HOW STATES CAN MAXIMIZE OPPORTUNITY ZONES

THE GOVERNANCE PROJECT

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THE GOVERNANCE PROJECT

The Tax Cuts and Jobs Act of 2017 provides a new incentive—centered around the deferral of capital gains taxes—to spur private investments in low-income areas designated as Opportunity Zones. Given the significant interest among investors, it is possible that this new tax incentive could attract tens of billions of dollars in private capital, making this one of the largest economic development initiatives in U.S. history.

This policy brief lays out a plan of action for states to realize the full economic and social potential of this unique tax incentive. Governors have already played a critical role by selecting Opportunity Zones in their states from an eligible group of low income census tracts in accordance with the law. But state involvement should not begin and end with designation. States can play multiple roles to enhance the attractiveness of Opportunity Zones for market capital and ensure that social benefits within and beyond these communities are maximized.

To this end, we recommend that states create Opportunity Plans. These Plans should primarily focus on how states can help communities identify and amplify local advantages and design actionable strategies that align with local priorities and needs. Opportunity Plans should contain, at a minimum, seven concrete actions for states to develop and implement:

1. Help communities design and market an ***Investment Prospectus*** to showcase the distinctive assets of and investable projects in their Opportunity Zones;
2. Maximize the economic impact of public institutions of higher learning;
3. Maximize the economic impact of state assets that are located in or near Opportunity Zones;
4. Ensure that Zone related infrastructure is of high quality and meets performance standards;
5. Align state investments and decisions with the distinctive competitive assets and advantages of different Opportunity Zones.
6. Help local residents obtain skills or competencies necessary to meet existing or likely labor demand; and
7. Support the production and preservation of affordable/workforce housing.

States will need to use discretion in designing and delivering these actions: the location, market profile and institutional capacity of different Opportunity Zones will likely require interventions that differ by type, shape and scale. States will also need to collaborate with a broad array of stakeholders, both within and outside the state borders. To carry out these actions, we recommend that States establish a special Opportunity Zone Unit with the authority to coordinate actions within the government and the capacity to engage with communities, companies and investors.

BACKGROUND

The Tax Cuts and Jobs Act of 2017 allows taxpayers to defer paying tax on capital gains from the sale of property if those gains are invested in Qualified Opportunity Funds (QOF) that invest 90% of their assets in businesses located or property used in designated low-income communities (aka "Opportunity Zones"). In addition, investors that hold capital in those funds for a full ten years do not have to pay tax on the appreciation or capital gain of the new investment.

The new tax incentive differs from other federal tax incentives in several ways. First, it is more market driven; it does not use a federal or state agency to distribute the incentives but rather relies on the decisions of individual investors and Fund managers. Secondly, it can be used for a wide variety of projects—residential, commercial, industrial, infrastructure—rather than being restricted to a relatively narrow purpose like federal low-income housing or historic preservation tax credits. Finally, there is no cap on the amount of the benefit as long as the regulations (still to be written) are followed.

The federal law provided only one explicit role for states: it directed governors to select Opportunity Zones from an eligible group of low income census tracts. As of April 2018, Governors in all 50 states had designated thousands of Opportunity Zones across the nation.

The designation of Opportunity Zones should be the first rather than the final action of states with respect to this federal tax incentive. States have a complex of powers, resources, assets and relationships which, if smartly deployed, could help leverage the Opportunity Zone incentive to shape markets and maximize economic and social outcomes. In our view, states should not be casual bystanders, delegating to market forces and investors to find and define deals, particularly in parts of a state that have experienced decades of disinvestment and dislocation. This incentive will have maximum impact only if states act with intentionality and purpose and interact closely with market actors and the cities, municipalities, counties and towns where Opportunity Zones are located.

OVERARCHING PRINCIPLES

This policy brief puts forward five principles to guide state support for newly established Opportunity Zones. The principles are designed to enable the greatest job creation opportunities and the most significant advantages for lower income residents inside and outside eligible zones.

1. **Principle One:** *Unveil the distinctive competitive assets and advantages that give disparate Opportunity Zones their market traction and potential.* Given the information gaps that have historically suppressed private investment in distressed communities, States should be a source of economic intelligence and supply economic data about each of their Opportunity Zones on a steady and reliable basis. This will reduce friction in the market and help to connect Opportunity Funds to investment opportunities and localities to Opportunity Funds. States should also compile data to facilitate the tracking of social impact.

2. **Principle Two:** *Leverage the distinctive economic assets of disparate Opportunity Zones with customized state interventions.* States can enhance the economic potential of Opportunity Zones by investing in foundational assets (e.g., infrastructure, anchor institutions) as well as individual product types (e.g., housing, skills training, entrepreneurship).

3. **Principle Three:** *View the Opportunity Funds as one among other capital sources and structure strong partnerships with other public, private, and civic investors.* The Opportunity Funds ought to strengthen the overall capital options in a community both for the eligible Opportunity Zones and other places.

4. **Principle Four:** *Link capital investments to human capital strategies to maximize impact for lower income residents.* States have a unique potential, particularly for rural and less populated areas, to focus on aligning skills with existing and future job growth for residents who live either within or near the selected Opportunity Zones.

5. **Principle Five:** *Forge economic and social linkages between Opportunity Zones located in disparate parts of the state.* Governors have designated Opportunity Zones across cities, suburbs, small towns, and rural areas; many of these places are actually located within the same metropolitan areas and represent integrated business, housing and labor markets. States should not treat Opportunity Zones as isolated geographies but as places that have real but untapped market connections and synergies. States should think of their Zones as presenting a diversified portfolio of offerings and possibilities.

In this policy brief we will show how these principles can translate into specific state actions and interventions.

STATE OPPORTUNITY PLANS

The Opportunity Zone incentive has the potential to promote an historic level of investment in struggling urban, suburban, and rural communities in each state. State government can support this inventive in ways that lift communities up through a mix of advising, consulting, and incentives. While this paper suggests key actions that every state can take to best take advantage of the new program, every state is different and has different needs. For this reason, states should undertake the development of a statewide Opportunity Plan as soon as possible. [i]

A State Opportunity Plan could identify broad goals for Opportunity Zones that are aligned with state economies, priorities and culture. The multi-year timeline of this incentive encourages states and their communities to not only think about growing jobs but reducing the achievement gap that is holding many people and places back and is subject to measurement and assessment on an annual basis.

A State Opportunity Plan could also identify key needs and opportunities in the different clusters of Opportunity Zones around the state—which can serve as the foundation for the Investment Prospectus—and the right strategies combining state funding, financing, and technical assistance to help encourage the development of the most impactful projects. These Plans should, at a minimum, include seven concrete and practical actions.

ACTION ONE:
DEVELOP AND MARKET INVESTMENT PROSPECTUS

States (and leading cities and counties within states) should develop Investment Prospectuses that unveil the distinctive assets and advantages of selected Opportunity Zones (e.g., strategic location, land availability, anchor institutions) and tease out specific investable projects and propositions. The *Investment Prospectus* is a hybrid of three more common documents or approaches: a community marketing strategy, an economic development policy brief, and a private investment memorandum. The intersection of marketing, policy analysis, and capital investment is a way for the public sector to align interests with private capital and civil society.

Given the intent of this tax incentive, an Investment Prospectus should also strive to maximize economic benefits for low and moderate-income people (jobs) and places (neighborhood amenities). The Prospectus should, therefore, include an analysis of human capital issues in each city/community and how skill building connects to capital investment dynamics.

Ideally, states should develop an integrated Investment Prospectus for the entire state in close concert with public, private and civic leaders in different parts of the state. This provides an enormous opportunity to unify the state around a common economy shaping proposition and show possible sectoral and labor supply linkages across Opportunity Zones. States should also be prepared to assist cities and regions in preparing more focused, local Investment Prospectuses. State planning or economic development offices can prepare guidance and offer technical assistance to facilitate this work.

Special forums—State Opportunity Zone Summits, State Investment Missions—could offer opportunities for local leaders to market their prospectuses, share information, break down artificial jurisdictional barriers and find possibilities for integrated economic development strategies within and across jurisdictions and Opportunity Zones. The revitalization of a city's medical district might, for example, offer quality employment opportunities for residents who live in a nearby Opportunity Zone and receive special skills training. A central city research commercialization strategy might enable manufacturing initiatives in exurban or rural parts of the state.

Rhode Island Innovates: In 2015, Rhode Island Governor Gina Raimondo commissioned the Brookings Institution Metropolitan Policy Program to assess the potential of her state to compete on "advanced industries" (i.e., "industries that invest heavily in R&D and STEM workers, prize innovation, and demonstrate high productivity, strong exports, and higher pay") [ii]. The resulting plan—*Rhode Island Innovates: A Competitive Strategy for the Ocean State*—was released in January 2016 and found that the state had real, competitive advantages in biomedical innovation, cyber and data analytics, maritime technology and manufacturing, advanced business services, and design and custom manufacturing. The report recommended a series of actions for the state to consider in order to leverage these distinctive advantages.

Rhode Island is now pursuing one of the most aggressive and creative economic development strategies in the country. The state, for example, has driven development of a vibrant Providence Innovation and Design District on land made available by the demolition of a federal highway; this area is located in the middle of the city's new Opportunity Zone corridor [iii]. Future tenants include Wexford Science and Technology, Brown University, the Cambridge Innovation Center and Johnson & Johnson. The state has also established a business-led Partnership for Rhode Island to rebuild a collaborative ethos in the state and bring private and civic capital and expertise to the table. The Rhode Island effort exemplifies the ability of customized evidence and data and state leadership to drive market investment, business growth and job creation. It's easy to see how this groundwork can evolve into a comprehensive strategy to unlock more private capital to invest in Rhode Island's future.

ACTION TWO:
MAXIMIZE THE COMMERCIAL IMPACT OF ANCHOR INSTITUTIONS, PARTICULARLY PUBLIC INSTITUTIONS OF HIGHER LEARNING

Since the 1950s, states have been major builders and stewards of networks of public universities. In many parts of the country, these universities serve as platforms for strong local and regional economies. They conduct basic scientific research, often with federal grants, that can be commercialized for market purposes and company formation. They provide applied research for companies that are experiencing technological barriers or business-related hurdles. They provide spaces for entrepreneurial and business development through incubators, accelerators, maker spaces and other facilities located on or near campuses. They are often owners of vast real estate holdings, sometimes located in the path of market momentum. They are large employers, offering a range of occupations requiring different skill sets and educational backgrounds. In some cases, they are sources of capital themselves, with endowments built from alumni or revenue acquired through asset management or special initiatives.

The Opportunity Zone incentive may help to induce technology, manufacturing and other companies to make major investments in Zones. States can help to catalyze and leverage these investments by working with state university systems to establish partnerships between industry and higher-education that can benefit companies, researchers, students, and the general public by growing the economy and linking both university students and workforce-development trainees to high quality jobs. States can also make it easier to spin new technologies and business models into new companies by eliminating innovation- and entrepreneurship-sapping noncompete agreements.

Three strategies deserve particular state attention:

Tech-Transfer and Specialized Real Estate
Specialized office, laboratory, and prototyping space is key to fostering successful economies around colleges and universities. Private developers, owners, and operators have demonstrated the profitability of this model with campuses focused on life-sciences, advanced manufacturing, and information technology. States can incentivize the development of these facilities by offering grants, tax-incentives, and other benefits to qualifying projects in Opportunity Zones. Additional incentives could be offered to projects demonstrating linkages to institutions of higher-education or medical facilities, or to projects that incorporate workforce training or other economic-development programs.

> ***Virginia—Commonwealth Center for Advanced Manufacturing:*** [iv] The Commonwealth Center for Advanced Manufacturing (CCAM) was established in 2010 as a unique partnership between industry and higher-education. CCAM is a facility in Prince George County, Virginia, comprising a partnership between major public universities—including the University

of Virginia, Virginia State, VCU, Virginia Tech, and Old Dominion—and industry leaders, including Rolls-Royce, Airbus, Siemens, and Kyocera, among others. CCAM faculty and staff conduct cutting-edge research to develop advanced-manufacturing and processes, supported by member companies and institutions.

CCAM helps to foster the high-value added industrial economy in Virginia by conducting both "generic research" on behalf of all of its members, as well as "directed research," which is funded by specific companies and which remains proprietary to the CCAM members supporting the work. This unique partnership helps to position Virginia and the region surrounding CCAM as a particularly attractive location for advanced-manufacturers. CCAM produces the critical applied research that helps its member companies compete while simultaneously ensuring that faculty and students at the state's public universities are exposed to, and helping to solve, the most pressing and relevant industrial challenges. Such an institution can become an important anchor for new investments and businesses to take root in nearby Opportunity Zones in southern Virginia.

Incentives for Investors and Companies in Advanced Industries:
Universities are often at the heart of advanced industry ecosystem that include mature companies, start-ups and scale-ups, incubators and accelerators, investors, and trade associations. Targeted state investments and incentives can help fledgling companies sharpen their distinctive business niche and access private capital. These efforts could provide ample lessons for how states can leverage the new Opportunity Zone incentive.

Colorado Advanced Industries Accelerator Programs: [v] Like Rhode Island, Colorado has identified a group of seven advanced industries where it has strong advantages. These industries include advanced manufacturing, aerospace, bioscience, electronics, energy and natural resources, infrastructure engineering and technology and information. In 2013, Colorado passed the Advanced Industries Accelerator Act, a 10-year, $15 million-a-year initiative that provides grants to and incentivizes venture investment in startup and early stage companies in these core industries. The state's website specifically targets angel investors who are interested in providing capital to companies in the innovation space. Grant winners that locate their companies in Opportunity Zones will now be able to tap into a custom pot of private tax-advantaged capital that should improve their chances of growth and success in place.

Student Housing
Beyond the traditional model of institutionally developed and operated student housing, there is an established market for both privately developed student housing with institutional occupancy agreements and for privately owned and operated housing. Student housing can support small businesses and help to revitalize neighborhoods and downtowns. It can also be an important part of a growth-strategy for smaller colleges and universities that can in turn play a critical role in the economic development of their communities. States can help to promote the use of Opportunity

Funds to develop student housing by offering low-cost financing, tax-incentives, technical assistance, or other support.

> ***New Jersey Rowan University:*** Rowan University is a public research university located in Glassboro, New Jersey, directly adjacent to a recently designated Opportunity Zone. Over the past ten years, a unique partnership between the municipality, the university, state government and private developers has catalyzed a remarkable rejuvenation of the downtown. A new Rowan Boulevard has emerged on land owned by the township, "a multi-stage, mixed-use community that combines student housing with market-rate apartments and substantial ground-floor retail with academic offices and classrooms."[vi] Public sector co-investment or commitment can improve the investment calculus for private investors and increase the probability of success for all involved, including the community. Signaling and commitment from public entities may be especially important in more marginal zones that may not attract investment even with their new Opportunity Zone designation absent an outside catalyst.

ACTION THREE:
MAXIMIZE THE COMMERCIAL IMPACT OF PUBLIC ASSETS

States own and manage diverse portfolios of assets, ranging from real estate to roads, administrative facilities to foreclosed and abandoned industrial properties and waterfront properties to legacy hospitals and medical institutions.

States can help encourage the development of Opportunity Zone projects by offering surplus public property as project sites. Many states have significant amounts of unused or underutilized property—including former state hospital campuses, prisons, and other state facilities. In addition, states can provide guidance to cities to help direct the similar disposition of surplus municipal property—including unused or underutilized land controlled by transit, transportation, and other public-works agencies. Creating publicly owned and professionally managed public asset corporations, as in Philadelphia [vii] or Copenhagen [viii], represents one way for states and communities to spur economic growth and development while retaining a long-term stake in value appreciation for public investment.

> ***South Carolina BullStreet District:*** [ix] In 2010, the State of South Carolina entered into a contract to sell the site of the abandoned South Carolina State Hospital in Columbia, South Carolina to Hughes Development Corporation. The goal is to convert this 181-acre historic site—first opened in 1828—into a vibrant, mixed-use neighborhood in the state's capital. The project is the largest urban revitalization effort in a downtown city east of the Mississippi and promises the preservation of 275,000 square feet of historic buildings. To date, over half of

the property has been transitioned from state ownership to private developers and the city and extensive redevelopment has already begun or been completed. The site has been designated as an Opportunity Zone by the State of South Carolina.

In many rural Opportunity Zones, managing rather than disposing of public assets provides a smart route to economic development. The economic value of public lands can be particularly enhanced through investment in smart infrastructure like bike and walking trails and other conservation and stewardship activities.

Colorado Office of Outdoor Recreation: In 2015, Governor John Hickenlooper launched the Colorado Outdoor Recreation Industry Office (OREC). The mission of this office is “to inspire industries and communities to thrive in Colorado’s great outdoors.”[x] The office pursues this mission by focusing on four areas: economic development; conservation and stewardship; education and workforce training; and health and wellness. According to OREC’s website, “[the office] is one of only seven offices in the nation that provides a central point of contact, advocacy and resources at the state level for the diverse constituents, businesses and communities that rely on the continued health of the outdoor recreation industry.” The Colorado outdoor recreation industry accounted for $28 billion in consumer spending in 2016 and generated $2 billion in state and local taxes. Roughly 60 percent of the state’s Opportunity Zones are rural.

ACTION FOUR:
ENSURE THAT ZONE RELATED INFRASTRUCTURE IS OF HIGH QUALITY AND MEETS PERFORMANCE STANDARDS

States are major investors in infrastructure. States provide grant-funding and low-cost financing for broad classes of infrastructure, including clean water, sewers and wastewater treatment, power generation and transmission, transportation, and transit. States also provide grant funding and financing for social infrastructure projects like medical facilities, schools, and affordable housing. High-quality infrastructure is critical to the economic development of low-income communities. Employees need to be able to get to their jobs quickly and safely, companies need to be able to quickly and reliably ship and receive freight, and access to high-speed broadband is a prerequisite for many businesses.

In order to incentivize private investment in critical infrastructure in Opportunity Zones, helping to realize projects that would otherwise go un-built, states can offer priority scoring for those that involve an Opportunity Fund investment. To help ensure that these projects meet performance standards and are also in the public interest, states should, through their Opportunity Planning process, identify criteria for different classes of infrastructure and focus incentives to favor projects that will meet or exceed these criteria.

In addition to prioritizing Opportunity Zone projects for state financing and funding, states can help to support these projects by simplifying and expediting regulatory review. Opportunity Funds should also take advantage of or experiment with technologies by embedding sensors within existing infrastructure to enhance efficiency and performance.

Opportunity Funds may provide an important new source of equity capital for P3 projects in Opportunity Zones, helping to close a funding gap for critical infrastructure projects. State-level leadership is crucial to realizing this opportunity by coordinating procurement, project implementation, and public engagement to ensure project success.

Virginia Office of Public-Private Partnerships: [xi] Virginia has been in a leader in the implementation of public-private partnerships (P3s) for infrastructure since the adoption of its Public Private Transportation Act (PPTA) in 1995. The PPTA authorized private entities to develop and operate transportation infrastructure, allowed for the imposition of user fees, required the development of implementation guidelines for P3s, and required engagement with the public and local governments.

Following the recommendation of a study reviewing the PPTA program in 2010, Virginia created the Office of Public-Private Partnerships (VAP3) within its Department of Transportation in order to provide interdisciplinary leadership and coordination to support the development, implementation, and administration of P3 project. VAP3 has supported the success of P3 projects in Virginia by establishing well-understood implementation guidelines, creating a transparent development process, and keeping the public informed. The office has overseen the implementation of eight P3 transportation projects, with four more under construction and more under development—including a statewide fiber optics initiative.

ACTION FIVE:
ALIGN STATE INVESTMENTS WITH DISTINCTIVE ASSETS OF DIFFERENT OPPORTUNITY ZONES

States often offer an eclectic mix of tools and resources for economic development. These range from support for advanced manufacturing facilities (including incubators) to support for small business and entrepreneurs to investment in downtown revitalization to support for export promotion and trade assistance.

The geographic concentration of Opportunity Zones offers the potential for states to align and allocate their resources in ways that promote the leveraging of public and private resources through co-financing and co-location. Such alignment could increase the return on investments of public resources. It also could help rationalize what in many states is a less-than-transparent system of resources that range from traditional subsidy to more sophisticated debt or tax driven equity financing.

Because of the broad classes of assets that are eligible for Opportunity Fund investment, there are many different types of project developers, owners, and investors who will be in a position to take advantage of the Opportunity Zone incentive —but the vast majority of these parties will be unfamiliar with the tax incentive and its rules. A State Clearinghouse could become a one-stop-shop for guidance about this unique tax incentive as well as provide an integrated mechanism for Opportunity Fund investors to apply for additional state support for projects. States should develop an Opportunity Zone clearinghouse that will: (a) promote opportunities in the Zones; and (b) provide a single point of application for state funding, financing, and other incentives for Opportunity Fund supported projects.

New York State Regional Economic Development Competition: [xii] Since 2011, Governor Andrew Cuomo has redesigned the state's economic development policy and practice, replacing the state's old top-down and compartmentalized approach to one that is bottom-up, integrated and performance-driven. The state has established 10 Regional Economic Development Councils and tasked each of them with developing strategic plans that leverage the distinctive economic strengths of their community. Each Regional Economic Development Council is a public-private partnership that brings together key stakeholders from local government, business, academia and elsewhere.

The state administers an annual consolidated and streamlined application process for multiple state programs, enabling competitive state funding to be closely aligned with regional priorities. Since the initiative's inception in 2011, over $5.4 billion has been awarded to more than 6,300 projects that are projected to create and retain more than 220,000 jobs statewide.

ACTION SIX:
HELP LOCAL RESIDENTS OBTAIN SKILLS OR COMPETENCIES NECESSARY TO MEET EXISTING OR LIKELY LABOR DEMAND

States play an important role in the workforce development system in the United States. State-funded networks of community colleges provide skills training and credentialing that are critical to specialized sectors and occupations. Special high schools provide STEM or STEAM education that often align with local sectors and employment anchors. In some cases, states have driven the co-location of community college facilities in the heart of innovation districts (e.g., the Texas Medical Center in Houston).

The industrial landscape is rapidly evolving with the introduction of automation and other advanced-manufacturing processes. Workforce training is critical to achieving broad success for low-income communities in cities and regions that have been devastated by changing economies. This is particularly true given the socio-economic profile of Opportunity Zones. According to the Economic Innovation Group, in the average Opportunity Zone 23 percent of adults do not even have a high school diploma or equivalent and only 17 percent have a bachelor's degree or higher.[xiii]

States should encourage companies opening new facilities in Opportunity Zones to cooperate with community colleges and other educational institutions to develop specialized training programs tailored to their labor needs, and to hire program graduates. States can fund this tailored workforce training as an additional incentive to encourage the development of industrial facilities in Opportunity Zones.

Tennessee Drive to 55 Initiative: [xiv] In 2013, Governor Bill Haslam launched Drive to 55, a campaign to ensure that 55 percent of Tennesseans obtain a college degree or certification by 2025; at the time 32 percent of residents held such a credential. The campaign has separate but reinforcing elements: Tennessee Promise provides two-years of tuition-free community or technical college to Tennessee high school graduates (the first program of its kind in the United States); Tennessee Reconnect provides tuition-free education and workforce retraining for adults already in the workforce; and Tennessee LEAP awards grant funds to communities working to align education offerings with local workforce needs.

Since the launch of Tennessee Promise, the number of Tennesseans attending college immediately after high school has increased by 5 percent, resulting in nearly 4,000 new college students throughout the state. Tennessee is currently on track to meet its attainment goal in 2023, two years ahead of schedule. Significantly, the Drive to 55 Alliance, a coalition of Fortune 500 companies, was launched in partnership with the state's effort, enabling better coordination between business demand and the skills of workers.

ACTION SEVEN: SUPPORT THE PRODUCTION AND PRESERVATION OF AFFORDABLE/WORKFORCE HOUSING

States play an important role in the affordable housing system in the United States. They are principally responsible for allocating federal low-income housing tax credits and other federal subsidy sources (e.g., HOME and Community Development Block Grant funds). State housing finance agencies often have their own special mortgage products and, in some states, have helped finance special mixed-income projects in prior decades.

Expanding the production and preservation of affordable housing is a key component of a successful Opportunity Zone strategy. Concerns have been raised that increasing market investment in low-income communities will boost housing prices and displace the very residents that the tax incentive is intended to help. While that threat is not uniformly present throughout the country, the perception of gentrification and housing displacement requires a clear response.

In addition, recent changes in the tax law have had the effect of altering the market for Low-Income Housing Tax Credits, challenging the financing of affordable housing projects. By offering deferral of capital gains and a stepped-up basis for equity investment in qualifying projects, the Opportunity Zone program may prove to be key to helping to close the financing and funding gap for some projects. Nationally, around half of all LIHTC-eligible census tracts are now Opportunity Zones as well. State housing agencies should be prepared to offer technical assistance and guidance to developers, non-profits, and local housing agencies to marry these capital sources.

Massachusetts Housing Choice Initiative: [xv] In December 2017, Massachusetts Governor Charlie Baker announced a new Housing Choice Initiative to create 135,000 affordable housing units by 2025. The Initiative relies on a system of incentives and rewards for municipalities that deliver sustainable housing growth. Cities that are good housing performers (e.g., adopt best practices to promote sustainable housing development) will earn a Housing Choice designation. Cities and towns that receive such a designation will be eligible for new financial resources, including exclusive access to new housing grants and preferential treatment for many state infrastructure and workforce programs. As part of the initiative, Governor Baker also proposed legislation that would allow cities and towns to adopt certain zoning best practices by a simple majority vote, rather than the current two-thirds supermajority required by law. Massachusetts is currently one of only ten states to require a supermajority to change local zoning.

GOVERNANCE AND STATE OPPORTUNITY PLANS

This policy brief shows that states possess a broad array of powers and resources that can be smartly deployed in the service of Opportunity Zones. We believe that this new federal tax incentive warrants the creation of a specialized Opportunity Zone Unit entrusted with developing and maintaining the Opportunity Plan(s), overseeing the Opportunity Zone Clearinghouse, organizing State Summits and Investment Missions and providing advice and technical assistance to communities, project developers and investors. Transparency is key: as the Economic Innovation Group has recommended: “Every state should create an online portal where information on local priorities, qualified investments and complimentary state and local programs can be found.” [xvi] Creation of a special Unit would build on the interagency efforts and consultative processes that most states used to select Opportunity Zones. [xvii]

One critical role of a state Opportunity Zone Unit is to keep score of the impact of Opportunity Zones. The original Senate bill required the Treasury Secretary to "report annually on the opportunity zones incentives beginning 5 years after the date of enactment." [xviii] The guidance provided by the Senate bill was as follows:

> "The report is to include an assessment of investments held by qualified opportunity funds nationally and at the state level. To the extent the information is available, the report is to include the number of qualified opportunity funds, the amount of assets held in qualified opportunity funds, the composition of qualified opportunity fund investments by asset class, and the percentage of qualified opportunity zone census tracts… that have received qualified opportunity fund investments. The report is also to include an assessment of the impacts and outcomes of the investments in those areas on economic indicators including job creation, poverty reduction and new business starts, and other metrics as determined by the Secretary." [xix]

The nature and scope of administrative reporting is still being determined and advocates have recommended that the Treasury Department go further than the requirement originally contemplated by the Senate [xx]. We believe states should do their own tracking of Opportunity Fund investments and impact, using measures that capture the distinctive priorities of their own communities. To this end, states should work closely with the national and local researchers, who have made great progress in defining such central aims as "inclusive growth" [xxi] .

The location of an Opportunity Zone Unit would vary depending on the state. Most states have economic development agencies, which could be effective umbrellas for such a specialized entity. At the outset, interest in this new tax incentive might warrant placing the special unit in the Office of the Governor itself.

In some states, local, regional or national philanthropies could be critical partners in helping a state establish and staff an effective Opportunity Zone unit. Philanthropic support, for example, could help states recruit subject-matter experts to join government representatives and operate with a sense of urgency. States that have significant experience with P3 projects may have invaluable lessons to provide.

New York State Governor's Office of Storm Recovery: In June 2013, Governor Andrew Cuomo established the Governor's Office of Storm Recovery "to maximize the coordination of recovery and rebuilding efforts in communities impacted by Superstorm Sandy, Hurricane Irene and Tropical Storm Lee." [xxii] The office oversaw the coordination of a disparate array of federal and state resources affecting housing, small business, community reconstruction and infrastructure, with the effect of expediting program delivery and ensuring that investments were coordinated to maximize results.

CONCLUSION

The Opportunity Zone initiative represents one of the most novel federal tax incentives enacted around community revitalization. But unlike other programs that allocate appropriated dollars, investment into Opportunity Zones is not guaranteed. The initiative has already required Governors to play a signature role in the designation of areas within their state that are eligible for new market investment. But states can and should play additional roles to help local leaders realize the full economic and social potential of this unique incentive. The ideas expressed in this policy brief represent an early attempt to identify the catalytic and supportive efforts that states can undertake. Subsequent briefs will document the creative and innovative actions that this incentive will no doubt inspire.

ABOUT THE AUTHORS

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ABOUT THE GOVERNANCE PROJECT

The Governance Project is a non-profit that aims to help state and local leaders leverage the private sector and private capital to deliver new solutions to critical challenges. The Governance Project was founded by Mike Hirshland who has been an investor and contributor to start-up companies, most recently as co-founder of Resolute Ventures. More information at **governanceproject.org**.

ENDNOTES

i *A subsequent policy brief will review how and why States might establish State Opportunity Funds to complement and/or catalyze privately organized Opportunity Funds.*

ii *Rhode Island Innovates: A Competitive Strategy for the Ocean State (Brookings Institution, 2016) (https://www.brookings.edu/research/rhode-island-innovates-a-competitive-strategy-for-the-ocean-state/)*

iii *Providence Innovation and Design District: https://www.195district.com/*

iv *Commonwealth Center for Advanced Manufacturing: http://www.ccam-va.com/*

v *Colorado Advanced Industries: https://choosecolorado.com/doing-business/incentives-financing/advanced-industries/*

vi *Matthew Rothstein, "Rowan University, Nexus Properties are Making Glassboro a College Town," (Bisnow Philadelphia, October 17, 2017): https://www.bisnow.com/philadelphia/news/neighborhood/rowan-nexus-properties-glassboro-rowan-boulevard-80414#ath*

vi *Colin Woodward, "The Coolest Shipyard in America," (Politico, July 21, 2016): https://www.politico.com/magazine/story/2016/07/philadelphia-what-works-navy-yard-214072*

viii *Bruce Katz and Luise Noring, Copenhagen City & Port Development: A Model for Regenerating Cities (Brookings Institution, 2017) https://www.brookings.edu/research/copenhagen-port-development/*

ix *The BullStreet District: http://bullstreetsc.com/discover/about/*

x *Colorado Outdoor Recreation Industry Office: https://choosecolorado.com/programs-initiatives/outdoor-recreation-industry-office/*

xi *VDOT Office of Public-Private Partnerships: http://www.p3virginia.org/*

xii *NYS Regional Economic Development Councils: https://regionalcouncils.ny.gov/*

xiii *Economic Innovation Group analysis of federal American Community Survey data*

xiv *Drive to 55 Alliance: http://driveto55.org/*

xv *Massachusetts Housing Choice Initiative: https://www.mass.gov/orgs/housing-choice-initiative*

xvi *John Lettieri, "The Promise of Opportunity Zones," Testimony before the Joint Economic Committee of the United States Congress, May 17, 2018 http://eig.org/news/joint-economic-hearing-promise-opportunity-zones*

xvii *Ibid. A survey by the Economic Innovation Group found that at least 34 states stood up an interagency process to select Opportunity Zones.*

xviii *https://docs.house.gov/billsthisweek/20171218/Joint%20Explanatory%20Statement.pdf*

xix *Ibid. The Senate reporting requirement was dropped in the Conference Agreement due to the procedural prohibition against non-budgetary items being included in the final bill.*

xx *See, e.g., Terri Ludwig "The Promise of Opportunity Zones," Testimony before the Joint Economic Committee of the United States Congress, May 17, 2018 https://www.jec.senate.gov/public/_cache/files/7e775795-e97a-42d8-a8e3-916236ec13e1/terri-ludwig-testimony.pdf*

xxi *See, e.g., Erika Poethig, Solomon Greene, Christina Stacy, Tanaya Srini and Brady Meixell, Inclusive Recovery in U.S. Cities (Urban Institute, 2018): https://www.urban.org/sites/default/files/publication/97981/inclusive_recovery_in_us_cities.pdf*

xxii *New York Rising: 2012-2014 https://stormrecovery.ny.gov/sites/default/files/uploads/gosr_report_letter_full_high.pdf*