Opportunity Zones: An Empty OZ

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You may have missed it, but tucked discreetly into President George W. Bush's acceptance speech at the Republican Convention was a freshly minted community development proposal to strengthen local distressed economies throughout the country. Upon Bush announcing the creation of "Opportunity Zones" in his September 2nd address , the White House subsequently revealed in a two page press release that 40 urban and rural areas would soon be eligible for a range of tax incentives for small businesses and be "moved to the front of the line for certain assistance programs". The stated goals of these zones are "to assist America's transitioning neighborhoods" and extend "economic prosperityâ€što every corner of our country".

For New Yorkers, this talk of stimulating economic development in designated urban "zones" might sound familiar. "Enterprise" Zones were originally introduced to the American scene in the late 1970's by former New York State congressmen Jack Kemp and Robert Garcia. Kemp, who was later named head of the U.S Department of Housing and Urban Development (HUD) in the 1980's, tried unsuccessfully to launch Enterprise Zones under the George H.W. Bush administration. But it wasn't until Bill Clinton took office and Harlem Congressman Charlie Rangel championed the cause that the idea of using tax incentives as catalysts for private investment in poor neighborhoods was fully realized - and significantly expanded - in the form of the newly fashioned "Empowerment" Zone (EZ).

Rangel ensured that New York City, specifically Harlem, Inwood, Washington Heights and the South Bronx, would be included in America's first round of EZ funding in 1994. As a result, Upper Manhattan and the South Bronx received $250 million in Federal tax credits and $100 million in Federal funding for commercial development, job creation, social services, health care and cultural development. This investment pool was matched by an additional $200 million in total commitments from New York City and State.

At that time a total of 72 urban areas and 33 rural areas nationwide were named Empowerment Zones or Enterprise Communities (which cover smaller or less-densely populated areas) and received a total of $1.5 billion in performance grants and more than $2.5 billion in tax incentives. The Taxpayer Relief Act of 1997 authorized a second round of EZ designations and in 1999 an additional 15 distressed urban communities and 5 rural areas became eligible for an additional $3.8 billion in federal grants and tax-exempt bonding authority.

High Hopes, Few Details

Given this legacy, the Opportunity Zone (or "OZ", in the spirit of HUD shorthand) seemed to promise a credible federal effort to spur job growth through small business development. More

importantly, the commitment to the OZ program seemed to reinforce the "Ownership Society" Bush so frequently invokes.

Although quite light-handed in its own promotion of the OZ program, the Bush Administration has certainly encouraged high expectations. As with any big ticket government program, OZ aspirants will have to run a bureaucratic gauntlet by submitting an application and a plan "which sets concrete, measurable goals for reducing local regulatory and tax barriers to construction, residential development and business creation." Of course, if approved as an OZ, considerable reporting will be required by the organization representing the designated area.

Once selected, an OZ community would presumably become a veritable hothouse of enterprise and social development. According to the White House press statement, an OZ represents a "comprehensive, results-based approach, expanding the focus of assistance beyond economic activity to encompass education, job training, affordable housing, and other activities critical for a vibrant community." A HUD official described Opportunity Zones as a holistic, inter-agency effort which would involve, in addition to HUD, the Department of Labor, the Treasury Department, the Small Business Administration, the Commerce Department, the Department of Education and potentially other federal agencies.

But perhaps the greatest enthusiasm was expressed by the Zone granddaddy himself, Jack Kemp, when he wrote effusively of how he saw the OZ's place in history. When bundled with Bush's proposed Social Security reform and tax reform, Kemp declared, Opportunity Zones represent "perhaps the boldest domestic policy vision since FDR's â€šÃ„Ã¸New Deal' or LBJ's â€šÃ„Ã¸Great Society'." "[B}ut unlike FDR and LBJ", Kemp continued, "Bush's vision is consistent with individual liberty, free markets and entrepreneurial capitalism."

Given the fact that Opportunity Zones were offered up barely 60 days before the election, maybe it's unfair to take such flourishes too seriously. But, for the record, let's just say that if you peek behind the curtain of the great and wonderful OZ, you may find the view less than breath-taking.

First of all, it's hard to find details on the Opportunity Zone, a supposedly historic presidential initiative that has somehow managed to fly far below many a radar screen. An official I spoke to at HUD, the agency that would most likely coordinate the administration of the OZ program, confessed that he hadn't actually heard the phrase Opportunity Zone until it left the President's lips on national TV. All he knew was what was already outlined in the press release.

When I pressed another HUD spokesman for more information â€šÃ„Ã¬ proposed costs, timetable, additional literature, etc. - he affirmed, with no detectable sense of irony, that "the devil is in the details" and suggested I call the White House advisory body, the Domestic Policy Council. My phone calls to the White House did not yield any more information, not even a proposed rough dollar amount of the program, much less a person willing to go on the record about it.

Community Inspiration

Ken Knuckles, the President and CEO of the largest and arguably most successful EZ in the country, the Upper Manhattan Empowerment Zone, was wholly unfamiliar with the OZ until I shared the press release with him. Logic dictates that Knuckles would be an interested party, since one of the two ways a community can qualify to be an Opportunity Zone is by already having designation as an Empowerment Zone, Enterprise Community or Renewal Community (a second tier zone created by the Bush administration).

The other way for an area to qualify as an OZ is by receiving a newly proposed, largely yet undefined, designation as a "community in transition". This is described only as an area that has "suffered from a significant decline in the economic base, including a decline in manufacturing and retail establishments", and is "transitioning to a â€š21st century economy."

"Upper Manhattan was not the inspiration" for Opportunity Zones, Knuckles concluded after reading the OZ release. In fact, as Bush criss-crosses the country on the campaign trail, offering to deliver an OZ to a neighborhood near you, he is unabashedly and explicitly seeking to woo swing state voters still seething over the alleged export of American manufacturing jobs oversees. While conspicuously short on other details, the release goes as far as listing examples of communities that might qualify for Opportunity Zone designation, including election battleground territories like "Cuyahoga County, Ohio" and "Erie County, Pennsylvania".

Community Development Record

Knuckles harbors serious doubts that OZ's could ever prove to be effective in densely populated, non manufacturing-dependent, areas like New York, in large part because tax incentives are offered by Opportunity Zones to the exclusion of any other economic development tool or stimuli . This is a signature feature of the Bush administration; the Empowerment Zones introduced by the Bush Administration in a third round authorization in 2002 were stripped of all federal grants, investment dollars and leveraging opportunities originally provided under the Clinton administration, leaving tax incentives alone to do the job of "empowerment".

Knuckles expressed no interest in relinquishing Upper Manhattan's hard-fought-for EZ status, a consequence, apparently, if Upper Manhattan or any EZ were to, for some reason, seek OZ designation. In his opinion, this would represent a trading down. "Low-interest, patient capital", which is something the first round of Empowerment Zones were set up to provide, is what is needed in Harlem, Knuckles insisted, "over and beyond tax incentives".

Dawn Rivers Baker, who, as Editor-in-Chief of the MicroEnterprise Journal , tracks and comments on federal policy as it relates to the micro- and small business community, dismisses the OZ proposal as an empty campaign gesture. She maintains the Bush administration has consistently tried to dismantle small business support mechanisms that have traditionally been provided by the federal government.

To illustrate her point Baker compiled a laundry list of small business programs the Bush administration has tried to cut or eliminate by budgetary means since January 2001, including the New Markets program for low-income entrepreneurs, the Small Business Development

Center program and the Small Business Administration itself. If not for the intervention of Congress, Baker insists, these programs and others like it would have been gutted. Other critics point to the fact that the Bush Administration has attempted to weaken a wide range of community development programs and safeguards like the Section 8 subsidized housing program, the Community Development Financial Institution program and the Community Reinvestment Act. Bush even cut the Empowerment Zone from his 2004 budget, only to have it restored, again, by Congress.

This is especially unsettling considering that the OZ model seems to be lifted directly from the tax relief section of the EZ playbook. Opportunity Zones do include some added perks, like lower income tax rates for businesses and the ability for businesses to "expense" an additional $100,000 for the purchase of tools and equipment under new tax policies. But, according to Michael Barr, who as a Treasury Department official from 1995 to 2001 helped design and implement Empowerment Zones, all the other OZ features â€šĂ„Ă¬ investment incentives, priority designation when applying for existing Federal programs; incentives to hire new workers; regulatory relief â€šĂ„Ă¬ already exist under the Empowerment Zone program.

"It's quite disappointing", Barr lamented. "What you have here is a lot of hype without substance or content; right now it looks like there's a lot of work for communities to go through [to receive OZ designation], without a whole lot of added benefit."