Opportunity Zones

Hitting the Target?

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PPD 631- GEOGRAPHIC INFORMATION SYSTEMS (GIS) FOR POLICY, PLANNING AND DEVELOPMENT| SECTION 51262

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Setting the Stage

The Tax Cuts and Jobs Act of 2017 established opportunity zones, which incentivize investment in low-income areas through reinvestment of capital gains. In California, 879 census tracts throughout the state were identified as qualified opportunity zones. These new zones in California were also intended to attract affordable housing and green technology projects throughout the state. Governor Newsom's 2019-2020 State Budget referenced "reduc[ing] capital gains taxes for investments in green technology or in affordable housing, and for exclusion of gains on such investments in Opportunity Zones held for 10 years or more" (120). Opportunity zones, however, stir some controversy as their intended effect can be muddied by the notion that these incentives benefit investors more than the intended, distressed communities. As part of a larger effort, the California Governor's Office of Business and Economic Development (GO-Biz) recently started a campaign to educate elected officials, economic development practitioners, businesses and communities about opportunity zones, while also creating an open forum to address concerns around the types of projects that qualify for opportunity zones. As opportunity zones are now qualified and projects underway, the quandary arises whether the zones are not only appropriately placed as they relate to highest need, but also whether some of the current projects in select Southern California counties coincide with the Governor 's objectives.

Defining the Problem and Utilizing GIS for Analysis

As GO-Biz and other agencies set out to educate and rally support for opportunity zones (OZs) a policy issue arises – do these OZs really benefit distressed communities and further, do investors benefit more than these communities? At just two years into the tax deferral program, the impact of these zones cannot yet be fairly examined. However, insofar as a geographic information system (GIS) such as ArcMap can guide analysis, a hypothesis can be identified and starting evidence gathered to determine some of the current trends in these zones to reach preliminary associations for whether some of these zones may have received investment without the incentive, which could later be used for further research into impact. This analysis focuses on the types of projects currently underway in the opportunity zones of three Southern California counties: Los Angeles, Orange and San Bernardino and the socio-economic conditions of their respective zones. A GIS mapping tool is appropriate to not only visually understand where the opportunity zones lie in these counties, but also the types of projects publicly advertised. The aim of this GIS analysis is to better understand the socio-economic conditions that surround projects

in these areas to help demonstrate whether current projects meet objectives as they relate to socio-economic need per a developed scale which includes unemployment rate, monthly housing costs and median income.

After data collection and analysis, the expected outcomes may show there are not many opportunity zone projects in the three counties and that the open projects may not align with Governor Newsom's objectives. Further, at the introduction of a weighted scale, it may be that what results is clustered projects in high- housing cost areas, in part signaling that the first of these OZ investments may be going to areas that might have received investment without the incentive. As the aim in this analysis is to understand occurrences in only three counties in California, any outcomes will not be indicative of state activities, but are important for understanding emerging trends.

Zone Objectives and Tax Incentive

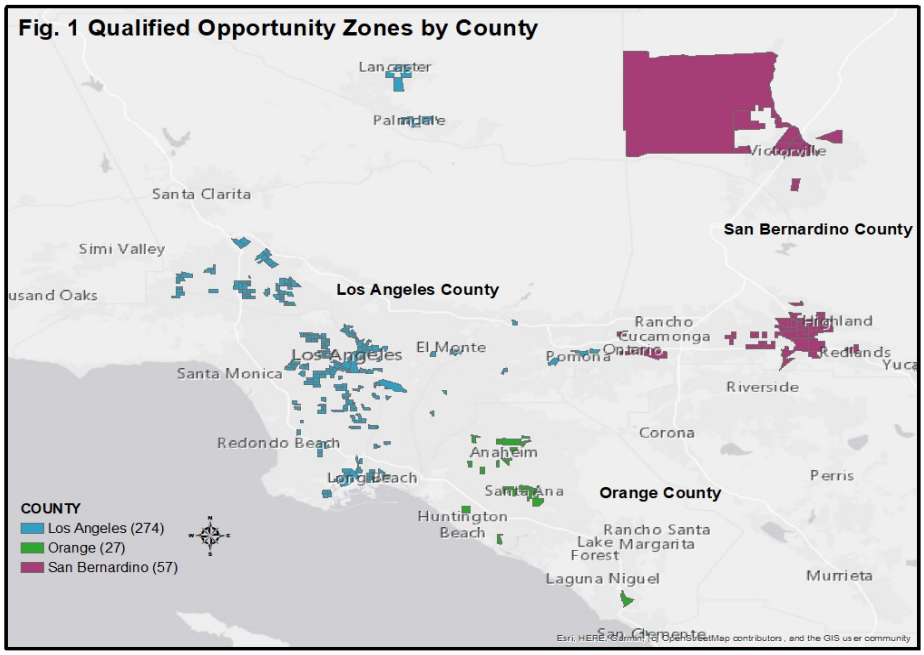
Opportunity zones are intended to spur investment in economically distressed areas, create jobs and improve the quality of life for Americans living in and around these areas by providing tax benefits to investors. These distressed areas can often be identified by investors as "high-risk," suffering from lack of private investment for a multitude of reasons (e.g. high unemployment). These tax benefits help direct investment to areas in need that might not have otherwise received investment and are meant to be an economic development tool. As a broad stoke, the tax benefit for investing in qualified opportunity zones (under P.L. 115-97) defines three main incentives for investors: (1)the temporary deferral of capital gain tax if reinvested in a qualified opportunity fund (QOF) within 180 days of sale until 2026 (or until sold/exchanged), (2) the exclusion of capital gains in QOF returns held for a minimum of ten years and (3) an increase in basis of 10 percent after five years and an additional five percent after seven years on the original gain (Lowry 6).

Qualified Opportunity Zones Explained

Guidelines for OZ designation were identified by the U.S. Department of Treasury's Community Development Financial Institution Fund (CDFI), then coordinated with other federal agencies, Congress and state governments. To qualify, a population census tract must have met Internal Revenue Service (IRS) code for low-income community (LIC)[1] or be situated adjacent to an LIC area but could not exceed 125 percent of its median

[1] To qualify as an LIC the tract must have a poverty rate of at least 20 percent or must not be located within a metro area where the median family income is not more than 80 percent of the statewide median family income or exceeds 80 percent of the statewide median family income (RC §45D(e)(1).

family income (Lawry 1). Congress then further limited which tracts could qualify as OZs per specific criteria. In California for example, there are about 3,500 LIC tracts, where only 879 of these tracts qualified as opportunity zones as the limiting criteria stipulated that if a state has more than 100 LICs, the maximum tracts which could be designated had to be equal to 25 percent of its total LICS (Lawry 1-3). Then, any zones adjacent to LICs which qualified under the law could only be equal to five percent of the eligible census tracts in that state, giving California only 44 non-LIC tracts.[2] From the qualified number of tracts, 879 in total, California's Department of Finance selected its zones for CDFI Fund approval through a separate criteria process in line with the Tax Cuts and Jobs Act of 2017 and will remain in effect until 2026 (GO-Biz OZ) (Lawry 1) . *See Figure 1[3] which illustrates the 358 qualified OZs.*



Shapefile Source: CDFI Fund, Opportunity Zones Resources, December 2018, Retrieved October 2019. www.cdfifund.gov/Pages/Opportunity-Zones.aspx

OZ Data

To frame the policy issue surrounding opportunity zones with supporting data, several agencies arose as substantial sources for collecting relevant data for analysis. Among the most robust data source was the Census Bureau, where the 2019 census tract shapefile was obtained as well as the data for monthly housing costs, unemployment and median household income data derived from the 2017 American Community Survey (ACS) five-year estimate. For clarity, the monthly housing costs are "developed from a distribution of 'Selected Monthly Owner Costs' for owner-occupied units and 'Gross Rent' for renter-occupied units (American Fact Finder). The ACS survey, although part of

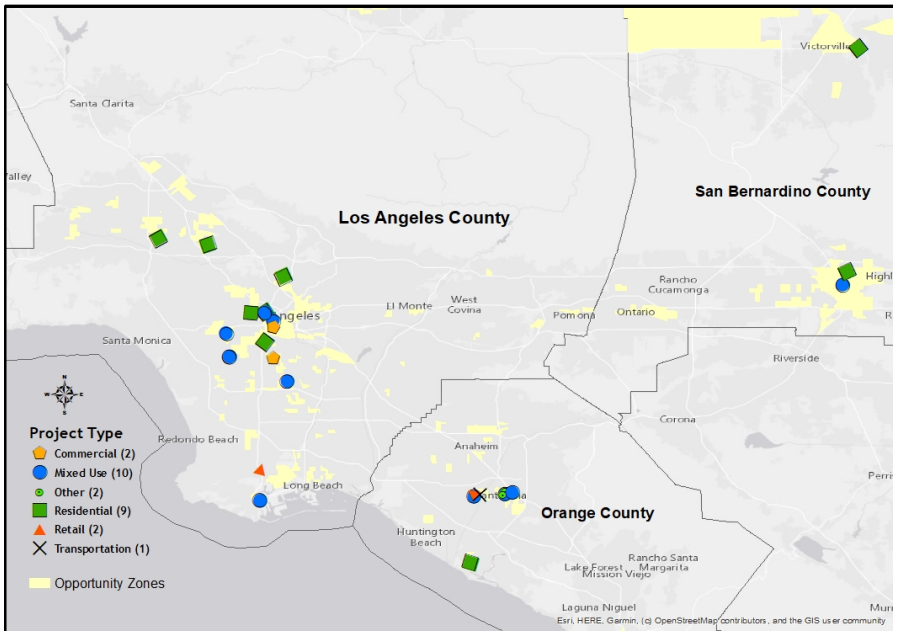
[2] That is, five percent of the 879 Census tracts in California are considered non-LIC tracts, but adjacent to them.
[3] Only a partial view of San Bernardino County is illustrated throughout this analysis.

the decennial census program, is performed yearly and contains other detailed socio-economic information omitted in the decennial census. Although the data for the factors (i.e. unemployment or monthly housing costs) chosen alone may not prove to be highly illustrative, together, help to form a clearer understanding of the socio-economic conditions surrounding opportunity zones; ACS proved to be a vital resource. The next source of data included the Community Development Financial Institution Fund's opportunity zones resources page where the opportunity zone shapefile was obtained. The data for publicly listed opportunity zone projects in the three counties was collected from OppSites.com, an OZ marketplace site linked from California's OZ portal page,[4] which publicly displays zone projects and will later feature fund and qualified OZ business information. After reviewing qualified projects in the three counties, data was collected and an excel document created for zone project addresses, categories (e.g. residential and/or affordable housing) and size.

Zone Project Analysis

The OZ data analysis was conducted over a series of layering steps in ArcMap, first to understand the types of projects in the zones to identify any trends, then more closely examining the socio-economic conditions of the zones. First, an Excel file was created with OZ project data individually extracted from OppSites.com which included addresses, information about the size of the project, the type and intended use. The project addresses were then geocoded in ArcMap and a symbology created using unique values and properties for each symbol representing the different project types. These actions produced in Figure 2,[5] show that of the 26 projects coded in the

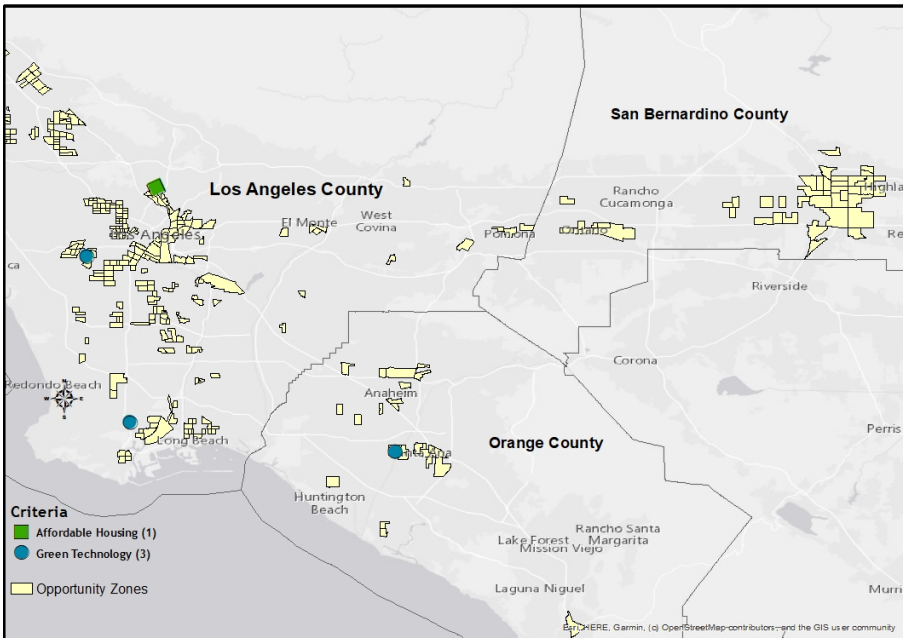
Fig. 2 Opportunity Zones Projects by Type



[4] opzones.ca.gov
[5] Smaller figures are available in larger view in the appendix in addition to map source information.

three counties, the majority were either residential or mixed use. These projects were largely clustered in the larger metro areas in Los Angeles County and Orange County; many projects were grouped near downtown Los Angeles (and Culver City area) and Santa Ana, respectively. Through the same geocoding and symbology process, criteria for the projects was further specified for affordable housing or green technology projects and cross-referenced in the attribute table for accuracy. Reflected in Figure 3 are four projects of the 26 coded, that meet these criteria. At this preliminary juncture, it can be noted that as the current zone projects are largely not in line with Governor Newsom's objectives, these investments are clustering in areas that may be perceived as less risky, judging by their relative proximity to known city centers and to each other. This is one cause for pause when assessing whether these investments might have occurred without tax incentives.

Fig. 3 Opportunity Zone Projects - Criteria



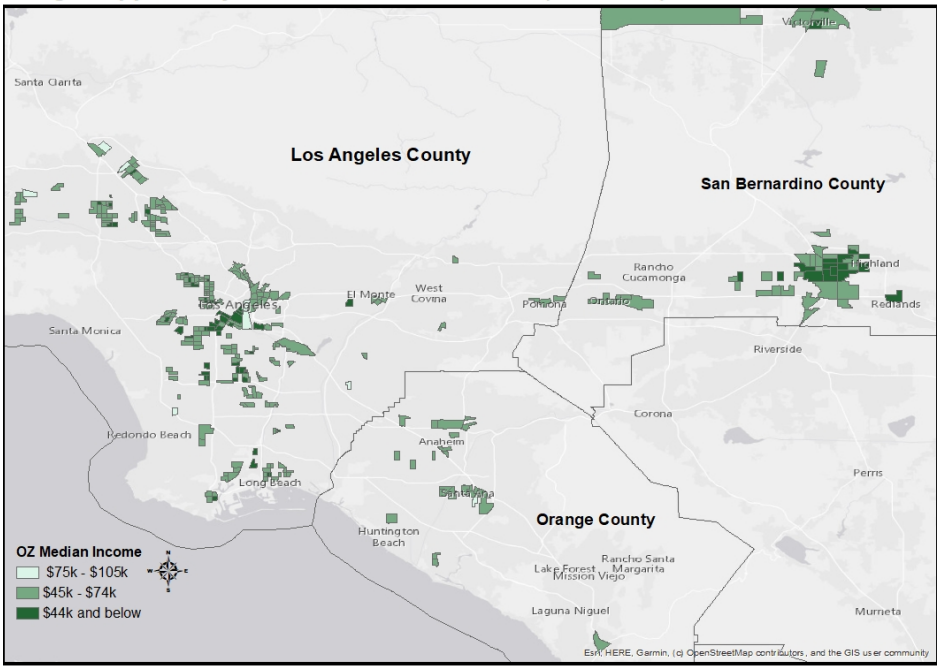
Zone Socio-Economic Conditions and Data Limitations

For further GIS analysis, the 2017 American Community Survey data was used to examine opportunity zone median household income, estimated unemployment and median monthly housing costs individually and collectively using a scoring model. The ACS data was joined in ArcMap to the opportunity zone shapefile via the common column "CensusTract," then using symbology, graduated colors were used to represent ranges of data values for each factor.

As previously noted, OZs were qualified in part by each census tract's median household income, however without GIS, the areas of highest need would be difficult to identify. Consequently, Figure 4 demonstrates that almost all OZs have a relatively low median household income of below $75k with some of the largest concentrations of incomes below $44k near the City of San Bernardino and around downtown Los Angeles. Viewing the OZs through

GIS, a sense of varying need can be seen between the opportunity zones. However, there are limitations; when income is not evenly distributed in a given area, residents with incomes clustered far below or far above the median and their presence would not be represented with this factor.

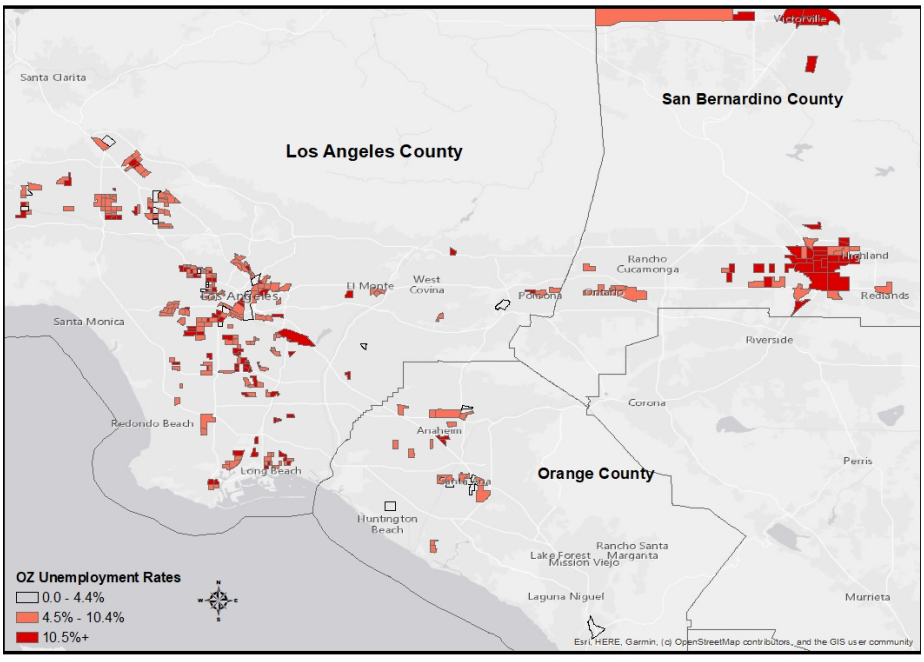
Fig. 4 Opportunity Zones and Median Income (ACS 2017)



Areas without a significant middle class may return a misleading median income result. Thus, the subsequent factors give a clearer picture of the areas with the greatest need.

Next, estimated unemployment rates (for ages 20-64) were studied within the zones. As one of the objectives of opportunity zones is job creation, this factor was especially appropriate as a measure of need. When creating the factoring system, the tracts with the highest unemployment rates received the highest scores reflected in Figure 5. Through this visualization, it can be noted that zones with high unemployment rates of above 10.4% are not widely seen in Orange County but are scattered throughout Los Angeles County and very concentrated in San Bernardino County around the City of San Bernardino. The

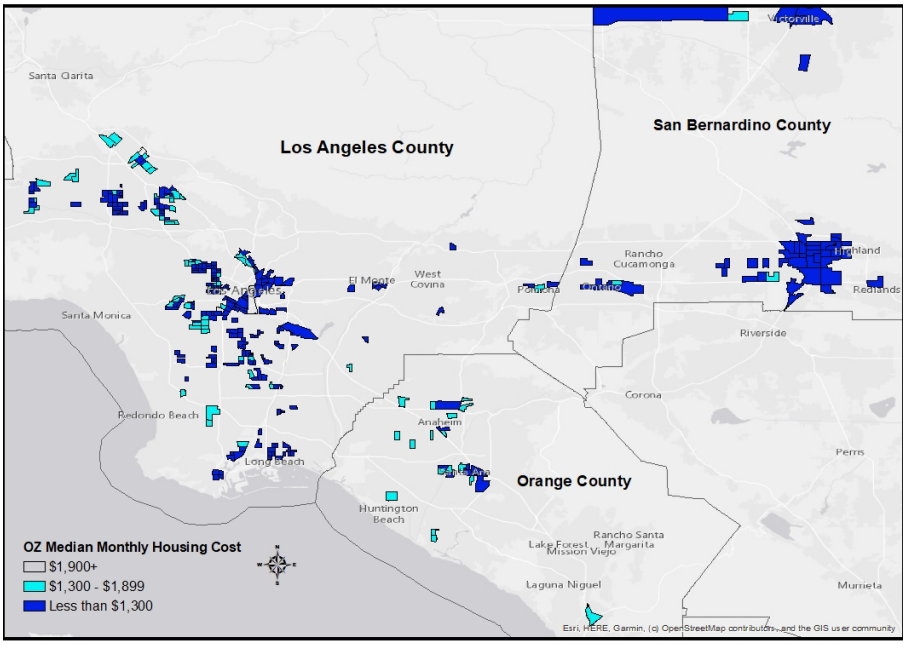
Fig. 5 Opportunity Zones and Unemployment (ACS 2017)



median unemployment rate in California for 2018 per the California Employment Development Department (EDD) hovered around 4.1-4.4 percent, thus when looking at areas of highest need (of employment) such as the City of San Bernardino and the City of Bell Gardens area, these are the areas which should be prioritized for tax incentives. This factor, though directly related to OZ objectives, is also not without limitations. Unemployment statistics are notoriously contentious and unreliable. The rates also do not account for skills, education, relative age or socio-economic class level of the unemployed. Two tracts with identical unemployment rates could conceivably have very different levels of need. Even though unemployment is an indicator of need, it may still be misleading.

The remaining factor, monthly housing costs (for 12 months in 2017 inflation-adjusted dollars), was chosen to demonstrate, in part, overall economic well-being. Using the ACS data, a score of 1-10 was assigned for each tract; those with the lowest housing costs were given the highest "need scores," suggesting an association between higher housing costs and a more economically prosperous population. In Figure 6, some of the same zones as those highlighted with the high unemployment and median income factor become central again when adding the data for median monthly housing costs. Very few zones have high housing costs, which would suggest they do not have as much need as other opportunity zones. A small but significant group of zones do have median costs of housing above $1,300, but most fall below that threshold, signifying a general agreement between this metric and the ones used to select the OZs. Similar to the other factors, median monthly housing cost is a limited indicator for accurately predicting need on its own. It cannot be determined with high certainty what directly affects housing prices and thereby housing costs. Areas deemed distressed may have a larger supply of

Fig. 6 Opportunity Zones and Median Monthly Housing Cost (ACS 2017)

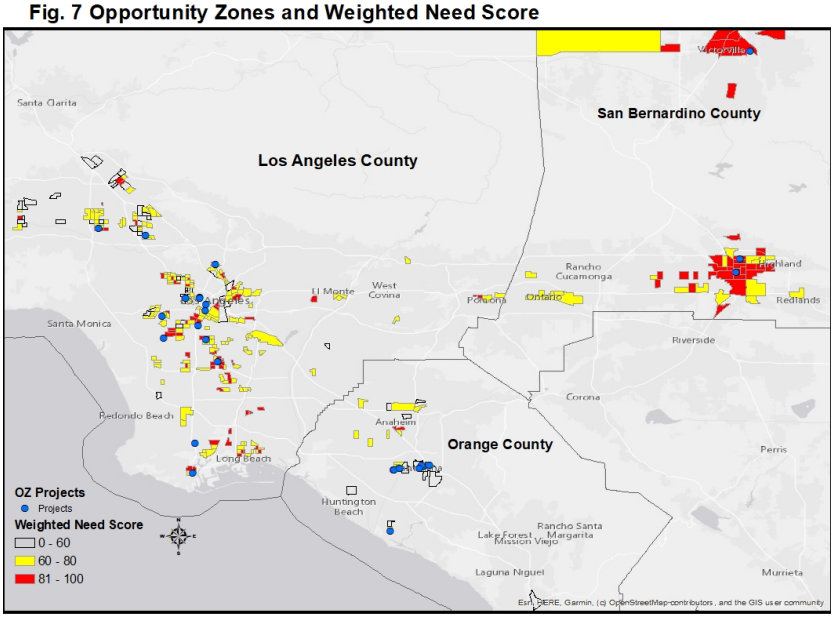


housing or areas that do not appear in need may have high prices for reasons not related to economic prosperity (e.g. dense population).

Zone Weighted Need Score

In analyzing all three factors together, a clearer sense of need can be derived, demonstrating the areas in the tri-county region with the highest need for private investment and economic development. To achieve an illustrative outcome, a simple, combined factoring system was developed where each of the data values examined for each zone were scored 1-10 (1= lowest need), then combined to create an average "need score." The need score presented in Figure 7 is weighted as follows: unemployment rate (50%), housing cost and median income (25% each). The weighted system was established with unemployment rate as the leading factor as it is the aspect most directly related to OZ objectives, supported equally then by housing cost and income. This average score was then placed into a scale of 1-100 for ease of reference with 100 signifying the areas of most need. Once created using the same process in ArcMap using symbology and graduated colors, the OZ project layer was added to provide further context for comparison.

Fig. 7 Opportunity Zones and Weighted Need Score



At first glance, it can already be noted from Figure 7 that areas around the City of San Bernardino for example, remain the areas of highest need, consistent with the three previous analyses. However, once the projects are overlaid, only two are located in the areas of high need, and further, in areas close to Santa Ana in Orange County there are multiple projects in areas with little need according to the developed scale.

Limitations and Challenges

Although this data and need score give an illustrative view of the socio-economic conditions in and around OZs, this analysis is not without its limitations. The data and thereby the weighted need score is by no means

exhaustive, it only represents three factors of a multitude of aspects that could be considered relevant for further analysis (e.g. population density, education level, "target populations," etc.). In addition, the OZ tax incentives were created in 2017 and thus investments have not fully matured such that robust data could be available for examination. In the same light, the projects represented here were derived from a single source and do not constitute a complete representation of available projects or those underway.

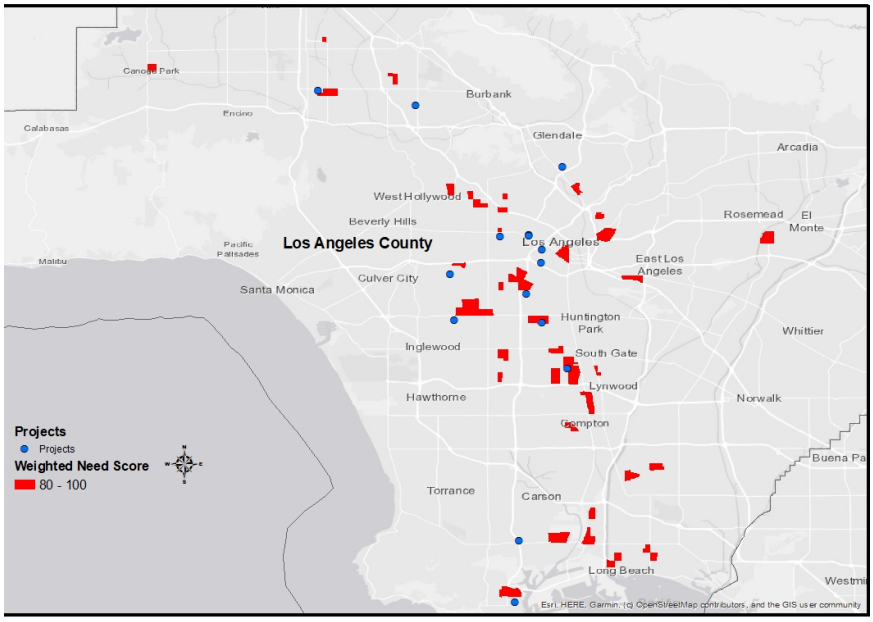
In researching OZ fund data, a significant challenge arose as to the agencies responsible for collecting data such as current projects, OZ Fund locations and investment types; data which could have proved to enrich this study. To truly grasp a more complete picture of economic need and further impact on distressed areas, deeper research would be needed in partnership with local municipalities to identify all OZ projects, OZ funds, qualified OZ businesses in tangent with a robust scoring system with factors previously mentioned. Any significant change in policy derived from analysis such as this would be ill-advised as this only spans the beginning of a long-term policy implementation and the amount of data represented here does not provide a significant sample size for statistically significant conclusions.

Ozs - Hitting the Target?

Opportunity zones created by the Tax Cuts and Jobs Act of 2017 meant to spur economic development in struggling areas, incentivizes private investment through capital gains tax exclusions. While it is too early to determine whether the desired downstream economic outcomes have been realized in these zones, it is possible – and important – to evaluate the method for choosing the opportunity zones and monitor the types of investment projects undertaken and their location. In this analysis, the types of investment projects underway in opportunity zones in California showed that despite Governor's priority on investment in green technology and affordable housing projects, the majority of current projects are mixed-use or residential (Figures 2 and 3). This group of projects though is not representative of all the projects in the state. Again, it is too early to make a conclusive recommendation, but early returns indicate that if state elected officials intend this program to result in a large number of a certain type of project, further legislation will be needed that include those specific parameters. When examining the varying levels of need in the opportunity zones themselves, the wide range of economic circumstance

in the tracts included in the program are brought to light. An analysis of Figure 7, in which the projects are laid over the opportunity zones categorized by need, suggest that a program that includes areas such as central Orange County in addition to the region surrounding the City of San Bernardino might have the unintended consequence of routing investments to the opportunity zones with the least need. Further, Figure 8, which highlights only the Los Angeles county tracts with the highest need and projects shows essentially no correlation between need and project location. A graduated tax incentive that gives greater benefit to investors in the areas of greater need may help alleviate this potential pitfall and target the areas with the most need. Overall, the opportunity zone tax incentive program is largely targeted toward the right areas in Southern California. Whether or not it is achieving its economic objectives cannot be answered yet, but studies like this help guide further research. Elected officials and administrators would be advised to continually evaluate and analyze the program to determine whether any adjustments should be made to ensure its meeting objectives and the benefit is directed to the communities it is designed to help develop.

Fig. 8 High-Need Opportunity Zones in Los Angeles County



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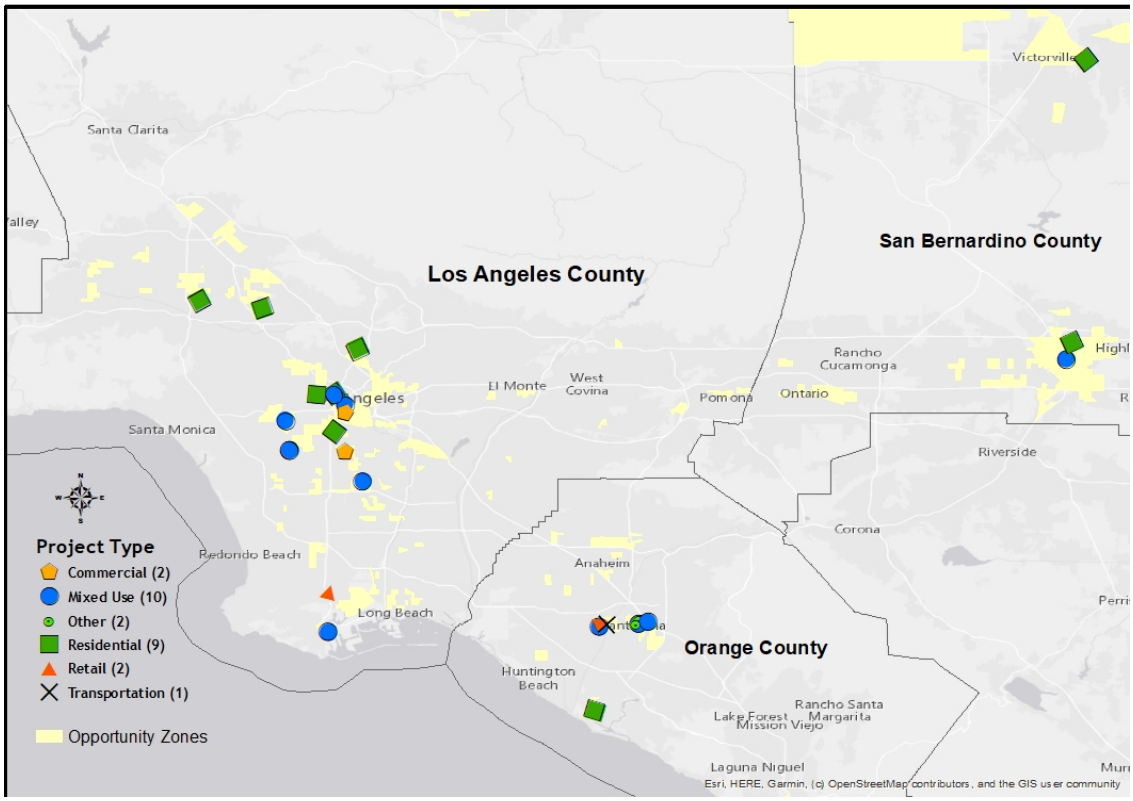
Appendix

Fig. 2 Opportunity Zones Projects by Type



Shapefile Source: CDFI Fund, Opportunity Zones Resources, December 2018, Retrieved October 2019. www.cdfifund.gov/Pages/Opportunity-Zones.aspx Data source: OppSites.com, OZ projects – LA, Orange and San Bernardino counties.

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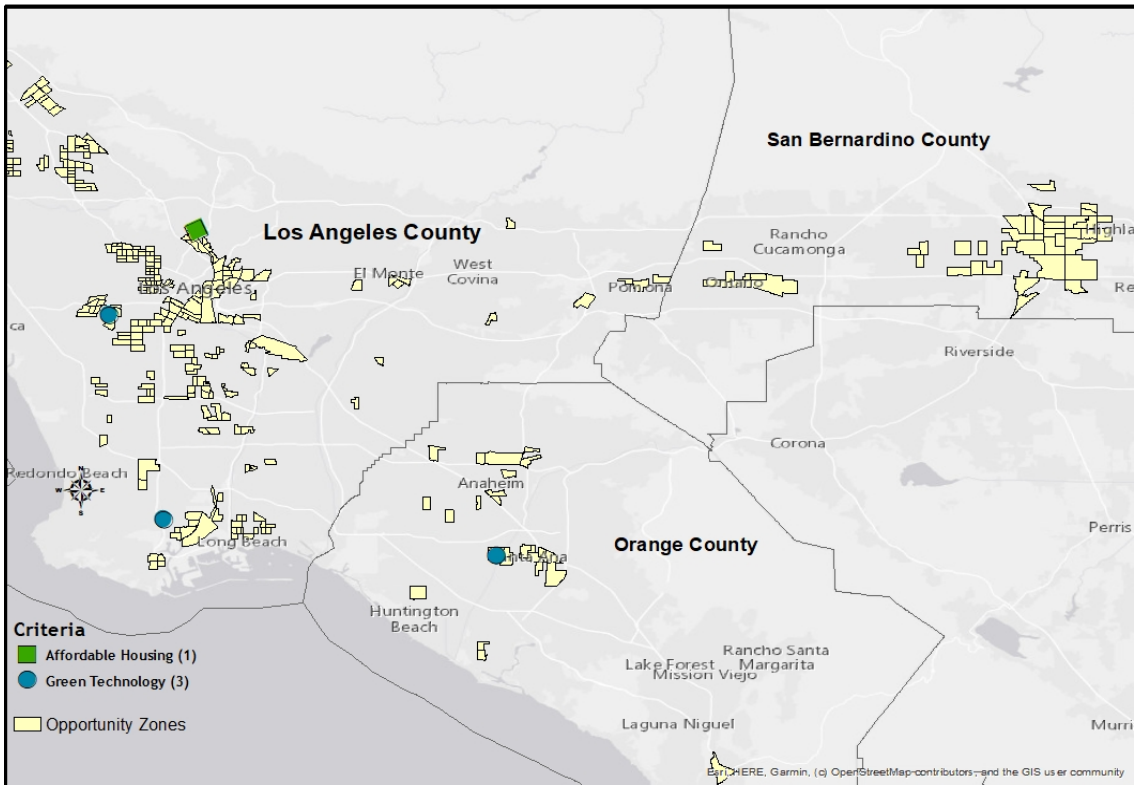

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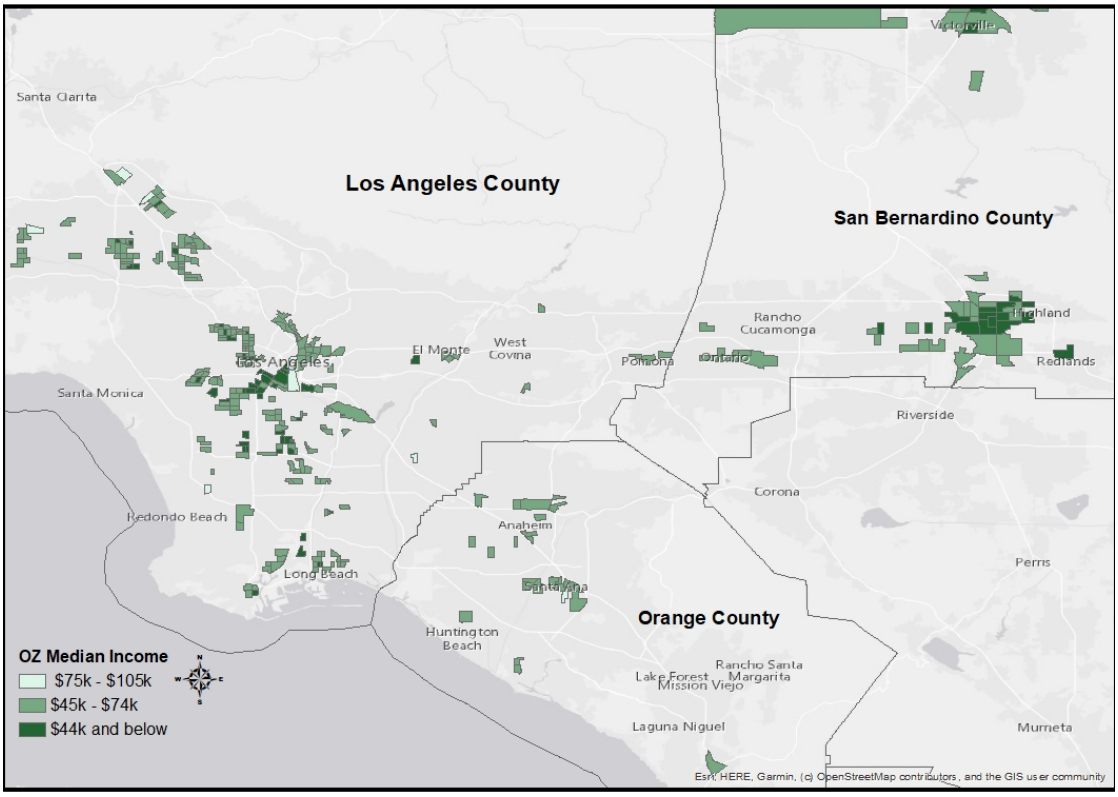

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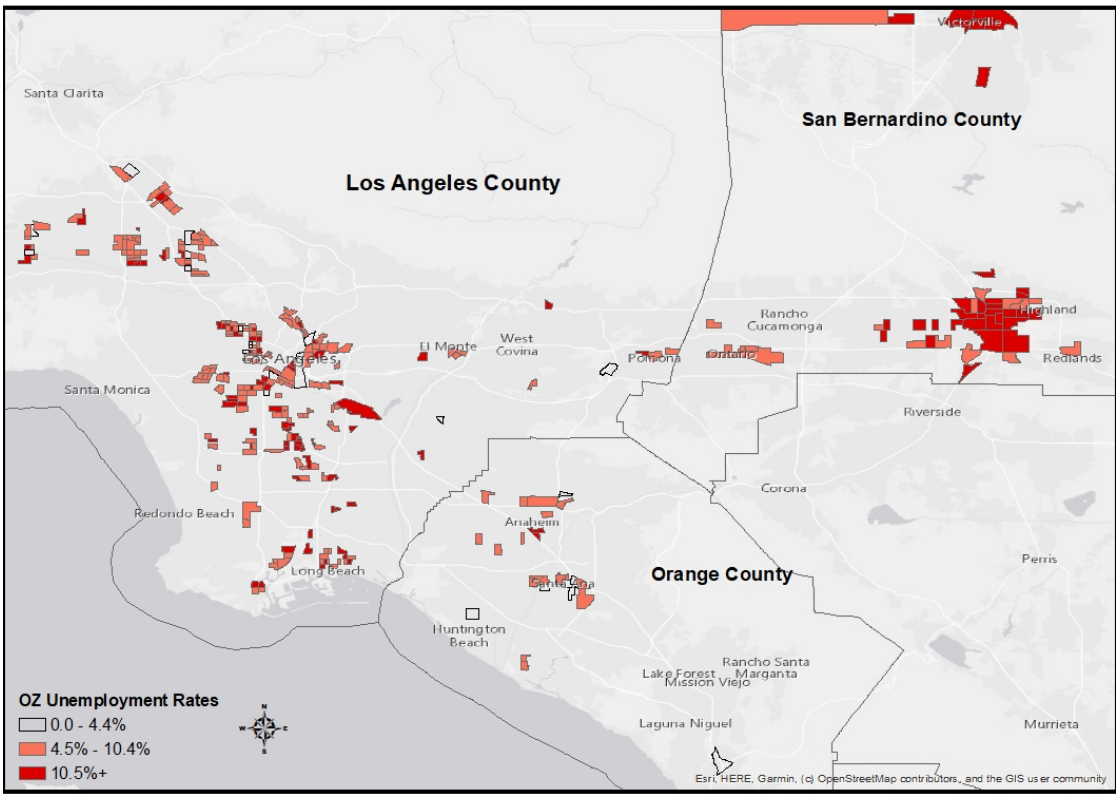

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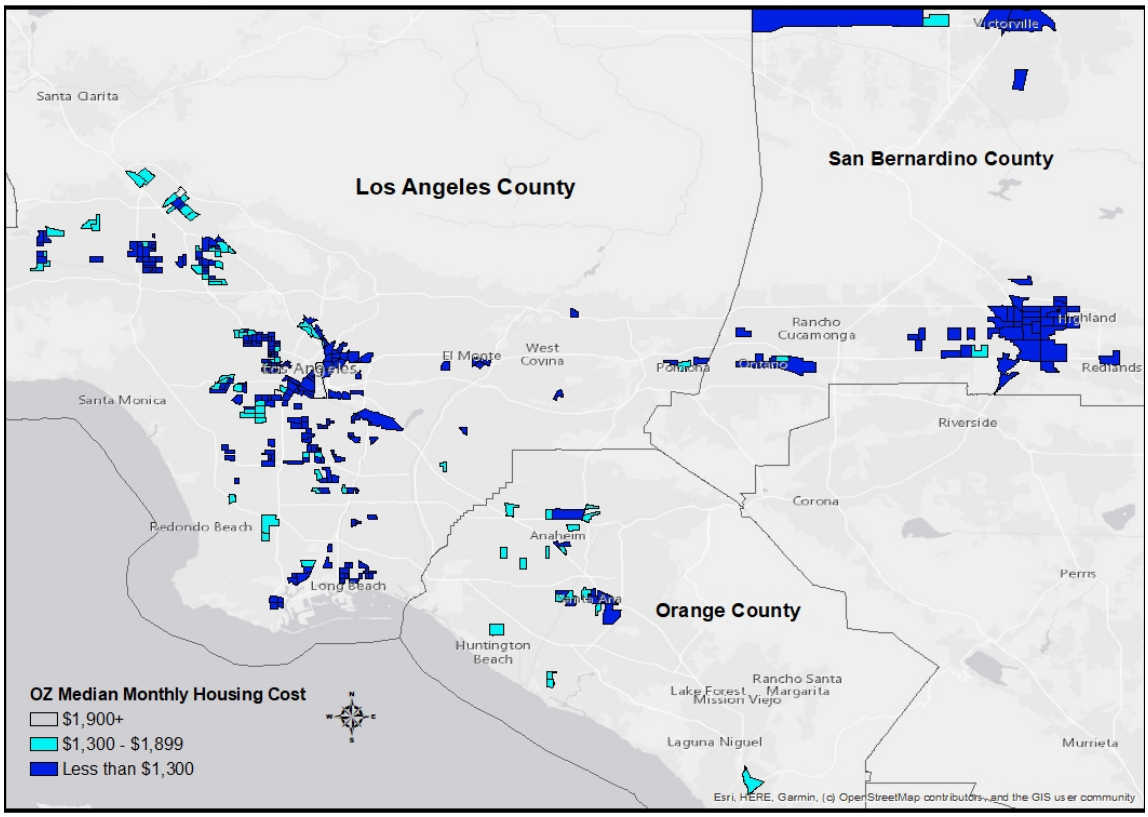

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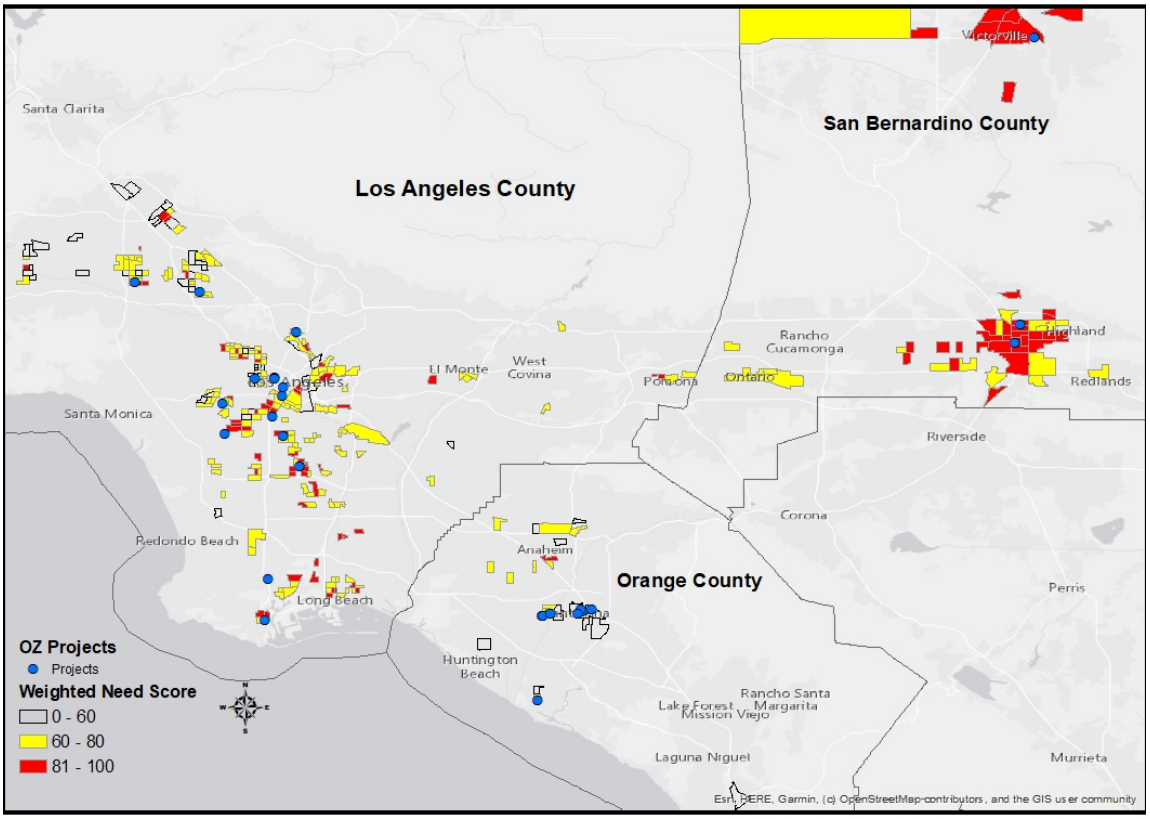

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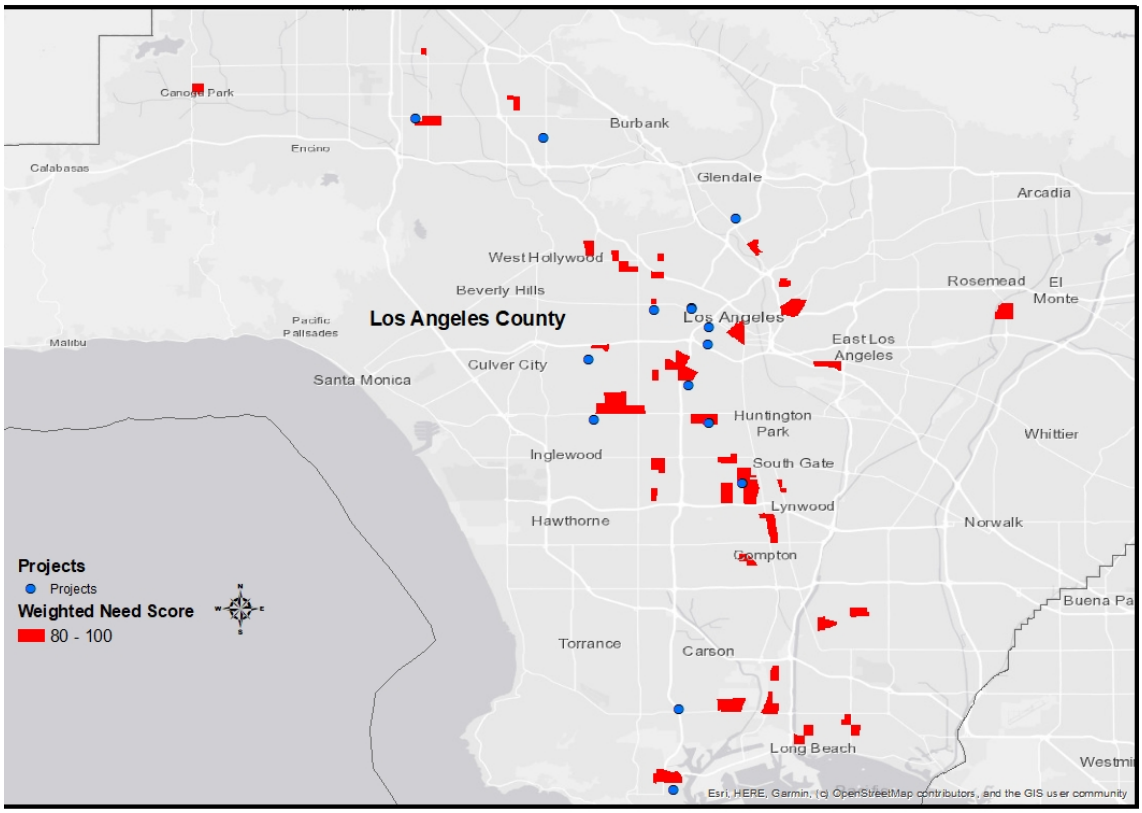

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