

Opportunity Zones

Reality fails the hype
And costs Oregon millions

Groups endorsing HB 3039



○ Zones don't work

Academic and government studies consistently show place-based development programs fail to increase employment, raise wages, or advance general economic opportunity for targeted residents because they have not addressed the main causes of poverty.

—Heritage Foundation, 2019

○ Zones don't work

O Zones have balkanized American cities into winner and loser zones, while encouraging corruption and making the tax code more complex. O Zones are supposed to alleviate poverty, but the main beneficiaries are the landlords who own development sites within the politically chosen zones.

—Chris Edwards, Cato Institute, 2019

How Washington Works in the New Gilded Age

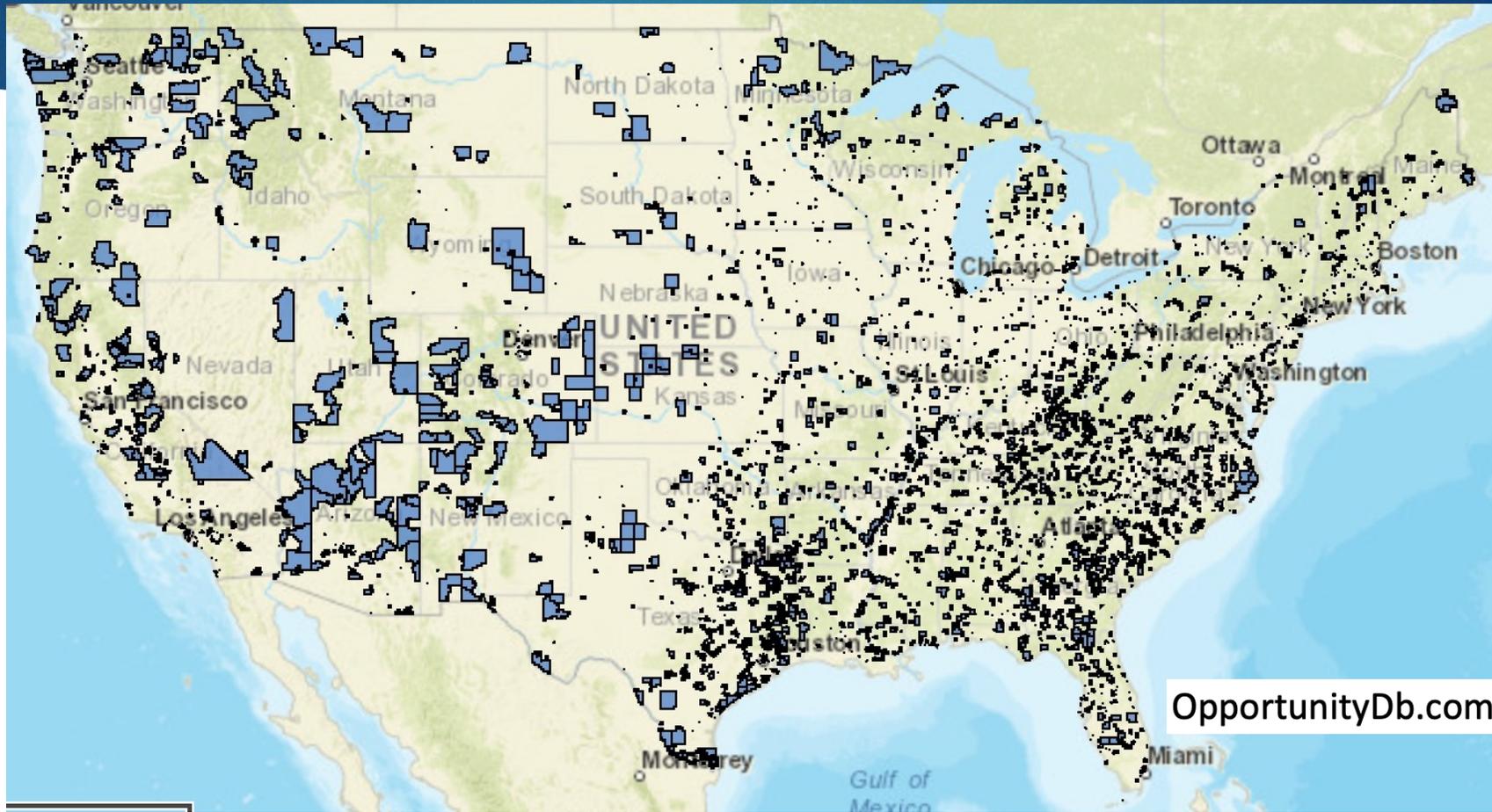
ONLY THE RICH CAN PLAY



DAVID WESSEL

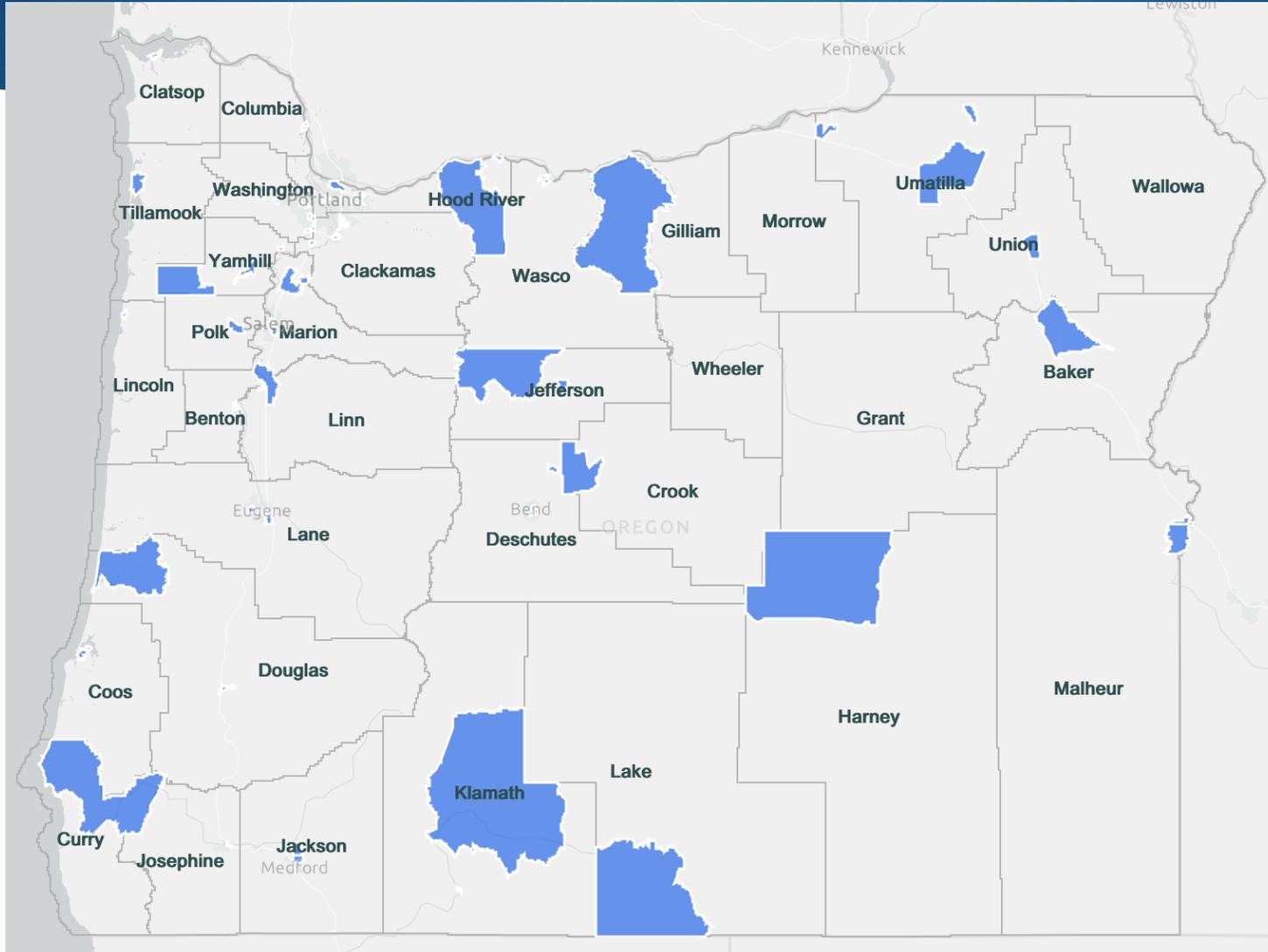
Author of *New York Times* bestseller *IN FED WE TRUST*

8700 Opportunity Zones



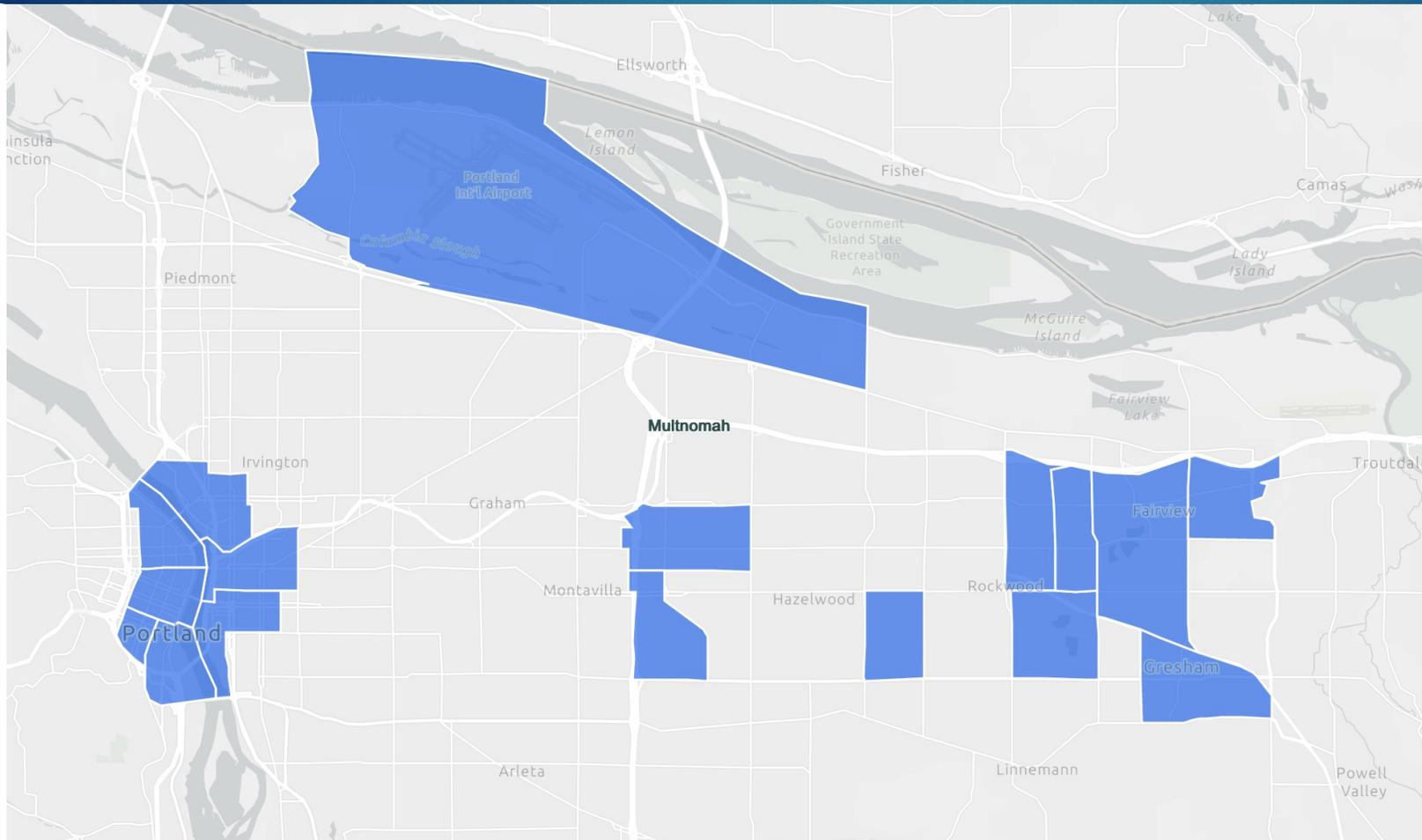
1% of tracts received 42% of investment. 5% of tracts: 78% of investment. 63% of tracts: nothing.*

86 Oregon O Zones



Multnomah	17
Washington	8
Clackamas	6
Lane	6
Marion	5
Deschutes	4

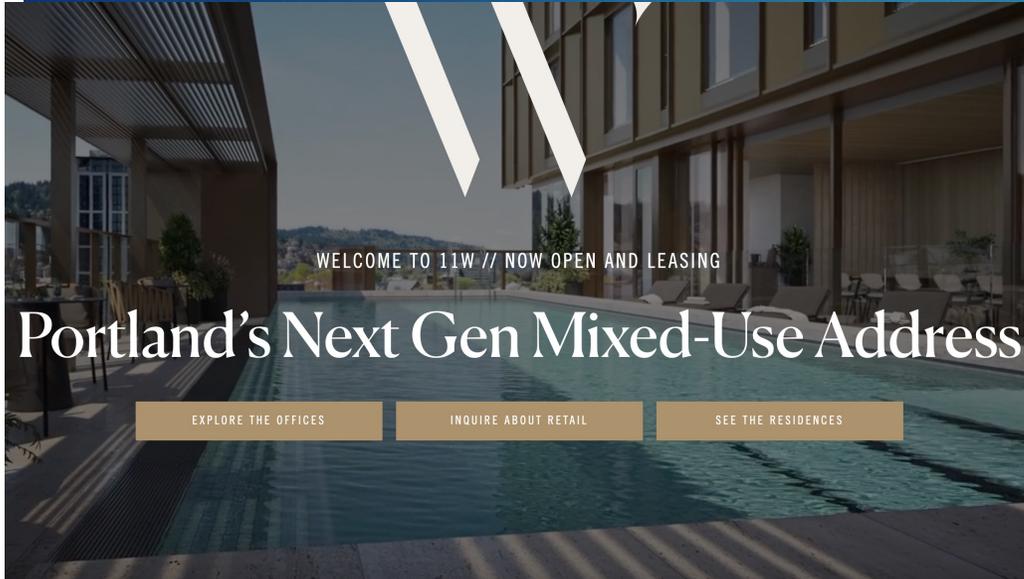
Multnomah O Zones



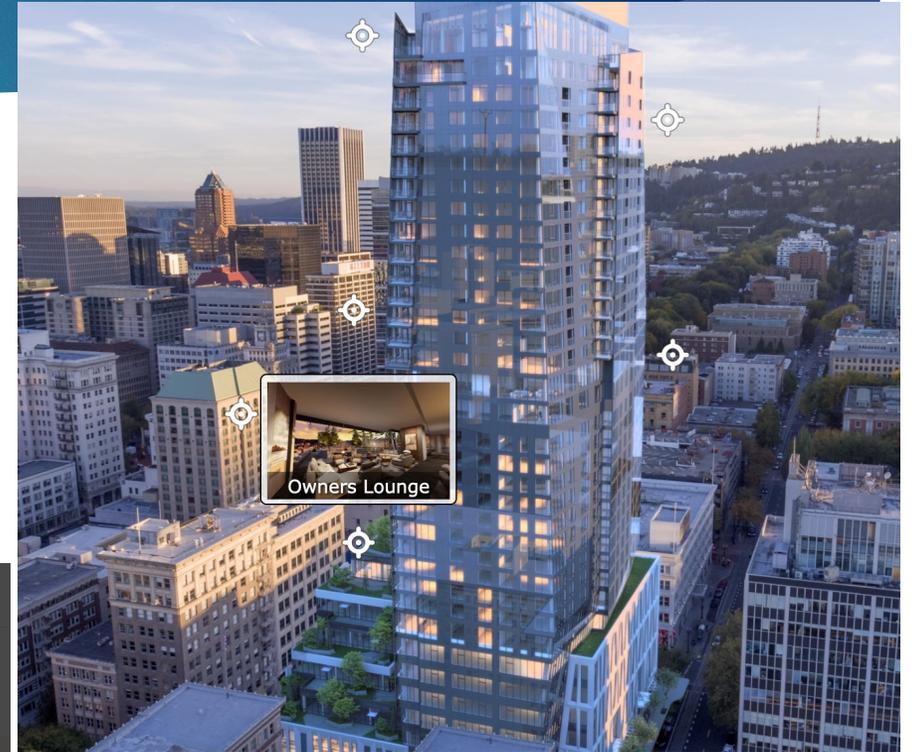
O Zones are “preferred against operating businesses, against smaller and rural projects, and against the types of mission-aligned projects that could deliver maximum community benefit.”

—Brett Thedos, Urban Institute

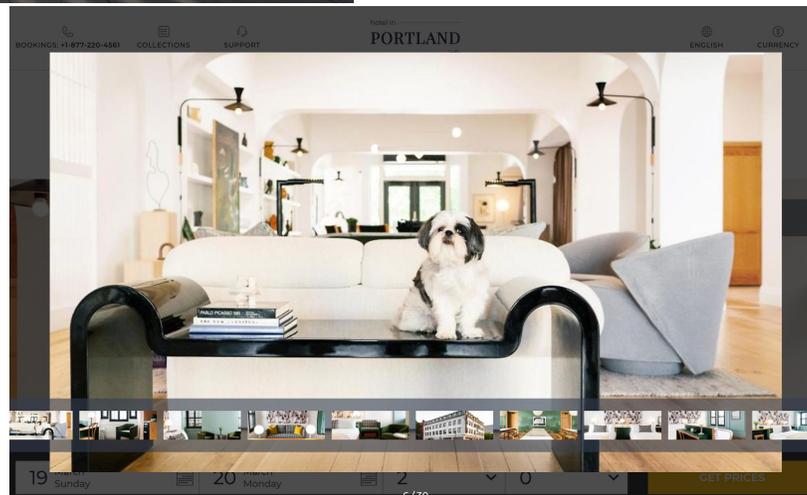
Portland O-funded buildings



Ritz-Carlton



▶ 11 West



Grand Stark Hotel

NW Natural

- ▶ *Here's a doozy: a new building conceived, financed and started before the Tax Cuts and Jobs Act was passed can qualify as . . . eligible for the OZ capital gains tax break—provided an OZ fund buys the building before it gets an official certificate of occupancy.*

▶ —David Wessel



Gresham



Gresham
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 COMMUNITY COLLEGE

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SBDC
 OREGON

wallace
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Dr. Ibolit
 Physical Therapy | Chiropractic | Massage



Kennedy-Wheeler 2019-20 data

- ▶ *First, OZ capital is highly spatially concentrated. Second, among OZ-designated neighborhoods, investors report greater equity and property investments in neighborhoods with relatively higher incomes, home values, educational attainment, and pre-existing income and population growth. Third, OZ investors have extremely high incomes relative to the US population, implying that the direct distributional incidence of the tax subsidy benefits households in the 99th percentile of the national income distribution.*

- ▶ *Neighborhood-Level Investment from the U.S. Opportunity Zone Program: Early Evidence (April 2022)*

Kennedy-Wheeler: top targets

B.4 Investment by Commuting Zone: Top 50 Commuting Zones

TABLE A.3: OZ INVESTMENT IN 50 TOP COMMUTING ZONES

CZ	Total \$ (mil)	\$ Per OZ Resident	\$ Per CZ Resident	CZ	Total \$ (mil)	\$ Per OZ Resident	\$ Per CZ Resident
New York, NY-NJ-PA	3,782	3,358	181	Stockton, CA	261	3,729	164
Los Angeles, CA	1,701	1,916	92	Boston, MA-NH	256	1,466	50
Phoenix, AZ	1,328	4,274	275	Cincinnati, OH-KY-IN	251	2,864	110
Salt Lake City, UT	1,325	15,416	542	Dallas, TX	230	1,129	30
Denver, CO	889	6,277	238	Richmond, VA	229	4,967	183
San Francisco, CA	816	4,140	143	San Jose, CA	218	2,512	82
Detroit, MI	786	4,666	158	Charlotte, NC-SC	211	1,969	82
Washington, DC-VA-MD-WV	759	3,146	110	Columbus, OH	194	2,100	90
Philadelphia, PA-NJ-DE-MD	734	2,142	111	Bakersfield, CA	187	1,063	126
Portland, OR-WA	703	6,271	295	Fresno, CA	183	906	92
Huntsville, AL	666	18,305	822	Las Vegas, NV	181	2,045	84
Nashville, TN	600	8,141	302	Chicago, IL-IN-WI	180	1,611	18
Miami, FL	571	1,748	86	Orlando, FL	172	1,253	58
Seattle, WA	570	2,593	118	Bridgeport, CT	157	1,291	44
Houston, TX	563	1,587	82	Omaha, NE-IA	155	3,599	161
Austin, TX	537	3,772	257	Raleigh, NC	143	1,143	67
Tampa, FL	469	5,815	158	San Antonio, TX	138	2,054	58
Atlanta, GA	419	2,817	73	Providence, RI-MA	136	2,292	84
Cleveland, OH	365	3,083	127	New Orleans, LA	131	3,321	92
Charleston, SC	360	5,390	460	Memphis, TN-MS-AR	121	1,389	83
Sacramento, CA	355	2,501	149	Greenville, SC	121	1,802	115
Baltimore, MD	343	2,569	118	Louisville, KY-IN	114	2,490	87
Indianapolis, IN	313	2,979	155	Tucson, AZ	111	1,077	97
St. Louis, MO-IL	311	5,611	108	Kansas City, MO-KS	107	1,152	50
Minneapolis, MN-WI	300	2,512	86	Birmingham, AL	101	2,388	94

At what cost?

Capital Gain from Opportunity Zones (federal code section 1400Z-2)

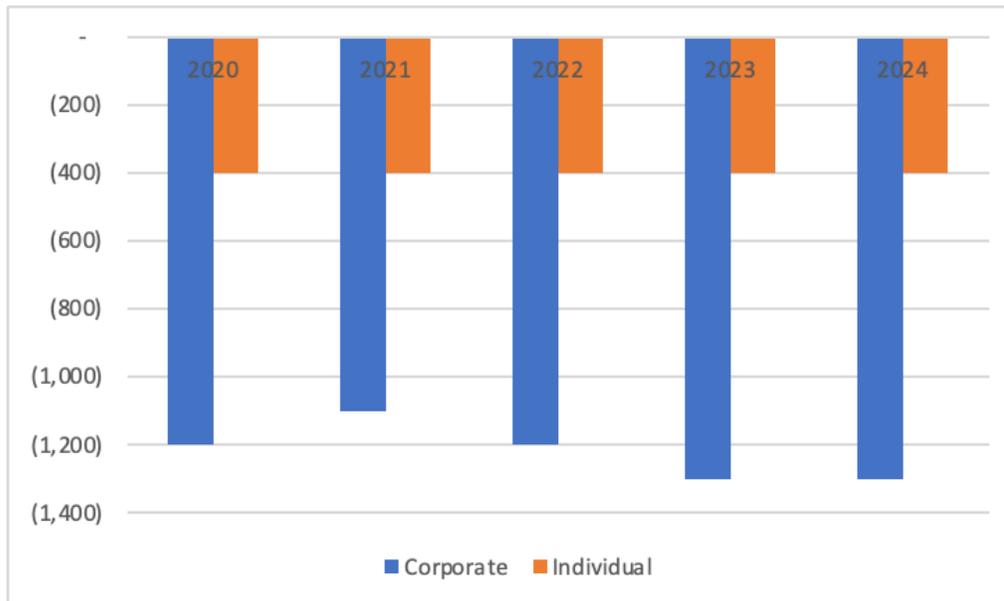
	Corporation	Personal	Total
2017-19 Revenue Impact:	\$7,000,000	\$3,500,000	\$10,500,000
2019-21 Revenue Impact:	\$10,800,000	\$5,100,000	\$15,900,000
	Corporation	Personal	Total
2019-21 Revenue Impact:	\$9,600,000	\$22,100,000	\$31,700,000
2021-23 Revenue Impact:	\$6,800,000	\$16,000,000	\$22,800,000
	Corporation	Personal	Total
2021-23 Revenue Impact:	\$4,000,000	\$28,000,000	\$32,000,000
2023-25 Revenue Impact:	\$3,000,000	\$20,000,000	\$23,000,000

Source: Oregon Tax Expenditure Reports: 2019, 2021, 2023

At what cost?

Joint Committee on Taxation
Federal expenditure estimates (\$ millions)

	November 2020					December 2022				
	2020	2021	2022	2023	2024	2022	2023	2024	2025	2026
Corporate	(1,200)	(1,100)	(1,200)	(1,300)	(1,300)	(1,000)	(1,000)	(1,000)	(1,000)	4,200
Individual	(400)	(400)	(400)	(400)	(400)	(4,400)	(4,600)	(4,700)	(4,700)	19,500
	█ (1,600)	█ (1,500)	█ (1,600)	█ (1,700)	█ (1,700)	█ (5,400)	█ (5,600)	█ (5,700)	█ (5,700)	█ 23,700



Sources: JCX-23-20, JCX-22-22

TFO estimate of HB 3039

	Revenue (loss) gain (\$ millions)					
	Corporate		Individual		Combined	
Fed FY (10/1-9/30)	FY22-25	FY26	FY22-25	FY26	FY22-25	FY26
JCT (loss)/gain	(4,000.0)	4,200.0	(18,400.0)	19,500.0	(22,400.0)	23,700.0
	Corporate rate - 21%		Capital gain rate - 20%		Revenue effect	
Federal income	(19,047.6)	20,000.0	(92,000.0)	97,500.0	(111,047.6)	117,500.0
	Oregon revenue effect					
Oregon income (1%)	(190.5)	200.0	(920.0)	975.0	(1,110.5)	1,175.0
Oregon tax (7.6%/9.9%)	(14.5)	15.2	(91.1)	96.5	(105.6)	111.7

The General Fund loses \$105.6 million in revenue 2022-2025; the loss reverses to a gain of \$111.7 in 2026 when investors pay deferred taxes. Oregon probably has lost \$25 million per year since tax year 2019.

Would 3039 harm Oregon investment?

- ▶ Oregon investors would be taxed on profits everywhere
- ▶ 99 of 100 projects are out of state
- ▶ Investment pools are national—they don't care about state income taxes
- ▶ Portland is cool. Investors base their decisions on 10-year returns, not a state's income tax
- ▶ Oregon taxpayers still get 23.8% off their federal taxes

Only the rich can play

What others testified in 2020

- ▶ **Rep. David Brock Smith:** “In my district, the major project is a \$65 million golf course” *Golf courses, and certain other businesses, are not eligible for O Zone tax benefits.*
- ▶ **Frank Bubenik, Mayor, Tualatin:** “The Opportunity Zone Program has provided national marketing appeal for Tualatin that has led to the creation of 100 jobs with an average salary of \$70,000, and investments of nearly \$10 million dollars.” *The bill wouldn’t affect national investors.*

What others testified in 2020

- ▶ **Coni Rathbone, O Fund manager, Dunn Carney:** “[The bill] could effectively kill the program in Oregon.” *99% of investment in Oregon projects likely is from non-residents who don’t pay Oregon taxes.*
- ▶ **Mike Stober, OBI:** “The legislation may actually encourage Oregon investors to invest in opportunity zones in other states.” *Oregon taxpayers are liable for income tax no matter where profits are made.*
- ▶ **Scott Hibbs, Standard Insurance Company:** “I believe that the disconnect will hinder the flow of capital to the small and rural opportunity zones.” *Virtually no capital has flowed to rural O Zones, in Oregon or elsewhere.*

What others testified in 2020

- ▶ **Kim Hedding, Golden Realty, Eugene:** “We need every tool in our tool chest in this current environment where we have a severe lack of housing, affordable housing and a homeless problem.” *O Zone financing has not gone to affordable housing.*
- ▶ **Ken Kruse, SCP Redmond Hotel:** ““I am proud to say that our project in Redmond—which would not have been feasible absent the OZ incentives—resulted in the investment of nearly \$12 million into reimagining, renovating and reopening a vintage 49-room hotel that had been closed for nearly two decades.” *Disconnection would not end federal tax breaks for a nice hotel.*