Opportunity Zones

The *Tax Cuts and Jobs Act* (2017 tax reform) created the Opportunity Zones tax benefit and an investment vehicle called Opportunity Funds in order to encourage private investment in eligible distressed communities. Opportunity Zones is a new, market-driven approach to attracting long-term, equity investments in businesses and real property located in newly-designated Qualified Opportunity Zones throughout the nation.

Over the coming months, Congress and the Trump Administration will continue to work together to provide guidance and create regulations which will govern Opportunity Zones. Enterprise Community Partners will continue to contribute insights gathered from our network of 25,000 partners who are working in distressed communities—including many Qualified Opportunity Zones--throughout the nation.

Enterprise Community Partners' Work with Opportunity Zones

For decades, Enterprise has worked alongside stakeholders and government leaders to strengthen communities by bringing together people, capital, and policy solutions. Our deep expertise working at the federal, state and local levels, and our long history in working with tax credit programs such as LIHTC and NMTC, has provided a unique and valuable perspective in raising awareness of Opportunity Zones since enactment and advocating for successful implementation.

Importance of Local Leadership

Public sector leadership at the local level is critical in this moment. City and county leaders have an important role to play in working with communities to create a framework of policies and programs that will attract the right kind of Opportunity Fund investments – namely, investments that lead to inclusive economic growth by aligning with local priorities and meeting the needs of current residents and businesses. Enterprise urges local leaders to work with a cross-section of other Opportunity Zones stakeholders to create a strategy that will guide investment to communities in a way that ensures inclusive economic growth.

Main considerations include:

- Protecting current residents and business owners from displacement,
- Attracting investment aligned with local priorities and the needs of the community, and
- Ensuring the transparency and monitoring of investments.

<u>Protecting residents and business owners from displacement</u>

The risk of displacement grows when cities do not have adequate housing and commercial space affordable to all residents and businesses. Dedicating the proper resources and policies to guard against displacement is key, and engaging current residents and businesses in a planning process to create a vision for their community will help to ensure that Opportunity Zone communities will benefit from any economic growth resulting from Opportunity Fund investments.

Examples of state and local policies that can help to prevent displacement and benefit communities include: property tax relief, right of first refusal for tenants, inclusionary zoning, housing trust funds, and linkage fees.

<u>Attracting investment aligned with local priorities and the needs of the community</u>

Public sector leaders can help attract investments by proactively making available data about their Qualified Opportunity Zones and engaging potential investors and managers of Opportunity Funds. For example, states could create an online portal where information on local priorities, qualified investments, and complementary state and local programs can be found. Mayors can convene stakeholders, including local philanthropy and corporations, to help inform a broader engagement framework for Opportunity Zones investments, and many states have created a template Letter of Interest for investors and fund managers to gauge their interest.

To further incentivize investments in Opportunity Funds, and to encourage investors to keep their money invested locally, states can alter the tax treatment of state-level capital gains through deferrals, reductions, and exemptions, all of which help to boost investors' effective return. States could make available this additional benefit for certain eligible activities which have been deemed a priority – investments in affordable housing or women and minority-owned businesses, for example.

Cities and states can create Opportunity Funds and engage Community Development Financial Institutions and other local financial and community intermediaries who can facilitate deal flow by developing pipeline, underwriting investments, etc. Public sector leaders may choose to pursue this strategy if the investment market is not responsive to certain priority activities and geographies. Cities and states could attract investors to these Opportunity Funds by leveraging additional resources and assets that can serve to mitigate risk and deliver desirable returns.

Emerging examples of Opportunity Zones-related policies include: California's AB-3030, which adds projects financed by Opportunity Funds to list of those exempt from the California Environmental Quality Act; and Missouri's SB 590 which aligns state Historic Tax Credits to provide incentives in Opportunity Zones.

Ensuring the transparency and monitoring of investments
With very few (if any) reporting requirements likely mandated at the federal level, it is critical that public sector leaders at the state and local levels have a process in place for measuring and reporting the impact of Opportunity Fund investments. This will be key in developing a data-informed understanding of whether and how communities have benefited from Opportunity Zones investments, as well as whether any unintended negative consequences or potential abuses have occurred. Data points, such as those already identified by Congress, would help researchers and policymakers better understand how to iterate and improve models and local strategies in the future.

Next Steps: Look to Enterprise as a Partner and Resource

Enterprise can assist efforts to successfully implement Opportunity Zones in your city in a number of ways, including: capacity building and technical assistance that will position communities to leverage Opportunity Fund investments to cultivate equitable and inclusive outcomes, create frameworks for effective capital absorption, identify appropriate investments to achieve community goals, and support small business incubation and local entrepreneurship. Enterprise is also exploring other potential ways we might support Opportunity Zones, including launching Opportunity Funds and/or managing funds for others.

Further, our Opportunity360 state mapping tool - which was designed specifically for Opportunity Zones - can be utilized by investors to assess designated communities. The mapping tool can also be used by Opportunity Fund managers as well as cities and states to monitor the condition of Opportunity Zones along multiple measurements pertaining to housing conditions, economic growth and mobility, resident well-being, and much more.

Questions? Contact Rachel Reilly, Director of Impact Investing, at RReilly@EnterpriseCommunity.org.

Visit Enterprise Community Partners' Opportunity Zones Webpage - www.OpportunityZonesInfo.org