EXECUTIVE BRIEF:
From Recovery to Resilience

OZ

OVERVIEW

The COVID-19 pandemic presents an unprecedented challenge to all economies around the world. Importantly, pandemics hit underserved and vulnerable populations the hardest. Even before the Coronavirus crisis, these communities were capital-starved, and now the crisis will exacerbate their need for capital. Collaboration between public and private sectors can prove extremely powerful to mobilize capital to low-income communities' myriad goals: providing telecommunications infrastructure basics, strengthening their hospitals and medical supply chains, supporting their small businesses, building their technical capacity through education programs, and more. In the United States, Opportunity Zones (OZs) are potentially the most significant—and misunderstood—federal incentive for community development and transformation in the last 50 years. OZs have catalyzed unparalleled interest in unlocking the potential of overlooked communities nationwide. In a post-COVID world, it will be imperative to invest in our underserved communities' capacity to serve themselves, and in their resilience. The Opportunity Zones initiative is one tool to drive this effort. To translate that imperative and that investor interest into effective action, the Milken Institute has developed a training guide to help state and local officials and community leaders engage with private-sector and philanthropic partners to build new and lasting models for building community wealth and local prosperity.

The key recommended "plays" do not just apply to Opportunity Zones, but to other forms of private and impact capital. In a post-COVID economy, where local and fiscal conditions are tight, now is the time for communities to be creative in how they fund and finance economic development projects and resilient local economies. Therefore, we hope this guide is timely and useful for accelerating America's recovery in all communities, especially the vulnerable lower-income ones.

HOW DOES THE OPPORTUNITY ZONE INITIATIVE WORK?

Opportunity Zones are a new initiative created under the 2017 Federal Tax Cuts and Jobs Act, which provides incentives for qualified investors to invest capital gains in distressed communities (a designated Qualified Opportunity Zone census tract) across the United States. These census tracts have been designated by each state or territory and are certified by the US Department of Treasury to receive private investments via Qualified Opportunity Funds. Nearly 9,000 Opportunity Zones have been designated[1] across all 50 states, the District of Columbia, and five US territories. Once certified, an Opportunity Zone retains its designation for 10 years.

Investors can invest capital gains in Qualified Opportunity Funds, investment vehicles established for this purpose, and may provide potential tax incentives to investors: (1) a temporary tax deferral for all gains reinvested; (2) a 10 or 15 percent basis adjustment on the original capital gains, if the investment is held for at least five years or seven years, respectively, by 2026; and (3) no tax on new capital gains if the investment is held for 10+ years.

1. "Opportunity Zones Resources," United States Department of the Treasury Community Development Financial Institutions Fund, https://www.cdfifund.gov/Pages/Opportunity-Zones.aspx.

MILKEN INSTITUTE

THE ECONOMIC DEVELOPMENT ACCELERATION CURVE:

State and local officials can take a number of steps to benefit from the OZ incentive and attract the right kind of investment to their communities by moving up the Economic Development Acceleration Curve.

Local Economic Development

Impact

PHASE 1: PLANNING AND PREPARATION

Readiness work to catalyze project innovation

1. Designate a point person in government for community integration and investor engagement
2. Foster deep community engagement and inclusion
3. Know your zones and fix your zoning
4. Take inventory of assets, current spending, and 10-year budgeting
5. Develop a strategy for anchor institutions
6. Prepare for your 2050 economy
7. Gauge your capital access, business creation, and entrepreneurship gaps

PHASE 2: PROJECT ACCELERATION

Pre-deal incentives in place to advance high-impact transactions

8. Define high-impact projects and reporting systems
9. Hire an OZ expert (deal jockey)
10. Identify priority development sites
11. Assemble predevelopment funding from city, state, and philanthropic entities
12. Incentivize smart permitting of preferred projects
13. Foster engagement in the community finance ecosystem
14. Promote value capture and community benefits

PHASE 3: PROJECT AND PIPELINE DEVELOPMENT

Scale up public-sector innovation and breakthrough community partnerships to attract impact capital

15. Educate the workforce and encourage innovation
16. Support 21st-century resilient infrastructure
17. Scale regional and metro economic partnerships
18. Engage in new community financing and capital structures
19. Engage institutional capital through deal warehousing
20. Continue community transformation efforts

Effort

Phase 1: Planning and Preparation

1. **Designate a point person in government for community integration and investor engagement**

   Identify Opportunity Zone leadership within your city—whether it be a designated lead in the mayor's office, the city's chief financial officer or treasurer, or an inter-agency task force.

2. **Foster deep community engagement and inclusion**

   Work collaboratively, inside and outside government, to link community stakeholders together and build a shared vision for collective impact.

3. **Know your zones and fix your zoning**

   Update zoning, planning requirements, and building codes to ensure they do not impede OZ investor interest and align with community development objectives.

4. **Take inventory of assets, current spending, and 10-year budgeting**

   Assess what assets, strengths, key investments, and skillsets your community has and what planned program tools are missing. These findings must be aligned to a 10-year budget process.

5. **Develop a strategy for anchor institutions**

   Align with local anchor institutions (e.g., hospitals, banks, community colleges, major employers), as well as locally-sourced capital gains, to align initial investments in your community with existing economic generators.

6. **Prepare for your 2050 economy**

   Create an economic development strategy, narrative, and community investment prospectus that is rooted in both your core economic and demographic strengths today and mindful of how your region must adapt to a changing future.

7. **Gauge your capital access, business creation, and entrepreneurship gaps**

   Conduct a gap analysis specifically on where the needs lie for the promotion of small businesses and startup funding. Issues covered could include available capital, workforce capacity, infrastructure, regulation, and/or tax policy.

Phase 2: Project Acceleration

8. **Define high-impact projects and reporting systems**

   Despite recommendations by the Milken Institute and a wide range of community development leaders, data reporting for Opportunity Zone funds is not required at the local government level. To reduce unwanted disinvestment or gentrification in communities and to incentivize high-impact investments in line with long-term community objectives, states and cities must take action on their own.

9. **Hire an OZ expert (deal jockey)**

   Identify a public-sector official to engage with the private sector to coordinate across agency silos, and accelerate activities for the most promising projects aligned with local economic development objectives.

10. **Identify priority development sites**

    Create an excess property inventory that includes both OZ property and adjacent land. Make it easy for interested investors to know which land parcels are ripe for development, investment, and rehabilitation.

11. **Assemble predevelopment funding from city, state, and philanthropic entities**

    Identify funding to pay for tasks that need to be completed before construction to incentivize OZ investors' engagement, given their shorter investment windows under OZ regulations.

12. **Incentivize smart permitting of preferred projects**

    Position permitting exemptions or incentives alongside rules and regulations to harness desired OZ investments, as well as to deliver desirable community outcomes.

13. **Foster engagement in the community finance ecosystem**

    Engage local institutions that are already lending in low-income areas in your community—minority depository institutions, community development institutions, and rural co-ops—and join efforts in supporting capital access to these zip codes.

14. **Promote value capture and community benefits**

    Value capture and community benefits agreements are important tools to consider so that the public sector can share in the future upside catalyzed partly by smart public investment.

Phase 3: Project and Pipeline Development

15. **Educate the workforce and encourage innovation**

    Create a workforce development strategy that includes trainings in key sectors of your community's economy with an eye toward a 2050 economy and emerging economic trends, along with missing skill sets for currently unfilled jobs.

16. **Support 21st-century resilient infrastructure**

    Facing multitrillion-dollar funding gaps between now and 2050, public-sector leaders across the United States must facilitate innovative public-private partnerships to rehab failing and damaged infrastructure or finance new infrastructure basics, such as broadband and other resilient infrastructure systems. OZ equity capital can help close funding gaps when both community and investor interests are transparent and aligned.

17. **Scale Regional and Metro Partnerships**

    Communities and economies do not exist within a walled garden; they are connected across neighborhoods and districts, within metropolitan areas, across regions, and through supply chains. To build your 21st-century economic strategy, and attract investors, determine how smart regional partnerships can support your growth goals.

18. **Engage in new community financing and capital structures**

    Leverage other place-based investors to offer co-investment incentives to OZ transactions that meet community needs.

19. **Engage institutional capital through deal warehousing**

    Build a special purpose capability to set up (e.g., predevelopment and development) high-value deals, enabling lower-effort engagement for OZs, impact, and eventually larger institutional investors.

20. **Continue community transformation efforts**

    Going up the Opportunity Zone Acceleration Curve, while delivering measurable community impact, requires a permanent commitment to continuous learning and improvement.