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Making the most of US opportunity zones

A new program seeks to spark development in the neediest communities and boost the national economy. Similar, past efforts offer insights that may help them succeed.

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Most economic development programs follow a similar pattern. Typically, governments offer a mix of tax breaks, exclusions, and fewer regulations in the hopes of enticing new investments to economically distressed communities. The new federal opportunity-zone program, established by the US Congress in the Tax Cuts and Jobs Act of December 2017, also follows that model. In this case, the government hopes that a lower effective capital-gains tax will lure investor capital to projects in approximately 8,700 economically disadvantaged US census tracts.[1]

To help state and local governments as well as investors navigate expected challenges, we took a closer look at similar, past programs to see how they fared. Specifically, we analyzed the UK enterprise-zone program of the 1980s, US state-led enterprise zones of the 1980s and 1990s, and US urban-empowerment zones of the mid- to late-1990s.[2]

These programs had mixed results. Some zones experienced growth and transformation, while others did not. Their experiences, along with conversations with state and local government stakeholders and investors, suggest that opportunity zones may face challenges. Two of those challenges may be helping investors and other stakeholders understand and navigate the program, and ensuring that the benefits transform communities and help local residents. Learning from past programs, we believe that five actions can increase the chances of success. States, cities, and towns that employ these measures may be able to not only draw new capital into their communities but also entice businesses, jobs, and development that work to truly transform communities.

Understanding and navigating the program

The sheer number of opportunity zones and the volume of capital they are expected to attract create a daunting challenge for investors choosing between locations and projects. As of March 2019, more than 230 so-called “opportunity funds” are collectively seeking to raise upward of $25 billion across a range of investments.[3] The funds are geographically diverse, with nearly half focusing on specific states, a quarter focusing on investments across a specific region, and the rest open to any investment opportunities nationwide (exhibit).

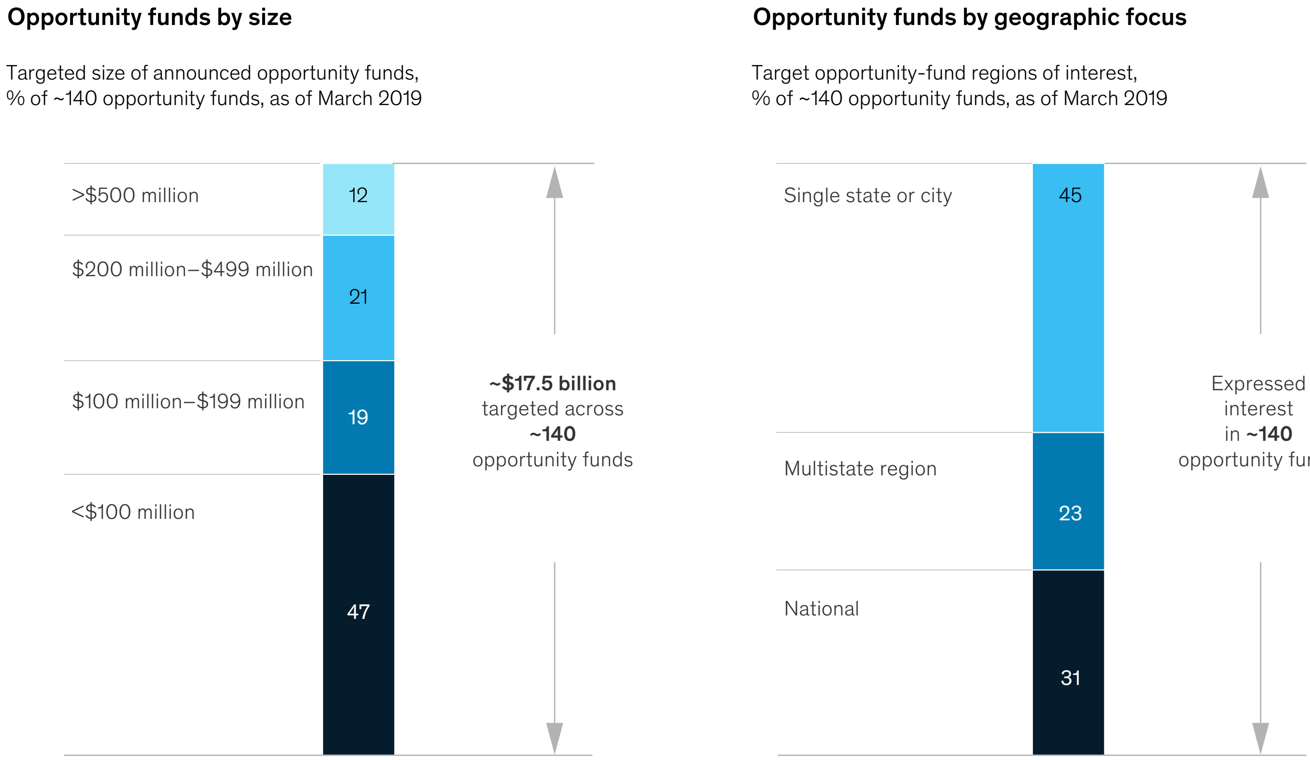
With regulations still being solidified, there is no template through which investors can compare the programmatic details of specific opportunity-zone investments. That detail was a major consideration for investors in US state-led enterprise zones, which first appeared in the United States in the 1980s. In those programs, many of which still exist, investors sought a thorough understanding of the program, the benefits available to them, the qualifications, and the commitment requirements before they would invest.[4] While offered at the state level, enterprise-zone tax credits have often been administered locally, requiring investors to understand local tax policies and interact across local government entities.[5] One critique of state enterprise-zone programs has been the difficulty they have posed for smaller businesses, which often lack “sufficient resources to be aware of the program, navigate the application process, and comply with the criteria,” as a 2010 assessment of California’s program suggested.[6]

To address the challenge, state and local governments have historically played two roles,

[1] “Opportunity zones resources,” Community Development Financial Institutions Fund, US Department of Treasury, cdfifund.gov.
[2] Peter S. Fisher and Alan H. Peters, *State Enterprise Zone Programs: Have They Worked?*, Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, 2002; Kieran Larkin and Zach Wilcox, *What Would Maggie Do? Why the Government’s Policy on Enterprise Zones Needs to be Radically Different to the Failed Policy of the 1980s*, Centre for Cities, February 2011, centreforcities.org.
[3] *Opportunity Zone Fund Directory*, National Council of State Housing Agencies, updated February 22, 2019, www.ncsha.org.
[4] David Hickey, “Enterprise zones: Opportunity requiring due diligence,” Area Development, 2016, areadevelopment.com.
[5] Dan Calabrese, “An urban enterprise zones primer,” Area Development, April 2012, areadevelopment.com.
[6] Eileen Norcross, “California enterprise zones: Written testimony submitted to the Committee on Revenue and Taxation of the California Senate,” Committee on Revenue and Taxation of the California Senate, March 10, 2010, mercatus.org.

Exhibit

Opportunity funds range by size and geography.



Note: Analysis only includes funds with both size and geography listed in Costas, NCHSA, or Novoco directories as of March 12, 2019. Figures may not sum to 100%, because of rounding.

Source: Opportunity Zone Fund Directory, National Council of State Housing Agencies, January 2019

which will also be critical in facilitating opportunity-zone investments: educating investors and other stakeholders and providing implementation support. For example, most states played a role as educators and investment promoters with the US enterprise-zone program, publishing key contacts or dedicating web pages to help investors understand what their program entailed.[7] In addition to information, governments have provided direct assistance in supporting program implementation.

The US Empowerment Zone Initiative offers a good example. In a survey of federal, state, and local officials involved in the six urban empowerment zones (namely, Atlanta, Baltimore, Chicago, Detroit, New York, and Philadelphia–Camden), technical assistance provided by US Department of Housing and Urban Development and strong mayoral support (including providing resources and coordinating city departments) were two of the top five factors touted as helping operationalize the program.[8]

[7] Dan Calabrese, "An urban enterprise zones primer," Area Development, April 2012, areadevelopment.com.
[8] *Community development: Status of urban empowerment zones*, US Government Accountability Office, December 20, 1996, gao.gov.

The complexity and breadth of geographic opportunities, as well as the potential value to investors of opportunity zones, make navigation supports important. To attract investors, state administrators may need to go further, offering coordination and interaction with investors and other stakeholders. Investors may otherwise find it difficult to understand local context and identify attractive projects in certain communities.

Transforming communities

Economic zones face myriad existing challenges and their assets and complexities vary by geography. For any economic program to have a transformative effect, investors and states will need to understand the local context of each zone and intervene accordingly. In the United Kingdom, for example, research found that "many of the original enterprise zones were in urban areas characterized by dereliction, land contamination, and poor-quality infrastructure. It was necessary for the zone managers to use public-sector resources to overcome these problems so that the process of economic development could begin."[9]

US opportunity zones span a variety of different geographic and economic contexts. These differences can affect which zones attract what kind of investors—as was the case in US enterprise zones. Surveys of US companies suggest that non-economic zone factors, such as the availability of transit and ease of market access, played a large role in companies' decisions to invest in enterprise zones.[10]

To tip the balance in their favor, state and local governments might undertake efforts that help transform local communities while also making them more attractive to opportunity funds. Our review of academic research on US enterprise zones found that quality public services as well as additional programs and incentives may be needed, particularly in areas facing significant barriers, for the programs to realize their impact.[11] These efforts would be similar to what many communities already provide to attract investments.

Among those sorts of investments in opportunity zones, the most effective are likely to be part of a holistic strategy to move the entire community forward rather than a one-off push. Given the fragmentation of opportunity zones across dozens or even hundreds of census tracts in each state, states may find it helpful to build strategies and investment promotion efforts for networks of opportunity zones. This distinction has been borne out in previous economic zones. For example, the mandate for each US urban empowerment zone was to create a strategic plan indicating how it would achieve the program's four key aims: creating economic opportunity, creating sustainable community development, building broad participation among community-based partners, and describing a strategic vision for change in the community.[12]

In a similar vein, the United Kingdom's enterprise-zone experience suggests that the relative performance of zones was affected by the strategy and vision-setting of local authorities. Those who connected their enterprise zones to a broader development plan for the area realized more economic activity.[13] As one researcher suggests, "evaluation showed that the relative performance of a zone was also influenced by the approach adopted by the zone authority to select, assemble, and develop the zone."[14]

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[9] Peter Tyler, "Making enterprise zones work: Lessons from previous enterprise zone policy in the United Kingdom," University of Cambridge; Barry Moore and Jonathan Potter, "UK enterprise zones and the attraction of inward investment," *Urban Studies*, Volume 37, Number 8, pp. 1279–1311, July 1, 2000.
[10] *Enterprise zones: Lessons from the Maryland experience*, US Government Accountability Office, December 15, 1988, gao.gov.
[11] Don Hirasuna and Joel Michael, *Enterprise zones: A review of the economic theory and empirical evidence*, Minnesota House of Representatives, January 2005, leg.state.mn.us.
[12] *Community development: Status of urban empowerment zones*, US Government Accountability Office, December 20, 1996, gao.gov.
[13] Peter Tyler, "Making enterprise zones work: Lessons from previous enterprise zone policy in the United Kingdom," University of Cambridge.
[14] Ibid.

As with past economic-zone programs, the true revitalization and transformation of opportunity zones may require significant private and public investment outside of the capital provided through the program. Communities that can thoughtfully coordinate private capital (from opportunity-zone investments and elsewhere) together with public-investment priorities may experience faster, more robust redevelopment, and longer-lasting community impact.

What states can do

Since the opportunity-zone program is so new, no state has a truly comprehensive strategy. But as interest in the opportunity-zone program has grown, many have begun taking steps to build on the program's promise. Our review of the actions states are already taking, our assessment of the successes and failures of previous investment attraction programs, and our experience working with city and state governments on strategies for growth and resilience lead us to five initial actions states can take to embrace opportunity zones and match investors with projects and communities with capital.

Develop a statewide opportunity-zone strategy

Opportunity zones are likely to function best when they're grounded in clear priorities and framed within a regional vision. Developing an opportunity-zone strategy can help state leaders identify the specific economic-development priorities they hope to address with an influx of investor capital. It can also allow state and local governments to communicate how opportunity zones could and should be used—thus shaping a state's vision. A statewide vision could be, for example, to promote inclusive growth in marginalized urban neighborhoods, to bring jobs to rural areas, to promote innovation in areas that already have some momentum—or any other overarching vision that would have outsize impact on the broader state or region's economic performance.

Detroit experienced this impact when it allocated its US urban empowerment-zone funding. The city's goal was to improve health outcomes in its urban communities, so program administrators allocated 60 percent of the empowerment-zone funding to human services, far more than other cities. They then complemented that initiative by distributing the remaining funding among workforce development, public safety, and housing initiatives. Each of these supported human services by addressing specific factors that affect health outcomes. As a result of designing its program in such a holistic way, Detroit saw improvements in health outcomes, jobs, poverty, and unemployment at a higher rate than peer cities.[15] As states develop their strategies for opportunity zones, they can try to tie them back to existing economic growth strategies. This would ensure that opportunity zones are consistent with a state's prior research and needs assessments and prevent fragmenting its resources.

Understand the needs of opportunity-zone census tracts

States with a detailed understanding of each opportunity zone are more likely to tailor their resources to increase their attractiveness to investors—either by shaping their outreach to investors or by making their own investments to make opportunities more attractive.

Most state and local governments, working with local stakeholders, can take advantage of publicly available, proprietary third-party, and internal state and local data to assess the needs of each community and develop a pipeline of potential projects that would have the most impact in each

[15] Michael Rich and Robert Stoker, *Governance and urban revitalization: Lessons from the Urban Empowerment Zones Initiative*, Conference on a Global Look at Urban and Regional Governance: The State-Market-Civic Nexus, Emory University, Atlanta, GA, January 18–19, 2007.

zone. This could include state-owned assets, affordable housing projects, commercial and industrial real estate, projects in the feasibility stage, fast-growing businesses that need capital or space, infrastructure projects in transportation-improvement programs, and other opportunities, including the types of investment that could also pay off in terms of community development and growth.

Build a detailed investor prospectus

An investor prospectus can put the state's opportunity-zone options into the language and taxonomy that best inform and excite investors. A few cities have already created investment prospectuses that market the benefits of their local geographies and showcase select investment-ready projects. For example, in partnership with Accelerator for America and New Localism Advisors, several cities—Erie, Pennsylvania; Louisville, Kentucky; Oklahoma City, Oklahoma; and South Bend, Indiana—have published investment prospectuses that articulate the value proposition of investments in each of their respective cities and provide information on potential opportunities.[16] These prospectuses woo investors with information on local talent, investment trends, top industries, real-estate footprint, shovel-ready projects, and specific investment opportunities the cities are pitching.

This sort of outreach sets cities apart by signaling to investors that a city is excited to work with them and can facilitate what could be a complicated process. Further efforts to quantify potential returns for key investment-ready projects, to identify capital available to potential investors, and to connect investors with project leads and dealmakers may be helpful additions to existing prospectuses.

Consider coordinating targeted state and local incentives with capital investments

State governments can use their own financial resources—incentive programs and state-run investment funds—to augment and amplify the impact of opportunity funds. Importantly, there is no one-size-fits-all approach to spur investment. Some opportunity zones in rapidly transitioning areas will likely succeed at attracting investment without any state intervention. For example, Assembly Square in Somerville, Massachusetts, is one of the area's busiest shopping centers, with planned investments to add five million square feet of office space already in the works. This investment trend could indicate that Massachusetts may not need to offer more incentives to attract investors to that area. On the other hand, in the most distressed communities, additional incentives could draw otherwise hesitant investors. And in some cases, state-administered funds may be the most efficient way to get investment to the places that need it most.

Nearly a third of all states are considering creating incentives specifically for opportunity-fund investments.[17] For example, Missouri passed a senate bill to earmark about $30 million in tax credits for preserving historic buildings in opportunity-zone investments.[18] Colorado repurposed a portion of its Community Development Block Grants to make them available for funding and technical assistance related to opportunity zones. Other governments, including the state of Ohio[19] and US commonwealth of Puerto Rico, are considering additional tax credits for opportunity-zone investors. In the case of Puerto Rico, its government is exploring ways to accelerate opportunity-zone investments by reducing local income taxes, license and property taxes, as well as certain excise taxes.[20] Furthermore, the proposed policies provide even greater benefit for priority projects—those involving a trade or business that would contribute to the economic transformation of an opportunity zone.

To help direct their own capital investments in support of opportunity zones, states could also

[16] Ken Gross and Bruce Katz, *Opportunity zone investment prospectus guide, Accelerator for America*, October 2018, acceleratorforamerica.com.
[17] Tim Fisher, Katie Kramer, and Toby Rittner, *CDFA opportunity zones report: State of the states*, Council of Development Finance Agencies, August 2018, cdfa.net.
[18] Senate Bill 773, Missouri Senate, effective August 28, 2018, senate.mo.gov.
[19] House Bill 727, Ohio Legislature, introduced August 29, 2018, legislature.ohio.gov; House Bill 1887.
[20] House Bill 1887, Puerto Rico House of Representatives.

establish their own opportunity funds—or partner with existing funds. The state of New Hampshire recently announced such a fund[21] to direct private capital toward priorities within opportunity zones.

Use online and in-person channels to align and excite stakeholders

The nationwide landscape of opportunity zones means that investors, communities, and project sponsors aren't likely to be in the same place. Each of these stakeholders needs a certain level of information and support—table stakes in recruiting investors. States are exploring many ways to do this.

Among the simpler solutions: according to a 2018 survey, approximately 55 percent of states have dedicated staff to working on opportunity zones.[22] We see an opportunity for these centralized teams to evolve into higher-touch concierge support, which may ease the process for outside investors and better coordinate resources. Such support might include, for example, a dedicated group within government that not only connects investors to a pipeline of projects but also coordinates investment from philanthropic players and local institutions. Several states have developed simple digital tools that highlight where opportunity zones are located across their states as well as the location of other assets relevant to business investment, such as schools and major infrastructure. For example, Arizona, Kentucky, and New Jersey have maps that highlight buildings and sites located in opportunity zones and include links to more detailed information on each site. The most advanced use of an online platform is in California, which hosts an online marketplace where investors can browse projects that seek funding and connect with local project sponsors.[23]

Additionally, some states are hosting in-person networking events, seminars, and conferences to educate stakeholders on opportunity zones and their benefits. About 48 percent of states suggested they would be hosting an educational event or information session in their communities.[24]

Over the next several months, as regulations are finalized, opportunity zones are likely to receive increasing investor and state and local government attention. Despite lingering uncertainty regarding final regulations, state and local governments can learn from past economic-zone programs and consider actions today to improve the program rollout.

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[21] *Opportunity zone review for New Hampshire communities*, Council of Development Finance Agencies, New Hampshire Economic Development, New Hampshire Municipal Association, October 2, 2018, nheconomy.com.
[22] Tim Fisher, Katie Kramer, and Toby Rittner, *CDFA opportunity zones report: State of the states*, Council of Development Finance Agencies, August 2018, cdfa.net.
[23] "California's marketplace for investing in communities," oppsites.com.
[24] Tim Fisher, Katie Kramer, and Toby Rittner, *CDFA opportunity zones report: State of the states*, Council of Development Finance Agencies, August 2018, cdfa.net.

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