ECONOMIC INNOVATION GROUP

March 9, 2018

Governor Edmund G. Brown
c/o State Capitol, Suite 1173
Sacramento, CA 95814

Dear Governor Brown:

The Opportunity Zones initiative, recently established by Congress in the *Tax Cuts and Jobs Act* and based on the bipartisan *Investing in Opportunity Act*, is an innovative new community development policy intended to provide significant incentives for equity capital investments in low-income neighborhoods across the country. Congress empowered governors to nominate Opportunity Zones in their states by using up to 25 percent of their Low Income Community census tracts. Designation could have transformative benefits for California communities that have largely missed out on the gains of the national economic recovery.

California undoubtedly has a challenging task at hand, with responsibility for nominating up to 879 census tracts for Opportunity Zone designation during a short timeframe of 90-120 days from the law's date of enactment. We commend you for sharing the state's preliminary census tract recommendations for public comment. Such transparency is critical for securing public support for the state's designations and for leveraging local knowledge of communities and markets. We hope that other states and territories will also subject their recommendations to public evaluation before final determinations are made.

However, many of California's preliminary census tract recommendations are deeply concerning because they would undermine the state's ability – and Congressional intent – to use the incentive to help truly disadvantaged communities. We strongly urge you to reconsider the methodology utilized by California's Department of Finance and ensure that a thoughtful real-world lens is used to put tract-level data into context before submitting final nominations to the U.S. Department of the Treasury.

The criteria described by the Department of Finance's request for public comment reflect good intentions: a focus on poverty, an emphasis on business opportunity and job creation, and a preference for geographic diversity. However, this process seemed to rely almost exclusively on data analytics without taking any sort of contextual, qualitative information into account. Data alone provides an incomplete, and occasionally misleading, evaluation of realities on the ground. In California's case, this could lead to the establishment of zones in communities that don't truly need the help.

California's data-only approach fell short in several particularly egregious places. For example, three of the state's recommended tracts – 5130 in Santa Clara County (covering Stanford University's campus in Palo Alto), 28.01 in San Diego County (covering San Diego State University's campus in College Heights), and 4237 in Berkeley, Alameda County – all have high poverty rates thanks to large student populations but are nevertheless parts of communities that clearly do not align with Congressional intent for Opportunity Zones. Similarly, San Francisco County's tract 178.01 (in the South of Market Area) combines a high poverty rate with some of the highest incomes in the state thanks to a recent influx of wealthy residents and business owners. Meanwhile, a recommended tract in Westwood (7011) is nearly entirely comprised of a Veteran's Administration medical campus and thus may contain no real opportunity for private investment in the first place. Such local contextual information is essential to take into account.

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These anomalies point to a larger question of whether California has designed its selection process to address the steep geographic divides that loom over the state's economy. Investors need no incentive to fund companies, commercial developments, or housing projects in privileged parts of California. Indeed, the state should carefully consider whether *any* census tracts in areas like downtown San Francisco and the Bay Area's tech corridors should be designated as Opportunity Zones when the Central Valley or Inland Empire have so much more need. If deployed wisely, Opportunity Zones could help the state grapple with inequality between its booming metropolitan hubs and much of the rest of the state while also encouraging the spread of growth and opportunity to communities *within* its major metropolitan areas where poverty remains intractable.

In light of these concerns, we respectfully urge you to direct your Department of Finance to replace the currently proposed census tract designations for public comment with a new list of tracts guided by a more holistic evaluation strategy that ensures a qualitative assessment is overlaid with the existing quantitative approach.

To allow adequate time for a new review and public comment, the state should request a 30-day extension of the March 21, 2018, deadline from the U.S. Department of the Treasury. This extra effort is particularly critical because, once zone designations are made, they last for ten years and cannot be altered.

The most successful zones will exhibit the right balance of community need and investment potential. We recommend that California take the following criteria into account in selecting a revised set of census tract designations:

1. The potential to advance social and economic inclusion;
2. The potential for an area to diversify its industrial base by cultivating new businesses and industries that promote durable community prosperity; and
3. The economic trajectory of a tract's broader community and region.

For example, our own analysis of Census Bureau data identifies 339 California zip codes in which the number of business establishments declined from 2011 to 2015, the latest year for which data is available. Prioritizing tracts in these zip codes, three-quarters of which are either "at risk" or "distressed" on our Distressed Communities Index, would be a good start.

California's designations will have a lasting impact on its communities and the success of this incentive in the state. Thank you for your consideration. We stand ready to assist you in making California's Opportunity Zones a national model for success.

Sincerely,

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