



Community and Economic Development in North Carolina and Beyond Blog: Opportunity Zones at a Local Level

By CED Program Interns & Students

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The Opportunity Zone (OZ) program was rolled out this year, creating a new community economic development tool. Prior posts on the CED blog have covered this topic — an overview of OZs can be found here and a discussion of North Carolina's selection of zones here. This post will discuss how OZs relate to other community economic development tools and how different local contexts may affect OZ investment. This post will also include strategies for local government participation in concert with these programs to maximize the impact of OZ investment in communities to meet community development goals.

Note: This analysis is based on current guidance available relating to Opportunity Zones. Additional guidance regarding OZ investment is expected from the IRS later this year and may affect strategies outlined in this post.

It should be noted that the Opportunity Zone program is not technically a community development program like New Markets Tax Credits (NMTC), Low Income Housing Tax Credits (LIHTC), Historic Tax Credits (HTC), and others. The Opportunity Zone program is not really a program at all, but rather a tax benefit for private investors overseen by the IRS. OZs are not grants or loans or other injections of federal dollars into economic development initiatives. OZs are simply a mechanism to lower federal tax liability for investments made in particular areas for particular business activities with particular private funds.

In part because of this distinction, there are not the same levels of administrative oversight to ensure OZ investments meet community development goals as is the case with NMTC, LIHTC and other initiatives. As Rebecca Lester of Stanford Business School pointed out in her recent paper on OZs, "because Opportunity Zone investments are not required to demonstrate specific benefits to the existing local population, investors may select projects based solely on their financial return". Since many investors may be evaluating an OZ investment primarily in terms of potential return, local governments will be well served to understand these new types of investments and utilize the tools at their disposal to meet their community development goals.

Because OZs are a market-driven benefit, there may be significant differences in the impacts of OZs from community to community. OZs in communities seeing a general growth in new investment and jobs may see substantial investment in OZs while communities seeing slow or no growth or even decline may need to do more initial leg-work to attract investment in their zones. Therefore, different communities may face different challenges when seeking OZ investment depending on their development context.

Communities experiencing rapid population growth and new investment may see the highest volume of OZ investment due to the market's proven ability to attract capital and show returns. OZs may simply be the incentive to activate new investments in corridors that may not have attracted the same levels of capital without the incentive. Local officials in these communities may be focused on minimizing displacement following development and leveraging this new investment to help fund new affordable housing development. The same tools remain for local officials when thinking about these issues in context of OZs such as inclusionary zoning and housing land trusts.

Communities experiencing slow growth, no growth, or decline will likely need to be more active in presenting development opportunities for OZ investors. These communities may also need to layer other development finance tools to fill the financial gap for a potential project. The School of Government's Development Finance Initiative (DFI) works with communities across North Carolina to complete predevelopment activities to determine a project's feasibility by identifying and layering additional sources of capital and utilizing creative financing tools. With the rollout of OZs, investors will seek opportunities to place funds across the country. Strategic local governments will position their local OZ designations for success by completing predevelopment activities and actively marketing their development opportunities. To learn more



about how local governments can position their communities for investment, see Tyler Mulligan's post, *Federal Opportunity Zones: What Local Governments Need to Know*, and visit DFI's *Opportunity Zone Resource Page*.

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