PolicyLink

Opportunity Zones Guiding Principles and Perspectives

As the Treasury Department begins the process of implementing Opportunity Zones under the Tax Cuts and Jobs Act of 2017, PolicyLink offers recommendations for ensuring this new initiative embodies equity and full inclusion for the most vulnerable. We seek to ensure that Opportunity Zones and Opportunity Funds ultimately benefit low-income community residents and small businesses within the Zones, and protect the interests of those most susceptible to displacement pressures that too often result from private investment. We see Opportunity Zones as a chance to target large amounts of private capital for the long-term needs of struggling families and communities. And while doing so, those investments must be integrated carefully into the community in ways that improve the lives of roughly 32 million people living in or near poverty within Opportunity Zones. The investments must allow residents to fully participate, prosper, and reach their full potential.

While we are aware of the potential benefits that could emerge from private investment in low-income communities across the nation, we are also concerned about the inherent risks and dangers of misguided investments that do not place the needs of the most vulnerable as the top priority.

*Potential benefits to the program include***:**

- Puts idle dollars to work in communities that need capital
- Incentivizes long term investment, unlike many existing programs and incentives
- Allows for flexible capital for multiple uses

Inherent Downsides to OZs Include:

- Huge risk of displacement and untargeted capital flow into vulnerable areas
- A tax cut for the wealthy that has the potential to funnel trillions of dollars into vulnerable communities without proper protections to ensure that benefits go towards the advancement of the most vulnerable
- Regulation and approval of Opportunity Funds will be overseen by the Trump Administration which has not prioritized the interests and needs of low-income communities, communities of color, and immigrant communities that will be impacted in this initiative.
- There is uncertainty of how much market interest there is in this approach, as it could fall flat
- Local CDFIs and Minority Depository Institutions are not expressly involved, and are left to compete with larger national financial institutions and funding vehicles that lack local knowledge and understanding of the impacted communities.

Guiding Principles & Guardrails for Equitable Development & Investments in Opportunity Zones

While the intent for Opportunity Zones is to attract much needed investment in low-income communities that have suffered neglect for decades, unintended consequences can often result in distressed communities if equitable and inclusive community development practices are not embedded within the rules and regulations for those investments. Therefore, the following ***Guardrails for Opportunity Zones*** should be in place across the 8000+ communities that will be impacted:

1. **Allow for local and state governments to configure additional guidelines for Opportunity Zones.** To alleviate federal pre-emption concerns, the U.S. Treasury should grant flexibility to local and state governments to issue additional guidelines as needed to ensure that investments benefit the local communities, residents, and small businesses to prevent unintended consequences or harm such as those stemming from housing and commercial displacement.
2. **Ensure that Investments 'Do No Harm' to Low-Income Residents and Small Businesses.** States and federal regulators should require localized data to inform investment strategies to assess displacement risks and challenges facing renters, at-risk homeowners, local businesses, and cultural districts and institutions.
3. **Re-evaluation of Opportunity Zone Designation.** Federal and local agencies should establish benchmarks for Opportunity Zones and Opportunity Funds to be later evaluated on the effectiveness and benefits each year.
4. **Specifically Define Abuse in the Regulations.** The U.S. Treasury should define "abuse" in the regulations to ensure that projects do not result in evictions of tenants or small businesses, dramatically increase rents, and do not lead to the loss of deed restricted or Naturally Occurring Affordable Housing in places.
5. **Certification of Opportunity Funds should require declaration of Intent.** Regulators should require Opportunity Funds to declare their investment intentions and that they meet guidelines before granting certification.
6. **Ensure the Creation of Good Living Wage Jobs.** Tax incentives should not be used to encourage low-wage, insecure jobs that do not help regions thrive. Public incentives should drive living wage jobs that help families advance in a growing local, regional, and global economy. Newly created jobs should also provide safe and healthy working conditions, full worker rights, and full benefits.
7. **Help to Build Healthy Communities of Opportunity, not Displacement.** Ensure that investments drive equitable growth and prosperity for current low-income residents within the Zones and the surrounding regions. Projects should improve conditions in disinvested communities, increase environmental health and sustainability, strengthen cultural and economic vitality, promote business, career and wealth building opportunities for low-income residents and other vulnerable populations.
8. **Ensure Community Voice and Participation.** New investments must be guided by existing community leadership and residents in ways that target the investments towards the greatest needs across regions, and that connect people to opportunity.
9. **Reporting Requirements Must Be in Place.** Over the last decade, large parts of our country have faced intense and increasing displacement pressures that have led to an alarming rise in evictions of residential tenants and small businesses, and home foreclosures amongst vulnerable seniors and long-term residents. These issues have led to destabilization of families, disruption of community institutions, a weakening of the fabric of neighborhoods, and re-segregation of communities. In recognition of the Congressional intent behind Opportunity Zones, Treasury should submit annual reports to Congress detailing the metrics related to

community and resident benefits in each qualified Opportunity Zone, and publish such reports on Treasury's website. In addition to the metrics outlined in the Congressional Conference Report related to job creation, poverty reduction, and new business starts, **we recommend that reported metrics should include the following to ensure vulnerable residents are protected:**

A. **The number of good jobs created and held by residents** of Opportunity Zones that pay a living wage, offer worker protections and full benefits that support families. It will be critical to ensure that the creation of new businesses and new jobs are benefiting residents to adequately measure whether the investments are meeting the legislative intent.
B. **The number of dedicated affordable housing units** (80 percent of AMI or less) created or preserved. This will allow Treasury to monitor the ability of residents to remain in their homes even while growth and development occur.
C. **Investments in minority/disadvantaged/women-owned businesses**, providing an equity framework that ensures investments are available to such businesses.
D. **Revitalization of neighborhoods suffering from vacant structures and disinvestment**. By measuring the number of vacant properties or structures, for example, the public can determine what kinds of investments are most needed within these distressed census tracts.
E. **Increase in the number of critical services available to vulnerable populations** such as transportation options, health care facilities, healthy food retail, quality education services, all of which are necessary to build communities of opportunity.

Opportunity Fund Certification by the Treasury

In order to be certified as an *Opportunity Fund*, Treasury should require each proposed Opportunity Fund to identify and commit their investments to specific community benefit outcomes, as detailed in the above metrics. This includes making the above reporting requirements publicly available prior to designating Opportunity Funds so that the Funds can tailor their investment models to best meet the community benefit metrics emphasized by Treasury. This would ensure that these new investment funds are structured with an eye towards equitable community investments from the beginning. We also recommend that Treasury require Opportunity Funds to share their intentions for investing in geographic areas, investment types, and asset classes prior to receiving certification. We recommend that Treasury make this information publicly available to assist investors and developers seeking to work with an Opportunity Fund in certain census tracts.

Sectoral Recommendations for Communities, Local/State Governments, Developers, Investors and Philanthropy

Several sectoral recommendations have emerged after many discussions and considerations with staff and partners. Several actions can be for PolicyLink, and others should be implemented by our allies and partners across city/state governments, foundations, advocate partners, and allies in the private development and investments sectors.

Cities & States Should do the Following*:*

1. **Enact do no harm policies** that govern Fund operation within the Zones to ensure that projects do not lead to any net loss of housing units, no net loss of jobs, and no small business displacement

2. **Embed** **public benefits strategies** within Investments for OZs such as:
    1. Community project pipelines/lists developed by key equity-minded stakeholders
    2. Inclusive community engagement processes embedded within selection of fund investments
    3. Develop performance-based metrics that ensure projects serve residents, improve lives and transform place

3. **Create Publicly-Owned/Managed "Equitable Opportunity Funds."** Local and state governments should open and administer equitable funds as a model and demonstration of equitable development principles while investing properly in local vulnerable communities.

Progressive Foundations should do the Following:

1. **Provide Influential Leadership -** Foundations have the financial and technical resources to fund place-based investment strategies, development projects, and to support organizing efforts to protect the zones from harm. They should invest in local leadership and capacity to ensure that fund projects are implemented in an equitable manner that ensures benefits for vulnerable residents and small businesses.

2. **Open/Operate "Equitable Opportunity Funds"** in partnership with community leaders, governments, and community-based organizations.

3. **Pool and Leverage PRI dollars –** Foundations' program-related investments (PRIs) should be pooled into place-based funds and returned to Opportunity Funds in the form of grants, to be used by vulnerable populations to spur their own wealth creation.

4. **Provide Staff Capacity** for locally-controlled Opportunity Zones/Funds.

5. **Capacity Building -** Provide funding to support fund management literacy for local communities and advocates.

Investors & Developers should do the Following:

1. Leverage this initiative to help build more wealth for developers and investors of color and underrepresented groups in the investor and/or developer community.
2. Ensure residents' voice are prioritized in selection for investment
3. View this as an opportunity to diversify the fund management community and incorporate local representation into fund management & leadership.

4. Prioritize funding for projects that have clear direct benefits for local residents that have participated in the investment decision process
5. Prioritize projects near public transit options that expand opportunity to the most vulnerable and the most disconnected
4. Establish and share an Equitable Development Investment Framework and Strategy
5. Provide Annual Assessment of Investments with metrics on how the most vulnerable low-income residents and businesses have or will benefit from funds.

Equity Advocates should do the Following:

1. **Develop and Distribute Shared Materials** to across local and national Equity-focused networks that include:
   a. Short facts to understand the program, its risks and benefits
   b. "How to Engage" modules that are accessible and sharable. It should include the recommendations for each sector as listed above
   c. Send letters to the U.S. Treasury describing equitable implementation and to protect against displacement and other negative impacts for the most vulnerable.
   d. Send letters to Governors urging them to enact do no harm policies and to provide guidance for equity-focused implementation of the Funds and Zones.

2. **Advocate for strong Treasury Opportunity Fund certification requirements and federal regulations** to ensure high quality funds and mission-driven private investments. Communities should submit the letters to Treasury, and encourage others to follow suit.

3. **Push local and state governments for equitable fund implementation**. Cities and states should enact "rules of the road" for Opportunity Zone implementation by requiring clear metrics for transparency, community engagement, and public benefits that protect against low-income housing and small business displacement.

4. **Create an Equity Screen for Fund Decisions** – CBOs, local governments, and equity advocates should engage with funds/fund managers within their Zones to ensure proper monitoring and examinations of proposed investments and/or projects. These examinations should at least report on the benefits and harms of investments made across housing costs, job creation, residential and commercial displacement, and other areas of local concern for residents within the Zones.

5. **Build Local Investor Ecosystem** through training and recruitment of local residents and business to become investors in place-based strategic investment strategies.

6. **Create a local project pipeline** of mission-driven projects for investments by convening tables of developers alongside CBOs, local leaders and residents. Communities can develop a list of proposed projects represents residents' interests and needs, encourages residential participation and allows for community input in investment decisions. Local collaboratives can

then establish an accountability framework to enable communities to examine data and performance of the fund’s investments.

7. **Pool Resources and align** equity-minded organizations to sponsor or invest in an Opportunity Fund.

8. **Advocate for local/state-owned/managed Equity funds** to set precedent and goals for other funds to model.