



# HOW PHILANTHROPIES LEVERAGE OPPORTUNITY ZONES

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# INTRODUCTION

The Tax Cuts and Jobs Act of 2017 provides a new incentive — centered around the deferral, reduction, and elimination of capital gains taxes — to spur private investments in low-income areas designated by states as Opportunity Zones. Given the significant interest among investors, it is possible that this new tax incentive could attract hundreds of billions of dollars in private capital, making this one of the largest economic development initiatives in U.S. history. If successful, the tax incentive could create new mechanisms for both matching investment capital to market opportunities in neglected communities and ensuring that economic growth redounds to the benefit of people who live in or nearby disadvantaged places.

The broad objective of this new tax incentive — expanding economic opportunities for places and people left behind — cannot be achieved by the market and outside investors alone. Cities in the broadest sense — local governments, urban institutions, urban networks will need to act with deliberate agency and purpose if Opportunity Zones are to spur growth that is inclusive, sustainable and truly transformative for each city's economy. The implementation of Opportunity Zones, therefore, will be as much about codifying local norms and models as promulgating federal rules and guidance.

Given this perspective, it is clear that philanthropies have a critical role in helping cities realize the full economic and social impact of Opportunity Zones. Foundations often possess the community legitimacy necessary to convene disparate urban stakeholders around hard challenges and intriguing possibilities. They have the discretionary capital necessary to make investments in community development enterprises and other local institutions so these organizations can leverage Opportunity Zones. They have the patient, risk-tolerant capital necessary to invest in Qualified Opportunity Funds, aligned funds or individual transactions. They have the respect for evidence-driven decision making that is conducive to catalyze, capture, codify and communicate new norms and models as they emerge.

The potential role of philanthropies is amplified for foundations like Knight that operate across multiple communities of disparate size, economic profile and market condition. In some respects, the Knight Foundation's engagement with 26 cities offers a natural lab for experimentation with different kinds of interventions, which will be described below.



## THIS PAPER IDENTIFIES SEVEN DISTINCT AND COMPLIMENTARY ROLES FOR FOUNDATIONS TO PLAY.

- **THEY CAN PLAY A STAKEHOLDER CONVENING ROLE** by helping cities organize for success by coordinating efforts within government and across key institutions and sectors.
- **THEY CAN PLAY AN ASSET MAPPING ROLE** by supporting the design and marketing of Opportunity Zone Investment Prospectuses to enable cities, counties and states to communicate their competitive advantages, trigger local partnerships and identify sound projects that are ready for public, private and civic capital.
- **THEY CAN PLAY A MARKET MAKING ROLE** by supporting the collection of market data, the conduct of market research and the provision of patient capital.
- **THEY CAN PLAY A COMMUNITY BUILDING ROLE** by helping residents who live in or near Zones express their preferences, obtain skills, start businesses and help improve the quality of life in the neighborhood.
- **THEY CAN PLAY AN INSTITUTION BUILDING ROLE** by enhancing the capacity of existing public, private and civic organizations and by creating or supporting new institutions or intermediaries that can help cities design, finance and deliver transformative investments and initiatives.
- **THEY CAN PLAY AN INNOVATION INDUCING ROLE** by using challenge grants and other mechanisms to source pathbreaking ideas among urban stakeholders or push key players to coalesce around coordinated neighborhood investment strategies.
- **THEY CAN PLAY AN INFORMATION SHARING ROLE** by speeding the process by which innovative strategies, practices and instruments are captured, codified and communicated.

**Each of these roles will be discussed in full below.**



# BACKGROUND

Section 1400Z of Internal Revenue Code, amended by The Tax Cuts and Jobs Act of 2017, allows a taxpayer to defer paying federal capital gains tax on the sale of property if that gain is invested in a Qualified Opportunity Fund (QOF). A QOF must invest at least 90 percent of its assets in businesses or property in designated low-income communities known as “Opportunity Zones.” In addition, taxpayers that hold investments in those funds for at least five years receive a 10 percent reduction in their original capital gains tax obligation; holding investments at least seven years adds an additional 5 percent reduction for a total of 15 percent; finally, holding an investment a full ten years means taxpayers do not have to pay any capital gains tax on the appreciation of the new investment.

The new tax incentive differs from other federal tax incentives in several ways. First, it is more market driven; it does not use a federal or state agency to distribute the incentives but rather relies on the decisions of individual investors and QOF managers. Secondly, it can be used for a wide variety of projects — residential commercial, industrial, infrastructure — rather than being restricted to a relatively narrow purpose like low-income housing or historic preservation. Third, there are no requirements for investors to ensure a certain outcome, such as job creation or local financial matches. Finally, there is no cap on the amount of the benefit as long as the regulations (still to be finalized) are followed.

The new Opportunity Zone incentive also differs from historic federal community redevelopment efforts in that it relies on equity investments rather than traditional debt and subsidy instruments. It could, if purposefully implemented, be a vehicle for integrating disparate public, private and civic institutions, investments and initiatives rather than dispensing compartmentalized resources via traditional government programs. By catalyzing patient capital through tying the most substantial incentives to a longer time horizon, Opportunity Zones provides enormous incentives for investors, intermediaries, states and localities to work together to make sure there’s a significant benefit for all involved.

The federal law provided only one explicit role for sub-national actors: it directed governors to select Opportunity Zones from an eligible group of low-income census tracts. As of April 2018, governors in all 50 states, the District of Columbia and Puerto Rico had designated more than 8,700 Opportunity Zones across the nation.



The federal law does not provide any guidance on the role of cities or localities. Yet city governments and other local entities have a complex set of powers, resources, assets and relationships which, if smartly deployed, could help leverage the Opportunity Zone incentive to shape markets and maximize economic and social outcomes. Philanthropies, in particular, are able to deploy their capital to build local capacity, support customized data collection and market research and make direct or aligned investments in economic development, schools and skills, infrastructure and affordable housing, the critical ingredients for long-term inclusive growth.



# OPTIONS FOR PHILANTHROPIC ACTION

## Role One: Stakeholder Convening

Philanthropies can play a stakeholder convening by helping cities organize for success by coordinating efforts within government and across key institutions and sectors.

Unlike state governments and the federal government, cities are networks of institutions and leaders who co-produce the economy and co-govern many aspects of urban life. As Jeremy Nowak and I wrote in *The New Localism*, “The most effective local governance occurs in places that not only deploy the formal and informal powers of government but create and steward new multi-sector networks to advance inclusive, sustainable and innovative growth.”

Maximizing the potential of Opportunity Zones, therefore, requires the full engagement of different sectors and stakeholders which can leverage their collective assets and align their collective decisions. Cities should accordingly take a “full city” approach and unlock the combined resources of mayors and other elected officials, economic development entities, local universities and colleges, community and other foundations, local banks and corporations, high net worth individuals and impact investors, community development enterprises and community groups, and business and technology intermediaries and support institutions.

No one sector is large enough, resourced sufficiently or empowered to do all that is necessary to realize the full economic and social potential of this tax incentive; this must be a product of network governance.

Philanthropies are well placed to convene stakeholders from multiple sectors so that they are aware of the Opportunity Zone incentive and have an honest conversation about how each might engage with a strategic effort through, for example, direct or aligned investment, coalition building, board/alumni networking, and technical assistance.

Example: The Blank Foundation convened major public, private and civic stakeholders in Atlanta in December 2018 to drive a unified narrative around Opportunity Zones. This convening has put in motion a range of deliberate actions and strategies.



## Role Two: Asset Mapping

Philanthropies can play an asset mapping role by supporting the design and marketing of Opportunity Zone Investment Prospectuses.

In March 2018, Accelerator for America engaged New Localism Advisors to create a replicable product — an Investment Prospectus — to enable cities, counties and states to communicate their competitive advantages, trigger local partnerships and identify sound projects that are ready for public, private and civic capital. The aim was to help communities and investors get smarter and more precise about the broad range of investment possibilities that exist in Opportunity Zones and, literally, help make and shape markets where there were none. To date, mayors in five cities — Joe Schember in Erie, Greg Fischer in Louisville, David Holt in Oklahoma City, Pete Buttigieg in South Bend and Michael Tubbs in Stockton — have led multi-sector efforts to design and release the first versions of an Investment Prospectus. Each of their efforts have deliberately followed a common template and routinized format in order to enhance the potential for replicability across multiple cities and ultimate adoption by a broad range of stakeholders and market actors.

The Investment Prospectus is a hybrid of three more common documents or approaches: a community marketing strategy, an economic development policy brief, and a private investment memorandum. The intersection of marketing, policy analysis, and capital investment is a way for the public sector to align interests with private capital and civil society.

An Investment Prospectus enables cities to reduce friction in the market by being a reliable source of intelligence about their economies in general and each of their Opportunity Zones in particular. Each Investment Prospectus should, at a minimum, do the following:

**Set the Context:** All Opportunity Zones exist within the broader context of urban and metropolitan areas as well as broader regional economic ecosystems. To that end, an Investment Prospectus should situate the Opportunity Zones on several levels. It should set the economic context for the Opportunity Zones, providing information on driving clusters, sectors, institutions and companies that define the *raison d'être* of a given place and unveil the strongest economic growth opportunities given general trends and dynamics. It should explore recent trends in entrepreneurship, company formation and growth and venture funding.

An Investment Prospectus should also act as an introduction to city governance, providing an overview of government structure/leadership, indicating which state and local entities (and who in particular) are in charge of the Opportunity Zone effort and making transparent any local resources and incentives. To the greatest extent practicable, such information should be made available on a widely promoted website.

**Drill Down into Zones:** After setting the context, an Investment Prospectus should present a granular assessment of the competitive position and prospects of each Opportunity Zone. To that end, information should provide specificity on growth dynamics, investment patterns and catalytic projects. To the greatest extent practicable, an Investment Prospectus should clearly show how the attributes of particular Opportunity Zones relate to the contextual macro strengths of the city and metropolis. For example, cities should discuss Opportunity Zones' strategic location near infrastructure or areas of economic growth, the availability of land and buildings for economic use or the presence of anchor institutions like universities, hospitals and major employers.

Given that “capital follows capital,” an Investment Prospectus should identify public, private and civic initiatives that have already been undertaken in Opportunity Zones. These should include company expansions and investments in capital assets, university support for centers of excellence, commercialization and entrepreneurial assistance, the designation of Innovation or other special Districts, the transformation of public or assisted housing, the creation of special high schools or workforce intermediaries, and the design and implementation of “buy-local” procurement efforts by major employers.

An Investment Prospectus will help cities harness local tax advantaged capital as well as attract regional and national capital — particularly as large national, multi-asset, and multi-investor funds are formed. Cities will also be able to drive better investments and decisions by working with a host of local stakeholders — for example, the infrastructure investments of the public sector or the location decisions of public, private or non-profit organizations. To this end, smart Opportunity Zone strategies will leverage resources that are both driven by tax incentives as well as the fundamentals and possibilities of the local market.

Philanthropies can drive the creation of an Investment Prospectus by providing support for external expertise, specialized data collection and analysis and the design of printed and web-based marketing material. To ease the process, a philanthropy could also purchase the special services of an organization like PolicyMap, which both gives cities access to data and customized maps at the census tract level and provides assistance to cities on data and mapping related questions.

**Example:** The Kauffman Foundation has engaged New Localism Advisors and Blueprint Local to craft an Investment Prospectus for Kansas City in close collaboration with the city government and leading private, civic and community leaders and institutions.



## Role Three: Market Making

Philanthropies can play a market making role by supporting the collection of market data, advancing the conduct of market research and catalyzing the investment of patient and impact capital.

As discussed above, an Investment Prospectus is written initially to unveil competitive assets and attract private capital that is enticed by federal tax incentives. But the Prospectus does not solely focus on private investors. The transactions that most cities seek to drive inclusive growth (e.g., investments in workforce housing and local businesses) will require a blended “capital stack” of debt, subsidy and equity. Cities will, therefore, need to align broader pools of public, private, civic capital and create new forms of innovative financing that can be captured, codified and transferred from city to city. Weak market cities will also need to create business demand by increasing employment density within nodes of Opportunity Zones (e.g., the downtown initiative pursued by Erie, PA). The major observation here is that wealth doesn’t just reside in technology capitals like Silicon Valley or New York City but is distributed across the nation. To this end, cities do not have a capital problem but an organizing challenge and the Investment Prospectus is an impetus for unlocking local wealth and driving smarter local investment and location decisions.

Opportunity Zones could catalyze the aggregation of smart public, private and civic capital for multiple purposes. Smart public and civic investments in community infrastructure (e.g., parks, libraries, broadband) and human capital can provide a foundation and platform for private sector investment. In low-demand cities and Opportunity Zones, smart public, private and civic financial instruments (e.g., subordinated debt, recoverable grants, impact investing) can attract and de-risk tax advantaged capital to move markets. Certain typologies of Opportunity Zones (e.g., central business districts, hospital districts, industrial districts, residential communities) might even become the focus of organized funds that operate across cities, diversifying risk and enhancing Opportunity Fund performance.

Given this broader perspective, philanthropies can play multiple roles in using the Opportunity Zone tax incentive to unveil new market opportunities, make individual transactions pencil out and spur financial innovations.

First, philanthropies can support the collection of market critical data. It is not unusual, for example, for the largest landlord in a city to be the public sector. Yet most cities have webs of different entities that may own distressed properties: the city government itself, a housing authority, a convention center authority, a port or airport authority, a county land bank, a regional redevelopment authority, or a statewide school construction corporation. Given this fragmentation, few cities understand what

the public sector owns and how such ownership could contribute to the general revitalization of Opportunity Zones as well as the financing structure of individual transactions.

Creating transparency among public entities is necessary to determine what the value of all public assets actually is to the public — not just to whichever government entity happens to own them. While many public properties are in poor condition and in distressed areas, a significant number tend to be in Central Business Districts or major commercial areas. Each city should create a master property database in order to create the broader universe of potential investments and better bundle properties. Alternatively, cities could retain (perhaps via philanthropic support) nonprofit technology firms that are engaged in the mapping and valuation of public assets.

Second, philanthropies can support the conduct of market making research and processes. The evolution of Opportunity Zone investments will, for example, require smart analytics around new “capital stacks” that enable the financing of workforce housing and other socially critical investments. The creation of new blended financing models of debt, subsidy and equity will be accelerated if practitioners have the breathing room and support for invention. Cities are just beginning to hold financing charrettes that try to work through different financing scenarios for concrete deals that have the potential for transformative social impact. The City of Norfolk, Virginia, for example, is holding a financing charrette on February 19, 2019, to assess the potential use of Opportunity Fund equity in the transformation of the St. Paul's community, an area mostly populated by public housing developments. Supporting such charrettes is an obvious role for philanthropy.

The evolution of Qualified Opportunity Funds also provides a potential area for philanthropic support and insight. Environmental, Social and Corporate Governance (ESG) Guidelines, for example, have become a common tool for socially conscious investors to screen potential investments. Philanthropy can help support efforts to extend these impact investing rubrics to Opportunity Zones. Similarly, philanthropy can help build the capacity of community lenders to set up and manage Qualified Opportunity Funds; most of these institutions do not have long-standing private equity or venture experience and need in-kind or financial help in supporting legal and accounting work.

Third, philanthropy can become an investor, either in a Qualified Opportunity Fund or in a fund invested alongside QOF equity. While philanthropies are non-profit and can't gain any tax benefits from their investments in a QOF, there is nothing stopping them from investing in such a QOF as if it were any other investment. More importantly, an anchor's investment would provide incentives to other investors on the fence about investing in a QOF project by de-risking it through offering a “match” or loan guarantee.

More importantly, a philanthropic investment could serve as the concessionary (patient) capital source in a deal, helping fill the gap that arises between the amount of debt supportable by the project and available equity. This role — concessionary capital — will be critical in projects where the OZ deal won't pencil, but could, with a long term, no- or low-return debt or equity tranche. Rather than traditional grants to a city-supported cause, these impact investments can generate a return financially and a return socially and can be a substantial part of a foundation's general investment strategy as well as program-related investment plan.

Fourth, they can entice their individuals and corporations in their networks to invest in QOFs. Many philanthropies maintain very broad networks of potential high-quality investors and businesses from their boards and partnerships that cities might not otherwise have access to. Philanthropies can use their status as a touchstone to contact/connect board members, who are investors or have businesses of their own and facilitate investments or similar deals. While much of this could be possible without opening a QOF, doing so would allow the philanthropy to control its own investment strategy and who it would bring in to deals.

Fifth, they can stimulate the creation of multi-city Opportunity Funds. While city actions will be developed by individual communities and have strong local impact, the designation of common areas across cities (e.g., central business districts, hospital districts, university districts, industrial areas, residential communities, etc.) enables the creation of geographic typologies. These typologies might catalyze the creation of multi-city Opportunity Funds with the flexibility to finance multiple activities (e.g., housing, small business, mixed-use development) in similar Opportunity Zones, thereby reinforcing the synergistic effect of related investments. This would be a major departure from the status quo where large commercial banks and governmental agencies have focused on separate products rather than holistic places. Opportunity Zones could change that.

Finally, they can hold local Investor Summits that enable city governments, developers, entrepreneurs and local, regional and national investors to come together around investable projects and propositions. Colorado Governor John Hickenlooper convened such a summit in June 2018 which offers a model for replication.

Examples: City-focused philanthropies like the Rockefeller and Kresge Foundations are supporting capacity-building efforts by establishing an incubator (in partnership with Calvert Impact Capital) for several community-focused social impact fund managers to learn the tools necessary to establish QOFs and take them to market.



## Role Four: Community Building

Philanthropies can play a community building role by helping residents who live in or near Zones obtain skills, start businesses and help improve the quality of life in the neighborhood.

The 10-year life of the tax incentive creates an intriguing proposition: an 8-year-old living in an Opportunity Zone today will be 18 years old and ready for participation in the labor market when the Opportunity Zone incentives sunset. Ensuring that that child is ready to succeed will require targeted investments among networked entities that integrate multiple parts of the cradle-to-career system. Cities have a unique potential, given the localization of many schools and skills institutions and initiatives, to focus on giving residents who live either within or near Opportunity Zones the ability to access existing and future employment opportunities — whether working at a new Opportunity Zone business or building an Opportunity Zone development. Cities can go further and drive inclusive growth more broadly through supporting the expansion of minority owned businesses, minority homeowners, affordable housing and neighborhood amenities.

Philanthropies can play a major role in linking market-oriented Opportunity Zone investments to investments in human capital and other strategies that maximize impact for lower income residents.

First, philanthropies can ensure that a city's Investment Prospectus includes an analysis of human capital issues and how skill building might best connect to market investment dynamics. While there are many dimensions to poverty reduction, upgrading the education and skills of children and young adults (who will become part of the workforce during the life of this tax incentive) is a recognized way to increase income across the population.

Philanthropies can use this information as a catalyst to provide a more seamless, integrated system of education and workforce development. In 2014, for example, Louisville Mayor Greg Fischer launched Cradle-to-Career, an integrated effort between disparate organizations focused on kindergarten readiness, elementary and secondary education, college completion and workforce-oriented skills training. This model could be adapted to the geographic level of an Opportunity Zone.

Philanthropies can also use data to better link anchor employers and workers. This is particularly relevant given the large number of hospital and university districts that have been designated as Opportunity Zones. In 2011, for example, Philadelphia's University City District established the West Philadelphia Skills Initiative (WPSI) to help large anchor institutions resolve recruitment, high turnover or performance quality issues. WPSI creates training cohorts of eligible residents and designs a customized curriculum that responds to specific hiring needs. "As an employer-driven program, [WPSI] exemplifies the benefits of a 'train and place' model

rather than the ‘train and pray’ approach common to many workforce programs.” Since 2011, the initiative has connected 93 percent of its graduates to employment and generated \$15.4 million in wages for previously employed West Philadelphians.

Second, philanthropies can ensure that a city’s Investment Prospectus includes sophisticated information on entrepreneurship and neighborhood businesses. To help spur the growth of minority-owned and female-owned businesses, philanthropies should make available an accounting and legal resource clinic for local entrepreneurs and developers to learn about the Opportunity Zone program generally, determine whether or not their properties or businesses qualify for the program, and develop how their QOFs might be structured. Most philanthropies have access to a significant number of financial and legal professionals who could be made available to consult with local entrepreneurs, offering a very useful and relevant in-kind contribution. Institutions might also consider diversity of QOF fund managers. The Youngstown Business Incubator, for example, is a model incubator that provides no-cost management, accounting, technical, financial and contract procurement assistance in addition to loan and bond packaging services.

Finally, philanthropies can ensure that expanding the production and preservation of affordable housing is a key component of a successful Opportunity Zone strategy. Concerns have been raised that increasing market investment in low-income communities will boost housing prices and displace the very residents that the tax incentive is intended to help. While that threat is not uniformly present throughout the country, the perception of gentrification and housing displacement requires a clear response.

Philanthropies are well positioned to maximize the impact of existing housing institutions and intermediaries. Many cities have a mix of public and nonprofit entities that already own, operate and/or fund affordable housing within neighborhoods that have been designated as Opportunity Zones. These entities, with focused philanthropic support, could play critical roles in city efforts to expand the supply of affordable housing. Public housing authorities, for example, could offer surplus property as part of Opportunity Zone development and, along with community development enterprises, could become co-developers of mixed-used and mixed-income projects. Community development finance institutions could offer special products designed to extend private investment in hard-hit neighborhoods. Local housing agencies and investors could



work with state housing agencies to offer technical assistance and guidance to developers, non-profits, and local housing agencies to marry capital sources.

Example: The skills, entrepreneurship and housing initiatives in most cities have critical philanthropic backing. JP Morgan Chase, for example, recently gave a major gift to the West Philadelphia Skills Initiative described above.



## Role Five: Institution Building

Philanthropies can play an institution building role by enhancing the capacity of existing public, private and civic organizations and by creating or supporting new institutions or intermediaries that can help cities design, finance and deliver transformative investments.

Realizing the full potential of Opportunity Zones requires that a disparate group of urban institutions act with purpose and discipline along multiple fronts. Yet the current health and capacity of local government and other institutions make this a challenge. In many communities, local governments simply do not have the capacity or professional expertise to design, finance and deliver sophisticated market and social initiatives. The public sector is also highly fragmented, divided across multiple layers of government, specialized agencies and independent public authorities. On the private and civic side, most communities collaborate through loosely organized informal networks that do not have sufficient capital or capacity. In addition, many nonprofit organizations are either too small to affect systemic change or too circumscribed in focus to drive sustainable impact. Cities should use Opportunity Zones as a vehicle for modernizing and redefining their institutions to maximize economic, social and environmental impact.

Philanthropies can play a series of roles to grow the capacity of existing or new institutions.

First, they can help assess whether a city has the right institutional capacity (e.g., BIDs, community development enterprises, incubators/accelerators, public asset corporations) to catalyze innovative and inclusive growth. Strong intermediaries must be able to carry out a range of functions in particular Opportunity Zones including place making, place management and place marketing. Other intermediaries should be catalysts for entrepreneurship and skills training. Strong intermediaries must have public sector relationships, community standing, and private sector credibility to effect change.

Second, they can be critical partners in helping a city government establish and staff an effective Opportunity Zone Unit. Foundation and corporate support, for example, could help cities recruit subject-matter experts to augment government staff and operate with a sense of urgency.

Third, they can help an existing organization reconfigure its structure and functions to take on new activities. Philadelphia represents the best recent example of an organization that has evolved over time to take on new responsibilities. The University City Skills Initiative described above is being carried out by University City District, transforming a traditional business improvement district organization (ensuring that the university district was “clean and safe”) into a multi-purpose entity that designs and delivers best in class workforce development and skills training to local residents.

Fourth, they can create a new institution to fill a widely recognized gap; Erie represents the best recent example. Like many cities, key anchor institutions (e.g., Erie Insurance Company, Gannon University, the University of Pittsburgh Medical Center, the city and county governments) are all located within walking distance of each other (and Lake Erie) in a walkable, historic downtown. These stakeholders and others recognized that the regeneration of the downtown required an “all-of-the-above” focus: mixed use development, quality place making, activation of public spaces, affordable housing and a commitment to quality architecture, historic preservation and streetscape re-design. In 2017, the Erie Downtown Development Corporation was formed to bring strategic focus and professional capacity to these disparate efforts. Modeled, after Cincinnati’s successful Center City Development Corporation (C3DC), the EDDC has been built and backed by private and civic capital and has its own patient equity fund.

Finally, they can support institutions and intermediaries that operate across multiple cities. Many small cities lack the capacity to create investable strategies or help build the necessary blend of debt, subsidy and equity for particular transactions. An intermediary that focuses on providing certified financial advisors to capacity-strapped cities would be in great demand.

Example: Baltimore’s Abell Foundation recently issued a grant to the Baltimore Development Corporation to hire an Opportunity Zones Coordinator. The Coordinator role is designed to act as an information clearinghouse by promoting development in the Zones and connecting potential investors with projects. The Coordinator is also responsible for creating an investment prospectus.



## Role Six: Innovation Inducing

Philanthropies can play an innovation inducing role by using challenge grants and other mechanisms to source pathbreaking ideas among urban stakeholders or pushing key players (e.g., community foundations) to coalesce around coordinated neighborhood investment strategies.

The evolution of Opportunity Zones will be characterized by a broad array of players — investors, developers, city governments — being first movers on such critical components as the creation of Investment Prospectuses, the formation of Opportunity Funds and the creation of novel funding structures around workforce housing and other much needed investments. Erie, Louisville, Oklahoma City, South Bend and Stockton, for example, have already released beta versions of Investment Prospectuses, sparking national media attention and investor interest. An Opportunity Zone Challenge could inspire disparate cities to innovate on different ways to drive inclusive growth in disadvantaged places and for disadvantaged people.

An Opportunity Zone Challenge issued by a national foundation could also be a catalyst for local foundations to carry out many of the steps identified in this paper.

Example: The Bloomberg Philanthropies Mayors Challenge “is a competition for city leaders that identifies and elevates next generation solutions that have the potential to transform the way city halls work and improve the lives of citizens.” Opportunity Zones are tailor made for a version of the Mayors Challenge that focuses on rapid invention, deployment and replication.

The recent Community Solutions Challenge issued by the Rockefeller Foundation and the Chan Zuckerberg Initiative is another model to consider.



## Role Seven: Information Sharing

Philanthropies can plan an information sharing role by speeding the process by which innovative strategies, practices and instruments are captured, codified and communicated.

Cities are learning networks. While the federal government will ultimately write the basic rules, the evolution of the Opportunity Zone tax incentive will also take place via market norms and policy and practice innovations that are invented in one city and then replicated or adapted in rapid fashion across multiple communities. Already, many city-focused organizations and intermediaries like Enterprise Community Partners, LISC and Accelerator for America are identifying and codifying innovations that are emerging in vanguard cities, speeding the pace of scaling. Opportunity Zones are one of the first federal tax incentives to evolve Wikipedia-like from the bottom-up rather than the top-down.

Philanthropies could provide enhanced support to national intermediaries so that they have the bandwidth to share information across multiple dimensions and for multiple cities and stakeholders. Alternatively, philanthropies could support constituency organizations that represent key urban stakeholders (e.g., city and/or county governments, community foundations, public housing authorities, community development finance institutions, hospitals, universities) so that tailored information can be delivered in customized ways.

Example: Philanthropies have a long track record of supporting intermediaries — the American Council for an Energy-Efficient Economy, the Institute for Market Transformation — that share knowledge and expertise around emerging sectors of the economy.



# CONCLUSION

The Opportunity Zone initiative represents one of the most novel federal tax incentives enacted around community revitalization.

But unlike other programs that allocate appropriated dollars, investment into Opportunity Zones is not guaranteed. Philanthropies can and should play multiple roles to help their communities realize the full economic and social potential of this unique incentive. The ideas expressed in this policy brief represent an early attempt to identify the catalytic and supportive efforts that philanthropies can undertake.

## About the Author

Bruce Katz is the Founding Director of the Nowak Metro Finance Lab at Drexel University and co-author (with Jeremy Nowak) of *The New Localism: How Cities Can Thrive in the Age of Populism*

## Recommended Reading:

Economic Innovation Group: “Opportunity Zones: The Map Comes into Focus” (June 15, 2018) <http://eig.org/news/opportunity-zones-map-comes-focus>

Bruce Katz and Jeremy Nowak: “The Investment Prospectus Approach” (Accelerator for America, June 6, 2018) <http://acceleratorforamerica.com/media/2018-06-06/investment-prospectus-approach>

Bruce Katz and Jeremy Nowak: “Can Opportunity Zones Catalyze Institutional Reform,” (Accelerator for America, April 27, 2018) <http://acceleratorforamerica.com/media/2018-04-27/can-opportunity-zones-catalyze-institutional-reform>

Bruce Katz and Evan Weiss: “From Transactions to Transformation: How Cities can Maximize Opportunity Zones,” (Accelerator for America/ Nowak Metro Finance Lab, October 2018) <https://drexel.edu/lindyinstitute/initiatives/nowak-metro-finance-lab/publications/reports/opportunity-zones/>

Bruce Katz and Ken Gross: “The Opportunity Zone Investment Prospectus: A Guide” (Accelerator for America/New Localism Advisors, November 2018) <http://www.acceleratorforamerica.com/OZGuide>



## Published Investment Prospectuses:

Erie, PA

<http://www.erie.pa.us/Portals/0/Content/News/City%20of%20Erie%20Investment%20Prospectus.pdf>

Louisville, KY

[https://louisvilleky.gov/sites/default/files/louisville\\_forward/louisville\\_prospectus\\_2018.pdf](https://louisvilleky.gov/sites/default/files/louisville_forward/louisville_prospectus_2018.pdf)

Oklahoma City, OK

[https://docs.wixstatic.com/ugd/85f9b0\\_707b3f6582fb47ebaa84564d3a025d43.pdf](https://docs.wixstatic.com/ugd/85f9b0_707b3f6582fb47ebaa84564d3a025d43.pdf)

South Bend, IN

<https://southbend.in.gov/wp-content/uploads/2018/11/South-Bend-Prospectus.pdf>

Stockton

[file:///C:/Users/mkt74/Downloads/StocktonOZProspectus\\_2018.pdf](file:///C:/Users/mkt74/Downloads/StocktonOZProspectus_2018.pdf)