FINANCIAL SERVICES
INNOVATION COALITION

Outline of Statement in Opposition of Opportunity Zones

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Introduction

I am here today to express my coalitions opposition to implementation of the Opportunity Zone provisions of the recent tax cut law. We are a coalition of researchers, advocates and entrepreneurs committed to supporting policies that promote economic inclusion. As you will see from the attached letters, we believe as a practical matter, Opportunity Zones will only benefit the largest and wealthiest developers at all other stakeholder's expense and will be particularly disastrous for communities of color, rural communities and in fact the nation as a whole.

Supporting Data

- 80% of Venture Capital investments go to 4 states[1]
- Less than 1% of Venture Capital investments go to women and minorities[2]
- By 2040, half of the US population will live in 8 states[3];
- There is currently, several trillion dollars of capital sitting on the sidelines even though businesses and communities are starving for capital investments[4];
- Anecdotally, it has been reported that entrepreneurs are being told that deals as large as $40 million are too small for the types of the investments that will be made under this program.

Supporting Opinions

- **Elephant in the Room:** The government has never addressed or acknowledged their role in creating "slums" in every major city through redlining, zoning and other Federal entities like the FHA. Thus, unless policies are enacted to undo the damage from a federal level, we are simply "shoving the dirt around" in terms of cleaning up these poor areas.

- **Major Displacement:** The main strategy with investors into these low-income areas are to provide newly renovated rental properties for residents to lease from them. However, in most cases the newly renovated property is listed for prices out of range for the local residents of the neighborhood, forcing most to move to an area closer to their affordability.

  Also, landlords (seeing the area is improving) begin raising rent on existing residents without having done any improvements to the property. This allows the landlord to leverage the sales price of their home when a Real Estate Investor expresses interest in purchasing it for their own portfolio.

- **Financial Discrimination Exasperated:** One major cause of the formation of a "slum/ghetto" is the lack of financing provided to the residents. It is no secret that the financial markets have a long history of racial

[1] U.S. News and World Report: 4 States Control 80 Percent of Venture Capital Dollars
[2] Forbes: Founders And Venture Capital: Racism Is Costing Us Billions
[3] The Washington Post: In about 20 years, half the population will live in eight states
[4] The New York Times Magazine: Why Are Corporations Hoarding Trillions?

discrimination that started with the FHA in the 1930s, however, most are unaware of it's continued practice today.

When revitalization begins in a particular area, drastically improving property values and creating a more stable real estate market, the lack of financing to existing residents is exasperated. Existing homeowners are turned down for improvement loans and local residents are turned down for financing because the new home prices are out of range of their affordability.

- **Pressure from local Municipalities:** Higher taxes and code violations are usually the final blow to residents in a gentrified area to move residents to new areas. Owners looking to stay and benefit from rising property values often see "new violations" filed against them, that if not corrected, result in the city condemning their property altogether.

CONCLUSION

SIGNIFICANT CHANGES MUST BE MADE FOR OPPORTUNITY ZONES TO HAVE A POSITIVE IMPACT ON UNDERSERVED COMMUNITIES

Significant Changes Must be Made for Opportunity Zones to have a Positive Impact on Underserved Communities

Just like the New Markets Tax Credit program, the Opportunity Zones program will likely favor the largest developers and investors who rarely fund "smaller" projects because they don't consider them profitable enough to approve. This creates a bias against local, minority and women owned firms. These firms may have sound ideas for a development plan in an Opportunity Zone but aren't large enough to meet the investment gatekeepers minimum standards for profitability to get funding and launch the project.

We know that to truly help underserved areas and their residents, smaller deals are needed. There must be measurable and enforceable requirements that portfolios include deals in the $1 million to $10 million range to qualify for the credits. And, there should be a requirement that portions of the portfolios be placed with minority and women owned firms.

We know that investors will object to these types of requirements, which is exactly the reason this program should be improved to ensure all Americans can participate not just the largest developers, investors and contractors. The idea that investors will usually act in the common good has been proven to be false. While we respect the right of investors to invest where they choose, we should not be subsidizing their wealth with taxpayer dollars when a majority of the investment decisions they make result in a system biased against women and minorities.

It is for the reasons I have outlined here today I am asking the US Treasury to reconsider the implementation of Opportunity Zones.

ABOUT FSIC

Financial Services Innovation Coalition (FSIC) - FSIC is a growing network of Financial Services Innovators, Legislators, Community Groups, Academics, and Lending Innovators who share a passion for applying emerging technology and market innovation to meet the credit and financial service needs of underserved communities. Contact us at info@FSICoalition.org *or visit our website at* www.FSICoalition.org