

# OPPORTUNITY ZONES

Assessing the Benefits of Empowerment  
for African Americans

**CPAR ISSUE BRIEF, AUTHORED BY NAOMI SMITH**

**JUNE 2020**



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# INTRODUCTION



**INTRODUCED IN  
TRUMP'S 2017 TAX  
CUT AND JOBS ACT,  
OPPORTUNITY ZONES  
(OZs) WERE CREATED  
TO INCREASE  
INVESTMENT IN  
UNDERPRIVILEGED  
COMMUNITIES.**

”

Governors select low performing census tracts which are then approved by the U.S. Department of the Treasury.

Investors have **180 days** after receiving their capital gains (profits gained from the stock market) to invest in opportunity zones through certified a qualified opportunity funds (qof).

Investors then choose how long these funds are held in the QOF and receive a specific deferred tax break on the profit of their investment based on the length of the investment. Under OZ legislation, individuals who leave their investments for five years will receive a 10 percent tax deferral and 15 percent for investments made for seven years. Investors who hold their funds for at least ten years will also receive “capital gains realized from the eventual sale of the property [tax-exempt],” (Kirk, 2019).<sup>1</sup>

Sponsored by Senator Tim Scott of South Carolina and Senator Cory Booker of New Jersey, OZs are envisioned as a means to stimulate private sector investment in distressed communities with projected capacity to facilitate large scale investments (Rieder, 2018).<sup>2</sup>



# OPPORTUNITY ACT LEGISLATION INTRODUCED IN THE 115TH CONGRESS

This bill amends the Internal Revenue Code to authorize the designation of opportunity zones in low-income communities and to provide tax incentives for investments in the zones, including deferring the recognition of capital gains that are reinvested in the zones.



Governors may submit nominations for a limited number of opportunity zones to the Department of the Treasury for certification and designation. Governors must give particular consideration to areas that meet the following criteria:

## **GEOGRAPHIC AREAS**

that are currently the focus of mutually reinforcing state, local, or private economic development initiatives to attract investment and foster startup activity

## **GEOGRAPHIC AREAS**

that have demonstrated success in geographically targeted development programs such as promise zones, the new markets tax credit, empowerment zones, and renewal communities

## **GEOGRAPHIC AREAS**

that have recently experienced significant layoffs due to business closures or relocations.

# OZS WERE MET WITH A WIDE RANGE OF EXPECTATIONS.

For example, the Economic Innovation Group (EIG), a bipartisan public policy research organization, views OZs as a facilitator for growth in distressed and underserved communities through promoting business creation to stimulate the economy in areas were post recessionary recovery following the Great Recession of 2007-2011 posed significant challenges (EIG, 2018).<sup>4</sup> In contrast, the Center on Budget and Policy Priorities (CBPP), a nonpartisan research and policy institute, highlights concerns for opportunity zones in an issue brief entitled, Potential Flaws of Opportunity Zones Loom, as Do Risks of Large-Scale Tax Avoidance. This report details the disadvantages that designated OZs may possess such as vague requirements for investors that may lead to insignificant benefits for the communities in need. Additionally, CBPP states that OZs may become “a subsidy for gentrification” rather than preserving and stimulating the local economy (Jacoby 2019).<sup>5</sup>



“

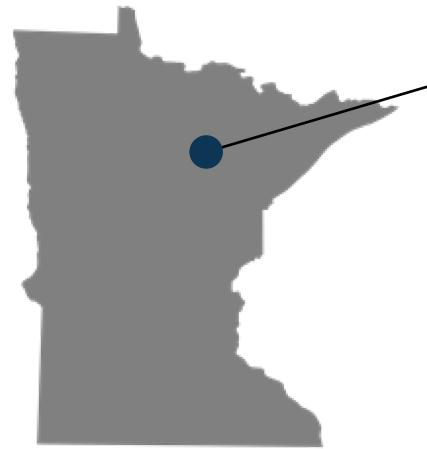
**Therefore, it is critical to examine the potential challenges and benefits OZs may have in African American communities and what policy considerations should be assessed to ensure realized benefit for the residents in addition to the benefits afforded to investors.**

# POTENTIAL CHALLENGES OF OPPORTUNITY ZONES

A look at the impact of OZs as it affects African Americans and low-income minority communities at large will be an important predictor of the socioeconomic impact given the concentration of resident of color in census tracts designated as an OZ.

## FOR EXAMPLE

in the Ninth Federal Reserve District in Minneapolis, Minnesota



## MINNEAPOLIS, MINNESOTA

**16%** of the population are people of color

## HOWEVER

**30%** of those living in Opportunity Zones are African American.

*(Horowitz, 2018).<sup>6</sup>*

**THROUGH A RECENT ANALYSIS OF OPPORTUNITY ZONES,** the Urban Institute reports that *African Americans* make up



**13.29%** of all census tracts

**YET,**



**24%**

of those living in Opportunity Zones are *African Americans*.

**THROUGH A RECENT ANALYSIS OF OPPORTUNITY ZONES,** the Urban Institute reports that *Hispanics* make up



**17.04%** of all census tracts

**YET,**



**30%**

of those living in Opportunity Zones are *Hispanics*.

*(Theodos, 2019).<sup>7</sup>*

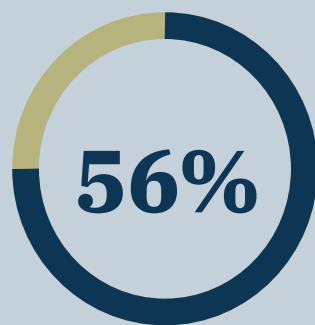
With the high concentration of people of color, it is important to pay close attention to the effect of programs that encourage investments in low income communities of color to ensure racial disparities are not fueled, but are closed over time as a result of both direct and indirect economic gains to the community.

A look at the Congressional Research Service's online mapping tool "displays census tracts that have been designated as a qualified OZs by the state or territory's CEO and approved by the Fund

The question for the sustainability and benefit of OZs for the populations that reside in them

will be the determination of whether the outcomes mimic patterns of gentrification. Gentrification occurs when the cost of living in a particular community increases more than the local community is able to afford often resulting in challenges such as displacement, job insecurity, and the loss of historical significance of the community. Additionally, given OZs are aiming to revitalize distressed communities, we must measure the impact of OZs on the effects of job creation and security, cost of living, affordable housing, and access to utilize or take advantage of the real estate investments boosting economic growth in the

# 30,000,000



**OF THOSE LIVING IN  
OPPORTUNITY ZONES  
ARE MINORITIES**

**RURAL OZs**

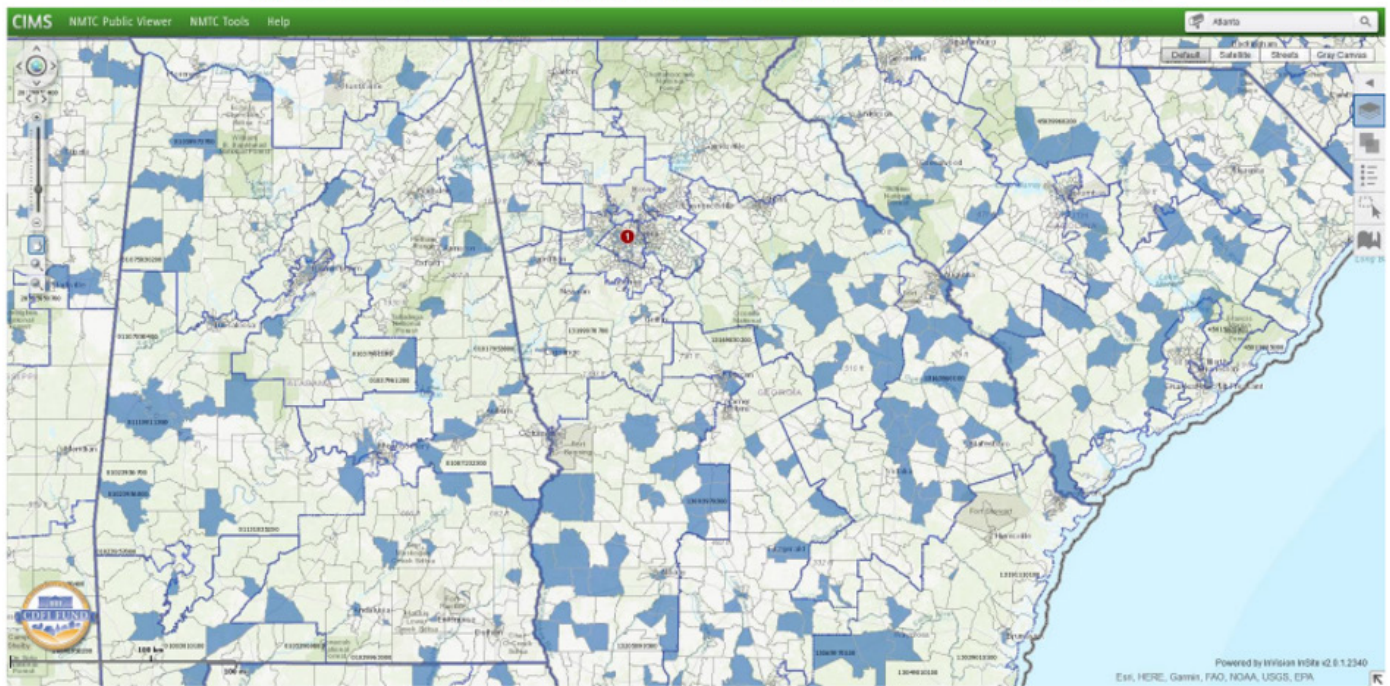
**42%**

**URBAN OZs**

**35%**

42 percent of opportunity zones are in rural communities **which face different challenges** than the 35 percent of opportunity zones located in urban areas (Coes, 2018).<sup>8</sup>



**Figure 1. CDFI Fund Mapping Tool Showing Designated Opportunity Zones (OZs)**

**Source:** CRS screenshot of CDFI Fund, CIMS mapping tool, accessed November 11, 2018, at [https://www.cims.cdfifund.gov/preparation/?config=config\\_nmtc.xml](https://www.cims.cdfifund.gov/preparation/?config=config_nmtc.xml).

**Notes:** Designated OZs are shown in blue. Congressional district borders have been enabled in the above screenshot.

The shaded blue area represent designated opportunity zones. The states pictured include Alabama, Georgia, and South Carolina. In Alabama, the designated OZs are in close proximity to Birmingham and Montgomery, two cities with majority Black populations.

One of the growing concerns of opportunity zones is the fear they will disproportionately increase gentrification in low-income communities of color.

**From 9 percent in the 1990s to approximately 20 percent in the 2000s, low income neighborhoods and communities have experienced increasing rates of gentrification and faced the threat of displacement (Maciag, 2015).<sup>9</sup>**



**The Robert Charles Lesser and Company (RCLCO) reports cities such as Detroit, Philadelphia, and Baltimore, all of which have a majority African American population, as some of the top “gentrifying qualified opportunity zones” (Willett, 2019).<sup>10</sup>**

The rise in the cost of living is largely due to new investments in businesses and real estate, as well as people moving into these low income communities with “higher incomes and/or educational attainment levels than the incumbent residents (Zuk, 2018).”<sup>11</sup>

The inability to afford the increased cost of living caused by gentrification often leads people, many who may have been in a community for generations, to leave their homes in search for a more affordable community. Currently, there are no provisions in OZ legislation to hold investors accountable to protect residents from being pushed out of their local community. Although gentrification and displacement have been an issue in many urban communities before the onset of OZs, the appealing tax deferrals may serve as an incentive for rapid investments which often overlook the needs maintaining sustainable neighborhoods and the communities they enter.

OZs are marketed as great opportunities to gain tax deferrals for investors. Reports have been published that focus on the best investments to generate the highest return rather than promoting the value proposition of socially conscious approaches to what we refer to as

“needs-based investments” or diversified and targeted investments based on the socioeconomic demand of the community. This would include cultivating sophisticated business investment strategies that translate into economic opportunity for more than the investor and direct beneficiary, but for the community. Professor Timothy Weaver at the University of Albany argues that OZs make the rich more rich and provide little support for communities.<sup>12</sup> His comparative analysis of “enterprise zones” in England and “empowerment zones” under the Clinton administration, were set up with similar tax incentives as a catalyst for investing and he concluded there was no significant impact to local economies. In fact, lessons from the empowerment zones demonstrate communities inside empowerment zones “fared worse in terms of income and employment growth when compared with similar census tracts,” though poverty was slightly reduced (Weaver, 2018).<sup>13</sup>

Empowerment zones were established in the early 1990s. The goal of empowerment zones were similar to opportunity zones, to stimulate economic development in low income communities through tax incentives. The zones were chosen based on the economic condition of the community and the development potential. During the procedure of consideration for an empowerment zone, communities were required to present a strategic development plan which detailed how “public and private efforts would contribute to its renewal and growth.”

Additionally, if the empowerment zone was accepted, communities were empowered to create personal assessments to measure success.<sup>14</sup> However, unlike empowerment zones, opportunity zones do not have community leverage or an accountability standard for the investor to meet in terms of community preferences for economic development.

Alan Peters and Peter Fisher of the University of Iowa, report in a study of the effectiveness of enterprise zones, tax incentives resulted in “no appreciable impact on local establishment growth” (Peters, 2002).<sup>15</sup> Community engagement in OZs is critical to ensure community residents have leverage in determining the social and economic outcomes of public policies impacting the community. Providing opportunities to engage in public hearings, information briefings by business leaders, and/or opportunities for residents to learn and discuss the impact with local elected officials by local government is critical for ensuring the sustainability and permanence of the community while also encouraging civic engagement that allows for residents to play an increasingly important role in the economic durability, security, and growth of their community. Since legislation does not require any type of consultation with community leaders or residents, such massive development initiatives have the potential for community backlash, which could eventually lead to displacement, and erasure of the community for which opportunity zones are targeted to assist.

Articulating the specific benefits of OZs for low-income residents remains to be seen. The program is setup to advantage high net worth individuals, leaving a large segment of the nation’s poorest communities with little to no opportunity to benefit even if marginally. Since the qualified opportunity zones are in the nation’s poorest communities and have until December 31, 2026, to invest through qualified opportunity Funds. There is little time for community members to participate in this program ultimately providing miniscule economic benefit compared to what the investors profit (Gelfond, 2018).<sup>16</sup> Opportunity zones are appealing because they are estimated to accrue \$6 trillion in capital gains (EIG, 2018) that will ultimately benefit investors. Though the intention of opportunity zone was to help distressed communities, there are many claims that this legislation merely helps the wealthy increase their wealth. On the other hand, EIG and other groups praise opportunity zones for its efforts to recover left behind communities, stimulate entrepreneurship and “empower economically distressed communities,” (EIG, 2018).<sup>17</sup> The aforementioned disparate perspectives on the aggregate outcome for the residents living in OZs should be measured through short and long term as well as direct and indirect benefits to community residents that scale investments according to the needs based framework of socioeconomic demands in the community such as poverty, unemployment, educational attainment, crime rate, and opportunities for minority business development assistance.





There are few programs being created through OZ that benefit the communities they enter. One way for investors to maximize benefits for the community is to invest in public goods. For example, affordable housing being built in Cleveland, OH; construction of an express bus system in Oakland, CA; and introduction of a workforce development programs in Philadelphia, PA.<sup>18</sup> Though there are few provisions that regulate investments, based on reviews on past enterprise zone programs, investing in public utilities has been proven to

help communities enjoy the new businesses and job opportunities that come from these investments.<sup>19</sup>

Opportunity zones are uniquely positioned to provide many benefits for the community or bring many challenges resulting in the displacement and erasure of the people and culture native to those areas. To ensure OZs have the maximum potential to benefit the residents living in those areas, the following recommendations are in order.



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COMMUNICATION	JOB TRAINING	CONTRIBUTE
Local members should be consulted with to determine what businesses will be created to ensure and maintain transparency to address concerns of an overage in a specific business	Those that create new businesses should provide adequate job training to ensure locals that the proper knowledge to fully perform	Allow residents of opportunity zones to contribute to into qualifies opportunity funds and receive the same deferral and basis treatment as capital gains investors against ordinary income tax liability

# POLICY RECOMMENDATIONS

EXPLAIN	AFFORDABILITY	TRANSPARENCY	BUILDING
State and local governments should clearly explain the expectation of investors and hold accountable for any issues new businesses bring	Those that create new residential living quarters must reserve a percentage of units affordable for those in the community	Create a public system to measure and monitor impact of investments to ensure transparency to local governments and residents	Those building new establishments should reserve a percentage of jobs, during construction and as full-time employees, to those local to the community

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