

**APPENDIX 1**  
**Procedural Justice in Child Support**  
**Session 1 Report**

## Procedural Justice in Child Support Session 1 Report

### Trainers:

Keith Pepper; Mia Sena; Renee HK LeBlond; Ann Clements

### Training Logistics

| <b>Zoom Meeting</b>    | <b>Session 1</b>          |
|------------------------|---------------------------|
| Training Date          | 10/20 - 10/23 2020        |
| Training Time          | 11:00am – 3:30pm          |
| Number of Participants | 23 registered/19 attended |

### Training Session Overview

This virtual course included 12 hours of instruction facilitated over a four-day period through Zoom. The curricula evenly mixed lecture with large group discussion and breakout activities for small group exercises, including role-play discussions where participants used procedural justice concepts to engage as each parent and as the child support professional. A lunch hour and 10-minute break times were also allotted to each live training session.

The table below illustrates participant demographics for Session 1.

|                  | <b>Counties</b>  | <b>Job Function</b>  | <b>Experience</b>  | <b>Program Challenges</b>  | <b>Participation</b>   |
|------------------|--|--|--|--|--|
| <b>Session 1</b> | 13 - State Offices<br>3 – St. Joseph County<br>1 – Henry County<br>1 – Monroe County<br>1 – Posey County | Mostly program leads<br>Several specialized staff<br>A few attorneys | Mostly veteran staff (10+ years)<br>A few mid-range (3-9 years)<br>A few new staff (under 2 years) | <ul style="list-style-type: none"> <li>• Building trust and understanding</li> <li>• Engagement</li> <li>• Educating participants about program</li> <li>• Compliance</li> </ul> | Majority of participants engaged in all discussions and training activities through the Zoom Chat feature. Very few participants used webcams or audio speakers. |

**Session 1 Attendance Report: 19 Attendees**

| <b>Name</b>           | <b>10/20/2020</b> | <b>10/21/2020</b>       | <b>10/22/2020</b>      | <b>10/23/2020</b> |
|-----------------------|-------------------|-------------------------|------------------------|-------------------|
| Alexander Jackson     | √                 | √                       | √                      | √                 |
| Angela Davis          | √                 | √                       | √                      | √                 |
| Anne Proctor          | √                 | √                       | √                      | √                 |
| Brittney Butler       | √                 | √                       | √                      | √                 |
| Cammi Albright        | √                 | √                       | √                      | √                 |
| Carrie Robinson       | √                 | √                       | √                      | √                 |
| Dawn Blanford         | X                 | Attended until 11:45am  | X                      | X                 |
| Debora Mill           | √                 | √                       | √                      | √                 |
| Donna Halcomb         | √                 | √                       | √                      | √                 |
| Jamie McKean          | X                 | X                       | X                      | X                 |
| Jennifer Armstrong    | √                 | √                       | √                      | √                 |
| Jilliane Linton       | √                 | √                       | √                      | √                 |
| Jodie Lorton          | √                 | √                       | √                      | √                 |
| Matthew Villa         | √                 | √                       | √                      | √                 |
| Meghan Rans           | X                 | X                       | X                      | X                 |
| Michael McGuire       | X                 | X                       | X                      | X                 |
| Michele Story         | √                 | √                       | √                      | √                 |
| Monica Frost          | √                 | √                       | √                      | √                 |
| Rhonda Haley          | √                 | √                       | √                      | √                 |
| Sarah Marler          | √                 | √                       | √                      | √                 |
| Sean Gorman           | √                 | √                       | √                      | √                 |
| Serentia Handsborough | √                 | Arrived late at 11:45am | Attended until 12:00pm | √                 |
| Shari Spinner         | √                 | √                       | √                      | √                 |

## Training Evaluation Overview

Overall evaluation comments indicated high satisfaction with the curriculum and the opportunities for discussion and breakout sessions. In class, several participants also commented that they found the training experience to be valuable and timely. Participants found the opportunity to role play using procedural justice techniques to be helpful and indicated appreciation for the practice time.

Evaluations were conducted through the Zoom Poll feature at the end of each day. The last day also included a series of open-ended questions the participants answered using the Zoom Chat feature. Participants were asked to rate each question on a scale from 1 (lowest rating) to 5 (highest rating). Evaluations were positive, with the following overall scores:

|   | <b>Session 1</b> |
|---|------------------|
| Appropriateness of the Mix of Training Methods                            | 4.56             |
| Trainer's Knowledge   | 4.72             |
| Applicability to job responsibilities                                     | 4.63             |
| Trainer's ability to communicate content                                  | 4.83             |
| Trainer's ability to synthesize discussion points and learning objectives | 4.68             |
| Training flow and organization  | 4.42             |
| Time allocated for training   | 4.19             |
| Trainer's ability to guide training and keep on track                     | 4.74             |
| Level of detail provided  | 4.37             |
| Opportunity to participate and ask questions                              | 4.63             |
| <b>Total Average</b>  | <b>4.6</b>       |

## Training Evaluation Details

### Session 1 Scoring Results

| 19 Participants<br>16 Evaluations | Mix of Training Methods | Applicability to Job Responsibilities | Time Allocated | Total<br>Average |
|-----------------------------------|-------------------------|---------------------------------------|----------------|------------------|
| 5                                 | 10                      | 13                                    | 9              |                  |
| 4                                 | 5                       |                                       | 2              |                  |
| 3                                 | 1                       | 3                                     | 4              |                  |
| 2                                 |                         |                                       | 1              |                  |
| 1                                 |                         |                                       |                |                  |
| <b>Average</b>                    | <b>4.56</b>             | <b>4.63</b>                           | <b>4.19</b>    | <b>4.5</b>       |

| 19 Participants<br>19 Evaluations | Training Flow &<br>Organization | Trainer's Ability to Guide<br>Training & Stay on Track | Trainer's Ability to Synthesize Discussion<br>Points and Learning Objectives | Total<br>Average |
|-----------------------------------|---------------------------------|--|--|------------------|
| 5                                 | 11                              | 16   | 14   |                  |
| 4                                 | 5                               | 1  | 4  |                  |
| 3                                 | 3                               | 2  | 1  |                  |
| 2                                 |                                 |  |  |                  |
| 1                                 |                                 |  |  |                  |
| <b>Average</b>                    | <b>4.42</b>                     | <b>4.74</b>  | <b>4.68</b>  | <b>4.6</b>       |

### Session 1 Scoring Results (continued)

| 19 Participants<br>18 Evaluations | Trainer's Knowledge | Trainer's Ability to Communicate Content | Total<br>Average |
|-----------------------------------|---------------------|--|------------------|
| 5                                 | 14                  | 16                                       |                  |
| 4                                 | 3                   | 1  |                  |
| 3                                 | 1                   | 1  |                  |
| 2                                 |                     |  |                  |
| 1                                 |                     |  |                  |
| <b>Average</b>                    | <b>4.72</b>         | <b>4.83</b>                              | <b>4.8</b>       |

| 19 Participants<br>19 Evaluations | Level of Detail Provided | Ability to Participate & Ask Questions | Total<br>Average |
|-----------------------------------|--------------------------|--|------------------|
| 5                                 | 11                       | 14                                     |                  |
| 4                                 | 4                        | 3                                      |                  |
| 3                                 | 4                        | 2                                      |                  |
| 2                                 |                          |  |                  |
| 1                                 |                          |  |                  |
| <b>Average</b>                    | <b>4.37</b>              | <b>4.63</b>                            | <b>4.5</b>       |

## Summary of Evaluation Comments

*“Was there anything we could have done to make it easier to participate in this virtual training?”*

- Send one meeting invitation for all four days of training at once. It would just make it easier to prevent people from scheduling conflicting meetings... Of course, I could have manually blocked off my calendar (should have).

*“What is the most important thing you learned from this course?”*

- The different types of bias. I didn’t know there were so many.
- I will definitely be sure to check my implicit biases at the door before interacting with clients.
- Just the reminder to take your time with people and to seek to understand first, then fix second.
- I think this would be very helpful training for many of our county office workers.
- Implicit bias is an issue when interacting with co-workers as well.

*“Is there any other feedback you would like to share with us about the trainer(s) and/or the course?”*

- This would be a good session for our conferences.
- Thought everything went smoothly and was informative. Thanks!
- Excellent information and trainers were well prepared and conducted appropriate discussion and opportunities to participate.
- All trainers seemed well versed in the material.
- I think the trainers were very good in their understanding of the subject and technology of Zoom.
- Great job!
- Thank you! You are all very professional.
- This was a great training and I really enjoyed it. So glad I was able to participate.
- Thanks, very informative.
- Thank you so much for this opportunity and for doing the work!

**APPENDIX 2**  
**Procedural Justice in Child Support**  
**Sessions 2-4 Report**



## Procedural Justice in Child Support Sessions 2-4 Report

### Trainers:

Lara Webb Fors, JD; Mia Sena; Eric Mutzabaugh (Technical Assistant)

### Training Logistics

| <b><u>Zoom Meeting</u></b> | <b>Session 2</b>          | <b>Session 3</b>          | <b>Session 4</b>          |
|----------------------------|---------------------------|---------------------------|---------------------------|
| Training Date              | 1/26 - 1/29 2021          | 2/8- 2/11 2021            | 3/15 - 3/18 2021          |
| Training Time              | 11:00am – 3:30pm          | 11:00am – 3:30pm          | 11:00am – 3:30pm          |
| Number of Participants     | 22 registered/22 attended | 13 registered/13 attended | 22 registered/17 attended |

### Training Session Overview

This virtual course included 12 hours of instruction facilitated over a four-day period through Zoom. A lunch hour and 10-minute break times were allotted to each live training session. The curricula evenly mixed lecture with large group discussion and breakout activities for small group exercises, including role-play discussions where participants used procedural justice concepts to engage as each parent and as the child support professional. Trainers were advised that restricted broadband issues limited the use of webcams for participants. Most participants engaged in all discussions and training activities using microphones and the Zoom Chat feature. Participants across all three sessions were collaborative and supportive during discussions and role play activities. Several counties also shared information regarding initiatives and processes currently implementing procedural justice and behavioral intervention concepts. Many participants across all three sessions also commented that the training on unintended bias and cultural competence was thought provoking and useful as they considered ways to improve their interactions with program participants. It is also noteworthy that the Session 3 cohort was mostly comprised of participants who do not regularly engage with parents as part of their job function. However, the overall evaluation scores and comments from these participants demonstrates an appreciation of the course content and the opportunity to apply procedural justice concepts internally to improve the efficiency and performance of the child support program.

## Training Evaluation Overview

Overall evaluation comments indicated high satisfaction with the curriculum and the opportunities for discussion and breakout sessions. During class sessions, several participants also commented that the training experience allowed them the opportunity to think more broadly about their quality of work and the importance of consistency across the child support program. They also stated they were looking forward to new opportunities to continue implementing procedural justice and behavioral intervention concepts.

Evaluations were conducted through the Zoom Poll feature at the end of each day. The last day also included a series of open-ended questions the participants answered using the Zoom Chat feature. Participants were asked to rate each question on a scale from 1 (lowest rating) to 5 (highest rating). Evaluations were positive, with the following overall scores:

|   | Session 2  | Session 3  | Session 4  |
|---|------------|------------|------------|
| Appropriateness of the Mix of Training Methods                            | 4.4        | 4.5        | 4.5        |
| Trainer's Knowledge   | 4.6        | 4.7        | 4.8        |
| Applicability to job responsibilities                                     | 4          | 3.6        | 4.3        |
| Trainer's ability to communicate content                                  | 4.7        | 4.8        | 4.8        |
| Trainer's ability to synthesize discussion points and learning objectives | 4.5        | 4.7        | 4.9        |
| Training flow and organization  | 4.4        | 4.8        | 4.6        |
| Time allocated for training   | 3.9        | 3.5        | 4.1        |
| Trainer's ability to guide training and keep on track                     | 4.5        | 4.8        | 4.9        |
| Level of detail provided  | 4.7        | 4.6        | 4.7        |
| Opportunity to participate and ask questions                              | 4.8        | 4.6        | 4.6        |
| <b>Total Average</b>  | <b>4.5</b> | <b>4.5</b> | <b>4.6</b> |

The table below illustrates participant demographics across each session.

|                  | Counties  | Job Function  | Experience  | Program Challenges  |
|------------------|---|---|---|---|
| <b>Session 2</b> | State CSB<br>Indiana Prosecuting Attorneys Council (IPAC)<br>LaPorte County<br>St. Joseph County  | Deputy Director; Child Support Director; Program Director; Policy Liaison; Attorney; Executive Liaison; Senior Manager; Field Consultants/Managers<br>Enforcement Caseworkers | Mostly veteran staff (10+ years)<br>Several mid-range staff (3-9 years)<br>At least one new staff (under 2 years) | <ul style="list-style-type: none"> <li>Helping parents understand judicial system; program; process; our role; communication</li> <li>Understanding parent concerns</li> <li>Managing parent emotions</li> </ul>                    |
| <b>Session 3</b> | State CSB<br>Hancock County<br>Knox County<br>Kosciusko County<br>Marion County   | Assistant Deputy Director; Strategic Initiatives Director; Supervisors; Project Managers; Attorneys; Field Consultants; Accountants; Paralegals                               | Mostly veteran staff (10+ years)<br>A few mid-range staff (3-9 years)<br>No new staff (under 2 years)             | <ul style="list-style-type: none"> <li>Helping parents understand judicial system; program; process; our role</li> <li>Understanding parent concerns and frustrations</li> <li>Assuring staff appreciation at all levels</li> </ul> |
| <b>Session 4</b> | State CSB<br>Boon County<br>Brown County<br>Jefferson County<br>Howard County<br>Knox County<br>Lawrence County<br>Porter County<br>St. Joseph County<br>Vanderburgh County | Attorneys, Supervisors; Managers; Enforcement Caseworkers   | Mostly veteran staff (10+ years)<br>Several mid-range staff (3-9 years)<br>At least one new staff (under 2 years) | <ul style="list-style-type: none"> <li>Helping parents understand judicial system; process</li> <li>Increase NCP communication</li> <li>Build trust</li> <li>Help parents be accountable</li> </ul>                                 |

**Session 2 Attendance Report: 22 Registered/22 Attendees**

| <b>Name</b>       | <b>1/26/2021</b> | <b>1/27/2021</b> | <b>1/28/2021</b> | <b>1/29/2021</b> |
|-------------------|------------------|------------------|------------------|------------------|
| Adam Norman       | √                | √                | √                | √                |
| Beth Ross         | √                | √                | √                | √                |
| Carol Holloman    | √                | √                | √                | √                |
| Diane Dale        | √                | √                | √                | √                |
| Ethan McKinney    | √                | √                | √                | √                |
| Jacqueline Peden  | √                | √                | √                | √                |
| Jessie Perdue     | √                | √                | √                | √                |
| Joanna Rodriguez  | √                | √                | √                | √                |
| Joseph Wolf       | √                | √                | √                | √                |
| Karla Mantia      | √                | √                | √                | √                |
| Kasey Nell        | √                | √                | √                | √                |
| Kaytlin Marlnee   | √                | √                | √                | √                |
| Kyle Meredith     | √                | √                | √                | √                |
| Linda Chrisman    | √                | √                | √                | √                |
| Mandy Gossage     | √                | √                | √                | √                |
| Marla Jobes       | √                | √                | √                | √                |
| Michele Epp       | √                | √                | √                | √                |
| Misty Williams    | √                | √                | √                | √                |
| Monica Grandstaff | √                | √                | √                | √                |
| Spencer Patterson | √                | √                | √                | √                |
| Tracie Y. Tillman | √                | √                | √                | √                |
| Zyra Valencia     | √                | √                | √                | √                |



Session 2 Scoring Results

| 22 Participants<br>21 Evaluations | Mix of Training Methods | Applicability to Job Responsibilities | Time Allocated | Total<br>Average |
|-----------------------------------|-------------------------|---------------------------------------|----------------|------------------|
| 5                                 | 13                      | 9                                     | 9              |                  |
| 4                                 | 3                       | 6                                     | 3              |                  |
| 3                                 | 5                       | 2                                     | 7              |                  |
| 2                                 |                         | 4                                     | 2              |                  |
| 1                                 |                         |                                       |                |                  |
| <b>Average</b>                    | <b>4.4</b>              | <b>4</b>                              | <b>3.9</b>     | <b>4.1</b>       |

| 22 Participants<br>18 Evaluations | Training Flow &<br>Organization | Trainer's Ability to Guide<br>Training & Stay on Track | Trainer's Ability to Synthesize Discussion<br>Points and Learning Objectives | Total<br>Average |
|-----------------------------------|---------------------------------|--|--|------------------|
| 5                                 | 12                              | 13   | 13   |                  |
| 4                                 | 1                               | 1  | 1  |                  |
| 3                                 | 5                               | 4  | 4  |                  |
| 2                                 |                                 |  |  |                  |
| 1                                 |                                 |  |  |                  |
| <b>Average</b>                    | <b>4.4</b>                      | <b>4.5</b>   | <b>4.5</b>   | <b>4.5</b>       |

## Session 2 Scoring Results (continued)

| 22 Participants<br>18 Evaluations | Trainer's Knowledge | Trainer's Ability to Communicate Content | Total<br>Average |
|-----------------------------------|---------------------|--|------------------|
| 5                                 | 13                  | 15                                       |                  |
| 4                                 | 2                   |  |                  |
| 3                                 | 3                   | 3  |                  |
| 2                                 |                     |  |                  |
| 1                                 |                     |  |                  |
| <b>Average</b>                    | <b>4.6</b>          | <b>4.7</b>                               | <b>4.7</b>       |

| 22 Participants<br>15 Evaluations | Level of Detail Provided | Ability to Participate & Ask Questions | Total<br>Average |
|-----------------------------------|--------------------------|--|------------------|
| 5                                 | 12                       | 13                                     |                  |
| 4                                 | 1                        | 1                                      |                  |
| 3                                 | 2                        | 1                                      |                  |
| 2                                 |                          |  |                  |
| 1                                 |                          |  |                  |
| <b>Average</b>                    | <b>4.7</b>               | <b>4.8</b>                             | <b>4.8</b>       |

## Summary of Evaluation Comments

*“Was there anything we could have done to make it easier to participate in this virtual training?”*

- I don't believe so. I think all went well.
- No
- I can't think of anything that would've made it easier.
- I think it went well.

*“What is the most important thing you learned from this course?”*

- To think more carefully and thoroughly before acting or speaking.
- To think before proposing solutions.

*“Is there any other feedback you would like to share with us about the trainer(s) and/or the course?”*

- Thanks very much for putting the training on.
- Thank you for the past few days of training.
- Thank you for your time!

**Session 3 Attendance Report: 13 Registered/13Attendees**

| <b>Name</b>        | <b>2/8/2021</b> | <b>2/9/2021</b> | <b>2/10/2021</b> | <b>2/11/2021</b> |
|--------------------|-----------------|-----------------|------------------|------------------|
| Ann Wiesehan       | √               | √               | √                | √                |
| Bonnie Prestin     | √               | √               | √                | √                |
| Catherine Tompkins | √               | √               | √                | √                |
| Peggy Boggs        | √               | √               | √                | √                |
| Trevor Hale        | √               | √               | √                | √                |
| Eric Durnil        | √               | √               | √                | √                |
| Charity Pollard    | √               | √               | √                | √                |
| Kaylee Steel       | √               | √               | √                | √                |
| Kayeloni Lehman    | √               | √               | √                | √                |
| Brent Eaton        | √               | √               | √                | √                |
| Cheryl Jackson     | √               | √               | √                | √                |
| Angel Weber        | √               | √               | √                | √                |
| Nicole Lemmons     | √               | √               | √                | √                |





Session 3 Scoring Results

| 13 Participants<br>11 Evaluations | Mix of Training Methods | Applicability to Job Responsibilities | Time Allocated | Total<br>Average |
|-----------------------------------|-------------------------|---------------------------------------|----------------|------------------|
| 5                                 | 7                       | 2                                     | 1              |                  |
| 4                                 | 3                       | 4                                     | 5              |                  |
| 3                                 | 1                       | 4                                     | 3              |                  |
| 2                                 |                         | 1                                     | 2              |                  |
| 1                                 |                         |                                       |                |                  |
| <b>Average</b>                    | <b>4.5</b>              | <b>3.6</b>                            | <b>3.5</b>     | <b>3.9</b>       |

| 13 Participants<br>12 Evaluations | Training Flow &<br>Organization | Trainer's Ability to Guide<br>Training & Stay on Track | Trainer's Ability to Synthesize Discussion<br>Points and Learning Objectives | Total<br>Average |
|-----------------------------------|---------------------------------|--|--|------------------|
| 5                                 | 11                              | 11   | 9  |                  |
| 4                                 |                                 |  | 2  |                  |
| 3                                 | 1                               | 1  | 1  |                  |
| 2                                 |                                 |  |  |                  |
| 1                                 |                                 |  |  |                  |
| <b>Average</b>                    | <b>4.8</b>                      | <b>4.8</b>   | <b>4.7</b>   | <b>4.8</b>       |

### Session 3 Scoring Results (continued)

| 13 Participants<br>13 Evaluations | Trainer's Knowledge | Trainer's Ability to Communicate Content | Total<br>Average |
|-----------------------------------|---------------------|--|------------------|
| 5                                 | 11                  | 11                                       |                  |
| 4                                 |                     | 1  |                  |
| 3                                 | 2                   | 1  |                  |
| 2                                 |                     |  |                  |
| 1                                 |                     |  |                  |
| <b>Average</b>                    | <b>4.7</b>          | <b>4.8</b>                               | <b>4.8</b>       |

| 13 Participants<br>12 Evaluations | Level of Detail Provided | Ability to Participate & Ask Questions | Total<br>Average |
|-----------------------------------|--------------------------|--|------------------|
| 5                                 | 9                        | 9                                      |                  |
| 4                                 | 1                        | 1                                      |                  |
| 3                                 | 2                        | 2                                      |                  |
| 2                                 |                          |  |                  |
| 1                                 |                          |  |                  |
| <b>Average</b>                    | <b>4.6</b>               | <b>4.6</b>                             | <b>4.6</b>       |

## Summary of Evaluation Comments

*“Was there anything we could have done to make it easier to participate in this virtual training?”*

- No.
- Nope, that was easy.
- I love having the virtual trainings – your presentation styles worked well.
- I think the participation ability was great and I liked that you sent the link to get in every day.

*“What is the most important thing you learned from this course?”*

- That everyone just needs to do their best.
- Served as a reality check.
- That our office will need to make some changes to prepare for non-English speaking participants.
- Just another reminder that everyone’s perspective is different.
- It would be hard to nail it down to just one!
- The Implicit Bias presentation today was eye opening.
- Everyone has a different perspective.

*“Is there any other feedback you would like to share with us about the trainer(s) and/or the course?”*

- Really enjoyed this course – thanks so much!
- You all do a good job. Thank you for your time.
- You all did a great job!
- It makes a long 4 days, but there was a LOT of content covered in these 4 days!
- Very good class. Nice to spend these days with you all.

**Session 4 Attendance Report: 22 Registered/17 Attendees**

| <b>Name</b>           | <b>3/15/2021</b> | <b>3/16/2021</b> | <b>3/17/2021</b> | <b>3/18/2021</b> |
|-----------------------|------------------|------------------|------------------|------------------|
| Cindy Ingalls         | √                | √                | √                | √                |
| Jamie Kencke          | √                | √                | √                | √                |
| Jennifer Manzke       | √                | √                | √                | √                |
| Sarah Cummings        | √                | √                | √                | √                |
| Joseph Bernardo       | X                | X                | X                | X                |
| Nadine Reese          | √                | √                | √                | √                |
| Jeanna Jackson        | X                | X                | X                | X                |
| Danyelle McCrary      | X                | X                | X                | X                |
| Bonnie Judkins        | √                | √                | √                | √                |
| Michaelene Mavchowiak | √                | √                | √                | √                |
| Sarah Troyer          | √                | √                | √                | √                |
| Katlin Garis          | √                | √                | √                | √                |
| Amber Deig            | √                | √                | √                | √                |
| Leneigha Downs        | √                | √                | √                | √                |
| Kristina Armstrong    | √                | √                | √                | √                |
| Rochelle Moody        | √                | √                | √                | √                |
| Jennifer Stogsdill    | √                | √                | √                | √                |
| Michelle DeWitt       | √                | √                | √                | √                |
| Emily Driskell        | √                | √                | √                | √                |
| Kathryn Stevens       | X                | X                | X                | X                |
| Brent Cullers         | √                | √                | √                | √                |
| Corinna Severino      | X                | X                | X                | X                |



Session 4 Scoring Results

| 17 Participants<br>16 Evaluations | Mix of Training Methods | Applicability to Job Responsibilities | Time Allocated | Total<br>Average |
|-----------------------------------|-------------------------|---------------------------------------|----------------|------------------|
| 5                                 | 11                      | 8                                     | 9              |                  |
| 4                                 | 2                       | 5                                     | 2              |                  |
| 3                                 | 3                       | 3                                     | 3              |                  |
| 2                                 |                         |                                       | 2              |                  |
| 1                                 |                         |                                       |                |                  |
| Average                           | 4.5                     | 4.3                                   | 4.1            | 4.3              |

| 17 Participants<br>9 Evaluations | Training Flow &<br>Organization | Trainer's Ability to Guide<br>Training & Stay on Track | Trainer's Ability to Synthesize Discussion<br>Points and Learning Objectives | Total<br>Average |
|----------------------------------|---------------------------------|--|--|------------------|
| 5                                | 6                               | 8  | 8  |                  |
| 4                                | 2                               | 1  | 1  |                  |
| 3                                | 1                               |  |  |                  |
| 2                                |                                 |  |  |                  |
| 1                                |                                 |  |  |                  |
| Average                          | 4.6                             | 4.9  | 4.9  | 4.8              |

### Session 4 Scoring Results (continued)

| 17 Participants<br>13 Evaluations | Trainer's Knowledge | Trainer's Ability to Communicate Content | Total<br>Average |
|-----------------------------------|---------------------|--|------------------|
| 5                                 | 11                  | 11                                       |                  |
| 4                                 | 1                   | 1  |                  |
| 3                                 | 1                   | 1  |                  |
| 2                                 |                     |  |                  |
| 1                                 |                     |  |                  |
| <b>Average</b>                    | <b>4.8</b>          | <b>4.8</b>                               | <b>4.8</b>       |

| 17 Participants<br>14 Evaluations | Level of Detail Provided | Ability to Participate & Ask Questions | Total<br>Average |
|-----------------------------------|--------------------------|--|------------------|
| 5                                 | 12                       | 11                                     |                  |
| 4                                 |                          | 1                                      |                  |
| 3                                 | 2                        | 2                                      |                  |
| 2                                 |                          |  |                  |
| 1                                 |                          |  |                  |
| <b>Average</b>                    | <b>4.7</b>               | <b>4.6</b>                             | <b>4.7</b>       |

## Summary of Evaluation Comments

*“Was there anything we could have done to make it easier to participate in this virtual training?”*

- It was a good training, thank you.
- It was good. I think sometimes creating more pauses for people to have time to either speak up or have time to type before moving on.

*“What is the most important thing you learned from this course?”*

- I thought it was a great training in general. Very thought provoking.
- I thought the course was great. Definitely gave more perspective into our clients and how to handle each situation differently as there are no cookie cutter cases in our world.

*“Is there any other feedback you would like to share with us about the trainer(s) and/or the course?”*

- This was a good training. I didn’t realize that the longer I’ve been in this position (just 3 years) that I’m getting more and more jaded and not treating people the way I did BEFORE I became a prosecutor. Makes me sad.
- Thought everything went smoothly and was informative. Thanks!
- I thought overall it was a very good training. You all would make a really good podcast crew!
- Was glad to learn about biases and work on them in the future.
- Great presenters.
- I thought it was a great training. A few more 5-minute breaks would be useful.
- Thank you so much! I feel like my eyes were opened to my own biases and how I can work around them.
- It was a great training...Thank you!
- The training was great! I have so many thoughts/ideas that I feel overwhelmed on how to implement them!

**APPENDIX 3**  
**Intergovernmental Training Assessment**



# Intergovernmental Training Assessment

For:

Interactive Forms Software Solving  
Intergovernmental Case Management,  
OCSE Intergovernmental Case Processing  
Innovation Project

Indiana Department of Child Services,  
Child Support Bureau

August 6, 2021



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# 1 Introduction

The Indiana Child Support Bureau (CSB) is a grantee of the federal Office of Child Support Enforcement (OCSE) Intergovernmental Case Processing Innovation Demonstration Grant. This demonstration is intended to generate evidence-based knowledge so that policymakers and program administrators can determine whether implementing similar processes, technology, or interventions could increase collections and improve intergovernmental case processing. Indiana's grant application proposed four activities designed to improve families' interactions with the child support enforcement agencies through a combination of proactive customer service and procedural changes. Included in the four activities was a proposal for the creation of a series of interactive eLearning modules to focus on the OCSE tools of Electronic Development Exchange (EDE), Query Interstate Cases for Kids (QUICK), and the Intergovernmental Reference Guide (IRG). However, during the grant, Indiana modified this activity to enhance an instructional video series as a guided introduction to the three tools in place of an interactive eLearning series.

As part of the Interactive Forms Software Solving Intergovernmental Case Management Project, Public Knowledge® (PK) consultants assessed the content and effectiveness of the Indiana Child Support Bureau's Intergovernmental Case Management (UIFSA) Training series. The series is comprised of three YouTube videos for each tool: EDE, IRG, and QUICK.

PK reviewed the videos for the purpose of training intergovernmental caseworkers and made the following assumptions:

- There are additional training materials, policies, and procedures to explain to the appropriate use of each tool
- The videos are for new employees as well as current intergovernmental staff
- The three videos are public, because they are on YouTube instead of a non-public facing page on the Indiana child support website

## 2 Assessment Goals

Assessment goals included:

- Determine accuracy of training content
- Review effectiveness and usability of training delivery
- Identify potential revisions/improvements to content and delivery of training



## **2.1 Assessment Areas:**

PK reviewed the training of all three videos to assess whether the content accurately reflects general child support policies and aligns with federal and state law, federal regulations, and federal policy guidance related to intergovernmental case processing.

PK consultants also focused on four elements to assess the effectiveness and usability of the video series:

- Use of audio and visual elements
- Use of signaling to highlight important ideas or concepts
- Use of components to engage the participant in the learning process, e.g., guiding questions, screen shots, infographics, links to resources, simulations, scenario-based exercises
- Use of assessments and/or opportunities to apply knowledge to job functionality to promote knowledge transfer

## **3 Assessment Outcomes**

### **3.1 General Observations**

Overall, the three training videos are helpful and a good introduction to the OCSE portal tools. All three videos assume some level of child support experience since content does not include explanation of child support case management. Video content is solely focused on demonstrating the functionality of each tool.

For all three videos, the content of the training is accurate and follows each tool's electronic screens and process flow. There is no Indiana-specific policy or procedure added to the videos that explains why a caseworker would use the tool or whether there are differences between the CSB and the prosecutor offices for access and use. The videos mostly are instructive of how to enter criteria and advance through each tool in the portal. In the IRG video section below, there are recommendations for the training to be more complete.

All three videos use a combination of photo images and screen shots to illustrate step-by-step instructions for transactions. The audio narration has a conversational tone in all videos, and the narration is well-paced and easy to follow in the IRG and QUICK videos.



The EDE video is very good at the beginning to introduce the tool and should be used as the first video in the series. The use of signaling, mainly in the form of highlighting content areas, is also consistently used throughout the videos.

The use of live action screen captures is visually engaging and helps the user follow the actions of the narrator as transactions are demonstrated. The narrator also uses guided questions and statements to identify options available for specific transactions.

Although the video content is instructional, the learning approach is informational. The videos do not contain engagement opportunities for the user to click on illustrated links, input, or select information to complete transactions, simulations, or exercises. There are also no assessment opportunities to confirm knowledge transfer.

Based on the overall assessment of all three video as a training series, PK makes the following general recommendations.

- As part of the OCSE Intergovernmental Case Processing Innovation Project, PK recommends that the Indiana CSB Project Director seek guidance from OCSE on whether an acknowledgment of grant funds should be published with the video. For example, another state created a PowerPoint video for custodial parents as part of its intergovernmental grant and published it to their child support website with the following language on the last slide: “This video presentation was produced in April 2021 as part of the U.S. Department of Health & Human Services, Administration for Children & Families, Office of Child Support Enforcement Intergovernmental Case Processing Innovation Grant.”
- Since the videos may also be used for new employee training purposes, consider starting the training segment with instructions that include a brief description of the portal, how to navigate to the portal, and what login criteria is required, even if it only references external documents of policy and procedure.

## **3.2 Electronic Document Exchange (EDE)**

The Electronic Document Exchange ([EDE video](#)) (c. 22 minutes) utilizes a combination of audio and visual elements to introduce the user to the basic functionality of the EDE tool for sending and retrieving documents. This is the longest video and the most complex tool. The narration was very detailed and followed the EDE screens, which elevates the risk of losing the attention of the user.



### 3.2.1 Content Accuracy Recommendations

The following suggestions are recommended to clarify the content accuracy of the EDE video.

- Consider making the EDE video the first video in the series since it includes a clearly stated introduction and confidentiality warning. If the videos are viewable in any order, consider adding a more detailed introduction to the IRG and QUICK videos for consistency.
- Consider adding an explanation for each type of role, for example, user and superuser. If the superuser is always the same position in each office (office manager, intergovernmental supervisor, etc.), add that information.
- Consider how to address the temporary OCSE time frames before documents are deleted. Before April 17, 2020, EDE had two batch jobs that deleted documents after 60 days (unsolicited documents) and 30 days (requested documents). In light of case processing complexities related to COVID-19, OCSE extended those timeframes so that the unsolicited documents remain on the system for 90 days and solicited documents remain for 60 days.<sup>1</sup> Only one set of timeframes was shared on the video.
- Consider explaining the IRS federal tax information (FTI) policy in the video or referring to Indiana policy and procedure when you talk about the sender's ability to indicate that the document contains FTI.

### 3.2.2 Effectiveness and Usability Recommendations

The following suggestions are recommended to improve the effectiveness and usability of the EDE video. Since the total length of the video is 22 minutes, time markers are provided for some recommendations for clearer reference.

There are three areas where signaling can be added to focus the users' attention:

- At the 1:40 mark, highlight the Electronic Document Exchange Application Navigation Guide title in the Helpful Information menu.
- At the 5:33 mark, highlight the Case ID column when describing cases that are hyperlinked.

---

<sup>1</sup> OCSE Website, [COVID-19: Frequently Asked Questions for Child Support Programs | The Administration for Children and Families \(hhs.gov\)](https://www.hhs.gov/child-support/programs/child-support-program-for-indiana)



- Between the 10:09 and 10:25 mark, the narrator is on the Request Details screen and begins to speak about actions that can be taken on the previous Query Request screen. Consider either returning to the Query Request screen or displaying a split screen effect.
- At the 12:55 mark, the narrator is demonstrating the View Responses option. Consider changing the narration that states, “If you provided an email address...” The current use of just the word “email” can be misinterpreted to mean the user provided an email as a document.

There are three areas to consider the use of inclusive pronouns:

- At the 4:23 mark, consider changing narration of “The user should put his or her own email address...” to “Enter the user’s email address.”
- At the 9:20 mark, consider changing on-screen text and narration of “...a user has assigned himself or herself a request to work.” to “Assign a user to the request – this may be yourself.”
- At the 9:34 mark, consider changing on-screen text of “No user assigned the request to himself or herself to work” to “There is no assigned user to the request.”

There is one discrepancy noted between narration and on-screen text:

- At the 20:27 mark, correct the narration from “Receiving States” to “Receiving Counties” to match the displayed screen shot.

## **3.3 Intergovernmental Reference Guide (IRG)**

The Intergovernmental Reference Guide ([IRG video](#)) (c. 5.5 minutes) utilizes a combination of audio and visual elements to introduce the user to the basic functionality of the IRG.

### **3.3.1 Content Accuracy Recommendations**

The following suggestions are recommended to clarify the content accuracy of the IRG video.

- Consider explaining that the IRG is available on the OCSE website to the public without a login, but that child support workers should not use that public access.
  - Child support workers should always log into the portal to view it, since secured access displays more information.
    - i The website does not show as much contact information.



- ii The website censors (removes) some of the questions in the profile on support enforcement and all the questions regarding family violence.
- Consider explaining the “Profile Query” (upper tab) if you want to compare states on one question in a certain area. For instance, if your job is to prepare outgoing paternity referrals, you may want to run a profile query for *H. Paternity*, Q H16: “If there is more than one child with the same custodial party and the same alleged father, should one set of documents be sent to your state (with a paternity affidavit for each child) or should a separate packet be sent for each child?”. With that information, the intergovernmental case worker knows how to prepare the packet for each state when there are two or more children. There are several questions throughout the IRG that impact UIFSA cases, therefore the *B. UIFSA* section of the IRG should not be singled out. It is not currently organized to be a one-stop resource, and all sections must be reviewed to find relevant information for intergovernmental cases.
- Profile tab:
  - Consider explaining what the profile is (all the information listed in the “Program Category” dropdown list) and why you would download it.
  - Consider commenting on the sections that are most used in UIFSA cases: *C. Reciprocity* (international and tribal); *D. Age of Majority*; *E. Statute of Limitations*; *H. Paternity*; and *F. Support Details*. Finding and sharing information about how a state handles its cases gives the Indiana intergovernmental case worker the ability to enhance customer service to the Indiana applicant who has questions about what is going to happen on their case in the responding state.
- Contact Tab:
  - Consider explaining the selection of the county radio button to find the different county staff, especially in county-administered states, like Ohio. Getting direct access is the number one request of intergovernmental case workers. (County information is not available on the website version.)
- If the Contact tab is accessed by a child support caseworker who has signed in, there is more information visible than the IRG version available for public access. If this video will be available to the public, consider redacting certain information on the contact screen where the Ohio’s Central Registry contact is displayed as an example. Alternatively, did the Ohio IV–D Director and Eric





Gladden give permission for his direct contact information and the notes to be shared with the public in this video?

- Here is an example of the different views of the Contact tab between the IRG as viewed while logged into the portal versus while accessing via the public website.

CONTACT TAB VIEW WHEN THE CHILD SUPPORT WORKER HAS LOGGED IN (from the video):

The screenshot shows the 'Contact' tab view for a logged-in user on the Ohio State Child Support Website. The page is titled 'Ohio' and includes a navigation bar with links: HOME, PORTAL HOME, EXCHANGE AGREEMENTS, PROFILE QUERY, DOWNLOADS, RESOURCES, FEEDBACK, and LOGOUT. A search bar at the top right shows '39 - Ohio' and a 'GO' button. The 'Contact' tab is selected, and the 'Back to Search' link is visible. The main content area is divided into two sections: 'Contact Information' and 'Address Types'. The 'Contact Information' section displays the following details: First Name: Eric, Last Name: Gladden, Department Name: Ohio Dept of Job and Family Serv, Office of Child Support, Title: Central Registry Supervisor, Address Line 1: PO Box 183203, Address Line 2: City: Columbus, State: OH, Zip Code: 43218-3203, Direct Phone: 8006861556, Fax1: 6144686613, Public Phone: -, Fax2: Email Address: OHCENREG@fs.ohio.gov, URL: Comments: Additional ICR contacts for Ohio: Patrick Goeller at Patrick.Goeller@fs.ohio.gov Mark Zibrik at Mark.Zibrik@fs.ohio.gov and (614) 752-2625 Aaron Thompson at Aaron.Thompson@fs.ohio.gov and (614) 728-4652, Modified: 12/29/2016, Certified: 06/20/2019. The 'Address Types' section lists various contact types with checkboxes: Central Registry Contact (checked), Continuing Exclusive Jurisdiction Contact, Copy of Order Contact, CSENet Contact, Intergovernmental Reference Guide Contact, International Policy Contact, Interstate Case Reconciliation Contact, Interstate Case Reconciliation No Case Found, Interstate Policy Contact, and State Parent Locator Service. At the bottom, there are 'Previous' and 'Next' buttons.

CONTACT TAB VIEW FROM THE PUBLIC SITE (from the OCSE website):



The screenshot shows the Ohio State Child Support Website interface. At the top, there is a navigation bar with links: HOME, EXCHANGE AGREEMENTS, PROFILE QUERY, DOWNLOADS, RESOURCES, and LOGIN. Below this is a search bar with radio buttons for State, International, Tribe, and OCSE. A dropdown menu shows '39 - Ohio' and a 'GO' button. The main header features the word 'Ohio' and the 'State Child Support Website' logo. A tabbed interface shows 'Profile' and 'Contact' tabs, with 'Contact' being the active tab. A 'Back to Search' link is in the top right. The 'Contact Information' section displays details for Eric Gladden, including his department, title, address, city, state, zip code, phone, email, and URL. The 'Address Types' section has checkboxes for 'Central Registry Contact' and 'State Parent Locator Service'. A 'Next' button is at the bottom.

### 3.3.2 Effectiveness and Usability Recommendations

The following suggestions are recommended to improve the effectiveness and usability of the IRG video.

- Consider adding examples or scenarios to describe how and when the user should access the IRG. Also consider including guidance or recommendations of next steps if the IRG does not provide the information needed by the user.
- Consider adding a detailed intro and outro if the videos can be viewed in any order.

## 3.4 Query Interstate Cases for Kids (QUICK)

The Query Interstate Cases for Kids [\(QUICK\) video](#) (c. 5 minutes) utilizes a combination of audio and visual elements to introduce the user to the basic functionality of QUICK.

### 3.4.1 Content Accuracy Recommendations

The following suggestions are recommended to clarify the content accuracy of the QUICK video.

- Search Screen:
  - The video jumps right in at the portal and reads the names of the search fields on the “Query State” tab. Consider introducing the “Find Case ID”



tab first and recommend it for making general searches, and then use the “Query State” tab when wanting to check a specific and known case for updates.

- Consider explaining the “Query State” tab field names, for example, “Requesting State Case ID” is the Indiana ISETS number, and “Responding State Case ID” is the other state’s IV–D number, if you know it. A new caseworker may be confused about what information to put in the fields. Another tip would be to show the blue “I” information buttons so they understand they can get help without leaving the page.
- Consider changing the narrative to say selecting a certain state from the “Find” tab brings the user back to the “Query State” tab, not the “original page.”
- Consider blurring the name of the Indiana trainer whose name shows on the opening screenshot.
- Case Information Screen:
  - Consider pointing out that the same case information shows at the top of the screen, along with the ability to query a new case, request or send an EDE document, and open the IRG, for all tabs.
  - Consider explaining when the EDE tabs populate (e.g., always; when the requester has EDE; when the sharing state has EDE; or only when the requesting and sharing states do).
  - Consider commenting on what is printed when you select “Print PDF,” the reasons for printing, and the safeguards for the printed document.
- Case Participants Screen:
  - Consider highlighting the confidentiality and safeguarding of information requirements, which could segue into an explanation why the video does not display social security numbers and dates of birth on the “Case Participants” tab, even though they would be displayed in QUICK.
- Financial Information Tab:
  - Consider providing some detail on the importance of the last payment information, since it is helpful for reconciliation of arrears or showing the parent obligor’s payment compliance by a deadline.
  - Consider either elaborating on the comment that QUICK is a “jumping off point” to discuss the case with the other state or remove the comment. QUICK is designed to reduce the number of calls between intergovernmental workers by providing updates on case activities without needing to contact the other state.



- Case Activities Summary Tab:
  - Consider reinforcing that the user is viewing the **other** state's information: their date the case was opened or closed, their dates and activity types.
- Consider commenting about QUICK's value for 1) locating the parties and 2) finding other court orders of the parents for purposes of establishing or modifying orders, either for cases that are intergovernmental or local. QUICK helps in default situations so the caseworker can still get a right-sized order by including court-ordered child support for other children as an adjustment to a parent's income for purposes of calculating child support in the new case.

### 3.4.2 Effectiveness and Usability Recommendations

The following suggestions are recommended to improve the effectiveness and usability of the QUICK video.

- Consider adding examples or scenarios to describe how and when the user should access QUICK. Also consider including guidance or recommendations of next steps if QUICK does not provide the information needed by the user.
- Consider adding a detailed intro and outro if the videos can be viewed in any order.
  - Search Screen
    - Consider adding signaling such as using the cursor, highlighting, or the narrator's speech to demonstrate the "State" column and selecting Illinois in the example.
  - Financial Information Tab:
    - The narrators' cursor is misleading because it does not track the instruction. If the user is looking to find the types of arrears, they miss the narrators' next comments about the last payment information.
    - Consider pausing with the cursor on monthly support, total principal arrears, total interest arrears, total assigned arrears, and total owed amount.



## 4 Conclusion

As part of the Interactive Forms Software Solving Intergovernmental Case Management Project, Public Knowledge® (PK) created this report after assessing the content and effectiveness of the Indiana Child Support Bureau's Intergovernmental Case Management UIFSA Training series. The series is comprised of three instructional YouTube videos focused on an introduction to the functionality of the OCSE tools of Electronic Development Exchange (EDE), Query Interstate Cases for Kids (QUICK), and the Intergovernmental Reference Guide (IRG).

PK found the content of all three videos to be accurate and follow each tool's electronic screens and process flow. PK also noted there was no Indiana-specific policy or procedure added to the videos to explain why a caseworker would use the tool or whether there are differences between the CSB and the prosecutor offices for access and use. PK made recommendations for content improvement and enhanced effectiveness and useability for all three videos.

Research on professional development effectiveness demonstrates that adult learners have a higher sense of self-direction and motivation than younger learners. Adult learners are also focused on achieving goals and need to understand how the learned information is relevant and usable in their work. These principles of adult learning are usually satisfied using interactive exercises and screen simulations, as well as quizzes to assess knowledge transfer. Since the approach of the video series is informational and does not contain these elements, PK recommend the video series be used as a supplement to a larger training initiative that includes instructor-led and/or self-paced training sessions that teach both the tool and the child support policies and procedures for their use.

**APPENDIX 4**  
**Research Report**  
**An Early Assessment of Opportunity Zones for**  
**Equitable Development Projects**





RESEARCH REPORT

# An Early Assessment of Opportunity Zones for Equitable Development Projects

## Nine Observations on the Use of the Incentive to Date

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*June 2020 (corrected July 28, 2020)*



## ABOUT THE URBAN INSTITUTE

The nonprofit Urban Institute is a leading research organization dedicated to developing evidence-based insights that improve people's lives and strengthen communities. For 50 years, Urban has been the trusted source for rigorous analysis of complex social and economic issues; strategic advice to policymakers, philanthropists, and practitioners; and new, promising ideas that expand opportunities for all. Our work inspires effective decisions that advance fairness and enhance the well-being of people and places.



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Unless otherwise specifically stated, the views and opinions expressed in the report are solely those of the authors and do not necessarily reflect the views and opinions of JPMorgan Chase & Co. or its affiliates. The views expressed also should not be attributed to the Urban Institute, its trustees, or its funders. Funders do not determine research findings or the insights and recommendations of Urban experts. Further information on the Urban Institute's funding principles is available at [urban.org/fundingprinciples](http://urban.org/fundingprinciples).

We extend special thanks to the staff at JPMorgan Chase who supported this work: Colleen Briggs, Catherine Martin, Mercedeh Mortazavi, Jennie Sparandara, and Abigail Suarez. We are grateful to all the interviewees that shared their time and insight with us; your observations are the backbone of this report and we hope we have done them justice. Finally, we are very appreciative of our technical reviewers: Mark Elliott, Cody Evans, Charles Rutheiser, Ellen Seidman, Aaron Seybert, Charles Tansey, and David Wessel.

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## The Urban Institute's Collaboration with JPMorgan Chase

The Urban Institute is collaborating with JPMorgan Chase over five years to inform and assess JPMorgan Chase's philanthropic investments in key initiatives. One of these is Partnerships for Raising Opportunity in Neighborhoods (PRO Neighborhoods), a \$125 million, five-year initiative to provide communities with capital and tools to develop locally driven solutions to the challenges facing underinvested neighborhoods and the families who live there. In service of these goals, this report reviews and assesses how Opportunity Zones have been deployed across the United States in mission-oriented projects, now that more than two years have passed since the legislation went into effect

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# Executive Summary

In the two years since Opportunity Zones (OZs) were signed into law, OZ investment had reached at least \$10 billion—and likely more than that—before the COVID-19 crisis took hold. Despite being viewed primarily as an *economic development* tool in low-income communities—that is, positioning the local economy on a higher growth trajectory—many proponents have suggested that OZs also have a *community development* purpose of helping people in poverty to improve their local context and lead healthy, productive lives. We refer to development that blends economic development and community development goals, and that seeks to engage residents and local leaders in decisionmaking about development in their communities, as *equitable development*. This report examines how actors driven primarily by a community development mission have sought to use OZs to fulfill an equitable development mission.

Our research process included about 70 in-depth interviews with project sponsors; fund managers; investors; wealth managers; developers; philanthropies; and public and nonprofit agencies working with OZs, such as community development intermediaries, state OZ program offices, and city-level OZ coordinators. We asked interviewees to describe projects that were funded as well as those seeking funding, the terms of investment sought by project sponsors as well as investors, the nature of community engagement that they have observed, and other opportunities and challenges they perceive around using the incentive for equitable development. We found our sample of OZ projects through discussions with national and local OZ experts, the Opportunity Exchange listing of projects,<sup>1</sup> the Economic Innovation Group's Opportunity Zones Activity Map,<sup>2</sup> scans of news articles, examples highlighted at a number of convenings around the country (including in Atlantic City, Chicago, Cleveland, Columbia, Greenville, Miami, Norfolk, Salt Lake City, Seattle, and Washington, DC), and through a snowball sample of additional informants we became aware of.

We find that OZs are helping spur the evolution of a new community development ecosystem, engaging both project developers and investors who have limited historical engagement in community development work. Despite this catalytic effect, however, we also see that many mission-oriented actors are struggling to access capital. Many project sponsors are struggling to access the class of investors—wealthy individuals and corporations with capital gains—for whom the OZ incentives are tailored. Additionally, many mission-oriented projects yield below-market returns that most OZ investors appear unwilling to accept. As OZ incentives are not structured to encourage resident or community engagement, mission-oriented projects struggle to compete for attention with higher-return projects—for which OZs provide much larger subsidies because of the design of the incentives.

A further challenge for mission-oriented projects is that the sponsors are seeking to support a community asset with a lifetime well beyond the 10-year time horizon of the OZ incentives. Given that an illiquid investment over a 10-year horizon is already challenging for OZ investors, the type of investment many mission actors need and the OZ market's investment parameters are mismatched. Because of these challenges, we mostly saw mission-oriented projects succeed in using OZs when the capital stack also layered in significant other subsidy sources, or when a well-connected project sponsor was able to locate an investor willing to accept significantly below-market returns.

Although OZs were designed to spur job creation, the vast majority of OZ capital appears to be flowing into real estate, not into operating businesses, because of various program design constraints and the undesirability of selling equity from both the business owners' and the investors' perspective. Ultimately, most developers and investors view OZ incentives as providing a relatively small boost to overall returns. The OZ incentives have had mixed effects in terms of making projects work that would not otherwise happen. Some developers reported that the incentives did make a decisive difference in allowing a project to go forward, while others were clear that their project would have proceeded with or without OZ equity. Most observers appear to agree that a primary benefit of the program is that it elevates the visibility of neighborhoods and deals that investors might not have considered otherwise.

Taken together, these results raise a question for policymakers to reflect on the goals of OZs. To the extent that the OZ incentives were intended to foster equitable development outcomes—such as by creating quality jobs, affordable housing, community-oriented amenities like grocery stores, and improved quality of life for low-income people—our evidence suggests they need to be redesigned to more effectively allocate government dollars to help project sponsors achieve those outcomes. As they redesign OZ incentives, policymakers should use four broad principles to guide the process:

- **Better support investment in small businesses.** The most egregious failing of OZs to date is that very little OZ investment is going to small businesses, the exact group of investees that proponents had held out as standing the most to benefit. To correct this failing, one important solution is incentivizing investments in QOFs that could provide subordinated debt investment, or hybrid debt/equity products such as royalty debt, to small businesses. Beyond that, policymakers should consider granting greater flexibility around certain program rules, such as deployment rules, to mission-driven funds that specialize in small business investing.
- **Size the incentive based on the impact.** Rather than providing the largest incentives to the most profitable projects regardless of their social impact, the incentive should instead depend on project impacts. In turn, by targeting incentives toward investments with the greatest

impacts, these investments could be more deeply subsidized while more efficiently using total federal tax expenditures. To provide one example, OZ tax incentives could be based on the number of quality jobs created by the OZ investment. Other alternatives could include tweaking the incentives based on the equitable development characteristics present in a project, or limiting the incentives only to those types of projects where a positive social impact is deemed likely.

- **Broaden who can invest.** Because only a limited number of (mostly wealthy) taxpayers have capital gains, limiting OZ incentives to capital gains holders freezes out most stakeholders in low-income communities from investing in their own revitalization. A refundable tax credit, rather than a capital gains exclusion, could open up opportunities for these investors. Moreover, other actors such as foundation endowments and pension funds, have substantial resources, and most likely a greater proclivity to consider community investing than many capital gains holders, if an incentive can be structured to engage them.
- **Support mission-driven funds that are accountable to the community.** A redesigned OZ incentive should encourage equity investments in groups such as community development financial institutions (CDFIs), which have a long track record of making substantial investments in low-income communities, taking on higher risks than conventional investors, and working with the kind of investees who have been struggling to access OZ capital, such as small businesses and less sophisticated developers.

Protests in the wake of George Floyd's killing underscore, among other things, the realities that opportunity is not spread evenly in our nation, especially by race. The COVID-19 health crisis, and the economic recession it is causing, add significantly to the list of challenges for practitioners looking to use the OZ incentive. Investment in operating small businesses are facing particular strain, but consequences will radiate to the financial sustainability of real estate, both commercial—which relies on rents from shuttered businesses—and housing—which relies on rents from residents who may have lost jobs or face a cutback in hours. At the same time, the crisis may provide an opportunity to rethink and redesign the OZ incentive so it can play a stronger role in helping hard-hit communities recover.

# Errata

This report was revised July 28, 2020. The image on page 30 came from GMA Construction Group. An earlier version omitted this credit.

# An Early Assessment of Opportunity Zones for Equitable Development Projects

Opportunity Zones (OZs) are gaining momentum, and now that the rules regulating them are clearer, investors, local officials, developers, and businesses have been engaging with the incentive. In the two years since the Tax Cut and Jobs Act of 2017 created the incentive and Treasury-designated Zones, hundreds of Qualified Opportunity Funds (QOFs) have been created, and OZ investment was beginning to flow until the COVID-19 crisis began. But has this capital been reaching projects that benefit low- and moderate-income households and communities? Although the program is still maturing,<sup>3</sup> and the COVID-19 crisis now poses new challenges whose resolution is unknown, this report offers an early, qualitative assessment of how well OZs have channeled capital into projects aligned with equitable development goals.

The full extent of investment in Opportunity Zones over the past two years is unknown. With no federal requirement for detailed reporting of OZ investments, there is no public record to accurately sum the capital expended, no accounting of which communities have received OZ capital, and no comprehensive documentation of the types of projects funded. News stories, industry reports, and survey data pointed to a significant and growing uptake before the COVID-19 pandemic. Novogradac has tracked data on 621 QOFs, of which 406 have raised equity. Total investment in these documented funds reached \$10.1 billion in April 2020, but this information is self-reported and incomplete.<sup>4</sup>

The Internal Revenue Service (IRS) has deemed OZs primarily an *economic development* tool for low-income communities<sup>5</sup>—that is, they position the local economy on a higher growth trajectory (Feldman et al. 2014). But many proponents have suggested that OZs can also drive *community development*<sup>6</sup>—that is, help people in poverty improve their situation and lead healthy, productive lives (Andrews et al. 2012). By providing a path for community developers to tap into a new pool of investors, OZs could deliver a range of positive social outcomes, including equitable development.

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## BOX 1

### Defining Equitable Development

We define equitable development as a form of neighborhood or community revitalization work that emphasizes outcomes both for people and place. It seeks to improve quality of life for original residents, not simply to transform a community by changing who lives there. It considers local and regional context along with disparities among residents. In this sense, equitable development could be considered the intersection or union of economic development and community development (von Hoffman 2019). In terms of process, it puts residents and local leaders in roles of informing and deciding on which investments should be made and how. There is a larger debate as to whether achieving impact requires deep project subsidies, or, for example, whether purely profit-seeking projects can advance equitable development objectives.<sup>a</sup> We cannot resolve that debate here, but we offer that the answer likely depends on local context, though we anticipate that in most cases, deep, structural, and long-standing inequities across geographies and people groups cannot be resolved solely by investors seeking market-rate returns and accepting conventional risks.

<sup>a</sup> For example, see Kevin Starr, “The Trouble with Impact Investing: P1,” *Stanford Social Innovation Review*, January 24, 2012, [https://ssir.org/articles/entry/the\\_trouble\\_with\\_impact\\_investing\\_part\\_1](https://ssir.org/articles/entry/the_trouble_with_impact_investing_part_1); and Matt Bannick and Paula Goldman, “Do No Harm: Subsidies and Impact Investing,” *Stanford Social Innovation Review*, September 28, 2012, [https://ssir.org/articles/entry/do\\_no\\_harm\\_subsidies\\_and\\_impact\\_investing](https://ssir.org/articles/entry/do_no_harm_subsidies_and_impact_investing).

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Multiple stakeholders and observers have raised questions and criticisms about OZs that highlight the need to explore this topic. One set of concerns has to do with the selection of census tracts for OZ designation and whether investing in certain of these tracts could lead to gentrification and displacement. While on average, OZs show higher or equivalent levels of economic distress than other eligible communities that were not selected, a small number of Zones are fairly well off (Theodos 2019; Theodos, Meixell, and Hedman 2018). Precisely because the OZ incentive provides the largest rewards to projects with the largest expected returns,<sup>7</sup> some stakeholders fear that developers have been focusing on the OZs that were already on the upswing, leaving more distressed areas behind.<sup>8</sup> Other questions and criticisms have been surfaced by media reports of OZ incentives being used to fund luxury projects, as well as projects that were already likely to happen.<sup>9</sup> Critics have also noted that incentives can be accessed without community input or any process of prioritization where local governments can ensure alignment with localized goals.<sup>10</sup> These concerns have engendered a significant policy debate over the future of OZs, with multiple bills introduced to revise the incentive.

To understand OZs with respect to equitable development goals at this early stage and amid current challenges, we conducted close to 70 in-depth interviews with a range of stakeholders working on mission-oriented OZ projects across the country. We are not able to measure what proportion of OZ



capital is mission-driven, but rather sought to understand how OZs are playing out in that potentially small—but unknown—segment of the market. Considering the lack of reporting requirements and resulting lack of data on OZ investments, we are only able to assess the incentive based on this qualitative approach of semistructured interviews, which we believe are broadly representative of the mission-oriented OZ field. As noted, however, the Treasury has not released data we can use to describe the comprehensive distribution of OZ projects, and there are concerns that investors that do not align with equitable development goals may be less likely to make their investments publicly known.

For the interviews, we spoke with project sponsors; fund managers; investors; wealth managers; developers; philanthropies; and public and nonprofit agencies working with OZs, such as community development intermediaries, state OZ program offices, and city-level OZ coordinators. We asked interviewees to describe projects that were funded as well as those seeking funding, the terms of investment sought by project sponsors as well as investors, the nature of community engagement that they have observed, and other opportunities and challenges they perceive around using the incentive for equitable development. We found our sample of OZ projects through discussions with national and local OZ experts, the Opportunity Exchange listing of projects,<sup>11</sup> the Economic Innovation Group's Opportunity Zones Activity Map,<sup>12</sup> scans of news articles, examples highlighted at a number of convenings around the country (including in Atlantic City, Chicago, Cleveland, Columbia, Greenville, Miami, Norfolk, Salt Lake City, Seattle, and Washington, DC), and through a snowball sample of additional informants we became aware of.

In this report, we summarize nine takeaways (box 2) on how mission-oriented actors are using OZs. We also include seven case studies (in boxes labeled “A Closer Look”) that illustrate how some practitioners are using OZ financing creatively to capitalize mission-oriented projects. Though our sample is certainly not comprehensive and we cannot be assured it is statistically representative given there is no known universe of projects to draw from, the themes we present recurred across multiple conversations, contexts, and actors, and we believe they reflect how OZs have been deployed to support projects oriented to equitable development.

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## BOX 2

### Nine Takeaways on How Mission-Oriented Actors Are Using OZs

1. OZs Are Reaching Actors That Had Not Been Engaging with the Community Development Field
2. OZs Are Catalyzing an Ecosystem of Community Development Efforts
3. The OZ Structure Lacks Encouragement for Resident or Intermediary Engagement

4. Many Mission-Based Project Sponsors Are Struggling to Find OZ Investors
  5. OZ Investors Demand Higher Returns Than Impact Projects Can Provide
  6. OZs Were Designed to Spur Job Creation, but Most of Their Capital Is Flowing into Real Estate
  7. Even for Real Estate, Exit Strategies at Year 10 Raise Challenges for Project Sponsors
  8. To Drive Impact, OZs Often Need to Be Paired with Other Subsidy Sources
  9. The Need for OZ Financing in OZ Projects Is Mixed
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We find that OZs are helping spur the evolution of a new community development ecosystem, engaging both project developers and investors who have limited historical engagement in community development work. Despite this catalytic effect, however, we also see that many mission-oriented actors are struggling to access capital. Many project sponsors are struggling to access the class of investors—wealthy individuals and corporations with capital gains—for whom the OZ incentives are tailored. Additionally, many mission-oriented projects yield below-market returns that most OZ investors appear unwilling to accept. As OZ incentives are not structured to encourage resident or community engagement, mission-oriented projects struggle to compete for attention with higher-return projects—for which OZs provide much larger financial support in the form of greater tax expenditures.

A further challenge for mission-oriented projects is that the sponsors are seeking to support a community asset with a lifetime well beyond the 10-year time horizon of the OZ incentives. Given that an illiquid investment over a 10-year horizon is already challenging for OZ investors, the type of investment many mission actors need and the OZ market's investment parameters are mismatched. Because of these challenges, we mostly saw mission-oriented projects succeed in using OZs when the capital stack also layered in significant other subsidy sources, or when a well-connected project sponsor was able to locate an investor willing to accept significantly below-market returns.

Although OZs were designed to spur job creation, the vast majority of capital appears to be flowing into real estate, not into operating businesses, because of various program design constraints and the undesirability of selling equity from both the business owners' and the investors' perspective. Ultimately, most developers and investors view OZ incentives as a relatively small boost on overall returns. The incentives have had mixed effects on making projects work that would not otherwise happen. Some developers reported that the incentives did make a decisive difference in allowing a project to go forward, while others were clear that their project would have proceeded with or without

the OZ equity. Most observers appear to agree that a primary benefit of the program is that it elevates the visibility of neighborhoods and deals that investors might not have considered otherwise.

Taken together, these results ask policymakers to reflect on the goals of OZs. To the extent that OZ incentives were intended to foster equitable development outcomes—such as by creating quality jobs, affordable housing, community-oriented amenities like grocery stores, and improved quality of life for low-income people—our evidence suggests they need to be redesigned so government dollars are allocated effectively and help project sponsors achieve those outcomes.

The COVID-19 health crisis, and the economic recession it is causing, add significantly to the list of challenges for practitioners looking to use the OZ incentive. Investment in operating small businesses will face particular strain, but consequences will radiate to the financial sustainability of real estate, both commercial—which relies on rents from shuttered businesses—and housing—which relies on rents from residents who may have lost jobs or face a cutback in hours. At the same time, the crisis may provide an opportunity to rethink and redesign the OZ incentive so it can play a stronger role in helping hard-hit communities recover.

## Nine Observations on the OZ Program's Deployment

### **1. OZs Are Reaching Actors That Had Not Been Engaging with the Community Development Field**

The OZ tax incentive was designed to generate a broad marketplace of investments—free of the restrictions built into previous federal programs, such as the Low-Income Housing Tax Credit (LIHTC) and the New Markets Tax Credit (NMTC), that also sought to draw capital into disinvested communities. Almost any individual or corporation with capital gains can invest in a qualified opportunity fund, and there is no cap on the amount of OZs incentives that can be claimed. (See the appendix for an overview of how the program operates.) We don't know how large the program will become; Treasury Secretary Steve Mnuchin estimated in 2018 that OZs could attract as much as \$100 billion in private capital, though the investment climate has changed since then.<sup>13</sup> Additionally, OZ incentives encourage equity investments over a relatively long-term investment horizon—generally 10 years. Since long-term equity financing can be difficult for developers and businesses to obtain, OZ incentives could unlock particularly valuable forms of capital.

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*The OZ legislation is trying to [change the] habit of investors who have historically relied on precedent to make business decision. It's trying to steer their eyes towards new areas, new risk profiles, and new equations.—Fund manager*

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It is no surprise that the OZ incentive has attracted interest from actors across the country, including those engaged in equitable development. The flexibility of the program has resulted in a range of mission-oriented projects that are using—or at least seeking to use—the incentive. Some of the impact areas in which we see interest or activity include affordable housing, health care, food and agriculture, arts, small business development, renewable energy, and neighborhood revitalization. Notably, many (although certainly not all) of these projects are happening outside the auspices of a community development corporation (CDC) or community development finance institution (CDFI). It also appears that Black communities are particularly engaged with the program. We interviewed many Black entrepreneurs, with roots outside the community development industry, who have been seeking OZs funding. To be clear, not all these projects and sponsors have accessed funding, but their interest and activity are notable. Examples include

- real estate developers in Chicago, Seattle, and Washington, DC, building affordable housing and mixed-use projects;
- a group seeking to increase access to Small Business Administration (SBA) 504 financing for Black-owned businesses in North Carolina;
- a real estate developer raising OZ equity for mixed-use projects near historically black colleges and universities across the country;
- a family office manager channeling capital into a workforce development facility in the South Side of Chicago;
- a health care professional poised to become one of the first Black female real estate developers in Greenville, NC; and
- a marine biologist volunteering to help develop a food bank in South Carolina.

Our informants also raised the case of Our Opportunity, a QOF created by a half-dozen NBA players seeking to raise \$300 million for OZs in Chicago and Cleveland, where many of them grew up.<sup>14</sup> One interviewee believes that the interest in the Black community in this program has to do with “the

way that Black developers have been treated—the level of under-capitalization has been shameful and the financial products for them in the past were a poor fit.” In this context, it is important to note that Senators Cory Booker (D-NJ) and Tim Scott (R-SC) introduced the Invest in Opportunity Act that birthed OZs.

We also interviewed people from other demographic groups with little background in the mainstream community development industry who are now using, or seeking to use, OZs for equitable development. These interviewees included a musician who is obtaining OZ financing to redevelop a theatre in Birmingham, Alabama; a NASA engineer who became a part-time solar entrepreneur after volunteering on a project to bring solar power to her children’s school; and a grassroots group seeking to develop tiny homes for the homeless. None of these groups are working with CDCs or CDFIs.

On the investor side, one project sponsor with experience developing workforce housing explained that before OZs, his firm had been “relegated to CRA lenders and social impact-related investors.” “We [now] have a broad array of investors that are taking the time to understand these complicated capital stacks where before they probably wouldn’t have.” These new investors who have been attracted to impact investments include family offices, high-net-worth individuals, and other people with capital gains. Individuals who had sold a Dunkin’ Donuts franchise used their capital gains to invest in an OZ where a Black developer completed an adaptive reuse development (Weiss and Katz, n.d.). The NASA engineer-turned-solar-developer is investing personal capital gains as the OZ equity. These stories are emblematic of the kinds of investors who have not previously invested in mainstream community development finance programs.

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*The community development system had become complacent—it was putting out widgets. So was conventional venture capital and private equity. [OZ] is bringing in new classes of investors—really different ideas are getting put on the table now. The people working on this are not the traditional community development people.—OZ consultant*

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Meanwhile, some traditional community development actors, including many CDFIs, have been less engaged with OZs than they were with other federal programs. As the Opportunity Finance Network, an association of CDFIs, reported, “relatively few CDFIs are moving forward with establishing their own opportunity funds” because of various challenges with the OZ program structure (Vasiloff 2019). Most

important, as other observers have noted, OZ incentives are for equity, but CDFIs tend to operate as lenders (Tansey and Swack 2019). Even for CDFIs willing to deploy equity, deployment rules create compliance risk for multi-investment funds that must be carefully managed.<sup>15</sup> That said, a small set of CDFIs have developed or are seeking to develop equitable development-oriented QOFs. CDFIs like AltCap, CEI, Community Reinvestment Fund, Enterprise, Local Initiatives Support Corporation (LISC), and New Jersey Community Capital have formed—or are in the process of forming—their own QOFs with the goal of using OZs incentives to promote inclusive, equitable development. The vast majority of CDFIs, however, have not entered the OZ market directly (Vasiloff 2019).

## 2. OZs Are Catalyzing an Ecosystem of Community Development Efforts

OZs have also brought together coalitions that are impressive in the diversity of actors engaging in them. The incentive has engaged federal agencies, states, localities, investors, fund managers, developers, philanthropies, and community groups to an extent arguably unseen with other federal economic development initiatives.

The [White House Opportunity and Revitalization Council](#) has sought to align incentives and integrate OZs across other federal agency processes and programs. For instance, the Economic Development Administration includes OZs as an “investment priority,”<sup>16</sup> and the Federal Housing Administration provides a series of incentives to encourage multifamily development within OZs.<sup>17</sup>

Several states, regions, and cities have set up nonprofit OZ intermediary organizations to match projects and investors. These organizations include [Invest Acadiana](#), [Opportunity Alabama](#), [Opportunity Appalachia](#), and [Opportunity Virginia](#). These organizations educate communities within their service area about OZs, build out inventories of social impact projects looking for OZ funding, help guide projects become investor ready, and curate potential investors serving a matchmaking role. For instance, Opportunity Alabama is tracking more than 300 potential OZ projects throughout the state at various stages of development and has so far helped close at least nine OZ deals. As one coordinator described: “Once OZ capital is connected to the project, we work with that project and its investors to bring the other sources of capital into the project to get it across the finish line. We look at all available sources we can bring to the table... banks, CDFIs, foundations, LIHTC, NMTC, state and local incentive, enterprise tax credits—and we help to make sure partners are aware of one another.”

A number of cities have designated OZ coordinators to build localized pipelines of mission-oriented projects, serve as matchmakers between potential investors and projects, and help convene potential sources of capital. In places like Baltimore<sup>18</sup> and Kansas City,<sup>19</sup> philanthropy initiatives are funding

these positions. The Rockefeller Foundation's grant for "community capacity building" helped cities hire a "chief Opportunity Zone officer" and community engagement specialists "to facilitate community involvement in the proposed Opportunity Zone projects and businesses."<sup>20</sup> In other cases, such as Norfolk, VA, and Washington, DC, designated city staff have taken up this work. A handful of cities, states, and intermediary organizations have launched integrated platforms (e.g., using partners such as the [Opportunity Exchange](#)) to allow for investor-project matchmaking.

States have also aligned or created new incentives around OZs and supported local community planning through grants (Theodos, Evans, and Meixell 2019). One of the most substantial efforts has been Alabama's Incentives Modernization Act, which created a series of benefits for state-certified QOFs that meet specific impact investing standards. These funds receive the state capital gains tax benefits on OZ investments, can seek investment from 10 state pension funds (but these funds, as non-taxable entities, do not receive the OZ benefit), and are eligible for a \$50 million tax credit pool to offset losses and guarantee returns on mission-oriented projects.<sup>21</sup> Maryland offers enhancements to other state tax credit programs for qualified OZ businesses if they agree to provide the state with transaction-level reporting, and additional enhancement for projects that have a community benefits agreement or community residents on their governing/advisory board and provide a resolution/letter from their locality or county.<sup>22</sup> Louisiana has expanded its [Restoration Tax Abatement](#) program (which previously applied only to specific designated districts) to all Opportunity Zones within the state. This program allows for an up to 10-year abatement of property taxes for renovations and improvements to commercial structures or owner-occupied residences. Other states, such as New Jersey through its [OZ Challenge Program](#), have provided technical assistance grants for smaller cities to help prepare economic development strategies around OZs.

Nonprofit organizations have also promoted the use of OZs for positive social impacts in different ways. The Kresge Foundation is providing \$22 million in guarantees to two impact-focused QOFs (Arctaris Impact and Community Capital Management) that have committed to detailed reporting, transparency, and community engagement.<sup>23</sup> The Foundation has also supported an incubation program through Calvert Impact Capital for mission-based finance groups exploring becoming QOFs.<sup>24</sup> Other organizations are bolstering city government efforts to use OZs in pursuit of social impact goals. The Rockefeller Foundation and Smart Growth America launched an Opportunity Zones Academy that provides five cities with technical assistance, connections to impact investors, and a peer learning network.<sup>25</sup> The Mastercard Center for Inclusive Growth and Accelerator for America have partnered to help 50 city leaders build OZ investment prospectuses, track economic activity, consult, and generate a needs analysis.<sup>26</sup> Groups such as Enterprise Community Partners, Governance Project, LISC, and

NeighborWorks America have developed technical assistance resources, led convenings, or funded nonprofit community development groups around OZ issues. Further, the growing OZ ecosystem has spurred countless local, state, regional, and national conferences and work sessions. Investors, fund managers, developers, accountants, and tax lawyers have convened frequently to discuss the details of the incentive and potential deals that could result: recent conferences and OZ working groups convened by the Economic Innovation Group and Novogradac are examples.

The vast range of engaged stakeholders and depth of these engagements is noteworthy. However, the ultimate investment results of these many-actor efforts are not yet clear. A fund manager cautioned against overhyping the value of these initiatives: “I don’t buy that this will have an enduring ecosystem effect. People check the box a lot, like naming people czars, but they don’t fundamentally change the way they work.” A CDFI practitioner agreed: “I think the marketplaces got hyped up too much... Certainly, convenings and networks are good because they help create important connections, but I’m skeptical about their impact, particularly because I think there is such a thing as too many networks, and we see that now with people not knowing where to go find deals.” This investor considered local government dedicated positions on OZs the most effective among the array of initiatives to foster OZ activity, mission-oriented or otherwise: “I can pick up the phone and ask the OZ coordinator directly about deals in her or his city,” he added.

Other interviewees were less certain that local OZ coordinators were facilitating investment. Many coordinating and facilitative structures have yet to demonstrate a consistent ability to connect projects to capital. One statewide investment coordinator we spoke with had been able to get only one project to closing so far out of 200 projects they were attempting to assist.



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## A CLOSER LOOK: Tribal Communities Come Together to Leverage OZs

### *North Star Opportunity Zones, Northwest Washington*

Five communities in North Central Washington decided to pool resources to lift up their OZs. Chelan County, Colville Tribes, Douglas County, Ferry County, and Okanogan County created the NorthStar Opportunity Zones initiative to leverage the incentive in service of single- and multifamily housing, as well as economic development. Some projects they have already identified are an inpatient alcohol and drug treatment center, an industrial campus, a technology incubator, the renovation of a 1906 building that used to serve as a city jail, and a planned unit development campus.



*Mill Pond Industrial Park, one of the projects NorthStar Opportunity Zones is seeking capital for. Photo credit: NorthStar Opportunity Zones.*

The communities joined forces to solidify their standing before the scrutiny of potential investors, and to avoid having communities and tribes raising capital individually project by project. Given some challenges around sovereignty, partnerships, and dispute resolution that may affect these particular communities, North Star sought the support of the North Central Washington Economic Development District to create and launch the prospective multi-asset QOF as a blind pool fund that could support the many different project prospects of all the communities. The North Central Washington Economic Development District helped convene stakeholders for designing the QOF, while Washington State University Ferry County partners led the effort to recruit financial partners. The North Central Washington Economic Development District is also planning on using OZ equity to finance a business launch competition, focusing on growing small and mid-sized businesses in the region.

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## 3. The OZ Structure Lacks Encouragement for Resident or Intermediary Engagement

Since the Model Cities program began in 1966, federal programs targeting resources to disinvested communities have incorporated measures intended to ensure that residents have a voice in how resources are employed in their community. The Empowerment Zones program, for example, which provided both grants and tax incentives for business expansion, required cities to prepare 10-year strategic revitalization plans in consultation with the community. The Community Development Block Grant program requires cities to prepare “consolidated plans” which “provides for, and encourages... participation by residents of low- and moderate-income neighborhoods.”<sup>27</sup> LIHTC provides state

governments with the opportunity to develop allocation plans that prioritize certain types of projects over others, presumably based on input from citizens. The NMTC program requires that the Community Development Entities that receive allocations of these credits create advisory boards with members from the communities they serve or representative of the communities.

The OZ incentive is distinctive in that, as implemented by Treasury, it allows QOFs to self-certify, meaning they are not required to have a social-impact mission, nor to be governed or advised by community members. Despite involving a significant potential expenditure of taxpayer dollars, the OZ program provides no opportunity for citizen input about proposed projects, or even a role for a state or local government—or any other entity that might be accountable to low-income community residents—to prioritize the types of projects that should receive incentives once the state government has selected its Zones. Tellingly, some state and local OZ coordinators we interviewed noted that some development projects have gone forward without their office’s support.

Despite the lack of requirements in this regard, we did find creative instances of sponsors engaging with community members around OZs, although processes involving community planning were largely carried out before the OZ program was even announced.

- A hospital gave a \$100,000 grant to local CDCs for facilitating a neighborhood master planning process, which is helping determine the community development program the hospital will implement with support from OZ investors.
- A CDC that uses grassroots community engagement and planning processes to inform its real estate development work is seeking OZ financing for a grocery store in a high-poverty neighborhood.
- A private developer described using a community planning process to determine the best mix of land uses and amenities.
- A project sponsor developing a high-tech vertical farm is working with the local school system to use the project as a STEAM (science, technology, engineering, arts, and math) learning opportunity for children.

Ultimately, based on our interviews, we heard that mission-driven OZ actors are using similar community engagement strategies that they might for other federal community and economic development programs like CDBG, LIHTCs, NMTCs, or programs run by the EDA or USDA. The difference between OZs and these other programs is that many OZ projects cannot easily be characterized as mission-oriented or in line with equitable development. The lack of community

engagement is a more significant issue as there are not intermediaries to guide or require OZ projects to align with community needs even if they do not engage community members—in fact, OZs do not even require sponsors to inform communities about their projects. At the same time, OZ proponents argue that requiring some form of community engagement would create a barrier to the flow of capital, rendering OZs ineffective.

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## A CLOSER LOOK: Empowering Zone Residents and Business Owners

### *We Grow KC, Kansas City, Missouri*

The Kauffman Foundation, the Kansas City Chamber of Commerce, and the Urban Neighborhood Initiative came together to form We Grow KC, a group working with community residents to bring investment to Kansas City's OZs in a way that facilitates community ownership and benefit.

Starting in late 2019, We Grow KC has held a series of deep community engagements with Zone residents, business owners, and aspiring entrepreneurs. These sessions provide residents with details on how OZs function and then strategize block by block to identify community gaps and needs. After identifying these needs, We Grow KC works with local businesses and project sponsors to identify projects that could leverage OZs, as well as other financing strategies, and matches projects and potential investors. We Grow KC has also brought the [Opportunity Zone Impact Assessment Tool](#) to community sessions to model and discuss the potential benefits and trade-offs of various projects. To address investor minimum capital thresholds, the group is bundling sets of smaller projects along the same street or street corner.



*The 18th and Vine neighborhood of Kansas City, MO.*

*Photo credit: [WeGrowKC](#).*

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Additionally, Zone residents are unlikely to influence projects in their community by taking on a role as investors. Ninety-four percent of taxable capital gains in the country are in households with gross incomes above \$100,000.<sup>28</sup> Meanwhile, only 12 percent of OZ residents have household incomes above \$100,000,<sup>29</sup> making it highly unlikely that they invest in projects affecting their own communities. At the end of the day, people from outside Zones will largely be making investment decisions that affect Zone residents. The exception is projects sponsored by CDCs or other community-based nonprofits, which may have board-level accountability to the community as well as a charitable mission to meet. Depending on their state and city, residents can influence organizations to undertake OZ projects that

meet their interests through development entitlements and permitting. But neighborhood control, zoning processes, and approval rights vary widely across the US, for example as illustrated between Home Rule and Dillon's Rule states.<sup>30</sup>

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*Community engagement could add a year or two to the project timeline, so that's difficult, and when you layer in the OZ timeline, it becomes almost impossible. —CDFI practitioner*

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#### 4. Many Mission-Based Project Sponsors Are Struggling to Find OZ Investors

As mentioned before, OZs were designed to reach different investors than what many other community development programs have attracted. Potential OZ investors include institutional investors, family offices, high-net-worth individuals, banks, and basically any individual or corporation with capital gains. As broad as this pool may be, most mission-oriented practitioners that we spoke with reported difficulty building relationships with potential investors. As one project sponsor reported: "It's not an easy process—[the money] is not exactly flowing like water." The reasons mission-oriented sponsors are experiencing these challenges are varied and include the following.

**Lack of connections:** For many project sponsors the difficulty finding investors stems from OZ equity being limited to capital gains; this reduces considerably the pool of investors to which sponsors can appeal for funds. According to Tax Policy Center estimates for 2018, fewer than 10 percent of taxpayers reported long-term capital gains. These taxpayers are overwhelmingly concentrated in the highest income brackets. Only 1.4 percent of taxpayers in the lowest income quintile, and 3.6 percent in the second-lowest income quintile, reported long-term capital gains.<sup>31</sup> This limitation may be less decisive for developers of market-rate projects, as developers may have their own capital gains to invest or know others who do within their social and business networks. For project sponsors whose networks do not encompass taxpayers with capital gains, this limitation can be crippling.

Examples from our interviews include a developer trying to create permanent rental housing for people experiencing homelessness in a West Coast state. The developer shared that they were not getting any feedback from OZ investors, and added "the Opportunity Zones concept requires a particular type of investor, and we are not in the social or political networks to connect with those types of people. It's been a disappointment." Another project sponsor lamented: "I grew up on a rural farm—I didn't meet a lot of venture capital types." An interviewee from a social impact equity fund that had

considered—but is no longer pursuing—working with OZ investors felt that one barrier was a lack of connections within the right investment circles—even though this fund offers attractive returns. “We know foundations and banks more than we know high-net-worth individuals who happen to have had large capital gains in the last six months,” they said. In a capital-raising success that is equally telling, one interviewee was able to raise \$500,000 in capital from wealthy investors who sit on his board and through personal connections. The interviewee commented, “Are you ever going to be able to be a dude off the street and get some family office money? Probably not.”

Earlier, we noted that many Black project sponsors have sought to engage with OZs. While some of these sponsors have been successful, others have felt that patterns of discrimination have made it hard to connect with investors. A developer of color seeking what he described as “market rate” returns to build green workforce housing in the Midwest was unable to get a single meeting with a family office, despite years of experience running a US platform for an international investment group, and putting together what they described as an “institutional-grade due diligence package.” The developer felt that among the for-profit institutions, family offices, and high-net-worth-individuals who have capital gains, “their doors have not been open to women and minority developers. Doors are closed to us, and that’s been the case for other folks too.” While some Black developers report positive interactions with the program, the experience of exclusion is also consonant with research suggesting that funds led by high-performing Black men are the most harmed by racial bias from asset allocators, even when all other fund aspects are identical (Lyons-Padilla et al. 2018).

**Track record and experience:** As OZs have attracted new actors into the community development space, part of the struggle to connect with investors has to do with project sponsors’ track record and inexperience working with investors. An OZ fund manager commented, “The basic fluency with investment and numbers and business models, and the capacity of [these] developers to talk to people with investment capital is just not there... I see a big opportunity to bring investment fluency to developers in neighborhoods who are new and coming to the table for the first time.” A fund manager at a CDFI agreed: “Even if you know investors to pitch your project to, the difficulty does not come from the scale of the project so much as it comes from your capital readiness. How well are you capitalized and what is your track record for doing these projects? They need to be better prepared to present the pitch. This is where TA or philanthropic money could come helpful to make these smaller sponsors be capital ready.”

Project sponsors who have a track record, and enjoy high visibility and trust from local stakeholders, report more success. A health care system shared they had “banks pounding on their door” to invest in a mixed-use project including affordable housing near their hospital campus. In a

different example, a fund created to provide equity for real estate collateralized SBA 504 deals has raised \$7.5 million in equity from a family office and expects to raise another \$5 million from banks.

**Transaction costs:** Transaction costs—such as legal and accounting fees—have long presented hurdles to accessing capital through other community development programs, such as LIHTC and NMTC. Though the OZ program is indeed simpler than community development tax credits, it is not immune to transaction cost barriers. These costs can include elevated search costs—such as hiring a broker to find investors—in addition to legal and accounting costs to set up a QOF. “I spent a lot more on accountants and lawyers than I thought I would,” said one developer.

**Deal size:** Any investment that carries significant transaction costs needs to reach a certain scale before the transaction costs are worth it. Interviewees confirmed that sponsors usually need a relatively large deal to attract interest, at least from institutional OZ investors. A project sponsor emphasized the importance of project scale: “if you are not doing a large-scale project that is going to be able to generate strong market rate returns, your typical funds are not interested.”

**Return:** For many mission-oriented actors, their projects simply do not generate a return high enough to interest many investors. This dynamic is so important we devote the next of our nine observations to discussing it.

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*Opportunity Zones investors are for-profit institutions, family offices, and high-net-worth individuals with capital gains. Their doors have not been open to women and minority developers for years, so who is getting access to this capital? –Real estate developer*

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## A CLOSER LOOK: Partnering with Wealth Advisors to Raise Capital

### *City Foundry, St. Louis, Missouri*

Lawrence Group, an architecture and construction firm, is developing City Foundry STL Public Market, a large mixed-use development that will include a food hall, offices, grocery, entertainment, dining, theatre, and space for nonprofit groups. City Foundry is on a 100-year-old industrial brownfield site in the Midtown area of St. Louis. The project was born in 2015 when the property was acquired, and from 2016 to 2018 Lawrence Group worked on the environmental clean-up, early design, early leasing, and adding the property to the National Register of Historic Places to access the historic rehabilitation tax credit (HTC).



*Photo credit: Lawrence Group.*

Lawrence Group struggled initially to form its capital stack; potential investors were interested in safer projects, such as multifamily housing or projects in the major coastal markets. Although Lawrence Group was able to secure the HTC and some debt pledges, the latter were conditional to higher levels of equity, something the sponsor was not in position to provide himself. In 2017, the stack had a gap of \$39 million—17 percent of the \$230 million total project costs. The sponsor approached CliftonLarsonAllen Wealth Advisors, an accounting firm with which it had a working relationship, to help raise capital through OZs. Already a leader in the OZs field, CliftonLarsonAllen helped Lawrence Group with the OZ financial modeling of the project (both from the tax and financial standpoints) and facilitated relationships with potential investors with sizable capital gains. Between January 24 and June 13, 2019, the single-project City Foundry QOF was able to raise \$50 million (\$11 million more than what was needed), mostly from investors outside St. Louis who were monetizing the sale of businesses. The additional OZ equity allowed the sponsor to lower the debt in the capital stack. Although this meant less ownership of the project for Lawrence Group, according to the firm, “it created a much safer project to handle the stresses of the current health crisis.”

The final capital stack was \$50 million from OZ equity, \$10 million from sponsor equity, \$40 million from the HTC, and \$130 million from loans, one of which was provided by St. Louis University, a neighbor of the development and anchor institution for the surrounding community. The projected internal rate of return after tax through the 10-year hold is 14 percent. The first City Foundry tenants had planned to move in on April 2020, but the COVID-19 crisis has put the process on hold for now.



The difficulties in raising capital that mission-driven actors have faced is particularly troubling given that many actors have made substantial investments in structures and institutions to facilitate OZ investment. It remains to be seen whether these challenges are temporary ones that will resolve as these facilitative structures gain traction. One optimistic interviewee felt that fund managers “will eventually get their sea legs. They are not there yet, but with time.” On the other hand, as mentioned above, one interviewee who was trying to raise OZ equity for a list of 200 high-social-impact projects had closed financing for only one project as of January 2020. A key question is whether this type of market-making infrastructure can reach maturity in time, given that, as several interviewees noted, the value of the OZ incentives is already decreasing as we approach 2026, and COVID-19 has caused significant market disruptions.

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### A CLOSER LOOK: Raising Local OZ Capital

#### *Fredericksburg Food Coop, Fredericksburg, Virginia*

A key challenges smaller community-oriented high social impact projects have faced is the inability to attract OZ capital at below-market returns. Fredericksburg Food Coop is attempting to overcome this hurdle by focusing on attracting smaller donors with strong interest in helping their local community.

The Fredericksburg Food Coop has raised slightly more than half (\$1.7 million) of its total development cost from one-time membership fees of future consumers who now are part owners of the coop. Other businesses in this situation might turn to mainstream debt financing for the remaining \$1.5 million, but start-up coops often have difficulty accessing this source because of their nontraditional business model. The Fredericksburg Food Coop has turned to OZs as a potential solution by creating a \$1.5 million QOF. Start-up risks, the nontraditional model, and below-market returns made attracting interest from existing QOFs difficult. By creating its own fund, the coop is seeking to tap into a new market of investors with local interests. Though most QOFs have minimum buy-ins of \$100,000 to \$1 million, the coop’s fund has a minimum investor holding of \$10,000.



Photo credit: City of Fredericksburg, VA.



## 5. OZ Investors Demand Higher Returns Than Impact Projects Can Provide

After the challenge of finding and connecting with potential investors, sponsors of mission-oriented projects are finding themselves with requests for market-rate (12–16 percent) or near-market-rate returns (8–12 percent). These internal rates of return (IRR)—even near-market—are in most cases unachievable for sponsors of mission-driven projects, creating frustration for sponsors about what they feel are unrealistic investor expectations. One Florida-based affordable housing developer relayed: “When we’ve talked to Opportunity Zone investors before about the transactions they want, the yields are something we can’t produce in affordable housing, and the amount of developer fee they want for us is too small. Their expectations are not realistic. You need to be an impact investor. A typical LIHTC investor gets maybe a 6 percent IRR. These folks were asking for double digits. There’s no way to squeeze that out of a LIHTC deal.” A health system related the same problem: “I hear at conferences from investors about their return expectations of 7 to 10 percent [pre-tax]. We can’t generate that kind of return.”

Many mission-driven practitioners we spoke to had projected IRRs between 3 and 7 percent. These practitioners are on a quest to find “real impact investors, not folks demanding double-digit returns.” As another put it, the projects need investors who are “driven by community benefits as well as return.” We found a few examples of such investors. One interviewee set up a small solar energy QOF with her own money. She was making 1 percent a year of total return (as detailed in the box A Closer Look: Increasing Benefits of Below-Market-Rate Social Impact Projects), but her real motivation for the project was tackling climate change. She also explained that investing in this QOF was a better alternative than simply donating money, which she cannot do with 10 percent of her wealth. “It’s so sustainable as a funding strategy,” she added.

Unfortunately, however, this approach to investment and returns is an exception among the cases we studied, and it appears that very few investors are willing to adopt it. One frustrated nonprofit affordable housing developer in a West Coast city exclaimed: “I question whether there really is an impact investing community. I’ve been on the circuit and it is clear to me that people want both high impact and market rate return. So then who pays for the impact? They expect us to go out and raise grant money to offset their returns, instead of them being willing to take less return.” Another community development nonprofit seeking support for two mixed-use projects in a high-poverty location reported talking with institutional investors wanting 10 percent returns before the value of the tax incentives. “That doesn’t do anything for us,” she related, “It just pushes the problem down the road.” That organization has since pitched several families who have made donations in the past about a below-market impact investment. Other community developers have resigned themselves to seeking

other funding for the projects. One community planner commented: “I don’t see [OZs] as being a real strong fit unless the social impact reporting requirement changes. The margins on businesses we are working on (like a drug treatment center) really require a mission driven investor.”

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*When we talk about workforce housing they are not interested. Investors either want high returns or donate their money for homeless housing. There’s not a connect between people’s motivation and their financial structure. –Real estate developer*

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Why do most investors demand double-digit pretax returns for OZ investments? Several factors are in play:

- **Incentive architecture:** The OZ benefit structure is a significant factor driving investor goals for return. The inherent economic incentive of OZs is to start with a low capital account and exit with the highest gain possible. OZs are designed to provide the largest subsidies to projects with the highest returns, rather than the highest social impact. This is because the largest component of the OZ incentive is that gains are tax-free: the larger the gain, the larger the financial support in the form of forgone tax. In other words, high-end apartment buildings and hotels can be expected to access larger incentives, as a percentage of project costs, than food banks, supermarkets in food deserts, or affordable housing projects. This fundamental design was reflected in our conversations with sponsors of mission-driven projects and their frustrations with the program.
- **Ten-year hold:** A critical factor driving investor return expectations is the need to compensate for the long holding period of OZ investments. For investments held for at least 10 years, investors pay no taxes on any capital gains produced through their investment in a QOF. However, during this 10-year holding period, investments are illiquid. Investors naturally respond to long, illiquid holding periods by boosting the returns they demand. As an OZ fund manager observed, “given that their investment will be illiquid for 10 years, almost every investor has a minimum return threshold of 10 percent net before the OZ benefit.” Another fund manager further explained, “A developer cycle is usually 3 to 5 years, so you are asking them for 5 to 7 more years.” Providing for an earlier exit would likely reduce demands for

return, but if anything, mission-oriented actors are seeking more capital that is patient for more than 10 years, not less, as we discuss in observation 7.

- **Shallow subsidy:** In the eyes of most interviewees we spoke with, OZ is a relatively shallow subsidy that is adding somewhere between 150 to 300 basis points to the return for most deals. Thus, for a typical project, the incentive is not enough to provide the return that investors seek. As one fund manager described, “you will hardly see the OZ incentive turning a project with a 5-to-8 percent return from a ‘no’ to a ‘yes,’ but it may happen with a project with a 10 percent return.” For that reason, mission-oriented projects generally have to layer other subsidies with OZ incentives, a theme we explore in more detail in observation 8.

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### A CLOSER LOOK: Opportunity Zones Can Finance Small Community Projects... with the Right Connections

*Mason Music Foundation & Woodlawn Theatre, Birmingham, Alabama*

When an old movie theatre in the Woodlawn neighborhood of Birmingham, Alabama, went up for sale, the owner of Mason Music realized it could be the perfect dual-location for his new business. He envisioned an offshoot of Mason Music as a performance venue and a nonprofit that provides scholarship-based music lessons for low-income students who could not otherwise afford them. He sought to leverage OZ investment to buy the property. Five investors, all Birmingham locals, provided roughly \$150,000 in OZ financing, more than covering the \$125,000 price of the building. The remaining \$350,000–\$400,000 in rehabilitation costs was financed through a traditional bank loan.



*Photo credit: Bham Now.*

Investors will be paid an annual internal return of roughly 4 percent in addition to proceeds upon buyout of their shares in the theatre. Mason guaranteed the investors the chance to sell off their ownership of the property at year 10. If they choose to sell, he hopes to be able to buy out their share or find others willing to. In the worst-case circumstances, Mason would sell the building. With confidence in the appreciation of the real estate investment, and a guaranteed 10-year exit option, investors were willing to accept a lower annual return than they might have otherwise. Mason understands the ownership group of the building may change at year 10, but he intends to find a way to operate the music venue and nonprofit into the future.

This type of small and relatively unusual project would be difficult to finance through more conventional community development dollars like NMTCs. The investor-to-project matchmaking relied on the project sponsor's connections (including members of the Mason Music Foundation's board and parents of students at Mason Music). This makes the deal less transferable to other small locally focused social impact projects, particularly for long-disinvested neighborhoods with less social capital.

Mason reports that due to the COVID-19 crisis, "we have a temporary hold on the project until we know when large gatherings will be possible again."

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## **6. OZs Were Designed to Spur Job Creation, but Most of Their Capital Is Flowing into Real Estate**

According to the IRS, "Opportunity Zones are an economic development tool—that is, they are designed to spur economic development and job creation in distressed communities."<sup>32</sup> However, the majority of OZ projects appear to be focused on real estate transactions, not direct investments in operating businesses. According to Novogradac's data on 621 QOFs, only 4 percent are focused on investments into operating businesses.<sup>33</sup> These statistics appear to also apply for mission-oriented OZ investments; very few sponsors we spoke with were working with operating businesses. One successful fund sought to provide minority-owned businesses in North Carolina access to SBA 504 financing. The equity will still be used to purchase real estate rather than investing directly in the businesses, although it will be owner-occupied space.

Both deployment rules and rigidity around investment time frames to access incentives appear to have hindered the use of OZs for equity investments in operating businesses. Investors have 180 days to invest in a QOF, and the QOF has to deploy the capital in a set time frame. The QOF can choose not to deploy all the capital at once, but it has to at least have a schedule of when to deploy. The QOF also must have 90 percent of its funds deployed at any one time. These rules create timing issues on both the front and back ends of a QOF when investing in a business, in stark contrast to venture capital. On the front end, investors with a capital gain are looking to deploy immediately, whereas a venture fund wants to obtain capital commitments and draw them only as they are needed. On the back end, OZ investors generally want to stay in a deal for 10 years, to maximize the tax benefit, and exit as soon as possible after that. A venture fund, however, exits an investment whenever the time is right to sell the business to a new investor. This makes it difficult to maintain the minimum capital deployment levels required by the IRS.

For start-up operating businesses, it may be easier to raise investment with a short time horizon. We spoke with a start-up company looking to manufacture affordable homes from shipping containers. The company found that it was unable to raise OZ equity for the first years of the project, largely because initial investors were unwilling to stay in what wealth advisors appear to see as a “risky, oddball investment” for 10 years. Instead, the company is raising \$8 million in private equity that seeks an exit after 18 months, and it is planning to use OZ equity to buy out the initial private equity in a second round of capital raising.

Investors might be interested in a stable, long-standing business where equity can be invested, left for 10 years, and then taken out easily, but these are not the businesses that most need the investment promised by the OZ program. Even if an investor is willing to leave the money in an operating business for 10 years, structuring the equity exit requires great creativity. As one investment professional related: “How can we figure out a way where you get your equity back whether it's through equity repurchase, whether it's through us bringing in other partners to the deal. That's not an easy thing to solve for. I think that's part of why it's been so hard to get operating businesses included in the Opportunity Zone framework.”

Nor is OZ equity an ideal fit for microbusinesses, which are disproportionately owned by people of color (McKay 2014). As Jennifer Vasiloff of the Opportunity Finance Network noted in her congressional testimony: “From the perspective a small business, it is daunting to give up significant ownership in a business to an unknown investor and substantially improving all of a business’ existing assets is unlikely to be a prudent expenditure. Some of these businesses would be better served by an affordable small business loan from a CDFI or other financial services institution” (Vasiloff 2019, 2). Moreover, few small businesses are able to generate the kind of growth that would provide attractive returns to equity investors. We add to these concerns that the 10-year exit investors seek could require sale of the business to a new owner. Investing in the real estate occupied by small businesses is helpful but hardly a complete solution to their financing needs—and again, the issue of what would happen to the real estate at the end of the 10-year timeline arises. The investor and the business owner may also need to come up with a way to split the tax benefits.

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*Ultimately, as the program figures itself out, I think you'll see more movement towards operating business, but the safe bet right now is one that does have a real estate component.*  
—QOF manager

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## A CLOSER LOOK: Increasing Benefits of Below-Market-Rate Social Impact Projects

### *Norfolk Solar Qualified Opportunity Zone Fund, Norfolk, Virginia*

Clean energy projects are one area outside traditional real estate where OZ dollars have flowed. Norfolk Solar Qualified Opportunity Zone Fund finances the installation of solar panels on the roofs of businesses and nonprofits within OZs in the Hampton Roads region of Virginia. Panel installations are funded 30 percent through the federal Solar Investment Tax Credit, 30 percent through accelerated depreciation via the federal Modified Accelerated Cost Recovery System, and 40 percent from the electricity costs of panel recipients.



*Photo credit: Norfolk Solar.*

The installer bills recipients at the same rate they were paying for electricity and increases that rate 2 percent annually (a lower annual increase than utilities) for seven years. At the end of the seventh year, the recipient buys the solar array at 3 percent of the cost of the initial unit. This structure allows the recipient of the panels to switch to solar at no short-term cost and achieve energy savings over the long run. Providing additional social impact, the business hires and trains OZ residents to conduct the installations.

By using OZs within this structure, the fund makes an extra 3 percent from the 15 or 10 percent step-up in basis. It passes these savings through to consumers by shortening the period over which they fully pay off the system to 7 years (absent OZ incentives the consumer would have to make payments over 8 years). Additionally, the investors receive the benefit of the tax deferral on their capital gains.

Because of the need to take depreciation (which cannot be done through a QOF), the fund has a mixed-stream structure. The fund provides 50 percent of the investment, and a separate investment fund LLC (non-OZ) provides the other 50 percent into a business set up for installing solar panels.

Presently the fund is relying solely on the capital of a high-net-worth individual (who owns the fund, the LLC, and the business involved) and her children. This investor is realizing a 1 percent annual return on her investment and benefiting from the tax deferral. This return could be increased to 2–3 percent annually on future ventures now that the initial legal and accounting fees associated with structure have been incurred. In a state that offers solar renewable energy credits, the investor estimates annual returns could be up to 3–5 percent.

Particularly in a state that does not offer solar renewable energy credits, such as Virginia, solar panel installation may not attract typical OZ investors considering the competitive marketplace. However, such a structure could be an attractive vehicle for investors looking to use their money to promote a social cause. In this case, OZs provided the investor with the tax deferral benefit and allowed for increased social benefits via the step-up in basis.

## 7. Even for Real Estate, Exit Strategies at Year 10 Raise Challenges for Project Sponsors

Given that their investments are illiquid, most OZ investors want to cash out at the earliest possible opportunity while maximizing the tax benefits—in other words, at year 10. While this investment time horizon is long from the investor perspective, most mission-driven practitioners are seeking to hold the asset for still longer. Thus, project sponsors must plan an exit strategy for their investors—in many cases, they report, at the expense of the social impact components of their projects.

Many project sponsors are planning to buy out the OZ investors at year 10. Some of our interviewees report having negotiated an option to buy at a set price where they pay the return of capital, plus a multiplier (e.g., one and a half the value of the original investment). Working in rapidly appreciating neighborhoods is an additional concern for sponsors who intend to buy out their OZ investors, and who may have to face increased costs. Further, according to some of our interviewees, the OZ designation began to accelerate the appreciation of land in some tracts. For example, one city official in the Midwest was worried about how the OZ designation has intensified the already high property tax burden in some areas of the city because land values have increased. This places a large financial obligation on the project sponsor. The sponsor is looking into several strategies to sustain the project, such as refinancing the project at year 10, selling a portion of the project (e.g., some real estate units), banking cash flows, or combining all these strategies. A university we spoke with hopes that it will be able to refinance the equity investments using the HUD 223(f) program.

Not everybody intends to maintain control over their asset, or sustain its affordability. Some interviewees acknowledged that they planned to sell the asset in its entirety at year 10. Though not ideal, some OZ practitioners believe that this strategy is preferable to no project at all. As one nonprofit housing developer put it, “Finding a long-term strategy that maintains affordability is very complicated, but we know that having the property affordable for 10 years is still better than having the property sit for an unknown number of years before we get the necessary funding to get this project [multifamily housing] rolling.” Similarly, a sponsor seeking to build a food bank in South Carolina was hoping OZ investors would provide equity for what amounted to a real estate speculation play, with a sale of the property in year 10 and all the investor return provided by real estate appreciation. This latter strategy depends on expectations of rapid neighborhood price appreciation to attract investment. One affordable housing developer working in the Midwest market shared his satisfaction with the way the OZ designation had increased the value of some of his properties located in Zones.



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*It's going to involve state government in terms of thinking of public-private partnerships where they come in with some level of investment... or it could be how do you work with philanthropy that's in that area to begin to engage in a way that helps de-risk for that investor base as well. —CDFI QOF manager*

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## **8. To Drive Impact, OZs Often Need to Be Paired with Other Subsidy Sources**

Sponsors are struggling to find equity support for their social impact projects; even when they can raise OZ capital, they often need to pair it with other subsidies or program benefits. One interviewee put it succinctly: “The more socially impactful the project, the more the need for subsidy [beyond OZ incentives].” Several of our interviewees are using (or planning to use) OZ incentives in conjunction with programs like NMTC, LIHTC, CDBG, HTC, the Section 108 Loan Guarantee Program, the Solar Investment Tax Credit, the SBA 504 loan guarantee, the Modified Accelerated Cost Recovery System, HUD 221(d)(4) loans,<sup>34</sup> and an array of state or local grants and city tax abatements. For them, OZ incentives are an “additional tool” to help fill out the capital stack, as one informant put it. However, combining OZ incentives with a number of other commonly used subsidies can present challenges.

For NMTC projects, our interviewees explained that most NMTC investors were separate from OZs investors in the capital stack, and that they were eager to understand how these two programs can be leveraged in the same investment (e.g., the same investor receiving the tax credits of the NMTC and the tax deferral and liability reduction of OZs for one transaction). One challenge to doing this, they report, is that most NMTC Community Development Entities want to make only debt investments, not equity investments. On the opposite side, practitioners report that the LIHTC and OZs can only be used together if they are leveraged by the same investor, to avoid timeline mismatches (the LIHTC compliance period is 15 years, and OZ investors maximize their benefits when pulling out immediately at year 10). One of the most challenging aspects of combining these programs is that the LIHTC and NMTC programs seek to fund projects that are not necessarily poised to generate significant nontax returns, while OZ incentives are most valuable when the project generates a substantial IRR.

For those working in the solar energy field, finding an investor that can leverage the OZ tax benefits together with the Solar Investment Tax Credit or Modified Accelerated Cost Recovery System has proven arduous. Since the OZ incentives can only be used by investors who have unrealized capital gains, and the Solar Investment Tax Credit and Modified Accelerated Cost Recovery System by those



with passive incomes, the pool of potential investors that can twin these programs is very shallow. Overall, the need for additional subsidies to deliver impact complicates the landscape for equitable development at scale through OZs. “The only way to create really deep impact is by twinning incentives, but that doesn’t work with large developers. They can’t afford to learn the intricacies of NMTC or LIHTC. You need to make your tools very accessible and predictable,” one fund manager explained.

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*You can only take advantage of the Investment Tax Credit and accelerated depreciation with passive income, whereas the OZ is only with capital gains... That's a unicorn.*

*—OZ project sponsor*

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## **A CLOSER LOOK: Layering Community Development Programs**

*MetroHealth, Cleveland, Ohio*

MetroHealth, the public health system in Cleveland, Ohio, is focused on creating an impact beyond medical care. Part of its mission is to address social determinants of health in the community. MetroHealth has identified the link between health and housing as a primary inflection point. Situated in the Clark-Fulton neighborhood, MetroHealth decided to begin in its own backyard by developing three mixed-use buildings that combine



*Image credit: RDL Architects.*

housing with street-level commercial property. The first building would contain up to 72 units of affordable housing, the second building would be workforce units for health system interns and residents, and the final building would be workforce housing. These two workforce buildings will contain up to 190 units. Targeted commercial tenants include a grocery store, economic development center, police station, and community college access center. The site also intends to include day care services, financial literacy training, and first-time homebuyer education.

MetroHealth envisioned and began work on this project before the introduction of OZs. However, OZs will play a necessary role in the capital stack—though they are seen as one tool of many that the health system has been assembling to bring this project to fruition.

The affordable housing building is structured without OZ financing as a LIHTC deal. MetroHealth has applied for a \$1 million tax credit award from the Ohio Housing Finance Agency's pilot \$3 million incentive pool for LIHTC projects within the city of Cleveland. The city is also providing subordinate financing to support this development. The two workforce housing projects will use NMTCs and OZs financing as components of the capital stack, in addition to commercial debt financing. The combination of NMTC and OZs was cited as a major factor allowing the two workforce housing projects to pencil out from the developer's perspective.

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## 9. The Need for OZ Financing in OZ Projects Is Mixed

Interviewees gave mixed responses when we asked how critical a role OZs incentives played in the financing of their project. Only a few suggested their project could not have proceeded without OZ incentives:

- One developer reported, "We had exhausted state and county incentives. Had they had more money, we would've taken it from them because it's cheaper. The project would've died but for the OZs investment." This developer qualified their approach to using OZs incentives: "Are we putting anything under contract today, counting on OZs money if we don't already know where it is coming from? No. Are we looking for OZs money on deals we already have under contract as an extra cushion? Yes... Never start a deal counting on OZs money. It is that last gap filler."
- Another developer felt that "we probably could have done the deal at a market rate, but the affordable component, keeping rents at the workforce housing level—we couldn't do that without the OZs incentives."
- A QOF manager felt that "investors simply would not be there at all for our deal, without the OZs incentives"—but this fund manager had yet to raise financing when we spoke with them.

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*Having OZs equity allowed us to create a much safer project to handle the stresses of this health crisis. We can withstand the time delay that coronavirus is causing for our tenants to move in and start operations. —QOF manager and real estate developer*

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The largest group of interviewees we spoke with reported a role for OZ incentives that was somewhere in the middle ground—useful, but not critical, for financing their deal.

- A vertical farming operation that relocated to an OZ reported that “[Locating in] an OZ was a big factor for us—a key factor. But not as defining as having a pad-ready site.”
- A solar developer commented that the OZ program “adds a little sliver [of return]. It’s not this huge, wonderful thing.” Another solar developer agreed that “You could do this project without OZs incentives... but [they] help.”
- Several interviewees felt that the OZs incentives were mainly useful for raising the visibility of a deal with prospective investors. As one developer put it, “What [OZs] do is it shines a spotlight [on your deal]. It’s a buzzword, a catchy thing these days. Opportunity Zones are a great fad.”
- Some sponsors felt that the importance of OZ incentives varied from investor to investor. “For three-fifths of investors [in our project], OZs is important, for two-fifths it is secondary, but for all of them it was helpful.”

Still, others confidently expressed that they would have completed the financing and implementation of their projects had the OZs program not existed. Most of these practitioners characterized the tax incentives provided by OZs as an “enhancer” for the terms of their deals that could translate into a modest increase in the IRR. These deals might still marginally benefit from OZs incentives—by having deals close faster, for example—but the incentive was clearly not necessary to make them happen.

- One developer said: “Every deal that I do with OZs, I can do without. I underwrite and create a strategy without OZs but I turn around and I say... you might get 15 percent here but now you’re going to get 17–18 percent. What I do is use OZs... as a tool to sweeten the terms of the deal.”
- In many of our interviews, practitioners reported that they had already committed to their projects before accessing OZs incentives—in some cases, even before the census tracts were designated as a Zone. As one reported: “We thought about this project not because of OZs, but because there was the need and demand for it. We’ve been assembling land for two and a half years...Without the OZs incentives we still would have figured out a way to do this, it just makes it easier to facilitate.”
- In three cases where we interviewed project sponsors, financing for the project had been finally structured before it became known that the project was in a Zone and eligible for incentives.

OZs were used in place of other equity capital that had been pledged. “We honestly predated the OZs program,” said one developer.

Even when improving returns for investors, most project sponsors report that OZs were not critical for filling a financing gap or increasing the social impact goals of their venture. Because of the program’s timeline, practitioners reported that it would be difficult to use the full extent of the incentive for a project that was not already on the drawing board. As a sponsor of a QOF noted, “Given just the development timeline that projects take, unless they were shovel ready or in the process of being developed, many won’t be able to take full advantage of OZs.”

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*The Opportunity Zones program is kind of like salt—it enhances a deal that is starting to make sense and helps it go forward. It doesn’t fundamentally change the structure of a meal, though. —Real estate developer*

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## **A CLOSER LOOK: Financing a Project Entirely with OZ Equity**

### *Chatham Facility, Chicago, Illinois*

The nonprofit Chicago Cook Workforce Partnership (CCWP) provides services and programs that enable youth and adults to develop skills and knowledge to meet the labor needs of Cook County’s employers. CCWP will open its new Chatham Workforce Training Center in the South Side of Chicago in 2020, where it will house part of its administrative operations and provide workforce development trainings and workshops.

The new center is being built on a two-story 10,440-square-foot office building in the Chatham neighborhood. The project was initiated by IFF, a CDFI working primarily in the midwest, with a \$250,000 grant support from a large bank.



*Image credit: GMA Construction Group.*

Six months after commencing the development, and looking for a stable permanent owner for the property, IFF sold it to a local family office, which will rent the space in its entirety to CCWP. Initially, the family office explored the possibility of supporting the project by donating to IFF the necessary

capital for the build-out. However, the OZs legislation passed while the parties were negotiating, and they learned the site was located in a Zone. The family office created its own QOF in 2019, bought the property for roughly \$2 million, and spent an additional \$1 million to finish the construction. The \$3 million total investment was made entirely with OZ equity from that one family office.

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## Implications and Recommendations

OZ proponents and government officials have described the goals of the incentive as being to spur economic development, promote business growth, create quality jobs,<sup>35</sup> and in so doing to “help address the persistent poverty and uneven recovery that left too many American communities behind.”<sup>36</sup>

According to the original concept paper proposing the incentive, OZs are intended to address a panoply of social ills related to living in areas with high unemployment and job loss, including increased illness and mortality, lower achievement outcomes for children, the breakup of families, and significant lifetime earnings disparities between those who grow up in poor versus wealthy neighborhoods (Bernstein and Hassett 2015).

Unfortunately, based on our interviews of people involved in OZ projects and attempted projects to date, the structure of the incentive appears to be least workable for the projects that could have the highest impacts around these issues. When mission-oriented OZ projects have been successful, it is typically only after substantial wrangling: searching for partners who will prioritize mission over profits, pairing OZ finance with other subsidy sources, and making concessions on issues like 10-year exits. As we have learned, the program can be used to finance projects that yield substantial community benefit, but it provides neither the depth of subsidy nor the use restrictions to incentivize the private market to prioritize such projects.

OZs disadvantage high-impact projects in four crucial ways.

1. Instead of rewarding impact investors who are willing to support projects with large social impacts, the capital gains exemption on OZ projects is structured to provide the largest financial benefits to the projects that provide the highest returns. Luxury housing in appreciating neighborhoods therefore may receive much larger public support than, say, affordable housing projects.
2. Because the incentive is limited to capital gains, the program does little to democratize community investing or ownership. Few people have sufficient capital gains to make OZ investments, thus creating a narrow pool of investors to which projects sponsors can appeal. In

particular, the OZ incentive design overlooks the possibility of supporting investments from low-income community stakeholders who do not have capital gains. This pool is much larger than many policymakers might imagine. For example, deposits by low- and moderate-income households in Community Development Credit Unions, which provide affordable debt to small businesses, homes, and families in low-income communities, total over \$112 billion—more investment than may occur through OZs.<sup>37</sup> The OZ incentive design also does not support or incentivize investment from other funds that may have a strong natural disposition to consider community investments, such as pension funds and foundation endowments.

3. The 10-year time horizon of most OZ equity investments is not long enough for long-term community ownership of such assets as affordable housing, health care centers, or schools, causing equitable development project sponsors to scramble to put together refinancing plans that may not work in a future interest rate or real estate market environment. Conversely, the 10-year time horizon is too long, too illiquid, and too fixed to make the incentive useable for non-real estate business investments.
4. The financing that the OZ incentives are designed to promote is poorly suited for most equitable development uses. By and large, OZs are effectively promoting market-rate private equity investment in real estate. But truly disinvested Zones with complex, long-standing challenges need investments in small businesses that will create quality jobs, as well as community resources such as affordable housing, schools, child care centers, and health care. Market-rate private equity for real estate is a poor vehicle to deliver these kinds of investments. It is unlikely, in our view, that OZ financing alone can unlock the small business growth or the development of community institutions and amenities that is needed to promote equitable growth.

## **Mission Actor Opportunity Zone Use Strategies**

Despite multiple challenges they face, mission-oriented actors have developed coping strategies to be able to use OZ incentives, particularly through partnership with philanthropy and incentives offered by local and state governments. Across our interviews, we spoke with project sponsors that have pursued a series of strategies to compete for OZ financing despite being at a market disadvantage. Strategies to use OZs for projects that promote equitable development include the following:

- **Combining multiple subsidies:** Most of the successful high-impact projects have pursued OZs as one source of subsidy among many, pairing them with LIHTC, NMTC, local tax abatements, and other federal, state, or local government programs and incentives).
- **Partnering with anchor institutions:** Many sponsors have sought support from anchor institutions, such as hospitals, higher education institutions, faith-based organizations, or municipal or other local government enterprises. Even if they cannot invest in the project, these institutions may connect sponsors with the investment circles that can.
- **Developing a two-round financing structure:** Project sponsors hoping to control community assets for the long term are banking on raising other capital to buy out the OZ investor after year 10. Obviously, it remains to be seen whether they will be successful in doing so.

Philanthropies can also effectively further work to support high-impact OZ projects. Effective strategies include the following:

- **Pooling resources:** A national example is the Kresge Foundation and the Rockefeller Foundation's partnership in resources, grants, and guarantees in support of investments that align with specific criteria.<sup>38</sup>
- **Junior equity:** Where philanthropy attempts to lower investment risk via junior equity positions or other strategies, their efforts can be targeted toward high-impact projects.
- **Using equitable development frameworks in grantmaking:** For instance, philanthropic resources could be restricted to supporting projects that score highly on Urban's Opportunity Zone Impact Assessment Tool<sup>39</sup> and funds in compliance with the US Impact Investing Alliance and Beeck Center's Opportunity Zones Reporting Framework.<sup>40</sup> Particularly for high-impact projects looking to leverage funds from market-rate OZ investors, philanthropic dollars could enable a project's return to be high enough to be marketable to Opportunity Funds. This might also mean supporting community catalysts for equitable investment, including the work of empowering, organizing, educating, and matchmaking.

States and local governments, while unable to fully tip the balance, have options at their disposal to put their weight on the scale for higher-impact OZ projects (see Theodos, Evans, and Meixell 2019). States and cities can consider encouraging or aiding mission-aligned projects in ways similar to the following:

- **State benefits for QOFs:** States can create added benefits for QOFs that meet specific impact investing standards.<sup>41</sup> Funds might receive the state capital gains tax benefits, state tax credits,



or other incentives for these investments. In addition to supporting equitable development goals, states should require funds to track and report OZ investment activity.<sup>42</sup>

- **State marketplaces:** To lessen search costs and connect beneficial projects with willing investors, Washington, DC, and several states (including Maryland, New Jersey, Virginia, and West Virginia) have begun maintaining central databases of aspiring fund managers and interested investors. The Opportunity Exchange serves this role across several states.
- **OZ coordinators:** A handful of cities (including Atlanta, Baltimore, Cleveland, DC, Kansas City, and Norfolk) and states (including Alabama, Colorado, and Virginia) have OZ coordinators that serve as project-investor matchmakers.
- **Tax abatements and other incentives for equitable development projects:** Many localities have offered property tax abatements or other incentives to projects that provide social benefit for residents. These and other local incentives can be an important part of the capital stack, making high-impact projects financially viable.

## Broader Changes

Greater structural changes are necessary if the types of OZ projects that generate substantial social impact and community benefit for low- and moderate-income residents are to turn from the exceptions into the rule. These changes go well beyond the calls for better reporting—important as the matter is. (See Theodos [2019] for more on reporting needs.)

More comprehensive approaches to prioritize the highest impact projects could come through federal legislative or administrative action. We focus here on the fundamental changes needed for the program to fully support equitable development, but other, more incremental changes would also be valuable. Those changes include, for example, removing all contiguous tracts as well as low-income tracts that no longer qualify as such.<sup>43</sup>

More sweeping statutory changes could redesign OZ incentives so they much more effectively target limited government resources toward equitable development outcomes. The broad principles that should guide reshaping of the OZ incentives include the following.

- **Better support investments in small businesses.** The most egregious failing of OZs to date is that very little investment is going to small businesses, the exact group of investees that proponents had held out as standing the most to benefit. To correct this failing, one important solution is incentivizing investments in QOFs that could provide subordinated debt investment



(or hybrid debt/equity products such as royalty debt) to small businesses; pure equity is simply not an appropriate form of small business financing in many cases. Beyond that, policymakers should consider granting greater flexibility around certain program rules, such as deployment rules, to mission-driven funds that specialize in small business investing. Mission-driven practitioners need to be consulted as a part of this process. Further, OZs can be restricted to a more narrowly qualifying set of investments—for instance, real estate transactions only when the operating business is the owner-occupant

- **Size the incentive based on the impact.** Rather than providing the largest incentives to the most profitable projects, the incentive should instead depend on projected social impacts. In turn, by targeting incentives toward investments with the greatest impacts, these investments could be more deeply subsidized while more efficiently using total federal tax expenditures. To provide one example, OZ tax incentives could be based on the number of quality jobs created by the investment—thus aligning the incentive with a goal at the heart of the legislation’s original intent. Given that US businesses already regularly report employment and wages to both the state and federal governments, the data exist to make structuring such a system possible. Other alternatives could include tweaking the incentives based on the equitable development characteristics present in a project, such as limiting the incentives to projects where a positive social impact is deemed likely.
- **Broaden who can invest.** There is no particularly good reason to limit incentives for community investing to taxpayers who have prior capital gains. Doing so freezes out most stakeholders in low-income communities from investing in their own revitalization. A refundable tax credit, rather than a capital gains exclusion, could open up opportunities for these investors. Other actors such as foundation endowments and pension funds have substantial resources (and most likely a greater proclivity to consider community investing than many capital gains holders) if an incentive can be structured to engage them.
- **Support mission-driven funds that are accountable to the community.** The OZ program should be changed to require a rigorous certification process for QOFs rather than allowing funds to self-certify. This will help support mission actors rather than other OZ activity. Additionally, reforms should be made to support CDFIs, which have a long track record of making substantial investments in low-income communities. CDFIs are accustomed to taking on higher risks than conventional investors, as well as to working with the kind of investees who have been struggling to access OZ capital, such as small businesses and less sophisticated developers. CDFIs have successfully mitigated these risks by providing hands-on technical assistance to

their investees. A major constraint to growing the impact of CDFIs has been the lack of equity to capitalize them—an issue the industry is actively seeking to address. A redesigned OZ incentive could encourage equity investments in CDFIs who set up QOFs. In combination with opening up OZ incentives to new forms of investment, such as subordinated debt or debt-with-royalty products, this policy change would greatly expand the catalytic role that CDFIs are already playing in distressed communities, and help realize the promise of OZs for the many project sponsors who have struggled to access capital to date.

As we write this report, Wall Street's extended bull run has ended, COVID-19 has the world at a standstill, and financing is volatile. People are beginning to emerge from their homes and the economy will recognize these gains. Predicting the future—always a difficult endeavor—feels all the more challenging now. However, in their present form, based on the field to date, it appears that OZs are neither on a trajectory to democratize access to capital nor will they, at scale, incentivize mission-oriented projects that align with community goals and priorities. An impressive mission-aligned OZ ecosystem is developing, and project sponsors are making impressive efforts to promote more equitable development. But this ecosystem and these efforts are insufficient in a marketplace incentivized to generate greater investor reward for more conventional projects. Philanthropic and local and state actors have options to partially reorient OZs to enhance community outcomes, but only the federal government can correct the structural barriers that discourage and prevent mission-aligned actors from using OZs to their full potential.

As we grapple with the twin public health and economic threats the current moment poses, and longstanding issues with police violence, the very place-based iniquities that compelled the creation of OZs, are at risk of widening further. COVID-19 has underscored troubling disparities in neighborhood access to vital services and amenities from health care facilities to grocery stores. Looking back to our last economic crisis, the Great Recession substantially exacerbated wealth disparities between White families and Black and Latinx families. Average family wealth fell across all groups between 2007 and 2010, but with vast differences by race and ethnicity: 40 percent among Latinx families, 31 percent among Black families, and only 11 percent among White families (McKernan and Ratcliffe 2013). We do not yet know how the COVID-19 recession will play out, but we should be prepared to see disparities.

As our attention turns to recovery, OZs likely have a role to play. That role, as our early findings indicate, could be solely to compel new economic activity in communities. But at this critical juncture, its role could be altered to create truly equitable development, building wealth for low- and moderate-income residents while meeting community needs. As federal policymakers consider extension and revisions to the OZ incentive in a post-COVID context, this potential should not be missed.

# Appendix. Opportunity Zones Overview

Part of the Tax Cuts and Jobs Act of 2017, the Opportunity Zones incentive offers capital gains tax relief for investments in economically distressed areas.<sup>44</sup> OZs aim to address a failure in capital markets, in which disinvested communities have lacked access to capital to fund investable projects (Theodos 2019). Individuals and corporations who have recently sold an asset for a capital gain can defer and reduce their taxes by investing the gains in Qualified Opportunity Funds, or QOFs. The QOFs must take those funds and provide equity investments to qualifying businesses and real estate projects in designated OZs. Across the country, 8,766 census tracts have been designated as Opportunity Zones.

The OZ incentive offers three distinct tax benefits for investors:

1. **Deferral of capital gains taxes:** Investors reinvesting capital gains into a QOF can defer taxes on those capital gains until December 31, 2026 (or the date of sale of the new qualifying investment, if the sale happens sooner).
2. **Reduction in the amount of the capital gains tax:** Investors can reduce the amount of capital gains tax by 10 percent if they hold the investment in the QOF for at least five years. At seven years, the capital gains tax reduction increases to 15 percent.
3. **Exemption from capital gains tax on capital gains generated by the QOF:** If investors keep their funds in the QOF for at least 10 years, then they pay no tax on any capital gains from the new investment. The value of this part of the incentive is much larger for investments that yield larger pretax returns. Observers believe that as a result, most investors will want to channel funds into investments that appreciate rapidly at the expense of those that do not (Tansey and Swack 2019).

# Notes

- <sup>1</sup> “Connect with Projects from Across Our Network,” The Opportunity Exchange, accessed February 24, 2020, <https://www.theopportunityexchange.com/browse/>.
- <sup>2</sup> “EIG Opportunity Zones Activity Map,” Economic Innovation Group, accessed November 20, 2019, <https://eig.org/oz-activity-map>.
- <sup>3</sup> Much has been made of whether to call OZs a “program” or an “incentive,” in ways that strike us as having more to do with ideology than the underlying meaning of those terms. In our view, much in the OZ statute and implementation is programmatic, and OZs are an incentive. As such, we use the terms interchangeably.
- <sup>4</sup> Michael Novogradac, “Novogradac Opportunity Funds List Surpasses \$10 Billion in Investment,” Novogradac, April 29, 2020, <https://www.novoco.com/notes-from-novogradac/novogradac-opportunity-funds-list-surpasses-10-billion-investment>.
- <sup>5</sup> According to the IRS website, OZs are “designed to spur economic development and job creation in distressed communities” (“Opportunity Zones Frequently Asked Questions,” accessed April 21, 2020, <https://www.irs.gov/newsroom/opportunity-zones-frequently-asked-questions>).
- <sup>6</sup> For examples, see the published transcript of “The Promise of Opportunity Zones,” Senate Hearing 115-297 before the Joint Economic Committee, accessed April 21, 2020, <https://www.govinfo.gov/content/pkg/CHRG-115shrg30384/html/CHRG-115shrg30384.htm>.
- <sup>7</sup> For investments held for at least 10 years, investors pay no taxes on any capital gains produced through their investment in Opportunity Funds (“What Are Opportunity Zones and How Do They Work?,” Urban-Brookings Tax Policy Center, accessed April 26, 2020, <https://www.taxpolicycenter.org/briefing-book/what-are-opportunity-zones-and-how-do-they-work>).
- <sup>8</sup> Adam Looney, “Will Opportunity Zones Help Distressed Residents or Be a Tax Cut for Gentrification?” *Up Front* (blog), Brookings Institution, February 26, 2018, <https://www.brookings.edu/blog/up-front/2018/02/26/will-opportunity-zones-help-distressed-residents-or-be-a-tax-cut-for-gentrification/>.
- <sup>9</sup> See, for example, Jesse Drucker and Eric Lipton, “How a Trump Tax Break to Help Poor Communities Became a Windfall for the Rich,” *New York Times*, August 31, 2019; Noah Buhayar and Caleb Melby, “Real Estate Investors See Riches in a Tax Break Meant to Help the Poor,” *Bloomberg*, January 15, 2019; Justin Elliott et al., “A Trump Tax Break to Help the Poor Went to a Rich GOP Donor’s Superyacht Marina,” *ProPublica*, November 14, 2019; Alex Nitkin, “How a \$2 Billion Redevelopment Site in Chicago Landed in a Federal Opportunity Zone,” *The Real Deal Chicago Real Estate News*, May 1, 2019; and Christopher Hong and Nate Monroe, “Stadium, Sports District Could Benefit from Program Intended for Poor Neighborhoods,” *Florida Times Union*, December 14, 2018.
- <sup>10</sup> Anthony Pipa, “Maximizing the Impact of New Opportunity Zones Requires Transparency and Citizen Engagement,” *Up Front* (blog), Brookings Institution, April 16, 2018, <https://www.brookings.edu/blog/up-front/2018/04/16/maximizing-the-impact-of-new-opportunity-zones-requires-transparency-and-citizen-engagement/>.
- <sup>11</sup> “Connect with Projects from Across Our Network,” <https://www.theopportunityexchange.com/browse/>.
- <sup>12</sup> “EIG Opportunity Zones Activity Map,” <https://eig.org/oz-activity-map>.
- <sup>13</sup> “Treasury Releases Proposed Regulations on Opportunity Zones Designed to Incentivize Investment in American Communities,” US Department of the Treasury press release, October 19, 2018, <https://home.treasury.gov/news/press-releases/sm530>.

- <sup>14</sup> Kurt Badenhausen, "The NBA's Unlikely Real Estate Mogul: Inside Luol Deng's Towering \$125 Million Portfolio," *Forbes*, June 21, 2019, <https://www.forbes.com/sites/kurtbadenhausen/2019/06/21/the-nbas-unlikeliest-real-estate-mogul-luol-dengs-125-million-portfolio-is-a-new-playbook-for-monetizing-fame/#292577291db9>.
- <sup>15</sup> See, for example, "Navigating the Opportunity Zones," a playbook put together by LISC to "lay out best practices for the range of Opportunity Zone actors" (accessed April 26, 2020, <https://www.lisc.org/opportunity-zones/community-partners-playbook/>).
- <sup>16</sup> "U.S. Economic Development Prioritizes Applications for Projects Located In Opportunity Zones," US Economic Development Administration, press release, June 12, 2019, <https://www.eda.gov/news/press-releases/2019/06/12/opportunity-zones.htm>.
- <sup>17</sup> "FHA Offers Incentives For Property Owners Who Invest In Opportunity Zones," US Department of Housing and Urban Development, press release 19-058, May 9, 2019, [https://www.hud.gov/press/press\\_releases\\_media\\_advisories/HUD\\_No\\_19\\_058](https://www.hud.gov/press/press_releases_media_advisories/HUD_No_19_058).
- <sup>18</sup> Jessica Iannetta, "BDC Names Opportunity Zones Coordinator," *Baltimore Business Journal*, October 15, 2018, <https://www.bizjournals.com/baltimore/news/2018/10/15/bdc-names-opportunity-zones-coordinator.html>.
- <sup>19</sup> Anne Kniggendorf, "Creating a Model That Sets the Curve for Opportunity Zone Investment," Ewing Marion Kauffman Foundation, August 1, 2019, <https://www.kauffman.org/currents/creating-a-model-that-sets-the-curve-for-opportunity-zone-investment/>.
- <sup>20</sup> "The Rockefeller Foundation Launches \$5.5 Million Opportunity Zone Community Capacity Building Initiative for Select U.S. Cities," Rockefeller Foundation, news release, May 21, 2019, <https://www.rockefellerfoundation.org/about-us/news-media/rockefeller-foundation-launches-opportunity-zone-community-capacity-building-initiative-newark-first-city-selected/>.
- <sup>21</sup> "AL Impact OZ Incentive," Opportunity Alabama, accessed April 26, 2020, <https://opportunityalabama.com/wp-content/uploads/2019/06/AL-Impact-Investment-OZ-Incentives-Summary-6.7.19.pdf>.
- <sup>22</sup> "Maryland Opportunity Zone Enhancement Credits," Maryland Department of Commerce, accessed April 26, 2020, <https://commerce.maryland.gov/fund/programs-for-businesses/opportunity-zone-enhancement-credits>.
- <sup>23</sup> "Kresge Foundation Commits \$22M to Back Arctaris, Community Capital Management Opportunity Zone Funds," The Kresge Foundation, news release, March 18, 2019, <https://kresge.org/news/kresge-foundation-commits-22m-back-arctaris-community-capital-management-opportunity-zone-funds>.
- <sup>24</sup> "New Incubation Program Opens to Help Social Impact Orgs Ready for Opportunity Zone Funds," The Kresge Foundation, news release, November 29, 2018, <https://kresge.org/news/new-incubation-program-opens-help-social-impact-orgs-ready-opportunity-zone-funds>.
- <sup>25</sup> "The Rockefeller Foundation and Smart Growth America Launch National Opportunity Zones Academy," Rockefeller Foundation, news release, September 17, 2019, <https://www.rockefellerfoundation.org/about-us/news-media/rockefeller-foundation-smart-growth-america-launch-national-opportunity-zones-academy/>.
- <sup>26</sup> "The Mastercard Center for Inclusive Growth and Accelerator for America Partner to Promote Opportunity in Opportunity Zones," Mastercard Center for Inclusive Growth, press release, May 21, 2019, <https://newsroom.mastercard.com/press-releases/the-mastercard-center-for-inclusive-growth-and-accelerator-for-america-partner-to-promote-opportunity-in-opportunity-zones/>.
- <sup>27</sup> "CDBG Entitlement Program Eligibility Requirement," HUD Exchange, accessed April 26, 2020, <https://www.hudexchange.info/programs/cdbg-entitlement/cdbg-entitlement-program-eligibility-requirements/>.
- <sup>28</sup> Authors' calculation based on IRS Statistics of Income from Tax Year 2016, Table 1.4.

- <sup>29</sup> Author calculations using 2014–18 US Census Bureau American Community Survey. Data accessed through the National Historic Geographic Information System’s online portal (IPUMS NHGIS, University of Minnesota), [www.nhgis.org](http://www.nhgis.org).
- <sup>30</sup> “Home Rule, as it sounds, gives local governments governing authority to make a wide range of legislative decisions that have not been addressed by the state. By contrast, the Dillon Rule creates a framework where local governments can only legislate what the state government has decreed” (Russell and Bostrom 2016, 1).
- <sup>31</sup> “T18-0231 - Distribution of Long-Term Capital Gains and Qualified Dividends by Expanded Cash Income Percentile, 2018,” Tax Policy Center, accessed April 26, 2020.
- <sup>32</sup> IRS, “Opportunity Zones Frequently Asked Questions.”
- <sup>33</sup> Novogradac, “Novogradac Opportunity Funds List Surpasses \$10 Billion in Investment.”
- <sup>34</sup> The FHA 221(d)(4) loan, guaranteed by HUD is the multifamily industry’s highest-leverage, lowest-cost, non-recourse, fixed-rate loan available in the business. 221(d)(4) loans are fixed and fully amortizing for 40 years, not including the up-to-three-years, interest-only fixed-rate during construction. In summary, the loan is fixed for up to 43 years and fully amortizing for 40 (“HUD 221(d)(4) Non-Recourse, Ground-up Development and Substantial Rehabilitation Multifamily Financing,” HUD Loans, accessed April 26, 2020, <https://www.hud.loans/fha-221d4>).
- <sup>35</sup> IRS, “Opportunity Zones Frequently Asked Questions.” Also see quotes from Opportunity Zones proponents on the Economic Innovation Group’s website, accessed April 23, 2020, <https://eig.org/opportunityzones>.
- <sup>36</sup> “History of Opportunity Zones,” Economic Innovation Group, accessed April 26, 2020, <https://eig.org/opportunityzones/history>.
- <sup>37</sup> Number taken from the Inclusiv website, accessed April 26, 2020, <https://www.inclusiv.org/>.
- <sup>38</sup> “Kresge, Rockefeller Partner to Support New US Community Development Initiatives through Open Call,” The Kresge Foundation, news release, June 11, 2018, <https://kresge.org/news/kresge-rockefeller-partner-support-new-us-community-development-initiatives-through-open-call>.
- <sup>39</sup> The tool is available at <https://www.urban.org/oztool>.
- <sup>40</sup> The framework is available at <https://ozframework.org/>.
- <sup>41</sup> For example, “AL Impact Investment OZ Incentives Summary,” Opportunity Alabama, accessed April 26, 2020.
- <sup>42</sup> For more on what metrics should be collected see Brett Theodos and Brady Meixell, “Public Comment on U.S. Treasury’s Request for Information on Data Collection and Tracking for Qualified Opportunity Zones,” May 30, 2019.
- <sup>43</sup> Contiguous zones did not meet the low-income community threshold but were eligible because they bordered low-income communities. Zones that, with updates to the Census Bureau’s American Community Survey, no longer qualify as low-income communities could also lose their status.
- <sup>44</sup> Final regulations for the program were promulgated on and are available at 26 CFR Part 1, or via “Investing in Qualified Opportunity Funds,” Internal Revenue Service, accessed April 26, 2020, <https://www.irs.gov/pub/irs-drop/td-9889.pdf>.

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**APPENDIX 5**  
**Research Report**  
**Delivering Opportunity: A diagnostic and strategy playbook to  
maximize Indiana's Opportunity Zones**



# Delivering Opportunity:

A diagnostic and strategy playbook to maximize Indiana's Opportunity Zones



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# I. Executive Summary

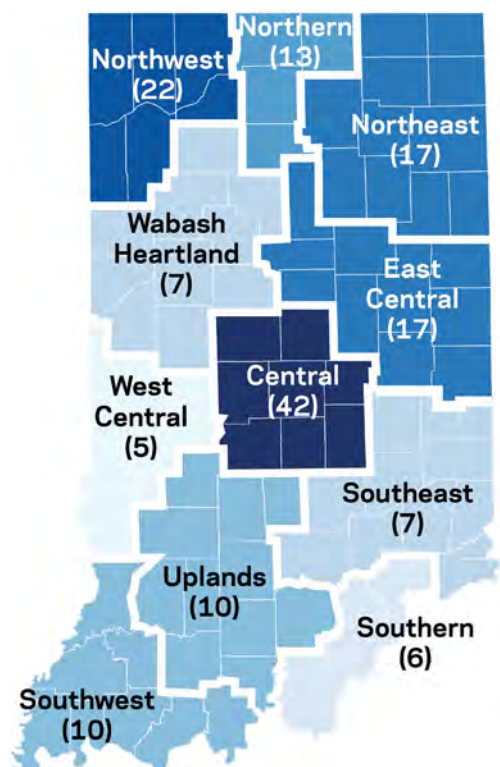
Opportunity Zones (OZs) are low-income census tracts in which certain new investments to stimulate economic activity are eligible for special federal tax incentives. They stem from a bipartisan policy enacted in late 2017 intended to bridge the country's growing geographic divides by rekindling market activity in disinvested neighborhoods. OZs represent one of the most ambitious and potentially far-reaching place-based economic policies in a generation.

Yet, given the potential scale of the opportunity, engagement across the state and particularly among the investor community could be significantly greater. To fully maximize what OZs can do for Indiana, the state must focus on addressing the two binding constraints on further expansion and maturation of the OZ marketplace identified through this research: raising more local capital for local investing and increasing the capacity of stakeholders to understand and deploy this new financing tool.

## Mapping Opportunity Zones

Indiana is home to 156 designated OZs distributed throughout the state. More than half a million people, or 8 percent of the state's population, live in them.

Number of Opportunity Zones by Region



Even before COVID-19 struck, OZ communities were struggling with poverty rates nearly twice the statewide level, far more adults out of work, elevated housing vacancy rates, and lagging educational attainment. OZs also provide a window into economic and geographic inequalities across race that exist at the national level and in Indiana: 36 percent of OZ residents in the state are minorities, compared to 20.5 percent of Indiana's total population.

The public health crisis unleashed by the novel coronavirus has exposed deep inequities in physical well-being that correspond with those in economic well-being, too. The average life expectancy for the state's OZs is 73.3 years, compared to 78.6 nationwide.

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Nearly half of all OZs in the state can be considered mixed-use, with diverse investment opportunities.

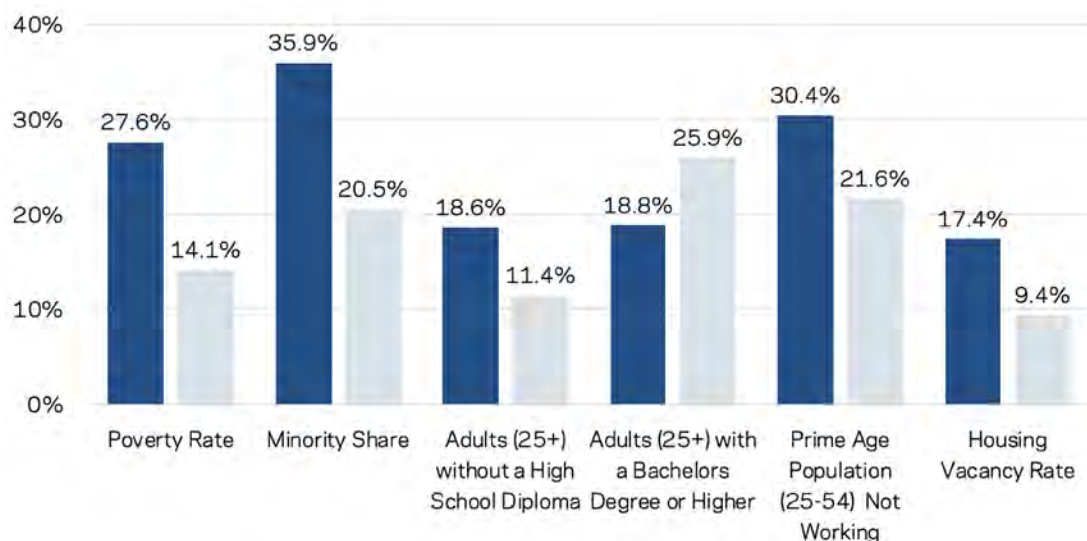
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Children in particular can suffer long-term consequences from living in socially and economically left-behind communities. Nine out of 10 OZ tracts (and 105,500 children living in them) are in areas with low or very low child opportunity scores, meaning they often lack quality early childhood education and schools, safe housing, access to healthy food, parks and playgrounds, and clean air.

**To help ground the analysis and recommendations presented here, we created primary and secondary typologies for the state's OZs that can inform strategies or point towards investment opportunities.**

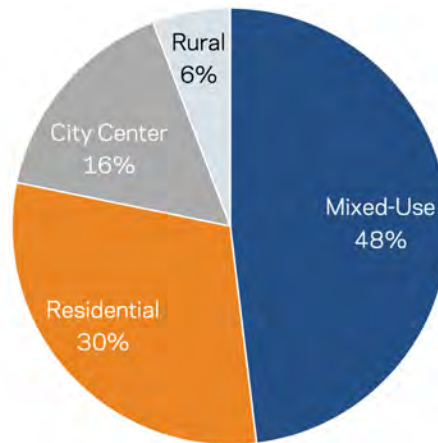
The four primary typology categories include: **mixed-use, city center, residential, or rural** based on the local land use composition. Nearly half of all OZs in the state can be considered mixed-use, with diverse investment opportunities.

Indiana's Opportunity Zones Compared to the State Overall



Source: EIG analysis of the U.S. Census Bureau's American Community Survey 5-Year Estimates, 2014-18

## Primary Typology of Indiana's Opportunity Zones

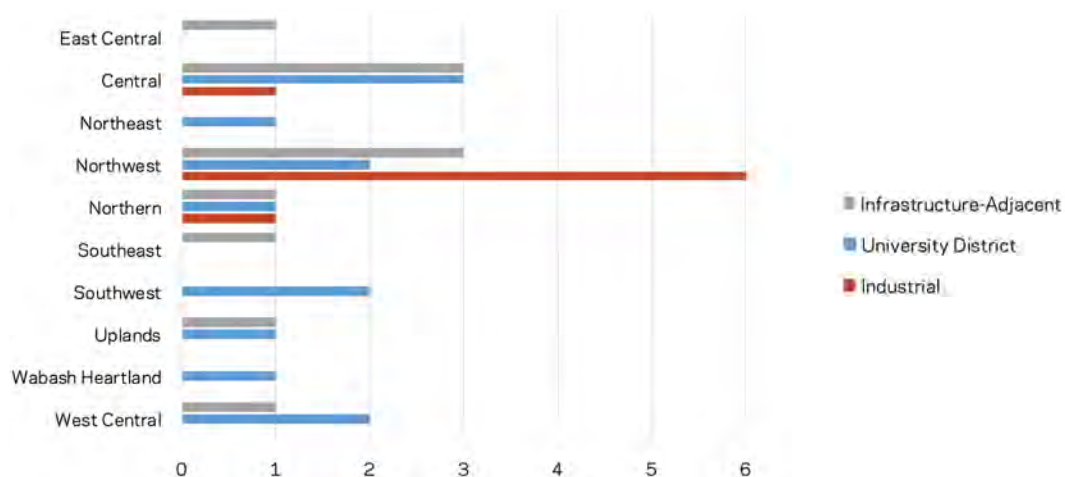


Source: EIG analysis of data provided by Indiana University-Purdue University Indianapolis

Secondary typologies are meant to differentiate beyond predominant land uses to capture areas that may present special investment opportunities or warrant specialized development strategies. They include:

- **University district:** Tracts that either contain or are immediately adjacent to major colleges and universities.
- **Industrial:** Tracts that contain sizable areas zoned for industrial use, large warehouses, and/or significant pieces of manufacturing infrastructure.
- **Infrastructure-adjacent:** Tracts that are near airports, railyards, or other significant transportation infrastructure, but tend to be zoned for relatively little industrial activity.

## Number of Opportunity Zones with Secondary Typology



Source: EIG analysis of the U.S. Census Bureau's American Community Survey 5-Year Estimate, 2014-18



## Needs and Opportunities

Four key issue areas emerged from numerous conversations with local stakeholders across Indiana as realms in which OZs are primely positioned to help the state further its goals. OZs can contribute directly to the state's efforts to:

- **Build a dynamic and resilient economy:** Entrepreneurs are a critical feedstock for the economy, as a steady stream of new companies maintains high levels of productivity, keeps markets competitive, and helps economies adapt to change. Yet Indiana ranks last nationally in terms of its share of jobs in new companies, and it ranks third for the share of all of its jobs in very old firms. That leaves the state's economy at risk from shocks and economic change.

Indiana retains the building blocks of a vibrant entrepreneurial ecosystem in and around its OZs. Thirteen of the state's OZs are part of university districts, and at least seven business incubators and accelerators are located in OZs. Eight of the state's 20 Certified Tech Parks are also located in OZs, and another six in close proximity to one. 16 Tech in Indianapolis and Electric Works in Fort Wayne, two of the state's most significant efforts to combine innovation and entrepreneurship with physical redevelopment, are both located in OZs.

OZ capital can add to the mix in multiple ways. An investor could help boost a new startup that is commercializing technology from one of Indiana's leading universities by taking a venture capital-style equity stake in the business, for example. Or OZ capital can be deployed financing the build-outs of innovation districts, providing startups with office space, or via direct investments into incubating growth companies. OZ financing can also aid in the expansion of existing businesses. It can be used to acquire new capital equipment, to build a new facility, or to hire and grow when certain conditions are met.

- **Create livable communities:** Vibrant, inviting communities are essential assets in the competition for talent and human capital. OZs can help enhance and create livable communities in a number of ways. For example, the incentive can be leveraged in large-scale **master-planned placemaking efforts** as one financing tool among many. OZs can dovetail into more organic placemaking efforts on much smaller scales, as well. Across the country, OZ capital is being used to **revitalize Main Street** storefronts, community spaces, and living. It is often being deployed for historic preservation or **adaptive reuse**.

In other circumstances, OZs can be an ally in reducing vacancies, removing blight, and remediating brownfields as well. Here the need in some regions is acute. The **housing vacancy** rate in the average Indiana Opportunity Zone is 17 percent, compared to 11 percent statewide and 8 percent nationally. As a state with a long industrial history, Indiana's OZs also contain nearly 500 **brownfield sites**—disutilized and contaminated parcels—that weigh heavily on their surrounding communities. Helpfully, federal

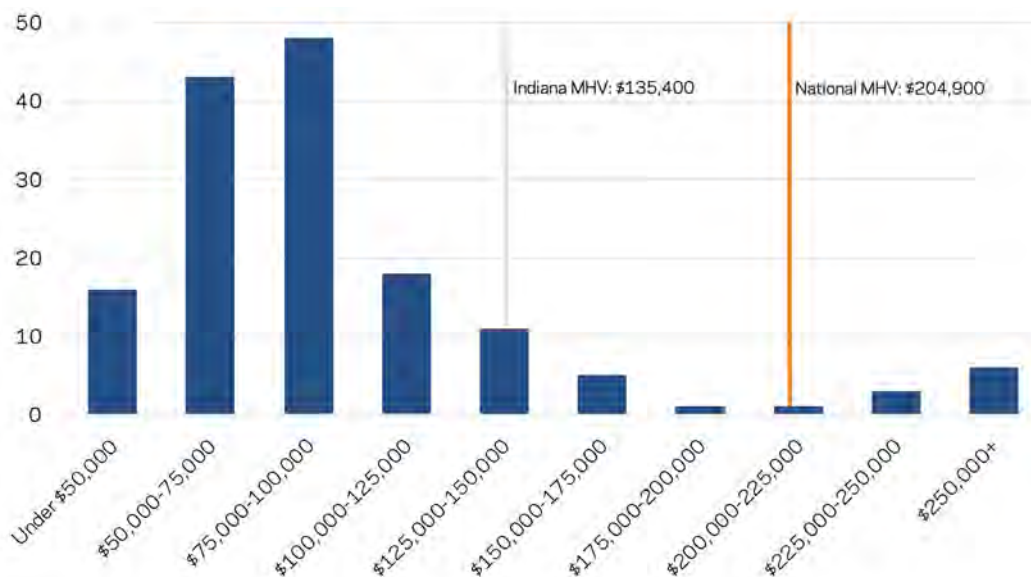
regulations finalized in late 2019 enumerated several specific leverage points for local governments and public sector entities to use OZs to address vacancy and blight.

- **Improve resident health:** Livable communities that encourage walking and outdoor recreation are healthy communities, making this strategic priority closely related to the prior one. The quality of the built environment, open space, and safety all matter for improving baseline health in a community. Strong communities also foster better mental health—an urgent priority given that, across Indiana’s urban OZs, nearly one in every five residents reported poor mental health even before the pandemic hit.

Access to fresh, healthy foods is another cornerstone of a healthy community that is missing from too many OZs. Statewide, 53 OZs are considered food deserts by the U.S. Department of Agriculture. This means that residents of one-third of Indiana’s OZs do not have access to a full-service grocery store within one mile in an urban area or 10 miles in a rural one. In the Central region, one-quarter of OZs are food deserts and in Northwest Indiana, fully half are.

- **Provide quality, affordable housing:** Housing is the cornerstone of individual economic well-being and critically important for economic development and talent attraction. Across Indiana’s OZs, 51 percent of renting households are rent-burdened on average, seven percentage points higher than the rest of the state. On average, only 9 percent of housing structures in OZs have been built since 2000 compared to 16 percent statewide. The lack of newer structures contributes to the fact that fully two-thirds of the housing stock in Indiana’s OZs was built prior to 1970. That statistic, combined with distressed home values, implies that a housing quality problem holds back the renewal of many of the state’s OZs.

Number of Indiana Opportunity Zones in Each Median Housing Value Band



Source: EIG analysis of the U.S. Census Bureau’s American Community Survey 5-Year Estimates, 2014-18

## Strategies for delivering investment and impact

Indiana stepped out of the gates and quickly accumulated some of the most exciting OZ initiatives and developments in the country over the course of the policy's first two years.

These examples make clear that many members of Indiana's civic and business communities have risen to the entrepreneurial challenge presented by OZs and are determined to make this new economic development tool work for their communities. Despite the early promise, however, the investment map remains a patchwork. Too little locally-committed capital has been raised, especially relative to neighboring Ohio. Many potential stakeholders still know too little about this new policy tool to fully imagine how, where, and to what ends it can be applied. Others only know OZs as another tax incentive for real estate, unaware how late-breaking regulations ease the path for OZs to finance startups and economic development more broadly. Meanwhile, the unfamiliar market-based structure of OZs makes it hard for many key players in the traditional community development space to identify the best leverage points for shaping the market towards social impact.

To overcome these binding constraints on the market's growth and maximize the potential of the new federal OZ incentives for Indiana communities, the following strategies should be considered to unlock more capital and strengthen local capacity.

### Strategies to strengthen local capacity

- 1. Establish a statewide OZ coordinator:** The most community-aligned engagement from OZ investors is taking root in places where a person or organization is fully dedicated to cultivating a pipeline of high-impact deals and investor relationships. Places such as Alabama, Colorado, and Baltimore, MD, have at least one full-time employee serving as an OZ coordinator for the city or state, and they have created a long-term framework for directing resources to OZs and measuring impact. Philanthropy often supports these positions.
- 2. Create a centralized online directory of essential OZ information:** One of the most powerful ways to foster an investable environment is to facilitate the flow of relevant information between state and local governments and OZ stakeholders. States such as Maryland, California, and New Jersey have established digital "one-stop shops" or centralized directories for OZ investors, communities, and potential investment recipients (startups, growth businesses, or project sponsors) containing information about the incentive, who may qualify for what, and complementary federal, state, and local resources. Many clearly articulate the state's own priorities for OZs, and some even contain databases of vacant and underutilized properties (some publicly-owned, some private) that are primely positioned for redevelopment.

- 3. Enhance and align public resources to strengthen OZ communities and shape the market.** As state and local governments think through their own financial and programmatic commitment to OZs, they should review their policy tools in the following four realms and consider if and how they wish to align them with OZs in order to nudge the young marketplace toward particular ends:
  - Programs and incentives to support new and growing businesses
  - Startup accelerators, capacity building, and workforce training programs
  - Credit facilities
  - Programs or grants to monitor and measure impact
- 4. Activate residents, businesses, and community stakeholders.** As demonstrated in Brookville, engaging the local investor base can be a powerful way to spark new energy and economic activity locally and unlock OZ investment for projects and businesses that strengthen the community. Beyond individuals and families, major employers, philanthropic institutions and similarly aligned community stakeholders with vested interests in the quality and livability of OZs can be activated in various ways, including via additional investment carrots, the creation of place-based Opportunity Funds, public-private partnerships, and tailored strategies to reach anchor institutions and philanthropy.

## Looking ahead

Across the country, the places seeing the most robust and aligned investment activity in their OZs are ones that have jumped right in to facilitate a new local investment ecosystem into existence. Early returns show the importance of tending to all sides of the marketplace: building an investor base, cultivating a deal pipeline, engaging residents and communities, educating businesses eligible for investment, and building the capacity of local governments and liaisons.

There was no shortage of economic and community development priorities that needed financing before the pandemic. Need has only grown more acute since—especially in low-income communities. OZs add a potentially powerful new financing tool to the mix.

The GPS Project gives Hoosiers a hook to provide their OZ ambitions strategic focus. This long-term economic and community development tool can help finance the next generation of businesses that will secure the state's prosperity. OZ capital can be harnessed to reinvigorate Main Streets and build vibrant, inclusive places that make Indiana a magnet for talent. And by being a market-based tool that integrates seamlessly into local economies, OZs can be a catalyst for building wealth and restoring economic opportunity in parts of the state where both are sorely lacking.

## II. Introduction

Over the course of a few weeks in early 2020, unemployment in Indiana crashed from record lows to record highs. The pandemic has side-swiped the longest economic expansion in memory, turning the world upside down. Longstanding economic assumptions seem to no longer apply. Everything has changed.

Well, not everything. Amid all the uncertainty, one thing is sure: communities that were struggling before the pandemic hit are least prepared to weather the economic fallout from COVID-19 and will be struggling even more once the pandemic passes.

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Communities that were struggling before the pandemic hit are least prepared to weather the economic fallout from COVID-19.

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The benefits of the decade-long economic expansion of the 2010s accrued unevenly across the population and the map, nationally and in Indiana. The state's prosperous zip codes enjoyed 15 percent employment growth over the four years to 2017, while distressed zip codes actually shed 3 percent of local jobs. Yawning income gaps persisted. The median household income in Carmel stood at \$116,900; in Gary, \$30,300, and in the Haughville neighborhood of Indianapolis, \$26,900.

Of course, many local inequities have deep roots. EIG's [Neighborhood Poverty Project](#) identified 19 neighborhoods, or census tracts, spread across all of the major metro areas in the state that have been mired in persistent high-poverty since at least 1980. On top of those, 158 neighborhoods home to 493,000 people fell into high-poverty status. As the state's economy has grown and restructured over the past several decades, hundreds of neighborhoods and thousands of Hoosiers have fallen through the cracks.

Neighborhoods in Indiana, like the rest of the country, have become more segregated by income, concentrating disadvantage into particular areas. In 1980, 38 percent of the state's poor population actually lived in a very low-poverty community. Today, only 20 percent do. Meanwhile the share of the poor living in a high-poverty community has risen from 13 percent to 30 percent.

Opportunity Zones were conceived by Congress to begin to reverse these trends with the help of a federal, market-based tax incentive to stimulate private sector investment and

business activity in neighborhoods typically written off as too risky or poor investments. The capital gains tax incentive rewards patient, long-term equity investments into new economic activity—new or significantly refurbished buildings, stakes in promising new growth companies, and much else—in low-income communities. The policy is not a panacea. Indeed, it does not guarantee any private investment will flow to a designated community. But it provides an important new tool and organizing principle to the economic and community development arsenal that can be catalytic in forging committed partnerships to re-stimulate local economies.

This report is intended to provide Indiana with data, insights, and strategies to deliver on that vision. Local creativity, entrepreneurship, and commitment are the ingredients that will translate an arcane new provision of the tax code into transformation and impact on the ground. In crafting this paper, EIG spoke with dozens of stakeholders from across the state. Guidance from partners at the Central Indiana Corporate Partnership, Local Initiatives Support Coalition in Indianapolis, and the Opportunity Investment Consortium of Indiana helped to refine our analysis and recommendations. We also leveraged our unique position at the heart of the emerging Opportunity Zones ecosystem nationally to bring the most promising best practices from across the country to Indiana. One of the most exciting—and daunting—things about Opportunity Zones is that, unlike most federal policies and programs, very little is preordained. Outcomes are open-ended. Use cases are out there to be discovered. We hope that this resource empowers Indiana to be bold in its deployment of this new federal tool and emerge as a national leader in its application.

Even though this report lays out conditions and opportunities specific to the state of Indiana, its content holds value for a wide variety of public and private stakeholders nationwide. Efforts to similarly identify local Opportunity Zone typologies, assess neighborhood conditions, and plot institutional talent and assets can help community and economic development leaders improve existing strategies to guide private investment in local businesses and catalytic developments. This report can serve as a template for similar local, regional, or state-level analysis, and the strategies can be replicated to advance outcomes similar to those prioritized by communities in Indiana.

The economic crisis instigated by COVID-19 makes the work of this paper's audience all the more important. The American economy is being placed under unprecedented strain. The weight of that strain will fall disproportionately on communities with the weakest foundations. Economically distressed communities lack the inherent resiliency that their more prosperous neighbors can take for granted. In retrospect, the country missed a critical opportunity to harness the decade of growth that followed the Great Recession to fortify struggling neighborhoods and households. It is imperative that inclusion and resiliency take center stage as actors at all levels of government and across the economy plan for recovery. This guide aims to position Indiana to maximize the potential contribution Opportunity Zones can make to that endeavor.

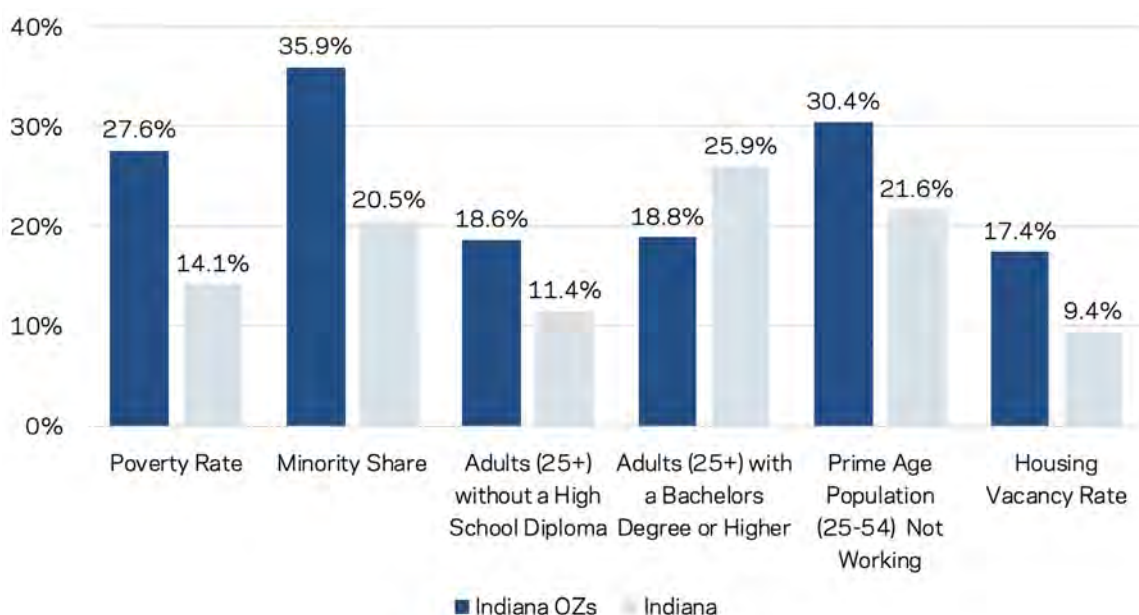
# III. Mapping Opportunity Zones

## Baselining economic conditions across OZs

Indiana's 156 designated Opportunity Zones (OZs) are home to more than half a million people, or about 8 percent of the state's population, encompassing the full variety of this heartland state's communities—from the core of downtown Indianapolis to its many rural small towns.

Broadly speaking, Indiana's OZs demonstrate a compelling need for economic development and outside investment. On nearly every indicator of social and economic well-being, they lag significantly behind the state itself. On average, poverty rates are about 13.5 percentage points higher than the national level. Many OZ residents lack the educational credentials increasingly necessary to succeed in a changing economic landscape, lagging behind the state on both the possession of a high school diploma and a four-year college degree. Beyond the residents themselves, the physical environment of these neighborhoods also exhibits signs of distress, as nearly twice as many houses sit vacant relative to the statewide rate.

Indiana's Opportunity Zones Compared to the State Overall



Source: EIG analysis of the U.S. Census Bureau's American Community Survey 5-Year Estimates, 2014-18



Indiana's OZs have poverty rates comparable to OZs nationwide but slightly higher average median family incomes (MFIs). Reflecting the state's demography, they are significantly less diverse, with only 36 percent of residents belonging to a minority group compared to 56 percent nationally. And while they perform slightly better than peers on educational attainment, they fare significantly worse on housing vacancy and resident health. Glaringly, life expectancy in Indiana's OZs lags six years behind the national average. This alarming figure is in line with OZs in states across the Midwest.

#### National and Statewide Comparison of Indiana's OZs

| Geography      | Median Family Income | Poverty Rate | Minority Share | Adults (25+) without a High School Diploma | Adults (25+) with a Bachelors Degree + | Prime Age Population (25-54) Not Working | Housing Vacancy Rate | Life Expectancy |
|----------------|----------------------|--------------|----------------|--|--|--|----------------------|-----------------|
| United States  | \$74,000             | 14%          | 39%            | 12%  | 32%                                    | 22%                                      | 8%                   | 79              |
| Indiana        | \$68,100             | 14%          | 21%            | 11%  | 26%                                    | 22%                                      | 9%                   | 77              |
| OZs Nationwide | \$47,300             | 28%          | 56%            | 21%  | 18%                                    | 31%                                      | 13%                  | 75              |
| Indiana OZs    | \$49,000             | 28%          | 36%            | 19%  | 19%                                    | 30%                                      | 17%                  | 73              |

Source: EIG analysis of the U.S. Census Bureau's American Community Survey 5-Year Estimates, 2014-18; U.S. Centers for Disease Control and Prevention Small-Area Life Expectancy Estimates. Figures for 2010-2015.

The following table narrows the comparison of Indiana's OZs to several nearby states in the Midwest to provide a clearer picture of how they stack up against some of their peer communities.

#### Peer State Comparison of Indiana's OZs

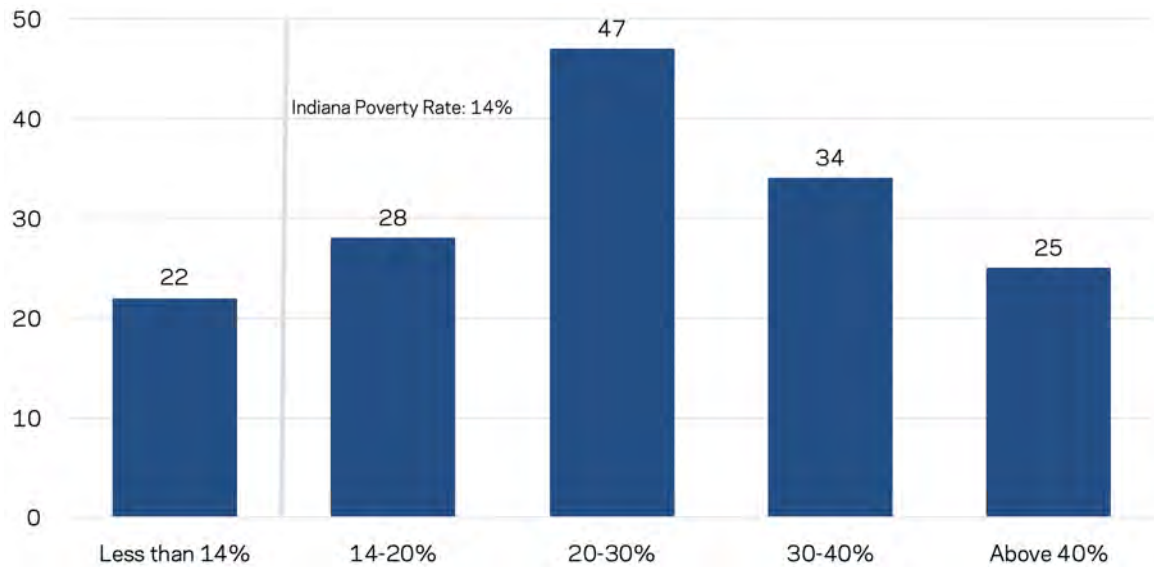
| Geography     | Median Family Income | Poverty Rate | Minority Share | Adults (25+) without a High School Diploma | Adults (25+) with a Bachelors Degree + | Prime Age Population (25-54) Not Working | Housing Vacancy Rate | Life Expectancy |
|---------------|----------------------|--------------|----------------|--|--|--|----------------------|-----------------|
| Indiana OZs   | \$49,000             | 28%          | 36%            | 19%  | 19%                                    | 30%                                      | 17%                  | 73              |
| Illinois OZs  | \$41,500             | 33%          | 72%            | 15%  | 19%                                    | 35%                                      | 18%                  | 73              |
| Kentucky OZs  | \$42,400             | 31%          | 20%            | 15%  | 21%                                    | 38%                                      | 15%                  | 73              |
| Michigan OZs  | \$46,300             | 29%          | 46%            | 19%  | 16%                                    | 32%                                      | 14%                  | 75              |
| Ohio OZs      | \$42,900             | 33%          | 46%            | 17%  | 18%                                    | 33%                                      | 17%                  | 73              |
| Wisconsin OZs | \$48,500             | 28%          | 40%            | 20%  | 15%                                    | 25%                                      | 10%                  | No data         |

Source: EIG analysis of the U.S. Census Bureau's American Community Survey 5-Year Estimates, 2014-18; U.S. Centers for Disease Control and Prevention Small-Area Life Expectancy Estimates. Figures for 2010-2015.

Looking beyond these averages to examine the distribution of OZs across key metrics provides further context. Fourteen percent of residents statewide are in poverty, yet nine out of every ten OZs in the state exceed that threshold, often by a significant margin. Over one-third of the state's OZs are high-poverty communities (with a poverty rate over 30 percent), and 25 concentrated poverty (40 percent or higher) neighborhoods in Indiana are now OZs.



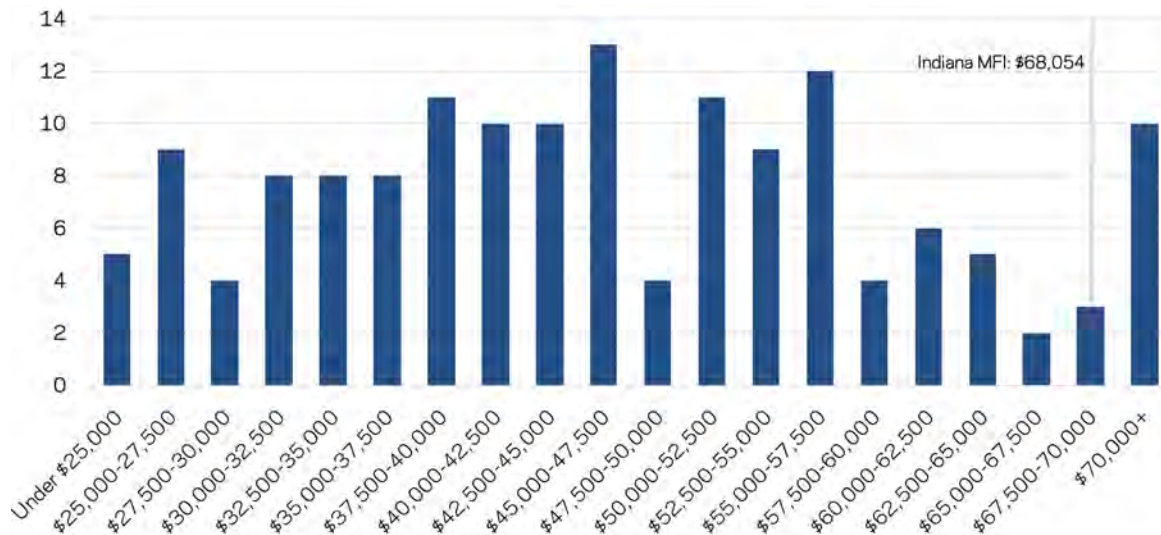
Number of Indiana Opportunity Zones in Each Poverty Rate Band



Source: EIG analysis of the U.S. Census Bureau's American Community Survey 5-Year Estimates, 2014-18

The average median family income (MFI) for the state's OZs is just over \$49,000 per year, nearly \$20,000 less than the state overall. While the vast majority of OZs cluster around that figure, 8 percent of OZ tracts (12 in total) have an MFI higher than the state's. Most of these are located near the downtowns of cities like Indianapolis and Evansville, where pockets of high-earning households can skew income figures higher in a relatively small pool of residents.

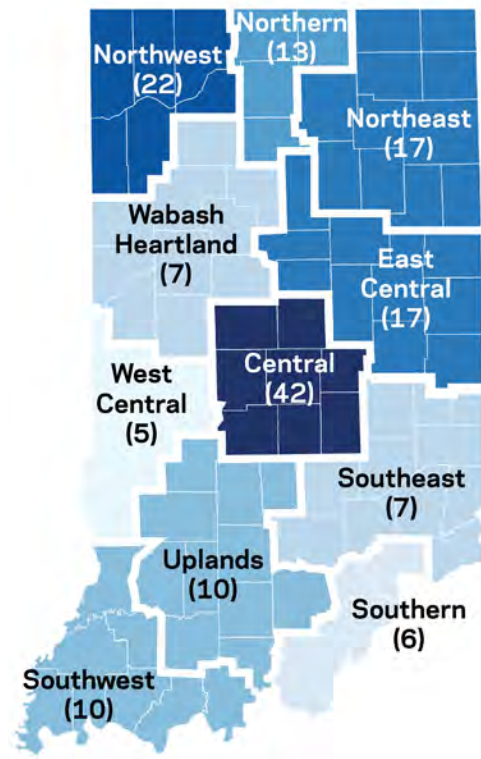
Number of Indiana Opportunity Zones in Each Median Family Income Band



Source: EIG analysis of the U.S. Census Bureau's American Community Survey 5-Year Estimates, 2014-18

The 11 regions designated as part of the Indiana GPS Project shows how conditions can vary greatly across OZs within the state. The number of OZs in each region range from a low of five in the West Central part of the state to a high of 42 in the Central area, nearly double the amount in the region with the second most, Northwest Indiana.

Number of Opportunity Zones by Region



Regional Characteristics of Indiana's OZs

| Region           | Total Opportunity Zones | Population | Average Median Family Income | Average Poverty Rate | Average Minority Population |
|------------------|-------------------------|------------|------------------------------|----------------------|-----------------------------|
| Central          | 42                      | 147,300    | \$53,600                     | 27%                  | 46%                         |
| East Central     | 17                      | 53,000     | \$41,000                     | 29%                  | 23%                         |
| Northeast        | 17                      | 55,900     | \$46,400                     | 27%                  | 24%                         |
| Northern         | 13                      | 42,600     | \$48,600                     | 26%                  | 39%                         |
| Northwest        | 22                      | 66,000     | \$40,800                     | 34%                  | 68%                         |
| Southeast        | 7                       | 25,700     | \$47,100                     | 21%                  | 14%                         |
| Southern         | 6                       | 18,800     | \$54,300                     | 16%                  | 14%                         |
| Southwest        | 10                      | 22,200     | \$56,000                     | 29%                  | 20%                         |
| Uplands          | 10                      | 42,000     | \$49,200                     | 26%                  | 18%                         |
| Wabash Heartland | 7                       | 33,600     | \$53,900                     | 26%                  | 29%                         |
| West Central     | 5                       | 25,100     | \$59,700                     | 28%                  | 14%                         |

Source: EIG analysis of the U.S. Census Bureau's American Community Survey 5-Year Estimates, 2014-18  
U.S. Centers for Disease Control and Prevention Small-Area Life Expectancy Estimates. Figures for 2010-2015.

The Northwest and East Central regions stand out for having some of the lowest incomes in the state, holding about a quarter of the OZ population. The Northwest region also is home to the highest share of minority residents, where 68 percent of those living in an OZ are non-white.

### Assessing the human condition in OZs

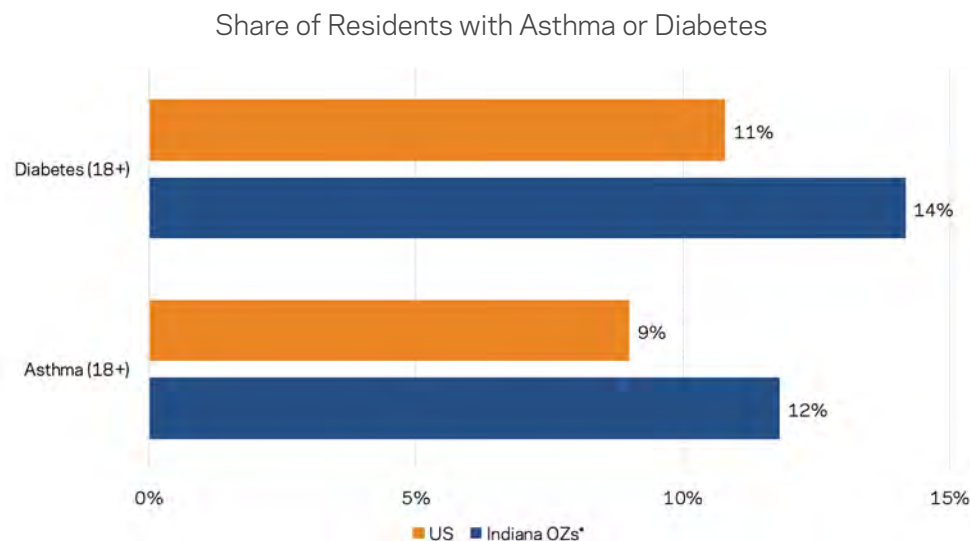
The public health crisis unleashed by the novel coronavirus has exposed deep inequities in physical well-being that correspond with those in economic well-being. Poor and minority residents are far more at risk of contracting and dying from COVID-19 than other segments of the population. New Community Resilience Estimates from the U.S. Census Bureau find that one-third of residents in the average OZ are especially vulnerable to the combined health and economic crisis wrought by the pandemic. Outside of OZs, just under one-quarter of households look so high-risk.<sup>1</sup>

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New Community Resilience Estimates from the U.S. Census Bureau find that one-third of residents in the average OZ are especially vulnerable to the combined health and economic crisis wrought by the pandemic.

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Even in normal times, the economic challenges facing OZ residents can often negatively affect the physical and mental well-being of residents, not only today, but well into the future. Residents of OZs in Indiana's 11 largest cities suffer from elevated levels of both asthma and diabetes, just two of many chronic conditions that can increase the risk for other health conditions.



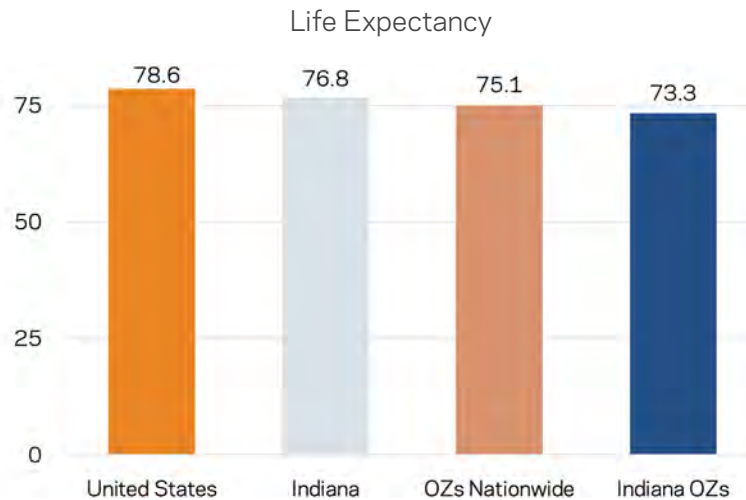
Source: U.S. Center for Disease Control and Prevention "500 Cities Project" data;

\*Data for Indiana OZs is the average from 79 tracts in nine cities

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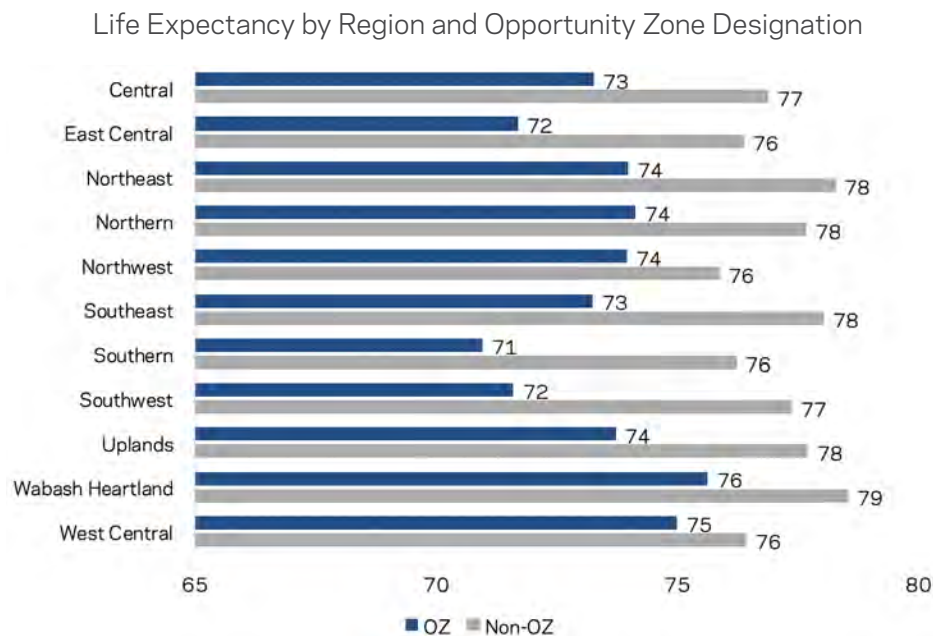
1. Here "high-risk" refers to individuals exhibiting three or more of 11 "risk factors" identified by the U.S. Census Bureau. For more information, see <https://www.census.gov/data/experimental-data-products/community-resilience-estimates.html>.

The comparatively poor health that prevails in Indiana's OZs likely contributes to residents' significantly lower life expectancy, not only relative to the country overall but also compared with OZs in other parts of the country. As reported above, the average life expectancy for the state's OZs is 73.3 years, placing it 10th from the bottom among all states. That's less than the typical OZ tract nationwide and significantly lower than the national average of 78.6 years. (Nevertheless, the figure is in line with nearby Midwestern states.)



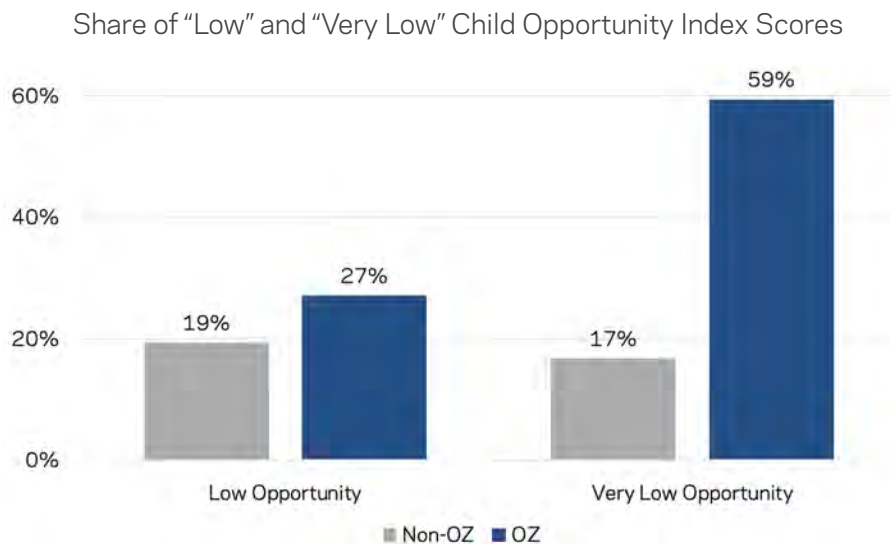
Source: U.S. Center for Disease Control and Prevention Small-Area Life Expectancy Estimates, 2015

Life expectancy varies by several years across Indiana's regions, but residents of OZs can expect to live fewer years than their neighbors in every part of the state. The biggest gaps occur in the southern areas of the state (Southern, Southwest, and Southeast), where OZ residents can expect to live five years fewer than their neighbors on average.



Source: U.S. Center for Disease Control and Prevention Small-Area Life Expectancy Estimates, 2015

Children in particular can suffer **long-term consequences** from living in socially and economically left-behind communities. The **Child Opportunity Index** (COI) measures and maps the quality of resources and conditions that matter for children to develop in a healthy way in the neighborhoods where they live. Nine out of 10 OZ tracts (and 105,500 children living in them) are in areas with low or very low child opportunity scores, meaning they often lack quality early childhood education and schools, safe housing, access to healthy food, parks and playgrounds, and clean air.



Source: Diversitydatakids.org Child Opportunity Index 2.0 Database, 2015

OZs in some regions have lower child opportunity scores than in others, particularly in the Northwest, East Central, and Central regions. These places also tend to have among the highest average poverty rates, lowest average median family income, and largest shares of minority residents. Compared to other regions, the Wabash Heartland, Uplands, and Southern regions stand out as relatively better-off in terms of child opportunity.

Child Opportunity Across Indiana’s OZs

| Region           | Average Child Opportunity Score | Average Poverty Rate | Average Median Family Income | Average Minority Population |
|------------------|---------------------------------|----------------------|------------------------------|-----------------------------|
| Wabash Heartland | 38.7                            | 26%                  | \$53,900                     | 29%                         |
| West Central     | 35.0                            | 28%                  | \$59,700                     | 14%                         |
| Uplands          | 33.3                            | 26%                  | \$49,200                     | 18%                         |
| Southern         | 22.3                            | 16%                  | \$54,300                     | 14%                         |
| Southeast        | 21.0                            | 21%                  | \$47,100                     | 14%                         |
| Grand Total      | 18.7                            | 28%                  | \$49,000                     | 36%                         |
| Northern         | 18.3                            | 26%                  | \$48,600                     | 39%                         |
| Southwest        | 17.7                            | 29%                  | \$56,000                     | 20%                         |
| Northeast        | 17.6                            | 27%                  | \$46,400                     | 24%                         |
| Central          | 16.6                            | 27%                  | \$53,600                     | 46%                         |
| East Central     | 12.9                            | 29%                  | \$41,000                     | 23%                         |

Sources: EIG analysis of the U.S. Census Bureau’s American Community Survey 5-Year Estimates, 2014-18; Diversitydatakids.org Child Opportunity Index 2.0 Database, 2015



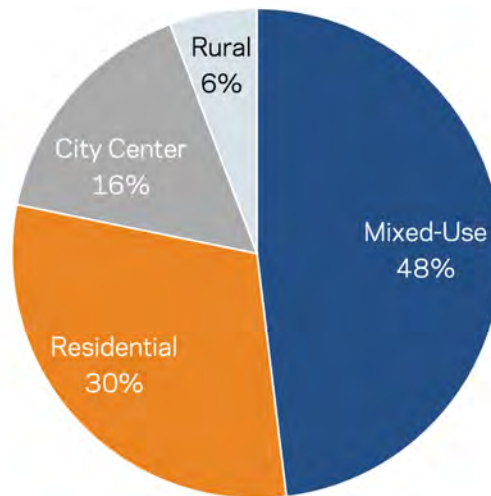
## Establishing an investment typology for Indiana's OZs

Utilizing data provided by the Indiana Business Research Center, EIG created a typology for Indiana's OZs based on land-use characteristics. The exercise is intended to help differentiate investment opportunities and development strategies across different types of places.

### Primary typology

Each OZ was placed into one of four primary categories, **mixed-use**, **city center**, **residential**, or **rural** based on the local land use composition across residential, commercial, industrial, or other sectors. Nearly half of all OZs in the state can be considered mixed-use, with diverse investment opportunities. Another 30 percent of zones are almost exclusively residential, followed by 16 percent in the center of large cities and 6 percent in rural areas, where diverse investment opportunities may also exist.

Primary Typology of Indiana's Opportunity Zones



Source: EIG analysis of data provided by Indiana University-Purdue University Indianapolis

Contextualizing each category further:

- **Mixed-use (48 percent):** These tracts typically have many land-use types, although residential areas tend to predominate alongside moderate commercial activity and generally few industrial properties. About half of the state's OZs fall into this category, and nearly 270,000 people reside in them.
  - Residential zoning average 67%
  - Commercial zoning average 14%
  - Industrial zoning average 4%

### Regional Distribution of Mixed-Use OZs

| Region           | Regional Share of State's Mixed-Use OZs | Share of Region's OZs That Are Mixed-Use |
|------------------|---|--|
| Central          | 27%                                     | 48%                                      |
| East Central     | 8%                                      | 35%                                      |
| Northeast        | 9%                                      | 41%                                      |
| Northern         | 9%                                      | 54%                                      |
| Northwest        | 13%                                     | 45%                                      |
| Southeast        | 5%                                      | 57%                                      |
| Southern         | 4%                                      | 50%                                      |
| Southwest        | 4%                                      | 30%                                      |
| Uplands          | 9%                                      | 70%                                      |
| Wabash Heartland | 5%                                      | 57%                                      |
| West Central     | 5%                                      | 80%                                      |

- City center (16 percent):** These tracts share many qualities of those characterized as “mixed-use” but are specifically located in the urban core of cities. Because of their location, city center tracts tend to have a higher percentage of commercial zoning than the mixed-use category. About 72,000 people reside in a city center OZ, and while the zones have the highest average median family income at \$58,000, they also have the highest average poverty rate and share of prime age adults not working. City center OZs also hold the highest average share of properties that are exempt from zoning regulations or taxation, since these locations often contain concentrations of government buildings or educational facilities.
  - Residential zoning average 55%
  - Commercial zoning average 25%
  - Industrial zoning average 2%

### Regional Distribution of City Center OZs

| Region           | Regional Share of State's City Center OZs | Share of Region's OZs That Are City Center |
|------------------|---|--|
| Central          | 16%                                       | 10%  |
| East Central     | 16%                                       | 24%  |
| Northeast        | 8%  | 12%  |
| Northern         | 12%                                       | 23%  |
| Northwest        | 12%                                       | 14%  |
| Southeast        | 0%  | 0%   |
| Southern         | 4%  | 17%  |
| Southwest        | 16%                                       | 40%  |
| Uplands          | 8%  | 20%  |
| Wabash Heartland | 8%  | 29%  |
| West Central     | 0%  | 0%   |

- **Residential (30 percent):** These tracts are typically found in metro areas and predominantly contain single family housing, with some multifamily as well. There may be a limited number of commercial or industrial properties interspersed throughout the zone, but such land uses do not constitute a significant share of the tract overall. About one-third of Indiana's OZ population resides in one of these residential tracts, roughly 157,000 people. These areas have the highest average minority share of the population (48 percent) along with the lowest average median family income (\$44,800), nearly \$24,000 less than the median family statewide.
  - Residential zoning average 83%
  - Commercial zoning average 6%
  - Industrial zoning average 1%

Distribution of Residential OZs

| Region           | Regional Share of State's Residential OZs | Share of Region's OZs That Are Residential |
|------------------|---|--|
| Central          | 36%                                       | 40%  |
| East Central     | 13%                                       | 35%  |
| Northeast        | 15%                                       | 41%  |
| Northern         | 6%  | 23%  |
| Northwest        | 15%                                       | 32%  |
| Southeast        | 4%  | 29%  |
| Southern         | 4%  | 33%  |
| Southwest        | 4%  | 20%  |
| Uplands          | 0%  | 0%   |
| Wabash Heartland | 2%  | 14%  |
| West Central     | 0%  | 0%   |

- **Rural (6 percent):** these tracts tend to have large agricultural areas that dominate the landscape as well as significant shares of residential land-use with a limited number of commercial properties in small towns. Accordingly, there are likely diversified investment opportunities in these rural OZs given the sheer variety of land uses possible in rural areas, from small town Main Streets to large plots of land with potential industrial applications adjacent to highways and other pieces of infrastructure. Rural OZs have the lowest average poverty rate (18 percent) as well as the lowest average share of prime age adults not working (22 percent). These tracts are home to just under 34,000 residents, only 5 percent of whom in the average tract belong to a minority group.
  - Agricultural zoning average 35%
  - Residential zoning average 54%
  - Commercial zoning average 4%



## Distribution of Rural OZs

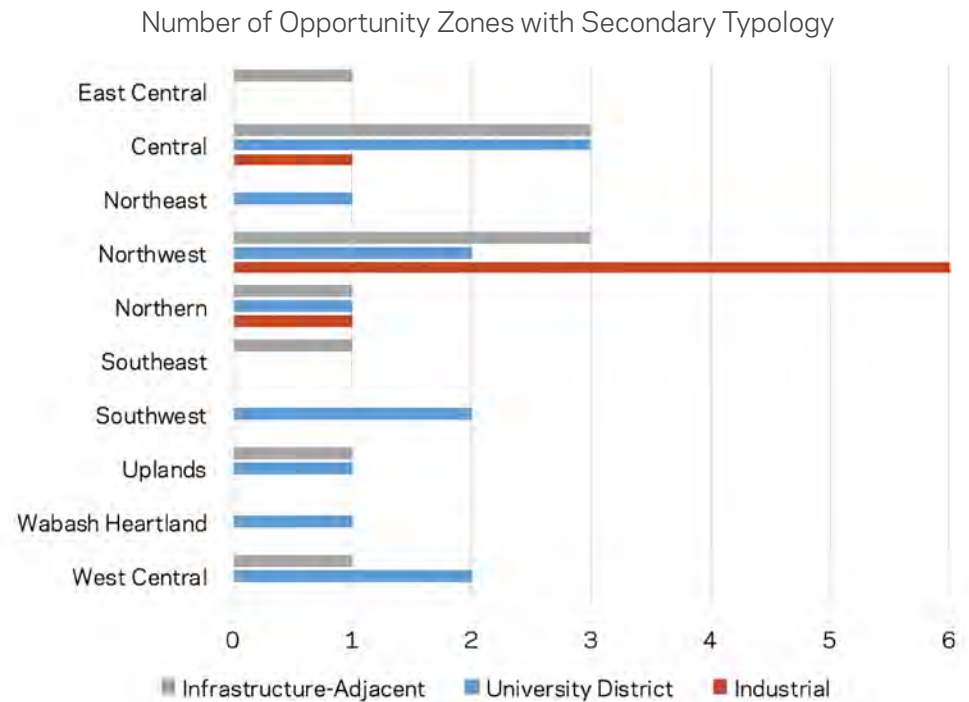
| Region           | Regional Share of State's Rural OZs | Share of Region's OZs That Are Rural |
|------------------|-------------------------------------|--------------------------------------|
| Central          | 11%                                 | 2%                                   |
| East Central     | 11%                                 | 6%                                   |
| Northeast        | 11%                                 | 6%                                   |
| Northern         | 0%                                  | 0%                                   |
| Northwest        | 22%                                 | 9%                                   |
| Southeast        | 11%                                 | 14%                                  |
| Southern         | 0%                                  | 0%                                   |
| Southwest        | 11%                                 | 10%                                  |
| Uplands          | 11%                                 | 10%                                  |
| Wabash Heartland | 0%                                  | 0%                                   |
| West Central     | 11%                                 | 20%                                  |

### *Secondary typology*

Beyond those basic typologies, EIG also identified OZ tracts with other traits of economic or demographic significance to form a secondary typology. This grouping is meant to differentiate beyond predominant land uses to capture areas that may present special investment opportunities or warrant specialized development strategies, such as university districts. The Central and Northwest regions contain by far the largest number of these specialty OZs.

- University District (13 tracts):** These tracts either contain, or are immediately adjacent to, major colleges and universities. They also include business districts serving the college community. While poverty rates tend to be above average due to the presence of large student populations, university districts have the highest median family income among these tracts with secondary characteristics. These tracts are well spread out across different regions in the state and house a total of nearly 58,000 Hoosiers.
  - Residential zoning average 49%
  - Commercial zoning average 22%
  - Industrial zoning average 3%
  - Exempt zoning average 26% (ranges from 0-90%)
- Industrial (8 tracts):** These tracts contain sizable areas zoned for industrial use, large warehouses, and/or significant pieces of manufacturing infrastructure. These tracts contain only 23,000 residents in total, but they concentrate extreme disadvantage. Industrial OZs have elevated poverty and residential vacancy rates, low rates of work, and overwhelmingly non-white populations. Most of these tracts are concentrated in the Northwest region of the state in the vicinity of the city of Gary.
  - Residential zoning average 59%
  - Commercial zoning average 10%
  - Industrial zoning average 8%

- **Infrastructure-adjacent (11 tracts):** These tracts are near airports, railyards, or other significant transportation infrastructure, but tend to be zoned for relatively little industrial activity. They are distributed across seven of the state's 11 regions. Reflecting relatively high residential land uses, roughly 46,000 people live in these neighborhoods.
  - Residential zoning average 73%
  - Commercial zoning average 8%
  - Industrial zoning average 3%



Source: EIG analysis of the U.S. Census Bureau's American Community Survey 5-Year Estimates, 2014-18

- **Small City (40 tracts):** These tracts are part of small urbanized areas (encompassing no more than a few census tracts) in parts of the state that are otherwise rural and largely undeveloped. These tracts can be found in every region. These neighborhoods tend to be lower poverty relative to other OZs and less diverse. Combined, they contain 142,600 residents.
  - Residential zoning average 71%
  - Commercial zoning average 11%
  - Agricultural zoning average 6%
  - Industrial zoning average 2%

Characteristics of Indiana's OZs by Secondary Typology

| Secondary Typology      | Total Opportunity Zones | Total Population | Average Median Family Income | Average Poverty Rate | Average Minority Population |
|-------------------------|-------------------------|------------------|------------------------------|----------------------|-----------------------------|
| Industrial              | 8                       | 21,200           | \$33,000                     | 38%                  | 79%                         |
| Infrastructure-Adjacent | 11                      | 45,900           | \$50,500                     | 23%                  | 43%                         |
| Small City              | 40                      | 151,000          | \$50,400                     | 20%                  | 13%                         |
| University District     | 13                      | 49,200           | \$53,200                     | 40%                  | 33%                         |

Source: EIG analysis of the U.S. Census Bureau's American Community Survey 5-Year Estimates, 2014-18

# IV. Needs and opportunities

Four key issue areas emerged from numerous conversations with local stakeholders across Indiana as realms in which OZs are primely positioned to help the state further its goals. OZs can contribute directly to the state's efforts to:

- Build a dynamic and resilient economy
- Create livable communities
- Improve resident health
- Provide quality, affordable housing

## Build a dynamic and resilient economy

Entrepreneurs are a critical feedstock of dynamic, prosperous, resilient economies. A steady stream of new companies is essential for maintaining high levels of productivity, keeping markets competitive, and helping economies adapt to change. The 2010s was marked by depressed rates of entrepreneurship nationwide, and this was particularly true in Indiana. In 2014, the latest year in which detailed firm level data is available from the U.S. Census Bureau's Business Dynamics Statistics, only 1.4 percent of jobs in the state were in companies less than one year old, ranking Indiana last nationally, tied with Alaska. Nationally, 2.1 percent of jobs were in such very young companies. Conversely, the state has the third highest share of jobs tied up in very old firms, ages 16 and over—79 percent of all jobs, just behind Iowa and Ohio. On these measures, Indiana's economy looks both staid and at risk, because old firms risk being sidelined by change, while entrepreneurs serve as an important hedge against an uncertain future.

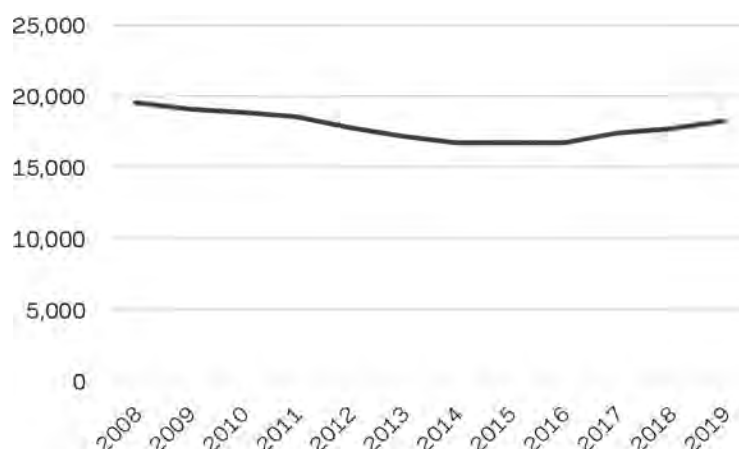
While startup rates in Indiana lag behind the nation, recent data examining applications to start new businesses show that entrepreneurship in the state did begin to rekindle modestly around 2016, after a long lull following the Great Recession. Indiana performs better than most of its neighbors with respect to growth in the number of business applications that had a high likelihood of becoming true employer businesses in the near term. Yet any incipient rekindling of the state's entrepreneurial spirit may be short-lived. The impact that COVID-19 has on would-be entrepreneurs remains to be seen, but there is a significant chance that the pandemic negatively influences entrepreneurial risk-taking for years to come.

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Indiana performs better than most of its neighbors with respect to growth in the number of business applications that had a high likelihood of becoming true employer businesses in the near term.

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Indiana Probable Employer Business Applications



Source: U.S. Census Bureau's Business Formation Statistics

Indiana retains the building blocks of a vibrant entrepreneurial ecosystem in and around its OZs, and OZs have the potential to attract much needed patient, private investment capital to the mix. Thirteen of the state's OZs are part of university districts, often centrally-located mixed-use areas adjacent to major university campuses and well-positioned to be part of universities' startup, tech transfer, and technology commercialization strategies. For example, an OZ investor could help boost a new startup that is commercializing technology from one of Indiana's leading universities by taking a venture capital-style equity stake in the business. At least seven business incubators and accelerators are located in OZs, most of them affiliated with universities. Companies going through their programs may all be eligible to receive equity investments from OZ investors.

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Eight of the state's 20 Certified Tech Parks are also located in OZs, and another 6 in close proximity to one. 16 Tech in Indianapolis and Electric Works in Fort Wayne, two of the state's most significant efforts to combine innovation and entrepreneurship with physical redevelopment in comprehensive, place-based economic development strategies, are both located in OZs. Both efforts are positioned to attract and deploy OZ capital in multiple ways, from financing further build-outs of the innovation districts to providing startups with office space and direct investments into incubating growth companies.

Between 2015 and 2019, businesses based in Indiana's OZs won nearly 160 Small Business Innovation Research and Technology Transfer (SBIR/STTR) grants. That was just over 10 percent of the state's total awards from federal agencies to especially innovative and high-potential small technology businesses, suggesting that Indiana's OZs are already home to an impressive stock of investment-ready growth companies.

## Certified Tech Parks in Indiana's OZs

| Organization                           | City           | Region             |
|--|----------------|--------------------|
| IU Innovation Center                   | Indianapolis   | Indianapolis       |
| Innovation Park (Notre Dame)           | South Bend     | South Bend-Elkhart |
| Innovation Pointe                      | Evansville     | Southwest          |
| Innovation Hub (Valparaiso University) | Valparaiso     | Northwest          |
| Launch Elkhart                         | Elkhart        | South Bend-Elkhart |
| Purdue Technology Center               | Indianapolis   | Indianapolis       |
| Purdue Foundry                         | West Lafayette | Wabash Heartland   |

The economic development applications of OZs extend beyond startups, however. The incentive is designed to finance a range of additive economic activities in a zone, which means that OZ financing can also aid in the expansion of existing businesses. It can be used to acquire new capital equipment, to build a new facility, or to hire and grow as long as the investment is coming in as equity and being made with qualifying capital (recently realized capital gains), being channeled through a qualifying intermediary (an Opportunity Fund), and being deployed into a qualified business.

### Economic development applications of OZs: Business creation, preservation, and expansion

Models that illustrate how the OZ incentives can be used to directly support businesses include:

- Venture capital:** The most straightforward model of an OZ investment directly into a business comes in the form of a traditional equity or venture capital style deal. In these scenarios, the Opportunity Fund acquires a direct equity stake in the firm via new, original-issue shares. This model is especially fitting for new or young, high-growth firms. These applications may be especially relevant to the state's life sciences and digital clusters.
- Build-to-suit:** OZs can be applied in the more traditional economic development setting of site location and business expansion by being utilized to construct build-to-suit office, industrial, or warehousing space. In this model, an expanding firm solicits bids for a new office or facility. In response, a developer works with a project team to assemble financing (or a "capital stack," in the jargon, that includes an OZ investor) and bid on the deal. The OZ capital is used alongside other sources to construct the facility, which the expanding firm then leases. Projects using OZ financing in this manner are already finding in the marketplace that they can offer extremely competitive rates. In this model, the expanding company does not receive a direct investment using OZ money, but it is an

indirect beneficiary of the OZ real estate deal. These applications may be especially relevant to the state's advanced manufacturing and logistics clusters.

- **Legacy preservation:** Owners of existing businesses can sell their stake in a company to an OZ investor in exchange for an equity infusion that meets the substantial improvement requirements of the statute. In this model, a long-time owner near retirement, for example, could sell her business to an outside investor committing to inject new life into it with a significant investment. The market is also seeing instances in which the initial owners then acquire a profit interest in the renewed enterprise, staying on as managers or employees. While their investment may not be eligible for the OZ incentive, or their investment may be capped at a certain percent, this strategy allows legacy businesses owners to profit from additional value creation while also remaining involved in the future of the company. These applications may be especially relevant in the state's advanced manufacturing cluster.
- **Relocation:** A firm can use a capital gain to acquire, build, or substantially improve property in an OZ and move into it. Alternatively, it could work with an outside owner and operator of the newly constructed or substantially improved property to achieve the same result. Under the right circumstances, the firm itself might then become a qualified OZ business eligible to receive OZ investments. These applications are likely to be relevant across a wide range of industries.
- **Equipment purchase:** OZ financing can be used to acquire new capital equipment. Under this scenario, the owner of a business could liquidate an investment, channel the capital gain into a closely-held Opportunity Fund, and purchase new equipment that gets contributed back to the business or is leased to it at market rates. In another scenario, a non-profit research institution could reach an agreement with a private investor that sees them acquire a cutting-edge piece of machinery and lease it to the institution, with the institution obliged to acquire it at market rates and without depreciation down the road. These applications may be especially relevant in the state's life sciences or advanced manufacturing clusters.
- **Multi-angle:** Referred to in the jargon as "OpCo + PropCo," this strategy refers to one in which qualified OZ investments are made to support both the operating company (OpCo) and a property company (PropCo). OZ financing can be used to invest both in a new or expanding business and in the physical infrastructure it needs to thrive. For example, the same or different but coordinating OZ investors can invest directly in a company operating a food hall and, separately, in the structure itself. Similarly, OZ investors could make separate but related



investments into a new business manufacturing medical gear, the facility itself, and the capital equipment filling it. These applications are likely to be relevant across a wide range of industries.

The above only outlines a handful of models currently being incubated across the country. Many different creative structures can be found to support company or local economic development goals, especially if the OZ investor has already been secured. In general, many existing businesses—including so-called “mom-and-pop” types that occupy local Main Streets—do qualify to receive OZ equity investments directly if they entered into leases in 2019 or later and if they have large amounts of inventory. This opens up many different avenues for OZ finances to boost their businesses. Capital partners—and local economic development advisors—can work with them to devise a structure that achieves their goals with respect to ownership, profits, and legacies.

### Create livable communities

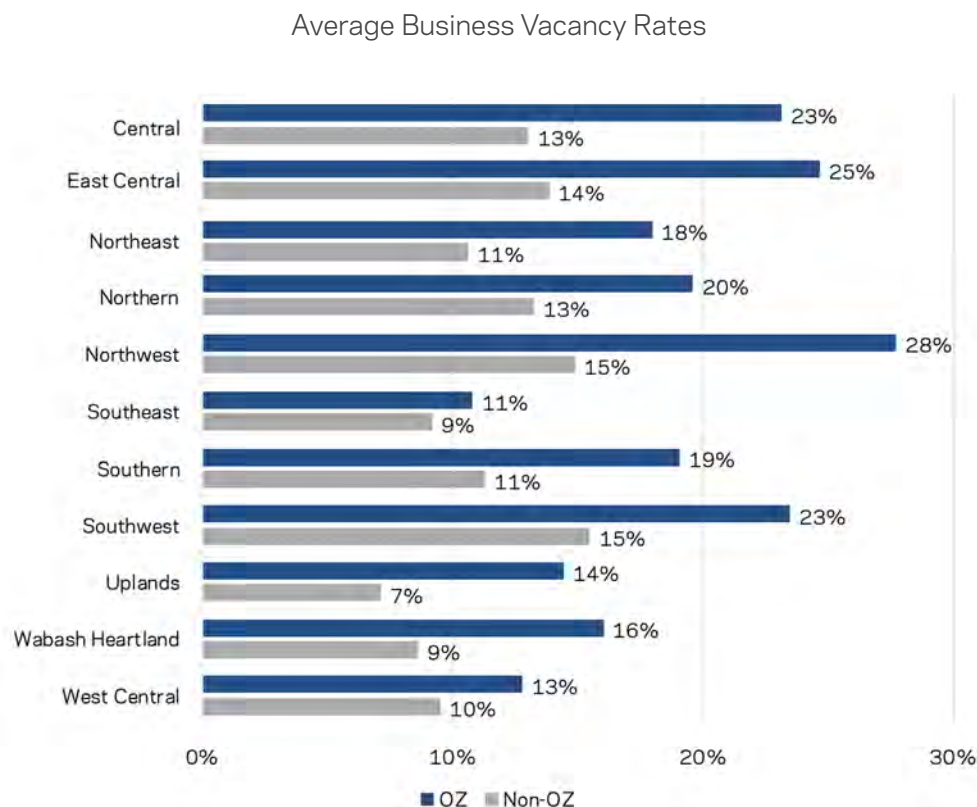
Vibrant, inviting communities are essential assets in the competition for talent and human capital in the modern economy. In our interviews, stakeholders identified attracting and retaining talent as one of the state’s highest economic development priorities. OZs are a tool tailor-made for placemaking efforts, given that the tax incentives are most beneficial when significant value is created—and livable communities are in-demand, valued communities. [Smart Growth America](#) has already identified 10 Indiana OZs in nine different counties as primed for walkable, sustainable growth. Just north of downtown Indianapolis lies one of the 50 best-positioned OZs in the country on their measures.

OZs can help enhance and create livable communities in a number of ways. For example, the incentive can be leveraged in large-scale **master-planned placemaking efforts** as one financing tool among many. Examples of OZs at work in this capacity can currently be found in St. Louis, MO, at the STL Foundry and Washington, DC, at the St. Elizabeth’s Campus redevelopments. Locally, the Electric Works district in Fort Wayne, which is actively seeking OZ capital, would serve as another example. These instances where totally new real estate submarkets are created may be of special interest to certain types of OZ investors.

OZs can dovetail into more organic placemaking efforts on much smaller scales, as well. Across the country and in Indiana, OZ capital is being used to **revitalize Main Street** storefronts, community spaces, and living. The incentive presents a new financing option for traditionally underinvested corridors and opens up new possibilities for **adaptive reuse**. It aligns well with coordinated local strategies to boost investment and activity in community commercial corridors, given that the value of the incentive is generally tied to future appreciation—a policy design feature intended to ensure investors only succeed if communities do too. Numerous state programs including the formal Indiana Main Street

network, Stellar Communities, and Community Revitalization Enhancement Districts can all layer with or seek to involve, invite, or coordinate with private OZ investors to amplify their local impacts. Small and mid-sized cities such as Brookville, IN, and Dubuque, IA, are finding common cause with OZ investors in bolstering their communities' Main Street hearts.

The need for such coordinated strategies appears to be acute across many of Indiana's OZs. In four regions—East Central, Central, Northwest, and Southwest—more than 20 percent of commercial properties stand vacant in the average OZ.



*Source: EIG analysis of HUD aggregated USPS 2020 Q1 data on business vacancies*

**Historic preservation** is another developing OZ market niche that serves to enhance local livability and strengthen Main Streets. National and state historic preservation tax credits are proving to layer well with OZ investments and statutory requirements. Many of the investments being made in Indiana's OZs include historic preservation and leverage federal Historic Tax Credits. Projects like The Ridely in Marion and The Barrelhouse in Elston Grove are all reactivating historic vacant properties, and breathing new life into the state's OZs.

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National and state historic preservation tax credits are proving to layer well with OZ investments and statutory requirements.

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## Indiana's support for livable communities

State policies and programs that align well with OZs for creating livable communities:

- Indiana Main Street
- Stellar Communities
- Community Revitalization Enhancement Districts
- Redevelopment Tax Credits
- IndyEast Promise Zone

History weighs heavily on the built environment of many OZ neighborhoods particularly in the Central and Northwest regions, as well as those containing larger cities such as South Bend. OZs can be an ally in reducing vacancies, removing blight, and remediating brownfields as well.

The **housing vacancy** rate in the average Indiana Opportunity Zone is 17 percent, compared to 11 percent statewide and 8 percent nationally. In the typical OZ tract, one in six homes stands vacant. In some regions, the figure approaches one-quarter. These vacancies weigh on the value of neighboring homes and depress both investment into a community and the housing wealth of residents. If OZs succeed in stimulating investment in these communities and in creating new demand to reside in them, housing markets in these neighborhoods should stabilize, the stock of these vacancies should fall, and local home values should rise, to the benefit of home-owning residents.

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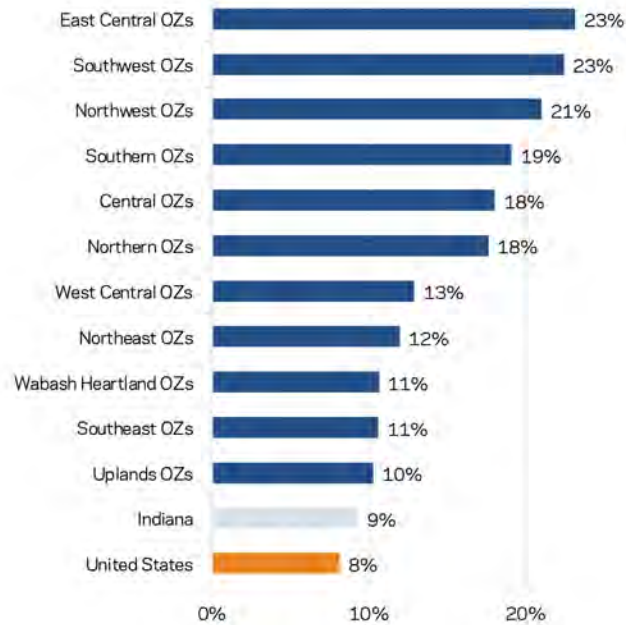
OZs can be an ally in reducing vacancies, removing blight, and remediating brownfields as well.

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Helpfully, final regulations encourage investment into vacant properties. The substantial improvement test that requires investors put at least as much into a property as they paid for it is waived for buildings that have been vacant for at least three years, providing investors more flexibility in adapting spaces. Nationally, almost all development activity EIG is tracking has been in-fill development or the re-purposing of vacant properties. Many OZ investors are naturally drawn to vacant properties because the incentive is structured to be of significant value to investors who purchase a low-value asset and then substantially improve it to significantly raise its value over time.

Public sector land banks and other institutions that have acquired numerous vacant properties may wish to develop an OZ strategy as well. The newly finalized regulations allow them to sell such properties to OZ investors on favorable terms, giving them leverage to negotiate terms of the deal that are in the interest of the community.

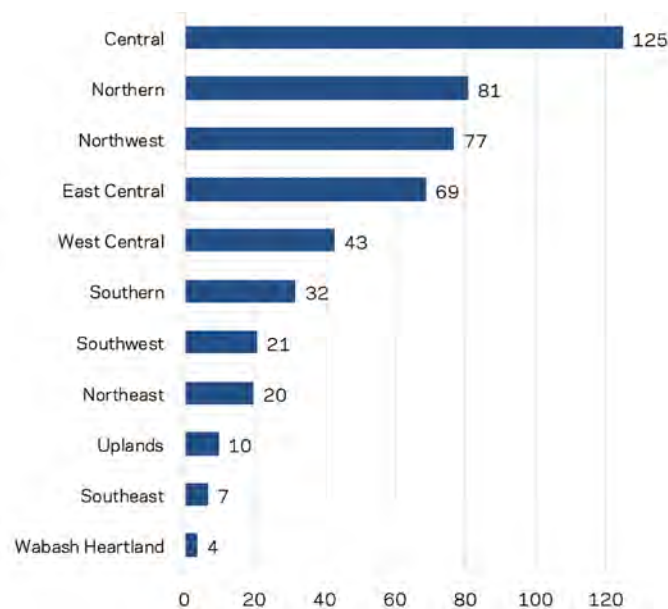
### Average Housing Vacancy Rates



Source: EIG analysis of the U.S. Census Bureau's American Community Survey 5-Year Estimates, 2014-18

As a state with a long industrial history, Indiana also retains numerous **brownfield sites**—disutilized and contaminated industrial and other sites tracked by the Environmental Protection Agency—that weigh heavily on their surrounding communities. A total of 489 brownfield sites are spread across Indiana's OZs. Nearly one-quarter of them are in the Central region, followed by the Northern, Northwest, and East Central regions. Brownfield sites are most frequently found in city center (22 percent) and mixed-use districts (58 percent).

### Brownfield Locations



Source: U.S. Environmental Protection Agency

OZs can be used to give such properties a new lease on life. Final regulations promulgated in late 2019 helpfully provided beneficial rules for making such investments, allowing for remediation costs to be put towards substantial improvement requirements, for example. Already OZs are helping to finance the redevelopment of one of the country's largest brownfield sites: The 26-year-plus abandoned DuPont facility in East Chicago, IN, which is in the process of being transformed into the 225-acre East Chicago Logistics Gateway, tapping into the site's favorable position on road, rail, and air networks. Few brownfield sites are of such massive scale, and OZs may be an even better fit for smaller projects.

### Public sector leverage points

Regulations finalized at the end of 2019 provide important points of influence to local governments and allow communities to better address vacancy and blight.

**Addressing Vacancy:** *Vacant property acquired by a state, local, or Tribal government and then sold or leased to an Opportunity Fund or Qualified Opportunity Zone Business qualifies as original use.*

- Public entities such as local governments, port authorities, or land banks, can sell property they have involuntarily acquired to a qualified Opportunity Fund and have the substantial improvement test waived. This may give public entities significant leverage in shaping the course of a project, and it also presents them with an opportunity to offload properties they have acquired through foreclosure, abandonment, or other means to foster new economic development.

**Favorable Leasing Terms:** *State, local, and Tribal governments are exempt from the market-rate leasing rule, which otherwise requires leased tangible property to be market rate in order to qualify as QOZ business property.*

- Favorable leasing rules for Federal, state and local government property allow public entities to enter into below market-rate lease arrangements with OZ investors that again may give them leverage to shape investments towards their community priorities. For example, a local government could lease land to a developer on favorable terms if the developer commits to constructing affordable housing, or public space could be leased on favorable terms to a minority business incubator.

Some additional aspects of the final regulations that may usefully inform local strategies include:

- Additional flexibility for vacant property to qualify as original use. Final regulations encourage OZ investments into vacant properties by allowing for the substantial improvement test to be waived on purchases of properties that have been vacant for at least three years. This provision gives investors a strong incentive to acquire, rehabilitate, and reactivate existing properties.
- Brownfield remediation (land and buildings) can be treated as original use. In practice, this means that the OZ benefits can extend to any part of a brownfield site redevelopment, from costly and time-consuming clean-up and time-consuming clean-up and decontamination to new construction itself.
- Aggregation of certain buildings to be treated as a single property for purposes of the substantial improvement test. For projects or redevelopment sites that span many different pieces of property, investors are allowed to apply the substantial improvement test to the whole project, rather than each individual component part.

Of course, all OZ investments are subject to state and local rules and regulations, including zoning, which give local leaders significant leverage in setting the terms under which OZ investments come into their communities.

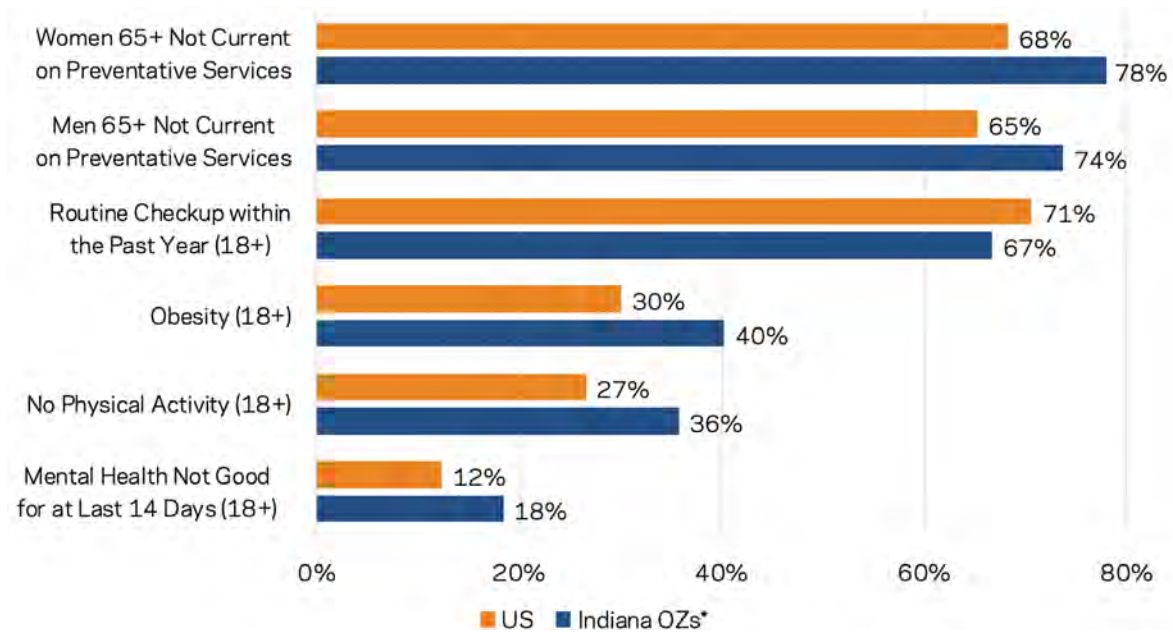
### Improve resident health

Especially in light of the COVID-19 pandemic and the longstanding, deeply-rooted gaps it has laid bare in health conditions that afflict the country's most disadvantaged and marginalized populations, local leaders should consider how OZs can help improve health outcomes in communities.

The need is great. Fine-grained neighborhood-level health metrics are only available through the Center for Disease Control's 500 Cities database for the state's 11 largest cities, covering 51 percent of local OZs and 40 percent of the state's OZ residents.

On a range of metrics from this dataset tracking health outcomes and preventative practices, residents of Indiana's OZs perform worse than the country overall. Among the largest disparities are the share of adults regularly engaging in physical activity and the obesity rate among residents. The elderly population also appears particularly at-risk, as the population over 65 years old is about 10 percentage points less likely to have received a set of preventative medical services in the past year compared with the typical American.

### Health Conditions of Residents



Source: U.S. Center for Disease Control and Prevention "500 Cities Project" data;

\*Data for Indiana OZs is the average from 79 tracts in nine cities

In many ways, livable communities that encourage walking and outdoor recreation are healthy communities, making this strategic priority closely related to the prior one. The quality of the built environment, open space, and safety all matter for improving baseline health in a community. Strong communities also foster better mental health—an urgent priority given that, across Indiana's urban OZs, nearly one in every five residents reported poor mental health even before the pandemic hit.

### Food Deserts in Indiana's OZs

| Region           | Food Deserts in Opportunity Zones | Share of Region's Opportunity Zones |
|------------------|-----------------------------------|-------------------------------------|
| Central          | 10                                | 24%                                 |
| East Central     | 8                                 | 47%                                 |
| Northeast        | 7                                 | 41%                                 |
| Northern         | 6                                 | 46%                                 |
| Northwest        | 10                                | 45%                                 |
| Southeast        | 3                                 | 43%                                 |
| Southern         | 1                                 | 17%                                 |
| Southwest        | 0                                 | 0%                                  |
| Uplands          | 1                                 | 10%                                 |
| Wabash Heartland | 4                                 | 57%                                 |
| West Central     | 3                                 | 60%                                 |

Source: U.S. Department of Agriculture's Food Access Research Atlas

Access to fresh, healthy foods is another cornerstone of a healthy community that is missing from too many OZs. Statewide, 53 OZs are considered **food deserts** by the U.S. Department of Agriculture. This means that residents of one-third of Indiana's OZs do not have access to a full-service grocery store within one mile in an urban area or 10 miles in a rural one. In the Central region, one-quarter of OZs are food deserts and in Northwest Indiana, fully half are. Local stakeholders may wish to prioritize partnerships with OZ investors that include plans to bring grocery stores to these underserved areas.

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The quality of the built environment, open space, and safety all matter for improving baseline health in a community.

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**Hospitals** anchor 23 of the state's OZs, and roughly 60 other OZs are adjacent to tracts with a hospital. This embeddedness and proximity make hospitals natural potential partners in local development strategies for around half of Indiana's OZs. OZs can help hospitals amplify their local economic impacts. Whether it is in building out a medical district, spinning out technologies, or diversifying into direct investments into the social determinants of health, there are several different ways the OZ incentive can interface with hospitals' economic development activities. As stable anchor institutions, potential OZ investors may be especially drawn to projects and proposals that have buy-in and commitment from major hospital systems. While some Indiana hospitals have proud track records serving their immediate neighbors, others still have room for improvement. According to a new set of rankings by the Lown Institute, a non-partisan think tank, on how well hospitals serve their communities based on patient outcomes, value of care, and investment in community health, 16 of the 28 large hospitals in the state receive an "A" or "B" grade, six receive a "C," and six receive a "D."

### Case study: Investing in the social determinants of health

In Cleveland, OH, local healthcare system MetroHealth has made a \$60 million direct investment into a 250-unit affordable apartment complex in its Clark-Fulton neighborhood, in a deal that includes Opportunity Zone capital. The surrounding neighborhood is predominantly Hispanic and has a poverty rate around 50 percent. MetroHealth's president and CEO described the new investment as "an opportunity for the hospital to contribute to revitalization of the Clark-Fulton neighborhood and to address the social determinants that impact the health of individuals and communities." The first floor of the building will house an Economic Opportunity Center that will offer job training and other services, and community meetings will determine the best use of the remaining commercial space.

*For more information, see PwC's "[Opportunity Zones program offers social determinants of health opportunities](#)" (2019). Source: "MetroHealth announces \$60 million investment in Clark-Fulton Neighborhood," [Cleveland.com](#), July 2, 2019.*

OZs can also finance healthcare infrastructure on much smaller scales. Traditional real estate style investments can help finance medical office space (as it is in Missoula, MT), healthcare training facilities (Butte, MT), urgent care or clinical facilities (St. Paul, MN), pharmacies and primary care providers (Brookville, IN), and other such outposts. An emerging market niche is taking shape in the form of elderly care facilities as well, with investments and Opportunity Funds operating in parts of the country as diverse as rural Alabama, Dallas, TX, and Seattle, WA. Public private partnerships around OZs in the healthcare space are also being formed. In Albert Lea, MN, OZ investors are cooperating on a new Veteran's Affairs Clinic, and in San Bernardino, CA, RevOZ capital is constructing new facilities for the county department of mental and behavioral health.

### Provide quality, affordable housing

Housing is the cornerstone of individual economic well-being. With quality, stable, and affordable housing secured, individuals and families can thrive. They can save, plan for the future, and take risks. Physical and mental health improves.

Yet across Indiana's OZs, 51 percent of renting households are rent-burdened on average, seven percentage points higher than the rest of the state. Households are defined as rent-burdened if they spend 30 percent or more of their income on rent. At least half of renters are burdened in the average OZ tract in the Central, Southwest, Uplands, Northwest, and East Central regions. Tellingly and troublingly, the number of affordable apartments in the Indianapolis metro area fell twice as quickly as the number of low-income renters from 2011 to 2017.<sup>2</sup>

As documented by Harvard University's Joint Center for Housing and others, the nation is experiencing a housing crisis that works its way well up into the middle class and affects homeowners and renters alike.<sup>3</sup> The market not only under supplies affordable housing options, but so-called "workforce" housing—affordable to those earning between 80 percent and 120 percent of a local area's median household income—is also growing increasingly scarce across much of the country.

The pace of housing construction in OZs has not kept up over the past two decades relative to the state overall. On average, only 9 percent of housing structures in OZs have been built since 2000 compared to 16 percent statewide. The lack of newer structures contributes to the fact that fully two-thirds of the housing stock in Indiana's OZs was built prior to 1970. That share falls to just under half when looking at the state overall.

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2. Joint Center for Housing Studies of Harvard University, <https://www.jchs.harvard.edu/son-2019-low-rent-units-map>

3. Joint Center for Housing Studies of Harvard University, "The State of the Nation's Housing: 2019."



## Housing in Indiana

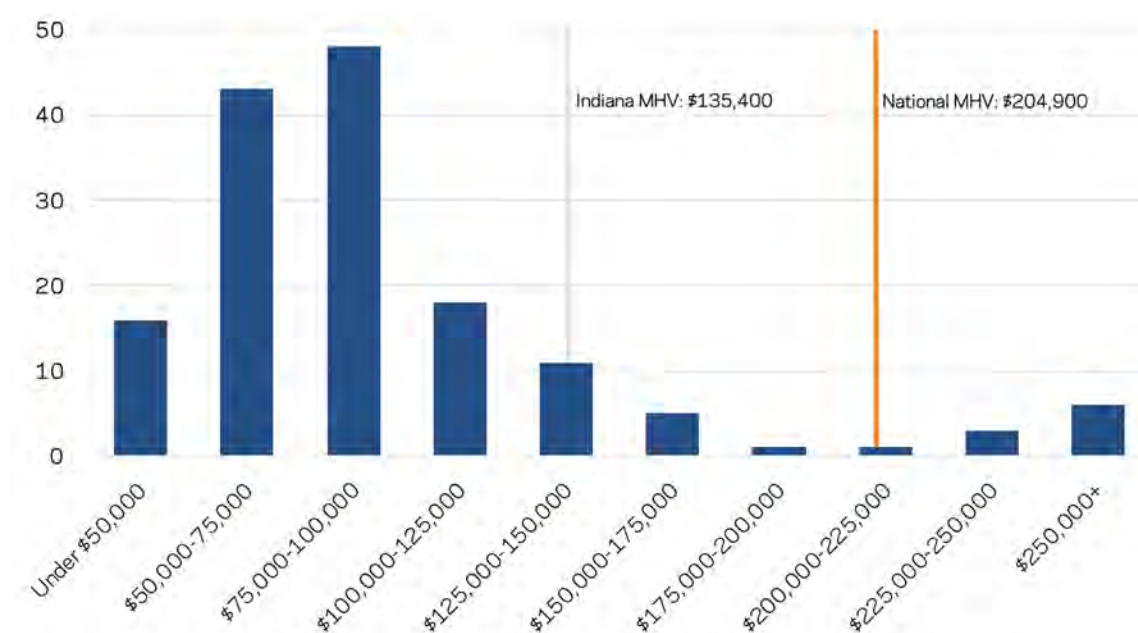
| Geography   | Median Year             | Built Before 1970 | Built Since 2000 |
|-------------|-------------------------|-------------------|------------------|
|             | Housing Structure Built |                   |                  |
| Indiana     | 1973                    | 45%               | 16%              |
| Indiana OZs | 1964                    | 66%               | 9%               |

Source: EIG analysis of the U.S. Census Bureau's American Community Survey 5-Year Estimates, 2014-18

*\*Note: Median year housing structure built reflects average across all OZs; data for 40 OZs was not available.*

In many communities, OZs included, the quantity of housing stock available is less of a problem than the *quality* of it. As the above table shows, in economically struggling urban areas, aging suburbs, and rural areas, the existing housing stock is getting old. With age often comes deterioration—especially when combined with the low home values that prevail in many Indiana OZs. The median home is worth less than \$100,000 in 70 percent of the state's OZs. In these circumstances, the economic incentives for maintenance and refurbishment are undermined. The longer communities go without substantial investment into the local housing stock, the more difficult it is to secure the private financing needed to repair, revitalize, and even finance new purchases, trapping communities in a state of disinvestment and devaluation.

## Number of Indiana Opportunity Zones in Each Median Housing Value Band



Source: EIG analysis of the U.S. Census Bureau's American Community Survey 5-Year Estimates, 2014-18



Housing is also important for economic development and talent attraction. Mobile workers who can choose where to live and work will be drawn to places with a high quality of living and affordable, comfortable housing options. They will bypass communities that offer neither—further undermining local development efforts to attract new residents and new investment. Figuring out how to break the chicken-and-egg cycle is mission-critical to many community and economic development groups in urban and rural areas alike.

OZs may be able to help by changing the conventional economics of investment and allowing places and their public, private, and philanthropic partners to concentrate resources and commitments to individual neighborhoods where a critical mass of activity or a well-placed spark could begin to set the neighborhood on an upward trajectory.

Across the country and in markets such as Indiana, OZs are financing all types of housing development, but most commonly multi-family apartments at all price levels, from affordable through workforce all the way to luxury. Typically, multiple partners and funding streams are required to provide rents that are affordable to low- and moderate-income residents. The OZ incentives appear to make many workforce housing developments profitable with no extra help, making this a niche popular with both investors and local leaders, who are eager to fill the housing gap for middle-wage earners such as teachers, nurses, and other essential workers. The feasibility of workforce housing under the incentive also extends the reach of OZ investment capital into markets that may not be able to support pricier developments. For example, OZ finance is currently helping build workforce housing in both Indianapolis and rural Seymour, in the Southeast region.

# V. Baselining current engagement

Indiana stepped out of the gates and quickly accumulated some of the most exciting OZ initiatives and developments in the country over the course of the policy's first two years:

- The **Opportunity Investment Consortium of Indiana** (OICI), led by LISC and supported by the Fifth Third Foundation, rapidly activated the state's community development sector and positioned itself as a statewide networking hub for impact-minded OZ investments. The consortium's creation helped raise awareness of OZs faster among key constituents than in many other states.
- Small-town **Brookville, IN**, became a national inspiration for other rural communities when residents leveraged OZs to revitalize historic buildings along the town's Main Street, open the town's only hotel, and save the local newspaper.
- The **East Chicago Logistics Center** in Northwest Indiana is one of the nation's largest OZ-financed projects to date, encompassing hundreds of acres of industrial brownfields that had lied economically dormant—and chemically contaminated—for decades.
- **Greenwave Opportunity Fund**, based in Indianapolis, has some of the most ambitious plans in the country to utilize the OZ incentive to invest in green and clean technologies and energy infrastructure.
- Cleantech startup **10X Engineered Materials** in Fort Wayne was one of the first known businesses to harness OZ capital to finance its growth.
- **Affordable and workforce housing** is already being constructed in Indianapolis, Bloomington, Evansville, and Jackson County utilizing OZ capital.
- Purdue University's **Rural Opportunity Zones Initiative**, a partnership with the state's Office of Community and Rural Affairs, is building the capacity of high-need rural counties to attract and deploy OZ investment. It is one of the few rural-focused OZ initiatives in the country.

These examples make clear that many members of Indiana's civic and business communities have risen to the entrepreneurial challenge presented by OZs and are determined to make this

new economic development tool work for their communities. Yet, given the potential scale of the opportunity, engagement across the state and particularly among the investor community could be significantly greater. To fully maximize what OZs can do for Indiana—especially given the acute spike in need generated by COVID-19—the state must focus on two things: raising more local capital for local investing and increasing the capacity of stakeholders to understand and deploy this new financing tool.

### Sizing the investment opportunity

According to our analysis of data tracked by the advisory firm Novogradac and Company obtained in early Spring 2020, there are a handful of Opportunity Funds raising money for particular projects in Indiana, and a sizable number of Indiana-based investors have launched closely-held Opportunity Funds for particular projects (many of which are mentioned in this study). Nevertheless, no investors or fund managers have emerged with a vehicle to pool investors and dollars across multiple projects and multiple communities across the state.

There is a significant base of local wealth that could be tapped to invest in Indiana's OZs. In 2017, approximately 447,000 Indiana households claimed capital gains on their tax returns, for a net win of over \$8 billion. Realized capital gains are a limited proxy for the total stock of unrealized capital gains held by Indiana households and corporations, but the scale of the flow variable hints at just how large the stock of wealth in the state may truly be. Only a fraction of Hoosiers would need to channel a portion of their gains into Opportunity Funds to quickly assemble a significant amount of investment capital dedicated to strengthening Indiana communities through this federal incentive.

In a mature OZ marketplace, sustainable streams of capital will be channeled to locally-driven projects and growing businesses in diversified portfolios of OZ investments. However, the marketplace remains young in both Indiana and the nation, and few dedicated place-based Opportunity Funds have yet formed. When they do (and newly promulgated regulations make them possible), they will present an efficient on-ramp into OZ investing for local investors who want to do well by the state but may not have the desire or expertise to manage their own proprietary Opportunity Fund or source a pipeline of deals. The availability of these funds is almost a prerequisite for broadening investor participation in OZs and seeding a culture of investing locally, or “local-vesting.” Meanwhile, the absence of such funds may drive motivated Indiana-based investors to place their capital out-of-state. Regulations issued at the end of 2019 make such funds possible, as evidenced by the place-based funds popping up in Wisconsin, rural Colorado, and South Los Angeles. Civic and business leaders, high net worth individuals, and philanthropies may wish to consider taking the initiative to launch similar funds or series of funds to further jumpstart the ecosystem in Indiana.

### Mapping Indiana's OZ ecosystem

Early efforts to build a statewide OZ ecosystem through the Opportunity Investment Consortium of Indiana (OICI) have borne fruit, resulting in new cross-sector partnerships and

community-aligned investment. Investment is occurring, both independently and as a direct result of OICI, to support a wide range of economic and community development activities. City leaders have taken proactive measures to attract investment through the development of investment prospectus documents. Efforts to align state programs to OZs have already driven additional public resources to high-impact projects eligible for OZ investment.

Much of this work aligns with activities that are occurring in other communities throughout the nation, many of which have been catalogued by the White House Opportunity and Revitalization Council (WHORC). The Council's May 2020 [Community Toolkit: Volume II](#) offers a five-pronged approach for spurring economic growth through OZ investments. The approach is informed by national best practices, and it is utilized here as a framework for organizing the activity taking place in Indiana.

### *1. Understanding the current environment*

Communities throughout the state are in various stages of solidifying their OZ strategy and engaging investors. Local efforts to assess market conditions, identify areas of economic growth, and catalogue local assets have been memorialized in OZ investment prospectus documents. The process of developing a prospectus triggers local partnerships and helps local leaders unify around a long-term economic growth strategy, communicate their competitive advantages, and identify and market sound investment opportunities that are ready for public, private, and civic capital. Examples of OZ prospectus documents span the state: [South Bend](#), [Fort Wayne](#), [IndyEast Promise Zone](#), [Indianapolis](#), [Muncie](#), and [Michigan City](#).

As many as six additional prospectus documents could be rolled out in the near future thanks to Indiana's initiative to help OZs deliver for rural areas. The Purdue Center for Regional Development (PCRD) has partnered with the Indiana Office of Community and Rural Affairs (OCRA) to launch the state's Rural Opportunity Zones Initiative (ROZI). The initiative is supported by a U.S. Department of Agriculture grant and is designed to deliver the technical assistance and capacity-building support needed to help maximize OZ designations in the state's rural communities.

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Communities throughout the state are in various stages of solidifying their OZ strategy and engaging investors.

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In August 2019, the counties of Crawford, Daviess, DeKalb, Knox, Newton, and Switzerland were selected to participate and are currently in various stages of stakeholder engagement, asset and economic analysis, and prospectus development. Communities have prioritized the following needs: increased availability of affordable single-family starter homes, senior housing, and apartments across the affordability spectrum; expanded access to broadband; commercial space and industrial warehouses; and investments in infrastructure that supports economic activity.

Leaders in Switzerland County are specifically focused on improving livability and diversifying the local economic base by expanding access to broadband, increasing the supply of affordable homes, and attracting new employers. These priorities are deeply intertwined: the extent to which the county may be able to attract new employers is tied to the quality and affordability of their housing stock as well as broadband access, demonstrating the interdependent nature of core needs in many distressed communities. The flexible design of the OZ policy allows investors and communities to tackle a wide range of economic growth pains with one incentive.

## *2. Aligning assets to steer investment toward local priorities*

The prospectus documents position investment opportunities through an asset-based mindset. In them, communities pitch investors on their competitive advantages by highlighting local partnerships and collaborations, city- and county-owned land available for development, or the strength of established or emerging economic sectors. The City of [Muncie](#) promotes its cluster of medical-educational companies that are reshaping the city's post-industrial economy. [South Bend](#) highlights recent investments in research and development, human capital, and digital infrastructure, and the [IndyEast Promise Zone](#) elevates community-backed investment opportunities informed by a decade's worth of work aligning residents, major institutions, and community partners.

Additionally, each prospectus document identifies federal, state, and local financing tools that can be leveraged alongside the OZ incentive. Being forthcoming with this information increases transparency about the local funding environment and signals a willingness to dedicate public resources and incentives to the right OZ-driven transactions. The availability of additional financing and demonstration of community commitment can serve to influence decision-making when investors, Opportunity Funds, and businesses are evaluating multiple options across more than 8,700 OZs nationwide. In aggregate, the six prospectus documents noted above identify more than 30 unique programs, incentives, or designations that may inform decisions on how stakeholders engage, or do not, in Indiana's OZs.

## Case study: Activating Local Investors in Brookville, IN

In the [town of Brookville](#), IN, a pair of local business owners that recently had a sizable capital gain upon selling their company used OZs to channel their proceeds into a series of strategic investments that will strengthen their community:<sup>4</sup>

### **Valley House Flats -**

Community leaders engaged a local developer to renovate and build upon multiple properties along the city's main historic business corridor, creating a new mixed-use development consisting of new apartments and retail space. The project will address community

priorities: new homes that are affordably priced for the local workforce, and space for neighborhood-serving businesses including a restaurant, pharmacy, and primary healthcare provider. The Indiana Housing and Community Development Agency provided an allocation of Rental Housing Tax Credits to finance an assisted-living facility for income-restricted senior citizens, and has supported Valley House Flats through other means of financing and project guidance. The OZ investment provided by local residents served as the final source of financing required to advance the project.



**Whitewater Publications** - The same investor gave the town's local newspaper a second-lease on life by making an OZ investment to modernize its operations and equipment. The investor acquired the Whitewater Publications to steward the business, which was founded in 1833, into its "next iteration."

**Stay Cobblestone** - With two investments completed, the OZ investor encouraged other Brookville residents to co-invest in an Opportunity Fund, which provided financing to develop the town's first hotel.

*For more information, see LISC Indianapolis, "[Community leaders use OZs to bring new life to small town Indiana](#)," December 2019.*

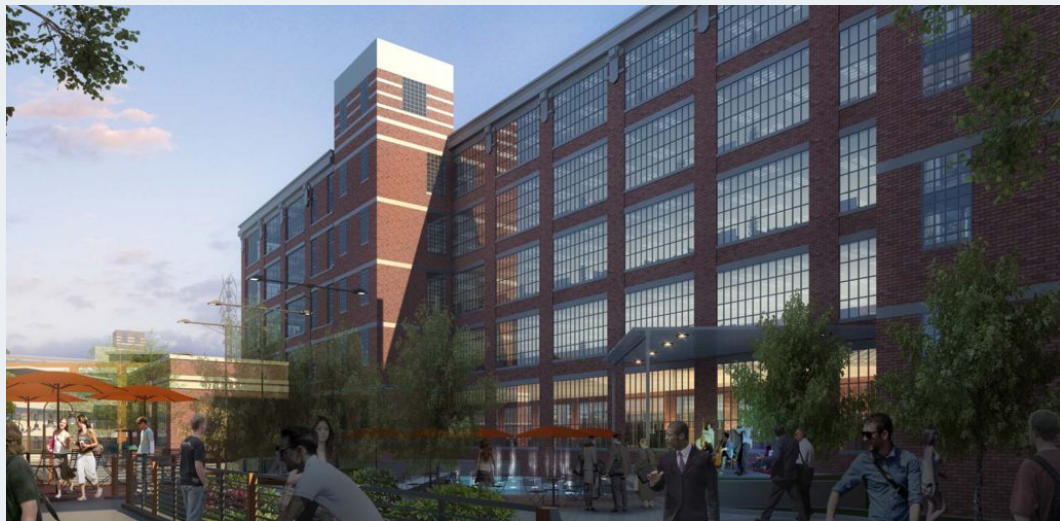
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4. LISC case study



### Case study: Creating an Innovation District in Fort Wayne, IN

Fort Wayne identified its flagship [Electric Works](#) project as a top ten investment priority in its prospectus, providing information highly valued by investors such as the availability of an economic incentives package and that the redevelopment plan had been approved. The former 18-building General Electric campus will soon undergo a massive renovation and be transformed into a mixed-use district focused on innovation, energy, and culture. It is one of the largest redevelopment projects in the nation. Located in an OZ just south of downtown, Electric Works is slated to make a substantial contribution to the city's economic growth strategy; increasing the local middle-wage income, reinvigorating adjacent neighborhoods, and supporting efforts to diversify the local economy as well as attract and retain top talent.



To support the historic preservation and adaptive re-use of the campus, developer and project sponsor Ancora leveraged multiple sources of public and private financing and remains open to using OZ equity to further capitalize the project. The Indiana University Research and Technology Corporation and not-for-profit health care provider Parkview Health are amongst confirmed future tenants, in addition to Fort Wayne Community Schools, which will open a new STEAM-focused public high school on-site. Ancora anticipates Electric Works will provide a meaningful boost to the local economy, creating more than 1,500 direct jobs once stabilized and generating more than \$200 million in tax revenue for the state over 20 years.

### 3. Assembling tools and incentives to promote local objectives

Some of the most powerful ways that state and local governments can drive desired outcomes in OZs include targeting public resources and incentives, providing enhanced funding to support high-needs communities and high-impact projects, and removing unnecessary bureaucratic red tape or project requirements that would dissuade an investor from entering the local market. The state has taken several efforts to align and enhance public resources with OZs. As discussed below, two distinct initiatives led by the Indiana Housing and Community Development Authority (IHCDA) and IEDC seek to position projects that expand the availability of quality, affordable housing or support community revitalization and historic preservation efforts for OZ investment. While IHCDA and IEDC have taken different approaches to prioritizing OZs, their goal is ultimately the same: to increase investment that breathes life into Indiana's distressed communities.

**IEDC: Redevelopment Tax Credit.** Launched in 2020, the Redevelopment Tax Credit is a revision of the state's expired Industrial Recovery Tax Credit that provides an incentive for investment in the redevelopment of land and buildings that have sat vacant for a minimum of 15 years, as well as brownfields over 50 acres. An additional allocation of credits may be awarded if the project qualifies for New Markets Tax Credits or is located in an OZ. Eight of 14 project applications received in January during the first allocation round were located in OZs. Ultimately five projects located in OZs were chosen to receive an award, supporting revitalization efforts in Marion, Lafayette, Evansville, Indianapolis, and Crawfordsville.

#### Case study: Engaging Startups in Marion, IN

The city's historic National Bank building is currently being transformed into a mixed-use property with residential, professional, and retail space. The newly named [Ridley Tower](#) will be carefully preserved blending multiple sources of financing including federal Historic Tax Credits. In an effort to attract startup businesses to downtown Marion, the project sponsor partnered with the Grant County Economic Growth Council to host a pitch competition for local entrepreneurs. The winner secured a one-year lease at Ridley Tower, rent-free.





**IHCDA: Qualified Allocation Plan.** IHCDA has been proactive in seeking new and varied opportunities to build a strong OZ ecosystem that benefits every corner of the state. IHCDA prioritized OZs in the [State of Indiana 2020-2021 Qualified Allocation Plan](#) (QAP) which guides allocation and funding determinations for Rental Housing Tax Credits (RHTCs), Multifamily private activity tax-exempt bonds (Bonds), the Indiana Affordable Housing and Community Development Fund (Development Fund), and HOME Investment Partnership (HOME) funds in conjunction with RHTCs.

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IHCDA considered 43 applications in the 2020-21 RHTC award cycle. Approximately one-third of project sponsors requested OZ preferential points, indicating they had secured soft commitments from OZ investors. In November of 2019, IHCDA awarded the 2020 RHTC allocation to 18 developments, six of which were located in OZs and seeking OZ investment. The six developments are not concentrated in any one market or community typology, but are in fact located in rural, small city, and urban areas throughout the state.

Diversifying the sources of capital that support public projects is a top priority for IHCDA, as doing so enhances its ability to maximize the impact of its own limited resources and increase the number of residents and communities it serves. Encouraging project sponsors to capitalize on OZ designations and attract new sources of private financing to deals allows IHCDA to redirect tax credits, bonds, and subsidy and therefore potentially support more projects per award cycle.

## Case Study: Aligning Investments with Community Plans in Indianapolis

**The Wesmont** project in Indianapolis is illustrative of how multiple sources of public financing can be leveraged to attract investment that supports activities aligned with local priorities. Located on a former industrial site in the city's federally-designated **Promise Zone** (IndyEast), project financing will support multiple community priorities, including: attracting private investment to a historically underinvested community, creating new apartments which will be affordable to low-and moderate-income residents, and remediating the brownfield on which The Wesmont will stand.

Public and private financing and incentives were assembled to bring The Wesmont to fruition, including: Opportunity Zone equity through Woodforest-CEI Boulos Opportunity Fund, equity facilitated through a state tax credit program, a tax abatement provided by the City of Indianapolis, as well as federally-backed and conventional debt executed through Merchants Capital, a mortgage banking company based in Carmel, IN.

OZ investors provided \$4.6 million in equity to support The Wesmont, including the Woodforest-CEI Boulos Opportunity Fund, which made a \$3 million OZ investment in the project. Other sources of financing for The Wesmont include loans from Freddie Mac, equity derived from approximately \$460,000 in state Industrial Recovery Tax Credits, and a 10-year, \$1.47 million tax abatement granted by the city. The tax abatement requires 90 percent of the 188 units to remain affordable for 15 years to residents earning 60 - 100 percent Area Median Income (AMI).

As part of this project, the developer, **TWG Development**, also plans to renovate an existing Indianapolis Public School maintenance facility and the historic Polk stable building to provide commercial and office space for tech businesses and nonprofit uses.



#### *4. Partnering with aligned organizations to support equitable and inclusive opportunities*

The enactment of OZs has spurred the formation of new community development ecosystems and innovative cross-sector partnerships throughout the nation as public, private, and philanthropic stakeholders began collaborating to implement local strategies and attract investment. People who would otherwise not have a reason to be in the same room—OZ residents, business owners, policymakers, real estate developers, investors—came together with the shared goal of making OZs work for their communities. Local networks have been strengthened and the connectivity between communities and investors improved. This will be a legacy of the policy far larger than any individual project.

- **Opportunity Investment Consortium of Indiana.** OICI is the state's leading effort to build an OZ ecosystem. Led by LISC and supported by the Fifth Third Foundation, OICI brings together multiple public, private, and philanthropic stakeholders with a vested interest in strengthening Indiana's OZ work, encompassing the State of Indiana, Cinnaire, Indy Chamber, Indiana Bond Bank, IEDC, OCRA, IHCD, the Indiana Association of Cities and Towns (AIM), Prosperity Indiana, CenterPoint Energy Foundation, and Indiana Economic Development Association.

Consortium members, or implementation partners, convene on a regular basis to advance initiatives that encourage long-term community-aligned private investment into the state's OZs. The consortium has generated dividends locally even beyond OZs, formalizing a loose network of actors in the community development space that has allowed them to improve delivery systems for capital and technical assistance that support the people and small businesses in OZs—the very systems COVID-19 is now testing.

In addition to establishing a collaboration framework for other states and communities to emulate, OICI launched one of the first state-wide OZ investment portals designed to connect impact-minded investors with community-aligned projects. The portal provides visibility to project sponsors and businesses throughout the state that otherwise would not have access to a network of potential investors—a major barrier to investment that disproportionately impacts rural, minority, and disadvantaged communities.

- **Other innovative partnership models.** Throughout the state, there are several examples of ways in which aligned OZ stakeholders have partnered to leverage the tax incentive to deliver results aligned with local priorities. Early models of collaboration such as those showcased here—the Kenzie Academy and The Forge on Main—can be tailored to meet varying needs and assets of different communities across the state.

### Case study: Preparing Residents for 21st Century Jobs in Indianapolis

Kenzie Academy trains students for the digital economy, offering online and campus-based learning opportunities. The academy's campus is located in an OZ, which positions the company to raise growth capital from OZ investors. As an alternative to college, Kenzie Academy provides technology apprenticeships that prepare students for 21st century jobs.

In 2019, the company formed a [partnership](#) with Hypothesis Ventures, a company founded to support and invest in startups in underserved markets and OZs. The partnership elevates Kenzie Academy graduates as candidates for open positions within Hypothesis Ventures' portfolio of startups. Hypothesis Ventures supports companies making an impact in advanced industries such as digital healthcare, artificial intelligence, mobile, and software services. Through this partnership Kenzie Academy graduates will be well positioned to secure living-wage jobs in growth sectors.

This partnership demonstrates how OZ investors can align with workforce training programs to support a common goal. Hypothesis Ventures' investments are strengthened by the high-caliber employees they are able to recruit to their portfolio of startups, and the preferential hiring treatment of Kenzie Academy graduates creates a competitive advantage in attracting and retaining local talent.

### 5. Tracking investment and measuring impact

Presently, there is no formalized framework at the state level for measuring the impact of OZ investments or the efficacy of resources targeted to OZs. Tracking investment and impact has been left to OZ stakeholders to elect to do on an optional basis.

Nevertheless, some actors in Indiana's OZ ecosystem are leading the way. The Woodforest-CEI Boulos Opportunity Fund investing in Indianapolis is structured to evaluate investment opportunities through the lens of impact. The fund's stated objective is to invest OZ capital in real estate projects that promote public welfare, and the social and environmental impacts of proposed investments are evaluated by the fund's social impact advisory board. Additionally, the fund has adopted the [OZ Framework](#) developed by the U.S. Impact Investing Alliance, Beeck Center at Georgetown University, and the Federal Reserve Bank of New York to measure and report the impact of their investments.

Unsurprisingly, OICI has also dedicated itself to program evaluation. The consortium's case study on the Brookville investments demonstrates that the consortium positions the state well to either formally or informally adopt an impact tracking framework. Just as

importantly, it demonstrates one of the reasons why tracking and codifying impact is so critical: at this early stage of market development, resources that chronicle emerging best practices are essential tools for scaling impact and building capacity.

### **Case study: Working with Local Funders in Evansville, IN**

The Forge on Main will bring 180 new market-rate and workforce apartments as well as almost 16,000 square feet of commercial space for neighborhood-serving retail to the Jacobsville neighborhood of Evansville. The project is being developed on the site of a former grocery store, which has sat vacant since January 2018. Evansville is a designated federal Promise Zone, and within the city, Jacobsville stands out as having an acutely high need for reinvestment. In 2017, nearly **\$14 million in public funding** was invested through the Jacobsville Complete Streets Improvement Project in the hopes of attracting private investment along the Main Street corridor where The Forge on Main is now being constructed by House Investments.

The neighborhood lacks adequate housing options for employees working at the handful of major companies located in close proximity to the project. By building homes that are affordable for working families, House Investments is helping to address a housing gap in the local market. Rents at The Forge on Main were made affordable thanks to multiple unique financing solutions, one of which was devised with OICI founding member, CenterPoint Energy Foundation.

As part of an ongoing commitment to support community vitality and affordable housing, the foundation provided a grant to a registered 501(c) 3 organization, the Partnership for Affordable Housing, Inc., which converted the grant to a loan for The Forge on Main. The concessionary terms on the loan provided an overall cost savings to the project. That cost savings will be passed on to residents in the form of lower rents. Once the loan is paid off, the grant capital used to originate the loan and any interest earned will be redeployed to finance more affordable housing.

The Forge on Main also received \$3.85 million in OZ investment, a separate equity investment from a local mission-aligned investor, as well as local and state incentives from the City of Evansville and a quasi-governmental state agency valued at approximately \$6.75 million.

# VI. Strategies for delivering investment and impact

Across the nation, cities and states are developing strategies to maximize OZ designations and investment into projects and businesses that generate positive impacts for the community.

For example, a powerful combination of civic entrepreneurship, local leadership, engaged private sector, and committed anchor institutions has resulted in the formation of a dynamic new community and economic development ecosystem in Alabama centered around OZs. State-wide efforts led by an independent non-profit organization, Opportunity Alabama, have yielded multiple OZ investments and the development of a \$1 billion pipeline of opportunities in rural and urban communities targeting blight removal, brownfield redevelopment, historic preservation, affordable, senior, and market-rate housing, industrial facilities, commercial storefronts, retail spaces, and startup businesses. The organization spearheaded a major overhaul of the state's economic development policies with the Alabama Incentives Modernization Act and has adeptly pivoted to fill gaps in the small business safety net painfully exposed by the pandemic. Alabama demonstrates that OZs can deliver for sidelined communities and for parts of the country that other federal programs typically bypass. However, Alabama also demonstrates that OZs are most powerful as catalysts for local initiative. Local initiative is what creates a vibrant new investment ecosystem out of an otherwise obscure new provision of the tax code.

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Our research and discussions identified two binding constraints on the further expansion and maturation of the OZ marketplace in Indiana: capital and capacity. First, Indiana needs to unlock more local capital for local investing. That job will be made easier by attending to local capacity, or the degree to which affected stakeholders understand OZs and can deploy the tool. There is ample room to further upgrade capacity on all sides of the OZ marketplace—among communities (community and economic development groups,

government officials); among investors (fund managers, advisory service providers); and among potential investment recipients (local business owners, real estate developers, and entrepreneurs).

The following strategies borrow from those that have been applied or are being considered throughout the nation. They are offered as opportunities to build upon the good work that has already been accomplished in Indiana, address those binding constraints, and meet local goals of attracting OZ investment in projects and businesses that can forge a dynamic and resilient economy, foster livable communities, improve resident health, and provide quality and affordable housing.

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The policy has already taught never to underestimate the power and value of bringing people together.

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Beyond the suggestions below, however, the state should not take for granted the importance to attending to the basics: raising awareness, forging connections, educating, conversing, and brainstorming. States that convened diverse stakeholder groups early got off to a head start in the first two years of OZs, but the world is now very different. COVID-19 has dialed up the urgency around stabilizing and renewing neighborhoods. The policy itself finally has a regulatory framework supporting it (and new applications of the incentive), and there is ample inspiration to be drawn from the ferment of activity currently taking place across the country. In its short life, the policy has already taught never to underestimate the power and value of bringing people together. Leadership should consider whether the time is right to again organize around OZs to spark new connections and ideas that can strengthen local economic development ecosystems for the recovery ahead.

## 1. Establish a statewide OZ coordinator

The most community-aligned engagement from OZ investors is taking root in places where someone—a person or organization—is fully dedicated to cultivating a pipeline of high-impact deals and investor relationships. Places such as Alabama, Colorado, and Baltimore, MD, have at least one full-time employee serving as an OZ coordinator for the city or state, and they have created a long-term framework for directing resources to OZs and measuring impact.

Philanthropic organizations have provided grants to support these efforts, acknowledging the coordinator's importance in advancing equitable outcomes in communities. OZ coordinators educate and engage private investors and support local efforts to attract investment. They serve as wayfinders and brokers of information, are trusted intermediaries and advocates of the communities they work with, and are invaluable to outside investors given their unique insights on local market conditions and dynamics. Coordinators also implement state frameworks for targeting resources and incentives, providing regulatory



relief and increased transparency to encourage capital flow, and evaluating the impact of OZ investments and state initiatives.

Efforts led by the OICI have laid the foundation for a framework that encourages collaboration and coordination and marries OZ investments and community-identified priorities. If Indiana chooses to establish a statewide OZ strategy and establish a coordinator position, it should be done in alignment with OICI efforts. Establishing a long-term OZ framework will create the certainty needed to attract investments and ensure state initiatives are efficiently aligned for impact.

## 2. Create a centralized online directory of essential OZ information

One of the most powerful ways to foster an investable environment is to facilitate the flow of relevant information between state and local governments and OZ stakeholders. States such as Maryland, California, and New Jersey have established digital “one-stop shops” or centralized directories for OZ investors, communities, and potential investment recipients (startups, growth businesses, or project sponsors) containing information about the incentive, who may qualify for what, and complementary state and local resources. Many also showcase the state’s own priorities for OZs, and some even contain databases of vacant and underutilized properties in OZs (some publicly-owned, some private) that are primely positioned for redevelopment.

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### *Build a database of vacant and underutilized property*

Insights from local stakeholders indicate there are latent assets in OZs that, if activated, could be anchors for transforming distressed neighborhoods into communities of opportunity. The state can inventory vacant and underutilized land in OZs available for redevelopment, and it can encourage local governments and anchor institutions such as universities, hospitals, faith-based organizations, and major employers to do the same. Once complete, the full inventory can be displayed online in one place so OZ investors and other aligned stakeholders can explore opportunities. To the extent possible, both publicly- and privately-owned assets should be included.

In Fort Wayne, the majority of the investment priorities identified in the city’s prospectus include the development of city- or county-owned land. The strategy aims to promote urban infill and create value on underutilized parcels. In Tuscaloosa, AL, Stillman College partnered with an Opportunity Fund, a hospitality group, and Opportunity Alabama to [develop a teaching hotel](#) and mixed-use residential and commercial project on its campus. Stillman College has the option to ultimately purchase the hotel for its long-term use at the end of the investment holding period.



Site-control of land is proving to be a key impact lever across the country. A ground lease structure can be used on both public and private land. Such a model can reduce overall development costs, which can result in higher returns for investors, deeper community impact, or both. Further, in such situations the owner can typically dictate that the future use of the property addresses local needs. This strategy was recently used in Washington, DC, at MLK Gateway I. Project sponsors executed a [ground lease with the city](#) to redevelop vacant land and dilapidated storefronts along a Main Street corridor and transform the property into a hub for local commerce, innovation, and community activity. Similarly, tech startup company Fifth Seasons [leased land](#) from Allegheny County to locate its fully-automated vertical farming operation in an OZ in Braddock, PA. The investment will expand local access to fresh food through community programs, build a bridge to jobs, and help to reinvent the former steel town's economy. The city and county facilitated the investment not by offering Fifth Seasons any public subsidies, but rather by allowing it to forgo a lengthy permitting and approvals process, mitigating risk and accelerating timelines.

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One way to mitigate that risk and attract investment is by removing unnecessary hurdles where possible.

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Opportunity Funds and Qualified Opportunity Zone Businesses are bound by strict timing mandates tied to the deployment of capital eligible for the OZ incentive. Investors will evaluate whether projects can move through the approvals and entitlement process with certainty when making decisions on where to place capital. One way to mitigate that risk and attract investment is by removing unnecessary hurdles where possible. When publicly-owned land is leveraged, it may be easier to provide by-right approvals and provide relief from local regulatory requirements.

#### *List federal, state and local resources and incentives*

To provide OZ stakeholders with insights on the full breadth of incentives and resources from which any investment stands to benefit, the state or other designated lead entity should catalogue and provide a list of federal, state and local resources and incentives that can be leveraged alongside OZ financing. The prospectus documents developed by communities throughout the state do a good job of listing the numerous resources and incentives available in individual communities, and an analogous list can be compiled and elevated at the state level.

## Identification of incentives and complementary sources of financing

Federal, state and local resources and incentives highlighted in local prospectus documents:

### Local

- Tax Increment Financing
- Real and Personal Property Tax Abatements
- Vacant Building Abatement
- H.I.R.E.D.
- Workforce Training

### State

- Community Revitalization Enhancement District Tax Credit
- Redevelopment Tax Credits
- Skills Enhancement Fund Workforce Training Grant
- Venture Capital Investment Tax Credit
- Economic Development for a Growing Economy Payroll Tax Credit
- Hoosier Business Investment Tax Credit
- Patent Income Tax Exemption
- Research & Development Incentives
- Industrial Development Grant Fund
- Technology Enhancement Certification for Hoosiers

### Federal

- Promise Zones
- Historic Tax Credits
- New Markets Tax Credits
- Community Development Block Grant
- Home Investment Partnerships Program
- HUBZone Designation
- Rental Housing Tax Credits

## 3. Enhance and align public resources to strengthen OZ communities and shape the market

States can mirror efforts initiated by WHORC at the federal level to align programs and resources behind OZs and reduce regulatory burdens as it sees fit for investments that align with the state's priorities and goals. Similar measures have been implemented or proposed in states across the nation in order to strengthen OZs and influence the behavior of OZ stakeholders in certain directions. For example, Maryland's Opportunity Zone Enhancement Program, enacted in 2019 through the More Jobs for Marylanders Act, authorized financial assistance to certain business and revitalization projects in OZs and established a state

income tax credit for certain investments into qualified workforce housing in OZs, among many other things. Similarly, provisions in the Alabama Incentives Modernization Act are designed to foster impact-oriented OZ investments by offering aligned state-level capital gains tax breaks, potential state investment dollars, and new impact investment tax credits to mitigate risk and close financing gaps on especially meaningful projects. Locally, IHCD and IEDC have already taken steps to target resources to OZs by providing preferential scoring or enhanced credit allocations to qualifying projects. In many cases, states are repurposing existing appropriations to support OZ projects that meet local criteria and have already won competitive awards—seeing a chance to piggyback off of the federal incentive to amplify the impact of their own scarce resources.

The state should review its policy tools in the following four realms and consider if and how it wishes to align them with OZs in order to nudge the young marketplace toward particular ends:

- Programs and incentives to support growing businesses
- Startup accelerators, capacity building, and workforce training programs
- Credit facilities to seed investment
- Programs or grants to monitor and measure impact

#### *Programs and incentives to support businesses*

Some states and localities are trying to broaden the impact of OZ designation by aligning certain small business support policies with OZs in multipronged efforts to strengthen local economies. Many such policies and programs support businesses located in OZs, regardless whether those businesses are directly receiving OZ equity investment. New tax exemptions have been enacted in Maryland communities and West Virginia, for example: In Maryland, two counties **waived sales tax** on equipment and supplies for qualifying OZ investments. In West Virginia, the state allows taxpayers to **deduct business income** from newly registered businesses located in OZs. Michigan, for its part, has set procurement targets from small businesses located in OZs and other low-income communities.

Some states have been even more intentional in targeting the incentives they choose to extend to OZs. For example, South Carolina and Washington, DC, either offer or have proposed sales tax rebates or waiver of select taxes and fees for grocery vendors that open stores in food deserts. The suite of **supermarket tax incentives** offered in Washington, DC, predates OZs, but the city prioritized food deserts in its OZ nominations, hoping that the suite of related incentives—exemptions from real and personal property taxes, business license fees, and sales and use taxes on building materials necessary for construction—paired with OZ tax incentives would meaningfully accelerate the development of grocery stores in zones.

Many states are focused on encouraging the creation of high-quality jobs in OZs. Maryland has enhanced a number of **economic development tax credit programs** for eligible businesses and investors engaged in OZs. A proposed measure in South Carolina provides

[additional jobs tax credits](#) to businesses operating in the most distressed OZs. New Mexico offers [performance-based grants](#) for capital improvement projects in OZs. Eligible New Mexico businesses must meet threshold criteria tied to local priorities, such as jobs created, annual payroll generated, and average salaries, in order to receive the grant.

### *Startup accelerators, capacity building, and workforce training programs*

Communities with investment-ready businesses and a prepared workforce provide ample opportunity for investors. Efforts that build local capacity and provide training to current OZ businesses and residents also serve to ensure that equitable and inclusive economic growth are achieved.

Several promising efforts to prepare underserved entrepreneurs for OZ investment have been launched. Most notably, the state agency leading OZ efforts in Colorado has partnered with a local business accelerator to launch the state's [Opportunity Zone Capital Accelerator Program](#). Over the course of one year, the Colorado Office of Economic Development and International Trade and the Colorado Center for Innovation for Community Capital (CC4ICC) will provide technical assistance to 12 local businesses to support their capital raising efforts. CC4ICC will provide technical assistance, help develop business plans and materials, and make connections to OZ investors in the state.

In Washington, DC, the [OZ Justice Accelerator](#), administered by local non-profit 20 Degrees and funded by a city grant, coached a cohort of four formerly incarcerated entrepreneurs successfully operating small businesses in tech, hospitality, transportation, and the general services sectors on attracting OZ investment. The accelerator provided technical assistance, customized business planning services, trainings, and opportunities to pitch prominent local investors. A similar pitch-style competition was hosted by We Grow KC and the chamber of commerce in partnership with local government entities in Kansas City, MO, to [elevate opportunities](#) for venture capital in the city's OZs. Meanwhile, New Jersey's Economic Development Authority has doubled the state's [Angel Tax Credit](#) for investments made in OZs as well as other low-income communities and women- or minority-owned businesses.

Indiana leaders may also wish to consider supporting incubator or accelerator programs aimed at helping would-be fund managers launch mission-oriented Opportunity Funds. The research and development costs associated with launching and managing an Opportunity Fund can present a formidable barrier to entry for small or undercapitalized yet capable organizations. The Kresge Foundation, based in Detroit but supporting equitable growth in cities nationally, provided a grant to Calvert Impact Capital to support an [incubator program](#) for mission-oriented potential Opportunity Fund managers. Calvert provided technical assistance to help with fund structuring and other legal, tax, and accounting considerations. One participant, the Renaissance HBCU Opportunity Fund, has gone on to become an active OZ investor and support historically black colleges and universities in formulating and executing their own plans to attract OZ investment.

Lastly, states and localities can help investment translate more directly into real economic opportunity for local residents by aligning workforce training incentives with OZs. In early 2019, Maryland focused its [EARN workforce development grant program](#) directly on OZs and allocated \$3 million to establish “Opportunity Works,” a job training program specifically for businesses in OZs. In Washington, DC, real estate projects in OZs that create career pathways for residents are prioritized for [workforce development funds](#), and project sponsors and businesses located in OZs that participate in the city’s On the Job Training Opportunities program can be reimbursed for up to 75 percent of wages for 6 months per trainee.

### *Credit facilities to seed investment*

A number of local stakeholders, especially those operating in rural communities concerned with quality affordable housing, noted concerns about securing financing in places with few new starts or market comps. OZ financing has successfully broken the impasse in a few cases in situations such as these, in communities that have not attracted meaningful private investment for quite some time. This is true in Brookville, IN, as well as Flagstaff, AZ, where OZ financing was utilized to develop [new affordable for-sale homes](#) in a community that had not seen any new construction for approximately 15 years.

However, OZ investment is rarely the sole source of capital supporting any deal, and project sponsors often need to secure additional sources of financing to move ahead. Inability to secure financing, notwithstanding the creditworthiness of the project, can tack on time and costs, chilling investor interest and lowering returns. To get around this, cities and states are leveraging low-cost credit facilities to accelerate revitalization and position community-aligned OZ stakeholders for success. Such credit facilities can be capitalized by state government as in Virginia; a local anchor institution as in Erie, PA; a foundation as in The Forge on Main in Evansville, noted above; or by blending any number of sources of capital to provide preferable terms and the appropriate level of funding.

In order to expand capital access to community-aligned OZ stakeholders, Virginia created a [\\$50 million credit facility program](#) to support property acquisition. The program includes restrictive covenants pertaining the future use of property (i.e. affordable housing mandates) and timing. As borrowers access the credit facility to secure acquisition financing and beat out speculative purchasers, the program may prove to provide the added benefit of boosting transactions in OZs. Borrowers must abide by the covenants, whereas land acquired with private debt could sit without improvement in perpetuity.

A similar strategy has been adopted by private and civic stakeholders to revitalize Erie, PA’s, downtown core. The Erie Downtown Development Corporation (EDDC), which has become a qualified OZ business, leverages a dedicated revolving loan fund capitalized by Erie Insurance along with other sources of capital to acquire and assemble property. Erie Insurance, along with Arctaris Impact Investors, has also [committed OZ equity](#) for downtown revitalization with the support of The Erie Community Foundation. Long-term,

concessionary debt from the loan fund will be replaced with OZ financing from the partner organizations once EDDC is ready to begin construction on its properties. This strategy for staging the combination of debt financing and OZ equity has accelerated the city's downtown redevelopment timeline five-fold.

### *Impact monitoring and measurement*

Absent a statutory or regulatory framework for monitoring and measuring OZ activity at the federal level, it is left to states and localities to implement their own regimes using whatever leverage points they have. For example, states can require registration, data, and other information in exchange for receiving reciprocal tax treatment. In addition, emerging best practice has enhanced transparency requirements for OZ investments benefitting from state grants, programs, or incentives. Measures enacted through Maryland's Opportunity Zone Enhancement Program and the Alabama Incentives Modernization Act aim to do just that.

In this vein, in its May 2020 [\*Opportunity Zones Best Practices Report\*](#), the WHORC directly encourages states to play a key role in identifying, tracking, and measuring OZ investments. Efforts to do so may not yield a comprehensive inventory of all OZ activity happening throughout the state, but they can procure deeper insights into the OZ marketplace, investor behavior, project needs, and the efficacy of local initiatives to attract investment.

In addition, state and local governments can leverage the high demand from project sponsors to share investment opportunities as an opportunity to capture data. The majority of cities and states actively committed to measuring the impact of OZ investment are leveraging online platforms such as The Opportunity Exchange (TOE) to do so. TOE has baked a social impact and reporting framework into its online OZ platform, which elevates investable opportunities to potential investors. Inspiration can be drawn from their framework and implemented through OICI efforts, such as the Investment Portal.

## **4. Activate residents, businesses, and community stakeholders**

As demonstrated in Brookville, engaging the local investor base can be a powerful way to spark new energy and economic activity locally and unlock OZ investment for projects and businesses that strengthen the community. Beyond individuals and families, major employers, philanthropic institutions and similarly aligned community stakeholders with vested interests in the quality and livability of OZs can be activated in various ways, including via additional investment carrots, the creation of place-based Opportunity Funds, public-private partnerships, and tailored strategies to reach anchor institutions and philanthropy. Models for success that can inspire local initiative can be found all across the country.

### Additional investment carrots

Two of Indiana's peer states have enacted measures to provide state capital gains tax relief as a way to enhance the federal OZ incentives and encourage local investors to invest locally. Wisconsin enacted legislation to enhance the state OZ benefits in early 2020, and Ohio provides a state tax credit on individual income valued at 10 percent of qualified investments made in Opportunity Funds. In both circumstances, the additional incentives can only be claimed by investors domiciled in the state and only if capital is invested within the state. Each state's fiscal situation and priorities are unique, but for states hoping to keep local capital investing in-state, rather than flowing to a neighbor or even farther afield, such enhancements may be important to consider. The state could also choose to only extend any extra capital gains tax relief for investments into priority geographies (e.g. rural), asset classes (e.g. startups), or use cases (e.g. affordable housing).

Such carrots may make especially large differences in border areas, such as rural Switzerland County in the Southern region or urban Lake County in the Northwest. Indiana counties that border adjacent states may have difficulty attracting capital from investors whose home state provides additional OZ investment incentives, such as tax credits and reduced tax liability on state capital gains. For example, Switzerland County is located only one hour from Cincinnati, Ohio, yet the county's ability to appeal to Cincinnati-based investors is limited due to Ohio's OZ tax credit.

#### OZ Legislation or Policies in Neighboring States

| State    | OZ Policy/Legislation   |
|----------|---|
| Ohio     | <ul style="list-style-type: none"><li>• <b>Enacted in 2019:</b> HB 166 - Created the Ohio Opportunity Zone Tax Credit program, which allocates up to \$50m worth of individual income tax credits (up to \$1m per taxpayer) equal to 10% of the amount of money a taxpayer invests into a qualified Opportunity Fund making qualifying investments in Ohio. To qualify, the fund must be 100% invested in Ohio OZs. The credit may be claimed in the taxable year in question or carried forward for up to five years.</li></ul>  |
| Michigan | <ul style="list-style-type: none"><li>• <i>Introduced in 2019:</i> SB 378 – Would offer a complementary state research and development tax credit that scales up and down with the level of R&amp;D expenses incurred by a taxpayer within an Opportunity Zone.</li><li>• <b>Executive Directive 2019-8:</b> Calls on all state agencies to prioritize geographically-disadvantaged businesses when allocating government contracts and set a goal that at least 3 percent of the Michigan Department of Technology, Management, and Budget's expenditures would go toward procurements from businesses within OZs or HUBZones by 2023.</li></ul> |



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|-----------|--|
| Kentucky  | <ul style="list-style-type: none"><li>• <i>Introduced in 2019:</i> Kentucky Rural and Opportunity Zone Jobs Act, HB 203 – Would establish a new “Growth Fund Tax Credit” equal to the amount of any taxpayer’s investment into the growth fund up to 20 percent of the total allocation. Credits could be applied to investments into growth businesses in targeted sectors and located in designated “growth zones,” which include rural counties, underemployment zones, and OZs.</li></ul>  |
| Illinois  | <ul style="list-style-type: none"><li>• <b>2020 Illinois Opportunity Zones Initiative</b> - The Department of Commerce and Economic Opportunity (DCEO) announced a new initiative to invest \$12 million to support investment in Illinois' OZs. DCEO invited communities and stakeholders to compete for capital grants to support projects. Grant applications will be judged on a project’s prospects in terms of job creation, community support, project readiness and viability, the availability of matching financing, alignment of the project with the Governor's economic plan, and ability of the project to have a positive economic impact in communities of need.</li></ul> |
| Wisconsin | <ul style="list-style-type: none"><li>• <b>Enacted 2020: HB 532</b> - Complementary state tax credits that mirrors federal OZ policy by offering an exclusion of 10 percent of deferred gains if an investment is held in a Wisconsin OZ for five years or 15 percent if the Wisconsin OZ investment is held for seven years (applies to income and franchise taxes)</li></ul>   |
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### *Place-based Opportunity Funds*

Across the country, a handful of state and local governments have worked with private fund managers to create place-based Opportunity Funds with an explicit focus on supporting priority activities in certain communities. This strategy can be utilized to capture home-grown capital and direct OZ investment to areas where it may be most impactful. After Wisconsin enacted enhanced OZ benefits, the City of Racine took measures one step further. Local leaders worked to launch Wisconsin’s first state-wide Opportunity Fund to capture interest generated by the enhanced incentive from potential investors committed to their state. [\*\*The Badger State Opportunity Fund\*\*](#) is dedicated to partnering with public- and private-sector allies to support investments in real estate, business expansions and new business startups throughout the state.

Similar approaches have been taken to create city funds as well. The City of Coatesville, PA, for example, has announced the [\*\*Coatesville Impact Fund\*\*](#), developed by Activated Capital of New York, which plans to invest up to \$25 million to support single- and multi-family housing, small commercial properties, and local businesses.



### *Public-private partnerships*

Throughout the nation, state and local governments are engaging OZ stakeholders through public-private partnerships (P3). State and local governments have a proactive role to play in facilitating OZ investment and local ecosystem development. Models for leveraging publicly-owned assets, executing anchor lease agreements in new developments, participating in innovative collaborations, providing grants and technical support to seed OZ strategies, and blending multiple streams of financing in order to close capital stacks have been established and are ripe for replication. Further, managers of Opportunity Funds are increasingly turning to P3 models to support economic recovery and mitigate various forms of investment risk.

Mission-based Opportunity Fund RevOZ Capital partnered with Sudweeks Development and Investment Co. and the County of San Bernardino to create [new space for the county's Children's Department of Behavioral Health](#). RevOZ and Sudweeks Development developed a build-to-suit medical office building that will be leased to the County of San Bernardino for 15 years. Elsewhere, Arctaris Impact Investors (Arctaris) launched an [initiative in response to COVID-19](#) whereby the fund works with cities to identify investment opportunities and provides 80 percent of project financing to winning deals, while cities will work with local businesses and philanthropy to provide the additional 20 percent.

Similar public-private partnerships can be established to expand affordable options for homeownership. One state housing finance agency is leveraging its homebuyer programs to create a model for connecting Opportunity Funds to a pipeline of potential buyers that have access to favorable mortgages. Having an identified source of takeout financing (homebuyers) creates certainty and mitigates risk for investors, which could be especially helpful in attracting OZ investment to rural communities where modest, single family housing is generally prized.

### *Major employers and anchor institutions*

Anchor institutions and employers have vested interests in the economic well-being of their communities and can play an outsized role in strengthening OZs. Across the nation, Fortune 500 companies, major universities and colleges, healthcare systems, and faith-based intuitions have engaged in local OZ strategies, provided capital to support OZ transactions, anchored OZ developments, and leveraged vacant and underutilized property to attract OZ investments.

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Anchor institutions and employers have vested interests in the economic well-being of their communities and can play an outsized role in strengthening OZs.

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The opportunity to activate major employers and anchor institutions is abundant in Indiana. Three of the seven Fortune 500 companies headquartered in the state are located in an OZ. Twenty-three OZs are anchored by a hospital, and roughly 60 other zones are adjacent to tracts with a hospital. And 13 OZ tracts either contain or are immediately adjacent to major colleges and universities.

In Erie, PA, Fortune 500 company Erie Insurance Co. launched a **\$50 million proprietary Opportunity Fund** with its own capital gains to support local economic development and entrepreneurship. Erie Insurance just announced its first investment to support a local tech startup as well as a partnership with Arctaris Impact Investors to support a **\$40 million investment** in the city's downtown core. In addition to OZ equity, major employers and anchor institutions can deliver a suite of financing resources such as grants, debt, and even credit enhancement through unfunded guarantees to support OZ activities. For example, Erie Insurance also capitalized EDDC's revolving credit facility for downtown revitalization noted earlier.

IHCDA's **Anchor Employer Workforce Housing Program** offers another model for how these stakeholders can leverage their assets to enhance livability and seed investment. Program participants, currently French Lick Resort, Impact CNC, IU Health, and Zimmer Biomet, are required to match a \$1 million grant from the state and use aggregate funding to develop workforce housing in their communities. OZ equity could be leveraged alongside where eligible.

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Adopting a proactive OZ strategy can help colleges and universities amplify their economic development impact.

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As noted earlier, anchor institutions can leverage other assets such as underutilized and vacant property to catalyze investment and drive impact as well. In Bethlehem, PA, OZ equity was used to **transform a vacant building** on Lehigh University's campus into 30 apartments and ground floor retail through OZ investment.

Major employers and anchor institutions are also leveraging the OZ designation to directly support local businesses, entrepreneurs, and workforce development. In Cleveland, OH, MetroHealth's planned **\$60 million investment** in the community adjacent to hospital's main campus will include commercial space for a jobs center, in addition to affordable and working housing and neighborhood-serving retail. At MLK Gateway I in Washington,

DC, the tech firm Enlightened, which is both project sponsor and anchor-tenant for the development, will provide dedicated space in their new office for an incubator for minority tech entrepreneurs and mentorships. Entrepreneurs will benefit from this co-location model not only by networking with a major employer, but also by being able to solicit investment as qualifying OZ businesses themselves.

### **Case Study: Piloting a New Capital Stack Structure in Cincinnati, OH**

High-capacity local developers are leveraging OZ financing to close complicated capital stacks and advance projects that will serve critical community needs, create jobs, and expand local economic growth.

In September 2020, the National Equity Fund, Inc. and Fifth Third Bank announced OZ [investments in the Midwest](#) totaling \$25 million in equity to support the development of nearly 300 apartments for low- and moderate income families, as well as commercial space. A portion of this capital was invested in the [Willkommen](#) project located in Cincinnati, OH's, Over-the-Rhine neighborhood. Project sponsors, The Model Group and the Cincinnati Center City Development Corporation (3CDC), used 13 sources of financing to develop this scattered site, mixed-use, mixed-income project. OZ capital was leveraged alongside Low-Income Housing Tax Credits, New Markets Tax Credits, federal and state Historic Tax Credits, conventional debt, and local subsidies.

Willkommen consists of the rehabilitation of 16 historic buildings and development of four parking lots into new buildings, and has been in the works for nearly four years. The project is part of a broader strategy led by [3CDC](#) to address a [40,000-unit deficit of affordable housing](#) in the city and county. More than 40 percent of the 163 new apartments that will be delivered by mid-2022, will be available to people making 50-80 percent of the Area Median Income (AMI). Willkommen also includes nearly 20,000 square feet of first-floor commercial space across a twelve building footprint. Project sponsors aim to fill half of the retail space with [Black-owned businesses](#), and are working with business owners currently operating in properties slated for redevelopment to ensure that they are not forced to close or leave the neighborhood.

The NEF Fifth Third Opportunity Fund portfolio of investments is demonstrative of how local developers can wield OZs to enhance a projects' capital stack and impact. The activities supported through this financing is aligned with the intent of the OZ policy, and the capital stacks piloted by these project sponsors can be replicated to advance similar community development efforts throughout the nation.

Adopting a proactive OZ strategy can help colleges and universities amplify their economic development impact. The 13 OZ tracts in Indiana that either contain or are immediately adjacent to major colleges and universities are spread out across different regions in the state and include many incubators, accelerators, and business districts serving the college community. These zones are well-positioned to be part of universities' startup, tech transfer, and technology commercialization strategies, given that equity investors have good reason to seek out promising university-affiliated startups that are qualified OZ businesses thanks to the potential tax benefits offered by the incentive.

### *Philanthropic support*

The Knight Foundation's report [\*\*How Philanthropies Leverage Opportunity Zones\*\*](#), laid out seven ways philanthropies can engage with OZs to drive the market towards impact:

1. Coordinate convenings between governments and other key stakeholders.
2. Help design and market prospectus documents.
3. Aid in the collection of data.
4. Support workforce readiness and entrepreneurship.
5. Enhance the capacity of existing organizations within OZs.
6. Reward innovative ideas through competitions and "challenge grants."
7. Help synthesize and share information.

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By getting engaged, philanthropies can help establish market norms in this young and evolving space.

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Philanthropic organizations can also be engaged to support financing and convene local capital, given their connections to high net worth individuals and other financial institutions.

Funders have provided grants to support local capacity-building efforts across the nation, including in Indiana. The first OZ coordinator position was created in the City of Baltimore and funded by The Abell Foundation. The foundation provided the grant to the Baltimore Development Corporation (BDC), where the coordinator is employed, and the BDC agreed to staff this position for the city. Cleveland, OH's, OZ initiative, Opportunity CLE, was supported by The Cleveland Foundation and The George Gund Foundation. In Kansas City, MO, The Ewing Marion Kauffman Foundation has been a leading force in convening communities around OZs and was one of three partnering organizations that launched the city's OZ initiative, We Grow KC.

Even more directly, the [Kresge Foundation](#) provided guarantees to two impact-oriented Opportunity Funds committed to transparency and impact reporting. The guarantee helps to mitigate investment risk by providing first-loss protection, thus enhancing the funds' ability to raise capital. CenterPoint Energy Foundation's engagement at The Forge on Main can also serve as a model for supporting developers and businesses battling issues around capital access while preserving and maximizing grant capital.

With community foundations serving each of the state's 92 counties, there is an opportunity for local philanthropy to convene community capital. For example, community foundations can educate donors on leveraging OZs and tap Donor Advised Funds to support high-impact projects in zones. Community foundations are also well-positioned to support the types of activities that will attract OZ investment but are not necessarily an investment opportunity, such as providing community amenities. For example, IHCD's placemaking program leverages a crowdfunding platform through program partner Patronicity and matches funds raised 1:1 to support activities such as playgrounds, preservation tours, trail security, and community charrettes. Aligning with IHCD's [CreatiNg Places](#) to support placemaking activities in OZs could be a good fit for community foundations, as well as local philanthropic groups in general.

By getting engaged, philanthropies can help establish market norms in this young and evolving space. The U.S. Impact Investing Alliance and The Beeck Center for Social Impact and Innovation at Georgetown University have emerged as powerful advocates for data, transparency, and mission-mindedness in the market, and many of their members and affiliates now lead by example. Both organizations partnered with the Federal Reserve Bank of New York to develop the [OZ Framework](#) which provides recommendations on impact evaluation and reporting. The Kresge Foundation supported piloting and testing of the Urban Institute's [Opportunity Zone Community Impact Assessment Tool](#) in Cleveland and Cuyahoga County, OH. The Sorenson Impact Center based at the University of Utah has done more than almost any other organization to share and scale best practices in order to shape the new market through its [OZ Catalysts Challenge](#) competition, which recognized civic innovators and entrepreneurs harnessing the OZ incentive for transformative change in distressed communities. Such an award competition could be adapted fruitfully to a state such as Indiana, where one of the threshold challenges for unlocking OZ impact lies in raising awareness of the incentive itself and its diverse range of applications.

# VII. Conclusion

Across the country, the places seeing the most robust and aligned investment activity in their OZs are ones that have jumped right in to facilitate a new local investment ecosystem into existence. Early returns show the importance of tending to all sides of the marketplace: building an investor base, cultivating a deal pipeline, engaging residents and communities, educating businesses eligible for investment, and building the capacity of local governments and liaisons. The results in Erie, PA, across the state of Alabama, on the Western Slope of Colorado, and indeed in Brookville, IN, speak for themselves.

There was no shortage of economic and community development priorities that needed financing before the pandemic. Need has only grown more acute since—especially in struggling low-income communities that were only getting by, if at all, when times were good. OZs open up a new financing stream for an extremely wide set of use cases. From providing quality, affordable housing to reinvigorating Main Streets and supporting startup ecosystems, OZ equity can help close financing gaps, accelerate timelines, and magnify impact.

Yet while OZs can be accelerants for community development and catalysts for new ecosystems, the incentives offered by the policy are no panacea for many of the deep-seated issues plaguing historically disinvested communities. OZs are a new tool in the toolbox. The associated incentives influence the viability of certain investments on the margins. Transformational impact comes when they are deployed thoughtfully, strategically, and creatively—often as part of a larger community plan.

The GPS Project gives Hoosiers just such a hook to provide their OZ ambitions strategic focus. This long-term economic and community development tool can help finance the next generation of businesses that will secure the state's prosperity. OZ capital can be harnessed to reinvigorate Main Streets and preserve legacies, be they proud local firms or the heritage of the built environment. OZs can help build vibrant, inclusive places that make Indiana a magnet for talent. And by being a market-based tool that integrates seamlessly into local economies, OZs can be a catalyst for building wealth and restoring economic opportunity in parts of the state where both are sorely lacking. Already disparate actors across that state have seized the opportunity to deploy this new tool, positioning Indiana as an emerging national leader on the OZ stage. The task now is to build off that early momentum, scale it as the market matures, and orient it around a clear vision of a stronger, more resilient, and more inclusive Indiana economy.

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**APPENDIX 6**  
**Indiana Opportunity Zones**



# Indiana Opportunity Zones

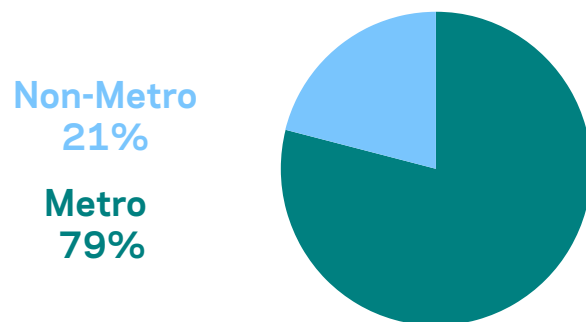


**156** Opportunity Zones

**531k** Zone Residents

**580k** Zone Jobs

**32k** Zone Businesses

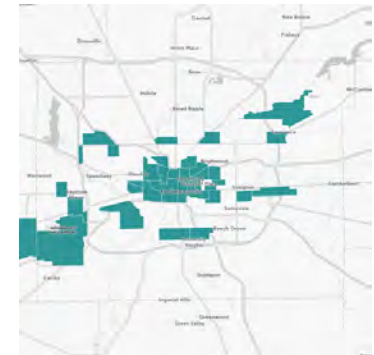


## Demographics for Indiana's Opportunity Zones

|                     | Indiana  | Indiana Opportunity Zones |
|---------------------|----------|---------------------------|
| Minority Population | 21%      | 33%                       |
| Poverty Rate        | 13%      | 24%                       |
| Average MFI*        | \$71,164 | \$51,400                  |
| Bachelor's Degree+  | 26%      | 21%                       |
| Adults Not Working  | 21%      | 28%                       |
| Housing Vacancy     | 9%       | 16%                       |
| Rent Burdened       | 47%      | 49%                       |

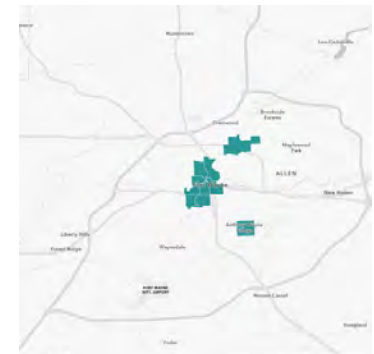
## Major urban areas with largest number of zones

### Indianapolis



34 Tracts

### Fort Wayne



10 Tracts

### Gary



8 Tracts

## Congressional districts with largest number of zones

| Representative     | District | Party | Zones |
|--------------------|----------|-------|-------|
| André Carson       | IN-07    | D     | 36    |
| Frank J. Mrvan     | IN-01    | D     | 19    |
| Jackie Walorski    | IN-02    | R     | 18    |
| Trey Hollingsworth | IN-09    | R     | 17    |

To learn more visit <https://eig.org/opportunityzones>  
Contact: [info@eig.org](mailto:info@eig.org)



# U.S. Opportunity Zones

Over 8,700  
Zones



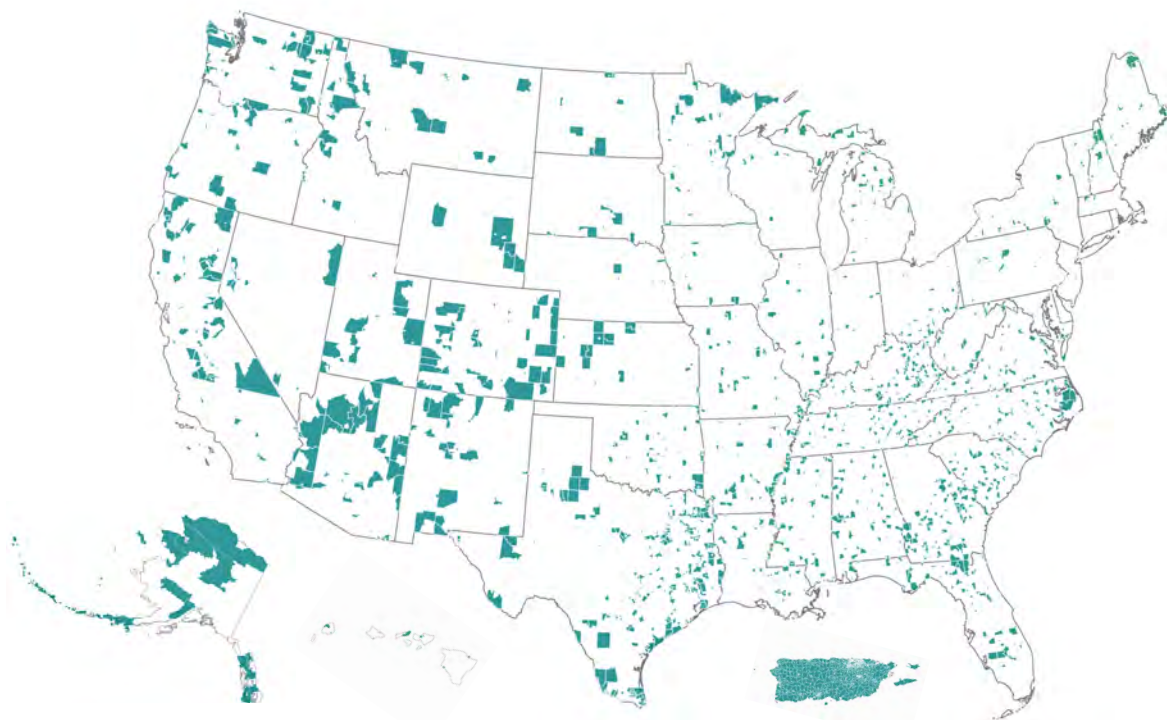
35 million  
residents



1.6 million  
businesses\*



24 million  
jobs\*



## Data Notes

**Minority Population** reflects the share of the population that does not identify as white, non-Hispanic.

**Bachelor's Degree +** reflects the share of the population age 25 and older who hold a bachelor's degree or higher.

**Adults Not Working** reflects the share of the population age 25 to 64 not working (i.e. either unemployed or not in the labor force).

**Housing Vacancy** reflects the share of housing units that are vacant, adjusted for recreational, seasonal, or occasional use vacancies.

**Rent Burdened** reflects the share of renter-occupied households that spend 30%+ of their household income on housing

*Businesses and jobs data sourced from ESRI, 2017 data. All other data sourced from the American Community Survey, 2015-2019 data.*



Minority  
Population

Poverty Rate

Average  
Median Family  
Income

Bachelor's  
Degree+

Adults Not  
Working

Housing  
Vacancy

Rent Burdened

United States\*

39%

15%

\$70,900

31%

27%

8%

51%

Average U.S.  
Opportunity Zones\*

56%

29%

\$44,700

18%

36%

13%

55%

\*Figure does not include Puerto Rico and the other U.S. territories

To learn more visit <https://eig.org/opportunityzones> | Contact: [info@eig.org](mailto:info@eig.org)