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Policy Strategies to Effectively Implement Opportunity Zones

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TOPLINE POINTS

- The Opportunity Zones program created by the 2017 Tax Cuts and Jobs Act is spurring investment in underserved communities across America.
- States and localities can unlock the full revitalization potential of the Opportunity Zones program by prioritizing its implementation and reducing barriers to participation.
- OZ promotional groups, capacity-building, public-private partnerships, and local community outreach would all help provide valuable information and technical assistance to existing and would-be businesses and investors.

Introduction

The Opportunity Zones (OZ) program, established under the Tax Cuts and Jobs Act of 2017, is designed to spur economic development and job creation in economically distressed communities designated as OZs through tax incentives that encourage long-term private investment. This issue brief discusses implementation strategies for states, local communities, and stakeholders.[1] The goal is to inform state and local elected officials, public sector and private sector leaders, and community leaders about strategies to maximize the positive impact of the OZ tax incentives.

Background

OZ incentives are a key element of federal economic policy aimed at revitalizing forgotten communities across the United States. The program allows investors to defer and reduce taxes on capital gains by rolling over those gains into Qualified Opportunity Funds (QOFs) that invest in qualified businesses operating in OZs. The designation of communities as OZs took place in 2018 in a two-step process that involved governors nominating distressed communities (census tracts) that were then certified by the

[1] The term *stakeholders* is used to identify groups such as nonprofits, foundations, investors, private sector organizations, and economic development organizations that have an interest in the community but are not public sector.

Department of the Treasury. This process resulted in the designation of nearly 8,800 census tracts across all 50 states, the District of Columbia, and five U.S. territories as OZs. Based on service provider data, these zones have attracted significant private capital, with QOFs raising about $84 billion as of 2022 (Joint Committee on Taxation, 2024). Investments have flowed toward a variety of projects, including housing, commercial real estate, manufacturing businesses, and start-ups, to name a few, all contributing to economic revitalization in some of the Nation's most underserved communities.

While the OZ tax incentives have delivered promising results, stakeholders have various avenues to improve implementation in order to expand the reach and increase the effectiveness of the incentives. These strategies to improve implementation would also empower private, public, and nonprofit stakeholders to participate in directing capital to overlooked and high-need communities.

Policy Recommendations and Examples

Stakeholders at the most local level, such as community leaders, need not wait for slow-moving legislative action but can adopt successful strategies to attract capital and realize local policy goals. Some of these strategies are outlined below.

- **Create an OZ promotional group and build capacity.**

A dedicated organization solely focused on the state's OZs and policy goals, such as an OZ promotional group, could enhance the investment response to the OZ incentive and strengthen its broad-based impact.[2] The group could be formed within an economic development department or by an aligned external organization, such as a nonprofit or public-private partnership. This group could focus on promoting the state's OZs, educating the state's investor network (offering a single point of contact for investors for all things OZ), engaging with investors both within and outside of the state on specific OZ projects, and building capacity for using the OZ incentives effectively.

Example: Founded in 2018 as a nonprofit, Opportunity Alabama (OPAL) focuses on catalyzing investment in OZ projects in Alabama. OPAL connects banks, OZ funds, and other capital providers to a pipeline of Alabama commercial real estate investment opportunities. In addition, the organization formed a wholly owned for-profit subsidiary (owned by the nonprofit) and raised its own OZ funds to invest in Alabama projects (Flachsbart, 2019).

- **Provide technical assistance and financial tools to help OZ stakeholders.**

Local private and nonprofit economic development groups could offer technical assistance to help prospective investors, small businesses, and developers understand the complexities of using and complying with the OZ tax incentives. Offering technical assistance focused on investment structuring, tax compliance, and methods to ensure the long-term viability of projects is particularly beneficial for smaller businesses that may not have the resources to navigate these processes independently.

[2] While references are to "states," the recommendations can be applied to cities, counties, towns, or communities, generally.

The technical assistance could take the form of tailored workshops, one-on-one consultations, and written resources to educate investors and small business owners about the intricacies of the OZ tax incentive. Further, experts could provide small businesses or investors with step-by-step plans on OZ compliance. By offering these resources, local organizations could ensure that smaller businesses and non-professional investors have the knowledge and tools needed to participate in the OZ program, reducing barriers for local entrepreneurs while promoting growth within the community.

Example: Opportunity Appalachia has implemented a technical assistance program that offers small business owners and developers in rural OZs individualized support in advancing their projects to attract Opportunity Fund investments. For selected projects, a range of technical assistance is provided, which includes help with developing an investment prospectus, market research, architectural design and engineering, and investor outreach (Appalachian Community Capital, 2024).

- **Facilitate public-private partnerships and engage local communities.**

Policy officials can encourage and support public-private partnerships to enhance investment in OZs. This could involve creating or supporting state-level OZ funds, collaborating with local governments to streamline regulatory processes, and engaging directly with community stakeholders to ensure investments meet local needs.

Example: The nonprofit Erie Downtown Development Corporation (EDDC) worked with community stakeholders to form an OZ fund, Erie Downtown Equity Fund, made up of investments from major employers and investors in the city. The $27 million fund serves as first loss capital for a $25 million investment from an OZ fund by Arctaris Impact Investors. Combined with debt, the $52 million in equity capitalizes about $113 million in investment throughout the downtown Erie OZ. EDDC optimized the speed of deploying the capital into the OZs, potentially at the expense of leveraging state and federal funds, which would require a bureaucratized process before deployment (Arctaris, 2021).

The EDDC plans to leverage limited resources better for even more impact and thus is focusing on partnering with public capital sources (federal and state). For example, EDDC is working on becoming certified as a Community Development Financial Institution to utilize a revolving loan structure with the OZ tax incentive—to leverage even more capital into its designated OZs (Whiting, 2024).

Conclusion

By embracing best practices for OZ implementation, stakeholders can play a pivotal role in ensuring that the benefits of this tax incentive program are fully realized. Creating a promotional group and building capacity would ensure that limited resources were focused every day to attract capital to communities in need. Providing technical assistance and compliance guidance would empower small businesses and non-professional investors to navigate the complexities of the tax incentives, enabling more local participation and ensuring compliance with regulations. Facilitating public-private partnerships and engaging local communities would leverage these groups in the advancement of projects that align with community goals. Through these strategic actions, stakeholders could help maximize the potential of OZs to attract jobs and investment in distressed areas.

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