FINANCIAL SERVICES
INNOVATION COALITION

February 27, 2019

The Honorable Chuck Grassley
Chairman
US Senate Finance Committee
U.S. Senate
Washington, DC 20510

The Honorable Ron Wyden
Ranking Member
US Senate Finance Committee
U.S. Senate
Washington, DC 20510

Dear Chairman Grassley and Ranking Member Wyden:

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

OPPORTUNITY ZONES WILL WORSEN THE ALREADY INEQUITABLE DISTRIBUTION OF WEALTH

As currently constructed, this policy will increase gentrification and exacerbate the income disparity and the wealth gap. This program will by its very nature exclude minorities, women and those who do business in rural areas from the capital that will flood into the market as a result of these new tax incentives.

As you are aware, the facts are not promising for the ability of private investors to be inclusive when it comes to business and economic development.

- 80% of Venture Capital investments go to 4 states[1]
- Less than 1% of Venture Capital investments go to women and minorities[2]
- By 2040, half of the US population will live in 8 states[3];
- There is currently, several trillion dollars of capital sitting on the sidelines even though businesses and communities are starving for capital investments[4];

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

- Anecdotally, it has been reported that entrepreneurs are being told that deals as large as $40 million are too small for the types of the investments that will be made under this program.

From the historical prospective, wealth has consistently been dropping for all but the top 1% of Americans for the last 30 plus years. Black wealth for instance is roughly the same as it was in 1968 and is on a path to be zero by 2053[5].

After four decades of tax cuts and reliance on private sector innovation to spur growth and economic opportunity, all that has been accomplished is the accumulation of a $20 trillion national debt[6] just so the wealthy can keep more than their fair share of the national economic gains and hoard more wealth and capital.

Additionally, this has resulted in Walmart being the largest employer in 21 states and the largest employer in the remaining states are either state university systems or health care companies[7]. Clearly, a better approach is required to improve the economic efficiency of the US economy and we are sure Opportunity Zones as they currently exist are not it.

OTHER TAX CREDIT PROGRAMS HAVE NOT INCREASED ECONOMIC GROWTH OR OPPORTUNITY

One need only look at the New Markets Tax Credit to see the inefficacy of using private investment to promote economic inclusion and renewal. Under the NMTC program, large amounts (millions of dollars) are returned unused, while many deserving projects go completely unfunded because they are judged to be too small to fund by the massive financial institutions that control virtually all the investment capital. Additionally, many black and community banks are excluded from participating in the program again because their projects are judged to be too small to fund. We believe the Opportunity Zone program will be just as exclusive.

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

Just like the New Markets Tax Credit program, the Opportunity Zones program will likely favor the largest developers and investors who rarely fund "smaller" projects because they don't consider them profitable enough to approve. This creates a bias against local, minority and women owned firms. These firms may have sound ideas for a

[5] The Guardian: Median wealth of black Americans 'will fall to zero by 2053', warns new report
[6] MarketWatch: The U.S. is now over $20 trillion in debt — here's how it got there
[7] Business Insider: The biggest employer in every US state

development plan in an Opportunity Zone but aren't large enough to meet the investment gatekeeper's minimum standards for profitability to get funding and launch the project.

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

Here are some specific requirements that would ensure more equitable distribution of program benefits:

1. Diverse Boards and investment committees – Each fund must include racial, gender and community representation for each place it invests. It must be demonstrated that this board approved of the investment based on its economic benefits to a defined underserved aspect of the community.
2. Diverse Portfolio – each fund must be diversified geographically, population size and investment size. 40% of a portfolio should be made up of investments under $20 million or less, and should be in communities under 250k in population and have PE ratios under
3. Diverse investees – portfolios should have 50% of their investments in projects run by minorities and women.
4. Funds must dedicate a portion of the funds to local initiatives that are dedicated to providing home ownership/affordable housing to native residents.
5. 20% of Apartments or condos should be dedicated to rent controlled housing.
6. A more narrowly tailored approach for investing in small businesses.

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

Respectfully submitted,

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