# THE PROMISE OF OPPORTUNITY NOW

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## INTRODUCTION

*Opportunity* is a concept deeply rooted in the core of the American experience. Whether it was the early American settlers or the small business owners of today, it is the undeniable promise of our great country. It is why the name is tied to legislative concepts like *Opportunity Zones* and socio-economic initiatives like *Opportunity Now*, with each seeking to ensure that this critical American ideal reaches beyond race, creed, and color. It uplifts the most often forgotten of our brothers and sisters. But these programs are neither slogans nor speeches; they are each focused on deliverable capabilities that provide an immediate foundation to strengthen the fabric of our communities. These initiatives harness the creative power of public-private partnerships to provide educational opportunities for our children, create safe communities, allow access to capital to build businesses, and develop a skilled workforce to fill the jobs of tomorrow.

In December 2018, President Donald J. Trump established the White House Opportunity and Revitalization Council to harness federal resources to advance many critical initiatives for underserved communities. This Council included 17 federal agencies tasked by President Trump to support his administration's pledge to encourage public and private investment in urban and economically distressed areas, including Opportunity Zones. This bold step demonstrated a focused commitment to lift our fellow Americans and did so in a manner that implemented cross-agency efficiencies at the highest levels. This overview seeks to highlight the role and rationale for Opportunity Zones as a tool for such progress and how they have already affected communities across America and demonstrate the promise of Opportunity Now and its larger pledge to all Americans.

## THE BIRTH OF OPPORTUNITY ZONES

Introduced and passed by Congress as part of the 2017 Tax Cuts and Jobs Act (TCJA), Opportunity Zones are an economic development vehicle that provides incentives for investment in distressed areas to advance economic development and job creation. This legislation empowered governors to select eligible low-income Census tracts within their states so that entrepreneurs could identify areas to locate or relocate businesses, grow the workforce, and enhance positive outcomes. Ultimately, the governors selected almost 8,800 Opportunity Zones (often called "OZs") across all 50 states, the District of Columbia and Puerto Rico. The tax benefits introduced by the OZ incentives are three-fold: a tiered federal capital gains tax deferral on investments made in these areas through what are known as Qualified Opportunity Zone Funds (QOFs)—the vehicle designated by the TCJA for investors to delay or reduce their capital gains tax liability (Eastman, 2018)—a step-up in basis for investments held in QOFs for at least 5 years, and an exclusion of capital gains tax on QOF investments maintained for at least 10 years (See https://fas.org/sgp/crs/misc/R45152.pdf).

QOFs are the vehicle through which investment flows to designated OZs and the mechanism through which investors can delay or reduce their capital gains tax liability as stipulated in the TCJA. Some of the successes of this investment are highlighted in the [Opportunity Zones Best Practices Report to the President](), which was presented by the White House Opportunity and Revitalization Council in May of 2020.

Senator Tim Scott (R-SC) led this effort in Congress. He worked closely with the Trump Administration to pass such game-changing legislation that differed from more bureaucratic attempts at placed-based anti-poverty policies in the past. In a 2018 op-ed in the Washington Examiner, Senator Scott wrote that this legislation was personal to him because he grew up in a distressed area. The promise of OZs was a way to truly empower local leaders to make the changes in their communities that would advance economic prosperity. In his words,

*"[Opportunity Zone legislation] doesn't pick winners and losers or utilize a one-size-fits-all approach to economic development. It serves as one more tool in the toolbox to empower communities and investors to come together to identify and achieve projects and investments that will make a difference for their residents*."

This vision was borne out in various projects throughout the country, including Wilmington, Delaware, Charlottesville, Virginia, Newark, New Jersey, and Erie, Pennsylvania. The wide range of flourishing OZ projects includes a vertical farm that employs formerly incarcerated individuals and thousands of affordable housing units for current residents and teachers with commercial spaces for first-time entrepreneurs. Senator Scott is also quick to point out that this program was developed with strong bi-partisan support, and its impact has only grown over time.

## IMPACT OF OPPORTUNITY ZONES

Concretely, what impact has the OZ program had? In the 2021 *Economic Report of the President*, the Council of Economic Advisers (CEA) laid out the positive economic effects in designated Opportunity Zones based on estimates from the amount of total private capital raised by QOFs through the end of 2019. Although revised data documenting further progress will continue to become available as time passes, this CEA report showcases the "booming start" that marked the beginning of the Opportunity Zones initiative. Using data from the Treasury Department, the Securities and Exchange Commission (SEC), and multiple empirical techniques, the CEA arrived at an estimate of $75 billion in total private capital raised by QOFs for investment in Opportunity Zones by the end of 2019 (CEA, 2021a). The CEA was then able to project the economic effects emerging from the investments made with this private capital on outcomes ranging from poverty reduction to housing values. Recent academic research has also identified substantial employment gains from the OZ program using high-quality proprietary data, including up to 4.5 percent employment growth in these areas- potentially resulting in hundreds of thousands of jobs. (Arefeva, Davis, Ghent, and Park, 2021).

Before delving into the details of this economic impact, some perspective on the relative financial distress and historical underperformance of these tracts before the OZ program can set the stage for a better appreciation of the recent progress these communities have shown. By design, selected OZs had to meet certain conditions, including having a poverty rate of at least 20 percent or having a median income less than 80 percent of that of the state or city (Lester et al., 2018a). Indeed, on average, across all designated Opportunity Zones, 28.9 percent of the population lived in poverty—more than double the 13.8 percent average poverty rate in non-OZs during the 2012-16 period (CEA, 2021b). Furthermore, OZs have a higher share of Hispanic and African American residents and a greater proportion of adults without a high school diploma. Before their designation, OZs had also experienced lagging income growth for nearly two decades compared to non-designated Census tracts. Specifically, from 2000 to 2016, real median household income in Opportunity Zones decreased by 11 percent, while the median income in non-designated tracts fell by just 6 percent (CEA, 2021c). In this context, the OZ tax incentive was included in TCJA to incentivize greater investment in these historically disadvantaged communities to improve the economic well-being of the American citizens that resided in these communities.

The OZ incentive was not the first policy to address the economic underperformance of historically disadvantaged communities. However, it is unique in its design and effects in several important ways. The CEA notes that the OZ program differs meaningfully from other anti-poverty policies that can impose a higher burden of taxation, decrease the incentive to work, feature hard caps that inherently limit their scope, or follow a more bureaucratic approach to approving investment projects (CEA, 2021d). For example, the OZ program avoids the pitfall of anti-poverty direct transfer programs that distribute cash or other non-monetary benefits to boost consumption among recipients but which actively detract from the incentive to work and impose a significantly higher tax burden on society (CEA, 2021e). By contrast, OZs lowered the burden of taxation on capital while only reducing federal tax revenues by $0.15 for each $1 of investment raised by QOFs, according to CEA estimates.

Moreover, this investment increases labor demand and boosts hiring prospects instead of discouraging them. Unlike most transfer programs that focus on individuals regardless of where they live, OZs are a form of place-based policy, which takes a geographic approach to target higher economic growth and lower poverty in distressed locations. One of the most prominent place-based programs to precede the OZ incentive was the New Markets Tax Credit (NMTC), created as part of the 2000 Community Renewal Tax Relief Act. The NMTC also sought to incentivize investment in historically disadvantaged communities through a more favorable tax policy (Lester et al., 2018b). The investments were required to be facilitated through a Community Development Entity (CDE) with written proposals for investments that had to be approved by the government and thus a corresponding bureaucracy.

Further, the funding provided by the NMTC was capped, limiting the number of applications that received a grant with further research finding that many of the investments made through the NMTC would have occurred regardless of the incentive (Lester et al., 2018c; Berstein & Hassett, 2015). The Opportunity Zone incentive is more flexible, can attract a wider array of investors, and does not require specific government approval. Thus, investments can occur across a broader range of projects in distressed communities (CEA, 2021f).

Despite facing the headwinds of deteriorating economic performance in these distressed communities, the OZ program has achieved its early success in encouraging greater private investment due in no small part to its unique design features, thereby setting the stage for better economic outcomes. The CEA estimates that QOFs raised $75 billion in private capital through 2019 alone and that 70 percent—or $52 billion—of this investment would not have entered these communities if not for the OZ incentive incorporated in the landmark TCJA reforms. Furthermore, this capital was raised across a variety of industries. According to the SEC data analyzed by the CEA, 45 percent of QOFs are pooled investment funds, 22 percent are "other" real estate funds, 18 percent are commercial real estimate funds, 6 percent are residential real estimate funds, and the remaining 9 percent are comprised of funds focused on healthcare, technology, construction, and investing.

The economic effects of these investments are far-reaching, as documented in the CEA's analysis. In terms of poverty reduction, the CEA finds that the $52 billion in new investment brought by the OZ incentive to distressed communities could lift an estimated 1 million people out of poverty based on empirical estimates of the link between tax-incentivized investment and poverty from a 2012 published study (CEA; Freedman, 2012). Equity investment in Opportunity Zones increased substantially as well. In 2018: Q2 – 2019: Q4 period, after the final designation of Opportunity Zones, equity investment in Opportunity Zones increased by 41 percent and by 13 percent in eligible tracts that Governors did not select. This implies an Opportunity Zone effect on equity investment in those designated tracts of 29 percent (CEA, 2021). The increase in home values in Opportunity Zones relative to eligible tracts that were not selected also directly benefits the 47 percent of residents in OZs who own homes. The CEA analysis calculated that this increase in home values translates to $11 billion in wealth to Opportunity Zone residents (CEA, 2021).

Due to the OZ incentive, these wealth-enhancing and poverty-reducing effects in distressed communities come with a fiscal cost. However, the budgetary impact is small relative to the economic success of the incentive. The federal government forgoes some revenue collection because of the incentive structure, especially capital gains tax deferment. However, the CEA estimates that these revenue losses represent just 15 percent of the $75 billion in capital raised, or $11.2 billion in total (CEA, 2021). This means less forgone revenue than the NMTC incentive per dollar of investment.

In addition to the CEA, several other researchers have analyzed the various economic effects of OZs. The nascent academic literature studying OZs has uncovered some promising results. Most notably, in terms of data quality, one recent study uses comprehensive proprietary data at the business establishment level to measure the effect of a census tract receiving an OZ designation on the amount of investment in that tract and among its nearby neighbors (Arefeva et al., 2021). The study found that the program raised job and establishment growth by between 3 and 4.5 percentage points over the pre-pandemic 2017-2019 period in metropolitan Opportunity Zone-designated tracts relative to tracts that had similar characteristics but did not receive an Opportunity Zone designation. In absolute terms, these results led to the creation of over 1.2 million jobs because of the OZ designation. Addressing possible criticisms of the program, the study also examines whether such jobs were shifted from nearby tracts or whether potential political factors that may have gone into determining which tracts received OZ designation undermined job growth. They find no evidence for either criticism. In fact, to the contrary, the authors conclude that OZ designation had positive job growth spillovers to nearby tracts that were not even designated as Opportunity Zones. Lastly, their analysis concludes that, within each OZ tract, at least some of the jobs were likely filled by low-skill workers, indicating that the program—despite being in its infancy and getting disrupted by the pandemic—may have contributed to a reduction in poverty, which is consistent with some suggestive findings in Freedman et al. (2021). Moreover, analysis from another study suggests that OZ designation may have made Census tracts more resilient during the pandemic, with evidence pointing to higher job vacancies (Atkins et al., 2021).

## IMPACT EXAMPLES OF OPPORTUNITY ZONES

Anecdotally, many observers have noted the variety of OZ investments and the successes in particular communities—especially those that embraced and further encouraged the OZ incentive. In addition to real estate, the Economic Innovation Group (EIG) has highlighted investments in affordable housing, brownfield redevelopments, clean technologies, healthcare, and historic preservation projects (Fikri et al., 2021a). Investment in OZs is also geographically diverse and not confined to urban or suburban areas. A quarter of projects documented by the EIG—and half of the investments in operating businesses, whether Opportunity Zone startups or growth companies—are in rural areas (Fikri et al., 2021b).

Certain state and local governments offered additional support to encourage investment through the OZs. Alabama launched Opportunity Alabama (OPAL), a non-profit organization centered on building upon and nurturing the federal Opportunity Zone incentive. OPAL has already helped secure the "development of a $1 billion pipeline of opportunities in rural and urban communities" across the state (Fikri et al., 2021c). At the local level, the Erie Downtown Development Corporation (EDDC) convinced Erie Insurance, Co. to capitalize a $50 million Opportunity Fund that, among other projects, invested in a cybersecurity startup and in a significant partnership to revitalize properties in the downtown core (Fikri et al., 2021d). Many of the anecdotal success stories of local governments and organizations leveraging the Opportunity Zone incentive to cultivate investments in distressed communities. As another example, in Bethlehem, Pennsylvania, the incentive was "paired with Historic Tax Credits to support the transformation of an underutilized 125-year-old building on Lehigh University's campus into 30 apartments and new retail space" (EIG, 2021a). In Memphis, Tennessee, the city and university partnered to secure $15 million in venture capital and launch a project to create an innovation and technology hub comprised of 30 digitally connected buildings (EIG, 2021b).

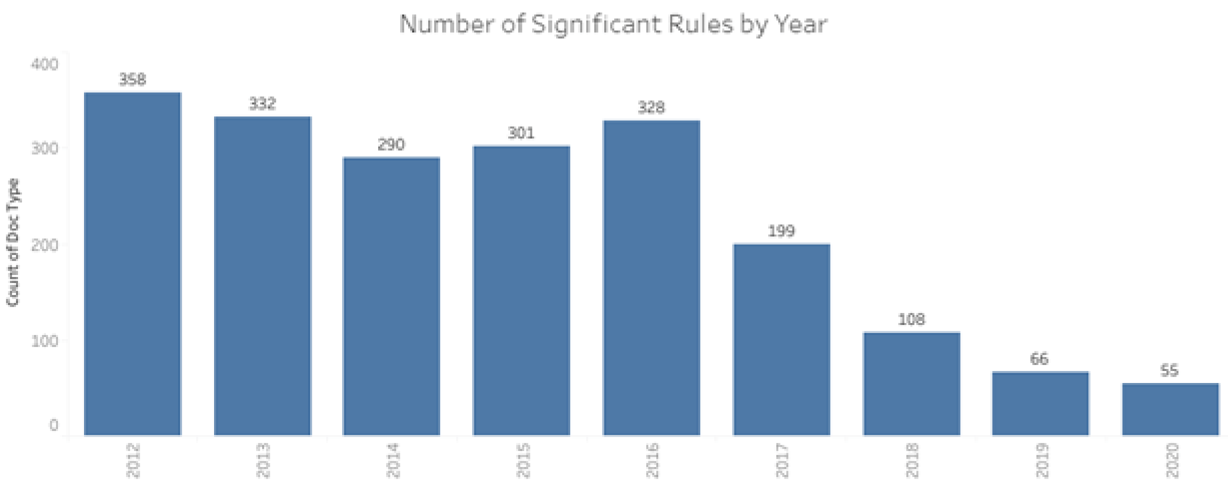
## THE PROMISE OF OPPORTUNITY NOW

In 1980, President Reagan famously asked the American people if their lives were better than they were four years ago. That was the first step in his efforts to establish the vision of America as a "shining city upon a hill." Opportunity Zones are another step in that promise of Opportunity Now (ON). ON is the delivery of that society we all long for and have been promised. It is the re-orienting of government to implement policies that support access to capital while getting out of the business of interfering with its efficient and equitable distribution. It is the vision of a land that puts its trust into small businesses and entrepreneurs to deliver what is needed and how it is needed. It is striving toward a society where workers can receive the training to succeed and trust in the existence of quality jobs that allow them to provide for their families. It is the commitment to treating our fellow man with dignity and humanity, including those who have paid their debts to society. It provides children with what they need to flourish inside and outside the classroom. It is the promise of that shining city, and OZs are the first concrete step to realizing that impact in many of the forgotten parts of our country.

Over the last several years, there have been many policy components that can be aligned to ON. Still, to demonstrate its impactful nature, examples of deregulation, workforce development, school choice, and fatherhood are discussed below to show the larger initiative.

## *A.) DEREGULATION to Advance Economic Development*

The previous 4 years saw a significant effort on deregulation. Its focus was to identify, preserve and increase the efficiency of regulations that were truly necessary while undertaking a concerted effort to stop or remove unnecessary, burdensome, and duplicative regulations. These reforms coincided with and likely contributed to growing the economy to reach landmark heights in employment and income growth and record lows in poverty (Council of Economic Advisors, 2021). A record of double-digit percentage reductions in regulations is not only dramatic but also a key driver to our country's success as the global leader in business and industry.




*Source: Mercatus Center*

Deregulation became a key priority by President Trump across all federal agencies, with his instruction to Cabinet Secretaries to defend or remove outdated regulations and provide adequate justification for any new regulatory measures. Regulation is not inherently bad and can be done with good intentions in mind. Still, when it entails excessive costs and unduly stymies the backbone of American innovation, our leaders must take great care in examining its value in the context of its utility.

The Trump Administration also worked with our Nation's governors in a bipartisan effort to eliminate unnecessary regulations, including annual surveys of all 50 governors on their regulatory priorities. Through the Governors' Initiative on Regulatory Innovation, deregulatory efforts focused on workforce development, cumbersome occupational licensing requirements, broadband access, criminal justice reform, and Opportunity Zone expansion—all of which work to the benefit of disadvantaged Americans the most. Deregulation cuts across all facets of American life to enhance the quality of the lives that we all lead. As such, it is a critical component of Opportunity Now.

## *B.) PLEDGE TO THE AMERICAN WORKER to Increase Workforce Opportunities*

There is no group of people more important to America's economic success than the American worker. Their efforts keep food on our table, keep our communities running, and drive the impact of small businesses across our country. A recent commitment to this vital community was termed the *Pledge to America's Workers*, a highly developed program that sought and achieved commitments from US companies—large and small—to train and hire workers for over 16 million jobs (National Archives). Not only are these numbers astounding, but the commitment across industries, foundations, public/private partnerships, and educational facilities was unprecedented. Our country's leaders had often attempted grand initiatives like this, but it took this commitment and vision that led with the American worker first. As Tom Donohue, the former CEO of the US Chamber of Commerce, said,

"*… thanks to the leadership of the Trump administration, the government is stepping up as an increasingly valuable partner and coordinator in the ongoing effort to solve our workforce challenges. The business community is grateful for the president's leadership on this issue. The Chamber looks forward to working with all stakeholders to create a future where businesses can find the workers to fill open positions—and the workers can find jobs to achieve their American Dream.*"

It is that American dream that is synonymous with Opportunity Now.

### *C.) SCHOOL CHOICE to Advance the Dreams of All Children*

The most critical part of Opportunity Now is its impact on our most precious resource—our children. Their ability to advance in an ever-changing world is foundational to them as individuals and to us all as a society. The documented failures of the current public school system are all too familiar. There must be an immediate systemic change that permits our children to flourish in a manner that recognizes and celebrates the freedoms that we share and cherish. That approach can only be achieved through school choice—a key tenant to the Opportunity Now program. By giving parents the flexibility to select the right path for their child, we can emphasize pairing children with programs that best suit their individual needs—which will be best for both the individual and society. Successful approaches across the country include charter schools, magnet schools, homeschooling, and other unique venues to teach students. These must be embraced so that our children can achieve the promise embodied by Opportunity Now.

### *D.) FATHERHOOD as a Bulwark of a Healthy Society*

Today, America leads the world in fatherlessness: an estimated 18 million American children are currently growing up without a father in the home, or about 1 in 4 of all US children—the highest rate of children living in single-parent households among any country in the world (Brewer, 2022). The numbers are even grimmer for black children: roughly 64 percent grow up in single-parent homes, for 6 million in total. The effects of America's fatherlessness epidemic span the whole of our society. For instance, fatherless children are far more likely to run away from home, end up homeless, exhibit behavioral disorders, end up in juvenile detention, drop out of high school, and commit suicide—to name a few examples (Brewer, 2022).

The Center for Opportunity Now understands that a strong Nation starts with strong families, and fatherhood is a critical component. To combat this crisis, this Center will focus on raising awareness, educating policymakers, building coalitions, and supporting policies—from education to tax incentives—that help restore the two-parent household in communities across America.

## CONCLUSION

The link between Opportunity Zones and Opportunity Now is clear. OZs are the novel and national answer to presenting a changed world for so many underserved communities. In partnership with local leaders, governors identified areas of need and developed a public-private market-based solution. Opportunity Zones were a framework to encourage business investment, create jobs, and lead to affordable housing and health care opportunities for those workers. Each OZ becomes an entire ecosystem with a limited role of government t and communities embracing what they need to rise and flourish. As these communities flourish, they can embrace countless other policies to keep them strong. Local businesses will embrace smart deregulation to minimize the bureaucracy of federal, state, and municipal systems. Dedicated workforce programs will give opportunities to new and existing job seekers. And our children will receive the education they need and how they need it through the adoption of school choice. Among other important programs, all of these can be propelled by the promise of Opportunity Zones and are foundational pillars of Opportunity Now.

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