THE BROOKINGS INSTITUTION

ONLY THE RICH CAN PLAY:
THE STORY OF OPPORTUNITY ZONES

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Welcome:

DAVID WESSEL
Senior Fellow and Director, The Hutchins Center on Fiscal and Monetary Policy
Brookings

Only the rich can play:

MODERATOR: JIM TANKERSLEY
White House Correspondent, The New York Times

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The view from South L.A.:

MODERATOR: DAVID WESSEL
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MARTIN MUOTO
Chief Executive Officer and Founder/Managing Member, SoLa Impact

How can opportunity zones be changed so they deliver on their stated intent?

MODERATOR: RICHARD RUBIN
U.S. Tax Policy Reporter, The Wall Street Journal

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P R O C E E D I N G S

MR. WESSEL: Good morning. I'm David Wessel, director of the Hutchins Center on Fiscal and Monetary Policy here at the Brookings Institution. We are here today to talk about opportunity zones, a provision of the 2017 tax bill that led to the creation of 8,764 census tracts across the country that are designated as tax havens.

Opportunity zones offer a capital gains tax break to induce people with money to put that money in capital-starved left-behind neighborhoods. It's the subject of my new book, "Only the Rich Can Play."

Now, this is a story about how Washington works in this new Gilded Age, how a billionaire Sean Parker, one of the founders of Facebook, had an idea, a hack as he calls it, funded a startup think tank and actually got a provision into law with the biggest hits from Tim Scott and with no hearings and very little serious scrutiny of the details.

This is a story about a tax break conceived as a way to help poor folks that was designed and implemented in my view in a way that made it easy for legions of accountants, tax lawyers, financial advisors, and then money managers to exploit to cut taxes for their wealthy clients without having to show or even assert that these investments actually lift up the communities in which they are located.

But this is also a story about a tax break that can be and as well here shortly is used to tackle the distress in America's left-blind communities, but a story about what happens when there's such antipathy to government oversight and no requirement that a provision like this be used for its stated purpose. They did condos, office towers, self-storage facilities, luxury housing, and census tracts that qualify only because the census counts college kids as poor since they don't have any income.

And to be clear, frankly this is just a good story. I mean, how lucky can a reporter get? It's a story about a tax provision, but we've got Sean Parker and his sidekick, Michael Polansky, who's dating Lady Gaga. We have Tim Scott confronting Donald Trump on Charlottesville. We have Nevada politicians lobbying U.S. Treasury secretary to bend the rules. We have an NFL player turned motivational speaker hired by the Trump White House to proselytize for opportunity zones. We have intrigue at the state capital of Annapolis. We have a Ritz-Carlton going up with opportunity zone money in Portland, Oregon. Anthony Scaramucci makes an appearance. And there's even an Andy Warhol painting. But you'll have to read the book to find out what that's all about.

So, I'm very grateful today to have invited Jim Tankersley to interview me for about 20 minutes on the book. Jim is a very prolific White House correspondent for The New York Times focusing on economic policy. And he's written about opportunity zones from the very start. He's the author of a book called "The Riches of This Land: The Untold, True Story of America's Middle Class," which among other things demonstrates that Jim has saved the notes from every interview he's ever done in 20 years of reporting.

So, Jim, welcome to the Hutchins Center virtual stage.

MR. TANKERSLEY: David, thanks so much for having me. I'm so delighted to be here interviewing you. And thanks to Brookings for putting this on. I think it's going to be a great discussion, and it's a topic that I have been fascinated with from the start.

But I want to take sort of a writer's privilege and ask you some writer questions at the beginning, because this book comes together and comes from, I think, a very interesting place. Tell me how you got into opportunity zones and decided to start telling the story of them sort of in real time as they unfolded.

MR. WESSEL: That's a great question, Jim. So, I first heard about opportunity zones from one of my colleagues at Brookings, Adam Looney, who was frothing at the mouth about how outrageous they were. And Adam has a habit of doing that about many tax provisions, so I listened and nodded. And then he mentioned Sean Parker was involved, and suddenly, I saw there was a story here or there might be.

So, the first thing I did was go to Las Vegas to an Opportunity Zone Expo. I hadn't decided to do the book, but I decided that if I did the book and I hadn't gone to an Opportunity Zone Expo at the Mandalay Bay resort in Las Vegas, I would always regret it. And it was there that I realized how fascinating a story it was. It was like attending a modern-day gold rush. There were so many people there so hungry for details about opportunity zones. This is May 2019. So many colorful characters, all of whom just -- were just dying to tell their story as I took notes in my notebook.

And so, that's how I got going. I have to admit that part of my plan was to use this as an opportunity to travel around the country. I got interrupted in that by COVID, which is a shame. But I still think I met a lot of interesting people, people who work in the field of community development, people who are in the real estate business who just love to talk. And so, that's how I did it.

MR. TANKERSLEY: And tell me sort of what did you go in thinking what's the story of how the zones were working and sort of what sort of impact they might have? And how did that change as your reporting evolved?

MR. WESSEL: So, although I think the proponents of opportunity zones probably doubt this, I really was kind of agnostic. I was -- I knew a little bit about place-based tax policies, which of course, go back to Margaret Thatcher and enterprise zones. And then I had a great conversation with one of my colleagues at Brookings, Stuart Butler, who was previously at The Heritage Foundation and had been very involved in bringing the concept from the U.K. to the U.S.

I had some skepticism as anybody would about a tax break that is so obviously designed to appeal to investors. I'd say I soured on a little as I went along only because I saw how easy it was for people to take advantage of the tax break without having to demonstrate that they were helping the people in the community. Then of course, I met some people who were kind of disappointed, and then I met some people like Martin Muoto, who we'll talk to him shortly, who showed how it could be used, there's just no requirement to do it the way it was sold.

MR. TANKERSLEY: So, I think, you know, it's fascinating. I got into opportunity zone coverage, because I have for a long time been writing about sort of these areas of the country that have been left behind by the changes in the economy. And, you know, on a sort of here's-the-problem-to-solve level, it's really hard to argue with, right? This is an attempt to drive private capital and dissolve, you know, a problem under investment.

Tell me in your sort of reporting where you think the trouble with the solution started. Was it in the design of the program in the law? Was it in the implementation? Both? How does it --

MR. WESSEL: Yeah. All of the above. Look, this is a story about how Washington really works. And so, while I'm -- I think we should all welcome public-spirited billionaires like Sean Parker, I don't think we should let them draft tax bills. And in a sense, that's what happened here.

I think you -- as you pointed out, the idea is incredibly appealing. And I think that's one reason why they got so much bipartisan support. Who could be against getting rich people to put money into poor neighborhoods? And if it takes a little tax incentive to do that, so much the better. But I think that the problem here was the proponents were so certain that previous attempts at this had failed, because there was too much red tape and too much government regulation that they went too far in the other direction. And that what we've seen is that with so many opportunity zones across the country, some of them chosen rather foolishly by governors in those states, the money naturally flowed to the places that were least likely to need it, and that's what concerns me.

I don't think that the Trump Treasury did a particularly good job of implementing the law and writing the regulations. There's a lot of -- in any tax provision, there's lots of opportunities for the writers to do things. I don't think they took very many opportunities, although I don't think the law gave them as much authority as some people at the Treasury would have liked.

So, I would say, A, it was flawed in design; B, because it got kind of slipped into the Tax Cuts and Jobs Act, it didn't get the scrutiny that you'd get at hearings or the public vetting by experts who may not be sympathetic but can sometimes make a bill -- a proposal better. It was not well implemented. And then what -- I think the proponents just didn't appreciate how good the tax avoidance community is at finding ways to exploit the weaknesses in the law and the regulations.

MR. TANKERSLEY: Yeah, you laid this out obviously in the book. But a part of what you're documenting here is the process by which a very complicated tax bill came into being almost overnight, and with so many different moving parts that many of them didn't get scrutiny, and opportunity zones which had started as a bipartisan idea of people who we don't associate with sort of billionaire capital like Jared Bernstein being, you know, the Biden administration CEA member, being, you know, an early proponent and an architect of this. And then it becomes a thing that Senator Scott sells President Trump on and stays in the bill and makes it all the way through.

And when it first passed, I think there was a lot of surprise and, like you say from Vegas, just interest. I never -- the several conferences I went to early on, just a lot of people really wanting to know, well, what is this and what's happening? And I would say in the beginning there, there was sort of this potential for -- to -- there was this hope that it would be this great mover of money, but there -- I think there are sort of two possibilities for how it could go wrong. One would be sort of what you're, I think, saying in the book here, which is the money is flowing but to the wrong places, and it's just making a lot of rich people richer. And the other is not much money would flow at all. The possibility that like this just wasn't a very powerful incentive, so long lined up.

But I think my question is, what do you think the evidence is that this is more the former than the latter that there's been a lot of money flowing, but it's not going in the right places, as opposed to it just hasn't done very much yet?

MR. WESSEL: Well, I think you're right that there's a question of how much money is flowing to these things. Mike Novogradac has -- beyond later has some of the best available data. But unfortunately, because of the process known as reconciliation in the Senate with which we are now all increasingly familiar, a provision in the bill that would have required more reporting was stripped out. So, we don't have very good data.

There were some economists affiliated with the joint tax committee of Congress who got access to most though not all of the 2019 opportunity zone fund returns, and they found that 84 percent of the zones got no money at all and half the money went to presumably the best (inaudible) percent of zones. But for now, unfortunately, a lot of the reporting is the kind of stuff that you and I and Rich do, which is going around and talking to people.

So, it's my anecdotal observation that while there are lots of projects that may have been accelerated by opportunity zones, there are many more that were in the works or might -- would have been done anyways for it's -- the opportunity zone program makes the project more attractive financially, but doesn't really do anything for the community.

And one example of a loophole is there's a building going up in Downtown Portland occupied by the local natural gas utility that was financed and built and leased to this utility with regular investment money. But because it didn't have a certificate of occupancy yet, they were able to sell it, and a bunch of people from a -- that run an opportunity zone fund in Chicago were able to get a tax break for their clients for a building that really opportunity zone money had nothing to do with creating. So, I just -- I think there's just too much anecdotal evidence of that to make me comfortable.

MR. TANKERSLEY: And so, I think to push you a little bit on that, like how big of an actual hit the taxpayers do you think is in the ballpark here? I mean, they're -- certainly with any government program, people tolerate varying levels of what we might think of as misdirected money if the outcomes are worth it. How --

MR. WESSEL: Right.

MR. TANKERSLEY: What do the data suggest to you is --

MR. WESSEL: Right.

MR. TANKERSLEY: -- the loss of possibility?

MR. WESSEL: Well, of course, the amount of money that the Treasury loses, or are forgone revenue, depends on how many people take advantage of it, of course. And one of the difficulties is that the way the bill was structured cleverly, there's a little bit of revenue in 2026, and that makes the 10-year cost estimate look very small. So, we really don't know how much money the Treasury will lose beyond the 10-year window when opportunity zone investors will have to hold their property for 10 years cash out. I -- it's in the billions of dollars, I think.

But look, I think the question is if I believe that 90 percent of the money went to projects that really helped communities and 10 percent or even 15 or 20 percent went to projects that would have been done anyways in gentrifying neighborhoods, I would say it's a success. If it's the other way that only 15 percent of the money goes to projects that are really what was intended, and the rest goes to projects that would have been done anyways or projects in gentrifying neighborhood, then it's a failure. And I don't think we really know yet how that is.

One thing that is concerning to me though, is when we propose programs that are aimed at poor people, there seems to be a great deal of focus in Congress in limiting abuse. We have to make sure that nobody gets the child tax credit or the earned income tax credit or food stamps who doesn't deserve it. We spent a lot of time on regulations and guardrails there. And then on the tax provision like this, it's just the opposite that by design there's just not very much oversight, not very many guardrails. And I think that's an imbalance that doesn't make any sense to me. If you're going to do something like this, you need to make sure -- the government needs to make sure that it's being used more for the intended purpose, unless just to cut taxes for people who happen to have capital gains that they can sneak into an opportunity zone fund.

MR. TANKERSLEY: Now, to be fair to the Trump Treasury Department, there are guardrails. They do have -- you know, there are lots of things. And when you talk to people who invest in opportunity zones, they have complained in many times about various iterations of the regulations that made it difficult to invest in, for example, operating businesses. So -- but you think there should be a lot more and that that would not chill investment to (inaudible) make it useless?

MR. WESSEL: Well, you're right that there are a lot of regulations. I don't mean to suggest that there's not a lot of red tape here. But you can invest in almost any kind of property or asset in an opportunity zone. There are some provisions to make sure that you're not land banking and stuff like that. And everybody who deals with the IRS always thinks that there's too much red tape. I do think that there's a risk that if you make these programs too onerous, nobody participates. That's absolutely correct.

On the other hand, previous place-based policies like the new markets tax credit, which the proponents of opportunity zones are less critical of than others, they have a set cap on how much money could go, and that forces are kind of rationing that only the best projects or more likely the best projects are to be solved. And so, I would be willing -- if you'll press me to say, I'd be willing to have fewer people putting money into these things, if I thought the rules and oversight would direct more of the money for the desired purpose.

MR. TANKERSLEY: The idea behind the program was sort of the opposite, right?

MR. WESSEL: Right.

MR. TANKERSLEY: Like, let's just have an unlimited avalanche of capital. And if it spills into some places that maybe don't need it, that's okay, because there's going to be so much of it that it's going to go --

MR. WESSEL: Right.

MR. TANKERSLEY: -- into the places that do.

MR. WESSEL: So, I don't think there was that much money. And I think it was too easy for the money to go to places that don't need it.

I mean, one way the law worked was -- as you know, Jim, 56 percent of the census tracts in America were eligible. The Treasury published that list. Then governors could choose up to 25 percent of those. Some governors chose pretty poorly, and some governors probably chose corruptly. Austin asked for four opportunity zones; the state for some reason gave them 21. And Austin is not a place that needs a lot of tax incentives to get investment. Twenty-five percent of the opportunity zones in New York State are in Baltimore. The governor of California originally designated the Stanford campus as an opportunity zone, but because they published their list, there was an uproar including from Economic Innovation Group, the proponents of opportunity zones, and they did that.

So, I think there are things that could have been done to direct the money in the right direction without hurting the -- some things. I may have misspoken. I meant to say the 25 percent of New York State's opportunity zones are in Brooklyn, which is a pretty hot place to invest.

MR. TANKERSLEY: Yeah, I was worried I had missed an important geographical switch in --

MR. WESSEL: Sorry.

MR. TANKERSLEY: No. But the places that are getting -- the JCT economist analysis you're talking about, it does show that the places that are getting the money are still -- it's not like these are -- you know, the money has mostly gone to incredibly rich areas. There's still poor areas. They're just not as poor as the poorest areas in the zones, right? Those are the ones that are just not getting capital.

MR. WESSEL: Well, on average, opportunity zones are poorer than those -- than other census tracts. That's true. But some of the data, I think, is misleading, because the neighborhoods have improved quite a bit since the data that was used to designate the opportunity zones. But you're right.

Although there are some places that when you go to them you say, is this really what we had in mind? I mean, I gave it as an example, downtown Portland, the State of Oregon made a conscious decision that if they designated only the worst neighborhoods in Oregon, they wouldn't get any money. And if they get designated places that qualified because there are not very many people who live there but those people are poor because they have preserved some low-income housing, that would be -- they might get them bad headlines, but they might get some money. So, they kind of did it 50-50. They said, half the zones, let's put it in places like downtown Portland that are already attractive, and maybe we can supercharge the investment, and let's put half the zones in remote places in Oregon that are desperate for money. And from what I can tell in Oregon, almost all the money went to the former.

I visited an immigrant community outside of Portland called Rockwood, which organized to get some opportunity zone money and got very little. I went to Bend, Oregon, which is, you know, a resort town that's just booming in part because people have left downtown to go live there during the COVID thing, and it seems strange that they may qualify legally, but it didn't seem like a very poor place.

But you're right, the most -- the richest neighborhoods in America, Beverly Hills or Northwest D.C., did not get opportunity zones. But I'm saying that the places that got the money were not the most needy in most cases.

MR. TANKERSLEY: So, the Obama administration is looking -- I'm sorry, the Biden administration is looking at how to do, you know, regulations moving forward that might try to improve the performance of the program. One of the questions is, should there be, you know, a change in this criteria for what qualifies? Do you think that would help solve the problem? What would be effective interventions from the administration at this point?

MR. WESSEL: So, you're right that the Biden administration -- President Biden during his campaign promised to reform opportunity zones. But as far as I can tell, they haven't made any significant proposals either in all the legislation they sent to the Hill or in regulations. And so, some of this may require action by Congress.

Last time I checked, although people like Richard know better, there's nothing in the reconciliation bill that would address any of the issues. We have a panel later of people who know a lot more about this, but at the very least there are some zones that should be de-designated. Maybe you have to grandfather them a bit. So, more attention to what was chosen. I think we need better reporting. I think we need to rule out some things that are -- should be added to the list of businesses in which you can invest. And I think we need to find a way to have some kind of oversight certification process, even if that is going to constrain the amount of money going in, because the natural tendency of people in the markets, people have money, is to look for the highest return, lowest risk investments, and that may not be directing them to the places where opportunity zone moneys are supposed to go.

MR. TANKERSLEY: And there's also this sort of the question of how do you get a -- like a critical mass of investment. It's one thing for someone to come in and like rehab a building in a very -- you know, rural left-behind part of Eastern Oregon. It's another thing for 15 people to come in and rehabilitate an entire, you know, section of a downtown and just try to really throw us some momentum behind it. And I know there are some cities that have tried that sort of like bunching approach like Erie, Pennsylvania. Do you think there's any sort of lessons from the few places that -- out there? I mean, maybe not even few, the places out there that really seem to be trying to have a concerted strategy in this?

MR. WESSEL: I think that there was an effort to get a lot of communities to write perspectives as to market themselves better. And I think that in case -- in many cases that may not have produced much opportunity zone money, but it did help organize the community to do better economic development. I think there are places. Erie, Pennsylvania is one that I mentioned -- you mentioned. Alabama has done some interesting things. So, I think there are places that have taken advantage of it. And that was part of the design of the program, I agree, was to put the onus on local communities to market themselves. I just think that making a shiny perspective saying come invest in my city hasn't worked terribly well.

I spent a lot of time in Baltimore, for instance, where they have a foundation funded an opportunity zone coordinator, a guy named Ben Siegel, who seems to me to be doing a terrific job at trying to market it. And for the most part, the neighborhoods in Baltimore that most need money don't seem to may have gotten very much despite all his efforts. And Baltimore is the kind of place that opportunity zones were designed to have.

MR. TANKERSLEY: I want to zoom out for my last couple questions here and sort of talk about the broad themes of the book and sort of the influence of the powerful in Washington, which obviously I think everyone who's tuned into this is interested in. It's -- with the tax bill, it's interesting you're focusing on a provision that truly was sort of brain-childed by a think tank of -- set up by a very rich person. But the biggest benefits of the tax bill went to big corporations that very openly lobbied for, you know, a corporate rate increase that has enriched shareholders around the country. It's less sexy, but it's a lot more money. And I'm curious sort of what that tells us about, you know, how Washington works and what gets covered.

MR. WESSEL: Well, you're right. I mean, when you'd have a huge tax bill, like the Tax Cuts and Jobs bill, there are going to be things that are so small that they get ignored. I mean, I think you were the first reporter to write about the fact that opportunity zones were in the tax bill, and that was a full month after it passed.

I think yeah, obviously, big corporations lobbied successfully, and there's no doubt about that. But I think this is an instance of a -- sort of a rifle shot where one determined billionaire, who I shouldn't mention, tells me he hasn't invested any of his own money to take advantage of the tax break. I do think he really thought he was doing a good thing, managed to get something in the bill that wouldn't be there otherwise.

And Tim Scott, as you know, is key to this. Tim Scott, the Republican senator from South Carolina, one of four senators who was helping to write the tax bill, but he made this his priority. And there's a great scene in the book about how after President Trump made those unfortunate remarks about people on good -- on both sides being good people in Charlottesville.

Senator Scott goes to the White House at the president's invitation expecting to have a confrontation, because Senator Scott has been so strong in his language in public about condemning the president's remarks. The president listens, does not antagonize him, and finally says, what can I do to make it up for the people I've harmed? And Tim Scott says, well, you can back my opportunity zone bill. And the next day, President Trump on Air Force One tells reporters, whatever that thing is that Tim Scott is doing, I'm in favor of it. And it was only then that the Trump White House got behind it.

So, Sean Parker couldn't have done this alone. It took a guy like Tim Scott to make it law. But I think that because of the way it was done, and because Sean Parker and his think tank had the ability to hire some really smart technicians to figure out just how to structure this so it doesn't appear to lose much money in the first 10 years, they managed to get a bill through Congress that it would have been hard for me or you or even some think tank to succeed in getting through. And I think that is the story about how money and power can buy you influence.

MR. TANKERSLEY: That's great. One more quick question, and then I'll let you move on to your own interviewing.

But back to the writerly questions. You've written, you know, your past books, monetary policy, you've sort of dove very much into sort of the way the macroeconomy works. Was this fun for you? Was this a change?

MR. WESSEL: Well, this is a blast. My only regret, as I said earlier, is I couldn't travel.

Talking to people who actually build things, businesses, and buildings, and finance them, and people who spend their lives trying to improve the lives of people who live in left-behind communities, I mean, it got me out of the quiet halls of the Brookings Institution to talk to people who are really on the ground doing stuff. So, that was fun.

You know, one thing that's awkward is that I talked to a lot of people who I think are disappointed with the point of view I took in the book and may feel a little bit like I misled them. I don't think I did. I think like any reporter, I listened. You know, I didn't talk a lot about my views. But a book has a point of view, and I expressed it when I wrote it. So, I've had some nasty conversations with some people, and that's painful, but it comes with the job.

MR. TANKERSLEY: David, thanks so much.

MR. WESSEL: Thank you, Jim. Thanks for doing this. I really appreciate it.

So, I invited Martin Muoto to join us today, because Martin Muoto is, first of all, just a fascinating guy doing a fascinating thing. Martin was born in Nigeria. He went to Wharton. He worked in private equity, which we won't hold against him. He gambled in real estate on the side buying undervalued apartment houses in South L.A., Watts, Compton, South Central L.A. And fast forwarding, that led him to build this enterprise. They're called SoLa Impact. It's the largest Section 8 landlord in L.A. I think they have 1,500 units. They have an impressive social service operation on the side for their tenants. They have an incubator known as the Beehive in some old brick warehouse buildings in South L.A. It's really an impressive thing.

But the reason I invited him is this, that in 2014, SoLa Impact raised $10 million to buy and renovate 35 buildings. In 2017, they raised over nine months $55 million from wealthy investors and other institutions. But in 2019, they were persuaded that opportunity zones gave them a huge advantage, as I understand that they were a little resistant because getting into bed with the government was not something they had planned. And after they formed an opportunity fund, they raised $115 billion in just 12 weeks in 2019. All of which is going for affordable housing. And then because they don't seem to be people who rest on their laurels, in December 2020 they said they were going to raise up to $500 million for opportunity funds to be used outside L.A., and another $500 million to invest in opportunity -- in poor neighborhoods that -- not opportunity zone money.

So, I thought Martin is a good example of someone who has figured out how to use opportunity zone money for its intended purpose, but also has seen that -- how the industry works from the inside and has some ideas about where it's working and where it isn't.

So, Martin with that long introduction, thank you for joining us and getting up early in L.A. So --

MR. MUOTO: Thank you for (inaudible).

MR. WESSEL: So, first of all, if I did violence to your -- if -- to your story there, I hope you'll correct me. But mostly what I want to know is, when you first heard about opportunity zone provision, what did you think? And how has it worked out for SoLa Impact?

MR. MUOTO: You know, when I first heard about it, I associated with the classic (inaudible) and other government programs, new markets, tax credits that have been very complicated and we've avoided, namely because we've seen that they drive up the cost of building affordable housing. I think it's become common knowledge that a lot of those developers are building at 500 to $600,000 a door, and we've always felt that's not really affordable. And so, that was the initial.

As we looked at it, we realized that it -- you know, a lot of South L.A., although only about half to a third of South L.A. is in opportunity zones, as you point out, it should all be in the opportunity zone to send as a strike, but only a third to a half is in the -- in opportunity zones. And so, we decided to raise a fund. And as you point out, we were maybe very fortunate, maybe we got the timing right. But certainly, we got -- you know, we had a track record of investing in very poor areas in Los Angeles. As some of you may know, South Central really has this 30-year plus notorious history and stigma, and it's -- 98 percent of our tenants and the community are African American and Hispanic. And our average tenant earns less than $30,000 a year. So, that was our initial introduction.

I will mention that, you know, while I'm super pleased to have -- to be speaking with you again, and I know you've done a tremendous amount of work in your research, you know, we were quite loathed to be -- candidly to be one of the poster children of the opportunity zone, because we -- well, while it certainly has a lot of merit, I think that your book also looks at it in a very tough-minded way and in somewhat skeptical way. And that in some respects is justified.

MR. WESSEL: So, elaborate on it a little bit. How did well -- how do you think it's worked out for the real estate industry in general? What's been your experience in talking with other people in the real estate industry about how it's shaping?

MR. MUOTO: You know, I think there's a couple of things I would point out. You know, first of all, we're not policy -- we're not thought leaders. I'm pleased to be among the thought leaders here, but, you know, we're practitioners and we're action leaders. And, you know, one of our central tenants is that we never let the good enough be the enemy of the perfect.

Certainly, this is not a perfect bill, but we've, you know, found that it did number of things. Number one is that it forced the 10-year time horizon. And anybody in private equity or investments knows that trying to get investors to hold an investment for 10 years is a challenging thing. And therefore, that mandated it. And so, I didn't have to negotiate with my investors around the whole period.

The second thing that it did was -- which is very important to point out, is that it required a significant improvement or a substantial improvement test, which means that you couldn't buy a performing building and simply sit idly by for 10 years. And very importantly in L.A., which is not an easy place to build, we had bought 1,500 units. We had rehabbed about half of them. It's very challenging. We bought some of the toughest buildings, and we did, you know, real heavy lifting to turn them around. And we're -- we did that in a lot of cases. In some cases, we stubbed our toes and -- you know, but what the substantial improvement test did was allow us to build. And so, we had owned 1,500 units, but we hadn't added one unit to the housing stock of Los Angeles. And because of the opportunity zone substantial improvement test, we could go to prospective investors and say we intend to do a lot more ground-up development, which many folks consider is more risky. Not -- we don't -- we try to de-risk it, but it changed that perspective. So, that was the second thing.

And the third thing very candidly that -- is that while certainly it could be criticized because it is -- you know, primarily advantages people with significant capital gains, which happened to obviously be usually very rich, is that, you know, in our first two funds, we had approached some institutional investors, foundations, nonprofits, endowments, and many times -- in fact, all the times until that point, folks said, well, it's just that this is too risky. And now, we were able to raise $115 million in our third fund from private individuals who simply were motivated for whatever the reason might be, but allowed us to do the work that we were -- we have been doing in South Central.

MR. WESSEL: So, if -- I know you're saying you're not a policy person, but I think policy people can benefit from learning from people who actually are on the ground. So, what do you think would make it more likely that there was more money going to SoLa Impact's sort of things as opposed to some of the things I talked about in the book, the office towers and hotels and stuff?

MR. MUOTO: Obviously -- well, look, we've got a dog in the fight, and so it's -- I appreciate the question that -- and without being self-serving and, you know, having given the bill, you know, some degree of thought, you know, the first thing we would do, which I believe EIG and others have really advocated, is what I call the plus 10, minus 10, which is, you know, to retire 10 percent of the more egregious census tracts and to add or allow states and cities and municipalities to add new census tracts and recalibrate that. So, in fact, it would probably be a plus 20, minus 20, but certainly that would be one. I think we have always been big advocates of reporting. We published the social impact report. You know, Reid Thomas and others have really done a great job of putting more precision into that methodology. And so, I think reporting is key. This is very unlikely to happen, but quite frankly we would democratize the tax, you know, advantage rather than making it simply for capital gains.

Quite frankly, we met in -- especially in Los Angeles. I don't want to be a name dropper, but we met with a lot of celebrities and a lot of Black and Brown and, you know, entertainers that had made money in the entertainment industry but did not have capital gains simply because -- or just found it difficult to access their capital gains, because they didn't make money in the stock market or didn't make money in traditional private equity. So, you know, I almost make it open to more ordinary income, although I think that might be a bridge too far for most folks.

MR. WESSEL: Well, I think that's a good point. I think -- Martin, let me ask you one final question. I'm interested in your impression. I gave mine so you know what I think. Do you think that the bulk of the money in opportunity zones is going to things like the ones you're doing? Or is the bulk going to things that might have been done otherwise? Do you have any view on that?

MR. MUOTO: You know, I candidly don't know I would say that, look, there's a significant percentage that is going to what most of us would scratch our heads up in terms of, you know, hotels with swimming pools and luxury things like that, but I think again being in a community like South Central Los Angeles, you know, I -- it has been a boon to us that -- it has also been -- you know, it makes some community members feel and some community groups feel, A, because we embraced the opportunity zone legislation, we embraced, you know, the Trump administration, which it could not be further from the truth. We did allow, you know, HUD Secretary Carson to come down and visit, and we had a lot of arrows in our pack, because somehow we were associated with that. But I would say that it has really -- you know, it has helped us do really important work. And it has helped others, Erie and Alabama and dozens of others. So, we don't have the luxury of, you know, looking at it that way.

And I think a point you made earlier, which is really important, which is that the tax set asides for poor people, food stamps, EBT, Section 8 programs, get a tremendous amount of scrutiny and regulatory involvement. And I think that, you know, it is really important that we continue to find ways to drive capital into these markets. And so, we -- you know, we're convinced that it has worked, but certainly there have been others that we would prefer not to get too close to.

MR. WESSEL: (Laughter) I see. Okay. Martin, thanks so much for your time. I really appreciate it. And I admire the work that you're doing out there.

Let me remind the audience as we go to our next panel that if you want to ask a question, you can either send it on Twitter, #OpportunityZones, or to a website called sli.do, S-L-I, dot, D-O, #OpportunityZones, or email events@brookings.edu, and we'll try and get to some of them.

So, now, I'd like to turn to the final part of our session today. A number of people have asked, Jim included, like, how would you fix opportunity zones? And I thought about it, but I'm not very confident in my opinions. So, I thought that it would be interesting to assemble a bunch of experts to answer the question, can opportunity zones be fixed so they feel their intent reach their intended audience? And if so, how?

And so, I've invited my former colleague at *The Wall Street Journal* Rich Rubin to moderate this panel since like any good reporter, he hasn't expressed his views on this as aggressively as I have. Rich has been the U.S. tax policy reporter from *The Wall Street Journal* in Washington for the past six years, and thus has been very busy. There's been a lot of tax policy for the last six years. But he doesn't limit himself to print. He's made a number of videos about tax policy, including one where he went to a farm and he had live cows to discuss a piece on sacred cows in the tax code. So, I recommend that to you.

So, the panelists I've asked to be here today are really a great group. Annie Donovan is the executive vice president and chief operating officer at Local Initiatives Support Corporation. And importantly, she was the head of the Treasury office and the Community Development Financial Institutions from December 2014 to December 2018. So, she was there when some of this was being put in place.

Brett Theodos is a senior fellow and director of the Community Economic Development Hub at the Urban Institute and another think tank in Washington, and has done a lot of thinking and work on opportunity zones and similar programs.

Reid Thomas is the managing director of JTC Americas, which he joined when it acquired (inaudible) NES Financial. And they're very active in providing administrative and other services to opportunity zone funds and others. And as Martin mentioned, he's been working on trying to find a way to get funds to report their social impact.

And finally but not least, Michael Novogradac is the managing partner of Novogradac, an accounting firm, which was very involved in the shaping of these from the start and continues to be involved in organizing people who have views about this and connecting them with the legislators and regulators and runs a number of good conferences on opportunity zones that I benefited from attending when I was working on the book.

So, as I say, you can post questions on sli.do, Twitter, or send us an email at events@opportunityzones -- events@ -- no, events@brookings.edu. With that, I'd like to turn the page over to my friend, Rich Rubin.

MR. RUBIN: David, thank you. And thanks to all the panelists for being on this. I enjoyed the book a lot. I encourage all of you to read it and get sort of a full view of, you know, what -- you know, my stories, (inaudible) stories that we can't fully cover, the book has the whole picture.

So, we're going to try and use this panel to kind of look forward somewhat and talk about what changes might be considered. So, I'll -- and we'll start with Annie. And I was curious if -- you know, if you are at the Treasury Department now, what would you do? What would your sort of priorities be in looking at the programs?

MS. DONOVAN: Well, thank you, Rich. And thank you for having me here. And congratulations on your book, David. When you were describing all the colorful characters, you left out the brothel owner. So, I'll leave that to the audience to figure out where that character fit in.

If I were at the Treasury now -- well, let me say, I was at the CDFI Fund. I was the director of the CDFI Fund. And I want to just provide a little context around what that means for many in the audience who may know Community Development Financial Institutions and what we do out there in the world. And we are mission-first investors. So, we operate at the intersection of people and place, and we are very concerned with economic mobility and opportunity, you know, across the spectrum in low-income places, particularly those that have suffered concentrated poverty over decades.

And so, this program, I think, one of the data points, I think, we could add to whether or not this program works in the context of not having a whole lot of data, is to say, how does this tool connect with that community development finance infrastructure, because we are the ones who are out there who are really getting the deepest in terms of impact. And I would say, for our sector, this does not work. So, I think that there are many other tools that do work, many other ways to use tax policy if we're talking about tax policy, and how that can help people and communities. I'd much rather see it directed toward programs that already have evidence that work.

And I don't see the bones of -- I -- somebody said, this is a bridge too far. I think this program is a bridge too far. And I don't think it is ever going to connect in a meaningful way to the people and places that needed the most. And so, that's -- I think our tax dollars are better directed elsewhere.

MR. RUBIN: Thanks. I was wondering if it's like -- it feels like it was sort of described as a program that's aimed at the places that need it the most. And if we conceived of it as a program that's aimed at places that we're already moving and need a little bit more kickstart, it might sort of feel more successful than it is because that's what it is.

Michael, what are the -- I know you get -- your group and -- you know, you've been sort of talking to a lot of investors and people who've been trying to use the program. What are the main changes you've been seeking from the Treasury Department? And what can kind of happen now to tailor this program in a direction that -- you know, that you'd want to think it that investors -- that community might want to make?

MR. NOVOGRADAC: Yeah, thank you for that question, Rich. And thanks to the

Brookings Institution for inviting me to participate here.

I would probably not label this as how to fix it. I would say how to improve it to even better be able to deliver on its stated intent, that would be my focus. And we have been working through our opportunity zones working group and providing feedback to Treasury, as well as to Congress in terms of how to design. And there's a lot of ask that we have. In the course of the regulatory process, many of them didn't make their way into the regulations. Unfortunately, there's a couple of areas that our recommendations didn't make their way into the regulations. And in part, it was the guardrails. As the regulations were interpreting what these guardrails were that are built into the statute, they ended up becoming so substantial that, you know, much of the investment that could be going into affordable housing isn't going in. And we have a number of recommendations, regulatory changes that we think would really enhance the ability to use opportunity funds to invest in affordable rental housing.

So, that's one area that we have a number of recommendations. And I'd love to go into them all, but I won't go into the detail of them. I could get wonky as a CPA, but we have letters to the Treasury on our website for the folks.

The other area is operating businesses. I think there were a number of interpretations that the regulations included that limited the ability to invest in equity capital in operating businesses.

So, those are two areas where I would love to see some of the recommendations that we've been making, getting incorporated into the regulations, so that opportunity funds can be all that they have the potential to be.

MR. RUBIN: And Brett, you've sort of written a lot on place-based policies. How do you sort of compare this with the other ones that the government has? And is this something that's adjustable, changeable, fixable, whatever term you want to use, or is it time to just start over?

MR. THEODOS: I think of this as more akin to a 1031 exchange or to an EB-5 type program, then I do the low-income housing tax credit or the new market tax credit. And so, you know, it's more like a mortgage interest deduction, right? It's a by right. There's no competition. There's no constraint on who can use it. There's very little constraint on what it can be used for. So, it's very open-ended, and that means we got a lot of actors doing a lot of different things in very different parts of the country.

So, when I think about how much juice we're getting for our squeeze, I think there are some ways that we could get some more juice for our squeeze. And I'm certainly not opposed to the idea or the potential of driving capital to needy places. The ironic thing to me about opportunity zones is it's actually a somewhat shallow subsidy, despite how expensive it is and how much attention it gets. I mean, you talk to developers all across the country, and they'll tell you, it doesn't make a bad project good. It makes a good project better. This is the phrase you will hear over and over again. And what that says is unlike the low-income housing tax credit or the new market tax credit it's not really making projects happen that wouldn't happen otherwise, at least not at all to the same degree.

And so, I'm actually open to a new OZ 2.0 that is actually a bigger subsidy, a deeper subsidy, but actually accomplishes social goals. The paradigm of opportunity zones is money for communities equals good. And you can imagine in the neighborhood, it doesn't have a grocery store, that it doesn't have a gas station, it doesn't have a Walmart, that investment equals good. But those communities aren't getting OZ money. And so, the kind of communities that are getting OZ money, money doesn't equal good. Money for affordable housing equals good, money for investments and small businesses owned by people of color equals good. But money, period, doesn't equal good. So there are several specific ways that we can see small businesses able to get investment, that we can limit it to housing that has some affordability constraints. That we can, I agree with the comments from Martin earlier, we can broaden who is able to invest. And, most fundamentally, or Annie's point, we can really target and allow mission-driven funds to be able to make use of the incentive.

MR. RUBIN: And Reid, I'm curious to how you see investor interest change over time, from what people were looking at and thinking about this program as it first rolled out in 2017 to 2018, to kind of how it's viewed by investors now.

MR. THOMAS: Yeah, thanks for having me here. It's been very interesting. You know, our company was founded on this idea that there's these well intended initiatives that get created, and sometimes they fail to achieve the good they're intending to do. And it's funny, Brett mentions 1031 exchange and EB-5 because that's kind of where we grew up with these initiatives. And this narrative starts to form that the program is failing to achieve its goals. And so that's kind of what this whole discussion is about.

Yet from the onset, we've seen investors with tremendous interest in making a positive impact. We've run -- as what's said, we run administration services for fund managers. Another part of our business is we deal with private clients and high net worth investors. And from the onset, we've seen both sides of that, folks trying to raise capital, doing well-intended things, trying to make a difference. We've seen investors from the onset wanting to make a -- wanting to make a positive impact. We -- about 30 percent, about a third of the investors that we see rate the impact element of this initiative as the primary driver for their investment. And the rest is sort of split between "hell, I want to get a tax break" or "I want to get a positive return on my investment." So really, it's at least as equally important to investors as all the other elements, and I think that gets missed a lot.

On the fun side, the program was criticized early on because of the amount of real estate activity that was going on and the lack of operating business activity that was going on. And knowing Mike Novogradac's working group, there's been a lot of good suggestions on how to improve the elements of the operating business, make it better for investors or easier for investors. But the truth is we've seen projects form at a rapid rate. The number of operating business-related projects out there or funds that are out there is now in our view. And we have a sample size of about 300 or 400 opportunity zones, because we have well over a 100 hundred an hour clients of ours. So I think its representative of general trends.

About 50 percent of the funds out there have an operating business element to them. But we haven’t seen capital yet flow in that direction. So we are seeing the motivation on the side of investors and funds to actually do the things that are consistent with the intent of the initiative.

MR. RUBIN: In the big picture, the opportunity zones have always been, I think Brett said, it's very flexible, open ended, by right kind of program where you get -- you do check a couple of boxes and you get a tax break. And I think some of the questions we're getting from the audience and some of the criticism that's coming with it is that it's not necessarily helping people in the zones in sort of what -- trying to think about things that are more prescriptive. And you have incentives that are, you know, it tends to go up if you have more operating businesses or benefits for residents or any of that. So I'm curious if anyone has thoughts on how -- whether some of does ideas about trying to require more, incentivize more to get more prescriptive, and how to balance that with the open-ended nature, which I think is what attracts the capital -- at least in part of the (inaudible). Whoever who wants to start on that is fine.

MR. THOMAS: Well, I can go. I think from -- I can start. From a basic perspective, the changes that were trying to make here through this initiative are going to take a generation to make. I mean, this is not something like, I just had the utility service upgrade in my house, it took me over a year to get that done. David was talking about the first event he went to was in May of 2019. We're talking about making changes in these communities and we're what, a year or a year and half in realistically. So it starts to me with measuring impact and measuring the little things that are going on along the way. And we can talk about it later, but I want to have -- get the other panelists an opportunity to answer your question. But there's many things that could be done that aren't overly cumbersome that can be measured and proven along the way to show that we're on the right track Because at the end of the day, this program's going to be judged by the good it was -- those kinds of metrics. So measurement is key.

MR. NOVOGRADAC: And I would like to say that I totally agree with looking at the incentive and finding ways to design both regulatory and statutory changes to make it even better. But I also think that so much of the view of opportunity zones is based on anecdotes. And I really, my step one would be we got to get reporting in place. Either treasury has to look at the statute and say "we're supposed to come up with a certification process. As part of the certification process, we're going to mandate collection. Our Congress just has to pass a rule, pass the law. The law originally had reporting in it, and because of the (inaudible) the burden rule and the rest, it got pulled out.

We need data, so one of the frustrating parts about opportunity zones for me is you can look at the geographic investment data and look at it as bad or good. You can look at the investor data and look if it's bad or good. And critics at either side can look at it and see positives, but we need -- we need more data and not competing and battling anecdotes.

MS. DONOVAN: I'd like to just weigh in with what our experience is and I think in the industry in community development, community investment industry, people were excited about this initially. Because any new resources that can come to our community, we want to have that investment come our way. And I think we were all open to maybe we've missed something here in terms of this type of investor who, you know, there's a big open field here, and maybe we've missed something about what their motivations are and what they'd be willing to do and how that might impact our communities.

But I think what happened along the way is that there was the type of investor who was coming to the table, did not connect with the motivations of the people in my practice. So they may have said "of course, who's not going to say I want to do good in the world?" And I happen to think that a third of people coming with that motivation maybe is not a good -- a good indication of success. And then I think the investors who were coming to the table had networks, and they have -- whatever their networks are, that connect them to money and to investment, not the networks that connected them to communities. So communities didn’t know how to connect back in, and their normal intermediaries like a LISC or an enterprise or other CDFIs couldn’t find the -- couldn’t find the eye of the needle to put the thread to.

And so it turns out that this universe of investors is very small, and I love Martin's idea of let's democratize this. Let's democratize the tax benefit, so it's not just tied to capital gains. Because that is too -- that turns out to be too narrow a window with investors who were too narrowly motivated. And a product that -- the only way you make money on this is if you have a capital gain, and that means there has to be an upside, right? And a lot of what we do is try to financially engineer in a situation to get capital to places where there's not an upside, where the market doesn’t go because the risk-reward doesn’t work out. So how do you fill that gap? And this turns out to not be a gap filler, and that's why I think it doesn’t get at what's really needed if we're going to move the needle for people in places that Tim Scott was talking about that really need it. You don't see it. And the other problem with it is the mechanism is clunky, so you have to have a 10-year investment. You have to invest your capital gains within 180 days because all these timing constraints. And so, you don't have the luxury -- those of us who do the deals at the ground level know that they take time. They're hard. They're long. They're heroic journeys. They shouldn't be, but they are. And it's really hard to do a multi-asset fund as a result. So, you have to tie, you know, each deal to an investor. And, you know, I think that impacts scale and access for the communities that we're working and in the work we're trying to do.

MR. RUBIN: Yeah, it's like very flexible but also in some ways inflexible because of some of those deadlines. Brett, would you want to jump in on this?

MR. THEODOS: Just quickly at the project level and then at the neighborhood level I think the challenge is. The project level what we heard is, you know, a lot of mission projects or impact projects might be able to give an 8 percent or a 10 or a 12 percent rate of return. But what investors are often seeking that we're hearing as they go to market is they want 15, 16, 17 percent return. And those are just a fundamental misalignment.

So, someone ironically when we see opportunities on finance projects actually being impact or mission projects, it's only because they're leveraging other subsidies. It's when they're drawing in law in some housing tax credits or market tax credits or state subsidies. And so –

MS. DONOVAN: Or if may I add, Brett, some investors who for whom that's not their hurdle rate. So, investors who are coming into this, you know, there's -- I talked to an investor just this past week, it's a hospital system. And they are a social investor and they have capital gains. And so, they're going to do the right thing with this. And they're going to do the deeply-affordable stuff that is beneficial to the community because they're mission-driven. And so, that's the eye of the needle, but there aren't that many actors like that out there. Sorry, Brett.

MR. RUBIN: Right.

MR. THEODOS: No, absolutely. When we're talking about moving the capital off the sidelines, like, we're talking about how do we motivate the profit-motivated investors, right? We already have a lot of tools that are helpful for the mission-minded investors, but how do we get the profit-minded investors off the sidelines?

And when I think about what success is, I think about it at community level. And in some ways unfortunately it's not that special to be a zone. There's 8,700-plus zones. So, why would you put your money in West Virginia when you can go to Brooklyn or Oakland or Manhattan next to Central Park. You wouldn’t, or at least on average most people don't. And so, in an odd way, it is actually way too many zones because then there's not scarcity. There's not a need. When you're at a zone, you develop your prospectus and you say, "Hey look, I'm a zone." There aren't people that are really that necessarily interested simply because you're a zone.

And so, to really accomplish at a place-based level, the figure that I'll just throw out based on some research that I'm doing with big place, space development work is we need to be somewhere between $500 million and $1 billion per neighborhood in new subsidized investment for different places to really move the needle. And off projects, whether they be new markets or (inaudible) or whatever, they're just not going to accomplish neighborhood change. So, we need strategies that are actually going to be much bigger and much more concentrated in a community if we really want that community to be changing.

MR. RUBIN: A lot of the early talk about opportunity zones was about urban neighborhood, it was also about rural areas. And I feel I have not heard much at all about investing happening sort of like industrial parks in rural zones, or warehouse districts, or any sort of those kinds of, you know, big investments in non-urban areas. If any of you have any thoughts on that or ideas about what – are there other projects that I haven't seen or missing or like what's been happening in the less populated zone?

MR. THEODOS: This was sold as a program that would create jobs in the heartland. And what it's doing is creating real estate on the coasts and in hot markets. But the fundamental challenges with any got-to is the big return. The real benefit is a capital gain, right? You have to have appreciation. And if you're in a rural market, and some rural markets are doing well if you're at the ski resort or what have you. But if you're in a market where land values are declining because population is going down, it's very hard to have land value appreciation. And so, it's all the harder to get a gain. Plus deal sizes are smaller, so it's a lot more work.

So, there's lots of reasons apart from those (inaudible) that moving money to smaller in rural markets is hard. But it's also the fundamental nature of the incentive that it's tied to this appreciation. And if you don't expect a lot of appreciation in a rural market, then you're not going to see a lot of projects.

MR. RUBIN: I just want to say this kind of goes back to the need for data. And we definitely have, you know, a number of clients that are investing in rural sort of communities through the opportunity funds. But, you know, like I said, there's just not enough data out there right now. And we really need to get that data so we're not making policy choices based upon anecdotes.

MR. NOVOGRADAC: Yeah. I mean, we have clients, you know, and they're mentioned in the book, right? Are terrorists making investments in rural areas? Four-points funding is making investments in rural areas. Those are both clients of ours as an example. So, it's happening out there.

But anecdotally is what we seem to be talking about all of these other, maybe egregious, maybe not, scenarios. But at the end of the day, right, it's about tracking and measuring the impact of these things. There are great projects doing great things in urban areas that are creating jobs. And why aren't we measuring and reporting on all the good things that this program is actually doing?

MR. THEODOS: And just underscoring, you know, the Trump administration made the decision to only keep the reporting on the tax form, which I think we can see was a strategic mistake, but one where they really didn't want to raise any barriers for investors to have to disclose in a way.

But just to underscore the point that Michael made earlier, the Biden administration right now could make a certification process that has reporting as part of it, and we could actually know the answers to a lot of the questions that we're asking.

MR. RUBIN: This is an audience question and it's sort of a somewhat a technical tax thing, but it's interesting to me. You know, different states have done different things about whether their state income tax allows the same opportunities on benefits on top of the federal benefits or not. And so I'm curious if -- the question was basically, has that moved the needle on private investment? Have we seen more investment in states where there's -- you know, from investors in states where there's conformity and less where there's not?

MR. THEODOS: And I would just say the answer, generally speaking, is yes. Those with conformity will get more investment. But there's also even beyond conformity. Ohio created a tax credit for investment in opportunity zones, which actually from, you know, a policymaker perspective had a dual benefit in that A, it did attract more equity capital to Ohio from opportunity funds. But also as part of claiming a tax credit, you needed to do reporting. So, there's actually a lot of good analysis. And Economic Innovation Group has done a great job of analyzing the data that's publicly available from Ohio to show, you know, where the investment is going, what the typical investment level is for a given investor and the rest. I encourage folks looking at that.

MR. RUBIN: On removing and adding zones, I'm curious -- I mean, Michael had mentioned that, maybe someone else said to. Like, how particularly as we get more 2020 census data, time changes, things change, investment happens, how should -- I guess Congress would have to do it. But like how should Congress think about whether and how many zones to add or, as Brett was talking about, to shrink so that you can really focus the investment in particular areas?

MS. DONOVAN: I think the proposal that was put out there to -- I think the one thing you could start with is just lopping off the contiguous zones. And I think the idea there was theoretically, you know, maybe not a bad idea, but in practice is not working. So, I mean, that's an obvious place to start.

MR. THEODOS: I definitely agree with that. I think there's 100, 200 zones, you would look at and say, "No, they're not the spirit of the opportunity and incentive." And, you know, the law allowed governors to select, and the governor's -- I think many governors, looking at some of the zones they pick, they themselves like a do-over. So, I think having that 100 to 200 zones that are contiguous tracks or otherwise above a certain median income would make sense to give the governor's a do-over.

MR. RUBIN: Yeah, and just to explain that contiguous zone things, and someone correct me if I'm wrong, basically there are median or income requirements for opportunity zones, but then governors can also select some that weren't too high income, but were next door basically. And some of those are where the egregious, if you want to call them that anecdotes and examples, have come from.

MR. NOVOGRADAC: Going back to the, you know, point that I think, you know, the open-ended investment that David mentioned like this probably if we thought of them like more of an interest reduction in the same way (inaudible) probably there’s like many like egregious examples of subsidizing this home. Why is this -- you know, some of this is probably like (inaudible) journalism and the thing and some of the like of that. But I’m curious about just the way this program has started to seep in the public consciousness, what makes it similar or different and how it’s thought about from -- you know, from something like (inaudible). Even something like the new markets credit which is in some ways sort of less -- you know, it’s been around for a while, so it’s less known and less sort of (inaudible). How is this sort entered the public consciousness and how has that shaped it?

MR. THEODOS: And I’m curious enters that -- think about this because I, myself, look at it and think, you know, the 10-year score is roughly a couple billion dollars, which is a lot of money, but by Washington D.C. standard it’s not a lot of money. And, you know, when we look at the other incentives, it’s dwarf. And then maybe over 20 years, it may be $4 or $6 billion. So, it’s not over a 20-year period a huge amount of money, but it definitely, you know, has been a lightning rod, in many ways good because it’s drawing a lot of attention to all these distressed areas. But definitely it seems relatively to the cost and extreme amount of attention.

MS. DONOVAN: I think the problem is in the cloak, you know. So, this is cloaked in we are going to get this to distressed places and finally resurrect them. And that's not what's happening here. And if you -- if as a society we want to create more opportunity in economic growth in these places, then let's not count this as money we're spending toward that impact. Let's count toward the impact it actually is having and not say that this is deep community development.

MR. THEODOS: I think there also -- I agree with that. I think there also is disillusioning process. Community development finance field tried to figure this out and tried to make it work and largely has failed to succeed. I think they were very sincere at the beginning and thinking that this was going to present a new tool that they can use, and largely it hasn't.

So, you know, I don't think we can divorce it from Trump and his local backing for that. It think this may get more controversial than it would have been otherwise. But I think fundamentally, we know that ethanol subsidies or "ethanol subsidies," you know, we know that the MID is just the way they get back money to wealthy people. And it really is -- this represents something more than it's accomplishing. I think it's the fundamental (inaudible).

MR. THOMAS: Well, I think it speaks just the issues of our time and maybe political divisiveness in the country and all of those things. I mean, it's fascinating to me to see how quickly to sort of negative narrative on this initiative emerge when really what we're talking about is something that is going to take a generation to have the impact. So, you know, and you measured one year in to something that might take 25 or 50 years to really affect and to say this thing isn't working, we repeal it. Honestly, I think it's not fair and crazy.

There's a generation coming up behind folks my age that is really, really passionate about impact investing, right? And we need to be thinking about it in those kinds of terms. And looking today at actual facts, not anecdotes, and saying what we are actually seeing and how can we tweak this to make it work.

I don't understand why there isn't the patience for that in this kind of incentive, honestly. It's fascinating.

MR. WESSEL: Reid, are you saying that like the U.S. with media and politicians and (inaudible)?

MR. THOMAS: (Laughter).

MR. WESSEL: I'm stunned, stunned. (inaudible) audience question -- and keep it coming in because we got some excellent -- basically this -- look there is no secret to have approved this that if you look at (inaudible) the history sort of says do require yearly benefits, affordable housing, minority women vendor set aside, the (inaudible) programs. What's the -- you know, which what I think direct -- attempt to direct benefit to the people who help the zones qualify as opposed to zone themselves. How feasible is that both -- you know, politically, we can talk about that and then also programmatically, what are the sort of co-investor and community interest would be in a program that were -- that would be more prescriptive and more detailed and more requirement along those mentioned than what we have now.

MS. DONOVAN: Well, I think that if you go back to the premise which David pulls out in his book of, you know, what the theory of change here was that if you had -- the part of the problem is that every time you add on those layers or those requirements, you're making it harder and harder and harder, you're narrowing down the window. And that's what was purported that investors -- if they don't have to deal with all that, then their money is going to flow.

So, I think there's a conflict there. And I wonder if the investors -- well, I think we can look at other. There are lots of other programs that are out there that are targeted to those outcomes and we don't see these set of investors showing up for that. So, what makes us think they -- you know, we would get a different result if we shifted this.

MR. THOMAS: I think there's a good point in there, right? It's always trying to find the balance between the -- you know, how much complexity can we add the initiative to make sure it's doing the things it's doing without preventing the flow of capital.

And I think that that's the tricky part of this. You know, when we started looking into this, we became -- because of our experience in EB-5 actually, we're convinced that we're going to have to figure out how to do --

MR. RUBIN: Explain -- just explain what EB-5 is.

MR. THOMAS: Oh, I'm sorry, yes. It's a foreign investor program where foreign investors invest into initiatives that are intended to create jobs and targeted employment areas. And in an exchange for that, there's an immigration benefit at the end.

So, the issue with that is similar, right? There's all this perception about rich people getting richer and getting all of these benefits, but is it really having a positive impact on the community? And that program suffers from a massive amount of complexity and reporting.

So, when we approach opportunity zones, you know, what we did was we really look at how can you measure impact in a way that's not a burden to fund managers. And interestingly, there are lots of ways to do that, right? If you're involved in the flow of capital, and how capital is moving and what is being invested in, there are all kinds of algorithms and technologies, we've developed some, that can calculate these things. And these are technologies that are used by government to determine the benefits of different programs.

So, you can actually do it in a pretty straight forward way. And all of our clients are doing that. We've bundled that in to the solution set. But how do you take it to the next level and start to tweak it in and enhance it without adding too much complexity.

MR. THEODOS: I would just add that these are the debates Congress are going to have about the future of this program. And I think it really will depend on the constitution of that Congress in terms of what foreman takes. Because you know the industry is not interested in stopping at 2026, right? You know, there's a benefit that's been created. People have now figured out how to use and they are using it. And so, they've already been legislations introduced that says add extra time.

So, I think, you know, it doesn't work to critique the "we've run of time," line of reasoning because people are saying we need more. We already know that this works and we need more time as well.

And so, I think it's really going to come down to Congress deciding how much -- you know, just this tension -- how scripted to be, how much we're going to say we are going to make sure that we get social benefit out of that. But I worry a little bit that we're still trying to control something that doesn't formally work in the sense that if we say we want affordable housing or we say we want this or we want that, you know, the way the incentive works is that it works via appreciation. So, if we don't anticipate use cases that result in lots of appreciation, we can add all these extra requirements on what it is going to produce, and it's just not going to work because the investor incentives are not aligned with the community desires of use cases.

So, we really have to more fundamentally change the incentive and the benefit, I think, if we're going to get some of those use cases we want to see.

MS. DONOVAN: And I would just add, if I could have a billion dollars in tax money and put that to use as credit enhancement to substitute the equity investment that minority owned businesses, women-owned businesses for example, and distressed census tracks. Give us a billion dollars, we will use it to substitute for friends and family in early-stage investment, I'd much rather do that. And I think that that would have greater social benefit.

MR. NOVOGRADAC: I guess I would just -- I might do think there are use cases that do work quite well. I mean Martin's SoLa Impact is an example of that and it terms of some of the next steps, I definitely would -- as opposed to waiting on Congress and what legislation may or may not pass, I do think that there's a regulatory role during this sort of interim where they could come out, require reporting, also open up a dialogue for self-certifications in terms what types of requires and such. It makes sense to put on opportunity funds, at the same time change the regulations to encourage more investment in operating businesses in the zones, more investment in the form of rental housing. And that would be a great effort that can be done in a regulatory basis while we worry -- while we debate what could or couldn't be done from a congressional perspective.

MR. RUBIN: Some of you will allude to that there's multiple overlapping federal incentives and programs here, spending side programs that's market credit. There's the low-income housing credit, there's the opportunity zones. There's state and city level programs. I want to start with Michael (inaudible) of what others think is -- getting Michael up and, you know, help people kind of package multiple benefits together so that -- to help turn projects -- maybe turn projects that are instead of good to better to turn them from not doable to doable. So I'll engage your thoughts on that both multiple overlapping incentives, but then also if others have thoughts on whether that's just too confusing and there needs to be some sort of streamlining where you got the federal government pushing you in four different directions all at once here.

MR. NOVOGRADAC: I mean in terms of that confusion, because we get that a lot in terms of, you know, these are too confusing, et cetera. I always think everything is confusing until you know how to do it, and after you've done it a lot of times, it's not confusing anymore. I've always thought tax reform for individuals, just don’t change the law for 10 years and then you'll learn what the rules are, it's all the changing rules that cause all the complexities. So I look at the existing sort of incentives and they are complex outside looking in. But if you were to come to me and say the idea with zoning regulations of a local government, that's really complex. So I almost feel like the complexity is a bit of a bad rep. That being said, I do think finding ways to streamline, there's never -- you'll always want to find ways to make items less complex. But I don’t think it's too complex and there's lots of examples where folks have gotten very good at dealing with that complexity, to find the rules, what works or doesn’t work. Just like when you're signing the papers on your home loan, they're really complex but everyone does a lot, so it doesn’t seem quite so complex.

MR. THEODOS: I would just say that Congress has different issue areas and committees that people sit on and it can be very -- everybody wants their own thing, and so I just -- I don’t see any streamlining potential in any near way -- near term way. And also we basically decided stimulus aside, we don’t want to spend money to improve communities. By actually spending money, we want to use the tax code. And so a lot of the social good that we tried to do, not just the communities but in general, now is through the tax code. And so that just makes things a lot more convoluted and that's just where we're at, and I think everybody realizes that that’s going to be the game in town still.

MR. RUBIN: As we get closer to the end here, I'm curious if there -- besides what Martin has like in Los Angeles, are there places that you're watching, places that are for whatever reason or back pattern or arguing as well or taking this initiative that we all had some issues with intervention in our -- actually kind of directing it in a way that it's either intended or were sold. And where should people who are looking to counter some of those anecdotes, where should (inaudible)?

MR. THOMAS: What we're seeing I think, its stuff happening everywhere, really. Initially when the initiative started, we saw in sort of the major real estate markets, gradually we've seen activity migrate to all parts of the -- all parts of the country. And we're seeing very -- a very diverse set of investment opportunities out there. So there's investment opportunities in women-owned businesses that is an opportunity zone fund as an example, right? I mentioned some of the other ones really in Erie, Pennsylvania, or in a Saddleback Mountain kind of examples. But we're also seeing sort of this idea of impact first becoming a trend, where funds that you might not think of as being impact oriented, really highlighting the elements of what they're doing, the number of jobs creating. They're tying their real estate projects to, say, health centers or wellness centers, these kinds of things.

We're seeing this behavior going on and I think what could be done, right, is to really -- just an idea that I saw in the book and might need -- probably needs a lot more thought, right? It's this idea of adjusting the incentive based on some degree of good that it's actually doing. Because there's this natural perception out there in the part of many investors that if it's an impact investment, I have to trade off return. And I don't think that that's entirely fair. So I think some kind of maybe a way to mitigate that, like tearing the incentive or something, is a good idea but needs to be thought through.

MR. THEODOS: In terms of where I would leave it, I'd say we could either target the incentive more to the very neediest places and/or we could target it via institutions that are trusted mediators and represent community interest, like CDFIs or CDC. Or state HFAs do that for LIHTC or what have you. Or we could target it to use cases that are really the most valuable and productive, affordable housing, or minority small business or what have you. So there's really three levers that we can push to try to make this program more of what we want it to be. Whether that's by needy communities or trusted intermediaries, or needy use cases. But really, this program is very open across all of those three dimensions. So really, personally I'm open to any one of those being the point at which we can do a better job, but at least one, preferably two of them is where I would push.

MR. NOVOGRADAC: And I would just say engaging in this sort of discussion, and kudos to the Brookings institution for having this session today, because I think more of this discussion is what's needed, so we can look at the incentives and make it and approve it. And more dialogue I think would be better, and more action from the regulators would be useful.

MR. RUBIN: Annie, any last thoughts before we bring David back in?

MS. DONOVAN: I would just say I hope that Reid has a lot of success, and I hope that you bring those investors and you cultivate them, so they come along the impact investment spectrum more toward products and investments that are going to really impact the people who need it most.

MR. THOMAS: Thank you for that, yeah. And I think that the challenge is how do you get the awareness out of these great investment opportunities out there more broadly? So thank you, I think there's a tremendous opportunity here.

MR. RUBIN: Great, well thanks to Michael and Brett and Reid and Annie for a really fun discussion. And David, we'll send it back to you.

MR. WESSEL: Thanks very much. I want to say that I really think I accomplished the two goals I set for this morning's conversation. One is obviously to convince you all to buy and read my book. But the second is to provide an opportunity to have some serious conversation about a place-based policy like opportunity zones that I have my views, but I welcome the views of other people as to how it might be replaced or tweaked. And so I think we've accomplished that.

Two points in response to what was said, one is I was glad that people who talked about operating business, I do think that Sean Parker when he thought this up thought more about money going to operating businesses and less towards real estate. I don't think it worked that way initially. I think we'll be interested to see if there's more operating business stuff going on there. Some people tell me it's just not well designed for that and other people see great potential particularly if you can marry a real estate investment with an opportunity -- with a business, operating business in the same location.

I 100 percent agree that we need more data and I really look forward to the day when we have enough data that some serious scholars can look at all this data and come up with some significant research that tells us whether this program worked as intended or not. I do want to defend anecdotes though for two ways. One is like or not, policy is often made by anecdote. And secondly, in lieu of data, anecdotes can help shed some light on that. But I agree that this is early days and I got it early, something that will take years to develop.

But mostly, I want to thank all of the panelists today who participated and my colleagues at Brookings, Megan Warring and Stephanie, who have helped organize this. We've learned that you can do really interesting things virtually and I think this is an example. We have people from far away as L.A. and as close as a few blocks from Washington headquarters of Brookings participating in the conversation. But I do want to think people who ask questions and if we didn't get to them, send me an email and if I can, I'll respond or I can refer you to someone who does.

Again, the book is *Only The Rich Can Play: How Washington Works in the New Gilded*

Age. And we'll post this video on our website so you can watch it over and over and over again, and get something new out of it each time. And finally, Annie, thanks for reminding me about the brothel owner in Reno -- outside of Reno, that's a great detail and if you read the book, you can find out what that's all about. So have a good day.

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