Growing Wealth in Opportunity Zones: A Proposal for Community Equity Trusts

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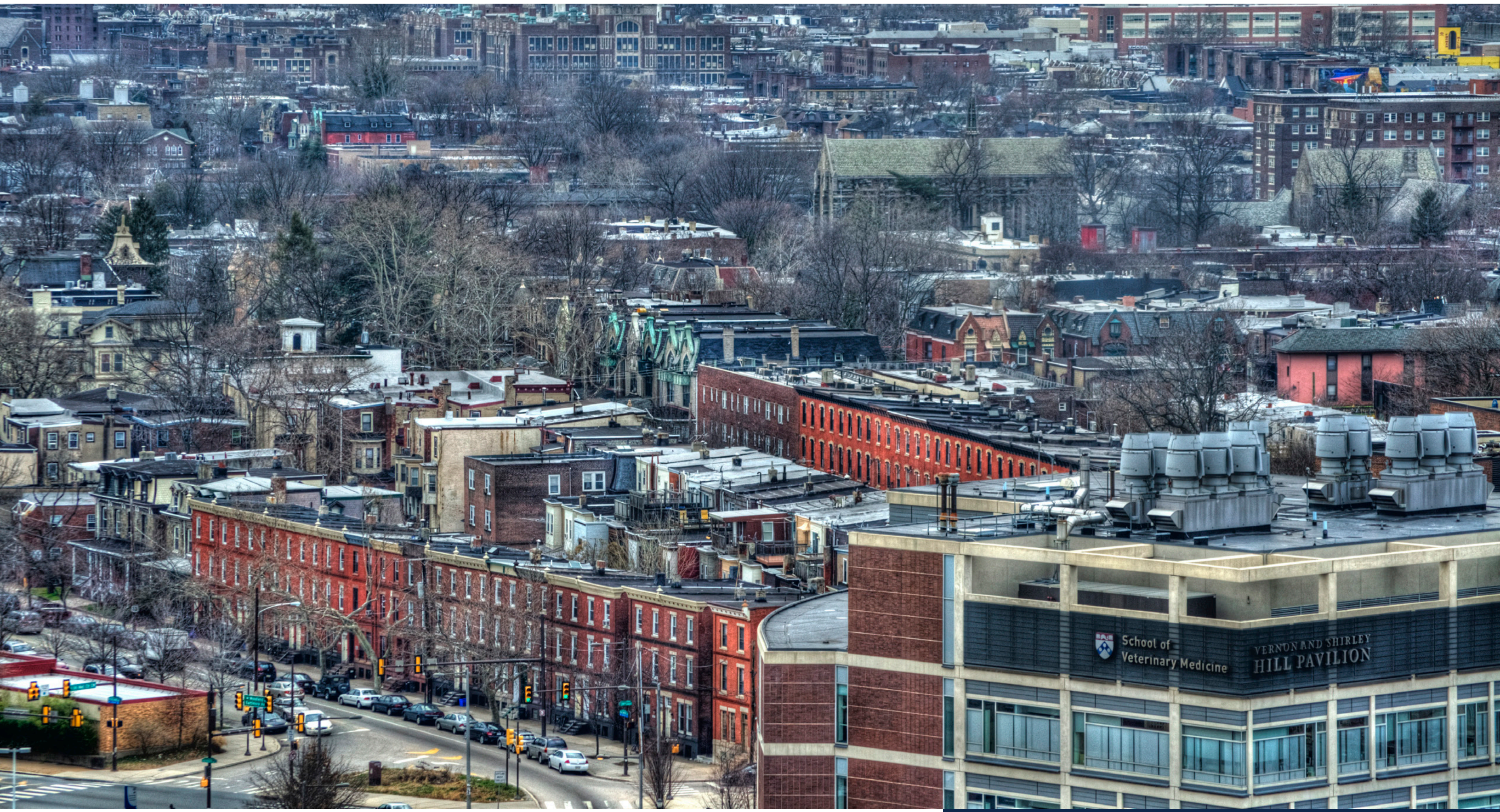

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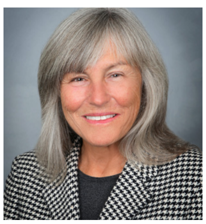

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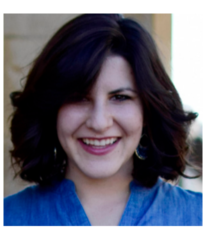

Kate Gasparro received her doctorate in Sustainable Design and Construction from Stanford University. Her research looks at the dynamics of community investment and stakeholder relationships during infrastructure delivery.

ACKNOWLEDGEMENTS

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 an initiative of Drexel University's Lindy Institute for Urban Innovation.

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.

Many of the ideas in this paper emerged from the Economic Equity Network, an initiative organized by the co-authors in 2019 to ensure that the application of Opportunity Zones was driven and informed by networks of investors, entrepreneurs, developers and communities of color. Special thanks to the Chan Zuckerberg Initiative, San Francisco Foundation and East Bay Community Foundation for seeding that effort.

Cover Photo: A view of West Philadelphia looking west from the University of Pennsylvania's campus. Many portions of West Philadelphia, including this area, fall within Opportunity Zones. Photo Credit: Lisa Campeau.

EXECUTIVE SUMMARY

Structural Racism locks families and communities out of inter-generational wealth-building. The absence of wealth creation in the African American community is at the root of lingering social inequalities. Where racism is the "disease", insidious, intergenerational poverty, and societal and health inequities are the symptoms. Any attempt to cure this disease must begin with an imperative to ensure clear pathways to family wealth creation, wealth that may be transferred from generation to generation, inherited, accumulated and capitalized. Any cure must also ensure that wealth arising from equity investments in communities of color is at least shared with, and not extracted via sophisticated financial instruments that continue to prey on, these ever-vulnerable communities. This, we believe, is the essence of equitable community development.

COVID's economic fallout now extends to land and commercial property; in low-income communities those assets, without intervention, will be lost to speculators, further institutionalizing social inequities. In addition to the devastating effects of racism on communities of color, the consequences of COVID-19 continue to ripple into ever more economic suffering for families and communities nationwide. Today, as more and more businesses go under, and more and more workers join the ranks of the unemployed, this economic catastrophe extends to suburban communities, rural town centers, manufacturing centers and neighborhood commercial districts, now vacated and boarded up. If we do not act quickly, these spaces will fall into disrepair, and absentee speculation that fundamentally locks up these parcels, will generate unemployment and paralyze these communities for decades. Given the pervasiveness and scale of today's economic decline among so many communities around the nation, any solution should protect community assets and build community wealth by partnering private capital, federal support, and local voices.

An existing, under-utilized federal tax incentive offers these very communities assembled private capital that can be deployed for regeneration. With federal targeting, this incentive can give rise to transformational Community Equity Developments that restore, preserve, and build wealth for whole neighborhoods. Federally incentivized Opportunity Zone financing already offers tax advantages to private capital to invest in any of 8,700 low-income census tracts in the US. But as it is structured today, there is no requirement or added incentive for transformational land assembly, no focus on wealth building for communities or their land-owners, and no partnership with states or localities to further incentivize wealth-building development approaches.

Federal legislation can target OZ Funds to rescue and regenerate communities by prioritizing investments in Community Equity Developments. With $10 billion in private capital already poised for investment, and another $22 billion on deck, real estate-related OZ deployment can be led, in part, by those developers who commit to working with communities to rebuild businesses, employ workers for growing businesses and health care organizations, and share the financial profits from investments with communities and their residents.

To incentivize private capital, we recommend that federal government designate Community Equity Developments for fast-tracked entitlements, state tax conformity, and other benefits including funding.

A **Community Equity Development (CED)** is defined as a development with each of the following attributes:

- Encourage transformational development of neighborhood corridors, by promoting access to needed community, economic, and health assets;
- Utilize land pooling to assemble large or multiple parcels in census tracts;
- Leverage significant private capital investment; and
- Build community wealth through Community Equity Trusts.[i]

The success of Community Equity Developments depends upon a Community Equity Trust. A CED will dedicate a share of its profits to be invested in a Community Equity Trust. This share, under the leadership of a capable community organization (e.g. community foundation, local government, community development financial institution, or community development corporation), will represent the community voice throughout the development process. Federal stimulus funds would be authorized to seed the economic development activity and be forgiven or repaid overtime by the community's "Equity Share." This Equity Share arises out of a pre-negotiated and dedicated percentage of the development's profits. As such, the Equity Share is also defined by certain negotiated target "community benefits" that meet certain business, employment, and community and health asset outcome categories established in advance. The Community Equity Trust builds community wealth in CEDs by:

1. Managing community benefits and dedicated profit proceeds in ways the community desires to facilitate the health and economic development of residents and local businesses;
2. Ensuring a community voice in development and development-ready organizations as part of the governing structure;
3. Supporting, strengthening, and growing local businesses (especially minority-led businesses), as part of "readying" business for real estate development, including:
    a. Providing back-office support to organizations as a growth incubator of existing and new minority-led businesses and organizations;
    b. Making available growth capital/ for existing and new minority-owned businesses;
    c. Partnering for workforce training & re-skilling for those jobs in CED spaces coming online; and
    d. Creating technology infrastructure for the benefit of the full community.
4. Preventing displacement by helping legacy community members become homeowners in and near the Community Equity Development; and
5. Support (including financially) and strengthen health care-related businesses, organizations, healthy food or educational programs, and diagnostic centers and health clinics, all focused on increasing access and reducing health disparities for minorities and low-income residents.

To fulfill the promise of Opportunity Zone developments, federal and state authorities need to:

- Designate Community Equity Developments;
- Seed the Community Equity Trust using federal stimulus funds; the future Community Equity Share will refinance the seed funding at the expiration of the OZ patient capital hold;
- Reform OZ Policies and allow expansion to CED adjacent tracts; adjust the OZ asset rules to enable the assemblage of land parcels previously locked out of development opportunities;
- Expedite Permitting and Entitlements for CEDs; and
- Provide Technical Assistance

BACKGROUND: THE GEOGRAPHIC EFFECTS OF TWO PANDEMICS

"Your zip code is a better predictor of how long and how well you will live than your genetic code," contends David Williams, Harvard Professor of Public Health.[ii]

As the United States struggles with the two pandemics of COVID-19 and structural racism, one that is novel and biological and the other that is ancient and societal, David Williams' statement has never been more true. For decades, our nation has been reeling from geographic inequities surrounding race, income, and access to opportunity. After months of economic depression, we can physically see how zip codes that concentrate poverty have been hit the hardest. While boarded up storefront and staggering unemployment numbers become the new normal, underlying inequalities that have prevented community wealth aggregation (the very safeguard against economic catastrophe) have been exposed for all to see. And, none know these certainties more than communities of color, especially Black communities.

The combination of the disparate effects of COVID-19 on minorities versus whites in the US, coupled with the ugly truth of equally contrasting and deadly justice meted out in the same communities, has highlighted the geography of racism, America's cancer. Racism is a cancer that is ever present, often camouflaged and always oppressive. The effects of centuries of racist policies, including redlining, have perpetuated raging inequities of societal participation at all levels. Inadequate access to healthcare, persistent unemployment (even more pernicious underemployment), failing education systems, and limited capital formation are self-evident truths for Black communities in 21st century America.

Centuries of discriminatory policies have restricted and systematically erased intergenerational wealth aggregation for Black Americans. The two biggest contributors of wealth in the US are home equity and retirement accounts. Yet, a large majority of Black Americans don't own their homes and 47% of black households are either underbanked or unbanked. While the average White family has total wealth of $171,000, the average Black family has only $17,600. Systemic racism has prevented Black entrepreneurs from accessing traditional banks and venture capital.[iii] Rather, current programs keep Black families in more modern subsidized rental housing (as long as their incomes remain low enough to qualify for assistance) and in programs requiring hiring of percentages of minorities (as long as they are in the right zip codes). Both strategies perpetuate the geographic nature of racism and neither deals directly, or sustainably, with true income generation and community wealth formation.[iv] In fact, these programs essentially warehouse these communities into specific geographies with a pseudo-romantic notion of community preservation. Wealthier families often exercise their choices and economic freedom to move to more integrated communities with perceived benefits, in pursuit of their American dream.

As community wealth is stifled in these zip codes and many other disadvantaged communities, so is access to health resources. Minority neighbors are often located further from health resources and grocery stores, live in multi-generational households that make it difficult to isolate the elderly, and work in essential, frontline occupations that pose a threat.[v] Economic and health inequalities within the Black community further serve as a reminder that disadvantaged communities are increasingly vulnerable to COVID-19. So, after several decades and billions of dollars of Federal and State funding poured into social programs, we have arrived at this intersection between truth and consequences. The legacy of structural racism, laid bare with these pandemics, has proven deadly for the Black community.

As we begin to think through ways to address inequities, it is clear that, given the scale of the problems, public funds and philanthropy will be insufficient to make meaningful long-term impacts. The next generation of programs must incentivize private capital to invest in previously redlined communities. While the capital must earn market returns, the funded programs must have defined, determined positive social outcomes that enable community wealth creation and capital formation. With these two imperatives, the solution must ensure that wealth arising from equity investments in communities of color is at least shared with, and not extracted via sophisticated financial instruments that continue to prey on, these vulnerable communities. The social compact with private investment must clearly define a path to deliver communities from the fringes of societal wealth and power.

In light of COVID-19 and the need to address the racial injustice, we propose a new strategy that augments Opportunity Zones and embeds communities to catalyze transformational development and build community wealth. Given the pervasiveness and scale of today's economic decline, this solution will protect community assets and build community wealth by partnering private capital and federal support with community voices.

PROBLEM: THE UNFULFILLED PROMISE OF OPPORTUNITY ZONES

The 2017 Tax Cuts and Jobs Act introduced a federal program that begins to satisfy one of the necessary tenets of a viable solution. The Act provides Federal incentives for private capital to invest in economically disadvantaged geographic areas. Opportunity Zone policies were conceived with an aspirational goal: incentivize new investments in disadvantaged communities hungry for economic growth.[vi] Despite this intended goal, the policy has received widespread and vocal criticism as a tax loophole for the country's most wealthy. Critics point to OZ investments in luxury real estate projects, instead of locally driven projects that retain local businesses and support the broader community. While there is some truth to these anecdotes, resistant landowners and distrusting residents also prevent developers from pursuing transformational development that would generate positive social, environmental, and economic outcomes for disadvantaged communities.

Most investors analyze OZs as demographic and economic data points to determine their ability to generate desired tax benefits and healthy returns on investments. In reality, most EOZs are comprised of complex communities, many of which have long and contentious histories closely intertwined with the politics of business, housing, and labor markets.[vii] Achieving true transformational development requires an understanding of these complexities and matching investment strategies with community-embraced projects. This alone can be a challenge as local residents increasingly distrust developers[viii], citing lack of transparency and common perceptions that future development will be of little benefit and unaffordable for the present community.

Today, private investment is poised to invest in OZs, the very same zip codes that COVID-19 has left vacant and boarded up. But, without serious reconsideration of OZ policies and an intentional shift to towards community engagement in redevelopment, OZs are at risk of failing to achieve their goals. While communities suffer from the ongoing effects of the pandemic, there is new urgency to act quickly and prevent vacant properties from falling into disrepair and becoming victim to absentee speculation that locks up key land parcels, effectively paralyzing these communities for decades to come. While COVID-19 may present challenges for industries, investors are eager for long investment horizons through OZ Funds and Qualified Opportunity Zone Businesses (QOZBs).

So many disinvested communities suffer from abandoned, foreclosed, or blockaded (locked) properties and parcels. Transformational development focuses on these blighted areas and envisions them as economic hubs, community resources, and mixed-income housing to bring communities together. Transformational development integrates multiple land uses for the benefit of the community. The diversity of land uses creates a financial and community sustainability, a place where people live, work, and play harmoniously. Through diversity and density of land uses, developers achieve more efficient use of the land.

Unfortunately, properties within areas are often vulnerable to the whims of absentee land and property owners who control critically located properties along Main Streets. These owners depend upon the steady and predictable rent from their tenants, without much thought to larger community development goals. And, for decades, owners not knowledgeable of and/or wary of public processes and averse to capital gains taxes on properties with low basis, have staved off redevelopment of key locations. Many of them have overseen their properties from a distance. Unlike resident land and property owners, these absentee land and property owners are often slow to rehabilitate and modernize their structures resulting in physical structure deterioration[ix], adding to blight conditions.

Resistance from communities and land/property owners creates an immense amount of inertia for developers in OZs (often structured as QOZBs). While OZs have raised upwards of $32 billion of private capital for regeneration, current OZ policies do not help developers overcome this inertia. As a result, developers do not aggregate multiple land parcels to achieve outcomes at scale or pursue community engagement that would reverse distrust. If we can augment OZ policies to overcome these issues, there is huge potential to achieve transformational development, effectively restoring, preserving, and building wealth for whole neighborhoods.

SOLUTION: AUGMENTING OZS WITH COMMUNITY EQUITY DEVELOPMENTS

Some community redevelopments have succeeded, despite extraordinary odds, in achieving transformational development. By leveraging private, public, and community support, these developers create and grow community assets on land that was formerly blighted. OZs were formed to help developers do exactly this. Despite bringing together private and public support for development, OZ policies have neglected community stakeholders. Without a trifecta of support, OZ redevelopments have not been able to achieve transformational development.

We identify Community Equity Developments (CEDs) as an intentional and at-scale pathway to transformational development. CEDs use civic – connected – capital that weaves disparate sectors around community rebuilding. As a result, CEDs provide incentives to developers to assemble abandoned or locked up land parcels and engage the community through profit sharing. By melding private, public, and community partners, CEDs ensure that low-income communities are treated equitably. These developments are defined by their ability to:

- Encourage transformational development of neighborhood corridors, by promoting access to needed community, economic, and health assets;

- Utilize land pooling to assemble large or multiple parcels in census tracts;
- Leverage significant private capital investment; and
- Build community wealth through Community Equity Trusts.

Encourage Transformational Development

Transformational development is achieved by taking parcels and properties with outdated and vacant uses and redeveloping them for community uses. For example, a development program may transform a single-story block of older retail businesses into a multi-level housing development with new affordable and market rate units and a ground level of locally appropriate and locally owned retail and service businesses. Or aggregated parcels can accommodate new industrial businesses to take advantage of regional manufacturing needs. Such developments would likely be significantly more valuable than the former properties, increase value to the developer, provide the desired returns to Fund investors, and achieve positive outcomes for the community.

As we emerge from COVID-19, transformational development will have to integrate health assets. OZ tracts, many of which encompass communities of color, will need development with community resources. CEDs will be well positioned to prioritize transformational development and identify real estate assets that address community health needs, especially in treating and preventing diseases and health conditions disproportionately affecting low-income and minority populations. Such assets will include open spaces, pedestrian/bicycle facilities, offices for health care related businesses and organizations, and diagnostic centers and health clinics.

Transformational development is not an inherent outcome of Community Equity Developments. Rather, it is a conscious decision by development partners to identify disadvantaged areas, not just single properties, and develop new land plans that will provide community resources and economic opportunities at a scale otherwise impossible.

Utilize Land Pooling

Community Equity Development is dependent upon aggregating multiple parcels of land, also known as land pooling, for the purposes of achieving the scale necessary for transformational development. Land pooling is a strategy that can help developers work with multiple existing land/property owners to aggregate parcels. Instead of facing resistant absentee or existing landowners, Community Equity Developments leverage land pooling to turn resistance into opportunity. To avoid unpalatable eminent domain practices, governments have previously incentivized land/property owners to sell by encouraging land pooling. Local and federal governments in Australia, Korea, Japan, Bhutan, Germany, Thailand, and India have used land pooling to address owner resistance. Owners provide their land/property for transformational developments and in return, they receive more valuable property after development or a share in the development's profits. In Japan, land pooling is known as the "Mother of City Planning" and is responsible for 30% of urban land development.[x] This policy was used to develop Washington, DC, communities throughout Western Australia, and, most recently, peri-urban areas of Delhi. In these cases, government initiated key partnerships with developers from the private sector and expedited processes for the benefit of the community.

Alone, CEDs struggle with land pooling. But OZ policies create a unique incentive for land pooling. Developers in OZs (often structured as QOZBs) can purchase property at scale by allowing owners to invest their sale proceeds (including capital gains) into QOZB Fund(s). If the property owner does not remove their investment, they can earn equity and defer (and potentially exclude) capital gains taxation. Over time, the Fund(s) can channel those investment dollars into the QOZB for the purposes of developing the properties. There are current restrictions on how much an existing owner can invest their sale proceeds into the Fund that buys their property/land (effectively limiting the Fund's ability to reap two times the benefit from purchasing from existing owners). But, through a bifurcated or portfolio approach, developers can navigate these restrictions and appropriately time investments from owners within the same development area for the benefit of the community.

Leverage Private Capital

OZ policies are already unlocking private investments for real estate and community developments. With federal incentivizes, OZ financing offers tax advantages to private capital to invest in any of 8,700 low-income census tracts in the US. Since 2017 when these policies were introduced with the Tax Cuts and Jobs Act, over 620 funds have been created to channel more than $10 billion into opportunity zones (OZs).[xi] With the January 2020 final regulations, the financing is poised to take off, as long as a clear impact framework with key metrics is established.

In the past, solutions were championed by philanthropy and federal and state funding. These sources, driven by the political whims of the wealthy and powerful, have often fallen short of any profound change for disadvantaged communities, many of which are communities of color. Through the increasing use of public-private partnerships and community equity programs, we have seen a shift. Solutions are designed with the community in mind and with self-sufficient, sustainable financial resources to achieve long-lasting change. Private investment brings financial sustainability to these developments. Involvement from the private sector drives innovation and introduces new tools and strategies for addressing complex problems. With current events, private companies are hungry to take an active role in improving communities impacted the most by COVID-19 and structural racism. Recent private company investments in testing, protective gear, new ventilators, and vaccines have shown just how private companies are stepping up to provide innovation.[xii] This same fervor can now be applied towards comprehensive reforms and transformational development on a local scale.

CEDs can leverage OZ policies to bring in private capital. But, what OZs fail to do is track and measure the impact of investments. Using ESG (Environment, Social, and Governance) goals makes transformational development tangible and directly responds to geographic issues of racial and health disparities. CEDs, with their focus on transformational development, are well situated to introduce ESG goals and build the business case for private investment.[xiii]

Build Community Wealth through Community Equity Trusts

Historically, transformational development has depended upon developer provided community benefits, such as local business incubation, financing and scaling, job set-asides and workforce training, construction of civic spaces and infrastructure like parks, greenways, gardens, community centers and internet infrastructure, and support for social resources. While community benefits are often required by City contracts as a means of placating vocal community stakeholders, it is in a developer's best interest to provide community benefits. Community benefits encourage community engagement throughout the development's lifecycle and build good will among existing residents, neighbors, and local businesses and organizations. Because community benefits are inherently local, only the local community can identify the needs and priorities of such benefits. As OZ policies currently stand, there is no assurance that developers provide community benefits.[xiv]

The Community Equity Development, as an outgrowth of successful community benefit models, would add impact muscle to OZs. To strategically integrate community benefits, and further tie together public, private, and community stakeholders, CEDs will provide community benefits through a Community Equity Trust (CET). During early development phases, the developer can fund community benefits through the CET. As the CED progresses and begins to reap financial returns, the CET will receive a share of the development profits. This share arises out of a pre-negotiated and dedicated percentage of the development profit. As such, the CET is a uniquely impact-focused class of OZ funding for COVID recovery, linking real estate development to prosperity for local residents, workers and businesses. As a result, the CET becomes a foundation for building community wealth and capital accumulation.

We envision that the CET will be established by the lead CED developer in partnership with an eligible community institution to accomplish the following:

- Managing community benefits and dedicated profit proceeds in ways the community desires to facilitate the health and economic development of residents and local businesses;
- Ensure a community voice in development and development-ready organizations as part of the governing structure;
- Support, strengthen, and grow local businesses (especially minority-led businesses), as part of "readying" business for real estate development, including:
    - o Providing back-office support to organizations as a growth incubator of existing and new minority-led businesses and organizations;
    - o Making available growth capital/ for existing and new minority-owned businesses.
    - o Partnering for workforce training & re-skilling for those jobs in CED spaces coming online.
    - o Creating technology infrastructure for the benefit of the full community.
- Prevent displacement by helping legacy community members become homeowners in and near the Community Equity Development; and
- Support (including financially) and strengthen health care-related businesses, organizations, healthy food or educational programs, and diagnostic centers and health clinics, all focused on increasing access and reducing health disparities for minorities and low-income residents.

The CET is a tangible reflection of public, private, and community engagement throughout a development's duration. As such, the CET, as the vehicle for community engagement, will be led by a community organization that understands the local dynamics and needs of residents. This organization should be representative of the neighborhood in which the CED is situated and have capacity and experience in managing the expedited distribution of community resources for economic development purposes. Therefore, we expect Community Equity Trusts to be partnerships between a CED developer, community residents, and a community partner (such as a community foundation, local government, community development financial institution (CDFI), or a community development corporation (CDC)).

GETTING THERE: GOVERNMENT SUPPORT FOR COMMUNITY EQUITY DEVELOPMENTS

By pursuing Community Equity Developments, developers in OZs (as QOZBs) and OZ Funds can promote transformational development, laying the foundation for community wealth creation. To successfully implement Community Equity Developments requires an incredible amount of collaboration, but also intense local knowledge, skilled community negotiation skills, and access to development expertise. By leveraging these skills, governments and developers (alike) can counteract many of the negative impacts of COVID-19 and structural inequalities.

COVID-19 has created a perfect storm wherein OZs are well positioned to overcome landowner and community resistance, if only they realize the benefits of CEDs. The current struggles of tenants are directly impacting the steady rent that land and property owners have long relied upon. This has made landowners more amenable to investing their properties into QOZBs. While there is huge potential to use this moment as a turning point for achieving transformational development, there is also huge potential for OZ developments to fall victim to bad actors. To prevent predatory developments that displace communities and exploit community resources for financial gain, federal, state, and local governments need to make specific policy changes to augment OZs with Community Equity Developments.

Designate Community Equity Developments

To encourage transformational development and developers to pursue genuine community engagement, the federal government should designate Community Equity Developments. Developers, along with local government partners, can apply for this designation by showing their commitment to transformational development through land pooling, private investment, and community wealth creation. Once designated, Community Equity Developments will be able to access additional resources, including stimulus funds, bespoke policies and technical assistance.

Seed the Community Equity Trust

One of the benefits of the Community Equity Development designation will be access to seed funding for the Community Equity Trust, thereby catalyzing early and continuous community engagement throughout the development's duration. As a vehicle for community engagement and community benefits, it's important that the CET begin as the development is being planned. Therefore, the CET should be seeded and not wait until later profit sharing to be created. This early seed financing would depend on economic projections of the development. The seeding of the CET could come from a variety of sources, and be repayable upon the CET's receipt of the shared profits. The federal government could provide grants or low-interest loans with stimulus funds. Similarly, developer impact fees could function as a low-interest loan redirected from auxiliary City projects to the CET. As the development meets sufficient community benefit and wealth building outcomes, these loans (or low-interest philanthropic PRI loans or impact capital loans) could be forgiven, further incentivizing transformational development. . Sources for seeding CET activities therefore include:

- Stimulus fund loans or grants.
- Low-interest philanthropic PRI loans
- Impact Capital Loans
- Developer impact fees

Reform OZ Policies

OZs serve as the policy vehicle for inducing Community Equity Developments for transformational development. While OZ incentives for private investment can help developers scale financially, there is a need for OZ policies to help developers aggregate multiple parcels. To overcome landowner resistance and enable land pooling for Community Equity Developments, the 70/30 "bad asset" rule should be adjusted. This policy restricts QOZBs to only 30% "bad assets" within any 6-month period of operations. Bad assets include properties whose sale is reinvested into the QOZBs. This effectively limits the OZ Fund's ability to benefit twice from purchasing property from existing owners. This very premise is foundational for land pooling, in which landowners become active participants in redevelopment. By adjusting this policy, eligible developments have a chance to become CEDs by unlocking and aggregating land parcels for transformational development. By adjusting the 70/30 asset rule, long term landowners (both resident and absentee owners) are able to participate in the QOZB as an investor and build wealth through the development's success.

Allow expansion to CED adjacent tracts

Transformational developments depend upon a necessary scale of development. Community Equity Developments, while they will certainly occur in OZs, could rely upon adjacent parcels outside of OZ boundaries. Once qualifying as a Community Equity Development, the developer and local government would be able to use land pooling to aggregate adjacent parcels from landowners. Currently, OZ policies restrict investments to businesses and development within OZs. The federal government could allow designated Community Equity Developments to aggregate parcels within an OZ with adjacent parcels such that the entire development can benefit from OZ incentives for private investment.

Expedite Permitting and Entitlements

Scaled developments, such as Community Equity Developments, undergo years of permitting and entitlement processes. It is during these periods that the developer plans for, identifies, quantifies, and mitigates specific impacts to the community and environment. With a team of consultants and experts, developers pursue this process in parallel to design and financial processes. The fragmented nature of local and state government agencies prolongs this process, making it an inefficient and costly process. While this process drags on, nonlocal third-party interest groups can raise unfounded concerns that challenge the nature of the project. Instead of state and local officials evaluating the project within its local and pertinent context, decisions are delayed as political arguments are fought at the fate of the development. With the interest of the local community in mind, governments can initiate fast tracking entitlements and permitting processes to remove cumbersome bureaucratic processes, ensure that development can occur in a timely fashion, conform to the OZ regulatory timelines and realize the benefits to the community sooner.

Provide Technical Assistance

Already state governments are working closely with communities and OZ Funds to align investments. This has been important for attracting investors, but also for prioritizing locally driven developments. Community Equity Developments require wide expertise in all facets of development and a specific expertise in community engagement and relations. As developers and their local governments apply for Community Equity Development eligibility, federal, state, and local governments will need to provide technical assistance to ensure the seeding of the Community Equity Trust is aligned with local dynamics and development standards.

CONCLUSION: BUILDING COMMUNITY WEALTH IN THE NEW NORMAL

The latest rulings on OZ policies from December 2019 provide more clarity and momentum for OZ investments. While COVID-19 may present challenges for industries, the long horizons for these developments provides an opportunity for investors, developers, and communities alike. Investors, feeling the short-term market swings induced by COVID-19, are still hopeful that long-term investments with EOZs could provide more stability and reduce tax consequences from capital gains. At this critical point in time, where communities adversely affected by COVID-19 need stimulus, reforming OZ policies could increase private investments into transformational development that can achieve positive social, environmental, and economic outcomes.

COVID-19 and racial injustice has highlighted the vulnerabilities of disadvantaged communities, many of which are communities of color. OZ policies have brought together private and public resources for community development, but still often deny community engagement. Today, we have a chance to re-sow the seeds of community wealth and think carefully about the path ahead. After the protests stop, the headlines subside, and the “next” normal ensues, what will new policies and programs look like? Police reform, check. Better access to healthcare, check. More black mid-level managers hired and more minorities recruited for corporate board positions, check. But what will be done to deal with America’s original sin? The economic system that established generational wealth for White America systematically reduced Black America to a commodity. While many hard-won programs begin to redress centuries’ long grievances and have yielded some gains, we still have a dearth of programs designed to improve the generational wealth and circumstances of Black Americans. Without such programs that seek to repair the underlying causes of societal inequities, we will be reliving these pallid circumstances again and again and again.

The dual effects of COVID-19 and racist killings in one month have punctured the ever-thin veneer of the illusion that our society has meaningfully progressed beyond civil disturbances of the 60’s. As we begin to reflect upon these two pandemics, we see that transformational development is essential to strengthening vulnerable communities. Augmenting OZs with Community Equity Developments will catalyze a trifecta of private, public, and community support for achieving transformational development and building community wealth, especially for communities that need it the most.

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