Testimony Before the House Ways and Means Committee Subcommittee on Tax

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"Creating More Opportunity and Prosperity in the American Rust Belt"

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Introduction

Chairman Kelly, it is a pleasure to be with you today and I thank you for your focused and consistent support for Opportunity Zones. This will be my seventh time testifying before Congress, but my first time testifying before the Subcommittee on Tax. It is a particular privilege to be testifying here in the industrial heartland as I was born and currently reside in Cleveland just over an hour away, so thank you for having me. I am the Co-founder and President of the Opportunity Funds Association (OFA), a trade association whose members are entrepreneurs, investors, developers and fund managers operating in Opportunity Zones. Through our members, we connect capital to overlooked areas improving lives, creating opportunities, and ensuring long-term economic growth.

Opportunity Zones are arguably the most successful community development policy in American history. So, this afternoon, I would like to discuss how Opportunity Zones are targeting private investment in areas of the country that have been deindustrialized, and how tax policy can be used build domestic supply chains, encourage reinvestment, and renew prosperity in Erie, as well as in our too often overlooked rural communities across the country. Further, I want to discourage crippling tax increases on businesses and workers that would undermine the historic progress made in the Heartland prior to the pandemic in shifting our supply chains from adversaries like China, minimizing minority unemployment, and raising incomes in places like Erie.

Prior to co-founding OFA, I served as the Majority Staff Director for the Senate Finance Subcommittee on Energy Natural Resources and Infrastructure and as Tax Counsel to Senator Tim Scott (R-S.C.) where I helped champion the Investing in Opportunity Act (cosponsored by many on this subcommittee) that became Opportunity Zones.

Analysis from the Economic Innovation Group using data from recent studies by UC Berkeley and the US Department of the Treasury found that by 2020, OZs had already achieved unprecedented geographic reach and scale. Just two and a half years after zone designation, nearly half (48%) of all zones—or roughly 3,800 communities across every state—had received investment, with those receiving investment among the highest-need communities in the U.S. on average. Further, OZ investment triggered a "large and immediate" increase in local development activity, as my fellow witnesses will attest, delivering an economic boost for surrounding communities and increasing home values while holding rents steady. Again, for emphasis; increasing home values while holding rents steady.

Key findings from these papers include:

- OZ investment reached approximately 3,800 communities from mid-2018 through 2020, representing nearly half (48 percent) of the total number of designated OZ communities nationwide. For comparison, it took 18 years for New Markets Tax Credit (NMTC) investments to reach an equivalent number of communities.
- OZ investment is going to communities that are substantially more economically distressed than the rest of the country. Ranked from lowest to highest levels of need, they average in the 87th percentile for poverty, 81st for median household income, and 80th for unemployment.
- Total OZ equity investment was at least $48 billion by the end of 2020. This capital was raised from roughly 21,000 individual and 4,000 corporate OZ investors and deployed into 7,800 Qualified Opportunity Funds.
- OZ designation caused a "large and immediate" increase in new commercial and residential development activity such that the likelihood of investment in a given month jumped by over 20 percent in designated tracts across 47 studied cities.
- Rather than crowding out local activity, OZ designations carried positive economic spillovers into neighboring communities and boosted development at a city-wide scale.
- In addition to boosting the supply of housing, OZ designations improved local home values by 3.4 percent from 2017 to 2020 with no observed increase in rents.

Helping Entrepreneurs Bring Prosperity to the Heartland

Urge President Biden to Abandon Plans for Tax Increases

Working families are already seeing tightening budgets and higher prices. Over the past few years, consumer prices have risen an average of 19.3%, eggs up 40.9%, electricity 29.3%, gasoline 46.3%, car insurance 51.7%, baby food 30.0%, and flour 38.3%. Adding to this, the Tax Foundation estimates that the changes proposed in President Biden's FY 2025 budget would reduce long-run GDP by 2.2 percent, wages by 1.6 percent, and cost 788,000 full-time jobs. Raising the corporate tax rate from 21 percent to 28 percent is the largest driver of the negative effects. Corporations don't really pay taxes. Workers pay taxes in the form of reduced wages, consumers pay taxes in the form of higher prices, and shareholders (including middle-class investors with 401ks) pay in reduced returns. The proposed tax hikes would be passed through and tacked onto the inflation tax struggling Americans already pay.

Make Opportunity Zones More Transparent

Perhaps the most important step Congress can take to optimize sustainable growth in Opportunity Zones is to pass a bill adding reporting and transparency requirements such as is found in the *Small Business Jobs Act* (HR3937), and largely mirrored in the *Opportunity Zones Transparency, Extension, and Improvement Act* (OZTEIA). HR3937 would enable Treasury to collect key information on the location of Opportunity Zone investments, the types of businesses and projects attracting investment, and the number of jobs created. This information will enable Congress to adjust the policy to further incentivize investment in areas remaining underserved and will demonstrate the viability of the policy as a community development tool.

Jumpstart Investment in Rural Communities

Investment in smaller cities and rural areas is much more likely to support operating businesses in contrast to the real estate investing we associate with dense urban census tracts. Allowing intermediary investments into “feeder funds” will enable more investments into smaller Qualified Opportunity Funds. A "fund-of-funds" model will help smaller, regionally focused, impact-oriented funds raise capital and overcome scale challenges with institutional investors. This model will also drive more investment into rural communities, making committee efforts to expand the OZ map to include more persistently poor rural places even more effective.

Extend the deadline for OZ investment

Both the Small Business Jobs Act and OZTEIA extend the investment and deferral period for qualifying investments. This change would recoup time lost during regulatory implementation and create a stronger incentive for investment in low-income communities.