

**Designing the Next Generation of Place-Based Policies to
Address Concentrated Poverty at the Neighborhood Level**

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Economic Disparity and Fairness in Growth
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Good afternoon, members of the committee, and thank you for the opportunity to offer testimony as you reflect on the impact of more than fifty years of federal place-based policy and investigate how to refine this important tool for future use. My name is Tracy Hadden Loh, and I am a Fellow with the Bass Center for Transformative Placemaking at Brookings Metro. I'm here today to share insights gleaned from our work at the Center to create new knowledge, policies, investment strategies, practices, and tools to build more great places that work for more people.

Most Americans aren't poor. And the national poverty rate has fallen from over 20 percent in 1959 to under 12 percent today.¹ So why is this committee meeting?

Because American poverty has not gone away – it has just become more segregated.

Even as the national poverty rate has remained stable or even declined, the number of people living in neighborhoods with extremely high poverty rates has more than doubled in the last two decades.² In other words, we have a serious and proliferating problem of poor places – and research has found that these places produce worse outcomes for their residents in terms of

¹ <https://www.census.gov/content/dam/Census/library/visualizations/2021/demo/p60-273/Figure8.pdf>

² Kneebone, E. & Holmes, N. (2016) *U.S. concentrated poverty in the wake of the Great Recession*. Brookings Institution. <https://www.brookings.edu/research/u-s-concentrated-poverty-in-the-wake-of-the-great-recession/>

lifetime earnings, health, odds of incarceration, and more – even for residents who are not poor themselves.³

So what are we doing about this? Education and homeownership are longstanding pillars of federal policy promoting economic mobility.⁴ However, disinvestment in places can lead to vast inequities in who benefits from these policies, while limiting access to goods and services, basic amenities, and employment—all of which are vital to people’s ability to lead healthy and productive lives.

Recognizing this fact, federal leaders have in recent decades implemented several programs specifically targeted toward communities with high rates of poverty and unemployment and other characteristics of “need.” But these programs themselves have had limited success in fostering opportunity and mobility, in large part because they have not generally applied the right tools to the right locations with the right local partners. More broadly, most place-based programs have not centered on advancing local ownership, empowerment, and wealth creation.

A brief history of place-based policy⁵

Federal place-based policy has significantly evolved over the past half century. In the wake of the Civil Rights movement, a collaborative, bottom-up approach to urban policy emerged as a means of counteracting concentrated poverty, giving rise in the 1970s to the Community Development Block Grant (CDBG) program, the Community Reinvestment Act, and other initiatives targeted toward funneling public and private dollars into low income areas.⁶ But in the decades that followed, federal policymakers came to view community building as a more holistic enterprise, recognizing that investment in physical redevelopment at the neighborhood level had to be accompanied by services and supports designed to grow jobs, businesses, and organizational capacity in low-income areas.

³ Chetty, R. & Hendren, N. *The Impacts of Neighborhoods on Intergenerational Mobility I: Childhood Exposure Effects*. National Bureau of Economic Research, Dec. 2016. <https://ideas.repec.org/p/nbr/nberwo/23001.html>.

⁴ Carasso, A. Reynolds, G. & Steuerle, C. E. (2008, February 3). *How Much Does the Federal Government Spend to Promote Economic Mobility and for Whom?*. Urban Institute. <https://www.urban.org/research/publication/how-much-does-federal-government-spend-promote-economic-mobility-and-whom>

⁵ The following two sections of this testimony were originally published in Vey, J., Loh, T.H. & E. Hopkins (2020). *A new place-based federal initiative for empowering local real estate ownership*. Brookings Institution. <https://www.brookings.edu/research/a-new-place-based-federal-initiative-for-empowering-local-real-estate-ownership/>

⁶ For a highly readable, short historic review, see Turner, M. A. (2017). *History of Place-Based Interventions*. The US Partnership on Mobility from Poverty. <https://www.mobilitypartnership.org/publications/history-place-based-interventions>

Table 1: Comparing various Federal approaches to place-based policy for neighborhoods

Name	Agency	Total Cost	Timeframe	Reach	Purpose
Community Development Block Grants (CDBG)	HUD	\$37.2 billion in grants as of 2015 ⁷	1974 - present	National	Benefit low- and moderate-income communities with aging built environments and limited economic opportunities
Community Reinvestment Act (CRA)	FRB, FDIC, OCC	Absorbed by agencies	1977 - present	> 3,600 LMI tracts	Restore access to capital to historically redlined communities
Enterprise Communities Empowerment Zones (EC/EZ)	HUD	\$1.784 billion in grant incentives (1993 - 2009) ⁸	1994 - 2016	40 EZs, 95 ECs	Increase job opportunities in structurally disadvantaged communities
New Markets Tax Credit (NMTC)	Treasury	\$57.5 billion as of 2019 ⁹	2000 - present	Low-income communities as defined by statute	Provide capital to qualified community development entities
StrikeForce Initiative	USDA	\$23.5 billion as of 2016 (existing USDA programs) ¹⁰	2010 - 2017	970 counties in 25 states + Puerto Rico	Combat rural poverty
Promise Zones (PZ)	13 federal partners	No additional costs to partners	2014 - present	22 zones	Increase economic activity, improve education, reduce crime, enhance public health, and address local priorities
Opportunity Zones (OZ)	Treasury, IRS	\$11.2 billion ¹¹ (forecast over full life of program)	2018 - present	8,764 Census tracts across all states & territories	Spur economic growth and job creation in low-income communities

⁷ Tach, L., Cooperstock, A. C., Dodini, S., & Parker, E. (2019). *The Place-Based Turn in Federal Policymaking, 1990-2015*. Population Association of America. <http://paa2019.populationassociation.org/uploads/192108>

⁸ Congressional Research Service. (2011, February). *Empowerment Zones, Enterprise Communities, and Renewal Communities: Comparative Overview and Analysis*. https://www.everycrsreport.com/files/20110214_R41639_b18ae5bf0f93505d7b6c2b13b744b76124b9ed.pdf

⁹ Congressional Research Service. (2019, June). *New Markets Tax Credit: An Introduction*. <https://fas.org/sgp/crs/misc/RL34402.pdf>

¹⁰ United States Department of Agriculture. (2016, January). *StrikeForce Initiative for Rural Growth and Opportunity*. <https://www.usda.gov/sites/default/files/documents/strikeforce-rural-growth-opportunity.pdf>

¹¹ The Council of Economic Advisers. (2020, August). *The Impact of Opportunity Zones: An Initial Assessment*. <https://trumpwhitehouse.archives.gov/wp-content/uploads/2020/08/The-Impact-of-Opportunity-Zones-An-Initial-Assessment.pdf>

To this end, in the early 1990s, HUD, together with USDA, pioneered the Empowerment Zone/Enterprise Community (EZ/EC) program, a set of initiatives primarily designed to move businesses to and increase job opportunities in communities with high unemployment and poverty rates. The program—which provided varying levels of grant funds and tax credits¹²—was succeeded years later by the Obama administration’s more expansive urban policy agenda, which aimed to carefully review federal place-based policy efforts and institutionalize initiatives designed to better integrate and maximize impact across federal agencies in areas ranging from housing to education to criminal justice.¹³ However, with no congressional support to appropriate funds, Obama-era programs like StrikeForce and Promise Zones were essentially limited to technical assistance and capacity building in a very small number of pilot locations, such that their far-reaching goals for inclusive growth were never fully realized.¹⁴

Today, federal place-based policy touches the lives of millions of Americans. The New Markets Tax Credit (NMTC) program, created in 2000 to provide capital to qualified entities in low-income communities to be used for a variety of purposes, is likely the single most impactful place-based policy in U.S. history and continues to provide billions of dollars to businesses and projects in low-income communities.¹⁵ Likewise, the CDBG program directs billions in block grants each year to low- and moderate-income communities and place-based organizations. Most recently, the 2017 Tax Cuts and Jobs Act established Opportunity Zones, a Treasury-administered program that forgives capital gains tax obligations in exchange for patient capital invested in designated low-income Census tracts.

A three-part critique of place-based policy design

While billions of dollars have been spent on federal place-based programs over the decades, their success in improving the economic and social well-being of community residents has been mixed at best. This is in part because such programs are implemented within a larger context of both market challenges and federal, state, and local policy structures that they aren’t—and in most cases can’t possibly be given their limited scope and funding—designed to remedy. But it’s also true that many of these programs themselves have missed the mark because they aren’t targeted at the right challenges (the “what”) in the right places (the “where”) in partnerships with the right local actors (the “who”).

¹² Neumark, D., & Simpson, H. (2014). *Place-based policies*. National Bureau of Economic Research Working Paper 20049. Accessed online at https://www.nber.org/system/files/working_papers/w20049/w20049.pdf.

¹³ *Urban Policy Working Group*. Obama White House Archives. <https://obamawhitehouse.archives.gov/administration/eop/oua/initiatives/working-groups>

¹⁴ Stoker, R.P. & Rich, M. J. (2020). Obama’s Urban Legacy: The Limits of Braiding and Local Policy Coordination. *Urban Affairs Review*, 56 (6), 1607-1629. <https://doi.org/10.1177/1078087419849490>

¹⁵ <https://www.urban.org/nmtc>

In the first place, the mechanism of intervention (the “what”) is often not appropriately connected to the challenges facing structurally disadvantaged communities. The stated purpose of most place-based federal programs has generally been to drive business growth, job creation, and investment in low-income communities (defined under varying criteria, as noted below). But there are several flaws often inherent in the actual program design that undermine achievement of these outcomes in a way that actually improves economic opportunity and mobility.

First, few if any place-based programs have been structured to meet these objectives by supporting local business ownership and growth, and instead have focused primarily on attracting investment from outside the community. The stated purpose of the Opportunity Zone program, for example, “is to spur economic growth and job creation in low-income communities while providing tax benefits to investors.” But OZs are explicitly designed to target low-income communities with outside capital, without any mechanism to commit this capital to increasing wages, creating new job opportunities for residents, or offering entry points for residents to ownership of properties or businesses. Hence, we see OZ funds being leveraged in some cases for extremely marginal land uses such as self-storage facilities and data centers. Similarly, although the primary purpose of the NMTC program is to encourage economic development in particular geographic areas, parking construction is an eligible project activity, and its incentives do not target local ownership.¹⁶

Further, sometimes the tools themselves are misaligned, rendering them ineffective toward meeting their intended goals. For example, the EZ/EC program utilized block grants in combination with a package of tax incentives targeted toward business and job growth. But uptake (and thus impact) of these incentives was limited because not all of the incentives were used by local businesses, many of which had limited tax liability.¹⁷ Moreover, using foregone tax revenue as the primary funding mechanism, as with NMTCs and OZs, means that the market must provide the cash up front and bear all the risk. This encourages investments to go towards strong projects that might have attracted private investment anyway, absent the taxpayer subsidy, and leaves socially-beneficial projects still struggling to access capital.¹⁸

¹⁶ Forbes, J. (2005). Using Economic Development Programs As Tools For Urban Revitalization: A Comparison Of Empowerment Zones And New Markets Tax Credits. *University of Illinois Law Review*, 2006 (1), 177-203. <https://illinoislawreview.org/wp-content/ilr-content/articles/2006/1/Forbes.pdf>

¹⁷ United States General Accounting Office. (2004, March). *Federal Revitalization Programs Are Being Implemented, but Data on the Use of Tax Benefits Are Limited*. GAO-04-306. <https://www.gao.gov/new.items/d04306.pdf>

¹⁸ Theodos, B., Hangen, E., González, J., & Meixell B. (2020, June 17) *An Early Assessment of Opportunity Zones for Equitable Development Projects*. Urban Institute. <https://www.urban.org/research/publication/early-assessment-opportunity-zones-equitable-development-projects>

Second, past place-based policies have often targeted the wrong places (the “where”) either by being too expansive and diffusing impact, or by over-weighting political priorities in their map. In order to maximize the impact of a policy in relation to its intention, the right intervention must be connected to the right places. However, this can be undermined by eligibility criteria for program participation. Some place-based policies establish criteria that is too broad and poorly targeted. For example, places eligible for NMTCs contain roughly 40 percent of the U.S. population (though credits are awarded competitively); CDBG is even more expansive in its coverage.¹⁹ Other place-based economic development programs have narrowly centered on very low-income communities that face high and multiple market obstacles to business and job growth, rather than on “middle neighborhoods” where federal intervention could be a key stabilizing force.²⁰ For example, the EZ/EC program included many areas whose markets were generally so weak that grant funding failed to catalyze substantial long-term investment. These same communities often had businesses that were simply not well-positioned to leverage program tax incentives.

Moreover, eligibility criteria itself can create loopholes that enable the influence of political motivations and undercut stated program objectives, as happened with Opportunity Zones. Thus, there are designated OZs that do not have any resident population, and OZ funds facilitating development in remote areas like the Arctic Circle.²¹

Finally, many federal programs have either not prioritized community leadership and expertise (the “who”) or haven’t invested in building it. Without high capacity local partners in implementation, program targets may not know about, trust, or be in position to take advantage of program tools. A key takeaway of the Obama administration’s place-based policy efforts, including Promise Zones and the Strong Cities, Strong Communities, the Sustainable Communities, and the Neighborhood Revitalization initiatives was the need to build capacity at the local level.²² And evaluations of the EZ/EC program have found that the strength of local operating organizations was a defining factor in whether or not a designated zone achieved

¹⁹ Kim, J., & Loh, T. H. (2020, September 22). *How we define ‘need’ for place-based policy reveals where poverty and race intersect*. Brookings Institution. <https://www.brookings.edu/research/how-we-define-need-for-place-based-policy-reveals-where-poverty-and-race-intersect/>; *CDBG Entitlement Program Eligibility Requirements*. Department of Housing and Urban Development. <https://www.hudexchange.info/programs/cdbg-entitlement/cdbg-entitlement-program-eligibility-requirements/>

²⁰ Mallach, A. (2018, November). *America’s Middle Neighborhoods: Setting the Stage for Revival*. Lincoln Institute of Land Policy Working Paper. https://www.lincolninst.edu/sites/default/files/pubfiles/mallach_wp18am2.pdf

²¹ Authors’ analysis of [designated Qualified Opportunity Zones](#). For more on designated Opportunity Zones, see <https://www.enterprisecommunity.org/opportunity360/opportunity-zone-eligibility-tool>.

²² Pendall, R. & Hendey, L. (2016, October). *Revitalizing Neighborhoods: The Federal Role*. Urban Institute. http://www.urban.org/sites/default/files/publication/85236/revitalizing-neighborhoods-the-federal-role_0.pdf; *Strong Cities, Strong Communities*. Urban Institute. <https://www.urban.org/policy-centers/research-action-lab/projects/strong-cities-strong-communities>; *Urban Update: Sustainable Communities*. Obama White House Archives. <https://obamawhitehouse.archives.gov/blog/2010/07/09/urban-update-sustainable-communities>

program goals.²³ Indeed, one of the reasons NMTCs have achieved longevity is because they are deployed through certified community development entities, generally high-capacity organizations that are required to have a primary mission of serving low-income communities.²⁴

On the flip side, Qualified Opportunity Funds (QOFs), which are simply tax entities, administer Opportunity Zones. These entities may have no local connection to a particular OZ beyond the investment—and thus have no obligation to invest in projects that existing residents can take ownership in or even want.²⁵ This may be fine if the program objective were to maximize investor returns—but not when the intended objective is to provide widespread community benefit.

The next generation of place-based policy

I urge this committee to take the accumulated lessons of over a half-century of place-based policy to recommend more targeted, next-generation approaches characterized by greater precision to the “what,” “where,” and “who” of place-based policy. When confronting the challenges of concentrated poverty, place-based policies are still uniquely logical, appropriate, and promising as interventions. The federal government can revitalize struggling neighborhoods and advance economic justice and mobility—but to get different outcomes, we’ll need to design these policies differently.²⁶

- ***Get the “what” right***

- Provide a mix of sources of capital. Rather than relying solely on foregone tax revenue, consider direct seed funding in the form of revolving loan funds, an evergreen way to get working equity into places that struggle to access capital.
- Clearly identify the intended resident benefit of the program, and the mechanism to achieve it. Waiting or wishing for impacts to ‘trickle down’ is a recipe for failure.
- Do not rely a one-size-fits-all solution. Concentrated poverty in urban and rural areas require different approaches. And in urban areas, neighborhoods with the same poverty rates face different combinations of challenges (for example, one may be medically underserved and have a high percentage of uninsured

²³ Rich, M. J., & Stoker, R. P. (2014). *Collaborative Governance for Urban Revitalization*. Ithaca, NY: Cornell University Press.

²⁴ *CDE Certification*. Community Development Financial Institutions Fund. <https://www.cdfifund.gov/programs-training/certification/cde/Pages/default.aspx>

²⁵ *Opportunity Zones Frequently Asked Questions*. The Internal Revenue Service. <https://www.irs.gov/credits-deductions/opportunity-zones-frequently-asked-questions#qof>

²⁶ Recent additional valuable critical reflection on the assumptions of place-based policy from Brett Theodos is available. <https://www.urban.org/research/publication/examining-assumptions-behind-place-based-programs>

children; another may have high commercial vacancy rates and proximity to a toxic release site). No one program can address all challenges, so allowing state and local organizations to coordinate targeting and implementation across programs enables them to create their own customized solutions.

- **Get the “where” right**

- The federal role is to set specific criteria to identify eligible places where a program will be deployed. These criteria should not be strictly deficit-based, i.e. focusing on great need such as low median income, but should also consider assets that can be catalysts or scaffolds for positive change, such as income *density*, and don’t leave the whole burden on the federal program alone.
- These criteria should be consciously chosen with the understanding that a broad universe of eligibility means that funding will flow to the strongest places and leave many eligible places with no investment, while a very narrow universe is exclusive and risks either not helping enough places or limiting impact by pouring resources into very high-need places with limited capacity for absorption. Each place-based policy has a ‘Goldilocks’ level of targeting that can be approximated through thoughtful design.
- There is also a necessary state/local role in place prioritization, because federal criteria are not a substitute for local data/knowledge about where the greatest potential for impact is, and because federal programs can be most impactful when they compliment, reinforce, or help implement existing state and/or local efforts.

- **Get the “who” right**

- Development without displacement is possible, and takes place through inclusive coalitions of local public, private, and nonprofit sector actors. As we imagine and observe how this works in practice, observers, funders, and practitioners should take the time to carefully differentiate between genuine disorder and our own discomfort with complexity. What may seem like fragmentation, duplication, or overlap can be necessary messiness, not inefficiency.
- Federal place-based policies can and should include specific set-asides to invest in the capacity of these local actors. Capacity development is an extremely well-understood concept in the international development policy space. Our own home country is worth the same kind of investment.

- A federal policy framework for place-based policies should include thoughtful guidelines for defining and assessing the capacity of local governance in addition to providing operating support. This will enable oversight of this spending and evaluation of any program that includes it.

Opportunity Zones are back in the news with the recent introduction of the *Opportunity Zones Transparency, Extension, and Improvement Act* last month.²⁷ This program has been tremendously impactful at unlocking billions in capital for investments in emerging markets – but with seriously insufficient structure to get the “what,” “where,” and “who” right, has fallen far short of the ostensible purpose of helping low-income communities. It’s funding new hotels in hot-market downtowns while zones in legacy cities are still waiting for their first deal. The proposed reforms to tighten targeting, pair OZ fund capital with flexible grants for local capacity through a State and Community Dynamism Fund, and increase reporting requirements to strengthen oversight are good and speak directly to the critique and call for action in my testimony today.

Place-based policy makes sense and actually works – that’s why there has been a tremendous amount of investment and innovation by states (like New York’s second phase reframing of Buffalo Billion²⁸), localities (like Great Streets Akron²⁹), and philanthropy (like Purpose-Built Communities³⁰) in place-based policies and programs. I laud this committee for taking the time to critically reflected on the practice of place-based policy and contemplate how to do even better going forward.

²⁷ <https://www.booker.senate.gov/news/press/booker-scott-kind-kelly-introduce-bipartisan-bicameral-bill-reforming-opportunity-zones>

²⁸ Quebral, L. (2022) *How Buffalo’s East Side Avenues is training citizen developers to revitalize commercial corridors*. The Brookings Institution. <https://www.brookings.edu/blog/the-avenue/2021/12/06/how-buffalos-east-side-avenues-is-training-citizen-developers-to-revitalize-commercial-corridors/>

²⁹ Hardy, J., Greer, M. and M. DiFiore. (2021) *How Akron, Ohio is expanding economic opportunity by investing in neighborhood business districts*. The Brookings Institution. <https://www.brookings.edu/blog/the-avenue/2021/04/01/how-akron-ohio-is-expanding-economic-opportunity-by-investing-in-neighborhood-business-districts/>

³⁰ Theodos, B. (2022) *Atlanta’s East Lake Initiative: A long-term impact evaluation of a comprehensive community initiative*. Urban Institute. <https://www.urban.org/research/publication/atlantas-east-lake-initiative>