Testimony Before the Committee on Finance

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“Tax Tools for Local Economic Development”

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Introduction

Chairman Wyden, Ranking Member Crapo, it is a pleasure to be with you today. This will be my second time testifying before the Committee, but my first time I will be joined by a fellow Ohioan, so look forward to learning from Ms. Lofton, as well as Ms. Nelmark and my good friend Mike Novogradac. I am the Co-founder and President of the Opportunity Funds Association (OFA), a trade association whose members are entrepreneurs, investors, developers and fund managers operating in Opportunity Zones. Through our members, we connect capital to overlooked areas improving lives, creating opportunities, and ensuring long-term economic growth.

Opportunity Zones are arguably the most successful community development policy in American history. So, this afternoon, I would like to discuss how Opportunity Zones are targeting private investment in areas of the country that have been deindustrialized, and how tax policy can be used to build domestic supply chains, encourage reinvestment, and renew prosperity in distressed urban, as well as in our too often overlooked rural communities across the country. Further, I want to discourage crippling tax increases on businesses and workers that would undermine the historic progress made prior to the pandemic in shifting our supply chains from adversaries like China, minimizing minority unemployment, and raising incomes in places like my hometown of Cleveland Ohio.

Prior to co-founding OFA, I served as the Majority Staff Director for the Senate Finance Subcommittee on Energy Natural Resources and Infrastructure and as Tax Counsel to Senator Tim Scott (R-S.C.) where I helped champion the Investing in Opportunity Act (cosponsored by many on this committee) that became Opportunity Zones.

Analysis from the Economic Innovation Group using data from recent studies by UC Berkeley and the US Department of the Treasury found that by 2020, OZs had already achieved unprecedented geographic reach and scale. Just two and a half years after zone designation, nearly half (48%) of all zones—or roughly 3,800 communities across every state—had received investment, with those receiving investment among the highest-need communities in the U.S. on average. Further, OZ investment triggered a “large and immediate” increase in local development activity, as my fellow witnesses will attest, delivering an economic boost for surrounding communities and increasing home values and boosting housing supply while holding rents steady. Again, for emphasis: increasing home values and boosting supply while holding rents steady.

Key findings from the best available research include:

- OZ investment reached approximately 3,800 communities from mid-2018 through 2020, representing nearly half (48 percent) of the total number of designated OZ communities nationwide. For comparison, it took 18 years for New Markets Tax Credit (NMTC) investments to reach an equivalent number of communities.
- OZ investment is going to communities that are substantially more economically distressed than the rest of the country. Ranked from lowest to highest levels of need, they average in the 87th percentile for poverty, 81st for median household income, and 80th for unemployment.
- Total OZ equity investment was at least $48 billion by the end of 2020. This capital was raised from roughly 21,000 individual and 4,000 corporate OZ investors and deployed into 7,800 Qualified Opportunity Funds.
- OZ designation caused a "large and immediate" increase in new commercial and residential development activity such that the likelihood of investment in a given month jumped by over 20 percent in designated tracts across 47 studied cities.
- Rather than crowding out local activity, OZ designations carried positive economic spillovers into neighboring communities and boosted development at a city-wide scale.
- In addition to boosting the supply of housing, OZ designations improved local home values by 3.4 percent from 2017 to 2020 with no observed increase in rents.
- OZ designation had a "positive and highly statistically significant" effect on local jobs and business establishments.

Helping Entrepreneurs Bring Prosperity to Local Economies

Urge President Biden to Abandon Plans for Tax Increases
Working families are already seeing tightening budgets and higher prices. Over the past few years, consumer prices have risen an average of 19.3%, eggs up 40.9%, electricity 29.3%, gasoline 46.3%, car insurance 51.7%, baby food 30.0%, and flour 38.3%. Adding to this, the Tax Foundation estimates that the changes proposed in President Biden's FY 2025 budget would reduce long-run GDP by 2.2 percent, wages by 1.6 percent, and cost 788,000 full-time jobs. Raising the corporate tax rate from 21 percent to 28 percent is the largest driver of the negative effects. Corporations don't really pay taxes. Workers pay taxes in the form of reduced wages, consumers pay taxes in the form of higher prices, and shareholders (including middle-class investors with 401ks) pay in reduced returns. The proposed tax hikes would be passed through and tacked onto the inflation tax struggling Americans already pay.

My colleague, Cleveland State University Law Professor John Plecnik proposed an Inflation Tax Credit that would allow low-income taxpayers to take a standard credit based on their gross income on the principle that in hyperinflationary environments the government should pay for its own bad behavior. Setting more novel tax tools aside, I would urge against adding to costs in the current environment through tax increases.

Make Opportunity Zones More Transparent
Perhaps the most obvious step Congress can take to improve Opportunity Zones is to enact reporting and transparency requirements such as those found in the *Small Business Jobs Act* (HR3937), and largely mirrored in the *Opportunity Zones Transparency, Extension, and Improvement Act* (OZTEIA). HR3937 would enable Treasury to collect key information on the location of Opportunity Zone investments, the types of businesses and projects attracting investment, and the number of jobs created. This information will enable Congress to adjust the policy to further incentivize investment in areas remaining underserved and will demonstrate the viability of the policy as a community development tool. I want to underscore that these proposed requirements have been carefully crafted and have bipartisan support here on Capitol Hill as well as widespread support among OZ stakeholders.

Jumpstart Investment in Rural Communities and Operating Businesses
Investment in smaller cities and rural areas is much more likely to support non-real estate operating businesses, but targeted improvements to the OZ policy would help facilitate even greater levels of investment in such areas. For example, allowing intermediary investments into "feeder funds" will enable more investments into smaller Qualified Opportunity Funds. A "fund-of-funds" model will help smaller, regionally focused, impact-oriented funds raise capital and overcome scale challenges with institutional investors. This model will also drive more investment into rural communities, making committee efforts to expand the OZ map to include more persistently poor rural places even more effective.

Empower CDFIs
The Committee should also consider allowing Community Development Finance Institutions (CDFIs) to receive equity investments as Opportunity Zone Businesses. CDFIs are already active as business and project lenders in distressed communities and have a deep understanding of a community's needs, strengths and weaknesses. Allowing CDFIs to take in equity capital from Opportunity Zone investors and then lend this capital out to entrepreneurs in on a larger scale would money in minority hands and minority communities.

Further Democratize Opportunity Zone Investment
Opportunity Zones have spurred participation from a nationwide pool of individual and corporate investors never before seen in a federal community development program. This wide-ranging participation has enabled a large amount of capital to be deployed across thousands and thousands of needy communities. But more can be done to broaden participation. The policy currently allows for a permanent exclusion from taxable income of capital gains from the sale or exchange of an investment in an Opportunity Fund if the investment is held for at least 10 years. This benefit should be allowed for any capital invested and held in an Opportunity Fund for at least 10 years, not just capital gains. By allowing non-capital gains to be invested in Opportunity Zones, we can democratize the community development tool and allow investors at every level of wealth and income to participate. The change will also increase the overall amount of capital available to entrepreneurs building businesses in Opportunity Zones.

Extend the deadline for OZ investment

The timeline for investment in Opportunity Zones is winding down just as many communities and local stakeholders are finding urgent and highly impactful ways of putting the policy to use. The best and most immediate way for Congress to support OZ communities is by enacting a one-time, two-year extension of the investment and deferral period for qualifying OZ investments. This change, which is reflected in the bipartisan OZTEIA bill, would recoup time lost during regulatory implementation, recoup time lost during the COVID 19 pandemic, and create a stronger incentive for investment in low-income communities at a time when high interest rates have become a major barrier.

Conclusion

Our association's members are facilitating high impact investments in distressed communities across the country. I am excited by the further impact that will be possible as this Committee makes Opportunity Zone investing more transparent, more accessible, and more impactful.