and are 19.3% above the national average. Currently, Massachusetts has an 8% corporate income tax rate, a 5.1% personal income tax rate and a 6.25% sales tax rate.[83]

Massachusetts is one of four states that does not fully conform to the Federal Government's qualified opportunity zone tax provisions. In June 2019, the state published a Technical Information Release explaining that the state conforms to the federal QOZ tax provisions for corporate capital gains taxes but not for personal capital gains taxes.[84] This means that while corporate investors operating in the state may defer and reduce state taxation on the initial gains invested in opportunity zones, individual investors do not have access to this mechanism.

OZ Selection

In 2018, the Baker-Polito administration worked with the U.S. Treasury to designate 138 tracts in 79 Massachusetts communities as Opportunity Zones. Of the 138 designated tracts, 32 are located in the 10 communities with the lowest median family income in the state.[85] Forty-eight percent (48%) of the tracts are in "Gateway Cities," which are municipalities with a population between 35,000 and 250,000, with median household income and rate of educational attainment of bachelor's degree or greater below the state average.[86] The Executive Office of Housing and Economic Development will give these gateway municipalities priority access to technical assistance to market or promote their opportunity zones.[87] Additionally, rural communities make up 18% of the communities with designated tracts.[88]

The average poverty rate across the state's opportunity zones is 26.2[89] These locales also have an average unemployment rate of 12.4% and the average median family income is $44,700.[90]

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[81] Samuel Stebbins and Grant Suneson, "Looking to Start a Business? These are the Best and Worst States for Companies," USA Today, March 1, 2019, https://www.usatoday.com/story/money/business/2019/03/01/best-states-business-massachusetts-tops-list-louisiana-worst/39094995/.

[82] Shelly Hagan and Wei Lu, "California Is the Most Innovative Economy in America," *Bloomberg*, April 16, 2019, https://www.bloomberg.com/news/articles/2019-04-16/california-is-no-1-massachusetts-no-2-in-u-s-innovation-rank

[83] "Learn About Massachusetts Tax Rates," *Massachusetts Department of Revenue*, accessed November 25, 2019, https://www.mass.gov/service-details/learn-about-massachusetts-tax-rates.

[84] "TIR 19-7: Massachusetts Treatment of Investments in Qualified Opportunity Zones," *Massachusetts Department of Revenue*, accessed November 25, 2019, https://www.mass.gov/technical-information-release/tir-19-7-massachusetts-treatment-of-investments-in-qualified.

[85] Massachusetts Executive Office of Housing and Economic Development, *Baker-Polito Administration Submits Opportunity Zone Designations to U.S. Treasury Department*, April 18, 2019, https://easthamptonma.gov/government/forms-documents/mayor/927-massachusetts-opportunity-zone-designations/file.html.

[86] Tony Grappone and Marc Schultz, *Understanding Opportunity Zones in Massachusetts*, accessed November 25, 2019, https://www.mass.gov/files/documents/2018/12/19/Opportunity%20Zone%20Fundamentals.pdf.

[87] Tony Grappone and Marc Schultz, *Understanding Opportunity Zones in Massachusetts*.

[88] *Ibid.*

[89] *Ibid*.

[90] *Ibid*.

By the Numbers

Massachusetts' tracts are predominantly White and Hispanic, with a median household income of $40,870 (compared to state-wide median household income of $75,203).[91] Residents in these tracts experience unemployment at a rate of 11.24% compared to the state's 7.18%, and live in neighborhoods with a poverty rate of 25.92% compared to the state-wide rate of 12.62%.[92] Of the tracts that were chosen, approximately 3.62% of the tracts exhibit signs of socioeconomic change risk, slightly higher than the state-wide percentage.[93]

Statewide Actions: Government and Non-Profit

State Government

The state government has created an informative website and designed a map that details the socio-economic characteristics of each zone, opportunities for development and contact information for municipality development staff.[94] This serves to close the information gap for investors and to provide smaller communities a platform to connect with investors. In December 2018, the governor's office hosted the Massachusetts Opportunity Zone Conference, engaging over 330 municipal leaders, state officials, economic development professionals, investors, developers and other stakeholders to discuss the newly created Opportunity Zone program.[95] Through this conference, city and town officials were able to learn from experts to utilize the Opportunity Zone program and forge productive partnerships and pave the way for investment in communities throughout Massachusetts.

The state has also provided information on how other tax incentive and development programs can be layered with the opportunity zones mechanism to maximize investments.[96] These incentives include the MassWorks Infrastructure Program which provides competitive grants to municipalities to complete public infrastructure projects for hor housing and job creation and the Housing Development Program which gives Gateway Cities tools to build market rate housing and to stabilize development in economically depressed communities.[97] [98]

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[91] "Opportunity Zones," *Metropolitan Housing and Communities Policy Center*, Urban Institute, 23 Oct. 2019, www.urban.org/policy-centers/metropolitan-housing-and-communities-policy-center/projects/opportunity-zones.
[92] "Opportunity Zones," *Metropolitan Housing and Communities Policy Center*.
[93] "Opportunity Zones," *Metropolitan Housing and Communities Policy Center*.
[94] "Opportunity Zone Program," *Mass.gov*, Commonwealth of Massachusetts, accessed November 25, 2019, https://www.mass.gov/opportunity-zone-program.
[95] "Opportunity Zone Conference," *Mass.gov*, Commonwealth of Massachusetts, accessed November 25, 2019, https://www.mass.gov/service-details/opportunity-zone-conference.
[96] "Additional Programs that Complement Opportunity Zone Development," *Mass.gov*, Commonwealth of Massachusetts, accessed November 25, 2019, https://www.mass.gov/service-details/additional-programs-that-complement-opportunity-zone-development.
[97] "MassWorks Infrastructure Grants," *Mass.gov*, Commonwealth of Massachusetts, accessed November 25, 2019, https://www.mass.gov/service-details/massworks-infrastructure-grants
[98] "Housing Development Incentive Program (HDIP)," *Mass.gov*, Commonwealth of Massachusetts, accessed November 25, 2019, https://www.mass.gov/service-details/housing-development-incentive-program-hdip.

Smart Growth America's Opportunity Zones Academy

Smart Growth America/ LOCUS brands itself as an Opportunity Zones Academy for cities and towns in the state. Their aim is to prepare communities to make the most of the federal Opportunity Zones tax incentive. Six communities have been selected to participate in a three-part technical assistance program focusing on the role of Opportunity Zones and Opportunity Funds in stimulating investment in traditionally underserved census tracts. LOCUS' technical assistance team will work to equip participant communities with the tools, skills, and knowledge necessary for developing sustainable growth and development strategies that balance the demand for walkable Opportunity Zones with the need for jobs, housing, open space, and transportation that is attainable and accessible to all. The cities of Fitchburg and Salem, and towns including Greenfield/Montague and Barnstable/Yarmouth were selected for the academy during the summer of 2019.

Local Initiatives Support Corporation's (LISC) Opportunity Zone Grants

Broadly, LISC helps to connect community organizations to resources and expertise that will advance their work and their impact. They have created Opportunity Zone Impact Grants in Massachusetts which they hope will seed proactive strategies to drive inclusive investments in these zones. Currently, there are 7 organizations and communities that are benefitting from these grants. These include the Madison Park Development Corporation, Lawrence Community Works, the Neighborhood Developers, One Holyoke Community Development Corporation, Main South Community Development Corporation, Somerville Community Corporation and Neighborworks Community Solutions. Some of the projects these entities are working on include the revitalization of urban corridors, the creation of art and open public spaces and the development of affordable housing,

Opportunity in the City: Brockton

Brockton

Brockton is a Gateway City of more than 95,000 residents 30 minutes south of Boston.[99] [100] With the arrival of Opportunity Zones as a new place-based investment tool city officials are working not just to attract investment but also to ensure that new investment benefits the entire community. Four zones were designated within the city's limits.[101] Recently, it has undertaken significant planning efforts to overcome its challenge of post industrial disinvestment. A public incentive strategy dubbed the "seven layer dip" has encouraged private investment downtown and in other neighborhoods.[102] The seventh and most recent

[99] Kayla Donovan, "How one City is Priming itself for Opportunity Zone Investment," *Smart Growth America*, accessed November 25, 2019, https://smartgrowthamerica.org/how-one-city-is-priming-itself-for-opportunity-zone-investment/.

[100] *City of Brockton Prospectus*, 2019, accessed November 25, 2019, https://www.metrosouthchamber.com/wp-content/uploads/2019/07/20190620-Brockton_Prospectus-Final_reducedsize.pdf.

[101] Kayla Donovan, "How one City is Priming itself for Opportunity Zone Investment," *Smart Growth America*, accessed November 25, 2019, https://smartgrowthamerica.org/how-one-city-is-priming-itself-for-opportunity-zone-investment/.

[102] Tracy Corley, "A Complex Recipe for Housing Financing," *Banker & Tradesmen*, March 25, 2019, 1–2.

"layer" to downtown Brockton's "seven layer dip" is the Opportunity Zone tax incentive. Other incentives in this framework include Brockton's Chapter 40 R Smart Growth Zoning Overlay (which requires that at least 20 percent of new housing to be affordable), New Market tax credits and Housing Development Incentive Program (HDIP).[103] Though the "seven layer dip" framework city officials are attempting to provide investors access to seven economic incentives simultaneously. They can choose the incentive that will be most advantageous for business and/or layer these incentives.

Brockton is most concerned with missing out on Opportunity Zone investment entirely, and therefore has prioritized attracting investment in ways that meet the city's needs. Thus, attempts are being made to align this incentive to the city's existing economic development plan. A key strategy employed by the city is actively engaging in matchmaking efforts with developers to initiate and accelerate key projects. The city is also preparing an investors prospectus that will detail available opportunities and market the city for investment.[104]

In addition to matchmaking, the city has made a purposeful effort to structure its zoning in a way that showcases the types of uses they want, rather than using zoning as a preventative mechanism to avoid undesired uses. The zoning code permits high commercial and residential density in core areas, including downtown and near transit, and encourages mixing uses where possible. The result is that a number of multifamily buildings are being built and redeveloped within walking distance of the commuter rail, health and government services, and retail and entertainment amenities.

First Movers

Thus far, there have been few investments in opportunity zones in Massachusetts. In February of 2019, WinnCompanies CEO Gilbert Winn announced that his company plans to start five opportunity zone projects in the state and anticipates that these deals will be finalized in twelve months.[105] Additionally, Boston Realty Advisors, a real estate brokerage firm is using the opportunity zone incentive to redevelop an apartment property in Attleborough.[106] They anticipate that 193 market rate apartment units and approximately 11,500 square feet of retail will be made. The site is situated within one of the two designated North Attleborough Opportunity Zones and is reportedly the first Opportunity Zone development in the state.[107]

In March of 2019. The mayor of Brockton, Bill Carpenter announced that the city government would capitalize on the OZ incentive to develop a 45-acre life sciences complex in partnership with the

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[103] Kayla Donovan, "How one City is Priming itself for Opportunity Zone Investment," *Smart Growth America*, accessed November 25, 2019, https://smartgrowthamerica.org/how-one-city-is-priming-itself-for-opportunity-zone-investment/.

[104] *City of Brockton Prospectus*, 2019, accessed November 25, 2019, https://www.metrosouthchamber.com/wp-content/uploads/2019/07/20190620-Brockton_Prospectus-Final_reducedsize.pdf.

[105] Cameron Sperance, "Massachusetts Slowly Moves Forward With Opportunity Zone Projects," Bisnow Boston, February 21, 2019, https://www.bisnow.com/boston/news/investment/a-few-brave-souls-will-likely-be-opportunity-zone-guinea-pigs-as-the-market-waits-97630.

[106] Boston Realty Advisers, "First Opportunity Zone in Massachusetts Out of the Ground & Fully Funded," *PR Newswire*, June 17, 2019, https://www.prnewswire.com/news-releases/first-opportunity-zone-in-massachusetts-out-of-the-ground—fully-funded-300869762.html.

[107] Boston Realty Advisers, "First Opportunity Zone in Massachusetts Out of the Ground & Fully Funded."

Massachusetts Life Science Center, MassDevelopment and MIT's Department of Urban Studies and Planning.[108]

[108] Marc Laroque, Brockton Gets Funds to Plan for Life Sciences Campus, *The Enterprise*, March 31, 2019, https://www.enterprisenews.com/news/20190331/brockton-gets-funds-to-plan-for-life-science-campus.

Arizona

Overview: Why Arizona?

Business Environment and Investment Climate

With a quickly growing economy, Arizona stands out as a state with high growth potential according to Forbes.[109] It's GDP grew by 4% in 2018, making it the fourth fastest growing state in the nation.[110] Currently the state's corporate income tax rate is 4.9% and citizens in the highest bracket (who earn more than $158,996.00 per annum) pay 4.5% in personal income taxes.

Having some of the lowest property and income tax rates in the country, Arizona proudly advertises its sunny weather, population and job growth, along with low workers compensation costs, encouraging a friendly business environment.[111] In Phoenix alone, there were 45 new businesses or corporate headquarters opened in the last year. This represents approximately $1.18 billion in capital investment.[112] Twice in the past two years, Arizona has appeared on Area Development's list of twenty Top States for Doing Business.[113]

Arizona's housing real estate market is similarly inviting to investment. It is also important to note that Arizona has seen significant growth in employment with more than 300,000 jobs added to the economy since 2015.[114] Approximately 75,000 of these jobs were added in the last year.

OZ Selection

Arizona's Opportunity Zone nominations were submitted on March 21, 2018 and approved by the U.S. Treasury Department on April 9, 2018, making Arizona one of the first states in the nation to have its zones officially designated. Arizona has 168 designated opportunity zones, including 160 low-income communities, plus 8 non-low-income contiguous tracts. Statewide, the vast majority (94%) of Arizona's census tracts are urban, 84 are in Maricopa County and 28 are in Pima County.[115]

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[109] "Best States for Business: Arizona," *Forbes*, November 2018, accessed November 25, 2019, https://www.forbes.com/places/az/.

[110] "Arizona: Job Growth Is Surging In The Grand Canyon State," *Business Facilities (blog)*, August 19, 2019, https://businessfacilities.com/2019/08/arizona-job-growth-surging-grand-canyon-state/.

[111] *Arizona Commerce Authority*, accessed November 25, 2019, https://www.azcommerce.com/.

[112] Michael Gossie, "More Companies Moving in to Capitalize on Arizona's Business Friendly Environment," *AZ Big Media*, January 2, 2019, https://azbigmedia.com/business/economic-development/more-companies-moving-in-to-capitalize-on-arizonas-business-friendly-environment/.

[113] Steve Kaelble, "2019 Top States for Doing Business: Georgia Ranks #1 Sixth Year in a Row," *Area Development*, 2019, accessed November 25, 2019, https://www.areadevelopment.com/Top-States-for-Doing-Business/Q3-2019/overall-results-georgia-ranked-top-state-by-site-selection-c.shtml.

[114] "Arizona: Job Growth Is Surging In The Grand Canyon State," *Business Facilities (blog)*, August 19, 2019, https://businessfacilities.com/2019/08/arizona-job-growth-surging-grand-canyon-state/.

[115] "Opportunity Zones in Arizona," *OpportunityDb: The Opportunity Zones Database*, 2019, accessed November 25, 2019, https://opportunitydb.com/location/arizona/.

By the Numbers

Arizona's tracts are predominantly Hispanic and White, with a median household income of $34,373 (compared to state-wide median household income of $55,529). Residents in these tracts experience unemployment at a rate of 11.45% compared to the state's 8.59%, and live in neighborhoods with a poverty rate of 31.52% compared to the state-wide rate of 18.24%. Of the tracts that were chosen, approximately 1.79% of the tracts exhibit signs of socioeconomic change risk, lower than the state-wide percentage of 3.14%.

Statewide Actions: Government and Non-Profit

Arizona State University partnered with Impact Experience, a nonprofit that connects investors, philanthropists, innovators and leaders of marginalized communities, to bring together tribal leaders, university leaders, Latino fund managers, philanthropists, and community leaders to "collectively brainstorm equitable and inclusive strategies for Opportunity Zones in Arizona, discussing and ideating solutions across sectors to spur collaboration and ensure inclusive and equitable economic development," says Jenna Nicholas, Co-Founder and CEO of Impact Experience.[116] As a result, local stakeholders have formed a working group, which serves as a clearinghouse for investors and developers to ensure that their projects are conducted through inclusive community engagement.

The Arizona Commerce Authority also helps to facilitate communication between communities and investors through the Arizona Opportunity Zone Network, an online portal.[117] With currently 80 projects in the database, the portal allows the public to search the information to identify potential projects or investors, though it does not allow for communities to submit their own information. The portal can be readily searched and filtered to find potential projects or land for sale in the state's zones.

The Authority has delivered webinars and presentations across the state to energize the community and investors alike. The Council of Economic and Development Agencies has sponsored a convening in partnership with the Arizona Commerce Authority where public and private officials from banks, cities and investment firms fielded questions about leveraging OZs to benefit communities, how OZ investment can support rural communities, and what components of opportunity zones can draw investors. A members-only organization, the Council also produces various resources for investors and communities about the state of opportunity zones in Arizona.

Opportunity in the City: Phoenix and Tucson

Statewide, the vast majority (94%) of Arizona's census tracts are urban. Consequently, only 10% of their opportunity zones are rural. As the 5th largest city in the country, Phoenix contains 23% of the Arizona's eligible tracts. To date 42 of these tracts have been designated as OZs. Officials in Phoenix have created a detailed prospectus which outlines each community's unique characteristics and development priorities.

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[116] "The Experience," *Impact Experience*, accessed November 25, 2019, https://www.impact-experience.com/the-experience.

[117] "Arizona Opportunity Zones," *Arizona Commerce Authority*, accessed November 25, 2019, https://www.azcommerce.com/arizona-opportunity-zones/arizona-opportunity-zones-network/.

The prime areas identified for OZ investors include the Deer Valley community, Paradise Valley, Christown, Downtown, Edison, Sky Harbor, South Central and Rio Salado.

Officials in Tucson worked with the Pima County Board to select over 25 OZs to advance both local and regional economic development plans.[118] These plans include expanding the pool of real estate offerings in Downtown Tucson, encouraging development in and around the Kino Sports Complex on the southeast side of the city, and supporting the growth of businesses along the Aerospace Research Campus and the Sonoran Corridor.[119]

First Movers

To date, developer and investor Caliber Cos. has raised more than $40 million for its Tax Advantaged Opportunity Zone Fund, and is developing a 96-bed site for the Medical Behavioral Hospital. This fund intends to reach nearly $500 million over the next two years to fund more developments in Arizona and elsewhere. Caliber Cos. appears to be one of the largest first movers in Arizona to date. With a minimum required commitment of $250,000 to their QOF, this fund is targeting an IRR of 13% through investing in multiple projects in Arizona and beyond.[120][121] Already, Caliber has partnered with developer Ryan Companies, Inc to finance a new convention center and DoubleTree by Hilton in downtown Tucson, along with luxury townhome and medical offices in Arizona and elsewhere in the southwest.[122] The fund has already raised a significant amount of its target funding, and continues to grow as it primarily is investing in projects with low-risk, high-reward characteristics.

Caliber is not alone in eyeing Arizona as a first place for investment. With a growing population, the region is likely to continue to grow at a fast rate, as more than 15 QOFs have publicized intent of investing in the state.

[118] Pima County, *Don't Miss an Opportunity: a Quick Guide to Pima County and Tucson Opportunity Zones*, accessed November 25, 2019, https://webcms.pima.gov/UserFiles/Servers/Server_6/File/Government/Economic%20Development/9573%20-%20Opportunity%20Zone%20Brochure%20REV%20-%20WEB.pdf.

[119] Pima County, *Don't Miss an Opportunity: a Quick Guide to Pima County and Tucson Opportunity Zones*.

[120] "Caliber Diversified Opportunity Fund II," *Caliber*, accessed November 25, 2019, https://www.caliberco.com/cdof/.

[121] "Investment Opportunities," *Caliber*, accessed November 25, 2019, https://www.caliberco.com/funds/.

[122] "Caliber-The Wealth Development Company Releases Q1 Update On Qualified Opportunity Zone Fund," *Caliber*, April 12, 2019, https://articles.caliberco.com/caliber-the-wealth-development-company-releases-q1-update-on-qualified-opportunity-zone-fund/.

Ohio

Statewide Overview: Why Ohio?

Business Environment and Investment Climate

Ohio boasts the seventh largest economy in the United States with a $649B GDP, supported primarily by a diversified industry environment, highlighting manufacturing, automotive, and financial services as primary drivers of economic growth.[123] With a low cost of doing business, the state attracts the private sector at a higher rate than other states in the region, and foreign direct investment has increased 21% in recent years. Complementing a lack of corporate state income tax, Ohio also offers corporate income and business tax credits for jobs, research and development and investments. [124]

In a state that already does not have a corporate capital gains tax, the governor recently signed into law the 2020/2021 budget that offers investors an additional 10% tax credit on an investment in an opportunity zone.[125] The 10% tax credit (with investments up to $1 million) is intended to provide incentives that are deeper than neighboring states for investments, and only applies to funds that hold 100% of their assets in an OZ. The unique component of this tax credit incentive — and different from the national incentive — is that investments other than capital gains may be utilized to benefit from the credit.[126]

According to Ballotpedia, Ohio generates most of its tax revenue from personal income tax and sales tax, given the lack of corporate taxes.[127] Ohio is among fifteen states that have tax incentives for data centers, which range from incentive for construction to purchasing of data equipment. In Ohio, the incentive requires the capital investment to be at least $100 million over three years, and have an annual payroll of at least $1.5 million.[128] This would likely layer nicely with OZ incentives given the requirement of "substantial improvement" to be eligible for the inventive. Additionally, Ohio has a state-wide Job Creation Tax Credit that is awarded to companies that create at least ten new jobs within three years, pay at least 150% of the federal minimum wage, and reach a payroll threshold of $660,000 per year. These incentives engender a business and development friendly environment for investing in Opportunity Zone property and businesses.

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[123] "Business Climate," *JobsOhio*, 2019, accessed November 25, 2019, https://www.jobsohio.com/why-ohio/business-climate/.

[124] "Ohio Economic and Incentive Analysis," *Reshoring Institute*, accessed November 25, 2019, https://reshoringinstitute.org/ohio-economic-profile/.

[125] "Ohio Budget Creates 10 Percent Credit for Opportunity Zones Investment," *Novogradac*, July 22, 2019, https://www.novoco.com/news/ohio-budget-creates-10-percent-credit-opportunity-zones-investment.

[126] Jonathan Wolnik, "Ohio's New Biennial Budget Bill Makes Opportunity Zones More Attractive with Added State Tax Benefits," *Crain's Cleveland*, August 29, 2019, https://www.crainscleveland.com/guest-blogger/ohios-new-biennial-budget-bill-makes-opportunity-zones-more-attractive-added-state.

[127] "Tax policy in Ohio," *Ballotpedia*, accessed November 25, 2019, https://ballotpedia.org/Tax_policy_in_Ohio.

[128] "Incentives," *JobsOhio*, 2019, accessed November 25, 2019, https://www.jobsohio.com/why-ohio/incentives/.

OZ Selection

In the selection process, organizations such as the Ohio Development Services Agency received over 100 calls and 238 online submissions to provide input on census tracts that should receive attention. The decisions were narrowed down to 25% of each county's eligible tracts, and for counties with more than 25% of the tracts requested, some were made eligible.

There are 320 OZs in Ohio, which land in 73 out of 88 counties. Within these OZs, there are 54,000 businesses, and 956,000 residents (approximately 10% of the population of Ohio). In the selection process, organizations such as the Ohio Development Services Agency received over 100 calls and 238 online submissions to provide input on census tracts that should receive attention. The decisions were narrowed down to 25% of each county's eligible tracts, and for counties with more than 25% of the tracts requested, some were made eligible.

By the Numbers

Ohio's tracts are predominantly Black and White, with a median household income of $29,700 (compared to state-wide median household income of $50,966). Residents in these tracts experience unemployment at a rate of 14.8% compared to the state's 8.82%, and live in neighborhoods with a poverty rate nearly double that of the state's. Of the tracts that were chosen, approximately 5.331% of the tracts exhibit signs of socioeconomic change risk, much higher than the state-wide percentage of .95%. In a further interesting comparison, of the eligible, non-designated tracts, only .60% of these tracts exhibit signs of socioeconomic change, suggesting that Ohio intentionally selected as many "changing" or recently changed census tracts as possible. As the program intends to benefit investments in these types of tracts first, this was a strategic move on behalf of Ohio to invite investment as soon as possible.

Statewide Actions: Government and Non-Profit

Active Approach and Incentivizing Investment

Ohio has taken an active role in attracting Opportunity Zone investments. Ohio's state-created website includes a succinct history and summary of the legislation, and offers a brief FAQ section primarily answering questions that an investor might have.[129] The information does not go into much depth about the potential impact of opportunity zones for communities, but rather focuses on details from the investor's perspective. The website offers a form for communities to submit information about their municipality so that an investor might understand more about what the community is like and what investments it might need. This portal is also available for investors and developers - both of whom can submit proposals for projects or types of investments. Responses from the community and project forms are then held in a searchable database for investors to find opportunities to invest.

Ohio has taken a proactive approach to encouraging OZ investment with their additional state tax incentive, though presents an interesting case for state intervention. The state legislation provides a 10% non-refundable tax credit to any—including non-capital gains – investments in a QOF that holds 100% of

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[129] *Ohio Opportunity Zones*, State of Ohio, accessed November 25, 2019, https://opportunityzones.ohio.gov/wps/portal/gov/ooz/home.

its assets in an Ohio OZ, making Ohio one of the more aggressive states to attract investment at the time of this writing. The tax credit will apply to any investments made in the previous year, and investors only have a one-month window in January to apply to the Ohio Development Services Agency to receive the credit. The legislation requires collecting information about who is investing, how much, and the location of the investment, which will eventually be public record as it is submitted to the governor at the end of the year. As of mid-November 2019, only one opportunity fund identifies a QOF that has 100% of its assets intended to be invested in Ohio.

While the state could have encouraged responsible or social impact developments with this additional state tax, the exclusion of any additional regulations may prove to encourage more reckless investments. However, as the state has been proactive in attracting OZ investments, cities and regions have simultaneously taken the charge to create prospectuses and websites that help investors understand the potential in their areas, on the community's terms.

Opportunity Everywhere: Urban and Regional Areas Take Charge

Urban: Cleveland and Cincinnati

In a quickly-changing downtown Cleveland, residents are concerned that increased investment in opportunity zones by investors who are not necessarily from the community will lead to displacement of current, lower-income residents.[130] Strategically, the census tracts that were selected are intended to be gateway areas of the city — connecting the revitalizing downtown with the rest of the city.[131] Aligning with the state's investment-promoting policies, Cleveland intends to leverage OZs to encourage mixed-income and mixed-use development within "strategic corridors," such as the downtown, Ohio City, Euclid Avenue, the lakefront, and University Circle. In addition to the inner-city development, the city hopes that the OZ incentive will spur development in industrially zoned land by the airport, which would be key for job creation.

One signature development in the Tremont neighborhood has already begun — the Tappan mixed-used development will include 60% affordable workforce housing and a bakery on the main floor.[132] The neighborhood has recently invited other investments as part of a larger revitalization plan for the Scranton Corridor; a five-minute drive from downtown, this neighborhood is one of the "gateway" parts of the city that can broaden downtown's success beyond the core. This development is specifically intended to ensure that there is affordable housing available in a rapidly changing neighborhood. The Tappan is a unique development in that it layers equity from both the developer and partner of the fund, as well as

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[130] "'It's Just Not Attainable': Cleveland Boasts Downtown Development but Some Residents are Left Behind," *News 5 Cleveland*, Oct 30, 2019, https://www.news5cleveland.com/a-better-land/its-just-not-attainable-cleveland-boasts-downtown-development-but-some-residents-are-left-behind.

[131] "Opportunity Zoning," *Urban Institute*, July 25, 2019, https://www.urban.org/features/opportunity-zoning.

[132] *Opportunity Zone Development Profile*, National Conference of State Housing Agencies, accessed November 25, 2019, https://www.ncsha.org/wp-content/uploads/Case-Study-The-Tappan.pdf?utm_source=NCSHA&utm_campaign=6cb112de64-EMAIL_CAMPAIGN_2018_12_12_03_44_COPY_01&utm_medium=email&utm_term=0_f00bc192e4-6cb112de64-67158447.

equity from PNC Bank. While it is rare for a bank to have capital gains, though if this investment is successful, it may highlight the potential for other deals to operate similarly.

Regional markets

To help attract investment, Opportunity Appalachia, a program initiated by the Appalachian Community Capital CDFI, intends to offer technical support to communities in Central Appalachia. This support includes help developing local strategies and prospectuses, or providing market research and outreach to OZ investors. Multiple community and economic development organizations in Ohio, Virginia, and West Virginia are supporting this initiative in their respective states. Initiated in part as a response to the first investors flocking to cities with strong potential for significant profit margins such as Cincinnati or Cleveland, this program will help strengthen the rural communities to be more competitive in attracting OZ investment. Communitiesmay apply for the funding either alone or as a collective, further encouraging this regional empowerment approach. The most important component of this approach is that Opportunity Appalachia will invite impact investors and QOFs that have aligned interests in the area to participate in a convening with communities to share information and coordinate development.

The Youngstown-Warren Regional Chamber has developed a prospectus to attract investors to the Mahoning Valley, and is the point of contact for any investments.[133] The Regional Chamber can assist investors with components of the OZ investment process by identifying deals, connecting investors with local developers, elected officials, and other service providers that can assist in making the investment a success. Through their collective action, these smaller cities in Ohio can more intentionally make the case for investors to consider their opportunity zones.

By approaching OZ investment from a regional perspective and centralizing the process, both the YWRC and Opportunity Appalachia serve as good models for collaboration and expanding access throughout a region. The importance of regional collaboration cannot be understated: with multiple smaller areas working together, investors will not only see the benefits of a connected economic region in a singular investment, but may also spur economic prosperity by investing in other areas in the region.[134]

First Movers

Cargominiums Opportunity Fund, LLC is a fund that is focused on affordable housing development in Columbus, specifically to returning citizens, and those transitioning from homeless shelters or addiction rehabilitation. The Fund intends to raise $4.2 million to continue a 25-unit, 100-bed project out of shipping containers. The Fund works together with a non-profit partner, Nothing Into Something Real Estate (NISRE), and as of April 2019, the project remained in limbo, though had broken ground.[135] The building is an initiative of NISRE, a non-profit, faith-based organization, and the Opportunity Zone

[133] "Mahoning Valley Opportunity Zones," *Youngstown Warren Regional Chamber*, accessed November 25, 2019, https://www.regionalchamber.com/initiativesprograms/opportunityzones.
[134] Quinton Mayne, "Cities on a Hill," *Boston Review*, February 16, 2018, https://bostonreview.net/forum/cities-hill/amy-liu-nathan-arnosti-modern-case-regional-collaboration.
[135] Jim Weiker, "Work to Resume on Landmark Cargominium Shipping-Container Complex," The Columbus Dispatch, April 22, 2019, https://www.dispatch.com/business/20190422/work-to-resume-on-landmark-cargominium-shipping-container-complex.

Development Group recently partnered with the organization to help fund the project since it has stalled in its completion for over two years after nearly going bankrupt. The Development group created the Opportunity Fund, and has since salvaged the project and provided the funding for completion.

A few other funds have begun to raise funds for potential investments in Ohio, along with other states. These include the Jackson-Dearborn Fund and the Decennial group, which have both stated interest in investing in Ohio, among others.

Policy Analysis and Recommendations

Key Takeaways

States vary in their strategy to attract investment

Active

In Ohio, the additional 10% tax credit to investments in QOFs with 100% of their assets in Ohio is an aggressive approach to attracting opportunity zone investment. By expanding this tax credit to investments that are not capital gains, the state is showing its strong support of the theory behind opportunity zone investment—that investment in these tracts is necessary and will inherently be a benefit to the communities.

The California governor's attempt to pass additional legislation that would provide tax benefits to investments in green energy and affordable housing can also be seen as an attempt to be active in attracting investment. Although it did not pass, this effort signals an eagerness to encourage investment, though through likely more sustainable means than that in Ohio.

Passive

The easiest path for a government to take is to allow the market to dictate how and what types of investments will occur, and passively encourage communities to develop prospectuses and investment portfolios to request the types of investments the community needs. The market-based structure of this incentive is what has created this situation, and without further checks and balances, there is a legitimate concern that without more oversight or engagement by government, the market will continue to dictate, and likely displace.

Arizona, though also eager for investment, has taken this approach: the state government is delegating much of the effort to local communities and the market, encouraging a more laissez-faire market approach. This has allowed a strong presence of profit-oriented developers to take advantage of developments in tracts with likely high ROI given the state of socioeconomic change in the tracts. The highlighted investor in Arizona has primarily invested in hotels, convention centers, and other commercial properties.

Similarly, through its specific decoupling from the federal tax structure, North Carolina is effectively letting the market take control for investment. However, since the federal tax benefits will not apply for investors in North Carolina, the state will likely not see much investment.

Engaging with Communities

Across these four states, not-profit entities have attempted support opportunity zone use through training programs, conferences, forums and other similar programs. Many of these organizations have a history of working with communities to enhance social investment. Case in point, the Ford Foundation's LISC has worked to bridge the gap between communities and investors since 1979.[136] They are guiding communities in the opportunity zones by helping them to design community-generated strategies for growth around land access, zoning, planning and additional incentives.[137] Furthermore, rather than simply identifying potential challenges with gentrification they have detailed strategies and best practices to help cities curb inequitable growth. Arguably, they are the most visible parties engaged in this work.

Though non-conformity may suggest that the state is not interested in being involved with anything opportunity zone related, states like Massachusetts and California have adopted their own engagement process that can be considered stronger than many of the conforming states. Typically, with attractive real estate markets, opportunity zone legislation is simply sweetening the deals rather than driving new investment. Therefore, these active states have taken to helping communities develop their prospectuses, educating localities on the opportunity zone incentive, and working closely with impact investors or CDFIs, which typically have more than the bottom line on their agendas.

California has one of the most comprehensive and accessible websites for communities to find resources on how to best market themselves and work with potential investors. With an active group of state employees dedicated to holding community forums and working with both communities and investors, California has taken the lead in encouraging development that does not ignore community needs. Citing the city of Oakland as an example, the city's opportunity zone online coordination platform specifically highlights funds and projects that have a component of social impact associated with them. This will hopefully lead the way for community-engaged processes elsewhere.

Similarly, Massachusetts' local community organizations have leveraged their strong ties to local and state government, thereby leading communities to organize themselves for potential investment. As a non-conforming state, Massachusetts has focused more of its efforts on ensuring that the expressed needs of communities align with the priorities of investors rather than simply attracting more investment.

Incentive-layering Encourages Accountability

Though different in their approaches to layering investment incentives, both Ohio and Massachusetts have attractive incentives that would also require certain reporting requirements. Massachusetts' "7-layer-dip" approach to encouraging investment in Brockton is an opportunity for investors and developers to take advantage of economic incentives, provided they meet certain reporting and investment requirements. Though not as comprehensive as Massachusetts, Ohio's state-specific incentive requires limited data about who is investing in the OZ, how much money, and what type of development. These incentives are important examples of how states can encourage accountability and metrics in opportunity zone investment.

First Movers Disinterest in Social Impact

Under the guise of job-creation, many opportunity zone investments are touted as being beneficial for the community because they provide affordable housing or encourage local business growth. While this may

[136] "About," *LISC*, accessed November 25, 2019, https://www.lisc.org/about-us/.
[137] LISC, *Opportunity Zones Fundamentals*, December 12, 2018, https://www.lisc.org/media/filer_public/a0/db/a0db8625-d224-4865-b39f-7161bec91848/lisc_kkelleher_ozone_presentation_eohed_summit.pdf

be the case in some scenarios, it is important to highlight the limited utility of job growth through construction of residential properties. That is, these developments have limited reach and impact as a means of employment and do not ensure sustained wealth-creation for communities. Although the funding mechanism for investing in a qualified opportunity zone business is arguably more difficult to navigate than real estate, it would be in many states' best interests to find ways to encourage more investment in the former.

The OZ incentive seeks to generate patient capital — the type of capital that is necessary to encourage affordability, high levels of community engagement, and long-term sustainability of a neighborhood's character and potential. Though CDFIs and impact investors are attempting to lead the way with this type of investment, it has not taken off with the speed and impact as was intended when the incentive was created.

The slow moving market toward investing in opportunity zones highlights a key limiting factor that is an oft-repeated mantra in these investment spaces: the opportunity zone incentive does not make a bad deal a good one, with a wide range of definitions of "bad deal". For many investors, this means that deals that do not have a large or fast enough return to justify investment —exactly the types of investments that opportunity zones are intended to discourage. Still, local governments are eager to realize the vast gains that the opportunity zone incentive could bring to their communities.

While governments should encourage the development of projects that could genuinely benefit most of the residents in their communities, the inherently-embedded tension of people over profit has not been sufficiently addressed in many states. There are few instances where intermediary institutions of CDFIs and impact investors have attempted to address this concern.

Like other tax incentives before it, critics often argue that Opportunity Zones privilege the needs of investors over those of communities and may in some instances accelerate gentrification. Some municipalities have taken steps to incentivize more equitable development through public investment. For example, in Ohio, California and Massachusetts cities have attempted to demonstrate to investors how opportunity zones can be used to help cities with their pre-existing development plans. In large part, through stakeholder engagement and the sustained involvement of community members, cities have identified the kinds of investments that would be most beneficial in the long-run to these locales. Officials in both these states have written prospectuses which outline exciting projects for investors and the short and long term benefits for communities. State and city governments leverage their "hard power" to either encourage investments in economically depressed parts of their communities by making it less or more difficult for investors to navigate zoning restrictions, land purchases and development financing.[138] Furthermore, they can use "soft power" strategies (e.g. publicly awarding and acknowledging investors that engage in community-oriented investments).[139]

Some investors are also making attempts to be more socially conscious in their work. Entities such as Sola Impact, which works on affordable housing and One Crop Holdings which works to improve food

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[138] Rikha Sharma Rani, "Avoiding Gentrification, How to Use Opportunity Zones to Benefit Communities," *Fuse Corps*, February 12, 2019, https://fusecorps.org/2019/02/12/avoiding-gentrification-how-to-use-opportunity-zones-to-benefit-communities/.

[139] Rikha Sharma Rani, "Avoiding Gentrification, How to Use Opportunity Zones to Benefit Communities."

access are key examples. While these entities have had positive impact of communities, there are concerns that they simply slow-down the timeline for gentrification and displacement. For example, affordable housing programs typically focus on renting properties to community members but are not necessarily interested in shifting to an ownership model that can close generational gaps in wealth and financial stability.

To be fair, there are quite a few investments being made that are considered to have positive social impact for the local community, and we have highlighted many in this document. We believe it is important to highlight good work being done while also acknowledging that there is currently a wide range in types of investments taking place.

Much Excitement, Minimal Investment

Despite the hype, it is still unclear how much money is actually moving into opportunity zones. In our sample state analysis, each state had a few examples of projects with shovels in the ground, but the broader investment landscape remains murky. States, cities, and regions that have been particularly active in recruiting investment have been relatively successful, but localities that have been more passive in their approach have remained on the sidelines.

Opportunity zones are being discussed in various academic and public sector arenas with much skepticism of their utility, while the private sector still appears to have hope that the incentive will grow and flourish as was intended. Analysis of the Novogradac conferences that attracted investors, accountants, developers, and government employees from across the country suggests that while many fund organizers and investors are actively seeking investments, few have been successful in deploying funding to projects in OZs.

This stilted growth is largely attributed to the lack of final regulations that were expected to be handed down by the Department of Treasury by the end of the year. However, given the sunset provision of the incentive for 2026, the clock is ticking for investors to take full advantage of the incentive. While some investors are hopeful that 2020 will be a year of growth in investments in opportunity zones, despite missing the time frame to achieve the full benefit, there are many questions and few answers about what the future of opportunity zone investment may look like after this year.

Appendix A: Key Resources

This appendix highlights key resources for comprehensive, data-driven approaches to understanding social impact in opportunity zones. Much of our research began with these resources, so we wanted to ensure the methodology was made clear in this document.

Urban Institute: Investment Score Approach

Our primary reference throughout this report is the Urban Institute. They developed a scoring methodology for all eligible census tracts, which included an investment score and a socioeconomic change flag. The investment score is a normalized z-score that was calculated using four metrics that indicate investment flows and how much investment is already happening: commercial lending, multi-family lending, single-family lending, and small business lending. The tract was averaged based on other categories if the tract did not meet the eligibility threshold in a given category. Thenthey ranked tract z-scores for Low Income Communities (LICs) and contiguous tracts relative to other LIC and contiguous tract scores within the same state or territory. They created decile rankings of the composite z-scores for all eligible LICs and continuous tracts from 1 (low) to 10 (high).

The socioeconomic change flag was given to tracts that were one standard deviation above the mean of all national census tracts based on the socioeconomic change index that was created. The socioeconomic change index was created using a percent change in residents with bachelor's degree, dollar change in median family income, percentage point change in the share of white residents, and change in average housing burden. This flag is intended to highlight tracts that have been experiencing socioeconomic change and would likely continue to gentrify given further investment.[140]

LOCUS Smart Growth Potential Approach

LOCUS analyzed census tracts via Smart Growth Potential (SGP) scores as well as Social Equity and Vulnerability Index scores (SEVI) in an effort to identify tracts that might be vulnerable to disruptive change that would displace residents in the process of investing, and instead encourage investment in a "triple-bottom-line" approach.

Their analysis includes quantitative research and data from both Foot Traffic Ahead and The WalkUP Wake-UP Call report series. These data have established the concept of regionally significant walkable urban places (WalkUPs). WalkUPs are ranked based on walkability, job and housing density, and the distance to a top 100 metropolitan center. Using this criteria, dense clusters of economic activity have demonstrated dramatic recent and rapidly growing demand for commercial and residential space, as measured by leasing activity and rising rents.

The analysis uses the SEVI index to rank places by transit accessibility, housing and transportation affordability, diversity of housing tenure, and social vulnerability index (SVI). Using a 20-point scale, they believed investments should ideally occur in locations that have SGP and SEVI scores both greater

[140] "Opportunity Zones," *Metropolitan Housing and Communities Policy Center*, Urban Institute, 23 Oct. 2019, www.urban.org/policy-centers/metropolitan-housing-and-communities-policy-center/projects/opportunity-zones.

than 10, or a SEVI score equal to or greater than 10 — these locations have the best potential for both investment opportunity and equity. The SGP score utilized walkability, job density, housing diversity, and distance to a central business district as metrics to determine desirability for a walkable lifestyle. The SEVI score used transit accessibility, housing and transportation affordability, diversity of housing tenure, and social vulnerability index as metrics to determine the potential for harming vulnerable populations. Overall, 98% of all designated OZs had SGP scores greater than 10, meaning that only 700,000 people live in OZs that are walkable urban areas with potential to grow in a smart way. Most importantly, only .18% of Americans live in both a high opportunity and high equity opportunity zone—urban areas that are walkable and are socially and economically inclusive.

The opportunity zones identified to be the most vulnerable to fast-paced gentrification without guardrails to protect the most vulnerable were downtown Oakland, Seattle, Portland, Newark and the international district in Seattle.

In September of 2019, LOCUS awarded seven community development organizations (CDOs) in Massachusetts with Opportunity Zone Impact Grants to support inclusive investment. Projects that will be supported by these awards include the conversion of a historic building into a cultural, healthy food and business hub in Lawrence and the creation of a small business center in Worcester.[141] Other cities will use the funds to engage in community planning.[142] Smart Growth America is another organization engaged in this space. They primarily provide research on opportunity zones to keep investors and communities informed. In 2019 they published a report entitled "National Opportunity Zones Ranking Report" which outlined opportunity zones across the country that were likely to encourage growth and social equity. They have also written a report that provides policy recommendations for cities to ensure that the use of tax incentives like opportunity zones will result in more resilient communities.[143] Additionally, through their LOCUS program ("a national group of real estate developers and investors who advocate for sustainable, equitable, walkable development in America's metropolitan areas"). LOCUS created an interactive mapping tool called the "Equitable Investment Atlas" which allows investors to look at the Smart Growth Potential and Social Equity score of OZs across the country. In some instances these not-for-profit partners have provided communities with the most up-to-date resources and consistent support.

Enterprise Institute: Opportunity 360 Approach

This tool identifies various components of OZ census tracts that contribute to quality of life such as: housing stability, education, health and well-being, mobility, and economic security. The filters included in the Opportunity Zones Tool were sourced from a variety of different data sets. When possible, census tracts provided original data. When tract- level data was missing, additional transformations were performed to be incorporated into the Opportunity Zones Eligibility Tool. This was the case for Promise Zones, Choice Neighborhoods, Tribal Tracts, and Sections 514, 515, and 538 active projects data. There

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[141] LISC Boston, *LISC Awards Opportunity Zone Impact Grants*, October 2, 2019, https://www.lisc.org/media/filer_public/03/65/03653f23-159e-4441-accd-bc346371376c/press_release___oz_impact_grant_awards_lisc_boston_final.pdf.

[142] LISC Boston, *LISC Awards Opportunity Zone Impact Grants*.

[143] "Opportunity Zone Explorer by Opportunity360," *Opportunity360*, Enterprise Community Partners, accessed November 25, 2019, https://smartgrowthamerica.org/resources/locus-opportunity-zones-national-ranking-report/.

are no calculated outcome values for Puerto Rico due to missing data from the American Community Survey.

The Housing Stability Score was calculated by averaging variables in the U.S. Census Bureau's 2017 5- year American Community Survey estimates, 2011- 2015 Comprehensive Housing Affordability Strategy dataset, and PolicyMap's most recent public dataset.
The Education Score came from the U.S. Census Bureau's 2017 5- year American Community Survey estimates. The Economic Security Score came from the U.S. Census Bureau's 2017 5- year American Community Survey estimates and PolicyMap's most recent public dataset. The Health & Well-being Score came from the U.S. Census Bureau's 2017 5- year American Community Survey estimates and PolicyMap's most recent public dataset. Finally, the Mobility Score came from the U.S. Census Bureau's 2017 5-year American Community Survey estimates.

The Opportunity Zones Eligibility Tool included a set of place- based filters including Rural and Urban Communities, Communities Intersecting Tribal Tract(s), Federal Place- Based Program Filters, Choice Neighborhoods, Promise Zones, and Rural Development Multi- Family Housing Section 514, 515, and 538 Active Projects. Finally, the included other filters to allow users to view designated low-income communities and eligible contiguous tracts by various housing stability, economic security, education, health, and mobility factors.[144]

[144] "Opportunity Zone Explorer by Opportunity360," *Opportunity360*, Enterprise Community Partners.