Policy Matters Ohio

EXECUTIVE SUMMARY
SEPTEMBER 2018

Tax & Budget

Assessing Opportunity Zones in Ohio

Wendy Patton

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.