Policy Matters Ohio

August 2018

Local Government

Assessing Opportunity Zones in Ohio

Wendy Patton
Michael Leonard

Policy Matters Ohio

Executive Summary

Opportunity Zone is the latest program to provide tax incentives to those who invest in poor neighborhoods. The goal is to mitigate poverty, create jobs, enhance property values and boost local tax revenues in low-income communities by attracting investment capital for business and redevelopment. Established as part of the 2017 federal tax plan, this new program will provide federal tax advantages to investors in “Opportunity Funds” which then invest in businesses and properties in designated “Opportunity Zones.” Rules for the Opportunity Funds have not been finalized, but the targeted zones have been chosen.

Tax reductions to encourage private investment in particular places are a problematic approach because they drain scarce resources from the public sector. Tax incentive programs have not proven very effective at job creation. Cost can outweigh benefit to poor people living in a targeted area. Investment capital cannot solve many problems facing people living in or near poverty. For example, federal lawmakers are currently debating ways to slash public services struggling families depend on, like SNAP and Medicaid, to pay for recent federal tax breaks—including the Opportunity Zone program. To the extent new state and local tax breaks are created to further entice investment in Opportunity Zones, already-strained resources for schools, parks, public safety and roads will be further reduced.

But we have the Opportunity Zone program, and the geographic targets—the Opportunity Zones themselves—have been selected. In Ohio almost half (43 percent) of all census tracts were eligible to be in an Opportunity Zone, because they qualified as a “low-income community.” The federal law allowed each state to select just 25 percent of eligible tracts for opportunity zone status: in Ohio, 320 tracts were selected. This issue brief closely examines census tracts that were eligible, chosen and not chosen.

Almost all census tracts selected for Ohio’s Opportunity Zones were low-income. Two-thirds are in the quartile of tracts with the highest poverty rates in the states. Federal law permitted 5 percent of tracts to have higher incomes, but Ohio chose just 3 such tracts (0.9 percent). Federal law also prioritized selection of places with active investment underway, where rents may be rising and low-income residents and small business may be priced out. A national study found Ohio’s share of selected tracts vulnerable to this kind of socioeconomic change (5.4 percent) to be higher than the national average (3.2 percent).

In Ohio, a few wealthy investors will benefit from this program. The Institute for Taxation and Economic Development estimates that the richest 1 percent of Ohio tax filers, earning an average of $1.2 million a year, have 64 percent of the state’s capital gains. Opportunity Funds will be self-certified, so depending on final rules, which have not yet been published, investors could create their own Opportunity Fund for their own investment projects. Pooled Opportunity Zone investment funds will be created, and developers and businesses that receive those investments will benefit. Fund managers will enjoy the fees. State and local governments will get increased tax revenues. Benefits to the low-income people living in the Opportunity Zones are harder to project.

To make Opportunity Zones accountable and ensure benefits and opportunity are shared with residents, Policy Matters recommends the following:

1. Restore and boost public funding to help struggling people in economically challenged places.

- Provide sufficient funding for health and human services so low-wage workers and people in poverty can get the help they need.

- Do not create new state tax breaks to deepen the federal tax subsidy of Opportunity Zones. State dollars are needed to halt the drug epidemic, ensure safe drinking water, and improve schools and communities. The state has no meaningful oversight of the $9 billion already spent on state tax breaks.

- Do not divert tax revenue from Opportunity Zones to local tax increment financing to enhance the value of Opportunity Zone projects.

2. Add reporting requirements for accountability and to learn about program outcomes, best practices to repeat and worst practices to avoid.

- The original concept paper on Opportunity Zones identified lack of reporting as a key problem in existing and prior tax incentive programs. Congress called for an annual report with metrics related to community and resident benefits, but the language was not included in the signed bill that became law.

- The federal government should require reporting on data that allows evaluation of the national impacts of the program. State and local government could add reporting requirements that target localized issues of concern.

- The federal government should fund state and local evaluation capacity, including information technology.

3. Establish community advisory boards and community benefit agreements.

- A community advisory board of residents, workers, community development corporations, small businesses, anchor institutions and city officials, should oversee Opportunity Zones and advise city councils and county commissions on protections and community benefit agreements.

- Upscale real estate development in low-income communities can cause harm by reducing supply of affordable housing and driving older businesses out. A community benefit agreement with Opportunity Zone developers could blunt such damage.

- Community benefit agreements could be structured to ensure jobs created within Opportunity Zones have living wages, regular schedules, and decent benefits. The community board could require hiring, training and career ladders in connection with development around and related to anchor institutions.

- The market will not create positive social impact. State and local government, public entities and economic development organizations must be deeply and proactively engaged to harvest positive social impact for low-income residents of the zones.

Introduction

Opportunity Zones are the latest program to provide tax incentives to those who invest in poor neighborhoods. The goal is to mitigate poverty, create jobs, enhance property values and boost local tax revenues in low-income communities by attracting investment capital for new business activity and redevelopment. Established as part of the 2017 federal tax plan, this new program will provide federal tax advantages to investors in "Opportunity Funds" which invest their capital gains in businesses and properties in designated "Opportunity Zones," which are, by law, low-income communities or adjacent to such communities. Rules for the Opportunity Funds have not been finalized, but the targeted zones have been chosen.

Tax reductions to encourage private investment in particular places are a problematic approach because they drain scarce resources from the public sector. Costs often outweigh benefits in terms of job creation. But now we have the Opportunity Zone program, and the geographic targets—the Opportunity Zones themselves—have been selected. In Ohio almost half (43 percent) of all census tracts were eligible to be in an Opportunity Zone, because they qualified as a "low-income community."[1] The federal law allowed each state to select just 25 percent of eligible tracts for opportunity zone status: in Ohio, 320 tracts were selected. This issue brief closely examines census tracts that were eligible, chosen and not chosen.

While outcomes cannot be predicted, the program has clear winners and potential losers. Like the entire federal tax overhaul of 2017, this program will primarily benefit the wealthiest of tax filers. In Ohio, almost two-thirds of capital gains (64 percent) belong to the richest 1 percent of tax filers who have an average annual income of $1.2 million.[2] Some are developers or business owners who will create their own opportunity fund to capture these new tax breaks for planned projects. Free-standing Opportunity Fund intermediaries that pool investment funds will seek investment targets in Opportunity Zones. Those projects will benefit from the infusion of cash and fund managers will enjoy the fees. State and local governments will get new tax revenues (unless they spend the resources on further tax breaks for the investors).

The effect on low-income residents of Opportunity Zones is less clear. Tax incentives have not been very effective in creating jobs. Investment capital does not address the pressing needs of people living in or near poverty. Pricy new residential development could force rents up and drive some low-income residents out of their neighborhoods. Cuts to food aid and health care that federal legislators are considering to pay for last year's tax overhaul (including the Opportunity Zone program) would hurt low-income families. Reporting requirements, transparency, local oversight and enforceable community benefit agreements should be an essential part of the program to ensure residents are helped and not harmed.

Background

The Opportunity Zone program, based on earlier legislation of the same name,[3] was slipped at the 11th hour into the federal tax cut bill of December, 2017. Final rules about how the funds will work have not yet been issued by the federal Department of the Treasury, but speaking generally, the program offers three tax benefits:[4]

---

[1] Definitions were tied to the New Markets Tax Credit program, another federal tax incentive program. See Community Development Financial Institutions Fund, "Introduction to the New Markets Tax Credit," updated March 7, 2017, slide 14 ("What is a Low Income Community") at https://bit.ly/2PNuWmr

[2] Institute on Taxation and Economic Policy is an organization with an model of the federal tax system, and the tax system of each state. They provided this estimate in an e-mail of September 4, 2018.

[3] Representative Pat Tiberi, "The Investing in Opportunity Act of 2016 at https://bit.ly/2NrMdQa

[4] See Local Initiatives Support Corporation, "Opportunity Zones A new program to connect private investment to low-income communities nationwide," at https://bit.ly/2NvOfPC; see also Economic Innovation Group, "The benefits of investing in Opportunity Zones," January 2018 at https://bit.ly/2PLt3pZ.

- **Tax deferral:** Investors can defer paying federal taxes owed on their capital gains if they invest the money in an Opportunity Fund within 180 days. Taxes will still be due, but not until the end of the Opportunity Zone program: December 31, 2026—or earlier, if the original investment is sold or otherwise taken out of the Fund.
- **Reduction on deferred taxes of original investment:** 10 to 15 percent of federal taxes that would be otherwise due is cancelled as long as 90 percent of the money is left in the fund for a set number of years to support properties and businesses within Opportunity Zones.
- **A permanent exclusion from taxable income of capital gains** from the sale or exchange of an investment in a qualified Opportunity Zone fund, if the investment is held for at least 10 years. (Note: this exclusion applies to the gains accrued from an investment in an Opportunity Fund, not the original gains).

The program rewards investors for pooling money, targeting investment geographically and allowing long-term use of money. The cost to the federal government is expected to be $7.7 billion between 2018 and 2022, which then declines to $1.6 billion over the 10-year lifespan of the program as deferred taxes are paid in the final two years.[5] The program does not certify intermediaries: those running the programs self-certify. According to guidance from the Internal Revenue Service: "To self-certify, a taxpayer merely completes a form (which will be released in the summer of 2018) and attaches that form to the taxpayer's federal income tax return for the taxable year."[6]

Tax incentive programs to lure employers to jobless localities date back to the 1980s. They were presented as a market-based solution to job loss and poverty as U.S. corporations closed factories in older, industrial communities. Ohio, like other states, has long allowed tax incentives. The federal government has too, through programs including Empowerment Zones, Renewal Communities, Enterprise Communities, and the New Market Tax Credit. These programs, like Opportunity Zones, were presented as solutions to poverty, unemployment and economic decline in targeted areas.

Policy Matters Ohio[7] and other researchers[8] have found that tax incentive programs have not efficiently achieved these goals. For example, in 2017 Timothy J. Bartik examined tax incentive programs looking both at the incentive and the cost to the public sector in revenues foregone. He found that financing incentives by cutting back on productive services such as K–12 education has negative effects on local incomes and highly regressive effects on income distribution. In the end, net benefits of tax incentives—depending on the structure—can be slight relative to costs.[9] It is not yet clear how the Opportunity Zone and other components of

[5] Joint Committee on Taxation, Estimated Budget Effects Of The Conference Agreement For H.R.1, The "Tax Cuts And Jobs Act," December 18, 2017 at https://www.jct.gov/publications.html?func=startdown&id=5053
[6] United States Internal Revenue Service, "Opportunity Zones Frequently Asked Questions," posted June 7, 2018 at https://www.irs.gov/newsroom/opportunity-zones-frequently-asked-questions
[7] Ohio's Enterprise Zone Program was intended to give lower-income districts a tool to encourage firms to locate within their boundaries by making distressed communities more appealing destinations for jobs and investment. A 2003 study for Policy Matters by Kent State University Professor Mark Cassell found that lower-income districts are slightly more likely to have an Enterprise Zone, but higher-income districts reap most of the jobs and investment associated with the program. A 2011 study by Good Jobs First found property tax incentives in Enterprise Zones and CRAs in Ohio were used to entice employers from urban areas to suburbs. Policy Matters research director Zach Schiller found a lack of transparency and accountability in Cleveland's use of New Market Tax Credits on the Steelyard Commons. Policy Matters researcher Wendy Patton looked at the rural investment tax credits enacted in Ohio in 2017 and found poor outcomes in other states. The Economic Innovation Group, which provided the intellectual basis for this program, also identified shortfalls in other federal tax incentive programs.
[8] See Weaver, Timothy, "The Problem with Opportunity Zones," CityLab, May 16, 2018 at https://bit.ly/2msvrod
[9] Bartik, Timothy J., "Who Benefits From Economic Development Incentives? How Incentive Effects on Local Incomes and the Income Distribution Vary with Different Assumptions about Incentive Policy and the Local Economy." Upjohn

last year's federal tax cuts will be paid for, but the Trump budget makes clear that the lion's share will come out of federal programs that help struggling families. Loss of public services threatens to harm low-income residents of Opportunity Zones and may outweigh benefits to these people, whose low earnings make an area qualify for this program.[10]

Opportunity Zone eligibility

States were given 90 days to nominate census tracts for Opportunity Zone Status. Analysis was based on the American Community Survey's 2011-2015 data. Standards for eligibility are included in the definitions section 45D(e) of the tax code under the New Markets Tax Credit program:[11]

- All areas—Census tracts in which the poverty rate is at least 20 percent, or
- Non-metropolitan areas—Tracts in which the median family income does not exceed 80 percent of the statewide median family income.
- Metropolitan areas—Tracts in which median family income does not exceed 80 percent of the statewide or metropolitan area, whichever is higher.

Eligible census tracts are referred to as "low-income communities." Tracts that share a border with low-income communities were also eligible if median family income was not greater than 125 percent of median family income in adjacent, qualifying low-income community tracts and did not represent more than 5 percent of tracts selected.

According to the Conference Report,[12] governors were required to provide particular consideration to areas that:

1. Are the focus of mutually reinforcing state, local, or private economic development initiatives to attract investment and foster startup activities;
2. Have demonstrated success in geographically targeted development programs such as Promise Zones, the New Markets Tax Credit, Empowerment Zones, and Renewal Communities;
3. Have recently experienced significant layoffs due to business closures or relocations.

The definition of low-income community is broad and other federal guidelines do not include a focus on poverty and need other than that caused by recent plant closure.

Ohio's selection process

The federal tax bill, which included the new Opportunity Zone program, passed on December 18, 2017. The Opportunity Zone initiative was assigned to the Community Development Financial Institutions Fund within the United States Department of Treasury, which published data and maps of eligible census tracts. Governors had until March 18 to select census tracts and submit final requests. The state of Ohio asked for local nominations by March 2 and submitted their Opportunity Zone designations to the federal government by that initial deadline. Other states successfully petitioned for extra time.

Institute Technical Report No. 18-034. Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, 2018 at https://doi.org/10.17848/tr18-034

[10] Marr, Chuck, Duke, Brendan and Huang, Chye-Ching, Herrera, "New Tax Law Is Fundamentally Flawed and Will Require Basic Restructuring, Center on Budget and Policy Priorities, updated Aug 14, 2018 at https://bit.ly/2HmWnzD

[11] Internal Revenue Service, New Markets Tax Credit, Chapter 2: Issues at the CDE level, "Qualified Low-Income Community Investment (QLICI)" at https://bit.ly/2BWgFki; see also See Community Development Financial Institutions Fund, "Introduction to the New Markets Tax Credit," updated March 7, 2017, slide 14 ("What is a Low Income Community"), at https://bit.ly/2PNuWmr

[12] United States House of Representatives, 115th Congress, "Tax Cuts And Jobs Act Conference Report To Accompany H.R. 1," Report 115-466 (p.538) at https://www.gpo.gov/fdsys/pkg/CRPT-115hrpt466/pdf/CRPT-115hrpt466.pdf

Ohio has 2,952 census tracts, of which 43 percent—1,280 census tracts—met the definition of low-income communities and were eligible to be Opportunity Zones. Just 25 percent—320 tracts—could be designated under program rules. The Development Services Agency (DSA) was the arm of state government that administered the program. The DSA received 316 responses nominating 890 census tracts from 73 counties.[13] Nominations came from mayors, regional partnerships, community and development organizations, counties, individual developers and others. The state favored census tracts with multiple nominations, and also considered:[14]

- Job creation potential,
- History of public or private investment within the tract,
- Future commitments of public or private investment,
- Available land for development,
- Existing businesses and sectors (i.e., medical, airport, deep water ports, housing, recreational waterfront).

Of the 320 census tracts ultimately nominated, 317 were low-income communities (LIC) as defined under the federal law and three were "non-LIC contiguous tracts," where higher income levels were allowed. The three non-LIC tracts were in Mahoning, Perry, and Stark counties, respectively. Non-LIC contiguous tracts represented 0.9 percent of Ohio's designated tracts, lower than the 5 percent allowed. Nationally, 2.6 percent of designated census tracts were non-LIC contiguous tracts.[15]

Policy Matters compared designated Opportunity Zone tracts with the 25 percent of Ohio census tracts with the highest poverty rates.[16] Poverty rates in the poorest quartile of tracts ranged from 26 percent to 87 percent. Of these, 213 tracts were selected to be in Opportunity Zones. In other words, two-thirds of the 320 selected tracts were from the most economically distressed quartile of Ohio census tracts.

According to the Urban Institute, the average poverty rate across all Ohio census tracts in the period under consideration was 18.3 percent, but it was almost twice as high, at 34.5 percent, in the tracts included in Ohio's Opportunity Zones. The same study noted that the share of selected Ohio tracts subject to socioeconomic change (gentrification), at 5.4 percent, was higher than the national average of 3.2 percent. Ohio ranked fifth among the states and territories in selection of tracts undergoing socioeconomic change.[17]

Although Ohio's Opportunity Zones included many census tracts in the highest-poverty quartile, most of the poorest 739 poorest tracts did not make the cut. Less than half (41 percent) of the 100 tracts with the highest poverty rates, where between 57 percent and 87 percent of the population live in poverty, were included in Opportunity Zones (Table 1).

Table 1

[13] See Ohio Development Services Agency Opportunity Zone website at https://bit.ly/2MT0gl3; also, e-mailed communications from the Ohio Development Services Agency Office of Communications dated July 20, 2018. The 15 counties without designated Opportunity Zones are Ashland, Auglaize, Coshocton, Darke, Delaware, Fulton, Hardin, Huron, Madison, Morrow, Ottawa, Paulding, Preble, Putnam, and Shelby. Of these 15 counties, three (Delaware, Fulton, and Putnam counties) had no eligible low-income communities.
[14] Ohio Development Services Agency website at https://development.ohio.gov/bs/bs_censustracts.htm.
[15] Theodos, Brett, Miexell, Brady and Hedman, Carl, "Did States Maximize Their Opportunity Zone Selections? Analysis of the Opportunity Zone Designations," The Urban Institute, May 2018 (revised July 2018) at https://urbn.is/2wwsvM9.
[16] See section on methodology at the end of the report.
[17] Ibid.

Ohio's 100 census tracts with the highest poverty rates and their inclusion in Opportunity Zones, by county				
	County	Tracts in Opportunity Zone	High poverty tracts in the county	High poverty tracts in Opportunity Zone
1	Cuyahoga	63	23	10
2	Hamilton	30	19	7
3	Franklin	43	12	5
4	Montgomery	18	8	3
5	Lucas	17	8	5
6	Mahoning	10	6	3
7	Summit	16	6	1
8	Stark	8	4	2
9	Athens	4	3	1
10	Butler	5	2	0
11	Trumbull	5	2	1
12	Clark	4	2	0
13	Allen	3	1	0
14	Portage	1	1	0
15	Scioto	4	1	1
16	Lorain	5	1	0
17	Jefferson	3	1	0

Source: Policy Matters, based on American Community Survey (2011-15) and Ohio Development Services Agency data.

Just four of the 10 census tracts with the highest poverty rates in the state are included in an Opportunity Zone (Table 2).

Table 2

Ohio's 10 census tracts with the highest poverty rates		
Census tract	Poverty rate	In Opportunity Zone
Census Tract 1143, Cuyahoga County, Ohio	86.7	Y
Census Tract 85.02, Hamilton County, Ohio	86.6	N
Census Tract 101.04, Butler County, Ohio	82.6	N
Census Tract 9739.01, Athens County, Ohio	82.4	Y
Census Tract 1097.01, Cuyahoga County, Ohio	81.3	N
Census Tract 9731.01, Athens County, Ohio	80.1	N
Census Tract 11.21, Franklin County, Ohio	79.7	N
Census Tract 29, Lucas County, Ohio	77.9	Y
Census Tract 9739.02, Athens County, Ohio	76.8	N
Census Tract 29, Franklin County, Ohio	76.5	Y

Source: Policy Matters, based on American Community Survey (2011-15) and Ohio Development Services Agency data.

Opportunity Zones in Ohio communities

The incentives for the Opportunity Zone are lucrative, although final rules have not been established. Cleveland Councilman Matt Zone explained to the *Cleveland Scene*: "For every $100 invested in an Opportunity Zone, $7.50 would be tax exempt. That's the margin a developer needs to make a profit. So that's the encouragement to the private sector. That's a good program in theory, but the application is key."[18]

Tracts selected by the state for the Opportunity Zone designation included some of Cleveland's fastest growing neighborhoods. All of downtown Cleveland was included, as well as the Tremont neighborhood and Ohio City, where property values are rising rapidly.[19] Yet just 10 of the 23 most impoverished census tracts in Cleveland, with poverty rates of between 55 and 81 percent, were included in the Opportunity Zone. Deeply distressed tracts of East Cleveland, the poorest city in the state, were not included.[20]

Four census tracts of the once-vibrant Slavic Village neighborhood, nominated for the Cuyahoga County Opportunity Zone by Cleveland's Mayor Jackson, were not included in the state's selection of Opportunity Zones in Cuyahoga County. Other places, with faster growth, were. "Here in Cleveland, those selected were the census tracts with the strongest development activity: downtown, the near west side, the Opportunity Corridor, University Circle, with powerful anchor institutions, strong lobbying connections and existing developers," said Chris Alvarado of Slavic Village Development. "The poorest communities didn't have much of a chance, even with recommendations from the mayor and Greater Cleveland Partnership."[21]

As encouraged by federal and state guidelines, Ohio's urban counties included downtowns and anchor institutions already experiencing redevelopment in their Opportunity Zones. Summit County included the University of Akron/downtown areas, where investment was rising before the designation.[22] Canton's Opportunity Zone includes downtown and the Mercy Medical Center campus.[23] Many of the poorest tracts were left out. Stark County has four tracts among the state's 100 highest poverty tracts; two were included in the Opportunity Zone. Summit County has six of these high poverty tracts, and included just one.

Montgomery County's Opportunity Zone includes the Dayton downtown, the University of Dayton and two major hospitals. The downtown area received a half billion in investments in recent years[24] and expects to see more in the next few years.[25] The University of Dayton plans a new facility by the General Electric's $51 million EPIS center, which opened in 2013, and Emerson's $35 million Helix Innovation Center, built in 2016.[26] All of the tracts in Montgomery County's Opportunity Zone fell into the quartile of tracts with the state's highest poverty rates. In a half-dozen Dayton-area census tracts more than 57 percent of the residents live in poverty; three of these tracts were included in the Opportunity Zone.

---

[18] Allard, Sam, "Ohio Designates 'Opportunity Zones' to Entice Development in 'High-Poverty Areas' like Downtown, Ohio City, Tremont and University Circle," April 3, 2018 at https://bit.ly/2MAXlOs.
[19] In the regular revaluation process recently completed in Cuyahoga County, "Values assigned to homes in portions of Tremont and Ohio City increased on average as much as 71 and 91 percent, respectively, while values for the West Side as a whole increased by an average of 11.2 percent, according to a cleveland.com analysis." From Astolfi, Courtney, "Cleveland residents upset with rising property values deliver 170 petitions to Cuyahoga County officials," Cleveland.com, August 29 2018 at https://bit.ly/2Q3NBKJ
[20] Exner, Rich, "Ranking every Ohio city, county for median family income - Census Snapshot," Cleveland.com, December 7, 2017 at https://bit.ly/2oidNVa.
[21] Interview with Policy Matters Ohio, Tuesday July 24, 2018.
[22] "Downtown Akron Making it Happen," The Akron Beacon Journal, February 2, 2018 at https://bit.ly/2LAjg34.
[23] Botos, Tim, "Canton has eight areas that could see Opportunity Zone," Canton Repository, April 5, 2018 at https://bit.ly/2MCdwv0
[24] Campbell, Mike, "One billion expected in downtown Dayton development," Dayton.com, November 18, 2016 at https://www.dayton.com/news/local/billion-expected-downtown-dayton-investment/nSbSvdhdLSmDwfAhD1arjL/
[25] "These five projects are reshaping downtown Dayton," Dayton Business Journal, June 13, 2018 at https://www.bizjournals.com/dayton/news/2018/06/13/these-5-projects-are-reshaping-downtown-dayton.html
[26] Gnau, Thomas, "New UD office building: What we know now," May 20, 2018 at https://bit.ly/2PLtdxS.

In Lucas County, the Local Initiatives Support Corporation, a long-standing economic development entity with national ties, played an important role in nominations. The *Toledo Blade* reported that local development organizations worked with stakeholders to nominate census tracts with an average poverty rate of 45.7 percent.[27] Of the eight census tracts in Lucas County that are among the 100 highest-poverty tracts in the state, five were included in the Opportunity Zone. This is an unusually high share of the most deeply distressed tracts.

Columbus is a growing city with construction cranes poking the sky in many places, but nowhere more than around The Ohio State University, which sits at the center of one of Franklin County's Opportunity Zones. Recent investment there includes a new university hospital tower and two hotel developments totaling $80 million. Several 150-plus unit residential complexes are in the works. "I think the question is not whether the poverty rate is correct," said OSU Professor Rachel Kleit, in an interview with WOSU radio. "The question is whether these places would develop anyway—without the tax credit."[28]

Columbus's thriving downtown is not included in an Opportunity Zone, which seems appropriate. But neither is much of the Linden neighborhood, a low-income area with stretches of vacant land zoned for industry. Boyce Safford is executive director of Columbus Next Generation Development Corporation, which works in the older parts of the city. "There's no doubt the Opportunity Zone will help us, since it focuses within the Columbus boundaries of the 1950s," he said. But he was frustrated that some neighborhoods were left out, like parts of Linden and adjacent industrial land. "That area could be brought back into productivity with the right investments in infrastructure," said Safford.[29]

Cincinnati's Over-the-Rhine neighborhood has garnered national attention for booming redevelopment. *Governing Magazine* assessed the nearly 20 years of growth there in 2014 and quoted real estate broker and developer Wade Dent: "There's a time and a place for subsidy, to stimulate the development of an area, but you've got to know when to stop it. And power and greed make it hard for that to happen."[30] Over-the-Rhine was included in a Cincinnati-area Opportunity Zone.

Some rural areas had fewer challenges in selection. "If a county had two tracts that were eligible, they were in our nomination," said Brett Allman of the Buckeye Hills Regional Council, which is headquartered in Marietta Ohio and serves eight Appalachian counties.[31] "In counties with more than two, we took a close look to see where there was the best potential for investment."[32]

Jack Frech, of the Mayors Partnership for Progress in southeastern Ohio, noted that most people already travel out of their own village or neighborhood for their jobs, so which tract was selected was less of an issue. "The Zones selected here were not the poorest, but those that were poor enough and were judged to have the best investment appeal," Frech said. "Any jobs created in their own county would be an improvement."[33]

---

[27] Moore-Eissenberg, Lily, "ProMedica, LISC court potential community development investors," June 12, 2018 at https://bit.ly/2BU3gta.
[28] Evans, Nick, "Opportunity Zones sending tax breaks to areas that might not need them," WOSU public Radio, June 6, 2018 at http://radio.wosu.org/post/opportunity-zones-send-tax-breaks-areas-might-not-need-them#stream/0
[29] Interview with Policy Matters Ohio, July 17, 2018
[30] Greenblatt, Alan, "From Vacant to Vibrant: Cincinnati's Urban Transformation," Governing Magazine, September 2014 at http://www.governing.com/topics/urban/gov-cincinnati-urban-transformation.html
[31] Buckeye Hills serves Meigs, Washington, Monroe, Athens, Hocking, Perry, Morgan and Noble Counties.
[32] Interview with Policy Matters Ohio, August 1, 2018
[33] E-mailed communication with Jack Frech, July 7, 2018

Rural Athens County has three among the 10 census tracts with the highest poverty rates in the state. Ohio University, with a concentrated population of students in dorms, makes up two of those tracts. Those two tracts were not included in the Athens County Opportunity Zone, which seems appropriate, but the third one, an area of small commercial business and off-campus student housing, was, along with tracts encompassing Hocking Community College and smaller communities in the county.

Winners and losers

As per federal program guidelines, Ohio's Opportunity Zone selection process focused on low-income communities with development potential. While many low-income tracts were included, the majority with the highest poverty rates were not. Across the nation, projects are already under development within Opportunity Zones, although final rules for the financial mechanism (the Opportunity Fund) have not been published. Emerging projects range from affordable housing to a high-end hotel.[34] Will this program help low-income people increase their incomes, accumulate assets and access opportunities for themselves and their children? Or will they be hurt by the financing and outcomes of this program, diminishing opportunity for themselves and their children over time?

Who are the winners? A few of Ohio's wealthiest investors will benefit. The Institute on Taxation and Economic Policy estimates that in 2018, the richest 1 percent of Ohio tax filers own 64 percent of capital gains in the state. This group, with average annual earnings of $1.2 million, would likely reap the greatest tax gains from Opportunity Funds.[35] Some developers and businesses in Opportunity Zones will benefit from the subsidy. State and local governments will get new tax revenues—if they do not use them all to sweeten the Opportunity Zone incentives.

Impact on low-income people is far more tenuous. Trickle-down effects of the Opportunity Zone program are uncertain. Studies have not found tax incentive programs to be very effective: the cost can outweigh the benefit to poor people living in a targeted area.[36] Federal lawmakers are considering ways to pay for this program and other, far larger components of last year's federal tax cuts—which overwhelmingly favored the wealthiest tax filers—by slashing public services that struggling families depend on, like SNAP and Medicaid. To the extent new state and local tax breaks are created for Opportunity Zones, strained resources for public services like schools, public safety and roads will be reduced.

State tax breaks are already in the pipeline. Republican gubernatorial candidate Mike DeWine plans to conform Ohio's capital gains treatment to the federal Opportunity Zone law, creating a new tax break.[37] Representative Kurt Schuring (R—Canton) has introduced legislation (HB 727 of the 132nd General Assembly) to give a 10 percent tax credit for an investment of $250,000 or more in an Opportunity Fund focused exclusively on Ohio. Even as new tax breaks for Opportunity Zone subsidies are proposed, Treasury's new guidance allowing a tax filer to self-certify as an Opportunity Fund heightens the risk that projects that need no subsidy will claim the tax break as developers create their own Opportunity Fund for investment in projects they are already undertaking in Opportunity Zones.

The Opportunity Zone program provides a deep subsidy, but by program design it is not even intended to address the most challenging places. According to Chris Alvarado of Slavic

---

[34] Simon, Ruth and Rubin, Richard, "New Hotel or Affordable Housing? Race Is On to Define 'Opportunity Zones,'" Wall Street Journal, at https://on.wsj.com/2ukVUIS.
[35] Institute on Taxation and Economic Development is an organization with an economic model of the federal tax system, and the tax system of each state. They provided this estimate in an e-mail of September 4, 2018.
[36] Bartik, Op.Cit.
[37] "Ohio Prosperity Plan," DeWine Husted for Ohio, at https://bit.ly/2BWm2zZ.

Village Development, the thorny barriers to development in the poorest areas precluded their selection for an Opportunity Zone. Such barriers include the presence of land speculators, who buy deteriorated property at a low price and hold it at little expense, waiting to sell at a high price, making it difficult for redevelopment to get started. So does inadequate infrastructure, like in the industrial area adjacent to the Linden neighborhood in Columbus, where lack of highway access, updated roads and other infrastructure prevents development. Tax credit tools left to communities excluded from Opportunity Zones were weakened by the corporate tax cuts of last year's federal tax bill. Places with the greatest need for public intervention to stimulate private development could slip further behind as capital is drawn to growth in Opportunity Zones.

Recommendations

The Opportunity Zone program is just a small part of the 2017 federal tax cuts for the wealthy and corporations, but it plays out on a field that pits tax cuts for the richest against safety net programs for low-wage workers and others in poverty. Many eligible people do not get the services they need—like training, housing, public transit, food assistance or childcare—because these programs are already underfunded and further endangered by the Trump tax law that slashed taxes for corporations and the wealthiest.

However, capable individuals and organizations in Ohio and across the nation are working to make this program successful. "We will help identify the right deals and help structure them to maximize outcomes, with investors who care about social impact," said Brad Whitehead, president of northeast Ohio's Fund for our Economic Future. He sees opportunity for this program to revitalize areas long abandoned by the private market.

As *Forbes* magazine says: "If everything goes right, a big slice of the estimated $6.1 trillion of paper profits currently resting on American balance sheets is about to go to work to revitalize America's depressed communities. If all goes wrong, however, it will prove to be one of the biggest tax giveaways in American history, all in service of gentrifying neighborhoods and expelling local residents."[38]

Policy Matters Ohio makes the following recommendations to strengthen the chances of a positive outcome to this new federal program.

1. Restore and boost public funding to help struggling people in economically challenged places. Use tax revenues to boost opportunity.

- Congress is debating deep cuts to programs that help struggling families stay afloat. To ensure the 2017 tax cuts do not do further harm to these families, legislators must continue to provide sufficient funding for health and human services so low-wage workers and people in poverty can get the help they need.

- Make additional public investments in the most challenged local economies. Congress should boost funding for housing, food, training, public transportation, public safety, infrastructure and other public goods to foster private market rebirth in the hardest-hit neighborhoods.

[38] Steve Bertoni, "An unlikely group of billionaires ahs created the most unbelievable tax break ever," Forbes, July 18, 2018 at https://www.forbes.com/sites/forbesdigitalcovers/2018/07/17/an-unlikely-group-of-billionaires-and-politicians-has-created-the-most-unbelievable-tax-break-ever/

- Do not add additional state tax breaks to deepen the federal subsidy of Opportunity Zones. There is no meaningful oversight of the $9 billion the state already provides in state tax breaks[39] while sufficient funding is badly needed to halt the drug epidemic, clean Lake Erie, ensure safe and clean drinking water, and improve schools, communities, parks, public transit and public safety.

- Do not divert tax revenues from Opportunity Zones to tax increment financing or promote other local tax abatements to enhance the value of Opportunity Zone projects.

2. Add reporting requirements for accountability and to learn about program outcomes, best practices to repeat and worst practices to avoid.

- The original concept paper on Opportunity Zones identified lack of reporting as a key problem in existing and prior tax incentive programs.[40] Congress called for an annual report with metrics related to community and resident benefits in each Opportunity Zone in the conference report of the tax bill, but the language was not included in the bill that was signed into law.[41]

- The federal government should report on certified fund managers, states in which the fund is registered and transaction-level information including location, project type, dollars invested, jobs created and the quality of those jobs.

- Local governments could add requirements for reporting depending on type of investment and community benefit agreements.

- Use the data from such reporting to evaluate the social impact of investment in each Opportunity Zone and state. Fund such data collection and evaluation with federal dollars. Ensure each community is funded to evaluate all impacts of the program.

3. Establish community advisory boards and community benefit agreements.

- A community advisory board of residents, workers, community development corporations, small businesses, anchor institutions and city officials should oversee Opportunity Zones and advise city councils and county commissions on protections and community benefit agreements.[42]

- Upscale real estate development in low-income communities can reduce supply of affordable housing and drive older businesses out. A community benefit agreement with Opportunity Zone developers could blunt such damage, for instance, by ensuring cheap capital is made available to Opportunity Zone residents for home rehab and purchase, so people benefit from rising property values.[43] It could also ensure more affordable housing in Opportunity Zones to retain diversity in neighborhoods.

- Community benefit agreements should be structured to ensure jobs created within Opportunity Zones have living wages, regular schedules, benefits and sick and

---

[39] Patton, Wendy and Schiller, Zach, "Weak Review: Tax Expenditure Review Committee should balance tax breaks against Ohio's needs, Policy Matters Ohio, June 4 2018 at https://bit.ly/2Q5TqHA
[40] Bernstein, Jared and Hassett, Kevin AS., "Unlocking private capital to facilitate economic growth in distressed areas," Economic Innovation Group, April 2015 at https://bit.ly/2CkXCjQ
[41] Blanchford, Laura, "Problem or Panacea? The possibilities in Opportunity Zones," Shelterforce, May 16, 2018 at https://shelterforce.org/2018/05/16/the-possibilities-of-opportunity-zones/
[42] Hannah Halbert, "The ABC's of CBA's," Policy Matters Ohio at https://bit.ly/2NNjnKq
[43] Steve Bertoni, Op.Cit.

vacation leave. The community board should require hiring, training and career ladders in connection with development around and related to anchor institutions.

- Opportunity Zones are census tracts within larger jurisdictions: They are part of cities, towns, villages, townships and counties; they are served by regional development organizations, metropolitan planning organizations, transit authorities, public health districts and more. These governments and public entities can help shape the impact of Opportunity Zones with infrastructure investments; legislating, protecting and enforcing community benefit agreements, and providing economic development expertise to work with businesses to create jobs and improve neighborhoods.

- The community advisory board should have an important role in planning to prioritize services to poor neighborhoods. Such oversight should extend to planning for health, education, human services, public transit, recreation and other major public service systems to ensure the benefits of development do not bypass places where opportunity is needed the most.

- The community advisory board should set goals for social impacts they want to see in their Opportunity Zone. They should review reporting data and outcome measures regularly. If goals are not met, the governmental entities that that can set laws and change policies should work with them on new measures to facilitate the accomplishment of community goals and aspirations.

Methodology

We examined the 320 designated Opportunity Zone census tracts in Ohio by comparing them to the poorest census tracts in the state, based on the U.S. Census Bureau's 2011-2015 American Community Survey (ACS) data. The data on selected Opportunity Zone census tracts was taken from the United States Department of Treasury, Community Development Financial Institutions Fund, "Opportunity Zone Resources, List of designated Qualified Opportunity Zones," Updated June 14, 2018, https://www.cdfifund.gov/Pages/Opportunity-Zones.aspx

We focused on Census Bureau's estimates of the percent of the population in each of Ohio's 2,952 census tracts whose income is below poverty level ("poverty rates"). We sorted Ohio census tracts in descending order of poverty rates. One fourth of the 2,952 census tracts in Ohio would be 738, but because of identical poverty levels in tracts 733 through 739 we included all (26 percent). The ACS 2015 data did not report poverty estimates for 12 Ohio census tracts so we left these out. We conducted several comparisons to determine the extent of overlap or disparity between selected Opportunity Zones and the poorest census tracts in Ohio. We compared the 739 census tracts with the highest poverty levels to the selected QOZs in Ohio. We did the same comparison with the 100 poorest census tracts and 10 poorest census tracts.

Acknowledgements

The authors are grateful to all those interviewed and to communications staff at the Ohio Development Services Agency, which answered many questions. We thank the George Gund Foundation, the Saint Luke's Foundation, the Ford Foundation, and the Center on Budget and Policy Priorities, for funding that supports our work.