



MILKEN
INSTITUTE

FROM RECOVERY TO RESILIENCE

How Opportunity Zones Can
Help Accelerate Post-COVID
Economic Resurgence: A Milken
Institute Working Paper

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The Milken Institute is a nonprofit, nonpartisan think tank.

For the past three decades, the Milken Institute has served as a catalyst for practical, scalable solutions to global challenges by connecting human, financial, and educational resources to those who need them. Guided by a conviction that the best ideas, under-resourced, cannot succeed, we conduct research and analysis and convene top experts, innovators, and influencers from different backgrounds and competing viewpoints. We leverage this expertise and insight to construct programs and policy initiatives.

These activities are designed to help people build meaningful lives in which they can experience health and well-being, pursue effective education and gainful employment, and access the resources required to create ever-expanding opportunities for themselves and their broader communities.

About the Center for Financial Markets

The Milken Institute Center for Financial Markets conducts research and constructs programs designed to facilitate the smooth and efficient operation of financial markets—to help ensure that they are fair and available to those who need them when they need them.

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I. PREFACE

The COVID-19 pandemic presents an unprecedented challenge to all economies on the spectrum of economic development, and all economies around the world. Importantly, pandemics hit underserved and vulnerable populations the hardest. Even before the Coronavirus crisis, these communities were capital-starved, and now the crisis will exacerbate their need for capital. Moreover, there is a link between social determinants and economic justice, and we must be mindful of the need to ensure resilience in minority communities. Collaboration between public and private sectors can prove extremely powerful to mobilize capital to low-income communities' myriad goals: providing telecommunications infrastructure basics, strengthening their hospitals and medical supply chains, supporting their small businesses, building their technical capacity through education programs, and more. In the United States, Opportunity Zones are arguably the most significant—and significantly misunderstood—federal incentive for community development and transformation created in the last 50 years. While not a panacea, Opportunity Zones have catalyzed unparalleled interest in unlocking the potential of under-invested communities nationwide. In a post-COVID world, it will be imperative to invest in our underserved communities' capacity to serve themselves, and in their resilience. Opportunity Zones are one tool to drive this effort.

To translate that imperative and that investor interest into effective action, the Milken Institute has developed this state and local official training guide to help community leaders engage more effectively with private sector and philanthropic partners to create new, lasting models for building local prosperity and community wealth. The key recommended “plays” inside this document do not just apply to Opportunity Zones, but to other forms of private and impact capital. In a post-COVID economy, where local and fiscal conditions are tight, now is the time for communities to be creative in how they fund and finance economic development projects and resilient local economies. Therefore, we hope this guide is timely and useful for accelerating America's recovery in all communities, especially the vulnerable, lower-income ones.



II. INTRODUCTION


The Coronavirus Economy and Opportunity Zones

The world is facing an unprecedented challenge brought on by the novel coronavirus, and its fault lines along vulnerable populations sound an urgent alarm. Now, more than ever, it is paramount to develop underserved economies and build their resilience, because when the economic downturn reaches its inflection point, communities should be past thinking about how to recover, and must be acting. Enter Opportunity Zones. Opportunity Zones (OZs) are a new initiative that is part of the 2017 Federal Tax Cuts and Jobs Act, which provides incentives for qualified investors to invest capital gains in distressed communities across the United States. The creation of OZs is based on bipartisan legislation originally introduced in 2017 by Senators Tim Scott, a Republican from South Carolina, and Corey Booker, a Democrat from New Jersey, and is designed to mobilize an estimated \$6 trillion in unrealized capital gains for investment in underserved rural and urban communities. These communities have long been affected by disinvestment, and now exceptionally so with the pandemic.

The concept of Opportunity Zones was first presented publicly in 2015 in an Economic Innovation Group white paper by economists Kevin Hassett of the American Enterprise Institute and Jared Bernstein, the former chief economist under Vice President Joe Biden, and a Milken Institute fellow. In their 2015 paper, Hassett and Bernstein found that “large-scale public sector investment is unlikely to happen anytime soon, and must be supplemented by...providing new subsidies for private sector investors...to invest in higher risk ventures in economically depressed communities...”¹

The nation’s 8,764 Opportunity Zone census tracts were designated by governors and certified by the US Treasury Department in 2017. Since then, private investors, community stakeholders, and local and state governments have tried to realize the promise of this idea to increase community wealth and reduce inequities across the United States. These Zones were capital-starved pre-crisis, and the coronavirus pandemic is piling on top of a litany of economic inequality issues, as low-income populations will be further disproportionately hurt. For example, more than 50

1. Jared Bernstein and Kevin A. Hassett, “Unlocking Private Capital to Facilitate Economic Growth in Distressed Areas” (Economic Innovation Group, April 2015), <https://eig.org/wp-content/uploads/2015/04/Unlocking-Private-Capital-to-Facilitate-Growth.pdf>.



In times of crisis, state and local governments play an essential role in protecting and nourishing *their* communities, and this playbook aims to guide just that.

percent of the 35 million residents in Opportunity Zones are minorities, and ensuring revitalization for communities of color is imperative.

Because OZs are not a government grant program but a tax incentive, many public-sector leaders have struggled to understand how Opportunity Zones fit into their traditional economic development toolkit, what the public sector's role is, and how they can attract new investment into their zones aligned to their community development goals.

Is figuring out OZs worth the effort? We think so. According to estimates from the US Treasury Department, up to \$100 billion in annual new investment capital could move into over 8,700 eligible distressed economic areas over the next decade, at a net cost to taxpayers of only \$2.6 billion. While community engagement with OZs has been uneven, the growth of the Opportunity Zone market is far outpacing earlier, successful tax incentives used for place-based development and affordable housing. In addition, there is an estimated \$6 trillion in dormant capital gains that can be tapped into, not to mention the capital gains accumulation currently underway as investors withdraw their stock in Dead Cat Bounce markets (brief recoveries in price of overall declining stocks). In the post-COVID economy, this private capital can be channeled to strengthen health supply chains, to support small businesses getting back on their feet, and support many of those unemployed that transition to be entrepreneurs—to name a few positive OZ scenarios. Considering the challenges we are facing today, and the forthcoming depression that is estimated to be far worse than that of 1929, creating resiliency is vital, and OZs can be a prudent tool. Public sector leadership will be critical in ensuring OZ capital achieves its original intent of delivering social impact to underserved communities across the United States.

The Milken Institute designed this report to help state and local government officials learn about best practices for engaging Opportunity Zone capital and engaging in innovative public-private partnerships as part of their integrated strategies for creating jobs, businesses, affordable housing, resilient infrastructure, and other community-led developments.



III. HOW DOES THE OPPORTUNITY ZONE INITIATIVE WORK?

WHAT IS A QUALIFIED OPPORTUNITY ZONE?

A Qualified Opportunity Zone is a census tract that has been designated by each state or territory and certified by Treasury as eligible to receive private investments via Qualified Opportunity Funds (QOFs).² A census tract can be designated as a Qualified Opportunity Zone if it falls into one of two categories:

- It satisfies the definition of a “low-income community” (LIC) in § 45D(e) of the US Code.
- It is a non-LIC tract that is contiguous with an LIC designated as a Qualified Opportunity Zone, and the median family income of the non-LIC tract does not exceed 125 percent of the median family income of the contiguous qualified zone.

There are 8,764 Opportunity Zones [designated](#) across all 50 states, the District of Columbia, and five US territories. Once certified, an Opportunity Zone retains its designation for 10 years.

WHAT IS A QUALIFIED OPPORTUNITY FUND?

A QOF is an investment vehicle established as a partnership or corporation to invest in eligible property located in an Opportunity Zone. Qualified Opportunity Funds are capitalized by realized capital gains and must deploy 90 percent of capital into Opportunity Zones.

2. In December 2019, the US Treasury [finalized regulations](#) that govern how all QOFs must invest and exit qualified investments.

INVESTING IN OPPORTUNITY FUNDS MAY PROVIDE POTENTIAL TAX INCENTIVES TO INVESTORS:

- A temporary capital gains tax deferral for all capital gains reinvested in an Opportunity Fund, lasting until the investment is sold or until December 31, 2026, whichever is sooner.
- A 10 percent basis adjustment on the original capital gains, which can result in tax reductions if the Opportunity Fund investment is held for 5+ years, plus an additional 5 percent adjustment if the investment is held for 7+ years.
- If an investor holds the Opportunity Fund investment for 10+ years, the investor may also permanently avoid capital gains taxes on any proceeds from the Opportunity Fund investment itself.



IV. THE ROLE OF THE PUBLIC SECTOR

LOCAL FINANCES AFTER CORONAVIRUS: MEETING THE CHALLENGE

Long before Opportunity Zones were created in 2017, thousands of distressed communities across the United States were struggling with market, social, and technological trends that fueled urban gentrification, rural disinvestment, and limited capital access for minority entrepreneurs and business startups.

Public-sector and community leaders must understand that OZs are not by themselves a panacea for fixing persistent economic trends that may be affecting local economies. But if leveraged correctly, when community and investor interests match, they can be useful for financing community development projects, new operating businesses, and local infrastructure.

Harnessing this tool will not be easy because many distressed communities lack the technical capacity to respond to the interests and needs of investors as they develop projects.

There is good news. Research from [McKinsey](#) and [Georgetown University](#) indicates that the same innovative steps and low-cost reforms that many cities need to build a more resilient and equitable local economy also accelerate the development of a stronger pipeline of investable, shovel-ready Opportunity Zones and other impact projects.

While the OZ tool is an investor-targeted tax incentive, communities are not powerless to harness the potential impact of OZs. Communities should guide development patterns to realize social impact goals, such as affordable housing, with several tools of their own. These include zoning and district plan updates, and linking community-benefit agreements to critical public investments, like site remediation



and infrastructure investments. Creative local action and leadership can cultivate a committed local investor base by linking government, major businesses, philanthropy, and new OZ players.

Building local technical capacity for public-sector leaders to attract private investors and growing a pipeline of *desirable* community public-private partnerships and OZ deals is achievable. Success requires local intention to overcome complex challenges and impediments created by state- and local-level programs, such as reforming permitting and procurement that limit local economic development innovation. Creating this capacity also takes innovation capital.

Even before the COVID-driven economic crisis now facing the US economy, no economic sector had suffered more than US state and local governments, which have yet to fully recover from the 2008-2009 Great Recession as evidenced by total employment, net revenues, and state aid to local government.

For example, according to [research from the Pew Research Center](#), states missed out on \$283 billion in expected revenue from 2008 to 2018, and half the states were spending less than they were a decade ago. In fiscal year 2018, 23 states still spent less in inflation-adjusted terms than in fiscal 2008, when they were just starting to suffer from the recession. As a consequence, local capacity to undertake more complicated innovative partnerships, including impact investing, lagged.

Now with the fiscal crisis created by COVID, state and local governments and their 3 million employees are facing an even more severe round of potential cuts due to delayed and falling tax revenues.

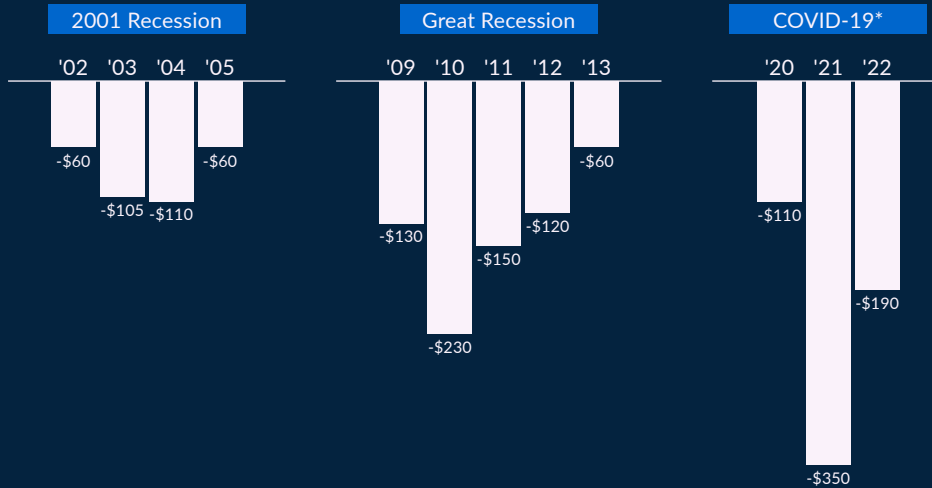
New estimates from the Center on Budget and Policy Priorities are predicting local and state budget shortfalls from COVID-19's economic fallout could total \$650 billion over three years, based on new economic projections from the nonpartisan Congressional Budget Office and updated projections from Goldman Sachs. The National League of Cities estimates that between 300,000 and 1 million public sector workers could soon be out of a job, or furloughed. The National Association of Counties, which employs over 3 million service workers, is making similar projections.³

3. "Running on Fumes: Impact of COVID-19 on County Finances" (National Association of Counties, April 2020). <https://www.naco.org/sites/default/files/documents/Impact%20on%20County%20Finances-FINAL-v2.pdf>



COVID-19 STATE BUDGET SHORTFALLS COULD BE LARGEST ON RECORD

Total Shortfall in each fiscal year, in billions of 2020 dollars



* Estimates based on CBPP calculations using Congressional Budget Office and Goldman Sachs unemployment estimates. Does not reflect use of rainy day funds or federal aid already enacted.

Source: CBPP survey of state budget offices (through 2013); CBPP calculations (2020–2022)
<https://www.cbpp.org/topics/state-budget-and-tax>

CENTER ON BUDGET AND POLICY PRIORITIES | CBPP.ORG

With these trends in mind, local economic development planners would be advised to take a closer look at new capital sources and incentives like Opportunity Zones because, no matter the size of COVID state- and local-relief packages, future grant programs alone won't be able to overcome multibillion-dollar funding gaps for economic development, housing, infrastructure, and other community needs in both rural and urban areas.



V. WHAT OZ INVESTORS ARE LOOKING FOR

The bottom line is clear: Most impact and OZ investors are looking for shovel-ready projects and ready-to-invest businesses, and a clear line of sight for public-sector decisions. They are not interested in deals that only sound promising in one-page concept papers but not ready for prime time. In public-sector parlance, investors are seeking deals in which the predevelopment work has already been done, and permits are in place.

Today's investors already have a tax incentive, thanks to OZs. If leveraged correctly, Opportunity Zones can present a unique tax incentive for investors who are motivated by social impact in the US's low-income communities. For this to materialize, communities looking to engage private investors must remember what investors are targeting when they evaluate investments:

- Projects with a **reasonable return for their equity investment** (that rate depends on the type of investor and deal).
- Projects that clearly define **how they get their money back (i.e., exit) and when**.
- Projects that offer **investment certainty** (e.g., no permitting and regulatory delays or headline risk) because of regulatory compliance rules.

WHAT ARE THE DIFFERENT TYPES OF INVESTORS?

Like communities, investors come in different shapes and sizes. Some investors are looking to invest in specific "asset classes," such as affordable housing deals or infrastructure facilities, or operating businesses of a specific type. Others are looking for a strong social impact for their investment in addition to strong investment returns. As such, a sweet spot may exist when communities interested in long-term community-minded investors meet investors interested in holding their investments for 10 years or longer to get tax-free returns on their OZ investment.



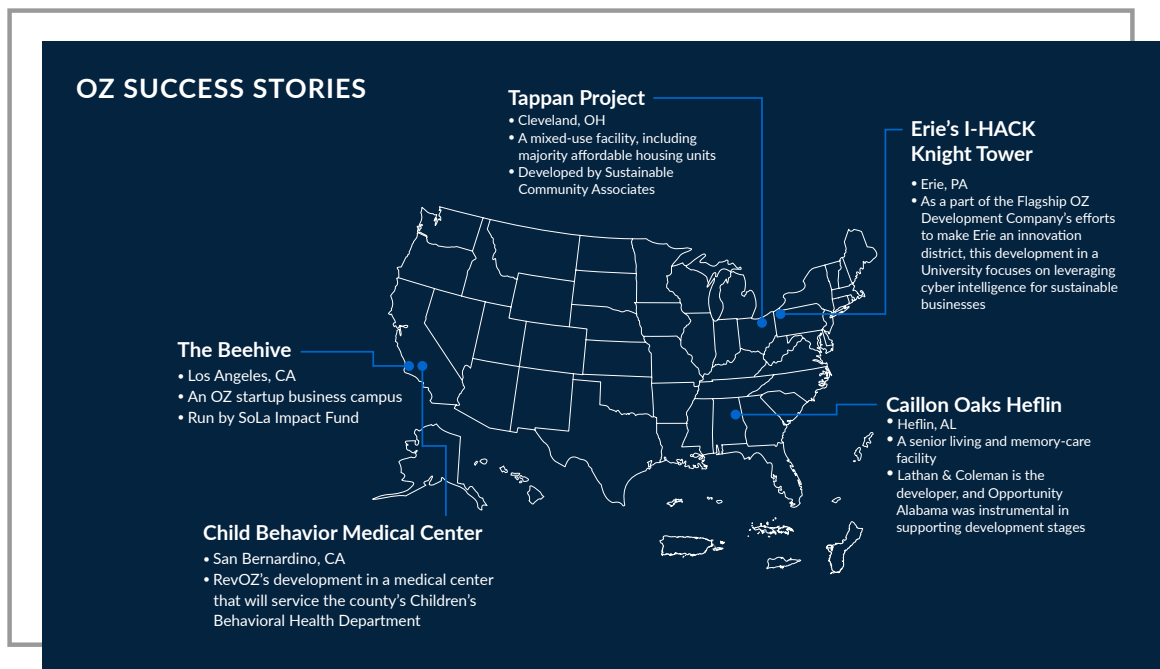
HOW IS THE OZ MARKET STILL EVOLVING?

Besides understanding what OZ investors want, smart public sector leaders should recognize that the OZ market is new and still taking shape. The legislation came into effect in the 2017 Tax Cut and Jobs Act; however, the final regulations regarding implementation were only recently finalized in December 2019.

So, while the press has paid particular attention to already permitted, wave-one real estate deals that used OZ capital in 2018 and 2019, communities should eye the second and third wave of OZ deals for opportunities.

It is important to remember that good community projects that “pencil out” financially and offer substantial long-term returns will always find interested impact investors. Communities must think and act the same way by developing OZ projects that fit your long-term economic objectives without rushing to engage investors who won’t return if your project isn’t ready the first time.

OZ investors are projects that increase in value over time and present clear exit potential. In addition to real estate and operating businesses, investors could consider community-determined projects, as well as energy and infrastructure projects that combine financial returns with positive impacts.⁴

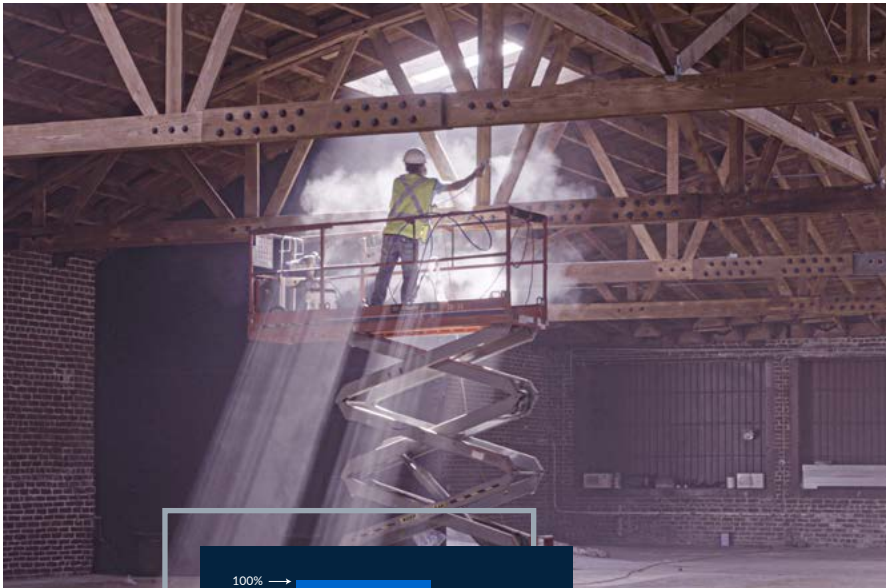


4. "Opportunity Zones Best Practices Report to the President" (The White House Opportunity and Revitalization Council, May 2020), https://opportunityzones.hud.gov/sites/opportunityzones.hud.gov/files/documents/OZ_Best_Practices_Report.pdf.



The Beehive

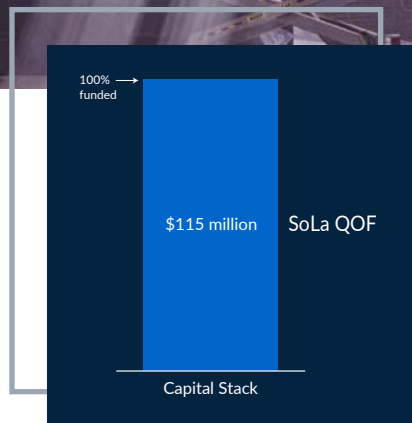
Project Overview: The Beehive is a five-acre business campus located close to downtown Los Angeles. The campus is dedicated to OZ businesses and will provide creative offices, co-working space, and shared amenities to entrepreneurs, startups, and local businesses. The Beehive is particularly focused on enabling minority-led and women-owned businesses to become OZ businesses and will provide access to free/discounted consulting hours in OZ education from Novogradac & Co., law firm Allen Matkins, and accounting firm Square Miller. The Beehive is a major project in SoLa Impact Fund's OZ Fund, which



is also focused on providing high-quality affordable housing to South LA residents. SoLa Impact has become LA's largest landlord of HUD/Section 8 tenants.

Project Progress: Tenants will begin moving into the facilities in July, while others are holding off until later in the year considering COVID-19 influence

on the business environment. Construction of the facility is expected to be complete by the end of the year. Right now, SoLa Impact is working on COVID relief efforts in line with advancing its overarching goal of providing more resources to low-income communities in the Los Angeles region.





Carillon Oaks Heflin

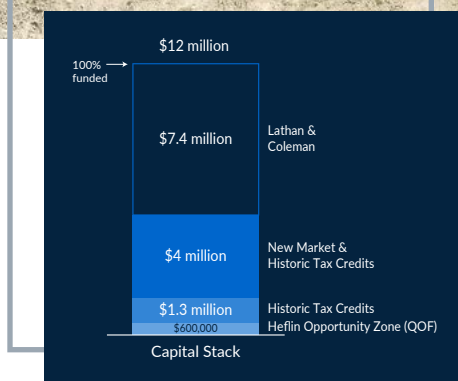
Project Overview: In Heflin, Alabama, the historic Cleburne County High School built in 1936 is being restored and converted into a senior-living facility. Developed by Lathan & Coleman and operating under the name Carillon Oaks Heflin, they stacked New Market Tax Credits, State and Federal Historic Tax Credits, and OZ funds to bring this \$12 million investment to rural Alabama. The Assisted Living facility will house 39 residents while the Memory Care facility will house 16 additional residents and offer skilled care. In total, Carillon Oaks Heflin will employ 40 staff members and provide full-service meals, laundry, and hosts a beauty salon. Residents can also



enjoy time spent in the bistro, chapel, theater, or garden trails. Opportunity Alabama, a nonprofit operating in the OZ space and based in Birmingham, Alabama was instrumental in the development stages of this project.

Project Progress: Carillon Oaks Heflin already has 25 percent of its units committed, has secured a majority of staffing and will

open by the end of 2020. Fortunately, the COVID-19 influence has only impacted the project by a setback of approximately one month. Lathan Development, a spinoff of Lathan & Coleman, is beginning another OZ project with Talladega College (a Historically black college and university (HBCU)) and looks forward to updating the Milken Institute in the near future.





RevOZ Capital's Medical Center

Project Overview: A Medical Center in San Bernadino's OZ that will service the county's Children's Behavioral Health Department in order to provide the children in their community with a specialized facility to complement healthy growth. The facility will include a healing garden. This project is lead by OZ real estate firm RevOZ Capital in partnership with Sudweeks Development and Investment Company. The facility is a single-story facility on nearly two acres of land.



Project Progress: The project construction began in January 2020 and was scheduled to be completed in December 2020. Due to the mandatory quarantine, the project construction was delayed by a few months. However, as things open up, construction continues and the developers only anticipate a completion setback of a few months.



The Tappan Project

Project Overview: Sustainable Community Associates (SCA), based in Ohio, is developing a \$22.5 million mixed-use and mixed-income project as part of the Tappan Project that is focused on Tremont's community development. The project is being financed by both debt and OZ equity. The building will be a four-story building that will include 95 apartments and a bakery on the first floor. To subsidize



the workforce housing, SCA are leveraging OZ funding. SCA plans for 60 percent of units to be set aside for people with annual income at \$46,000 or less. This project is estimated to create more than 100 jobs. Additionally, the team at SCA has also successfully negotiated the City of Oberlin's first tax-increment bond (a bond issued by the City, and paid back through taxes generated from rising property values by the project). In SCA's projects, their capital stack involves support from both HUD and an Atlanta-based philanthropic organization Kendeda Fund.

Project Progress: The project had designs approved by April 2020 and hoped to open The Tappan by June 2020, but likely will experience delays with the economic shutdown due to coronavirus.



Erie's I-HACK Knight Tower

Project Overview: Gannon University in Erie, Pennsylvania, established the Institute for Health and Cyber Knowledge (I-HACK) for academic, industry, and business owners to leverage cybernetic intelligence and data systems globally. First, the idea is for the facility to support technologically sustainable business development and cyber security education. This project is within an overarching effort to transform



Erie into an innovation district. Gannon University is seeking \$20 million to support the renovation of the Knight Tower. With an estimated 3 million cyber security jobs going unfilled by 2021, they hope to tap into this labor market. Using local grant funding among other types, the Tower is part of a network of projects in Erie's exemplary portfolio.

Project Progress: The University has internal approval to begin design collaborations, and has committed \$5-7 million in funds. Erie has 8 total OZ census tracts; however, is touted as Pennsylvania's Flagship OZ community. Erie is a quintessential community that lost much of its activity when its industrial corridor became obsolete. However, now the community is home to approximately \$750 million in ongoing investment that is reversing its actively socioeconomic decline, including I-HACK Knight Tower.



VI. HOW OZ COMMUNITIES CAN PREPARE

The Acceleration Curve

State and local officials can take a number of steps to benefit from this policy incentive and attract the right kind of investment to their communities. While not every community needs to take every step in order, the work generally involves three major phases, and each phase includes a number of “plays” that is the phase’s particular effort:

Phase 1: Public-sector *preparation* to get ready to engage effectively with potential OZ funds and impact investors and to do it in a way that builds community cohesion and shared purpose;

Phase 2: Strategic *project acceleration* of the first wave of desirable and shovel-ready projects through easily deployed tactics and techniques; and

Phase 3: Permanent investable project *pipeline development* to transform local economic development through partnerships and innovative reforms.



FIGURE 2: THE ECONOMIC DEVELOPMENT ACCELERATION CURVE





The Economic Development Acceleration Curve: The Path to Public-Sector Innovation and Smart Partnerships with Impact Capital at Scale

PHASE 1

PLANNING AND PREPARATION

The old maxim of “fail to plan, plan to fail” aptly describes the importance of Phase 1. Communities in the early stages that wish to learn about how best to engage OZ funds and impact investors would be wise to review the seven plays below to make their community more investor-ready.





1.1 DESIGNATE A POINT PERSON IN GOVERNMENT FOR COMMUNITY INTEGRATION AND INVESTOR ENGAGEMENT

Identify Opportunity Zone leadership within your city—whether it be a designated lead in the mayor’s office, the city’s chief financial officer (CFO), or treasurer—to coordinate among government agencies and engage community stakeholders and investors.

The Bottom Line: OZs can incentivize a wide variety of projects, from housing, to infrastructure, to startup business accelerators. This variety of investments will require different types of investors and interactions with various government agencies and community stakeholders. It is essential to appoint the right kind of OZ leader in government to attract investments into economic development deals. The OZ point person will coordinate and navigate toward longer-term goals while also delivering early wins. This will require the OZ point person to be an experienced leader who will identify and seed smart connections among community and investor expectations, such as combing forces of a university’s tech incubator that is lacking a strong enough platform to launch student projects, and a local venture capitalist focused on the tech sector looking for cutting-edge innovations to invest in. This leader must also understand investors’ thinking, deal structuring, and the local investor ecosystem. The role is critical to coordinating a community’s many, potentially competing, development priorities, organizing the work of government task forces, and presenting a coherent message to potential investors.

Smart Action(s): Identify a credible, trustworthy individual or entity who can overcome disconnected thinking and drive innovation across multiple public programs that OZs will affect. OZ leadership could take the form of a designated lead in the Mayor’s Office or the city’s CFO or treasurer and may require a separate office and/or an interagency task force. Consider how this leader can partner with the deal jockey role identified in play #9.

Learn More About:

- [Maryland’s Opportunity Zone Leadership Task Force](#) and [Colorado’s Office of Economic Development and International Trade](#): proactive state government program integration work.
- [Baltimore](#) and [Atlanta’s](#) point persons: two states identify leadership, former appoints nation’s first chief opportunity zone officer, and later tasks its economic development authority to focus on OZs.
- [Montrose, Colorado](#), [Stockton, California](#), and [Waterloo, Iowa](#): small city innovations.
- [Utah Association of Counties OZ Leader](#): the public sector can outsource its leadership from relevant organizations.



1.2 FOSTER DEEP COMMUNITY ENGAGEMENT AND INCLUSION

Work collaboratively, inside and outside government, to link community stakeholders and build a shared vision for collective impact.

The Bottom Line: Existing residents, small businesses, community-based lenders, and project developers who have been living and working inside newly designated Opportunity Zones for years must be included early to ensure that community perspectives, insights, and expertise shape local revitalization efforts through effective public-private-community partnerships. These stakeholders exist beyond the halls of government and can grow social capital and trusted partnerships that could last long beyond the OZ program. The key point person identified in Play 1.1 should identify priority projects, marshal funding sources to support the work, and adjust strategy based on performance and tracking data, all focused on meeting the community's needs.

Smart Action(s): Connect your designated OZ leader with the right community stakeholders and ensure the process leads to continued, transparent engagement. To formalize the connection and collaboration among stakeholders, build a community OZ stakeholder table to create public transparency and trust. You can also use an existing community revitalization advisory council. If your locality lacks what practitioners call a "community quarterback" to help organize critical stakeholders, resources and examples to fill this critical implementation gap can be found in the call-out box, "The Role of Philanthropy" and "Learn More About" to the right.

Learn More About:

- [Stanford Social Innovation Review](#) talks about the [Community Quarterback](#): the basics.
- [Rockefeller Foundation \\$5.5 million OZ Initiative](#): philanthropy supports OZ leadership work and supports government-community linkages.
- [The Local Initiatives Support Corporation's Playbook](#): a guide to create community partnerships.
- [Stanford Social Impact Review](#) discusses the [OZ-Foundation Intersection](#): the basics.
- [Colorado Springs](#): Community Opportunity Zone Captains.

The Role of Philanthropy

In your OZ strategy, there are multiple roles for local and national philanthropy to enhance economic impact:

- Convene stakeholders by creating an OZ community table with all the key players (local philanthropy)
- Support government innovation such as training leaders in new skillsets (for example, [Rockefeller Foundation](#))
- Offer below-market interest rates and other one-time support to help communities get complicated but high-impact deal structures involving OZ funding off the ground
- Invest in projects and/or policy-aligned fund managers (for example, [Kresge Foundation](#))



1.3 KNOW YOUR ZONES AND FIX YOUR ZONING

Update zoning, planning requirements, and building codes to ensure they do not impede OZ investor interest.

The Bottom Line: Opportunity Zone investments can't override existing zoning and planning requirements. Thus, it is critical to understand how current zoning, planning requirements, and building codes relate to OZ investor requirements and to update your codes to prevent unwanted outcomes. Especially if your community is experiencing gentrification, it may be time to update your planning and zoning rules to advance economic equity, local business usage, and community wealth creation. If your community is experiencing disinvestment from major plant closures and other macro-economic factors, consider using the OZ initiative to streamline local regulations and build a new legacy based on core strengths, people, and history.

Smart Action(s): As counter actions against potential negative economic outcomes such as displacement of residents, use OZs as an engine to get city/county council and local agencies working together to align zoning and building codes to a long-term, integrated strategy that addresses key needs. As noted by the Center for Community Investment: "transforming communities into places of opportunity for everyone requires changing the policies and practices that affect how money flows into disinvested communities."⁵

Learn More About:

- [Local Government Commission and the American Planning Association](#): traditional zoning check-up tools and resources.
- [The Urban Land Institute's guidebook](#): tips on modernizing local zoning through form-based codes.
- [Kansas City](#) and the [MasterCard Center for Inclusive Growth](#): data deep dives and databases on Opportunity Zones.
- [Drexel University's OZ and Urban Revitalization Approach](#): OZ development typologies.
- [US Economic Development Administration's StatsAmerica](#): OZ market data tool.

5. "Connect Capital," Center for Community Investment, <https://centerforcommunityinvestment.org/connect-capital>.



1.4 TAKE INVENTORY OF ASSETS, CURRENT SPENDING, AND 10-YEAR BUDGETING

Do a gap analysis of assets, strengths, key investments, and skillsets your community has and what planned program tools are missing. These findings must align with a 10-year budget process.

The Bottom Line: Transparently sharing the public-sector contribution to the community's economic activity will increase the likelihood that OZ investors and other impact investors engage in your community. This is because they will be able to understand future funding flows more clearly. Most city and county councils and state legislatures approve a year-ahead budget and progress payments, in addition to one or two projects, instead of assessing what they are buying and incentivizing over a longer term. Long-term investors prioritize projects in areas with positive, identifiable economic characteristics, which demonstrate the economic demand and investments of a community's key institutions (e.g., hospitals, community colleges, universities, and the public sector). Is your economy capable of supporting the projects they will evaluate?

Smart Action(s): Create a process to incentivize and ensure a longer-term (10-year) public finance budget process to signal to investors where and when your community intends to invest serious resources. Take a robust inventory of current and planned spending to begin that shift from one- to ten-year budgeting. This analysis should also detail the flow of funds from federal, state, and local programs.

Learn More About:

- [Government Finance Officers Association and the Organization for Economic Development Cooperation and Development](#): best practices in multiyear and performance budgeting.
- [American Society of Civil Engineers guide aligned to Government Accounting Standards Board Rule #34](#): best practices in sustainable infrastructure asset management.
- [Center on Budget and Policy Priorities tools](#): 10-year budgeting and other budgeting best practices.
- [Council of Development Finance Agencies](#): inventories of state development grant and financing programs, and 100+ federal programs that support OZs.



1.5 DEVELOP A STRATEGY FOR ANCHOR INSTITUTIONS

Align with local anchor institutions (e.g., hospitals, local banks, community colleges, major employers), as well as sources of local capital gains to generate economic demand and initial investments in your community.

The Bottom Line: Different types of institutions in your community are already investing in economic development projects, critical infrastructure, and the creation of economic demand aligned to their particular institution. These anchor institutions could be hospitals, community colleges, universities, major employers, and nonprofit groups. These institutions function as either consumers or producers in the OZ supply chain and shape economic and workforce patterns that will affect OZ residents. Many OZ procurement opportunities will arise.

Smart Action(s): When compiling a portfolio of potentially investable projects in your community, consider not only city-led projects but also anchor institution projects. Meet regularly with capital planning leads and real estate advisors, as well as local anchors. Assess their capital budget plans and champion their projects and/or their participation with yours. Their role is invaluable here.

Similarly, on the supply side, there may be local anchor OZ investors. In some cases, the first available capital gain may be from local investors looking to support their community, such as proud former university graduates and alumni making investments in their alma mater.

Learn More About:

- [Living Cities Summary of Anchor Institutions Design Lab](#): anchor institution types and engagement strategies.
- [Erie Downtown Development Corporation](#) and [the Erie Insurance Company](#), and [the Global Resilience Institute at Northeastern University](#) [profiling the model](#): a town leveraging two anchor institutions.



1.6 PREPARE FOR YOUR 2050 ECONOMY

Create an economic development strategy and community investment story that is rooted in your core economic and demographic strengths today and mindful of how your region must adapt to a changing future.

The Bottom Line: The Opportunity Zones initiative will be most successful when communities connect with patient investors seeking 10-year or longer investment opportunities in business creation, real estate, and infrastructure. Opportunity Zone investors are looking for high-return projects in the 8,764 census tracts across the country, and each OZ is competing with each other for their investments. State and local officials should create a clear community investment narrative that puts OZs and their projects in a forward-thinking, 2050 mindset. The narrative should reflect future economic trends in your Zones and your region: from changing demographics to trade to emerging markets.

Smart Action(s): At a minimum, planning and preparation efforts should focus on building out a 10-year prospectus of community investment projects that are ready for investors and enhance communities, and include an accountability system. Since the Opportunity Zone initiative allows for exits up to 2047, consider a 2050 strategy.

Learn More About:

- [Urban Land profiles Philadelphia's Navy Yard](#) led by Ben Franklin Technology Partners and [the Philadelphia Industrial Development Corporation](#): effective redevelopment, as demonstrated by the 30-year turnaround of the Philadelphia Navy Yard and waterfront after a base closure led by city and state support.
- [US Economic Development Administration Economic Development Strategy](#): government support for long-term economic resilience planning through grants and other tools.
- [Accelerator for America Investment Prospect Guide by Nowak Metro Finance Lab at Drexel](#): an OZ prospectus.
- [Louisville Opportunity Zone Deal Book](#): a multi-year deal book for investors.
- [Deloitte Insights, McKinsey & Co., and Oxford University](#): key economic trends to be mindful of.
- [City Observatory's Economic Development Approach](#): how to develop a long-term bottom-up economic development strategy and be mindful of aforementioned economic trends.



1.7 GAUGE YOUR CAPITAL ACCESS, BUSINESS CREATION, AND ENTREPRENEURSHIP GAPS

Conduct a gap analysis specifically on where the needs lie for the promotion of small businesses and startup funding. Issues covered could include available capital, workforce capacity, infrastructure, regulation, and tax policy.

The Bottom Line: Finding the right kinds of funding and strategies to catalyze job creation, small business growth, and entrepreneurship equitably for your community must be targeted and realistic. Small businesses are vital drivers for wealth creation and economic prosperity in America, and capital is necessary for the success of small businesses. Studies have shown that the rate of [business formation in America lags](#) many other countries significantly. Prior to the COVID-19 economic disruption, and despite the longest expansion on record, entrepreneurship rates remain at pre-recession levels,⁶ especially for underserved populations. Moreover, according to City Lab,⁷ just the top five metros—San Francisco, San Jose, New York, Boston, and Los Angeles—account for more than 70 percent of venture capital investment across the United States. The primary source of startup and acquisition funding for small businesses is savings and equity investments from personal networks. The second-largest source is bank loans, according to US Census Bureau data. Knowing where the needs are will be critical for marshaling OZ resources appropriately.

Smart Action(s): Map what capital sources and programs exist so that you can gauge the gaps in your economic development ecosystem. Some communities have created business accelerators, networks, and small business financing programs to plug these gaps. This gap analysis may reveal that the issues are less about available capital and more about workforce, infrastructure, regulation, tax policy, or rebalancing to target underserved populations. The analysis may also reveal communities' lack of readiness to accept equity investments.

Learn More About:

- [Milken Institute's Minority-Owned Depository Institutions Market Overview](#): a market overview of community banks.
- [Kauffman Foundation](#) and [HBR's Karen Mills](#): action kits to make America more entrepreneurial.
- [Center for Community Investment's Capital Absorption Framework](#): tools to help communities access the investments needed for people to live, work, and learn in healthy homes and neighborhoods.
- [The Small Business Administration's Hub Zones](#): a federal government program to support small businesses.

6. "Annual Survey of Entrepreneurs" (US Census Bureau, April 2020), <https://www.census.gov/data/developers/data-sets/ase.html>.

7. "Venture Capital Remains Highly Concentrated in Just a Few Cities," (Bloomberg CityLab, October 2017) <https://www.bloomberg.com/news/articles/2017-10-03/the-geographic-concentration-of-venture-capital>.



PHASE 2

PROJECT ACCELERATION

The plays in Phase 2 are designed to help communities employ best practices to bring desired, community-led OZ projects from concept to groundbreaking. Communities that want to increase OZ activity will often need to lean in more to remove obstacles for the right project to be completed fast enough to meet OZ investors' timelines.





2.8 DEFINE HIGH-IMPACT PROJECTS AND REPORTING SYSTEMS

Despite calls by the Milken Institute and a wide range of community development leaders, data reporting for Opportunity Zone funds is not required at the local government level. To reduce unwanted disinvestment or gentrification in communities and to incentivize high-impact investments in line with long-term community objectives, states and cities can act on their own.

The Bottom Line: Communities that are interested in measuring the real impact of local, state, and federal investment and job creation tax incentives can take actions to identify, incentivize, and track what they consider high-impact projects that align better with their long-term, 2050 economic objectives.

Smart Action(s): Several groups have already developed model reporting requirements and principles, so your community doesn't have to start from the beginning to meet this challenge. The issue is how best to get investors to comply with local reporting requirements without disincentivizing them from investing in communities that don't require similar reporting. To avoid a race to the bottom, and to gather critical data for tracking the results of OZs' problems, consider an incentives strategy: carrots and sticks. This strategy makes the availability of local or state development support for OZ-related projects and to function as a "carrot," or incentive to motivate OZ investors to meet reporting requirements related to business permitting, zoning, and procurement requirements. In Atlanta, for example, if you're a new or existing business that creates two or more jobs inside the city limits, you may qualify for tax credits of up to \$3,500 per job—but only if you report on OZ investments.

Learn More About:

- [SPARCC's Investment without Displacement Article](#): the challenge and need to attract investment without displacement.
- [Model reporting requirements](#) from the US Impact Investing Alliance, the New York Federal Reserve, and the Beek Center at Georgetown.
- [Invest Atlanta Project Sponsor Agreement](#): a unique approach in which a community incentivizes project developers to access investable project information if they agree to adopt the community's social impact reporting framework and sign an agreement.
- [Milken Institute's IRS comment letter to OZ regulations](#): an outline of issues that remain to be addressed in the regulations, including reporting requirements.



2.9 HIRE AN OZ EXPERT (DEAL JOCKEY)

Identify a public sector official to engage with the private sector, helping to coordinate across different agencies, and removing obstacles for promising, high local-impact projects aligned with local economic development objectives.

The Bottom Line: Once the planning and preparation phase is done, potential projects identified must be expressed in the information that investors require to conduct due diligence. A succinct prospectus is important. Deal closings also require specialized financing and implementation capacities that often fall short in the public sector, such as the ability to create investor term sheets, pro formas, and clear “capital stacks.” Hire a deal jockey to convert promising projects into investable projects and to structure deals. The deal jockey will leverage available public investment dollars to get more projects, especially since many public-private partnerships blend capital from multiple sources, including QOFs. Communities often fully fund the best project that has public support rather than consider how to attract private capital into these deals by identifying and monetizing avoided costs, reducing project risks, finding new efficiencies, or creating innovative pricing models. By focusing on their core mission, the deal jockey could reassess how a fixed amount of public investment dollars could deliver more community projects.

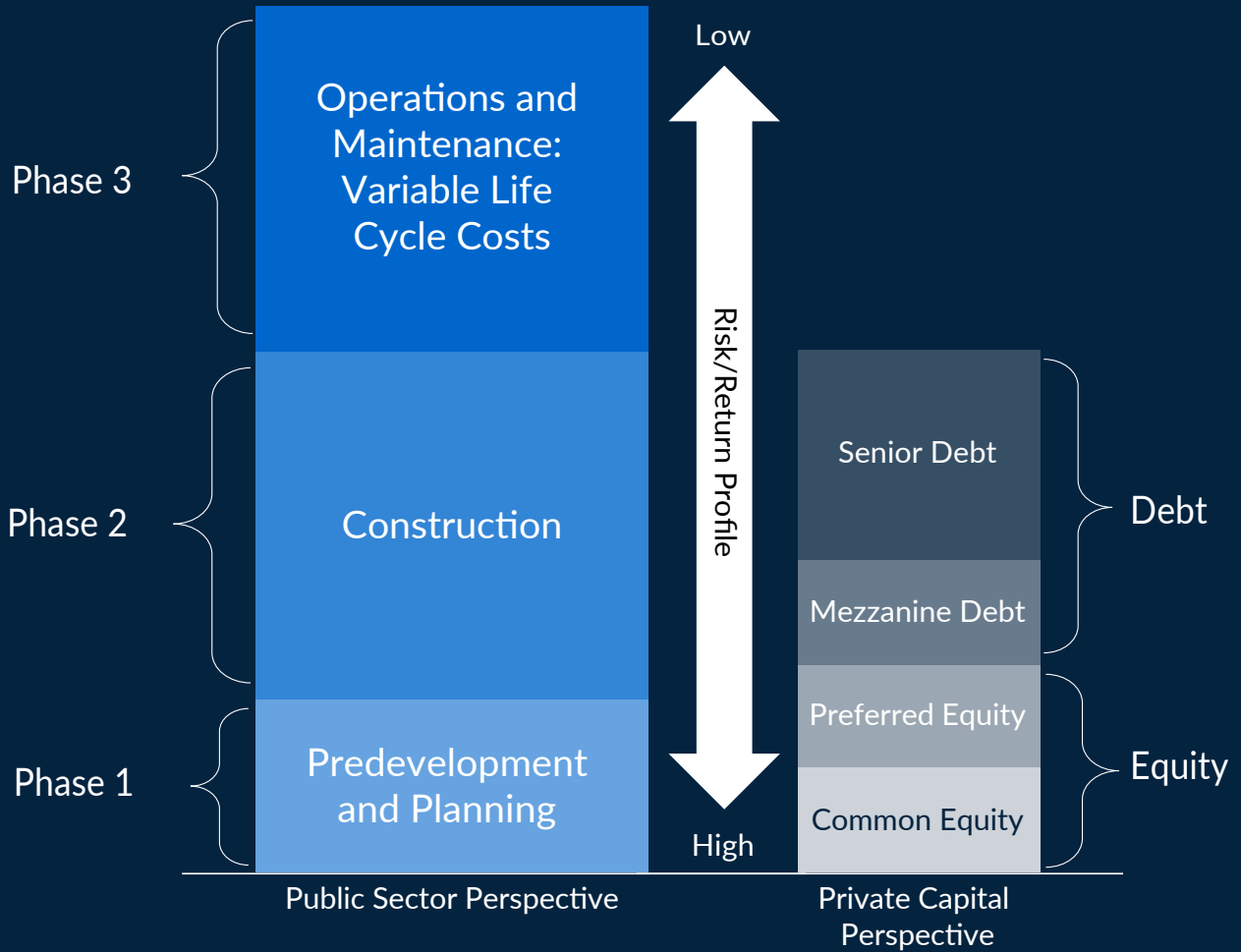
Smart Action(s): Secure an experienced public and private finance expert. A deal jockey will know when to lead with a project’s financials to an OZ investor and when to lead with its impact. Balancing these activates is critical. Activities could include compiling a working list of investable projects and public-private partnerships that would deliver the most impact, and what public assets to leverage as carrots. That list can be compiled from local city and county capital projects; deferred maintenance lists; local business, economic development, and community groups; and local anchor institutions.

Learn More About:

- [Opportunity Alabama:](#) a unique statewide hub and intermediary models to accelerate community projects and investor connections in smaller states.
- [FUSE Corps](#) and [Center for Community Investment’s programs:](#) circuit-rider programs to place experts inside city governments and in communities and regions.
- [OppSite’s New Jersey Marketplace:](#) a local and statewide OZ marketplace and networking platform.
- [New Market Tax Credits:](#) stacking together OZ investments with other key capital sources and tools.



CAPITAL STACK 101: PENCIL THE PROJECT BASICS



ILLUSTRATIVE / NOT TO SCALE



2.10 IDENTIFY PRIORITY DEVELOPMENT SITES

Create an excess property inventory that includes both OZ property and adjacent land. Make it easy for interested investors to know which land parcels are ripe for development, investment, and rehabilitation.

The Bottom Line: The Opportunity Zone incentive is catalyzing a long-overdue conversation about how communities can do better at place-based development. Excess public property information that is all in one place, rather than siloed by agency, could serve as a competitive advantage. Similarly, undertaking or highlighting community efforts to restore old railroads, waterfront, or contaminated industrial sites through “brownfield restorations” can be critical for equitable development across multiple communities. Investors will be more attracted to OZ sites that already have the critical infrastructure, are adjacent to additional developable land, and are investment-ready. Making it easier for investors by predetermining where you want them to go can be hugely helpful. Foundational to that is a strong site development process, including a clear list of available land parcels.

Smart Action(s): Develop an accessible and transparent public property database (e.g., parcels owned by the city, county, or other public utilities, or community anchors that could be sold or transferred to facilitate desirable investment) that will help guide potential investors in your community. Ensure this database is updated regularly to reflect zoning changes and overlay it against your designated OZs.

Learn More About:

- [Environmental Protection Agency brownfield to economic bright spots](#) support: federal support to convert industrial brownfields to economic bright spots.
- [Michigan Economic Development Corporation's certification system](#): a state system to help investors know when sites are investment-ready.



2.11 ASSEMBLE PREDEVELOPMENT FUNDING FROM CITY, STATE, AND PHILANTHROPIC ENTITIES

Identify funding to pay for tasks that need to be completed before construction to incentivize OZ investors. Prior local funding engagement is crucial given the short timeframe for private sector OZ investors required by OZ regulations.

The Bottom Line: Predevelopment funding is often the overlooked “secret sauce” for successful community development. With rare exceptions, most investors don’t come to town with predevelopment capital; they expect the public sector or philanthropy to foot that bill, which is generally 5-10 percent of total project capital costs. Most investors are looking for shovel-ready projects and ready-to-invest businesses; they are not interested in deals that are promising but not ready for prime time. Investors also don’t like to be first. They want the public sector to do the initial work, sometimes with streets, parks, public amenities, sewer lines, or other development basics. In public sector parlance, investors are seeking deals that have already done the predevelopment work and have their permits in place. Predevelopment funding pays for tasks that must be completed before construction begins, including architectural, design, and engineering work; market assessments and economic feasibility studies; site/lease acquisition costs; business plan writing; and permitting.

Smart Action(s): If your community doesn’t have a predevelopment fund, prioritize creating one. That can come through state support, local initiatives, and sometimes through philanthropic help. Size doesn’t matter here; leadership does. A small community foundation can lead the way (for example, the [Telluride Foundation](#)), bigger cities can shift funding from siloed sources, or a major anchor institution can step into the breach. Predevelopment funding through grants or loans is typically repaid if a project is developed but forgiven if the project does not move forward. Another smart action when predevelopment funding is not readily identified is to pinpoint other ways that your community is already investing in related projects or programs. This action can help you train future workers that will benefit future OZ investments in new businesses.

Learn More About:

- [Why Is Predevelopment So Cool](#): an article in SOCAP describing how predevelopment has been successful in places like Cincinnati, Pittsburgh, and Portland.
- [The Case for an Infrastructure Predevelopment Fund](#): an article in the Milken Review outlining the importance of predevelopment in a COVID-19 and post-COVID-19 economy.
- [The Economic Development Corporation for Erie County’s Industrial Business Development Fund](#): community leaders in a small town support and promote a local loan program for new businesses.
- [The Housing Toolbox by Massachusetts Communities, the National Alliance of Community Economic Development Association](#), and the [Community Development Finance Agencies Revolving Loan Funds](#): state and federal predevelopment capital loan funds.
- [US Economic Development Administration](#) and [US Department of Agriculture](#): federal sources of rural predevelopment capital.

PREDEVELOPMENT AND INFRASTRUCTURE

A major challenge for innovative infrastructure projects, whether using emerging technologies or alternative financing, is the lack of funding for the phases of infrastructure project development that precede construction. Infrastructure projects require upfront costs, commonly known as “predevelopment costs,” for activities such as project and system planning, economic impact analyses, preliminary engineering assessments, and environmental review.

Although only accounting for a small percentage of total costs, predevelopment activities have considerable influence on which projects will move forward, where and how they will be built, who will fund them, and who will benefit from them. Yet, because of factors like fiscal constraints, overall needs, and risk aversion, state, local, and tribal governments tend to focus scarce resources on developing conventional projects and addressing their most critical infrastructure needs, thereby underinvesting in predevelopment.

Greater attention to the predevelopment phase could yield a range of benefits. For example, it could provide the opportunity to develop longer-term, more innovative, complex infrastructure projects and facilitate the assessment of different financing approaches, including public-private partnerships. Additional investment in predevelopment costs also could enable state, local, and tribal governments to use innovations in infrastructure design and emerging technologies, reduce long-term costs to infrastructure project users, and provide other benefits, including improved environmental performance and enhanced resilience to climate change.

Federal Build America Investment Initiative, Final Report (2016)



2.12 INCENTIVIZE SMART PERMITTING OF PREFERRED PROJECTS

Establish incentives alongside rules and regulations to harness desired OZ investments, as well as to deliver the community outcomes you want.

The Bottom Line: Once your team has a sense of community project priorities, assess your local and state development environment. Are your current permitting regulations slowing investments in priority areas such as affordable housing, new business creation, or community infrastructure? There is no one-size-fits-all approach to fill gaps with development carrots and sticks that incentivize (or disincentivize) OZ and impact investments you want to attract to your community. These incentives for desirable projects are best implemented at the Opportunity Zone level, or by project type, rather than on a project-by-project basis.

Smart Action(s): Determine what incentives and exemptions you want to offer for desired project outcomes in OZs, as detailed in Play 2.1 (e.g., streamlining or exempting permitting for affordable housing projects, or clean energy and local business investments).

Learn More About:

- [Crain's Cleveland Business profiles Ohio's biennial budget bill](#): state tax breaks included in budgeting process to encourage affordable housing and other OZ investments.
- [Choose Colorado rural disinvestment support and other state OZ initiatives highlighted by the National Governors Association](#): states creating OZ incentives.
- [California Senate Bill 25](#): Permitting exemptions for the right kinds of projects.



2.13 FOSTER COMMUNITY FINANCE ECOSYSTEM ENGAGEMENT

Engage local institutions that are lending in low-income areas of your community—minority depository and community development institutions and rural co-ops—and join efforts to support capital access to these zip codes.

The Bottom Line: In many OZ communities, an existing ecosystem of minority depository institutions, community development institutions, and rural co-ops have been providing critical lending services for decades. To assume that large institutions that have long exited these markets are capable of navigating local issues would be a mistake. Don't assume that one new federal tax break, Opportunity Zones, requires your community to overhaul everything it is doing to provide credit and other capital access services to startups and struggling businesses. Understanding what local lenders have learned and how they can participate in the OZ ecosystem would empower established members of the community to drive OZ implementation with local ownership, as well as economic benefit from the OZ initiative.

Smart Action(s): Take time to meet with local banks and Community Development Financial Institutions (CDFIs) to learn what is missing in their ecosystem and how to engage all stakeholders to drive new momentum for long-proposed solutions that are ripe to implement. In San Francisco, for example, a new housing accelerator was capitalized to link new private investors with existing affordable housing developers and provide these borrowers with rapid execution and flexible loan terms to support the acquisition, predevelopment, or rehabilitation of properties.

Learn More About:

- [Milken Institute's Partnership for Lending in Underserved Markets \(PLUM\): Increasing Minority Entrepreneur Access to Capital](#): a case study analysis of how to encourage access to capital for underserved entrepreneurs.
- [Milken Institute's Minority-Owned Capacity Building Study](#): strategies to empower communities and their banks.
- [San Francisco Housing Accelerator Fund](#): a city created a fund to leverage public housing investments.



2.14 PROMOTE PUBLIC VALUE CAPTURE AND COMMUNITY BENEFITS

Value capture and community benefits agreements are important tools to consider so that the public sector can share in a future upside catalyzed partly by smart public investment.

The Bottom Line: Your community is already investing significant resources in community development, business incentives, and new infrastructure. What are you getting for this investment? Install additional tools to ensure that OZs remain focused on achieving positive economic and social outcomes, consistent with the policy's goals.

Smart Action(s): In lieu of federally-mandated OZ reporting requirements which were not incorporated in the final legislation and rules, community benefits agreements and value capture methods are widely used to garner additional public benefit from developments that are receiving taxpayer support. Community benefit agreements can cover a wide range of issues, from hiring and service procurement requirements to benefit local, minority-owned, and OZ-domiciled businesses at every stage of a project, from construction to maintenance. Value capture methods, such as tax increment financing, allow taxpayers to collect some portion of the property tax and real estate value increases that public projects generate (e.g., infrastructure improvements from new sewer lines to transit).

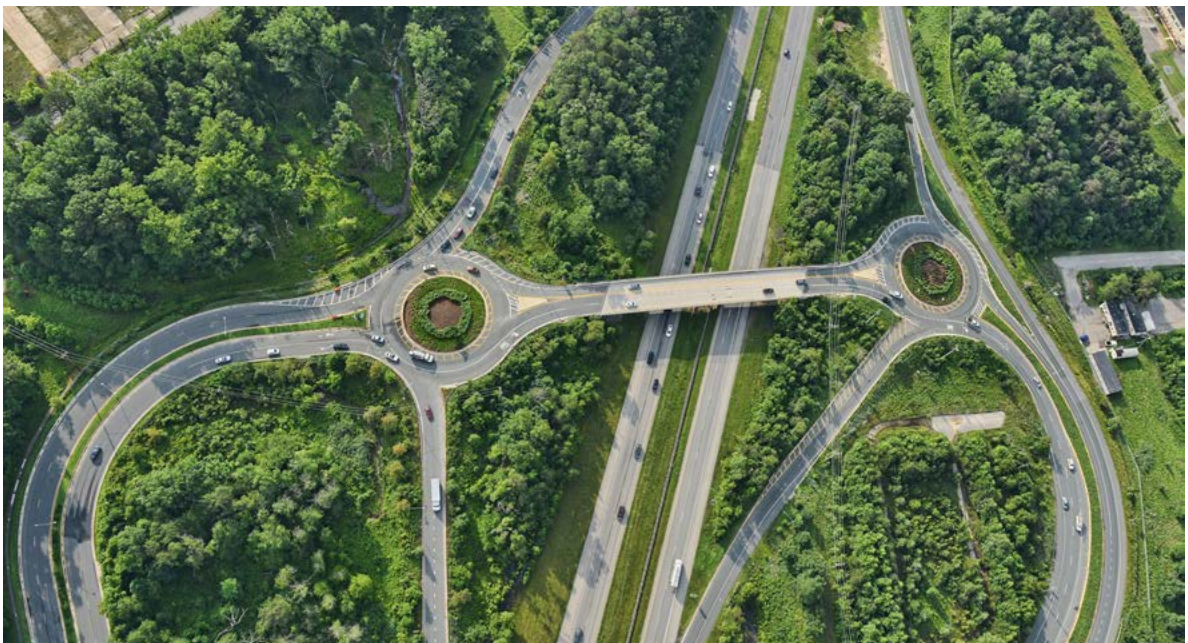
Learn More About:

- [Financing Economic Development in the 21st Century](#): local value capture and other economic development tools.
- [Strong Towns' article](#): value capture policies.
- [The Lincoln Institute of Land Policy's Value Capture and Land Policies study](#) and [Nashville's Historic Community Benefits Agreement](#): use of community benefits agreements in Nashville and other communities.

PHASE 3

PROJECT AND PIPELINE DEVELOPMENT

Communities that have had some track record of OZ and other impact transactions should consider priming the pipeline with predetermined projects. Building a permanent pipeline of investable OZ and public-private partnership projects will help your community leverage the impact of the public investment dollars you have to spend. Phase 3 pipeline-building efforts can, where appropriate, run parallel to recommended Phase 1 and Phase 2 actions.





3.15 EDUCATE WORKFORCE AND ENCOURAGE INNOVATIONS

Create a workforce development strategy that includes training in key sectors of your community's economy with an eye toward the 2050 economy. Match the unfilled jobs to your workforce's missing skillsets to focus training activities.

The Bottom Line: Over the past few decades, the business ecosystem has evolved so much that the workforce must embrace changes in business processes and practices, and prepare themselves to navigate the complexities of the market. Central to inclusion and optimal usage of able human capital is a training function charged with improving skills and performance that yield a high-potential, productive workforce body. Align this strategy with the economy you are planning for 2050 in Play 1.4.

Smart Action(s): First, identify the skills required by the current and potential vacant employment opportunities in your community. Second, identify what program or institution will allow your labor force to gain those relevant skills. Third, partner with an education body and/or other anchor institution to establish a streamlined curriculum. Given that a material number of the 35 million residents in OZs are minority communities and a significant amount of HBCUs reside in OZs, engaging these stakeholders in an integrated approach can be beneficial. For example, Apple has partnered with 100 or so community colleges to deliver a coding curriculum to learn its Swift coding language. After students finish the curriculum, Apple recruits them directly.

Learn More About:

- [American Workforce Policy Advisory Board](#): a federal initiative to modernizing Candidate Recruitment and Training Practices.
- [Inside Higher Ed profiles Apple's Community College Initiative](#): anchor institution partners with local education institutions to promote local workforce.
- [Lumina Foundation](#): philanthropy workforce education efforts.
- [California Future of Work Commission](#): state workforce education effort.
- [West Philadelphia Skills Initiative](#): city workforce education effort.
- [Aspen Institute Workforce Strategies Initiative](#): more workforce education strategies.



3.16 SUPPORT 21ST-CENTURY RESILIENT INFRASTRUCTURE

Facing multitrillion-dollar funding gaps between now and 2050, public sector leaders across the United States must facilitate innovative public and private partnerships to address failing, damaged, or unreliable infrastructure by funding new infrastructure basics, including broadband and resilient infrastructure systems. OZ equity capital can help finance local community infrastructure when both community and investor interests are transparent and aligned.

The Bottom Line: OZs are not a panacea for fixing every distressed community's problems, let alone fully funding needed infrastructure. But, they are undeniably useful for financing resilient infrastructure projects where lifecycle costs, risks, asset performance, and revenues are analyzed upfront. [Research](#) indicates that the same project management steps that project sponsors must take to develop more resilient infrastructure projects will concurrently accelerate the development of a more robust pipeline of investable Opportunity Zone projects and those in the final phase of the Economic Development Acceleration Curve.

Smart Action(s): Create a center of gravity to drive resilient infrastructure and assess how public-private partnerships can close persistent local and state funding gaps. There is no hard and fast rule for doing this; it could be a separate office, an inter-agency task force, a designated lead in the Governor's Office, or the state's CFO or treasurer. The key is to put someone or some entity on point to promote integration, break siloed thinking, and drive innovation across infrastructure modes.

Learn More About:

- Performance-based infrastructure innovation strategies from [McKinsey & Co., Canada](#), and the [Georgetown Beeck Center for Social Impact](#): strategies to productively invest in infrastructure.
- [Partnerships British Columbia, Infrastructure Ontario, West Coast Infrastructure Exchange](#): technical assistance centers that support public-sector infrastructure project innovation.
- [United States Climate Alliance Governor's Resilience Playbook](#): resilient infrastructure best practices.
- [Governmental Accounting Standards Board Accountability Standard 34 \(1999\)](#): how states can encourage local and state CFOs to fully implement Government Accountability Standard Board Guideline 34 (1999) as a critical step for cutting deferred maintenance, and accurately measuring the asset value of public infrastructure.



3.17 SCALE REGIONAL AND METRO ECONOMIC PARTNERSHIPS

Communities and economies do not exist within a walled garden; they are connected across neighborhoods and districts, within metropolitan areas, across regions, and through supply chains. To build your 21st-century economic strategy and attract investors, determine how smart regional partnerships can support their growth goals.

The Bottom Line: Historically, distressed communities should consider using Opportunity Zones as a catalyst to better connect with the regional economy. We need a new generation of innovative regional and metro partnerships to link private and impact capital better with community-based collaboration to help address today's challenges in distressed communities. Earlier examples of economic transformation, like the Tennessee Valley Authority, offer lessons.

Smart Action(s): Harness first the power of high-functioning regional organizations in your community, such as Metropolitan Planning Organizations, Councils of Governments, [local economic development associations](#), or regional business and professional networks to reach outside investors and enhance local capacity and OZ deal flow. If a regional organization that fits your needs doesn't exist, consider creating a new acceleration partnership designed to support your OZ and integrated economic development objectives. This partnership could be focused by sector to reflect your economic prospects for the future in key areas such as clean energy or workforce development. Regionally focused initiatives could also fill critical Opportunity Zone gaps that you have identified, including project predevelopment funding or local talent. For example, local project finance circuit riders, modeled on the USDA's Agriculture Extension Service, could work for extended periods in city and state government to increase the local capacity to develop investable OZ projects, and could be housed in regional centers.

Learn More About:

- [The New Policy Institute Acceleration Agenda](#): the core principles of bottom-up innovation.
- [Investing in Manufacturing Community Partnership initiative](#) and [USDA's Prosperity Councils](#): bipartisan approaches to catalyze bottom-up community partnerships.
- [Bloomberg Innovation Teams](#): circuit-rider technical assistance models.
- [The State Science & Technology Institute](#): state-led innovation accelerators.
- [National Council of Nonprofits Collective Impact Strategy](#): community-led collective impact strategies.



3.18 ENGAGE IN NEW COMMUNITY FINANCING AND CAPITAL STRUCTURES

Leverage other place-based investors to offer co-investment incentives to OZ transactions that meet community needs.

The Bottom Line: Although OZ investors are incentivized to leverage equity capital, most will require debt financing and other capital to complete transactions, especially deals with greater social missions. For donor-advised funds (DAFs), community foundations, and pension funds, all with existing tax advantages, investing in Qualified Opportunity Fund (QOF) may seem unnecessary. However, many of these institutions may be willing to offer co-investments, risk mitigation capital, or other financial incentives to OZ projects that meet their social mission.

For example, beyond expected OZ projects, ensuring increased access to capital for non-OZ local businesses is critical to increasing the OZ initiative's benefits. Encouraging OZ investors to leverage lenders (MDIs and CDFIs that have traditionally supported local borrowers) as providers of credit into OZ transactions can create a multiplier effect. With returns from OZ transactions, local lenders can increase their scale and access to credit for non-OZ local small businesses. Many DAFs and community foundations have an established goal of supporting local access to capital and may see value in direct QOF co-investments to indirectly support MDIs and CDFIs in their communities.

Smart Action(s): Catalogue local place-based investors and their social missions. Engage with these stakeholders to determine co-investment potential for high-impact, preferred projects detailed in Play 2.1. Understand the value of network development, shared working spaces, and incubators in supporting strategic investments in new businesses in OZs.

Learn More About:

- [Rise of the Rest Playbook for Driving Startup and Hub Growth](#): strategies to support startups.
- [America's New Business Plan for Startups](#): more strategies to support startups.
- [Launchpad Impact Report 2020](#): analysis of an incubator's startup journey.
- [Forbes' article on Blueprint Local](#): how a fund is creating wealth-building ecosystems in local communities.
- [Kresge Foundation OZ initiative](#) and [Forbes' article on Catalytic Capital](#): innovative fund manager incubators.
- [Stanford Social Innovation Review's article on OZs and Philanthropy](#): additional actions foundations can take.



3.19 ENGAGE INSTITUTIONAL CAPITAL THROUGH DEAL WAREHOUSING

Build a special purpose capability to generate (e.g., predevelopment and development) high-value deals, enabling low effort engagement for OZ investors.

The Bottom Line: In the next three to five years, a number of community-scale projects and businesses will be financed with the help of QOF funding. Many of these projects will be in small to medium-sized communities, with financing needs in the \$2 million to \$100 million range, and thus, harder for larger pools of capital to engage. To bridge this gap, find ways for states or regions to develop a deal warehouse that could enable public infrastructure project resources to engage in predevelopment and de-risking of OZ-eligible transactions that leverage federal programs (EDA, SBA, USDA) and are aligned to local economic development objectives. As many community infrastructure projects have long lead times, state and local efforts to create a pipeline of transactions with timetables that are ready for OZ capital and designed to meet local and regional infrastructure needs may be critical to connect communities and projects with investors.

Smart Action(s): Based on predetermined high-impact projects in Play 2.1, create a mechanism for public resources to incubate and accelerate projects so that OZ compliance is assured (e.g., a 31-month working capital schedule is confirmed), and QOFs can buy into a project.

Learn More About:

- [Institutional Investor article on Aligning Energy Efficiency and Securitization:](#) deal house warehousing.
- [Milken Institute OZ Investment Vignettes:](#) a guidebook that outlines the financial mechanics of the OZ investment lifecycle from entering a QOF to exiting.
- [Capital-E's Energy Efficiency Financing Models and Strategies:](#) another deal house warehousing example.



3.20 CONTINUE COMMUNITY TRANSFORMATION EFFORTS

Going up the Opportunity Zone Acceleration Curve, while delivering measurable community impact, requires a commitment to continuous learning and improvement.

The Bottom Line: There is no exact formula or model to achieve successful public-private-community partnerships, so you should adapt best practices to fit your community's unique strengths and evaluate how these transformations are working. Measure how your plans are working and build on them. Post-COVID collaboration between public and private sectors will be especially important to mobilize capital to low-income communities' myriad goals: strengthening their hospitals and medical supply chains, supporting their small businesses and critical community infrastructure, building their technical capacity through education programs, and more. Economic development is a long-term process, especially with the massive setback COVID-19 has caused. It will require "rinsing and repeating" what works.

Smart Action(s): Remember that tracking and evaluating community transformation involves internal assessments of how your work is going (e.g., deals done, jobs created, public dollars leveraged), external and transparent sharing of learnings and results, and maintaining ongoing awareness of how community development is evolving as OZ incentives transform communities and local economic development best practices across the United States.

Learn More About:

- [A Playbook by Stanford Social Innovation Review:](#) a framework for impact measurement.
- [Blue Meridian Project:](#) a community infrastructure project.
- [Smart Growth America:](#) a nonprofit focused on sustainable community investments.
- [Milken Institute's Pathways to Building Resilient Infrastructure:](#) a series of initiatives and other information on the sharpening of myriad influencing factors required to build resilient infrastructure.
- [Brookings Institute Report on Growth Centers:](#) technology innovation foundation proposal.



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Dan Carol is a director in the Milken Institute Center for Financial Markets, expanding our work with local governments and stakeholders to foster best practice implementation of the Opportunity Zones Initiative, to accelerate deployment of community infrastructure, and to scale up regional innovation. Prior to joining the Milken Institute, Carol worked for Governors Jerry Brown and Gavin Newsom of California, directing the state's Opportunity Zones working group and serving on the Executive Committee of the US Climate Alliance, a bipartisan alliance of 24 states implementing the Paris agreement. Before that, Carol served the Obama Administration as a member of the US Department of Energy State Energy Advisory Board and led efforts to create the West Coast Infrastructure Exchange, a 2015 winner of the Harvard Ash Center award for government innovation. Outside of government, Carol co-founded two clean energy acceleration groups (The Apollo Alliance and the Clean Economy Network) and founded CTSO, a 70-person online civic engagement company and software company, sold in 2004. Carol has also served as a US Presidential Management Fellow, a senior campaign advisor to the Clinton-Gore 1992 and Obama-Biden 2008 campaigns, and an adjunct professor at Georgetown University. Carol holds a BA from the University of Michigan and an MRP from the University of North Carolina.

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Aron Betru is the managing director of the Center for Financial Markets at the Milken Institute. With more than 20 years of experience, Betru leads the Institute's Access to Capital work, which includes initiatives on Opportunity Zones and minority-owned banks, and other strategic innovative financing initiatives to enhance social impact, both in the US and in developing economies. Betru is a member of the steering group for the Blended Finance TaskForce launched by the Business & Sustainable Development Commission, as well as co-chair for the Partnership for Lending in Underserved Markets, a joint initiative of the Milken Institute and the US Small Business Administration. Prior to the Milken Institute, Betru was the co-founder and CEO at Financing for Development, specializing in innovative financing solutions for international development. Betru pioneered new ways of leveraging guarantee-backed financing of public health commodities, mobilizing millions of dollars in both commercial lending for malaria and trade financing for reproductive health. Betru's extensive experience includes international development roles at the United Nations Foundation, TechnoServe, and Dalberg Global Development Advisors, as well as private-sector experience at McKinsey & Co. and Goldman Sachs. Betru is also a term member of the Council on Foreign Relations and a regular contributor to Global Health and Diplomacy Magazine, writing on innovative finance in public health, as well as a contributor to the global dialogue on pandemic financing with speaking engagements at the National Academy of Sciences and Voice of America Interviews. Betru is a member of the board of directors for Calvert Impact Capital and FHI Foundation. He holds an MBA from Columbia University, an MA from Johns Hopkins University School of Advanced International Studies, and a BA in economics and international studies from Northwestern University.

