From Transactions to Transformation:

How Cities Can Maximize Opportunity Zones

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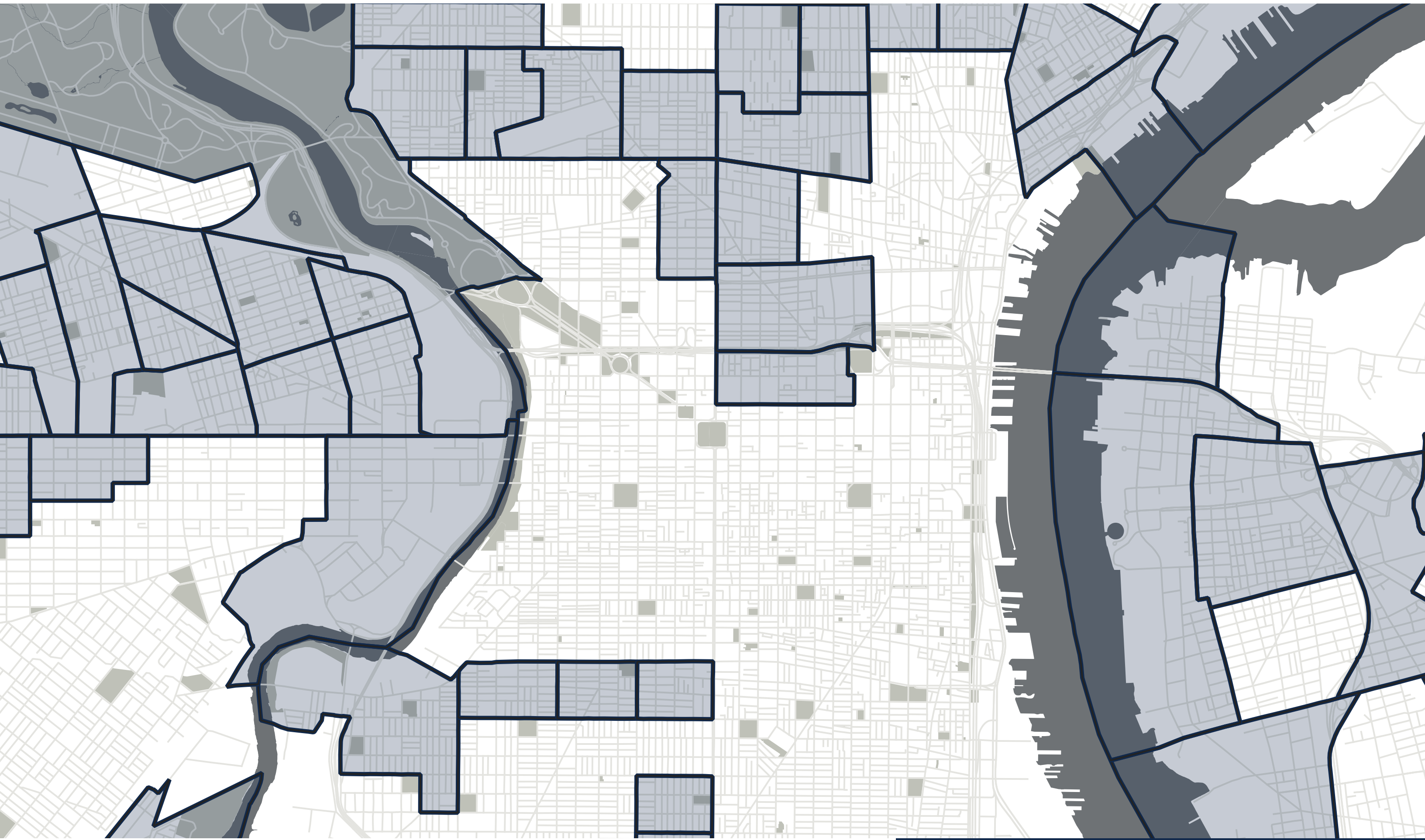

DREXEL UNIVERSITY
Nowak Metro Finance Lab
Lindy Institute for Urban Innovation

In Partnership With: ACCELERATOR FOR AMERICA

ABOUT THE AUTHORS

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ABOUT ACCELERATOR FOR AMERICA

Accelerator for America is a non-profit organization created by Los Angeles Mayor Eric Garcetti in November 2017. It seeks to provide strategic support to the best local initiatives to strengthen people's economic security, specifically those initiatives that connect people with existing jobs, create new opportunities and foster infrastructure development.

ABOUT DREXEL UNIVERSITY NOWAK METRO FINANCE LAB

The Nowak Metro Finance Lab was formed by Drexel University in July 2018. It is focused on helping cities find new ways to "finance the inclusive city" by making sustained investments in innovation, infrastructure, affordable housing, quality places, and the schooling and skilling of children and young adults. It is situated within the Drexel's Lindy Institute of Urban Innovation.

ACKNOWLEDGMENTS

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Thank you for reading!

FOREWORD

by John Fry, President of Drexel University, and Eric Garcetti, Mayor of Los Angeles & Advisory Council Chair, Accelerator for America

The United States is a study in contrasts. On one hand, there are trillions of dollars of private capital searching for sound and reliable investments. On the other hand, thousands of our cities, suburban communities and rural towns are rich in opportunity but starved for investment. We are a nation that is simultaneously experiencing abundance and scarcity, advantage and disadvantage, growth and decline.

One way to bridge this gap is found in the Tax Cuts and Jobs Act of 2017. It provides a new incentive—centered on the deferral and reduction of capital gains taxes—to spur private investments in low-income areas designated by states as Opportunity Zones. Since the passage of the Act, there has been intense interest in how communities could create new tools to showcase their economic assets to attract market capital and in how communities and investors could co-create new instruments to support entrepreneurs, businesses and affordable housing.

To guide communities and inform investors, our two institutions—Accelerator for America and Drexel University—have joined forces. Our partnership recognizes that the promise of Opportunity Zones will be realized more through norms and models created by municipalities and markets than by rules and guidance promulgated by the federal government.

Accelerator for America, incorporated in the summer of 2017, is a non-profit organization focused on identifying successful local solutions and inventing new ones and then rapidly adapting, scaling and replicating them throughout the country. This effort is unusual in that it brings under one roof disparate stakeholders, including mayors, unions, philanthropies, corporations, technologists and community leaders.

Drexel University has bridged the gap between theory and practice since its founding in 1891, offering real world skills, training and entrée to the work world to students, while encouraging faculty to fully engage in solving the challenges of the day. The Nowak Metro Finance Lab, named after our late mutual friend and urban visionary Jeremy Nowak, continues this tradition of real-world impact by focusing on creating and codifying practical instruments and institutions that can finance the inclusive city.

We intend this policy brief to be the first in a series. We hope to connect community and capital with research that is objective and independent, a product both of quantitative data and analytics and qualitative knowledge and expertise.

We welcome your ideas and suggestions as our effort unfolds.

The Tax Cuts and Jobs Act of 2017 provides a new tax incentive—centered around the deferral, reduction, and elimination of capital gains taxes—to spur private investments in low-income areas designated by states as Opportunity Zones. This provision is based on the bipartisan Investing in Opportunity Act (S. 1639) introduced by Senator Cory Booker (D-NJ) and Senator Tim Scott (R-SC). Given the significant interest among investors, it is possible that this new incentive could attract hundreds of billions of dollars in private capital, making it one of the largest economic development initiatives in U.S. history.[i]

The broad objective of this incentive—expanding economic opportunities for places and people left behind—cannot be achieved by the market and outside investors alone. Cities in the broadest sense—local governments, urban institutions, civic leaders—will need to act decisively if Opportunity Zones are to engender inclusive, sustainable growth that is truly transformative for each city's economy, rather than just a large volume of disconnected, individual transactions.

The promise of Opportunity Zones is not just to match private capital to investable projects but to inspire cities to reexamine and rediscover the fundamentals of economic development for all by channeling the resources of their own communities. Cities who are able to coordinate and focus investment will drive not just growth in the near term but institutional and financial reforms that will reposition cities for success over the long haul.

To help cities realize the full economic and social potential of this unique tax incentive, this brief lays out ten steps that cities[ii] can take to amplify and leverage local advantages, knowledge and experience:

1. *Design and market an Investment Prospectus to showcase the distinctive assets and investable projects in a city's Opportunity Zones;*
2. *Maximize the economic impact of anchor institutions, particularly institutions of higher learning;*
3. *Maximize the economic impact of publicly owned assets;*
4. *Accelerate employment density, business demand and smart place-making;*
5. *Ensure that Opportunity Zone related infrastructure is high quality and meets performance and sustainability standards;*
6. *Align city investments, procurement, tax preferences, zoning, and other decisions with the distinctive competitive assets of each Opportunity Zone;*
7. *Support local entrepreneurs and developers (particularly female- and minority-owned businesses) gain access to capital, technical assistance, mentoring, legal services and other resources;*
8. *Help local residents obtain the skills or competencies necessary to meet existing or future labor demand;*
9. *Support the production and preservation of affordable/workforce housing; and*
10. *Repurpose existing institutions and build new institutions to carry out core missions.*

These steps are common sense and constitute smart economic development strategies that can achieve local priorities by building on and improving the capacity of local institutions. Cities can drive inclusive outcomes by coordinating efforts within government and across key institutions and sectors and by harnessing local capital and organizational decisions to bolster demand and employment growth.

BACKGROUND

Section 1400Z of Internal Revenue Code, amended by The Tax Cuts and Jobs Act of 2017, allows a taxpayer to defer paying federal capital gains tax on the sale of property if that gain is invested in a Qualified Opportunity Fund ("QOF"). A QOF must invest at least 90% of its assets in businesses or property in designated low-income communities known as "Opportunity Zones." In addition, taxpayers that hold investments in those funds for at least five years receive a 10 percent reduction in their original capital gains tax obligation; holding investments at least seven years adds an additional 5 percent reduction for a total of 15 percent; finally, holding an investment a full ten years means taxpayers do not have to pay any capital gains tax on the appreciation of the new investment.

The new 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, meaning local governments will likely not be even aware of most Opportunity Zone investments in their communities. 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 low-income housing or historic preservation. Third, there are no requirements for investors to ensure a certain outcome, such as job creation or local financial matches. Finally, there is no cap on the amount of the benefit if regulations are followed.

The new Opportunity Zone incentive also differs from historic federal community redevelopment efforts in that it relies on equity investments rather than traditional debt and subsidy instruments. It could, if purposefully implemented, be a vehicle for integrating disparate public, private and civic institutions, as well as their investments and initiatives—rather than dispensing compartmentalized resources via traditional government programs. By tying the most substantial incentives to a longer time horizon, Opportunity Zones can reward patient investors, intermediaries, states and localities for working together to ensure there's a significant benefit for all involved.

The federal law provided only one explicit role for sub-national actors: 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, the District of Columbia and Puerto Rico had designated more than 8,700 Opportunity Zones across the nation.

The federal law does not provide any guidance on the role of cities or localities. Yet city governments and other local entities have a complex set 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. Cities, unlike the federal government and state governments, are networks of institutions and individuals that can "think like a system and act like an entrepreneur."[iii] In this way, cities are primed to aggregate public, private and civic capital for aligned investments in economic development, schools and skills, infrastructure and affordable housing, the critical ingredients for long-term inclusive growth. These investments, while clearly connected and synergistic at the local level, are often deployed separately by compartmentalized federal and state agencies, dampening their holistic impact.

Cities are also learning networks. While the federal government will ultimately write the basic rules, the evolution of the Opportunity Zone tax incentive will also take place via market norms and policy and practice innovations that are invented in one city and then replicated or adapted in rapid fashion across others. Already, many city-focused organizations and intermediaries like Enterprise Community Partners, LISC, Urban Institute and Economic Innovation Group are identifying and codifying innovations emerging in vanguard cities, speeding the pace of scaling.[iv] At the same time, city-focused philanthropies like the Rockefeller and Kresge Foundations are seeking to catalyze innovative financial responses.[v] Opportunity Zones are one of the first federal tax incentives structured to evolve from the bottom-up rather than the top-down.

Finally, while city actions will be developed by individual communities and have strong local impact, the identification of common geographic typologies across cities (e.g., central business districts, hospital districts, university districts, industrial areas, residential communities, etc.) might catalyze the creation of multi-city Opportunity Funds with the flexibility to finance multiple activities (e.g., housing, small business, mixed-use development) in similar Opportunity Zones, thereby reinforcing the synergistic effect of related investments. This would be a major departure from the status quo where large commercial banks and governmental agencies have focused on separate products rather than holistic places, potentially revolutionizing urban investment.[vi]

OVERARCHING PRINCIPLES

Since the Opportunity Zones incentive was introduced, two dominant, overly simplistic narratives have taken hold. On one hand, there is the view that all cities should merely compile and bundle a list of investable projects and reveal the true strength of the market for some distant investor on Wall Street or in Silicon Valley. This perspective treats the market failure that Opportunity Zones was intended to resolve as one primarily involving information and marketing rather than underlying business demand and economic realities. On the other hand, there is fear that Opportunity Zones will put gentrification on steroids, spiking housing prices and displacing residents. This perspective assumes that the principal challenge facing all cities is excessive value appreciation rather than poverty, high vacancy and low demand.

This policy brief advocates for a more balanced approach that reflects the market variance and complexity within and across cities, organized around Seven Principles to guide city analysis and strategy for leveraging newly established Opportunity Zones. The principles are designed both to enable cities to further capital investment in traditionally disadvantaged places in order to spur job creation and broader opportunities—the core objectives of this new tax incentive—as well as sharpen local strategies and modernize the institutions that design and deliver those strategies. To actualize these principles, we offer 10 Steps to leverage local advantages, knowledge and experience to fully realize the economic and social potential of this unique tax incentive.

Principle One: See the big picture

Investors naturally focus on the merits associated with individual transactions or financial products, particularly around issues of predictable risk and expected returns. Cities, by contrast, can think about impacts that extend far beyond the tradeoffs involved in a particular transaction; for example, enhancing the broader fiscal capacity of the public sector or strengthening the regional economic ecosystem. Cities, therefore, should create the conditions for long-term, comprehensive and transformative growth rather than chase capital for short-term and one-off outcomes. Cities can treat Opportunity Zones not only as distinct geographies (e.g., central business districts, medical districts, innovation districts, airport districts, residential areas) but also as integrated business, housing and labor markets. 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, as well as inclusive housing developments for medical workers and students.[vii]

Principle Two: Act as networks, not as governments

Unlike state and federal government, cities are networks of institutions and leaders who co-produce the economy and co-govern many aspects of urban life. As Bruce Katz and Jeremy Nowak wrote in The New Localism, "The most effective local governance occurs in places that not only deploy the formal and informal powers of government but create and steward new multi-sector networks to advance inclusive, sustainable and innovative growth."[viii] Maximizing the potential of Opportunity Zones, therefore, requires the full engagement of different sectors and stakeholders who can leverage their collective assets and align their collective decisions. Cities should accordingly take a "full city" approach and unlock the combined resources of mayors and other elected officials, economic development entities, local universities and colleges, community foundations and other philanthropies, local banks and corporations, high net worth individuals and impact investors, community development enterprises and community groups, and business and technology intermediaries and support institutions.

Principle Three: Identify the distinctive competitive assets and advantages of Opportunity Zones

To reduce friction in the market, cities should be an engaged and reliable source of intelligence about their economies in general and each of their Opportunity Zones in particular. They should always be able to answer a fundamental question: what gives disparate Opportunity Zones their market traction and potential? This will help cities harness local tax advantaged capital as well as attract regional and national capital—particularly as large national, multi-asset, and multi-investor funds are formed. Cities will also be able to drive better investments and decisions by working with a host of local stakeholders—for example, the infrastructure investments of the public sector or the location decisions of public, private or non-profit organizations. To this end, smart Opportunity Zone strategies will leverage resources that are both driven by tax incentives as well as the fundamentals and possibilities of the local market.

Principle Four: Balance rewards and controls, incentives and protections

Opportunity Zones are a market driven incentive; most cities won't even know how much or where Opportunity Fund investments have been deployed. Although cities have limited ability to control the market, they can use public resources to facilitate and steer market investment, particularly towards historically disadvantaged areas or to financial products that generally do not have high levels of returns. Cities should ensure that every Opportunity Zone is included in a citywide inclusive zoning, procurement, and development policy that focuses on residents and require data transparency for deals that receive public subsidy. While much of the initial interest in Opportunity Zones has surrounded real estate investment, its ability to greatly increase access to capital and scale the expertise of local entrepreneurs promises to be one of its most transformative features. By offering technical assistance, access, and resources to local entrepreneurs, cities can better position their residents to benefit from Opportunity Zone investment.

Principle Five: Structure strong, inclusive partnerships

Opportunity Zones could catalyze the aggregation of smart public, private and civic capital for multiple purposes. Smart public and civic investments in community infrastructure (e.g., parks, libraries, broadband) and human capital can provide a foundation and platform for private sector investment. In low-demand cities and Opportunity Zones, smart public, private and civic financial instruments (e.g., subordinated debt, recoverable grants, impact investing) can attract and de-risk tax advantaged capital to move markets. As discussed above, certain typologies of Opportunity Zones might even become the focus of more traditionally organized funds that can operate across cities, diversifying risk and enhancing Opportunity Fund performance.

Principle Six: Link market investments to investments in human capital and other strategies that maximize impact for lower income residents

The 10-year life of the tax incentive creates an intriguing proposition: an 8-year-old living in an Opportunity Zone today will be 18 years old and ready for participation in the labor market when the Opportunity Zone incentives sunset. Ensuring that that child is ready to succeed will require targeted investments among networked entities that integrate multiple parts of the cradle-to-career system. Cities have a unique potential, given the localization of many schools and skills institutions and initiatives, to focus on giving residents who live either within or near Opportunity Zones the ability to access existing and future employment opportunities—whether working at a new Opportunity Zone business or building an Opportunity Zone development. Cities can go further and drive inclusive growth more broadly through supporting the expansion of minority owned businesses, minority homeowners, affordable housing and neighborhood amenities.

Principle Seven: Use Opportunity Zones as a catalyst for modernizing local institutions

Realizing the full potential of Opportunity Zones requires that a disparate group of urban institutions act with purpose and discipline along multiple fronts. Yet the current health and capacity of local government and other institutions make this a challenge. In many communities, local governments simply do not have the capacity or professional expertise to design, finance and deliver sophisticated market and social initiatives. The public sector is also highly fragmented, divided across multiple layers of government, specialized agencies and independent public authorities. On the private and civic side, most communities collaborate through loosely organized informal networks that do not have sufficient capital or capacity. In addition, many nonprofit organizations are either too small to affect systemic change or too circumscribed in focus to drive sustainable impact. Cities should use Opportunity Zones as a vehicle for modernizing and redefining their institutions to maximize economic, social and environmental impact.

TEN STEPS TOWARD TRANSFORMATIVE IMPACT

The seven principles articulated above reflect specific city actions and interventions to inform their strategies for leveraging the Opportunity Zone incentive. Below are ten concrete action steps to guide inclusive growth. With the exception of the first, the ten steps are not designed to be executed sequentially but rather addressed concurrently. The steps are mostly common sense; the trick is to muster the political and financial will for these ideas in an organized manner to harness the excitement and convening power the Opportunity Zone incentive provides. The ten steps, again, are as follows:

1. *Design and market an Investment Prospectus to showcase the distinctive assets and investable projects in a city's Opportunity Zones;*
2. *Maximize the economic impact of anchor institutions, particularly institutions of higher learning;*
3. *Maximize the economic impact of publicly owned assets;*
4. *Accelerate employment density, business demand and smart place-making;*
5. *Ensure that Opportunity Zone related infrastructure is high quality and meets performance and sustainability standards;*
6. *Align city investments, procurement, tax preferences, zoning, and other decisions with the distinctive competitive assets of each Opportunity Zone;*
7. *Support local entrepreneurs and developers (particularly female- and minority-owned businesses) gain access to capital, technical assistance, mentoring, legal services and other resources;*
8. *Help local residents obtain the skills or competencies necessary to meet existing or future labor demand;*
9. *Support the production and preservation of affordable/workforce housing; and*
10. *Repurpose existing institutions and build new institutions to carry out core missions.*

Cities will need to use discretion in designing and executing these steps: the location, market profile and institutional capacity of different Opportunity Zones will likely require interventions that differ by type, shape and scale. The multi-year timeline of this incentive encourages cities and their communities to not only think about growing jobs but reducing the achievement gap that holds many people and places back. At the same time, acting quickly is important: the financial benefits of the Opportunity Zone tax incentive diminish over time, leading many investors to want to make their investments within the next two years.[ix] This time pressure encourages investors to take safer bets and invest in what they know, making organizing local capital and necessary information and resources accessible to national investors absolutely critical.

Step One: Design and market an Investment Prospectus to showcase the distinctive assets of and investable projects in a city's Opportunity Zones

Cities should develop an Investment Prospectus that communicates the distinctive assets and advantages of their selected Opportunity Zones and, to the greatest extent practicable, teases 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.[x]

An Investment Prospectus best acts as a "pre-qualification statement" for a city, providing the economic and governmental context—at the metro, city and Zone scales—to attract capital and drive smart investments. Local entities will need to go the "last mile" and identify and market actual investable projects, providing the first-hand deep knowledge that only exists in each community.

Each Investment Prospectus should, at a minimum, do the following:

Set the Context

All Opportunity Zones exist within the broader context of urban and metropolitan areas as well as regional economic ecosystems; an Investment Prospectus should set the economic context for the Opportunity Zones on multiple levels by providing information on driving clusters, sectors, institutions and companies that define the raison d'etre of a given place, unveiling the strongest economic growth opportunities given general trends and dynamics. The Prospectus should explore recent trends in entrepreneurship, company formation and growth and venture funding.

An Investment Prospectus should also act as an introduction to city governance, providing an overview of government structure and leadership, identifying the state and local entities and officials in charge of the Opportunity Zone effort and any local resources and incentives. To the greatest extent practicable, such information should be transparent and made available on a widely promoted website.

Drill Down into Zones

After setting the context, an Investment Prospectus should present a granular assessment of the competitive position and prospects of each Opportunity Zone, providing specificity on growth dynamics, investment patterns and catalytic projects and how the attributes of particular Opportunity Zones relate to the contextual macro strengths of the city and metropolis. For example, cities should discuss Opportunity Zones' strategic location near infrastructure or areas of economic growth, the availability of land and buildings for economic use or the presence of anchor institutions like universities, hospitals and major employers.

Given that capital follows other investment, a Prospectus should identify public, private and civic initiatives that have already been undertaken in Opportunity

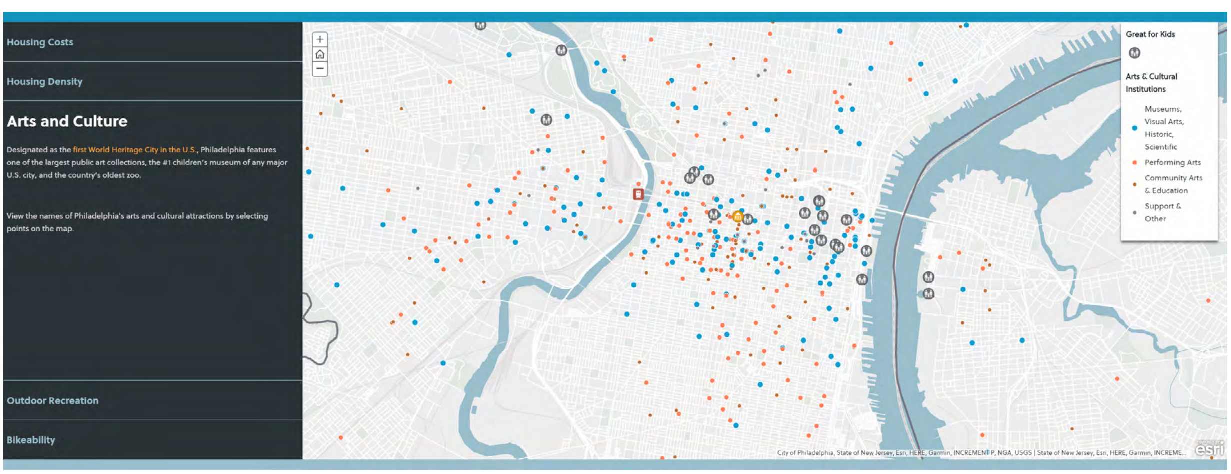


Figure 01: Created by the Philadelphia Department of Commerce as part of their response to the Amazon HQ2 RFP, "Philadelphia Delivers" uses statistics, maps, and videos to showcase the city's market, talent, mobility, and livability assets. The Department plans to augment the website to market information about investable prospects in the city's opportunity zones.

Zones. These should include company expansions and investments in capital assets, university support for centers of excellence, commercialization and entrepreneurial assistance, the designation of Innovation or other special Districts, the transformation of public or assisted housing, the creation of special high schools or workforce intermediaries, and the design and implementation of "buy-local" procurement efforts by major employers.

Catalyze Inclusive Growth

Given the intent of this tax incentive, an Investment Prospectus should also strive to show how each city is working to maximize economic benefits for low and moderate-income people and places. The Prospectus should, at a minimum, include an analysis of human capital issues in each city/community and show how skill building connects to capital investment dynamics. While there are many dimensions to poverty reduction, cities should focus on how to best increase income across the population by upgrading the education and skills of children and young adults, who will become part of the workforce during the life of this tax incentive.

While Investment Prospectuses will be written for individual cities, they can be developed with a more universal perspective. Investors look for repeated patterns across places—similar spatial geographies, common product types—so that markets can be routinized and friction reduced. New Localism Advisors has created a typology of census tracts across the country that uses the ratio of jobs to residents to unveil the special economies and investment possibilities of distinct urban geographies (e.g., central business districts, anchor districts, industrial districts, airport districts and residential areas).[xi]

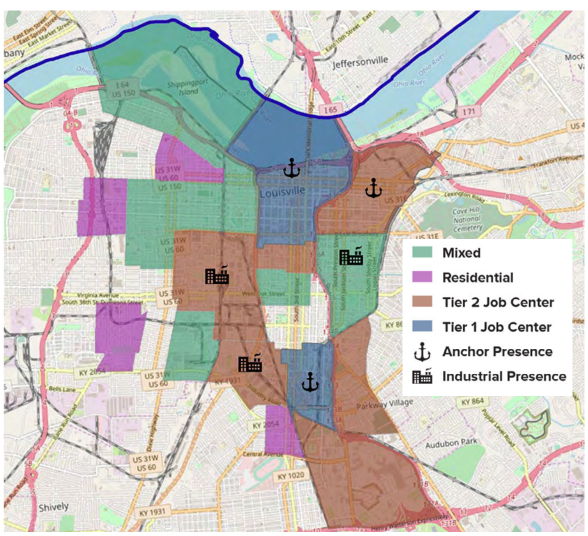


Figure 02: New Localism Advisors classified Opportunity Zones into typologies signifying varying investment implications for the beta version of Louisville's Investment Prospectus.

An Investment Prospectus should rely on objective quantitative evidence as well as qualitative local knowledge. To the maximum extent possible, it should use readily accessible data that can help investors uncover investable projects and help cities and their stakeholders build inclusive growth strategies and create new (or repurpose existing) institutions to market Opportunity Zones, leverage public, private and civic investments and enhance the linkage of local residents to resulting employment opportunities. Using national data that is locally relevant will also help cities build accountability systems to measure Zone performance and inclusive growth outcomes.

At the Cutting Edge: Erie, Louisville, Oklahoma City, South Bend, and Stockton

Working closely with Accelerator for America and New Localism Advisors, these five cities are pioneering the Investment Prospectus tool.[xii] Each of these cities has experienced a burst of multi-family construction and hotel and amenity development in their downtown and near-downtown neighborhoods and Opportunity Zones were carefully selected to reinforce this growth dynamic and build on smart city investments and strategies.

Yet there the similarities end. The Investment Prospectuses for each city reveal highly distinctive economies with diverse histories and pathways for growth and investment. For example:

> South Bend is a relatively small, older industrial city, anchored by a globally significant university growing in scale and impact. The University of Notre Dame is consistently ranked among the best American universities, boasts the 10th largest university endowment in the United States and is rapidly expanding its research base and commercialization capacity.
>
> Louisville is a competitive mid-sized city and one of the most successful examples of a city/county consolidation in the United States, yielding a strong fiscal base and solid bond ratings. It has strong traction in hospitality (Bourbonism, Kentucky Derby), logistics (UPS), advanced manufacturing (Ford) and wellness/health care (Humana).
>
> Oklahoma City boasts a growing economy with outsized positions in hospitality as well as advanced energy, aerospace and health care. For 25 years, its voters have consistently backed—and its business community has consistently supported—a series of public referenda which have invested at scale in the redevelopment of the greater downtown and schools, providing a strong foundation for market growth.

Step Two: Maximize the commercial impact of anchor institutions, particularly public institutions of higher learning

Anchor institutions—the businesses, hospitals, colleges and universities and foundations that make the city run—define their cities and help create their unique DNA. One of the unifying features of Opportunity Zone designations nationwide is a focus on picking areas that contain or are located near anchor institutions. Anchors are typically defined by their shared commitment to their community and an understanding that their mutual success is linked in a way that simply doesn't apply to outside institutions and investors.

City governments work with their anchor institutions every day, but often only on a few specific projects and usually siloed with one anchor at a time. Cross-anchor institutional partnerships are all too rare, despite common mission alignments, board membership, and resource needs.

The Opportunity Zone incentive, and all the enthusiasm it has inspired, offers a unique chance for cities to organize multiple anchor institutions around a common goal of redevelopment and job creation in order to set their Opportunity Zones apart—with each anchor making contributions aligned with its mission and strengths according to its own community-focused needs.

Spread the Word

Cities must ensure that each anchor institution is aware of the Opportunity Zone program and encourage them to think strategically about how each might engage with the program, including through direct investment, coalition building, board/alumni networking, and technical assistance. Cities should assess, based on past partnerships and knowledge of each institution, what each anchor is able to contribute and how to achieve buy in, particularly as a way to meet their own needs (e.g., more student housing or the development of research commercialization hubs).

Develop Anchor Needs Inventory

To make Opportunity Zones most impactful, cities should prioritize understanding and harnessing local demand rather than identifying outside investors and convincing them to invest. By inventorying anchor's slate of development projects, programmatic wish list and the problems they're trying to solve, cities can encourage investment by realigning existing demand rather than trying to create demand artificially. Anchor needs—a building, an easement, expertise or financing tools—are too often not understood by officials and leaders of other anchors, and opportunities for support and collaboration are missed. By understanding the priorities of a community's anchors, it can be easier to get them to buy in to a comprehensive, forward thinking, and sustainable Opportunity Zone initiative to pair needs with solutions that already exist in the community. If a gap remains, cities should consider how a given Opportunity Zone structure could fill it. Cities as networks must leverage their resources to collectively meet the needs of each community member—including catalytic private entities—and Opportunity Zones create both a reason and a means to do so.

Directly Invest in Qualified Opportunity Funds/ Other Investment Funds to Target Anchor-supported Sectors/Projects

Anchor institution should consider becoming investors in QOFs, through their endowments, pensions, or other trusts. Most anchor institutions—colleges, universities, and hospitals—are non-profits; while they can't typically

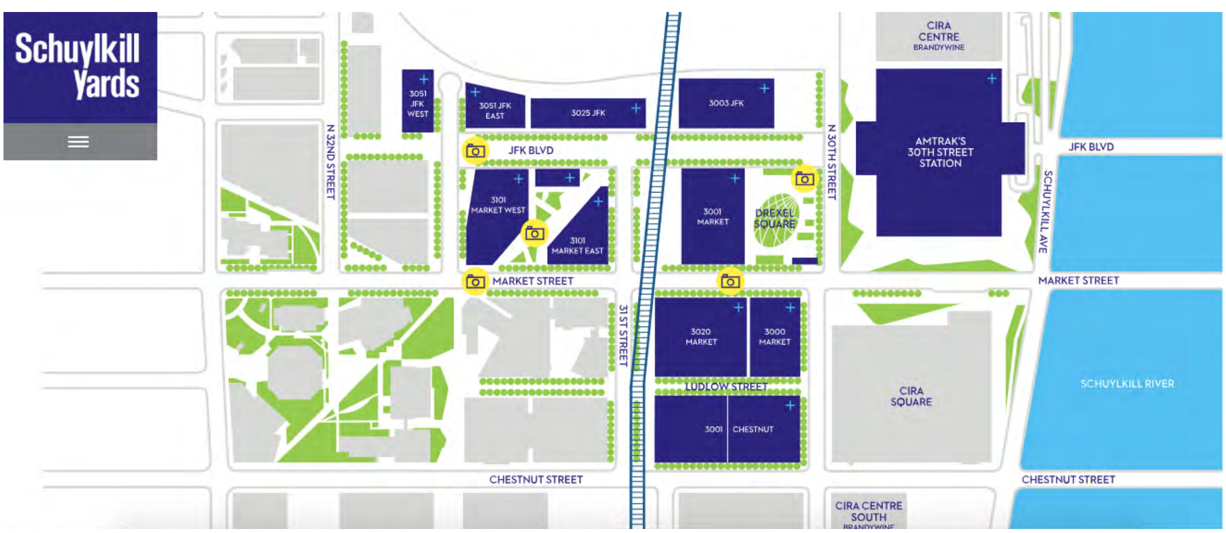


Figure 03: Located in one of West Philadelphia's Opportunity Zones, Schuylkill Yards could leverage investment from its adjacent non-profit anchor institutions through a Qualified Opportunity Fund, offering a "match" to investors seeking to benefit from the Opportunity Zone's tax incentive.

Figure 04: Rendering of Hazelwood Green in its fully realized state. The site, just southwest of downtown Pittsburgh, is one of the last remaining brownfields in the city and has attracted investment from numerous educational, non-profit, business, and public stakeholders.

gain any tax benefits from their investments in a QOF, there is nothing prohibiting anchors from investing in such a Fund, and an anchor's investment would provide incentives to other investors on the fence about investing in a QOF project by de-risking it through offering a "match" or loan guarantee. Rather than traditional grants to a city-supported cause, these investments can generate a return financially and socially by aligning an anchor's investment with its own mission and needs. For for-profit anchors, cities should encourage them to consider using their own corporate (or shareholders') capital gains to invest in business expansion and development in their communities. Anchors could also encourage their employees, who can benefit from the tax incentive, to invest in an anchor-sponsored QOF through a matching program.

In Pittsburgh, a consortium of major area non-profits purchased the largest remaining brownfield in the city, now known as Almono/Hazelwood Green, with the intention to develop the property into a premiere example of environmentally conscious, community facing, and mixed-use development, extending the economic expansion of downtown and the higher education district. Carnegie Mellon's Advanced Robotics Manufacturing Institute is set to become the site's anchor tenant of the gargantuan remnant of an old steel plant, Mill 19. Over 220 higher education institutions, non-profits, and businesses, as well as city, county, and state government, came together to win an $80 million grant from the United States Department of Defense to supplement the $173 million raised from other public and private sources for the robotics project.[xiii]

Serve as a Local Clearinghouse of Strong Investments, Helping External Investors

A challenge of the Opportunity Zone incentive is its focus on distressed areas that have not had a great deal of market exposure. Since many anchors have the resources and local knowledge to identify businesses and pieces of property that would benefit investors in Opportunity Zones, they can provide a "seal of approval" for investment based on their own due diligence and would likely provide external investors with a greater confidence. Smaller communities, financially distressed cities, and regions of dispersed Opportunity Zones might look to local anchors to serve as a clearinghouse for investors and investments. With a significant number of eligible businesses, especially startups, concentrated at hospital and university incubators and entrepreneurship programs, identifying an anchor partner can be critical for cities unable to afford to sponsor their own accelerators.

Anchor Marketed QOFs

Most anchors maintain broad structured networks of potential high-quality investors and businesses from their boards, donors, and alumni that cities might not otherwise engage. Cities should encourage anchors to use their status as a touchstone to connect with alumni and board members who are investors or have businesses of their own and facilitate "alum to alum" investments or similar deals. While much of this could be possible without opening a QOF, doing so would allow the anchor to control its own investment strategy and who it brings in to deals.

Step Three: Maximize the commercial impact of public assets

It is not unusual for the largest landlord in a city to be the public sector. Indeed, publicly owned-land often constitutes the greatest share of property in a given community—even though much of it is in scattered lots and neighborhood buildings rather than recognizable civic buildings like schools or courthouses. Most cities have webs of different entities that may own distressed properties, including the city itself, a housing authority, a convention center authority, a port or airport authority, a county land bank, a regional redevelopment authority, or a statewide school construction corporation. Consolidating ownership into one entity—similar to the City & Port Development Corporation in Copenhagen, Denmark—could provide the most efficient and substantial way to leverage public assets.[xiv]

Identify Ownership and Encourage Transparency

Each city should inventory property it owns, identify which entity owns it, and who has an interest in its use across each level and type of government. In addition to occupied buildings, cities, counties, states, and the federal government often own significant amounts of a city's vacant land, as well as vacant properties that have been foreclosed on or are otherwise abandoned. Creating transparency among public entities is necessary to determine the value of all public assets, both to the public and potential investors—not just to whichever government entity happens to own them. While many public properties are in poor condition and in distressed areas, a significant number also tend to be in Central Business Districts or major commercial areas. Cities should create a master property database in order to understand the broader universe of potential investments and better bundle properties. Real estate tax assessor and Recorder of deeds offices can be a great place to start; water and sewer utility billing information are good resources as well. Priority should be given to completing outstanding foreclosure processes, identifying LLCs and their registered agents as necessary, and clearing titles.

Figure 05: A rendering of West Side Heights in Newark's West Ward. The site, adjacent to the West Side High School, was formerly comprised of vacant lots and abandoned homes, and was conveyed to the City of Newark by the New Jersey Schools Development Authority in 2017 for redevelopment.

Break Down Barriers Between Public Owners, Realign Interests to the Community

After a master property ownership list is created, it should serve as the basis for a local conversation about the actual highest and best use for each property in that community. Often a significant amount of public property is owned by public entities that have an interest in multiple communities and are trying to meet their own organizational missions as much as what makes sense for that particular community. Starting locally, cities should seek to understand community needs and consider adaptive reuse strategies for public properties, especially to serve multiple goals. For example, a vacant lot being held by a school development authority might be better suited to meeting a neighborhood need for housing, workforce development space and, perhaps, a school as well; a parking garage could also support street level commercial space and apartment development above using revenue from parking fees to support construction; an old neighborhood school might be a great neighborhood incubator, and so on.

The New Jersey Schools Development Authority ("NJSDA") was created by the State of New Jersey to lead the construction and rehabilitation of school facilities for some of New Jersey—and the nations'—most distressed public school districts. In Newark, the NJSDA owned several parcels of property on the City's West Side—directly across from the historic West Side High School and along one of the region's premier commercial corridors and thoroughfares, South Orange Avenue. Even though the NJSDA's land was in Newark, as a statewide entity, its priorities had traditionally been driven by policy goals that extended far beyond Newark. A comprehensive project plan was presented to the City of Newark by a coalition of Newark stakeholders and, early in 2017, the NJSDA bundled and conveyed for $1 over three dozen properties, totaling more than 400,000 square feet, to the City of Newark. The build out of the site

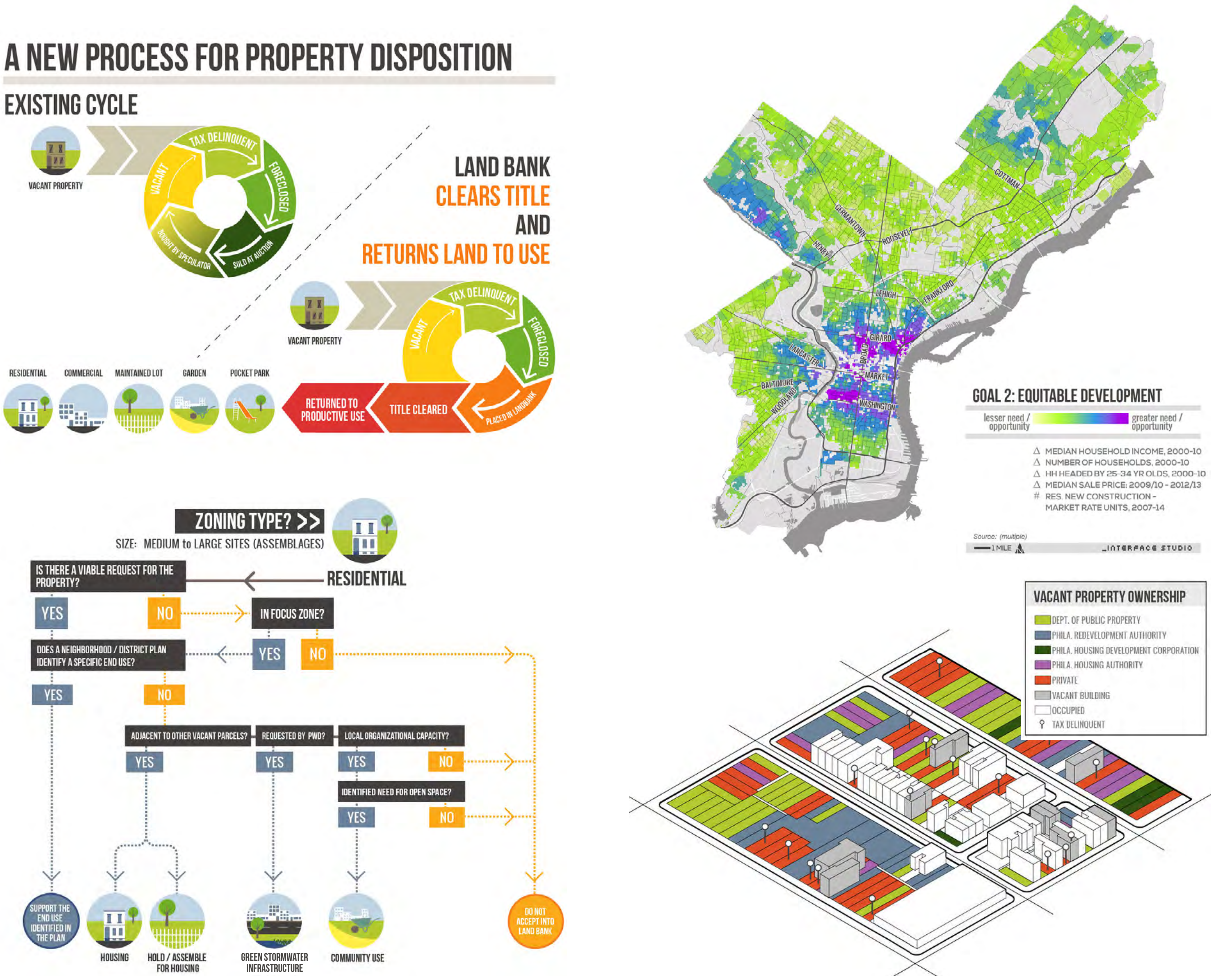


Figure 06: Created in 2013 to combat widespread vacancy and property tax delinquency, the Philadelphia Land Bank has returned numerous properties to productive use. By bundling adjacent vacant properties from the Land Bank's holdings with assets from other public institutions like the Philadelphia Redevelopment Authority and Department of Public Property, larger and more attractive development sites can be created.

will be phased around several "villages" targeted to attract medical professionals, young families, and commuters using green development and a mixed-use model. An early childhood center, operated in partnership with the school district, and a supermarket will also be part of the site's development.[xv]

Bundle

Some publicly owned assets are worth more than others. Acquiring real estate, combining and clearing parcels, making property available for sale (or lease), and marketing those properties is something that municipalities and redevelopment authorities can be particularly adept at doing—if they work together. Redevelopment entities should be mindful to pair desirable properties in prime Opportunity Zones with less lucrative—but still viable—parcels to incentivize infill projects in residential areas and neighborhood commercial corridors. The presence of Opportunity Zones now gives cities more leverage to negotiate pricing and terms with developers to increase that land's value upon sale, to the benefit of the redevelopment entity. Given some of the requirements of Opportunity Zone investments—namely the rule that 90 percent of an Opportunity Fund's assets have to be in "qualified" property—it might be helpful to bundle significant qualified properties with unqualified but highly desirable parcels to help the desirable property qualify for the tax incentive by meeting the 90 percent test. For example, if a redevelopment entity creates a bundle of fifteen lower-value neighborhood row homes that qualify under the "substantial improvement test" and one higher downtown mixed-use unit that does not, the investor could still qualify for the Opportunity Zone incentive's benefits if the fund invests in each project—making the investment more financially viable and going further to meet the policy needs of the city.

Step Four: Accelerate employment density, business demand and smart place-making

The economic and fiscal benefits of density have been studied extensively for decades.[xvi] Research shows that economic competitiveness is enhanced by the concentration of firms, people and institutions. Higher employment density has been linked to increased rates of productivity and innovation and creates a platform for higher value growth and quality place making that, in turn, attracts more firms and people. Employment density, in short, sets off a virtuous cycle.

Employment density also yields positive fiscal benefits by both reducing the costs of sprawl that follows infrastructure and services and enhancing the returns associated with walkable communities and mixed-use development. Compelling research by the firm Urban 3[xvii] shows how the interplay of taxes, land use and city planning can maximize public return: for example, a coffee shop in downtown Pittsfield, Massachusetts generates 13 times per square foot in tax revenue as a strip mall located on the periphery of the city.

Opportunity Zones could be an accelerant for smart and strategic infill that strengthens local economies and makes the local fiscal base more robust and resilient. Many Opportunity Zones throughout the country are located in areas of the city (e.g., central business districts, anchor districts and industrial districts and port districts) which have both high concentrations of employment as well as qualifying levels of poverty, exhibiting market traction and social need.

Each of these areas have distinctive qualities and characteristics. Central business districts or downtowns are generally located along waterfronts and house large public and private sector employers as well as entertainment venues, convention centers and amenities like hotels and restaurants geared to tourists, workers and residents alike. In anchor districts, generally located in midtown areas of the city, or areas adjacent to downtowns, universities and other institutions, such as hospitals, other medical facilities and research centers, are the dominant landowners. Industrial districts are generally located on the periphery of downtowns near road, rail, and water transportation infrastructure, with (depending on the city), old (and recently revalued) production and manufacturing facilities, warehouses and car dealerships.

In the past decade, U.S. cities have witnessed a renewed appreciation of density and urban attributes like proximity, authenticity and connectivity. They have, in particular, experienced the growth of innovation districts that sit at the intersection between innovation, entrepreneurship, creativity, and placemaking.[xviii] Innovation districts are developing around anchors such as universities, medical centers, or large firms, along waterfronts, in the downtowns and midtowns of cities and in walkable, transit-friendly suburban areas. Strong in sectors such as biosciences, advanced technologies and creative industries, these districts cluster cutting-edge research institutions and R&D intensive companies with start-ups, scale-ups and co-working spaces, business incubators and accelerators. They are physically compact, transit-accessible and offer mixed-use housing, office and retail space. They are also increasingly quality places, containing vibrant and vital gathering spaces that are programmed to enable productive collisions between people and the seamless exchange of ideas.

For weak market cities, in particular, spurring greater employment and residential density by building on the special advantages of their core geographies is the critical path towards growing business demand and attracting tax advantaged capital. For these cities, the current inventory of investable projects is not sufficient to drive the number of transactions or attract the kind of capital necessary for growth that is inclusive and transformative. These cities must mobilize local corporations, high net worth individuals, universities, hospitals, foundations, (and governments) to coordinate and invest at scale in a synergistic way. Unlocking local capital and making smart local decisions is the vehicle for creating market demand, which is the precondition for attracting outside capital.

Spur the co-location of corporations, university assets, start-ups and scale-ups and amenities

Some cities like Atlanta, Cleveland, Newark, Philadelphia and Pittsburgh have inherited a legacy of advanced universities and major companies located in downtown and anchor areas that provide the platform for a naturally occurring innovation district. For these cities, strengthening governance within the District to encourage greater collaboration among silo-ed institutions to spur innovation is the key move.[xix] For other cities, the challenge is to convince anchor institutions to lift anchor and move entire companies or pieces of universities and health care systems into core locations. Buffalo, Detroit, New York, Phoenix and Winston-Salem are some of the many cities that have executed strategic relocations.[xx]

Figure 07: Having been in operation since the 1850s, Eastern Market in Detroit is the largest historic public market district in the United States. In 2006, the City of Detroit transferred the management of the Market to the newly-formed Eastern Market Corporation, which operates as a public-private partnership with the City. The Market has spurred the co-location of eateries, shops, art galleries, makerspaces, and studios.

Enhance commercialization and tech transfer efforts in ways that support regeneration

Many universities are upping their game in this area. Brown University and Notre Dame warrant attention given the decisions to enhance their research capacity and move innovation hubs outside the traditional footprint of the universities.[xxi] Through an innovative reuse of centrally-located vacant land that used to make up a segment of Interstate 195 in Providence, Rhode Island, the I-195 Redevelopment District Commission provided incentives to facilitate the development of an $158 million Innovation Center that hosts anchor tenant Brown University, Johnson and Johnson, and the Cambridge Innovation Center.

Animate public and private spaces to attract people to cores and corridors

Quality place-making is an essential component of robust economy shaping. The list of inspiring examples—Detroit's Eastern Market, food pop-ups in Oklahoma City, riverfront festivals in Louisville—are numerous. Traditional efforts like Main Street façade improvements and historic preservation have been shown to enhance business demand and increase value in places that desperately need it.[xxii]

Match zoning to new uses

Cities are experiencing a sizable burst of adaptive reuse activity due to economic restructuring and demographic transformation. Downtowns are witnessing the large-scale conversion of department stores, office buildings and churches to residential purposes. Industrial districts have seen long abandoned warehouses and manufacturing facilities converted to a broad range of residential, entrepreneurial, restaurant, boutique hotel and food manufacturing (e.g., craft brewing) uses and now are considered "go-to" destination areas in cities. Memphis, Milwaukee, the Bronx, and Nashville have adjusted industrially zoned sites on the periphery of central business districts to accommodate new housing and other mixed-use developments.[xxiii]

Step Five: Ensure that Zone related infrastructure is high quality and meets performance and sustainability standards

Every city is made up of a broad portfolio of infrastructure, often accumulated over hundreds of years of development and often only incrementally changed to meet the needs of the next generation on top of what the last one built (or in many cases, the generation before that). In general, infrastructure—roads, rail, pipes, and broadband—is one thing cities have in abundance, especially in comparison with suburban and exurban communities.

Many cities now have more infrastructure than they need, giving them more than enough infrastructure to grow. Most American cities exist because they offered a better place to live and do business, based on their natural and manmade infrastructure assets, than the towns, villages, and farmsteads of 18th and 19th century America. That means that the comparative advantage of a city 150 years ago, in many ways, drives its fate today; that advantage, however, can still be a city's greatest asset. When rivers were the most important way to transport people and goods, St. Louis was the gateway to the west; after a rail network was built across the country, Chicago became the gateway to the west. Despite having no natural connection to the northeast, the Erie Canal made Buffalo an important port and manufacturing center in the 19th and early 20th centuries; after the St. Lawrence Seaway was completed and it was no longer necessary to stop in Buffalo, the city lost a significant amount of its population and industry.

Reimagining Uses, Reimagining Meanings

The meaning of infrastructure changes over time, as does its use. In most instances, the features of infrastructure that made cities competitive when they were founded simply need to be reassessed, reawakened, and revitalized. Indeed, cities shouldn't look at a piece of infrastructure as outmoded, but instead develop an understanding of what it has meant to the city over time and what it could

Figure 08: Examples of adaptive reuse in Lowell, MA. The Counting House (left) is a converted mill that houses a 52-unit mixed-income development with commercial space, with the 170-year-old Adden Building (middle) and Loft Two Seven (right), also comprised of mixed-income units. These developments abut the Hamilton Canal Innovation District, another redeveloping former-industrial historic district adjacent to downtown Lowell.

mean for the future. This could drive multiple strategies around adaptive reuse, redeveloping portions of the waterfront for recreation and residences, or reclaiming old freight rails for new industries and logistics.

A good rule of thumb is to view some development projects as donuts: instead of focusing on redeveloping a closed steel mill at the center, consider all the rail links, warehouses, canals, roads, water/wastewater piping, and support facilities that were built up around the mill to service it and could be used by dozens of other new businesses. As businesses and industries become ever more specialized, cities should be clear about marketing the particular infrastructure advantages they have, often stemming from features of their origins and development. Logistics and advanced manufacturing facilities need access to rail lines. Access to plentiful water can be vital for industrial and urban agricultural uses, as well as transportation. Similarly, quality redevelopment can take advantage of the aesthetic value of infrastructure, such as the canals crisscrossing the mill district in Lowell, Massachusetts that used to power massive textile looms.[xxiv]

Highlight Lesser Known Infrastructure Investments

Many cities have been moved to upgrade aging grey infrastructure assets by the federal government in the past decade, particularly as a result of rising water and sewer standards. This means that some cities that once had the poorest infrastructure in the country, which created a disincentive for growth, now have some of the most advanced and best suited for new businesses and development. Because so much of this infrastructure is underground, literally, cities should be sure to make evident all the grey infrastructure improvements they have undertaken in order to modernize, improve environmental sustainability, and overall quality of life.

Many Opportunity Zone cities have also led the way on innovative green infrastructure designs in order to affordably meet significant storm water management requirements and challenges. Unlike most grey infrastructure, green infrastructure can often be used directly to improve the cityscape and offer recreational opportunities. Cities like Lancaster, Pennsylvania have taken aging asphalt basketball courts and refurbished them with "pervious" pavement and constructed pocket parks in order to serve as natural retention basins along city streets.[xxv]

Thinking about infrastructure not just as a grey necessity, but as a way to meet multiple community and business needs, can be one of the most attractive features of community from new businesses and residents looking to relocate. Cincinnati's' Lick Run storm water control plan remediated and beautified a series of brownfield sites, while constructing a cost-effective combined sewer overflow control plan. The new storm water system includes trails, stream day lighting, and allows for new uses along previously contaminated sites.[xxvi]

Many cities also have among the best rail connections in the country, but those connections are often under-utilized and marketed. While passenger rail remains difficult for many cities to fund due to limited demand, freight rail demand has remained consistent and is increasing (especially for intermodal units). Scranton, Pennsylvania has spent decades attempting to restore passenger rail service to New York City, but, thanks to ever growing demand, it currently has a practically zero percent vacancy rate for industrial property with freight rail connections thanks to the innovative reclamation efforts of the Pennsylvania Northeast Regional Railroad Authority.[xxvii]

Tax Increment Financing for Infrastructure

Tax Increment Financing, or TIFs, are among the most common tools used by cities to spur new development. Put simply, TIFs take the projected tax revenue raised by a new development to fund something, often using this revenue stream to secure a bond. While many TIFs use the revenue generated to fund the development itself, others choose to direct TIF revenue towards infrastructure improvements that benefit both the development and the community. With Opportunity Zone investment providing additional preferred tax treatment at no cost to the city, the need for TIF funding for the development project itself should be diminished, making the use of community infrastructure development TIFs more viable. Using infrastructure supporting TIFs as a way to set a city's Opportunity Zones apart offers a strong incentive to businesses while channeling a significant benefit of that development right back into the community.

Although some markets are more competitive environments for real estate and tax abatements than others, every city should think beyond the simple monetary value of taxes abated and paid towards broader questions of value. Cities and developers seek to maximize the public and private returns of a given project; the conveyance of public lands or a long-term parking contract might ultimately be more appealing for a developer than a property tax abatement; using a developer to construct and finance a new school or park might be more appealing to a city than general fund tax revenue. Each project should be taken on its own terms, with public and private stakeholder considering how the maximum amount of value can be generated for all parties. In New Jersey, Jersey City required the construction of a new school in exchange for a major residential waterfront tax abatement; Newark enforces MBE and WBE contractor participation for construction projects that receive tax abatements. Both cities offer a graduated scale of tax abatement benefits based upon the project's alignment with the city's public policy priorities, such as affordable housing and industrial development.[xxviii]

Step Six: Align city investments and decisions with the distinctive competitive assets of each Opportunity Zone

A city's Opportunity Zones do not exist in a vacuum. Each Opportunity Zone is not just "competing" against others in that city, region, or state—but the more than 8,700 Zones designated across the country. One of the quickest, if most difficult, ways to set an Opportunity Zone apart from another is to offer additional incentives for projects and businesses that locate themselves in Opportunity Zones; indeed, many states used existing place-based tax incentives as a means to help determine where Opportunity Zones should go in order to create layers of attractive benefits for developers and entrepreneurs.

Notably, Opportunity Zones are a unique local incentive as they do not, in any direct way, take financial resources away from the state or local government. Having an Opportunity Zone does not cost residents anything. Most local incentives, however, either require a municipality or state to redirect current tax revenues towards a project or forgo those revenues in the future. As a federal, place-based incentive, Opportunity Zones are easily combined with other federal, state, and local incentives (a fact that every city should make clear to potential investors). Thus, a first step for any city is to understand what other incentives it can offer to a potential developer or entrepreneur by coordinating efforts with the state and other local governments. While combining Opportunity Zone designations with existing place-based incentives (if not in place already) will often be a useful step, it is important for cities to do so deliberatively and with an eye towards a broader set of policy goals they want to achieve beyond just more development for development's sake.

Marketing and Accessibility

Major, easily understood incentives that are visibly marketed around Opportunity Zones, especially early, will make an impact. Much of the challenge of driving investment into a given Opportunity Zone is that there are over 8,700 of them. Adding—or simply pointing out—a unique incentive that will be available to any national QOF is a quick way to gain notice. Even if the incentive is not the most financially generous of those offered nationally, simply getting investor attention and encouraging them to begin the due diligence process is an excellent way of engaging with more out-of-market investors. A vital part of marketing any incentive is making sure investors can understand it and whether their projects might be eligible and benefit, often through the creation of a dedicated website or downloadable eligibility chart. The New Jersey Economic Development Authority offers an interactive GIS-based "Taking Care of Business" site evaluator tool that allows developers and entrepreneurs to search the state for sites according to available incentives.[xxix] The Port of Greater Cincinnati provides a development tool kit with a simple and easy to use eligibility and benefit chart, as well as greater detail within the same document for those looking for a deeper dive.[xxx]

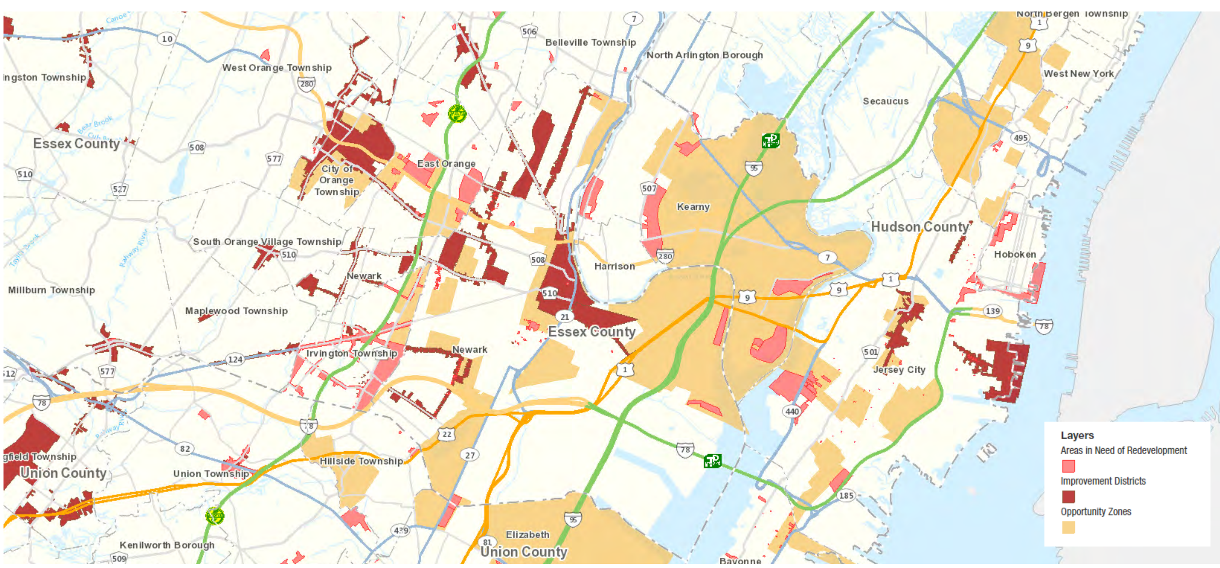


Figure 09: The New Jersey Economic Development Authority's (NJEDA) "Taking Care of Business" GIS app enables stakeholders to query and visualize an online database of sites in the state that are eligible for various economic development incentives.

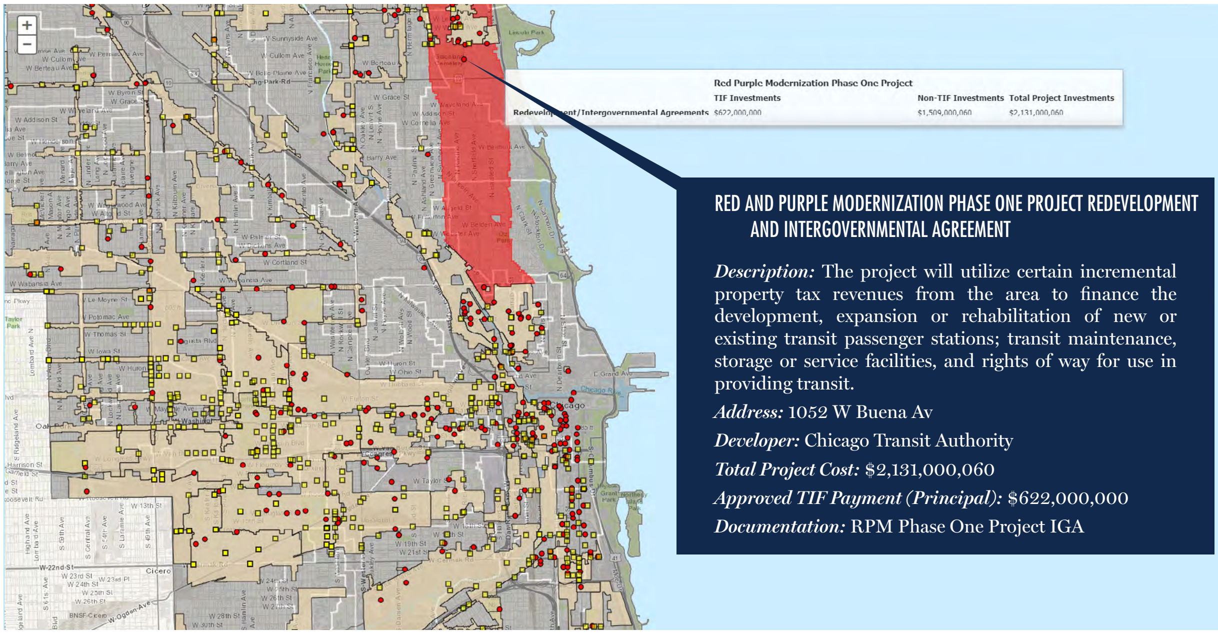


Figure 10: Similar in many ways to NJEDA's "Taking Care of Business" tool, the City of Chicago Tax Increment Financing (TIF) Portal provides Chicagoans with a map-based view of TIF districts and projects. Tan areas show TIF district boundaries; Red circles identify redevelopment projects; and yellow squares pinpoint infrastructure projects. Clicking on a district or a project generates a pop-up window which provides basic information about the district or project along with links to more detailed documentation (if available). Tools like these could easily be adapted to publicly disclose QOF investment.

Incentives as Regulators

Most cities might have no idea when or where Opportunity Zone investments are happening. Setting up a QOF and using it to finance a project can be an entirely private matter and potentially only known to the IRS. One exception is if an Opportunity Zone project also seeks additional incentives from a city or state. In order to better track and understand what Opportunity Fund investors are looking for, cities should establish targeted reporting mechanisms through other incentives that they offer; without such measures, it will remain difficult to market to Opportunity Fund investors based on genuine market demand. That's why incentives can also be a useful tool to encourage or even require inclusive development and workforce training opportunities for residents. Long a source of frustration due to their opacity, the City of Chicago launched a TIF Data Portal, allowing anyone to use a mapping tool with multiple search functions to identify where TIFs are, what projects they're supporting, and for how much.[xxxi]

Fast Track Entitlements

Because of the unique features of the Opportunity Zone law, fast tracking the entitlement process in each Opportunity Zone will be of incredible value for investors and may even be more attractive than additional tax incentives—setting cities that offer fast track approvals for Opportunity Zone projects clearly apart. While no investor would turn down fast tracking for any kind of development project, Opportunity Zone investors will be far more hesitant to move forward on a project without the assurance of speed given strict limitations and financial penalties on projects that do not meet certain timing hurdles of the Opportunity Zone law (i.e., the 30-month substantial improvement test or the 6-month qualified property test). Creating additional incentive or operational improvement layers above the Opportunity Zones can be a useful way for cities to not only supercharge redevelopment potential in those zones but also methodically pilot new and streamlined approaches towards entitlements. It is not uncommon for businesses to find that the entitlement process, more than the underlying cost of the tax structure, is what inhibits business development initiatives.

Overhauling the planning, zoning, and inspections process can be daunting for any city, but focusing redesign and improvement efforts in an Opportunity Zone can offer both an impactful and manageable way to begin. Pittsburgh digitized its inspection workflows and prioritized an employee education/certification program to increase the number of permits processed per month from a couple hundred to several thousand, paving the way for an almost unprecedented period of development in the city.[xxxii]

Step Seven: Help local entrepreneurs and developers (particularly female- and minority-owned businesses) gain access to capital, technical assistance, mentoring, legal services and other resources

The intent of Opportunity Zones is clear: to incentivize a structural shift in investment away from just a handful of markets on the coasts to the rest of the country—and particularly to those communities that have struggled the most through deindustrialization, redlining, urban renewal, and disinvestment. The strength of the program is its commitment to and enabling of a fundamental change in the underlying incentive structure of the economy. But this very strength can also lead to unintended consequences, in large part due to the law's lack of guardrails or guiding incentives. To that end, cities must effectuate the law's intent by shaping the Opportunity Zone incentive to their own policy goals, making the incentive accessible and useful for every community, and a font of local wealth creation, not extraction. This includes demanding transparency and collaboration with local stakeholders, and holding investors accountable for local hiring and procurement, among other issues.

Opportunity Fund Legal and Financial Entrepreneurship Clinic

One of the hallmarks of the Opportunity Zone program is its relative simplicity. There is no alphabet soup of acronyms, vast eligibility thresholds, heavy investment restrictions, and burdensome reporting requirements. While those requirements are often considered to be onerous for requiring a significant degree of specialized knowledge, they are typically carefully designed in order to accomplish certain public policy objectives (e.g., the construction of low-income housing or preservation of historic property). Instead, the Opportunity Zones are meant to encourage place-based, market-driven development and job creation with little friction from government bureaucracy. The requirements that do exist, however, are not plainly aligned with public policy goals, but to particular accounting and legal hurdles.

Without exception, the Opportunity Zone deals that have taken place so far have required a significant amount of legal resources to accomplish, with a particular focus on specialized corporate and tax law; they've also required investors to take on some degree of risk given the remaining (and perhaps long-standing) technical questions surrounding the law—risk that is going to be hard to bear for the very same under-resourced community developers and entrepreneurs that the program is trying to help.

Cities should make available an accounting and legal resource clinic for local entrepreneurs and developers to learn about the Opportunity Zone program generally, determine whether or not their properties or businesses qualify for the program, and develop how their QOFs might be structured. Most anchor institutions have access to a significant number of financial and legal professionals who could be made available to consult with local entrepreneurs, offering a useful and relevant in-kind contribution. Institutions might also consider diversity of QOF fund managers.

The Youngstown Business Incubator carefully chose a series of industries to focus on—primarily in the additive manufacturing space—and partnered with local manufacturers and higher educational institutions to become one of the world's leading incubators. But the Youngstown Business Incubator, through its Minority Business Assistance Center operated in partnership with the Ohio Development Services Agency, integrates its services into all aspects of the incubation and acceleration process, providing no-cost management, accounting, technical, financial and contract procurement assistance in addition to loan and bond packaging services.[xxxiii]

Inclusionary Development and Requirements

During the project stage, cities should consider tying newly developed or existing inclusionary development requirements into any incentives or entitlements granted within Opportunity Zones. Given Opportunity Zone projects do not need particular approval, the most efficient way to ensure the kind of inclusionary development a city wants is to include its preferred regulations in the entitlement process more generally; i.e., any development—not just Opportunity Zone developments—must meet certain inclusionary benchmarks. So, in exchange for entitlements and incentives, cities should enforce some significant element of MBE, WBE, and/or local participation on the project, as well as training and apprenticeship opportunities—particularly for projects involving building trades unions. Newark's tax abatement procedure is a leader on this front by rewarding developers and businesses that employ (and train) Newark residents.[xxxiv] Although there will typically be less leverage, cities can also encourage business employment and procurement policies to do the same by structuring the eligibility for business-focused grants, financings, and tax incentives. An even simpler and foundational step is to include a directory of WMBE businesses and supplier diversity website on a website, as the Port Authority of New York and New Jersey has done.[xxxv]

Step Eight: Help local residents obtain the skills or competencies necessary to meet existing or future labor demand

Cities play a fundamental role in preparing residents for a rapidly changing economy. Cities are the major local funder of the public K-12 system and, with corporate, university and philanthropic support, often provide STEM or STEAM curricula that align with the needs of major employers and the broader economic strengths of the city. Charter schools and non-profit intermediaries add to the mix, often providing skills training and credentialing that are critical to specialized sectors and occupations. Smart city planning also plays a role, with increased emphasis on co-locating, for example, special high schools or community college facilities in the heart of innovation districts (e.g., the Texas Medical Center in Houston).[xxxvi]

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

Design and implement cradle-to-career initiatives

Cities can use Opportunity Zones as a catalyst to provide a more seamless, integrated system of education and workforce development.[xxxviii] In 2014, Louisville Mayor Greg Fischer launched Cradle-to-Career, an integrated effort between disparate organizations focused on kindergarten readiness, elementary and secondary education, college completion and workforce-oriented skills training. As chronicled in The New Localism, Fischer used his "soft power" to convene and cohere the work of key community institutions:

> "The Louisville Metro United Way took responsibility for early care and kindergarten readiness, aiming for 77 percent of entering kindergarteners to be prepared for school. Jefferson County Public Schools district is leading the K-12 success effort, aiming for 70 percent of graduates being college or career ready. 55K, a local nonprofit organization, is leading the initiative to increase the percentage of working-age adults with bachelor's or associate degrees to 40 percent and 10 percent, respectively. And the Louisville Metro Office of Civic Innovation is leading the effort to tighten the talent pipeline between students and employers."[xl]

Figure 11: The West Philadelphia Skills Initiative attempts to bridge the divide between neighborhood challenges and institutional opportunity.

Better link anchor employers and workers

Cities can also upgrade the skills of Opportunity Zone residents by establishing intermediaries to better link employers and workers. In 2011, Philadelphia's University City District established the West Philadelphia Skills Initiative (WPSI) to help resolve a complex challenge: "too many unfilled or high turnover jobs at some of Philadelphia's largest employers and too many unemployed West Philadelphians."[xxxix] Employers in West Philadelphia partner with WPSI when they need to resolve recruitment, high turnover or performance quality issues. WPSI then creates training cohorts of eligible residents and designs a customized curriculum that responds to specific hiring needs. "As an employer-driven program, [WPSI] exemplifies the benefits of a 'train and place' model rather than the 'train and pray' approach common to many workforce programs." Since 2011, the initiative has connected 93% of its graduates to employment and generated $15.4 million in wages for previously employed West Philadelphians.

Incentives for cooperation

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

Step Nine: Support the production and preservation of affordable/ workforce housing

In the absence of federal leadership on rental housing policy, many local governments and institutions have stepped into the void, because state and local leaders increasingly recognize the connection between the availability of affordable housing and future economic vitality.[xli]

Local activism illustrates the critical role that cities play in the affordable housing system in the United States. Through minimum wage increases and other policies, they can boost incomes so that more working families can afford the cost of housing. Through zoning and land use policies, they can re-orient the regulatory environment to encourage the production and preservation of affordable housing, particularly around anchor institutions. Through financial mechanisms like trust funds, they can provide capital support for the production and preservation of moderately priced housing. Through building innovations like modular housing, they can lower the costs of construction and re-construction. Through the strategic delivery of federal housing resources like HOME and Community Development Block Grant funds, they can provide critical gap funding for projects that would otherwise not get done.

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.

Maximize impact of existing housing institutions and intermediaries

Many cities have a mix of public and nonprofit entities that already own, operate and/or fund affordable housing within neighborhoods that have been designated as Opportunity Zones. These entities could play critical roles in city efforts to expand the supply of affordable housing. Public housing authorities, for example, could offer surplus property as part of Opportunity Zone development and, along with community development enterprises, could become co-developers of mixed-used and mixed-income projects. Community development finance institutions could offer special products designed to extend private investment in hard-hit neighborhoods.

Figure 12: Aerial rendering of the Teachers Village in downtown Newark, where subsidized units are marketed to teachers.

Spur workforce housing

For the past several decades, the majority of new development in cities has landed on opposite sides of the real estate spectrum: subsidized low-income housing or market rate, higher end development aimed at professionals. New middle-market housing is primarily found on the outskirts of cities or inner-ring suburbs. Teachers Village in Newark and Teachers Corner in Hartford offers subsidized rents to teachers and other middle-income workers in high cost apartments to meet this latent demand. In addition to residences, each Teachers Village includes a portfolio of amenities including a gym, three schools, an early childhood center, street-level retail and a life-long learning center with K12, higher education, and financial partners. By using a combination of tax credits, patient high net worth individuals, and major financial partners like Goldman Sachs, TD Bank, and Prudential, the $150 million project was able to transform a series of underutilized surface parking lots into one of the first market rate developments in Newark in more than a half century.[xlii]

Join-up capital sources

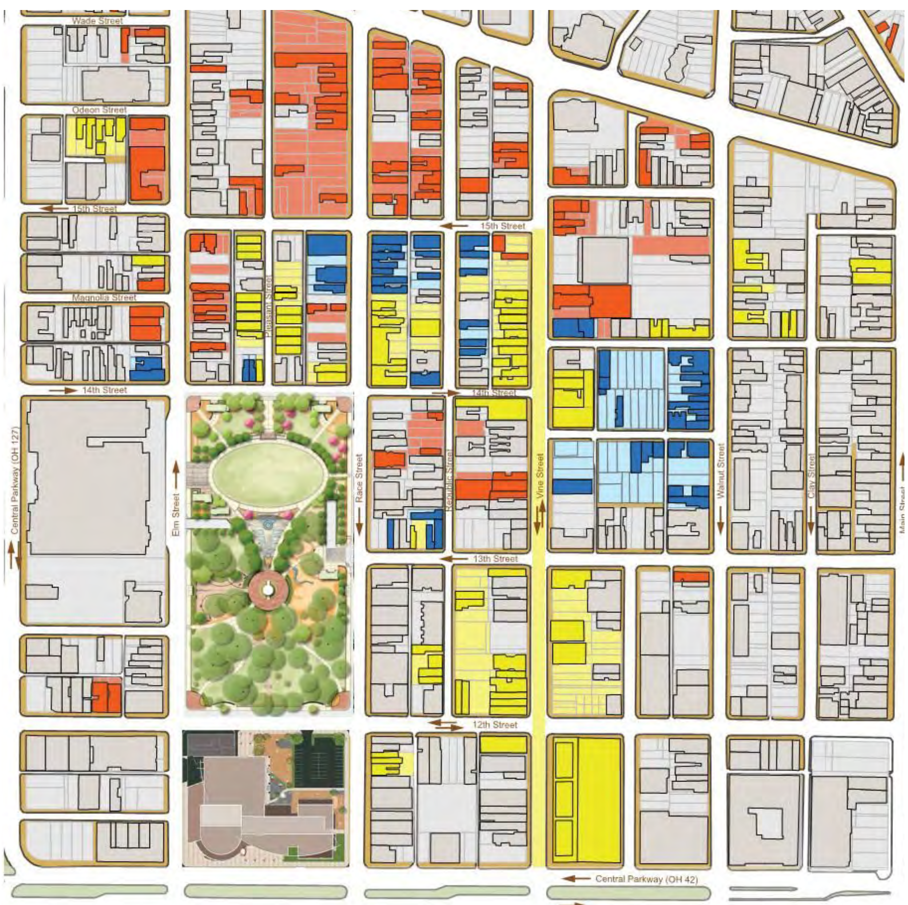
Local housing agencies and investors should work with state housing agencies to offer technical assistance and guidance to developers, non-profits, and local housing agencies to marry capital sources. Recent changes in the tax law have altered the market for Low-Income Housing Tax Credits, challenging 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 help 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.

Step Ten: Repurpose existing institutions and build new institutions to carry out core missions.

Realizing the potential of Opportunity Zones requires that local governments and key stakeholders organize for success in a collective and concerted manner, a topic which is discussed below. But the place-based nature of this tax incentive also requires that a broad group of urban institutions and intermediaries act with purpose and discipline. Strong organizations must be able to carry out a range of functions in particular Opportunity Zones including place making, place management and place marketing. Other organizations should be catalysts for entrepreneurship and skills training. Strong organizations must have public sector relationships, community standing, and private sector credibility to effect change.

As discussed above, cities have followed similar development patterns in the United States, creating separate central business districts, anchor districts, industrial districts and residential communities. As these distinct districts evolved, institutional formation and governance followed to a remarkable degree. Each of the sub-geographies of a city has a distinct institutional and governance reality that reflects its unique economic function, land use and ownership pattern and socio-economic composition.

Central business districts or downtowns are by far the most complex as befits places that are a city's mixed-used employment centers and tourist destinations. Downtowns harbor multiple and intensely fragmented layers of governance. The public sector is often represented by municipal government, county government and independent authorities (e.g., stadia, convention center, tourism, and redevelopment authorities). A group of private/public and private/civic institutions also have governance roles (e.g., business improvement districts, non-profit river conservancies, and nonprofit development entities like Cincinnati's 3CDC, Atlantic City's ACDEVCO, and Chattanooga's River City Company).[xliii]



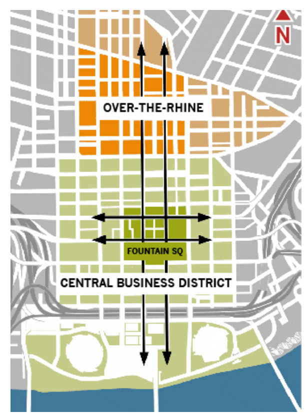


Figure 13: [above] The Cincinnati Center City Development Corporation (3CDC) stewards development in Cincinnati's central business district and its adjacent Over-the-Rhine district. 3CDC was formed in 2003 by corporate and public entities to address disinvestment in Cincinnati's urban core.

Figure 14: [left] 3CDC Projects in the Over-the-Rhine' district. Red parcels indicate future development and land-banked parcels; yellow indicates projects that have been completed or are under construction; and blue indicates Mercer Commons and Gateway V projects, consisting of both historic rennovation and new construction mixed-use development.

Figure 15: West Philadelphia's University City is comprised of many co-located education and healthcare anchors at the nexus of several transportation networks.

Anchor districts (often located in midtown areas) have a very different governance structure than downtowns. Since large institutions (e.g., universities, hospitals, research facilities) dominate land use, they also dominate district governance, creating "cities within a city". Sometimes governance happens within institutions via internal offices of real estate or facility management; when multiple institutions co-locate, intermediaries have emerged to manage place either through a BID structure (Philadelphia's University City District)[xliv] or specialized entities (e.g., Buffalo Niagara Medical Center Innovation Center, Houston's Texas Medical Center)[xlv]. Increasingly, cities like Oklahoma City and Pittsburgh are creating new organizations to manage, market and sometimes develop "innovation districts."[xlvi] The Cortex Innovation Community in St. Louis is by far the most advanced of these organizations since it has been delegated special authority by the city government to carry out real estate and infrastructure activities and is harnessing private and civic capital for investments in companies and the innovation ecosystem.[xlvii] A major challenge for all these initiatives is to identify opportunities to match their innovation moves with inclusion strategies.

Industrial districts tend to be highly idiosyncratic given their legacy industrial uses. In some cases, industrial uses persist, with private owners (e.g., railroad companies, manufacturing companies) determining what is best for their own parcel. In other cases, public or private entities have assumed ownership of large swaths of land and buildings, often requiring environmental remediation that cannot be supported by market finance alone. For example, the former Bethlehem Steel site in Bethlehem, Pennsylvania has been transformed into SteelStacks, the largest brownfield redevelopment in the United States, through a public private partnership. In addition to a Sands Casino, the complex contains theaters, a music venue, special-use industrial parks, offices, film and TV studios, and the Smithsonian Museum of Industrial History.[xlviii]

Low-income Residential areas are mostly governed by an eclectic mix of nonprofit organizations and social service providers: mostly small (CDCs like the Youngstown Neighborhood Development Corporation), occasionally large (e.g., Baker Ripley in Houston)[xlix]. In some cities, redevelopment authorities—remnants of urban renewal—continue to have a large ownership position. In recent years, land banks have also begun to populate many urban areas given the decline in industrial uses and the rise in mortgage foreclosures during the housing crisis. In many cities, elected officials (e.g., city council members, state legislative representatives) play an outsized role in the governance of these districts.

Governance in many cities emerged through a process of addition rather than subtraction. Entities emerged at a different time in the evolution of a city and its neighborhoods and were often created to solve a particular problem (e.g., "clean and safe") or carry out a particular initiative (e.g., build a stadium or convention center). In some cases, entities were merged and consolidated to achieve efficiency gains. In many cities, however, new entities were just added on top of old ones, to lessen political conflict.

Figure 16: The Porch at 30th Street Station is a vibrant placemaking initiative of the University City District (UCD) in Philadelphia. UCD has been modifying, managing, and programming The Porch since its unveiling in 2011. Organizations like UCD have the capacity for place making and managing necessary for successful of Opportunity Zones.

Cities thus represent an amalgam of institutional choices made by prior generations of leaders, with disconnected entities often amounting to less than the sum of their parts and generally lacking the capacity and standing to carry out an array of complex functions. The Opportunity Zone tax incentive could be a catalyst for modernizing urban institutions to harness private and civic capital and unlock public wealth for a new kind of urban regeneration. That should be the individual and collective aspiration of cities as we move forward.

Conduct an institutional scan

To maximize the economic and social potential of the Opportunity Zone incentive, cities and their sub-geographies should conduct a frank institutional scan and self-examination. The goal of this exercise should be to (a) assess the professional/managerial competence and fiscal capacities of the current suite of institutions that affect economic development and social outcomes within disparate urban neighborhood typologies; and (b) determine whether existing institutions need to be reformed or new institutions created. By these means, a city can ensure that it has a network of smart institutions that have the wherewithal to design, finance and deliver sophisticated initiatives and quality products (or catalyze such design, finance and delivery via other organizations).

An institutional scan should subject existing institutions to inquiries that track the different functions needed to drive successful Opportunity Zones:

Place maker: Is there an entity with the authority and capacity to create a unified vision and master plan for the Opportunity Zone? Is there an entity which is empowered to negotiate with owners and tenants and a diverse array of businesses (e.g., tech companies, developers) to deliver a collective vision? Do entities take actions for the long rather than short term? How is the right mix of market and social uses (e.g., amenities) ensured?

Place manager: Is there an entity with the authority and capacity to manage the collective places or the shared spaces of the Opportunity Zone? What is the quality of the basic infrastructure (e.g., roads/transit/water/wastewater/stormwater/broadband) in the Zone? How is the quality of public amenities, parks and gathering spaces maintained, programmed and animated?

Place marketer: Is there an entity with the authority and capacity to design and communicate a unified narrative and investment pitch for the Opportunity Zone? Is there an entity which maintains evidence on the existing profile and assets of an Opportunity Zone (e.g., ownership, uses, vacancy) and keeps score to assess performance over time? To what extent does marketing reflect the authentic assets and attributes of a place?

Entrepreneurial Catalyst: What entities (e.g., incubators, accelerators, co-working spaces, informal or formal technology associations) are working to accelerate the formation and growth of entrepreneurs and the pace of product and process innovation? Do these entities focus on particular sectors or are they agnostic? Do they work together or compete? To what extent are they connected to major technology companies (e.g., Google), national entrepreneurial initiatives (e.g., Kauffman Foundation) or multi-city networks of entrepreneurial intermediaries?

People Connector: Which entities—public schools, charter schools, community colleges, special skills intermediaries—are responsible for equipping young adults with the education and skills necessary to participate productively in the labor market? To what extent do leading companies and sectors inform, participate in (via apprenticeship programs) or even oversee the disparate skills efforts? To what extent is there a direct link between the labor needs of major employers or sectors and the schools/skills system? To what extent has the nature and scope of labor demand and labor supply needs been assessed and converted into tangible initiatives (e.g., providing hundreds of young adults a year with quality and market relevant coding education)?

Create a Suite of Modern Institutions

The need for new types of intermediaries can be accomplished in multiple ways. In some cases, a new organization will be needed; in other cases, an existing organization can reconfigure its structure and functions to take on new activities.

Erie, PA represents the best recent example of a city creating a new institution to fill a widely recognized gap. Like many cities, key anchor institutions (e.g., Erie Insurance Company, Gannon University, the University of Pittsburgh Medical Center, the city and county governments) are all located within walking distance of each other (and Lake Erie) in a walkable, historic downtown. These stakeholders and others recognized that the regeneration of the downtown required an "all-of-the-above" focus: mixed use development, quality place making, activation of public spaces, affordable housing and a commitment to quality architecture, historic preservation and streetscape re-design. In 2017, the Erie Downtown Development Corporation was formed to bring strategic focus and professional capacity to these disparate efforts.[l] Modeled after Cincinnati's successful Center City Development Corporation (C3DC), the EDDC has been built and backed by private and civic capital.

Philadelphia represents the best recent example of an organization that has evolved over time to take on new responsibilities. The West Philadelphia Skills Initiative described above is being carried out by University City District, transforming a traditional business improvement district organization focused on "clean and safe" strategies into a multi-purpose entity that designs and delivers best in class workforce development and skills training to local residents.

Explore new governance structures

As organizations are built or repurposed, attention should be paid to establishing the right governance structure and mix of public, private and civic ownership and responsibilities. Urban governance circa 2020 fits along a broad continuum between the public and private spheres, enabling new financing mechanisms and execution capacities.

Some institutions, like the Philadelphia Industrial Development Corporation, are public, quasi-public or public/private. They are established by the government to carry out public purposes and generally have a portion of their board members appointed by elected officials. PIDC is a non-profit organization founded by the City of Philadelphia and the Greater Philadelphia Chamber of Commerce in 1958 and continues to serve as a powerful way to accomplish difficult and transformative redevelopment projects that require a joint meeting of government and business.[li]

Some institutions are private/public. Non-profit conservancies and business improvement districts have been deputized by local government to be civic managers of public spaces and have been delegated powers pursuant to public law. Business improvement districts, like the Chicago Loop Alliance, are given the authority to assess property owners in their area and to file municipal liens and judgments against property owners who fail to pay. With a budget of approximately $2 million, the Chicago Loop Alliance funds landscaping, way-finding ambassadorship programs, and clean teams, as well as planning, improvement, and placemaking services.[lii]

Some institutions are private/civic. They are established and capitalized by private and civic organizations (e.g., corporations, philanthropies, universities) and work with rather than for the public sector. The Central Indiana Corporate Partnership is an example of such an entity.[liii] By focusing on a discrete set of business sectors—such as advanced batteries, orthopedic technologies, and biosciences—the Partnership has been able to channel public, private and non-profit resources to build specialized hubs for research, job creation and workforce development.

Finding the right mix of the public, private and civic is an essential part of the new urban governance.

ORGANIZING FOR SUCCESS

The ten steps listed above are easy to articulate but difficult to actualize through planning, finance and delivery. Successful cities must organize for success—within government and across multiple sectors—to ensure that the broad array of powers and resources that cities possess can be smartly deployed in the service of Opportunity Zones.

There is precedent for such organizing. The federal Empowerment Zones initiative in the 1990s and the American Recovery and Reinvestment Act in 2009 prompted a broad response, particularly within city governments. Yet those efforts, unlike the Opportunity Zones tax incentive, were more prescriptive and, in the case of Empowerment Zones, more geographically circumscribed.

Opportunity Zones are a different prospect and deserve a distinct response. As illustrated above, realizing the full economic and social potential of this tax incentive will require city public, private and sector leaders to set forth an aspirational vision for the city's Opportunity Zones and commit to supportive actions and complementary initiatives. No one sector is large enough, resourced sufficiently or empowered to carry this out; this must be a product of network governance.

IMMEDIATE ACTIONS

Get Started

A city should establish an Opportunity Zone Task Force to ensure that (a) a broad mix of city, anchor and community leaders are aware of the Opportunity Zone tax incentive; (b) an Investment Prospectus is created with community input; and (c) implementation of the Act and marketing of the Prospectus, public private partnerships, and additional incentive layering is done with community oversight and in accordance with the community vision.

Be an Open Front Door for Investors

Because of the broad classes of assets that are eligible for QOF 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 city clearinghouse could become a one-stop-shop for guidance about this unique tax incentive as well as provide an integrated mechanism for QOF investors to apply for additional city support for projects, where appropriate. Cities should develop an Opportunity Zone clearinghouse that will: (a) promote opportunities in the Zones; and (b) provide a single point of application for city funding, financing, and other incentives for Opportunity Fund supported projects.

Designate a Lead

To the extent that one agency can manage the gamut of available incentives—or at the very least guide potential Opportunity Fund investors through them—the Opportunity Zone will have a strong advantage over those that require potential investors to perform a deep dive even to form a preliminary understanding of available incentives. Many cities are creating online landing pages for their Opportunity Zones and including a breakdown of available incentives on each should be a priority. 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."[liv] The same guidance applies to cities.

The location of an Opportunity Zone Unit would vary depending on the city. In some cities like Louisville, economic development activities are managed by the mayor's office; in other cities like Oklahoma City, these functions have been delegated to an outside organization. There is no one-size-fits-all in the United States; each city should determine the appropriate placement based on precedent, tradition, capacity and local priorities.

Keep Score

One critical role of an organizing effort is to measure 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."[lv] The guidance provided by the Senate bill was as follows:

> *"The report is to include an assessment of investments held by the qualified opportunity funds nationally and at the state level. To the extent the information is available, the report is to include the number of qualitied 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."*[lvi]

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.[lvii] We believe cities should track Opportunity Fund investments and impact on their own, using measures that capture the distinctive priorities of their communities. To achieve this, cities should work closely with the national and local researchers, who have made great progress in defining such central aims as "inclusive growth".[lviii]

Engage the Community

Special forums could offer opportunities for local leaders to share information, eliminate artificial jurisdictional barriers and identify possible integrated economic development strategies within and across Opportunity Zones.

Resource the Effort: Local, regional or national philanthropies could be critical partners in helping a city establish and staff an effective Opportunity Zone Unit. Foundation and corporate support, for example, could help cities recruit subject-matter experts to join government representatives and operate with a sense of urgency.

CONCLUSION

The Opportunity Zone initiative represents one of the most innovative federal tax incentives enacted around community revitalization.

But unlike other programs that allocate appropriated dollars, investment into Opportunity Zones is not guaranteed. Cities can and should play multiple roles to help their communities 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 cities can undertake. Subsequent briefs will document the creative and innovative actions that this incentive will no doubt inspire.

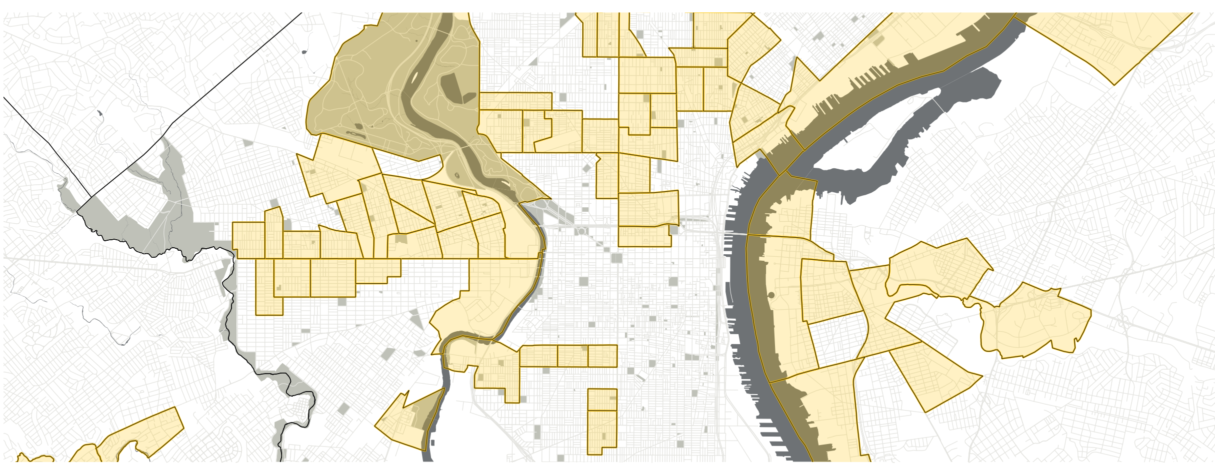


Figure 17: Opportunity Zones surrounding Center City Philadelphia.

APPENDIX A: FREQUENTLY ASKED QUESTIONS

Does the Opportunity Zone law specify any role for cities?

No. The law is completely silent on how cities manage Opportunity Zones and the only responsibility given to the states was to designate Opportunity Zones. Now that all designations are certified, there is no explicit continuing role for states either.

Are the benefits from Opportunity Zones the same in every Opportunity Zone, even if they are in different cities or states?

Yes. This is a federal program and, unless states and cities choose to try to create additional incentives or guardrails, the benefit will be identical in every Opportunity Zone around the country.

Will cities lose tax revenue because of Opportunity Zone projects?

No. The Opportunity Zone incentive only applies to federal capital gains taxes.

What direct benefit will cities receive from Opportunity Zones if they own land in Opportunity Zones?

Because cities and their related funds (such as pensions) do not pay capital gains taxes, there is no direct benefit to cities from the Opportunity Zone program. However, the land owned by cities might become more valuable to a potential buyer, now that the buyer might be eligible to receive an Opportunity Zone tax benefit.

Who can invest in an Opportunity Zone project and is there any minimum investment?

Anyone can invest and there is no minimum investment. If an investor has a capital gain of any size, she can receive the tax benefit. If an investor simply wants to invest in a project he wants to support that happens to be an Opportunity Zone project but doesn't have a capital gain, he can receive the financial benefits from the investment itself, but not the tax benefit.

Can a city invest in Opportunity Zone projects?

Yes. Although cities won't receive the same tax benefits as a private investor investing in capital gains, cities can choose to use their own assets to try to direct investment to areas they hold to be a priority. However, since most city investments—with the sometimes exception of pension and other benefit trusts—are typically held in very low risk assets, it is unlikely many cities will be able to invest securely in Qualified Opportunity Funds.

Will cities know if there are Opportunity Zone projects happening in their communities?

Not unless each city can incorporate a local reporting requirement tied to any existing program—such as permitting, registrations, licenses, or tracking LLCs. Under the Opportunity Zone law, only the IRS has limited compliance monitoring abilities and there are no reporting or data collection requirements for the Opportunity Zone program at this time. Cities can be inventive on how to best collect data and monitor Opportunity Zone investments through existing entitlement and incentive processes.

What guardrails are in place to prevent Opportunity Zones from exacerbating gentrification?

Unlike earlier forms of the Opportunity Zone program, the final federal law does not offer any guardrails on development. While that is a reflection of one of the basic aims of the program—to provide a market-driven economic development incentive as opposed to a government-driven one—states and cities can put "carrot and stick" guardrails in place to demand inclusive development from Opportunity Zone investments. Because, in many ways, cities don't really have control over Opportunity Zone investments themselves, they can use existing processes to help regulate development generally that will also be applied to Opportunity Zones. For example, cities can offer additional tax incentives to developers that meet certain local hiring and training requirements or establish entitlement procedures in Opportunity Zones that require inclusive development set-asides for all projects.

If a city doesn't have Opportunity Zones, can its residents make investments in Opportunity Zones?

Yes. Only the investment needs to be in an Opportunity Zone; the investor can be anywhere, even in another country.

Can cities suggest Opportunity Zone designations change or be redrawn?

Not at this time and this is unlikely to change.

Can cities combine Opportunity Zone tax benefit with other incentives?

Yes. There is no legal limitation on what other incentives can be combined with Opportunity Zones. Almost any project that would have qualified for an incentive had it not been an Opportunity Zone project, will remain qualified for other incentives if it is an Opportunity Zone project. Timing and other practical limitations, however, should always be considered on a case by case basis (for example, Low Income Housing Tax Credit allocation timing).

How are Opportunity Zones related to Empowerment Zones, Renewal Communities, Enterprise Communities and so forth? How are they different?

Opportunity Zones are an entirely new program and were created as part of the United States Congress; Tax Cuts and Jobs Act of 2017. While the specific benefits are very different across each of these programs, the main differences are that there are far more Opportunity Zones (over 8,700 across the country) than any of the other recent zone programs and, most importantly, nearly all of the activity takes place in the private sector, without active management from the government.

Can cities form their own Opportunity Funds?

Although there is nothing in the Opportunity Zone law itself that would bar a city from forming an Opportunity Fund, other existing laws and policies must be carefully considered before doing so. Most cities have considered setting up Opportunity Funds as a means to better control Opportunity Zone investments or support projects in target areas of their cities. For the most part, there are far simpler means for cities to accomplish these goals, such as by bundling land they own and acquiring new property through a land bank or redevelopment authority or matching Opportunity Zone investment target areas with other incentives.

Are there jobs requirements for Opportunity Zone projects?

No.

Can a business receive benefits from the Opportunity Zone program and, if so, are the requirements or benefits different from real estate?

Yes, businesses can receive the same benefits under the Opportunity Zone program as real estate and the requirements are the same—although businesses will need to pay closer attention to certain portions of the law, especially the rules surrounding property.

If a property is in an Opportunity Zone, when will it start getting a tax break?

Just being in Opportunity Zone does not mean the owner gets a tax break. Typically, if someone currently owns property in an Opportunity Zone, it can actually be harder for the current owner to get a tax break as the law is currently written due to enhanced related party limitations.

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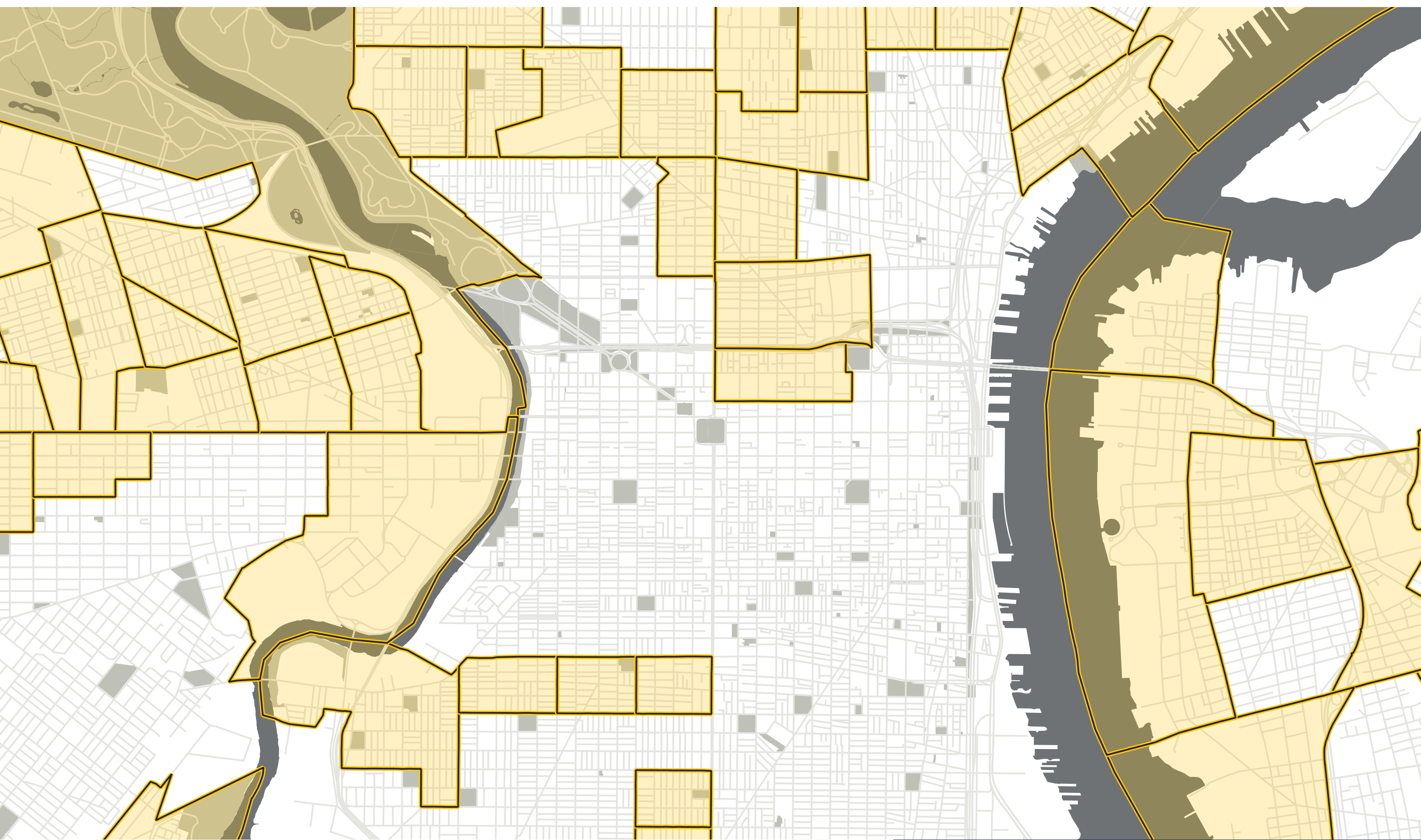

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