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Delivering Opportunity:

A diagnostic and strategy playbook to maximize Indiana's Opportunity Zones

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November 2020

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I. Executive Summary

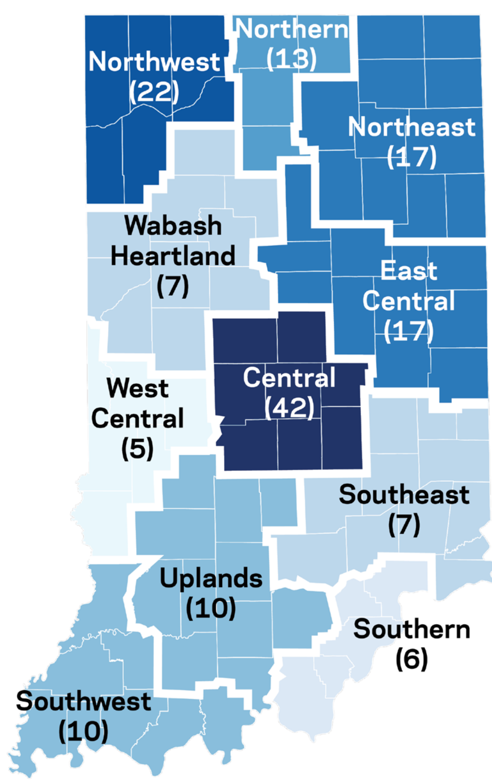
Opportunity Zones (OZs) are low-income census tracts in which certain new investments to stimulate economic activity are eligible for special federal tax incentives. They stem from a bipartisan policy enacted in late 2017 intended to bridge the country's growing geographic divides by rekindling market activity in disinvested neighborhoods. OZs represent one of the most ambitious and potentially far-reaching place-based economic policies in a generation.

Yet, given the potential scale of the opportunity, engagement across the state and particularly among the investor community could be significantly greater. To fully maximize what OZs can do for Indiana, the state must focus on addressing the two binding constraints on further expansion and maturation of the OZ marketplace identified through this research: raising more local capital for local investing and increasing the capacity of stakeholders to understand and deploy this new financing tool.

Mapping Opportunity Zones

Indiana is home to 156 designated OZs distributed throughout the state. More than half a million people, or 8 percent of the state's population, live in them.

Number of Opportunity Zones by Region



Even before COVID-19 struck, OZ communities were struggling with poverty rates nearly twice the statewide level, far more adults out of work, elevated housing vacancy rates, and lagging educational attainment. OZs also provide a window into economic and geographic inequalities across race that exist at the national level and in Indiana: 36 percent of OZ residents in the state are minorities, compared to 20.5 percent of Indiana's total population.

The public health crisis unleashed by the novel coronavirus has exposed deep inequities in physical well-being that correspond with those in economic well-being, too. The average life expectancy for the state's OZs is 73.3 years, compared to 78.6 nationwide.

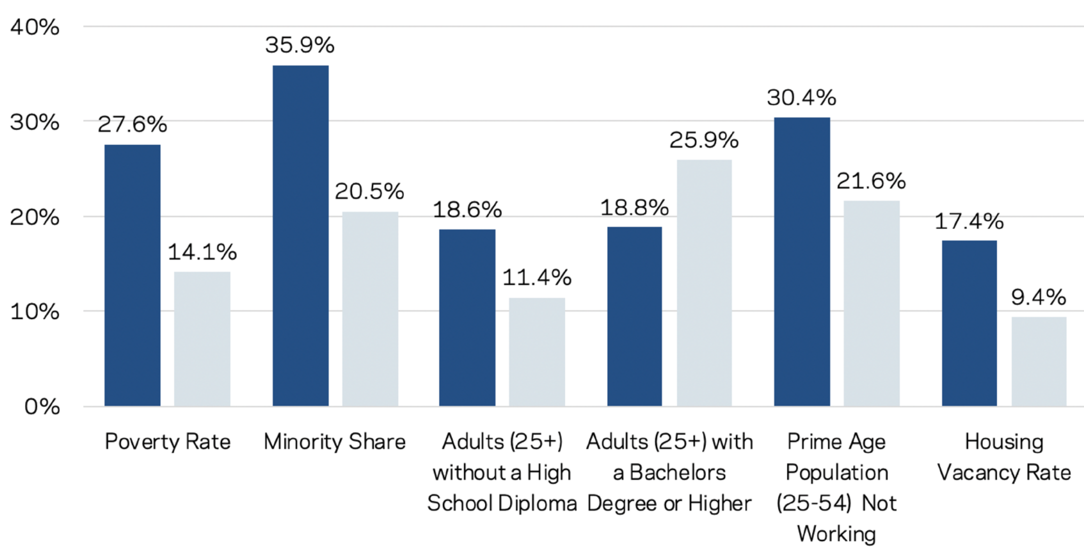
Nearly half of all OZs in the state can be considered mixed-use, with diverse investment opportunities.

Children in particular can suffer long-term consequences from living in socially and economically left-behind communities. Nine out of 10 OZ tracts (and 105,500 children living in them) are in areas with low or very low child opportunity scores, meaning they often lack quality early childhood education and schools, safe housing, access to healthy food, parks and playgrounds, and clean air.

To help ground the analysis and recommendations presented here, we created primary and secondary typologies for the state's OZs that can inform strategies or point towards investment opportunities.

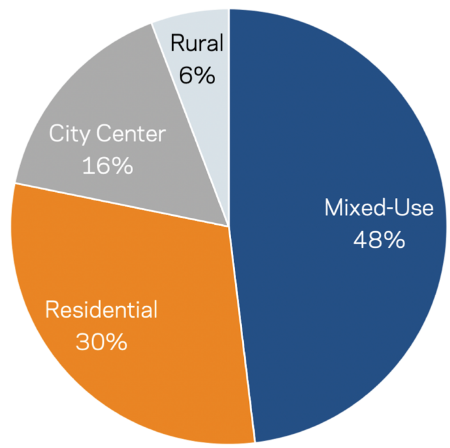
The four primary typology categories include: **mixed-use**, **city center**, **residential**, or **rural** based on the local land use composition. Nearly half of all OZs in the state can be considered mixed-use, with diverse investment opportunities.

Indiana's Opportunity Zones Compared to the State Overall



Source: EIG analysis of the U.S. Census Bureau's American Community Survey 5-Year Estimates, 2014-18

Primary Typology of Indiana's Opportunity Zones

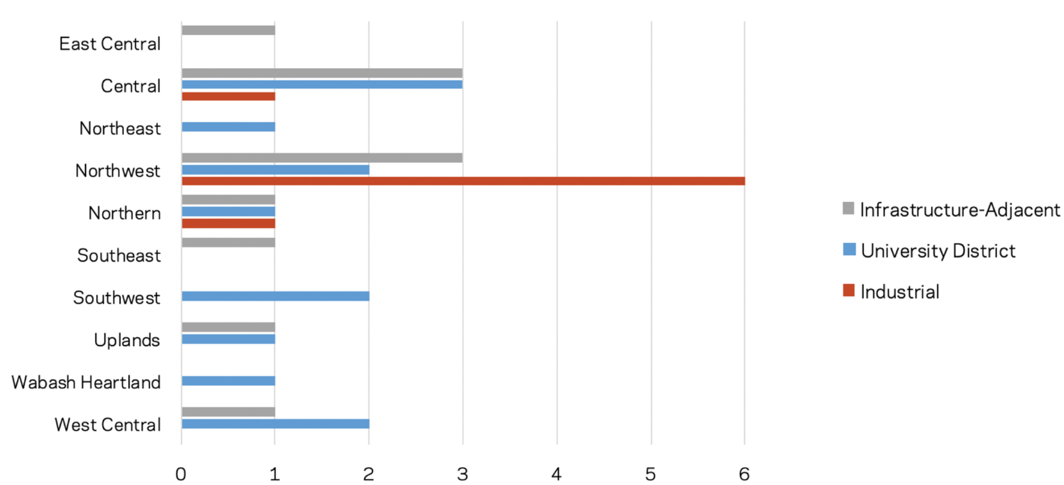


Source: EIG analysis of data provided by Indiana University-Purdue University Indianapolis

Secondary typologies are meant to differentiate beyond predominant land uses to capture areas that may present special investment opportunities or warrant specialized development strategies. They include:

- **University district:** Tracts that either contain or are immediately adjacent to major colleges and universities.
- **Industrial:** Tracts that contain sizable areas zoned for industrial use, large warehouses, and/or significant pieces of manufacturing infrastructure.
- **Infrastructure-adjacent:** Tracts that are near airports, railyards, or other significant transportation infrastructure, but tend to be zoned for relatively little industrial activity.

Number of Opportunity Zones with Secondary Typology



Source: EIG analysis of the U.S. Census Bureau's American Community Survey 5-Year Estimate, 2014-18

Needs and Opportunities

Four key issue areas emerged from numerous conversations with local stakeholders across Indiana as realms in which OZs are primely positioned to help the state further its goals. OZs can contribute directly to the state's efforts to:

- **Build a dynamic and resilient economy:** Entrepreneurs are a critical feedstock for the economy, as a steady stream of new companies maintains high levels of productivity, keeps markets competitive, and helps economies adapt to change. Yet Indiana ranks last nationally in terms of its share of jobs in new companies, and it ranks third for the share of all of its jobs in very old firms. That leaves the state's economy at risk from shocks and economic change.

  Indiana retains the building blocks of a vibrant entrepreneurial ecosystem in and around its OZs. Thirteen of the state's OZs are part of university districts, and at least seven business incubators and accelerators are located in OZs. Eight of the state's 20 Certified Tech Parks are also located in OZs, and another six in close proximity to one. 16 Tech in Indianapolis and Electric Works in Fort Wayne, two of the state's most significant efforts to combine innovation and entrepreneurship with physical redevelopment, are both located in OZs.

  OZ capital can add to the mix in multiple ways. An investor could help boost a new startup that is commercializing technology from one of Indiana's leading universities by taking a venture capital-style equity stake in the business, for example. Or OZ capital can be deployed financing the build-outs of innovation districts, providing startups with office space, or via direct investments into incubating growth companies. OZ financing can also aid in the expansion of existing businesses. It can be used to acquire new capital equipment, to build a new facility, or to hire and grow when certain conditions are met.

- **Create livable communities:** Vibrant, inviting communities are essential assets in the competition for talent and human capital. OZs can help enhance and create livable communities in a number of ways. For example, the incentive can be leveraged in large-scale **master-planned placemaking efforts** as one financing tool among many. OZs can dovetail into more organic placemaking efforts on much smaller scales, as well. Across the country, OZ capital is being used to **revitalize Main Street** storefronts, community spaces, and living. It is often being deployed for historic preservation or **adaptive reuse**.

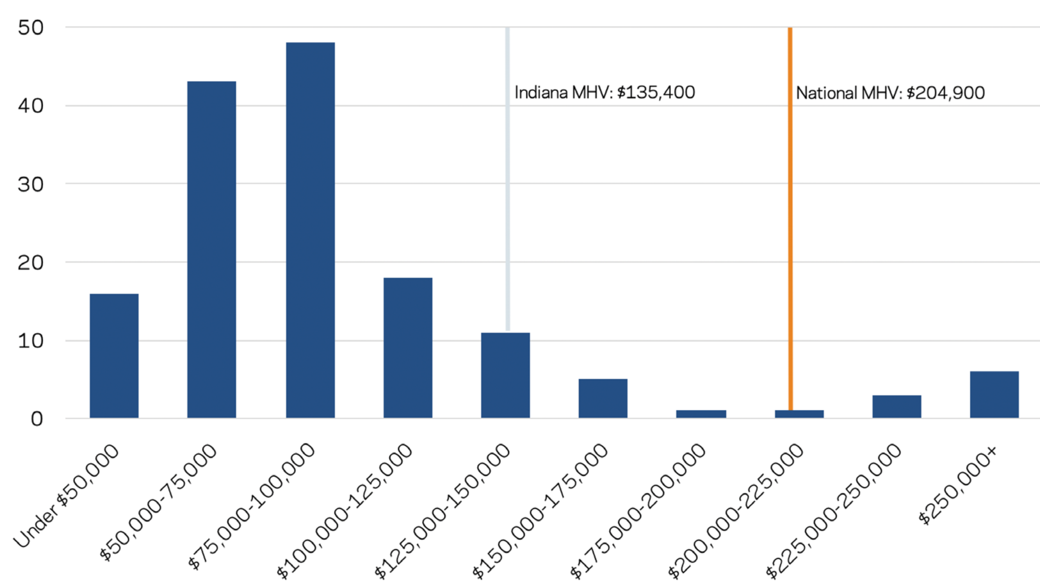
  In other circumstances, OZs can be an ally in reducing vacancies, removing blight, and remediating brownfields as well. Here the need in some regions is acute. The **housing vacancy** rate in the average Indiana Opportunity Zone is 17 percent, compared to 11 percent statewide and 8 percent nationally. As a state with a long industrial history, Indiana's OZs also contain nearly 500 **brownfield sites**—disutilized and contaminated parcels—that weigh heavily on their surrounding communities. Helpfully, federal regulations finalized in late 2019 enumerated several specific leverage points for local governments and public sector entities to use OZs to address vacancy and blight.

- **Improve resident health:** Livable communities that encourage walking and outdoor recreation are healthy communities, making this strategic priority closely related to the prior one. The quality of the built environment, open space, and safety all matter for improving baseline health in a community. Strong communities also foster better mental health—an urgent priority given that, across Indiana's urban OZs, nearly one in every five residents reported poor mental health even before the pandemic hit.

  Access to fresh, healthy foods is another cornerstone of a healthy community that is missing from too many OZs. Statewide, 53 OZs are considered food deserts by the U.S. Department of Agriculture. This means that residents of one-third of Indiana's OZs do not have access to a full-service grocery store within one mile in an urban area or 10 miles in a rural one. In the Central region, one-quarter of OZs are food deserts and in Northwest Indiana, fully half are.

- **Provide quality, affordable housing:** Housing is the cornerstone of individual economic well-being and critically important for economic development and talent attraction. Across Indiana's OZs, 51 percent of renting households are rent-burdened on average, seven percentage points higher than the rest of the state. On average, only 9 percent of housing structures in OZs have been built since 2000 compared to 16 percent statewide. The lack of newer structures contributes to the fact that fully two-thirds of the housing stock in Indiana's OZs was built prior to 1970. That statistic, combined with distressed home values, implies that a housing quality problem holds back the renewal of many of the state's OZs.

Number of Indiana Opportunity Zones in Each Median Housing Value Band



Source: EIG analysis of the U.S. Census Bureau's American Community Survey 5-Year Estimates, 2014-18

Strategies for delivering investment and impact

Indiana stepped out of the gates and quickly accumulated some of the most exciting OZ initiatives and developments in the country over the course of the policy's first two years.

These examples make clear that many members of Indiana's civic and business communities have risen to the entrepreneurial challenge presented by OZs and are determined to make this new economic development tool work for their communities. Despite the early promise, however, the investment map remains a patchwork. Too little locally-committed capital has been raised, especially relative to neighboring Ohio. Many potential stakeholders still know too little about this new policy tool to fully imagine how, where, and to what ends it can be applied. Others only know OZs as another tax incentive for real estate, unaware how late-breaking regulations ease the path for OZs to finance startups and economic development more broadly. Meanwhile, the unfamiliar market-based structure of OZs makes it hard for many key players in the traditional community development space to identify the best leverage points for shaping the market towards social impact.

To overcome these binding constraints on the market's growth and maximize the potential of the new federal OZ incentives for Indiana communities, the following strategies should be considered to unlock more capital and strengthen local capacity.

Strategies to strengthen local capacity

1. **Establish a statewide OZ coordinator:** The most community-aligned engagement from OZ investors is taking root in places where a person or organization is fully dedicated to cultivating a pipeline of high-impact deals and investor relationships. Places such as Alabama, Colorado, and Baltimore, MD, have at least one full-time employee serving as an OZ coordinator for the city or state, and they have created a long-term framework for directing resources to OZs and measuring impact. Philanthropy often supports these positions.

2. **Create a centralized online directory of essential OZ information:** One of the most powerful ways to foster an investable environment is to facilitate the flow of relevant information between state and local governments and OZ stakeholders. States such as Maryland, California, and New Jersey have established digital "one-stop shops" or centralized directories for OZ investors, communities, and potential investment recipients (startups, growth businesses, or project sponsors) containing information about the incentive, who may qualify for what, and complementary federal, state, and local resources. Many clearly articulate the state's own priorities for OZs, and some even contain databases of vacant and underutilized properties (some publicly-owned, some private) that are primely positioned for redevelopment.

3. **Enhance and align public resources to strengthen OZ communities and shape the market.** As state and local governments think through their own financial and programmatic commitment to OZs, they should review their policy tools in the following four realms and consider if and how they wish to align them with OZs in order to nudge the young marketplace toward particular ends:

    - Programs and incentives to support new and growing businesses
    - Startup accelerators, capacity building, and workforce training programs
    - Credit facilities
    - Programs or grants to monitor and measure impact

4. **Activate residents, businesses, and community stakeholders.** As demonstrated in Brookville, engaging the local investor base can be a powerful way to spark new energy and economic activity locally and unlock OZ investment for projects and businesses that strengthen the community. Beyond individuals and families, major employers, philanthropic institutions and similarly aligned community stakeholders with vested interests in the quality and livability of OZs can be activated in various ways, including via additional investment carrots, the creation of place-based Opportunity Funds, public-private partnerships, and tailored strategies to reach anchor institutions and philanthropy.

Looking ahead

Across the country, the places seeing the most robust and aligned investment activity in their OZs are ones that have jumped right in to facilitate a new local investment ecosystem into existence. Early returns show the importance of tending to all sides of the marketplace: building an investor base, cultivating a deal pipeline, engaging residents and communities, educating businesses eligible for investment, and building the capacity of local governments and liaisons.

There was no shortage of economic and community development priorities that needed financing before the pandemic. Need has only grown more acute since—especially in low-income communities. OZs add a potentially powerful new financing tool to the mix.

The GPS Project gives Hoosiers a hook to provide their OZ ambitions strategic focus. This long-term economic and community development tool can help finance the next generation of businesses that will secure the state's prosperity. OZ capital can be harnessed to reinvigorate Main Streets and build vibrant, inclusive places that make Indiana a magnet for talent. And by being a market-based tool that integrates seamlessly into local economies, OZs can be a catalyst for building wealth and restoring economic opportunity in parts of the state where both are sorely lacking.

II. Introduction

Over the course of a few weeks in early 2020, unemployment in Indiana crashed from record lows to record highs. The pandemic has side-swiped the longest economic expansion in memory, turning the world upside down. Longstanding economic assumptions seem to no longer apply. Everything has changed.

Well, not everything. Amid all the uncertainty, one thing is sure: communities that were struggling before the pandemic hit are least prepared to weather the economic fallout from COVID-19 and will be struggling even more once the pandemic passes.

Communities that were struggling before the pandemic hit are least prepared to weather the economic fallout from COVID-19.

The benefits of the decade-long economic expansion of the 2010s accrued unevenly across the population and the map, nationally and in Indiana. The state's prosperous zip codes enjoyed 15 percent employment growth over the four years to 2017, while distressed zip codes actually shed 3 percent of local jobs. Yawning income gaps persisted. The median household income in Carmel stood at $116,900; in Gary, $30,300, and in the Haughville neighborhood of Indianapolis, $26,900.

Of course, many local inequities have deep roots. EIG's **Neighborhood Poverty Project** identified 19 neighborhoods, or census tracts, spread across all of the major metro areas in the state that have been mired in persistent high-poverty since at least 1980. On top of those, 158 neighborhoods home to 493,000 people fell into high-poverty status. As the state's economy has grown and restructured over the past several decades, hundreds of neighborhoods and thousands of Hoosiers have fallen through the cracks.

Neighborhoods in Indiana, like the rest of the country, have become more segregated by income, concentrating disadvantage into particular areas. In 1980, 38 percent of the state's poor population actually lived in a very low-poverty community. Today, only 20 percent do. Meanwhile the share of the poor living in a high-poverty community has risen from 13 percent to 30 percent.

Opportunity Zones were conceived by Congress to begin to reverse these trends with the help of a federal, market-based tax incentive to stimulate private sector investment and business activity in neighborhoods typically written off as too risky or poor investments. The capital gains tax incentive rewards patient, long-term equity investments into new economic activity—new or significantly refurbished buildings, stakes in promising new growth companies, and much else—in low-income communities. The policy is not a panacea. Indeed, it does not guarantee any private investment will flow to a designated community. But it provides an important new tool and organizing principle to the economic and community development arsenal that can be catalytic in forging committed partnerships to re-stimulate local economies.

This report is intended to provide Indiana with data, insights, and strategies to deliver on that vision. Local creativity, entrepreneurship, and commitment are the ingredients that will translate an arcane new provision of the tax code into transformation and impact on the ground. In crafting this paper, EIG spoke with dozens of stakeholders from across the state. Guidance from partners at the Central Indiana Corporate Partnership, Local Initiatives Support Coalition in Indianapolis, and the Opportunity Investment Consortium of Indiana helped to refine our analysis and recommendations. We also leveraged our unique position at the heart of the emerging Opportunity Zones ecosystem nationally to bring the most promising best practices from across the country to Indiana. One of the most exciting—and daunting—things about Opportunity Zones is that, unlike most federal policies and programs, very little is preordained. Outcomes are open-ended. Use cases are out there to be discovered. We hope that this resource empowers Indiana to be bold in its deployment of this new federal tool and emerge as a national leader in its application.

Even though this report lays out conditions and opportunities specific to the state of Indiana, its content holds value for a wide variety of public and private stakeholders nationwide. Efforts to similarly identify local Opportunity Zone typologies, assess neighborhood conditions, and plot institutional talent and assets can help community and economic development leaders improve existing strategies to guide private investment in local businesses and catalytic developments. This report can serve as a template for similar local, regional, or state-level analysis, and the strategies can be replicated to advance outcomes similar to those prioritized by communities in Indiana.

The economic crisis instigated by COVID-19 makes the work of this paper's audience all the more important. The American economy is being placed under unprecedented strain. The weight of that strain will fall disproportionately on communities with the weakest foundations. Economically distressed communities lack the inherent resiliency that their more prosperous neighbors can take for granted. In retrospect, the country missed a critical opportunity to harness the decade of growth that followed the Great Recession to fortify struggling neighborhoods and households. It is imperative that inclusion and resiliency take center stage as actors at all levels of government and across the economy plan for recovery. This guide aims to position Indiana to maximize the potential contribution Opportunity Zones can make to that endeavor.

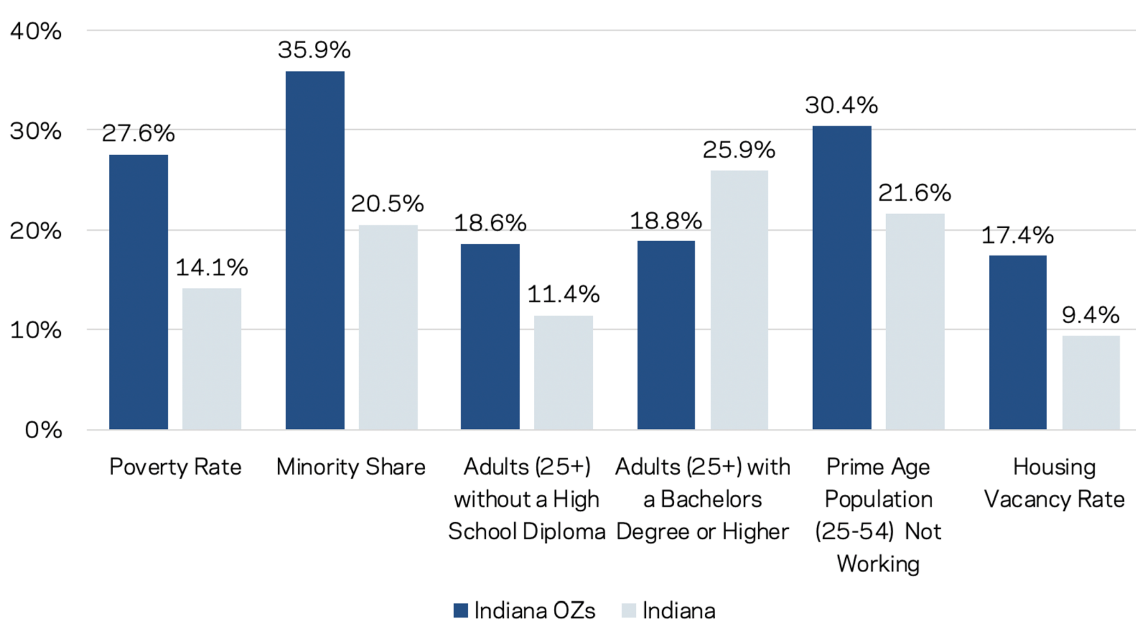
III. Mapping Opportunity Zones

Baselining economic conditions across OZs

Indiana's 156 designated Opportunity Zones (OZs) are home to more than half a million people, or about 8 percent of the state's population, encompassing the full variety of this heartland state's communities—from the core of downtown Indianapolis to its many rural small towns.

Broadly speaking, Indiana's OZs demonstrate a compelling need for economic development and outside investment. On nearly every indicator of social and economic well-being, they lag significantly behind the state itself. On average, poverty rates are about 13.5 percentage points higher than the national level. Many OZ residents lack the educational credentials increasingly necessary to succeed in a changing economic landscape, lagging behind the state on both the possession of a high school diploma and a four-year college degree. Beyond the residents themselves, the physical environment of these neighborhoods also exhibits signs of distress, as nearly twice as many houses sit vacant relative to the statewide rate.

Indiana's Opportunity Zones Compared to the State Overall



Source: EIG analysis of the U.S. Census Bureau's American Community Survey 5-Year Estimates, 2014-18

Indiana's OZs have poverty rates comparable to OZs nationwide but slightly higher average median family incomes (MFIs). Reflecting the state's demography, they are significantly less diverse, with only 36 percent of residents belonging to a minority group compared to 56 percent nationally. And while they perform slightly better than peers on educational attainment, they fare significantly worse on housing vacancy and resident health. Glaringly, life expectancy in Indiana's OZs lags six years behind the national average. This alarming figure is in line with OZs in states across the Midwest.

National and Statewide Comparison of Indiana's OZs

Geography	Median Family Income	Poverty Rate	Minority Share	Adults (25+) without a High School Diploma	Adults (25+) with a Bachelors Degree +	Prime Age Population (25-54) Not Working	Housing Vacancy Rate	Life Expectancy
United States	$74,000	14%	39%	12%	32%	22%	8%	79
Indiana	$68,100	14%	21%	11%	26%	22%	9%	77
OZs Nationwide	$47,300	28%	56%	21%	18%	31%	13%	75
Indiana OZs	$49,000	28%	36%	19%	19%	30%	17%	73

Source: EIG analysis of the U.S. Census Bureau's American Community Survey 5-Year Estimates, 2014-18; U.S. Centers for Disease Control and Prevention Small-Area Life Expectancy Estimates. Figures for 2010-2015.

The following table narrows the comparison of Indiana's OZs to several nearby states in the Midwest to provide a clearer picture of how they stack up against some of their peer communities.

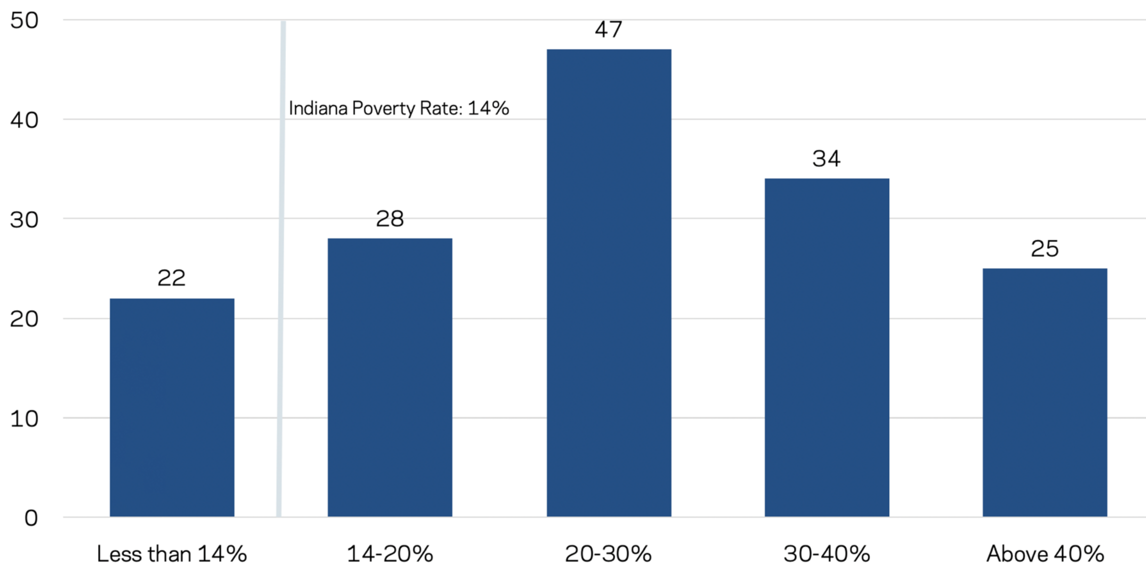
Peer State Comparison of Indiana's OZs

Geography	Median Family Income	Poverty Rate	Minority Share	Adults (25+) without a High School Diploma	Adults (25+) with a Bachelors Degree +	Prime Age Population (25-54) Not Working	Housing Vacancy Rate	Life Expectancy
Indiana OZs	$49,000	28%	36%	19%	19%	30%	17%	73
Illinois OZs	$41,500	33%	72%	15%	19%	35%	18%	73
Kentucky OZs	$42,400	31%	20%	15%	21%	38%	15%	73
Michigan OZs	$46,300	29%	46%	19%	16%	32%	14%	75
Ohio OZs	$42,900	33%	46%	17%	18%	33%	17%	73
Wisconsin OZs	$48,500	28%	40%	20%	15%	25%	10%	No data

Source: EIG analysis of the U.S. Census Bureau's American Community Survey 5-Year Estimates, 2014-18; U.S. Centers for Disease Control and Prevention Small-Area Life Expectancy Estimates. Figures for 2010-2015.

Looking beyond these averages to examine the distribution of OZs across key metrics provides further context. Fourteen percent of residents statewide are in poverty, yet nine out of every ten OZs in the state exceed that threshold, often by a significant margin. Over one-third of the state's OZs are high-poverty communities (with a poverty rate over 30 percent), and 25 concentrated poverty (40 percent or higher) neighborhoods in Indiana are now OZs.

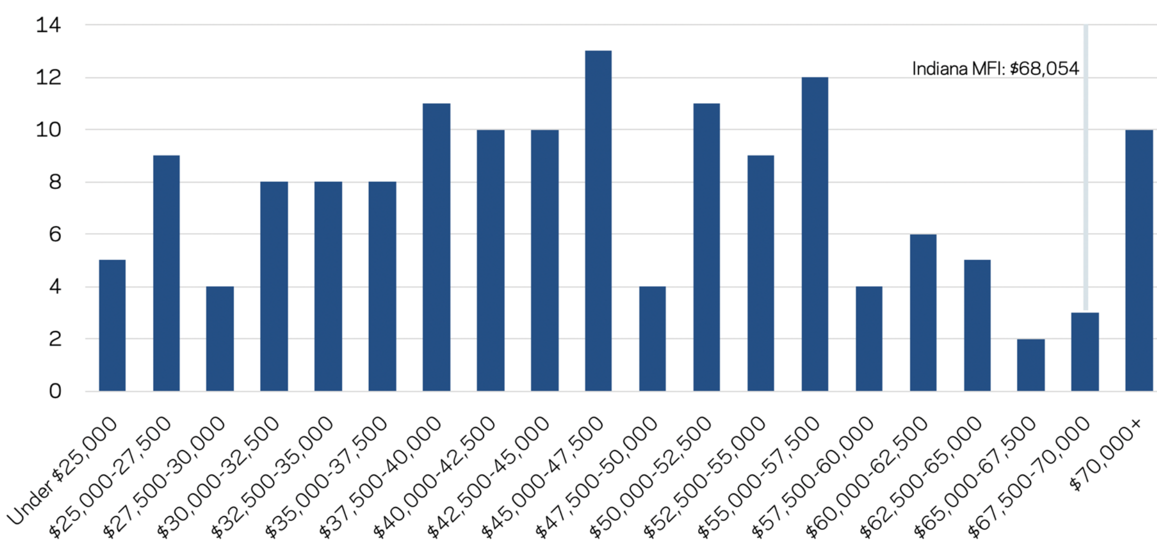
Number of Indiana Opportunity Zones in Each Poverty Rate Band



Source: EIG analysis of the U.S. Census Bureau's American Community Survey 5-Year Estimates, 2014-18

The average median family income (MFI) for the state's OZs is just over $49,000 per year, nearly $20,000 less than the state overall. While the vast majority of OZs cluster around that figure, 8 percent of OZ tracts (12 in total) have an MFI higher than the state's. Most of these are located near the downtowns of cities like Indianapolis and Evansville, where pockets of high-earning households can skew income figures higher in a relatively small pool of residents.

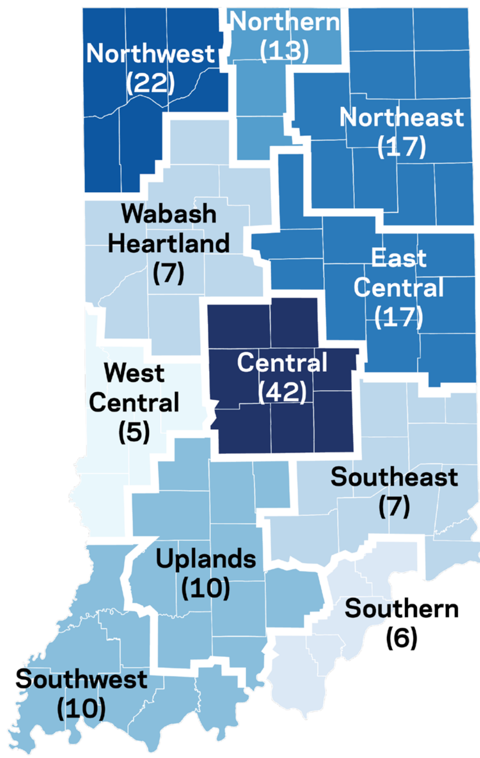
Number of Indiana Opportunity Zones in Each Median Family Income Band



Source: EIG analysis of the U.S. Census Bureau's American Community Survey 5-Year Estimates, 2014-18

The 11 regions designated as part of the Indiana GPS Project shows how conditions can vary greatly across OZs within the state. The number of OZs in each region range from a low of five in the West Central part of the state to a high of 42 in the Central area, nearly double the amount in the region with the second most, Northwest Indiana.

Number of Opportunity Zones by Region



Regional Characteristics of Indiana's OZs

Region	Total Opportunity Zones	Population	Average Median Family Income	Average Poverty Rate	Average Minority Population
Central	42	147,300	$53,600	27%	46%
East Central	17	53,000	$41,000	29%	23%
Northeast	17	55,900	$46,400	27%	24%
Northern	13	42,600	$48,600	26%	39%
Northwest	22	66,000	$40,800	34%	68%
Southeast	7	25,700	$47,100	21%	14%
Southern	6	18,800	$54,300	16%	14%
Southwest	10	22,200	$56,000	29%	20%
Uplands	10	42,000	$49,200	26%	18%
Wabash Heartland	7	33,600	$53,900	26%	29%
West Central	5	25,100	$59,700	28%	14%

Source: EIG analysis of the U.S. Census Bureau's American Community Survey 5-Year Estimates, 2014-18
U.S. Centers for Disease Control and Prevention Small-Area Life Expectancy Estimates. Figures for 2010-2015.

The Northwest and East Central regions stand out for having some of the lowest incomes in the state, holding about a quarter of the OZ population. The Northwest region also is home to the highest share of minority residents, where 68 percent of those living in an OZ are non-white.

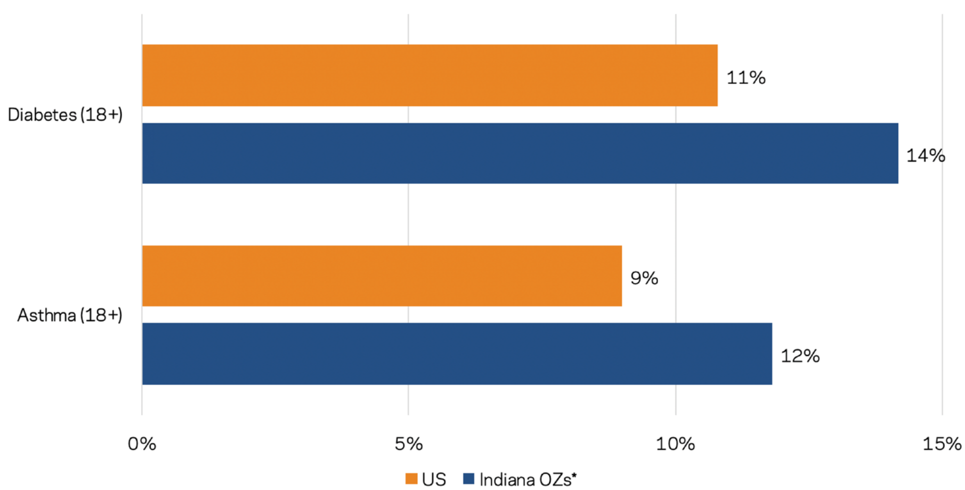
Assessing the human condition in OZs

The public health crisis unleashed by the novel coronavirus has exposed deep inequities in physical well-being that correspond with those in economic well-being. Poor and minority residents are far more at risk of contracting and dying from COVID-19 than other segments of the population. New Community Resilience Estimates from the U.S. Census Bureau find that one-third of residents in the average OZ are especially vulnerable to the combined health and economic crisis wrought by the pandemic. Outside of OZs, just under one-quarter of households look so high-risk.[1]

New Community Resilience Estimates from the U.S. Census Bureau find that one-third of residents in the average OZ are especially vulnerable to the combined health and economic crisis wrought by the pandemic.

Even in normal times, the economic challenges facing OZ residents can often negatively affect the physical and mental well-being of residents, not only today, but well into the future. Residents of OZs in Indiana's 11 largest cities suffer from elevated levels of both asthma and diabetes, just two of many chronic conditions that can increase the risk for other health conditions.

Share of Residents with Asthma or Diabetes

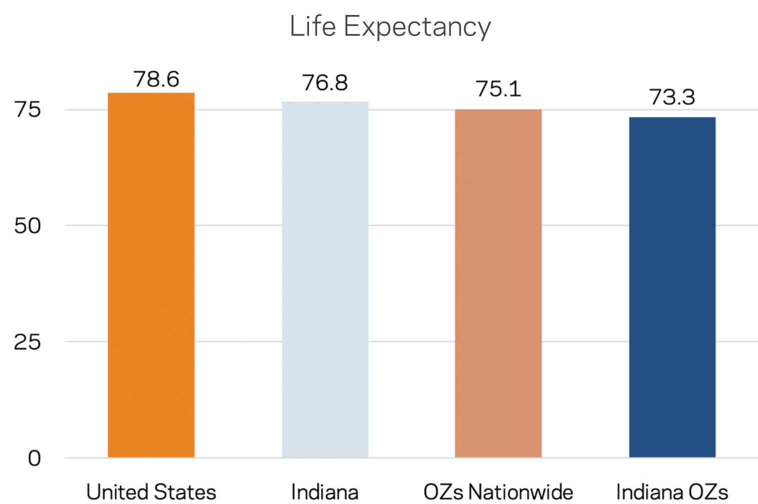


Source: U.S. Center for Disease Control and Prevention "500 Cities Project" data;

**Data for Indiana OZs is the average from 79 tracts in nine cities*

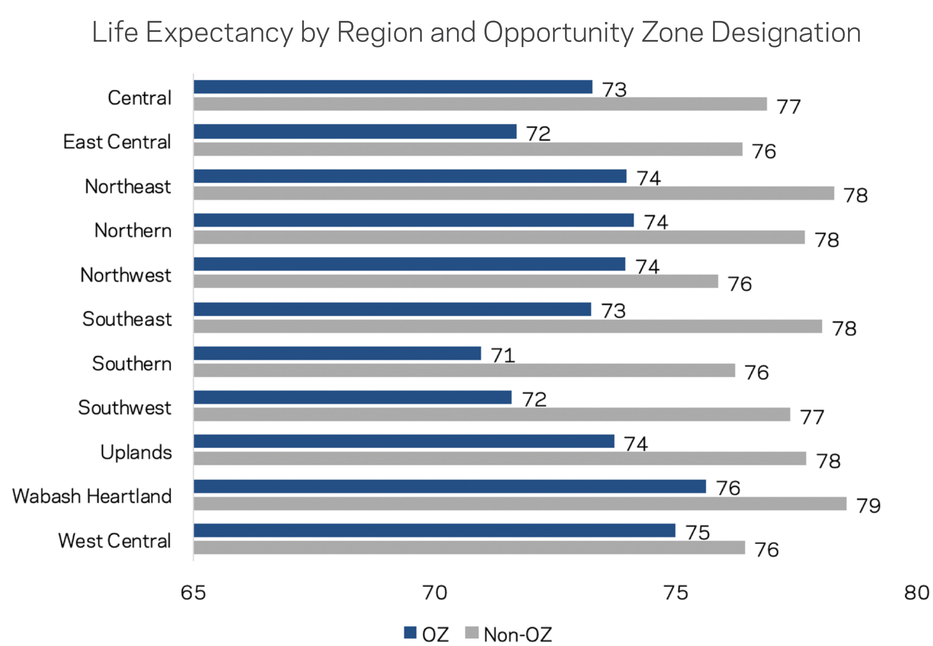
1. Here "high-risk" refers to individuals exhibiting three or more of 11 "risk factors" identified by the U.S. Census Bureau. For more information, see **https://www.census.gov/data/experimental-data-products/community-resilience-estimates.html**.

The comparatively poor health that prevails in Indiana's OZs likely contributes to residents' significantly lower life expectancy, not only relative to the country overall but also compared with OZs in other parts of the country. As reported above, the average life expectancy for the state's OZs is 73.3 years, placing it 10th from the bottom among all states. That's less than the typical OZ tract nationwide and significantly lower than the national average of 78.6 years. (Nevertheless, the figure is in line with nearby Midwestern states.)



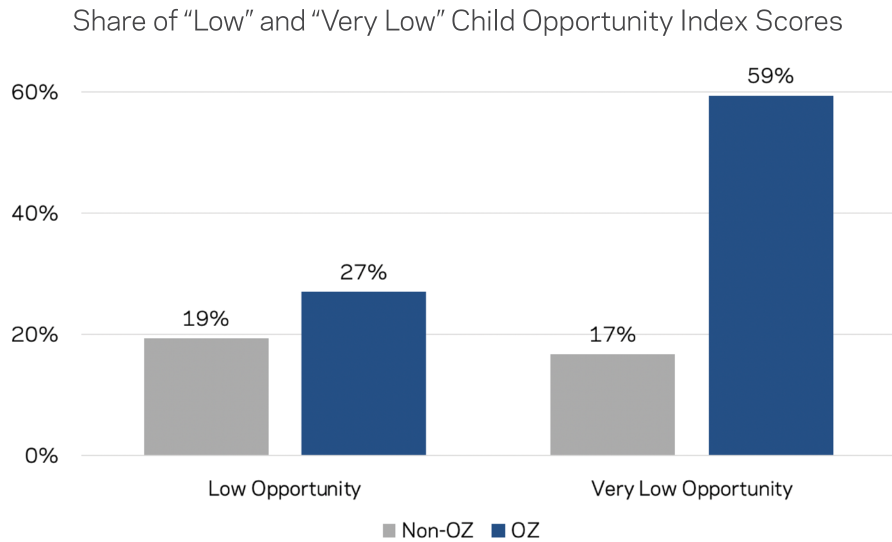
Source: U.S. Center for Disease Control and Prevention Small-Area Life Expectancy Estimates, 2015

Life expectancy varies by several years across Indiana's regions, but residents of OZs can expect to live fewer years than their neighbors in every part of the state. The biggest gaps occur in the southern areas of the state (Southern, Southwest, and Southeast), where OZ residents can expect to live five years fewer than their neighbors on average.



Source: U.S. Center for Disease Control and Prevention Small-Area Life Expectancy Estimates, 2015

Children in particular can suffer **long-term consequences** from living in socially and economically left-behind communities. The **Child Opportunity Index** (COI) measures and maps the quality of resources and conditions that matter for children to develop in a healthy way in the neighborhoods where they live. Nine out of 10 OZ tracts (and 105,500 children living in them) are in areas with low or very low child opportunity scores, meaning they often lack quality early childhood education and schools, safe housing, access to healthy food, parks and playgrounds, and clean air.



Source: Diversitydatakids.org Child Opportunity Index 2.0 Database, 2015

OZs in some regions have lower child opportunity scores than in others, particularly in the Northwest, East Central, and Central regions. These places also tend to have among the highest average poverty rates, lowest average median family income, and largest shares of minority residents. Compared to other regions, the Wabash Heartland, Uplands, and Southern regions stand out as relatively better-off in terms of child opportunity.

Child Opportunity Across Indiana's OZs

Region	Average Child Opportunity Score	Average Poverty Rate	Average Median Family Income	Average Minority Population
Wabash Heartland	38.7	26%	$53,900	29%
West Central	35.0	28%	$59,700	14%
Uplands	33.3	26%	$49,200	18%
Southern	22.3	16%	$54,300	14%
Southeast	21.0	21%	$47,100	14%
Grand Total	18.7	28%	$49,000	36%
Northern	18.3	26%	$48,600	39%
Southwest	17.7	29%	$56,000	20%
Northeast	17.6	27%	$46,400	24%
Central	16.6	27%	$53,600	46%
East Central	12.9	29%	$41,000	23%

Sources: EIG analysis of the U.S. Census Bureau's American Community Survey 5-Year Estimates, 2014-18; Diversitydatakids.org Child Opportunity Index 2.0 Database, 2015

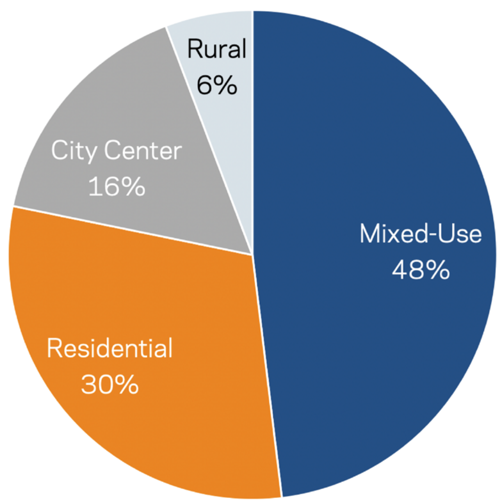
Establishing an investment typology for Indiana's OZs

Utilizing data provided by the Indiana Business Research Center, EIG created a typology for Indiana's OZs based on land-use characteristics. The exercise is intended to help differentiate investment opportunities and development strategies across different types of places.

Primary typology

Each OZ was placed into one of four primary categories, **mixed-use**, **city center**, **residential**, or **rural** based on the local land use composition across residential, commercial, industrial, or other sectors. Nearly half of all OZs in the state can be considered mixed-use, with diverse investment opportunities. Another 30 percent of zones are almost exclusively residential, followed by 16 percent in the center of large cities and 6 percent in rural areas, where diverse investment opportunities may also exist.

Primary Typology of Indiana's Opportunity Zones



Source: EIG analysis of data provided by Indiana University-Purdue University Indianapolis

Contextualizing each category further:

- **Mixed-use (48 percent):** These tracts typically have many land-use types, although residential areas tend to predominate alongside moderate commercial activity and generally few industrial properties. About half of the state's OZs fall into this category, and nearly 270,000 people reside in them.
    - Residential zoning average 67%
    - Commercial zoning average 14%
    - Industrial zoning average 4%

Regional Distribution of Mixed-Use OZs

Region	Regional Share of State's Mixed-Use OZs	Share of Region's OZs That Are Mixed-Use
Central	27%	48%
East Central	8%	35%
Northeast	9%	41%
Northern	9%	54%
Northwest	13%	45%
Southeast	5%	57%
Southern	4%	50%
Southwest	4%	30%
Uplands	9%	70%
Wabash Heartland	5%	57%
West Central	5%	80%

- **City center (16 percent):** These tracts share many qualities of those characterized as "mixed-use" but are specifically located in the urban core of cities. Because of their location, city center tracts tend to have a higher percentage of commercial zoning than the mixed-use category. About 72,000 people reside in a city center OZ, and while the zones have the highest average median family income at $58,000, they also have the highest average poverty rate and share of prime age adults not working. City center OZs also hold the highest average share of properties that are exempt from zoning regulations or taxation, since these locations often contain concentrations of government buildings or educational facilities.
    - Residential zoning average 55%
    - Commercial zoning average 25%
    - Industrial zoning average 2%

Regional Distribution of City Center OZs

Region	Regional Share of State's City Center OZs	Share of Region's OZs That Are City Center
Central	16%	10%
East Central	16%	24%
Northeast	8%	12%
Northern	12%	23%
Northwest	12%	14%
Southeast	0%	0%
Southern	4%	17%
Southwest	16%	40%
Uplands	8%	20%
Wabash Heartland	8%	29%
West Central	0%	0%

- **Residential (30 percent):** These tracts are typically found in metro areas and predominantly contain single family housing, with some multifamily as well. There may be a limited number of commercial or industrial properties interspersed throughout the zone, but such land uses do not constitute a significant share of the tract overall. About one-third of Indiana's OZ population resides in one of these residential tracts, roughly 157,000 people. These areas have the highest average minority share of the population (48 percent) along with the lowest average median family income ($44,800), nearly $24,000 less than the median family statewide.
    - Residential zoning average 83%
    - Commercial zoning average 6%
    - Industrial zoning average 1%

Distribution of Residential OZs

Region	Regional Share of State's Residential OZs	Share of Region's OZs That Are Residential
Central	36%	40%
East Central	13%	35%
Northeast	15%	41%
Northern	6%	23%
Northwest	15%	32%
Southeast	4%	29%
Southern	4%	33%
Southwest	4%	20%
Uplands	0%	0%
Wabash Heartland	2%	14%
West Central	0%	0%

- **Rural (6 percent):** these tracts tend to have large agricultural areas that dominate the landscape as well as significant shares of residential land-use with a limited number of commercial properties in small towns. Accordingly, there are likely diversified investment opportunities in these rural OZs given the sheer variety of land uses possible in rural areas, from small town Main Streets to large plots of land with potential industrial applications adjacent to highways and other pieces of infrastructure. Rural OZs have the lowest average poverty rate (18 percent) as well as the lowest average share of prime age adults not working (22 percent). These tracts are home to just under 34,000 residents, only 5 percent of whom in the average tract belong to a minority group.
    - Agricultural zoning average 35%
    - Residential zoning average 54%
    - Commercial zoning average 4%

Distribution of Rural OZs

Region	Regional Share of State's Rural OZs	Share of Region's OZs That Are Rural
Central	11%	2%
East Central	11%	6%
Northeast	11%	6%
Northern	0%	0%
Northwest	22%	9%
Southeast	11%	14%
Southern	0%	0%
Southwest	11%	10%
Uplands	11%	10%
Wabash Heartland	0%	0%
West Central	11%	20%

Secondary typology

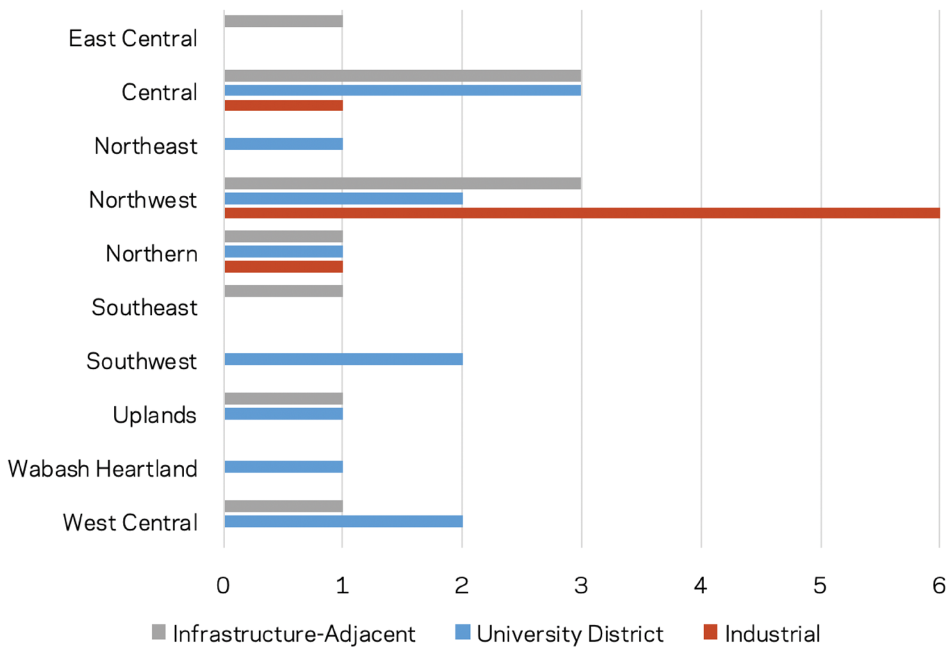
Beyond those basic typologies, EIG also identified OZ tracts with other traits of economic or demographic significance to form a secondary typology. This grouping is meant to differentiate beyond predominant land uses to capture areas that may present special investment opportunities or warrant specialized development strategies, such as university districts. The Central and Northwest regions contain by far the largest number of these specialty OZs.

- **University District (13 tracts):** These tracts either contain, or are immediately adjacent to, major colleges and universities. They also include business districts serving the college community. While poverty rates tend to be above average due to the presence of large student populations, university districts have the highest median family income among these tracts with secondary characteristics. These tracts are well spread out across different regions in the state and house a total of nearly 58,000 Hoosiers.
    - Residential zoning average 49%
    - Commercial zoning average 22%
    - Industrial zoning average 3%
    - Exempt zoning average 26% (ranges from 0-90%)

- **Industrial (8 tracts):** These tracts contain sizable areas zoned for industrial use, large warehouses, and/or significant pieces of manufacturing infrastructure. These tracts contain only 23,000 residents in total, but they concentrate extreme disadvantage. Industrial OZs have elevated poverty and residential vacancy rates, low rates of work, and overwhelmingly non-white populations. Most of these tracts are concentrated in the Northwest region of the state in the vicinity of the city of Gary.
    - Residential zoning average 59%
    - Commercial zoning average 10%
    - Industrial zoning average 8%

- **Infrastructure-adjacent (11 tracts):** These tracts are near airports, railyards, or other significant transportation infrastructure, but tend to be zoned for relatively little industrial activity. They are distributed across seven of the state's 11 regions. Reflecting relatively high residential land uses, roughly 46,000 people live in these neighborhoods.
  - Residential zoning average 73%
  - Commercial zoning average 8%
  - Industrial zoning average 3%

Number of Opportunity Zones with Secondary Typology



Source: EIG analysis of the U.S. Census Bureau's American Community Survey 5-Year Estimates, 2014-18

- **Small City (40 tracts):** These tracts are part of small urbanized areas (encompassing no more than a few census tracts) in parts of the state that are otherwise rural and largely undeveloped. These tracts can be found in every region. These neighborhoods tend to be lower poverty relative to other OZs and less diverse. Combined, they contain 142,600 residents.
  - Residential zoning average 71%
  - Commercial zoning average 11%
  - Agricultural zoning average 6%
  - Industrial zoning average 2%

Characteristics of Indiana's OZs by Secondary Typology

Secondary Typology	Total Opportunity Zones	Total Population	Average Median Family Income	Average Poverty Rate	Average Minority Population
Industrial	8	21,200	$33,000	38%	79%
Infrastructure-Adjacent	11	45,900	$50,500	23%	43%
Small City	40	151,000	$50,400	20%	13%
University District	13	49,200	$53,200	40%	33%

Source: EIG analysis of the U.S. Census Bureau's American Community Survey 5-Year Estimates, 2014-18

IV. Needs and opportunities

Four key issue areas emerged from numerous conversations with local stakeholders across Indiana as realms in which OZs are primely positioned to help the state further its goals. OZs can contribute directly to the state's efforts to:

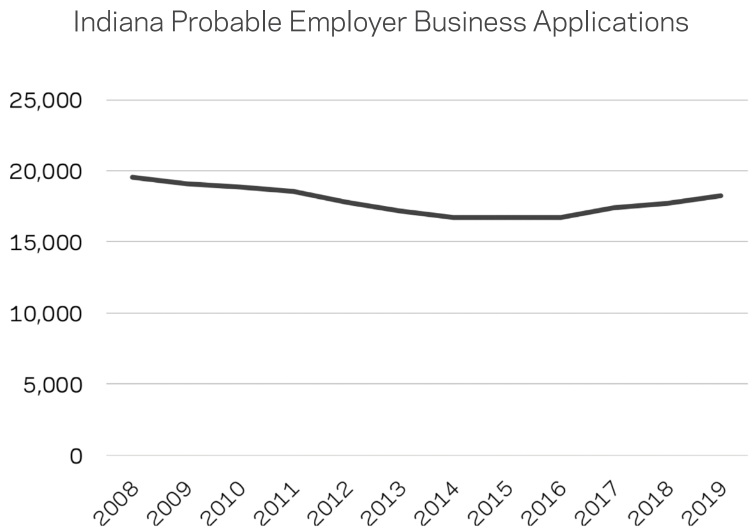
- Build a dynamic and resilient economy
- Create livable communities
- Improve resident health
- Provide quality, affordable housing

Build a dynamic and resilient economy

Entrepreneurs are a critical feedstock of dynamic, prosperous, resilient economies. A steady stream of new companies is essential for maintaining high levels of productivity, keeping markets competitive, and helping economies adapt to change. The 2010s was marked by depressed rates of entrepreneurship nationwide, and this was particularly true in Indiana. In 2014, the latest year in which detailed firm level data is available from the U.S. Census Bureau's Business Dynamics Statistics, only 1.4 percent of jobs in the state were in companies less than one year old, ranking Indiana last nationally, tied with Alaska. Nationally, 2.1 percent of jobs were in such very young companies. Conversely, the state has the third highest share of jobs tied up in very old firms, ages 16 and over—79 percent of all jobs, just behind Iowa and Ohio. On these measures, Indiana's economy looks both staid and at risk, because old firms risk being sidelined by change, while entrepreneurs serve as an important hedge against an uncertain future.

While startup rates in Indiana lag behind the nation, recent data examining applications to start new businesses show that entrepreneurship in the state did begin to rekindle modestly around 2016, after a long lull following the Great Recession. Indiana performs better than most of its neighbors with respect to growth in the number of business applications that had a high likelihood of becoming true employer businesses in the near term. Yet any incipient rekindling of the state's entrepreneurial spirit may be short-lived. The impact that COVID-19 has on would-be entrepreneurs remains to be seen, but there is a significant chance that the pandemic negatively influences entrepreneurial risk-taking for years to come.

Indiana performs better than most of its neighbors with respect to growth in the number of business applications that had a high likelihood of becoming true employer businesses in the near term.



Source: U.S. Census Bureau's Business Formation Statistics

Indiana retains the building blocks of a vibrant entrepreneurial ecosystem in and around its OZs, and OZs have the potential to attract much needed patient, private investment capital to the mix. Thirteen of the state's OZs are part of university districts, often centrally-located mixed-use areas adjacent to major university campuses and well-positioned to be part of universities' startup, tech transfer, and technology commercialization strategies. For example, an OZ investor could help boost a new startup that is commercializing technology from one of Indiana's leading universities by taking a venture capital-style equity stake in the business. At least seven business incubators and accelerators are located in OZs, most of them affiliated with universities. Companies going through their programs may all be eligible to receive equity investments from OZ investors.

Indiana retains the building blocks of a vibrant entrepreneurial ecosystem in and around its OZs, and OZs have the potential to attract much needed patient, private investment capital to the mix.

Eight of the state's 20 Certified Tech Parks are also located in OZs, and another 6 in close proximity to one. 16 Tech in Indianapolis and Electric Works in Fort Wayne, two of the state's most significant efforts to combine innovation and entrepreneurship with physical redevelopment in comprehensive, place-based economic development strategies, are both located in OZs. Both efforts are positioned to attract and deploy OZ capital in multiple ways, from financing further build-outs of the innovation districts to providing startups with office space and direct investments into incubating growth companies.

Between 2015 and 2019, businesses based in Indiana's OZs won nearly 160 Small Business Innovation Research and Technology Transfer (SBIR/STTR) grants. That was just over 10 percent of the state's total awards from federal agencies to especially innovative and high-potential small technology businesses, suggesting that Indiana's OZs are already home to an impressive stock of investment-ready growth companies.

Certified Tech Parks in Indiana's OZs

Organization	City	Region
IU Innovation Center	Indanapolis	Indianapolis
Innovation Park (Notre Dame)	South Bend	South Bend-Elkhart
Innovation Pointe	Evansville	Southwest
Innovation Hub (Valparaiso University)	Valparaiso	Northwest
Launch Elkhart	Elkhart	South Bend-Elkhart
Purdue Technology Center	Indanapolis	Indianapolis
Purdue Foundry	West Lafayette	Wabash Heartland

The economic development applications of OZs extend beyond startups, however. The incentive is designed to finance a range of additive economic activities in a zone, which means that OZ financing can also aid in the expansion of existing businesses. It can be used to acquire new capital equipment, to build a new facility, or to hire and grow as long as the investment is coming in as equity and being made with qualifying capital (recently realized capital gains), being channeled through a qualifying intermediary (an Opportunity Fund), and being deployed into a qualified business.

Economic development applications of OZs: Business creation, preservation, and expansion

Models that illustrate how the OZ incentives can be used to directly support businesses include:

- **Venture capital:** The most straightforward model of an OZ investment directly into a business comes in the form of a traditional equity or venture capital style deal. In these scenarios, the Opportunity Fund acquires a direct equity stake in the firm via new, original-issue shares. This model is especially fitting for new or young, high-growth firms. These applications may be especially relevant to the state's life sciences and digital clusters.

- **Build-to-suit:** OZs can be applied in the more traditional economic development setting of site location and business expansion by being utilized to construct build-to-suit office, industrial, or warehousing space. In this model, an expanding firm solicits bids for a new office or facility. In response, a developer works with a project team to assemble financing (or a "capital stack," in the jargon, that includes an OZ investor) and bid on the deal. The OZ capital is used alongside other sources to construct the facility, which the expanding firm then leases. Projects using OZ financing in this manner are already finding in the marketplace that they can offer extremely competitive rates. In this model, the expanding company does not receive a direct investment using OZ money, but it is an indirect beneficiary of the OZ real estate deal. These applications may be especially relevant to the state's advanced manufacturing and logistics clusters.

- **Legacy preservation:** Owners of existing businesses can sell their stake in a company to an OZ investor in exchange for an equity infusion that meets the substantial improvement requirements of the statute. In this model, a long-time owner near retirement, for example, could sell her business to an outside investor committing to inject new life into it with a significant investment. The market is also seeing instances in which the initial owners then acquire a profit interest in the renewed enterprise, staying on as managers or employees. While their investment may not be eligible for the OZ incentive, or their investment may be capped at a certain percent, this strategy allows legacy businesses owners to profit from additional value creation while also remaining involved in the future of the company. These applications may be especially relevant in the state's advanced manufacturing cluster.

- **Relocation:** A firm can use a capital gain to acquire, build, or substantially improve property in an OZ and move into it. Alternatively, it could work with an outside owner and operator of the newly constructed or substantially improved property to achieve the same result. Under the right circumstances, the firm itself might then become a qualified OZ business eligible to receive OZ investments. These applications are likely to be relevant across a wide range of industries.

- **Equipment purchase:** OZ financing can be used to acquire new capital equipment. Under this scenario, the owner of a business could liquidate an investment, channel the capital gain into a closely-held Opportunity Fund, and purchase new equipment that gets contributed back to the business or is leased to it at market rates. In another scenario, a non-profit research institution could reach an agreement with a private investor that sees them acquire a cutting-edge piece of machinery and lease it to the institution, with the institution obliged to acquire it at market rates and without depreciation down the road. These applications may be especially relevant in the state's life sciences or advanced manufacturing clusters.

- **Multi-angle:** Referred to in the jargon as "OpCo + PropCo," this strategy refers to one in which qualified OZ investments are made to support both the operating company (OpCo) and a property company (PropCo). OZ financing can be used to invest both in a new or expanding business and in the physical infrastructure it needs to thrive. For example, the same or different but coordinating OZ investors can invest directly in a company operating a food hall and, separately, in the structure itself. Similarly, OZ investors could make separate but related investments into a new business manufacturing medical gear, the facility itself, and the capital equipment filling it. These applications are likely to be relevant across a wide range of industries.

The above only outlines a handful of models currently being incubated across the country. Many different creative structures can be found to support company or local economic development goals, especially if the OZ investor has already been secured. In general, many existing businesses—including so-called “mom-and-pop” types that occupy local Main Streets—do qualify to receive OZ equity investments directly if they entered into leases in 2019 or later and if they have large amounts of inventory. This opens up many different avenues for OZ finances to boost their businesses. Capital partners—and local economic development advisors—can work with them to devise a structure that achieves their goals with respect to ownership, profits, and legacies.

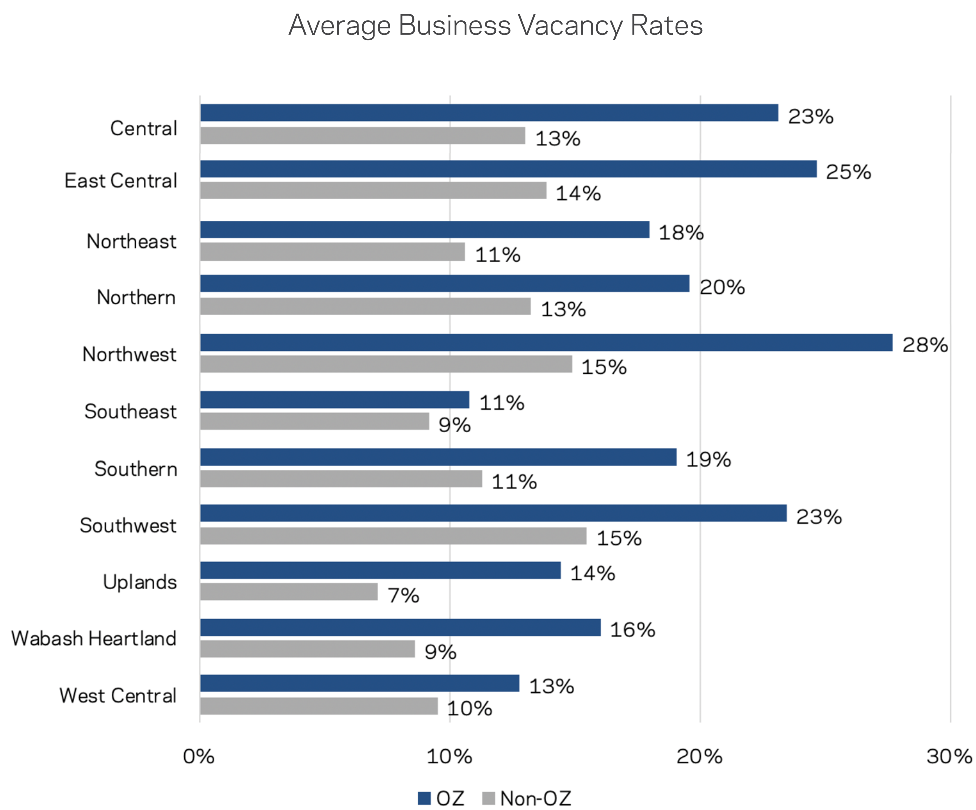
Create livable communities

Vibrant, inviting communities are essential assets in the competition for talent and human capital in the modern economy. In our interviews, stakeholders identified attracting and retaining talent as one of the state’s highest economic development priorities. OZs are a tool tailor-made for placemaking efforts, given that the tax incentives are most beneficial when significant value is created—and livable communities are in-demand, valued communities. **Smart Growth America** has already identified 10 Indiana OZs in nine different counties as primed for walkable, sustainable growth. Just north of downtown Indianapolis lies one of the 50 best-positioned OZs in the country on their measures.

OZs can help enhance and create livable communities in a number of ways. For example, the incentive can be leveraged in large-scale **master-planned placemaking efforts** as one financing tool among many. Examples of OZs at work in this capacity can currently be found in St. Louis, MO, at the STL Foundry and Washington, DC, at the St. Elizabeth’s Campus redevelopments. Locally, the Electric Works district in Fort Wayne, which is actively seeking OZ capital, would serve as another example. These instances where totally new real estate submarkets are created may be of special interest to certain types of OZ investors.

OZs can dovetail into more organic placemaking efforts on much smaller scales, as well. Across the country and in Indiana, OZ capital is being used to **revitalize Main Street** storefronts, community spaces, and living. The incentive presents a new financing option for traditionally underinvested corridors and opens up new possibilities for **adaptive reuse**. It aligns well with coordinated local strategies to boost investment and activity in community commercial corridors, given that the value of the incentive is generally tied to future appreciation—a policy design feature intended to ensure investors only succeed if communities do too. Numerous state programs including the formal Indiana Main Street network, Stellar Communities, and Community Revitalization Enhancement Districts can all layer with or seek to involve, invite, or coordinate with private OZ investors to amplify their local impacts. Small and mid-sized cities such as Brookville, IN, and Dubuque, IA, are finding common cause with OZ investors in bolstering their communities' Main Street hearts.

The need for such coordinated strategies appears to be acute across many of Indiana's OZs. In four regions—East Central, Central, Northwest, and Southwest—more than 20 percent of commercial properties stand vacant in the average OZ.



Source: EIG analysis of HUD aggregated USPS 2020 Q1 data on business vacancies

Historic preservation is another developing OZ market niche that serves to enhance local livability and strengthen Main Streets. National and state historic preservation tax credits are proving to layer well with OZ investments and statutory requirements. Many of the investments being made in Indiana's OZs include historic preservation and leverage federal Historic Tax Credits. Projects like The Ridely in Marion and The Barrelhouse in Elston Grove are all reactivating historic vacant properties, and breathing new life into the state's OZs.

National and state historic preservation tax credits are proving to layer well with OZ investments and statutory requirements.

Indiana's support for livable communities

State policies and programs that align well with OZs for creating livable communities:

- Indiana Main Street
- Stellar Communities
- Community Revitalization Enhancement Districts
- Redevelopment Tax Credits
- IndyEast Promise Zone

History weighs heavily on the built environment of many OZ neighborhoods particularly in the Central and Northwest regions, as well as those containing larger cities such as South Bend. OZs can be an ally in reducing vacancies, removing blight, and remediating brownfields as well.

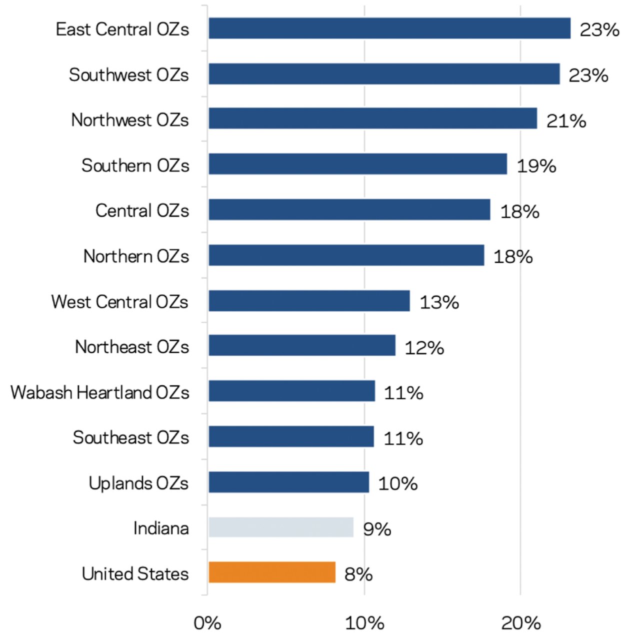
The **housing vacancy** rate in the average Indiana Opportunity Zone is 17 percent, compared to 11 percent statewide and 8 percent nationally. In the typical OZ tract, one in six homes stands vacant. In some regions, the figure approaches one-quarter. These vacancies weigh on the value of neighboring homes and depress both investment into a community and the housing wealth of residents. If OZs succeed in stimulating investment in these communities and in creating new demand to reside in them, housing markets in these neighborhoods should stabilize, the stock of these vacancies should fall, and local home values should rise, to the benefit of home-owning residents.

OZs can be an ally in reducing vacancies, removing blight, and remediating brownfields as well.

Helpfully, final regulations encourage investment into vacant properties. The substantial improvement test that requires investors put at least as much into a property as they paid for it is waived for buildings that have been vacant for at least three years, providing investors more flexibility in adapting spaces. Nationally, almost all development activity EIG is tracking has been in-fill development or the re-purposing of vacant properties. Many OZ investors are naturally drawn to vacant properties because the incentive is structured to be of significant value to investors who purchase a low-value asset and then substantially improve it to significantly raise its value over time.

Public sector land banks and other institutions that have acquired numerous vacant properties may wish to develop an OZ strategy as well. The newly finalized regulations allow them to sell such properties to OZ investors on favorable terms, giving them leverage to negotiate terms of the deal that are in the interest of the community.

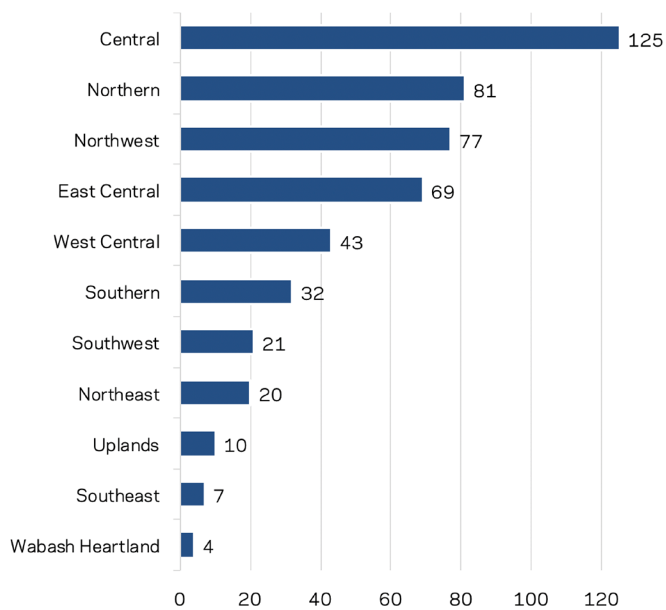
Average Housing Vacancy Rates



Source: EIG analysis of the U.S. Census Bureau's American Community Survey 5-Year Estimates, 2014-18

As a state with a long industrial history, Indiana also retains numerous **brownfield sites**—disutilized and contaminated industrial and other sites tracked by the Environmental Protection Agency—that weigh heavily on their surrounding communities. A total of 489 brownfield sites are spread across Indiana's OZs. Nearly one-quarter of them are in the Central region, followed by the Northern, Northwest, and East Central regions. Brownfield sites are most frequently found in city center (22 percent) and mixed-use districts (58 percent).

Brownfield Locations



Source: U.S. Environmental Protection Agency

OZs can be used to give such properties a new lease on life. Final regulations promulgated in late 2019 helpfully provided beneficial rules for making such investments, allowing for remediation costs to be put towards substantial improvement requirements, for example. Already OZs are helping to finance the redevelopment of one of the country's largest brownfield sites: The 26-year-plus abandoned DuPont facility in East Chicago, IN, which is in the process of being transformed into the 225-acre East Chicago Logistics Gateway, tapping into the site's favorable position on road, rail, and air networks. Few brownfield sites are of such massive scale, and OZs may be an even better fit for smaller projects.

Public sector leverage points

Regulations finalized at the end of 2019 provide important points of influence to local governments and allow communities to better address vacancy and blight.

Addressing Vacancy: *Vacant property acquired by a state, local, or Tribal government and then sold or leased to an Opportunity Fund or Qualified Opportunity Zone Business qualifies as original use.*

- Public entities such as local governments, port authorities, or land banks, can sell property they have involuntarily acquired to a qualified Opportunity Fund and have the substantial improvement test waived. This may give public entities significant leverage in shaping the course of a project, and it also presents them with an opportunity to offload properties they have acquired through foreclosure, abandonment, or other means to foster new economic development.

Favorable Leasing Terms: *State, local, and Tribal governments are exempt from the market-rate leasing rule, which otherwise requires leased tangible property to be market rate in order to qualify as QOZ business property.*

- Favorable leasing rules for Federal, state and local government property allow public entities to enter into below market-rate lease arrangements with OZ investors that again may give them leverage to shape investments towards their community priorities. For example, a local government could lease land to a developer on favorable terms if the developer commits to constructing affordable housing, or public space could be leased on favorable terms to a minority business incubator.

Some additional aspects of the final regulations that may usefully inform local strategies include:

- Additional flexibility for vacant property to qualify as original use. Final regulations encourage OZ investments into vacant properties by allowing for the substantial improvement test to be waived on purchases of properties that have been vacant for at least three years. This provision gives investors a strong incentive to acquire, rehabilitate, and reactivate existing properties.

- Brownfield remediation (land and buildings) can be treated as original use. In practice, this means that the OZ benefits can extend to any part of a brownfield site redevelopment, from costly and time-consuming clean-up and time-consuming clean-up and decontamination to new construction itself.

- Aggregation of certain buildings to be treated as a single property for purposes of the substantial improvement test. For projects or redevelopment sites that span many different pieces of property, investors are allowed to apply the substantial improvement test to the whole project, rather than each individual component part.

Of course, all OZ investments are subject to state and local rules and regulations, including zoning, which give local leaders significant leverage in setting the terms under which OZ investments come into their communities.

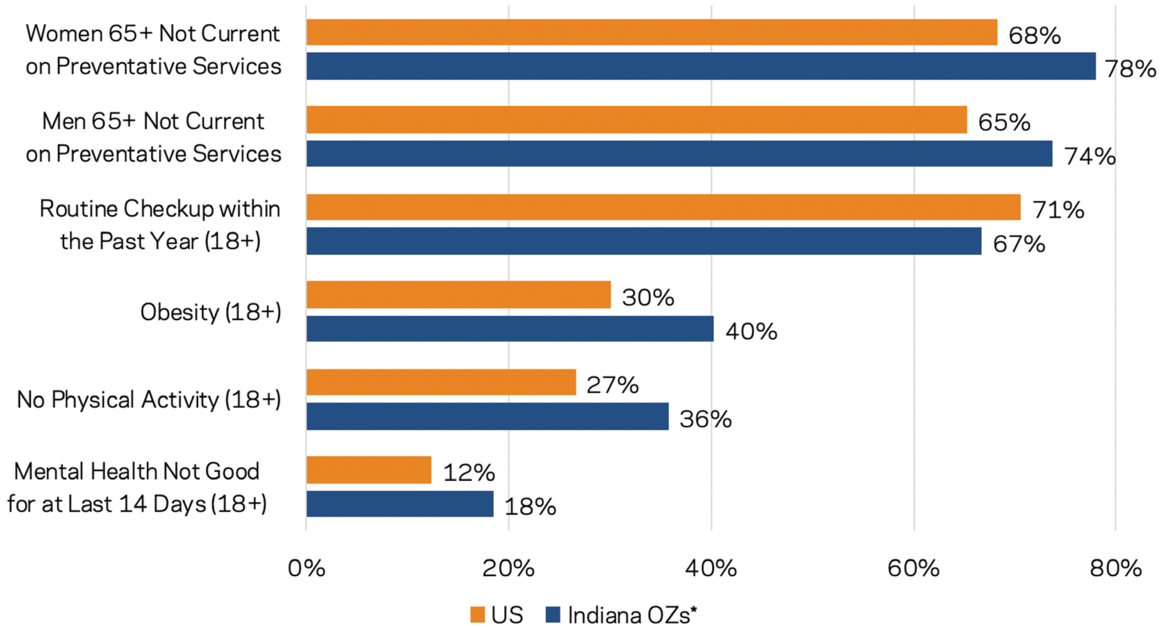
Improve resident health

Especially in light of the COVID-19 pandemic and the longstanding, deeply-rooted gaps it has laid bare in health conditions that afflict the country's most disadvantaged and marginalized populations, local leaders should consider how OZs can help improve health outcomes in communities.

The need is great. Fine-grained neighborhood-level health metrics are only available through the Center for Disease Control's 500 Cities database for the state's 11 largest cities, covering 51 percent of local OZs and 40 percent of the state's OZ residents.

On a range of metrics from this dataset tracking health outcomes and preventative practices, residents of Indiana's OZs perform worse than the country overall. Among the largest disparities are the share of adults regularly engaging in physical activity and the obesity rate among residents. The elderly population also appears particularly at-risk, as the population over 65 years old is about 10 percentage points less likely to have received a set of preventative medical services in the past year compared with the typical American.

Health Conditions of Residents



Source: U.S. Center for Disease Control and Prevention "500 Cities Project" data;
**Data for Indiana OZs is the average from 79 tracts in nine cities*

In many ways, livable communities that encourage walking and outdoor recreation are healthy communities, making this strategic priority closely related to the prior one. The quality of the built environment, open space, and safety all matter for improving baseline health in a community. Strong communities also foster better mental health—an urgent priority given that, across Indiana's urban OZs, nearly one in every five residents reported poor mental health even before the pandemic hit.

Food Deserts in Indiana's OZs

Region	Food Deserts in Opportunity Zones	Share of Region's Opportunity Zones
Central	10	24%
East Central	8	47%
Northeast	7	41%
Northern	6	46%
Northwest	10	45%
Southeast	3	43%
Southern	1	17%
Southwest	0	0%
Uplands	1	10%
Wabash Heartland	4	57%
West Central	3	60%

Source: U.S. Department of Agriculture's Food Access Research Atlas

Access to fresh, healthy foods is another cornerstone of a healthy community that is missing from too many OZs. Statewide, 53 OZs are considered **food deserts** by the U.S. Department of Agriculture. This means that residents of one-third of Indiana's OZs do not have access to a full-service grocery store within one mile in an urban area or 10 miles in a rural one. In the Central region, one-quarter of OZs are food deserts and in Northwest Indiana, fully half are. Local stakeholders may wish to prioritize partnerships with OZ investors that include plans to bring grocery stores to these underserved areas.

The quality of the built environment, open space, and safety all matter for improving baseline health in a community.

Hospitals anchor 23 of the state's OZs, and roughly 60 other OZs are adjacent to tracts with a hospital. This embeddedness and proximity make hospitals natural potential partners in local development strategies for around half of Indiana's OZs. OZs can help hospitals amplify their local economic impacts. Whether it is in building out a medical district, spinning out technologies, or diversifying into direct investments into the social determinants of health, there are several different ways the OZ incentive can interface with hospitals' economic development activities. As stable anchor institutions, potential OZ investors may be especially drawn to projects and proposals that have buy-in and commitment from major hospital systems. While some Indiana hospitals have proud track records serving their immediate neighbors, others still have room for improvement. According to a new set of rankings by the Lown Institute, a non-partisan think tank, on how well hospitals serve their communities based on patient outcomes, value of care, and investment in community health, 16 of the 28 large hospitals in the state receive an "A" or "B" grade, six receive a "C," and six receive a "D."

Case study: Investing in the social determinants of health

In Cleveland, OH, local healthcare system MetroHealth has made a $60 million direct investment into a 250-unit affordable apartment complex in its Clark-Fulton neighborhood, in a deal that includes Opportunity Zone capital. The surrounding neighborhood is predominantly Hispanic and has a poverty rate around 50 percent. MetroHealth's president and CEO described the new investment as "an opportunity for the hospital to contribute to revitalization of the Clark-Fulton neighborhood and to address the social determinants that impact the health of individuals and communities." The first floor of the building will house an Economic Opportunity Center that will offer job training and other services, and community meetings will determine the best use of the remaining commercial space.

*For more information, see PwC's "**Opportunity Zones program offers social determinants of health opportunities**" (2019). Source: "MetroHealth announces $60 million investment in Clark-Fulton Neighborhood," **Cleveland.com**, July 2, 2019.*

OZs can also finance healthcare infrastructure on much smaller scales. Traditional real estate style investments can help finance medical office space (as it is in Missoula, MT), healthcare training facilities (Butte, MT), urgent care or clinical facilities (St. Paul, MN), pharmacies and primary care providers (Brookville, IN), and other such outposts. An emerging market niche is taking shape in the form of elderly care facilities as well, with investments and Opportunity Funds operating in parts of the country as diverse as rural Alabama, Dallas, TX, and Seattle, WA. Public private partnerships around OZs in the healthcare space are also being formed. In Albert Lea, MN, OZ investors are cooperating on a new Veteran's Affairs Clinic, and in San Bernardino, CA, RevOZ capital is constructing new facilities for the county department of mental and behavioral health.

Provide quality, affordable housing

Housing is the cornerstone of individual economic well-being. With quality, stable, and affordable housing secured, individuals and families can thrive. They can save, plan for the future, and take risks. Physical and mental health improves.

Yet across Indiana's OZs, 51 percent of renting households are rent-burdened on average, seven percentage points higher than the rest of the state. Households are defined as rent-burdened if they spend 30 percent or more of their income on rent. At least half of renters are burdened in the average OZ tract in the Central, Southwest, Uplands, Northwest, and East Central regions. Tellingly and troublingly, the number of affordable apartments in the Indianapolis metro area fell twice as quickly as the number of low-income renters from 2011 to 2017.[2]

As documented by Harvard University's Joint Center for Housing and others, the nation is experiencing a housing crisis that works its way well up into the middle class and affects homeowners and renters alike.[3] The market not only under supplies affordable housing options, but so-called "workforce" housing—affordable to those earning between 80 percent and 120 percent of a local area's median household income—is also growing increasingly scarce across much of the country.

The pace of housing construction in OZs has not kept up over the past two decades relative to the state overall. On average, only 9 percent of housing structures in OZs have been built since 2000 compared to 16 percent statewide. The lack of newer structures contributes to the fact that fully two-thirds of the housing stock in Indiana's OZs was built prior to 1970. That share falls to just under half when looking at the state overall.

2, Joint Center for Housing Studies of Harvard University, https://www.jchs.harvard.edu/son-2019-low-rent-units-map
3. Joint Center for Housing Studies of Harvard University, "The State of the Nation's Housing: 2019."

Housing in Indiana

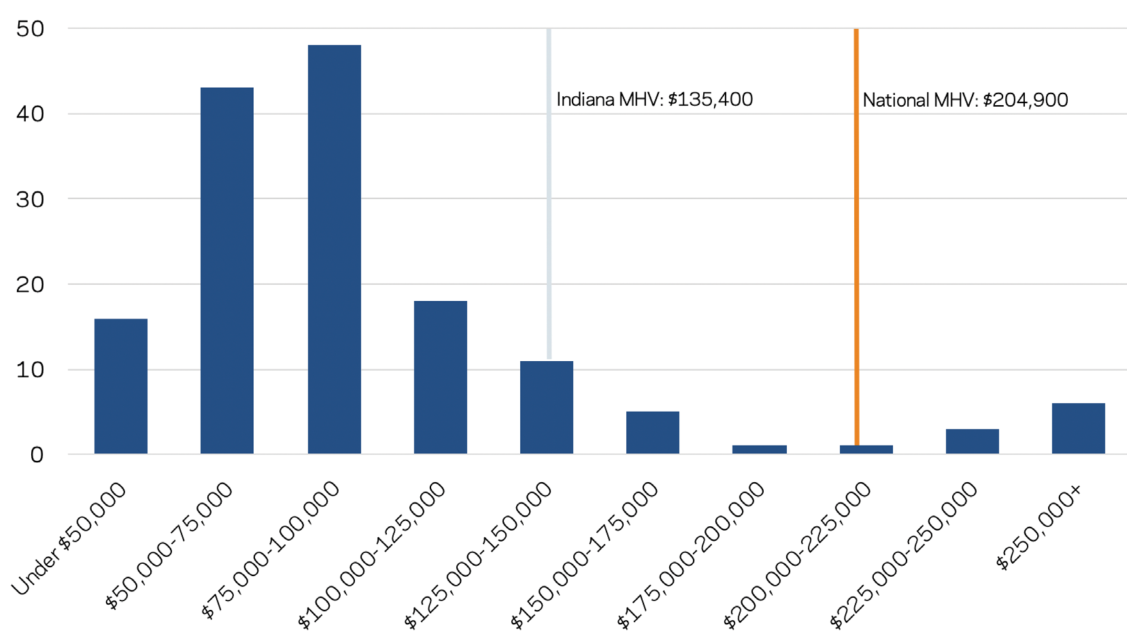
Geography	Median Year Housing Structure Built	Built Before 1970	Built Since 2000
Indiana	1973	45%	16%
Indiana OZs	1964	66%	9%

Source: EIG analysis of the U.S. Census Bureau's American Community Survey 5-Year Estimates, 2014-18

**Note: Median year housing structure built reflects average across all OZs; data for 40 OZs was not available.*

In many communities, OZs included, the quantity of housing stock available is less of a problem than the *quality* of it. As the above table shows, in economically struggling urban areas, aging suburbs, and rural areas, the existing housing stock is getting old. With age often comes deterioration—especially when combined with the low home values that prevail in many Indiana OZs. The median home is worth less than $100,000 in 70 percent of the state's OZs. In these circumstances, the economic incentives for maintenance and refurbishment are undermined. The longer communities go without substantial investment into the local housing stock, the more difficult it is to secure the private financing needed to repair, revitalize, and even finance new purchases, trapping communities in a state of disinvestment and devaluation.

Number of Indiana Opportunity Zones in Each Median Housing Value Band



Source: EIG analysis of the U.S. Census Bureau's American Community Survey 5-Year Estimates, 2014-18

Housing is also important for economic development and talent attraction. Mobile workers who can choose where to live and work will be drawn to places with a high quality of living and affordable, comfortable housing options. They will bypass communities that offer neither—further undermining local development efforts to attract new residents and new investment. Figuring out how to break the chicken-and-egg cycle is mission-critical to many community and economic development groups in urban and rural areas alike.

OZs may be able to help by changing the conventional economics of investment and allowing places and their public, private, and philanthropic partners to concentrate resources and commitments to individual neighborhoods where a critical mass of activity or a well-placed spark could begin to set the neighborhood on an upward trajectory.

Across the country and in markets such as Indiana, OZs are financing all types of housing development, but most commonly multi-family apartments at all price levels, from affordable through workforce all the way to luxury. Typically, multiple partners and funding streams are required to provide rents that are affordable to low- and moderate-income residents. The OZ incentives appear to make many workforce housing developments profitable with no extra help, making this a niche popular with both investors and local leaders, who are eager to fill the housing gap for middle-wage earners such as teachers, nurses, and other essential workers. The feasibility of workforce housing under the incentive also extends the reach of OZ investment capital into markets that may not be able to support pricier developments. For example, OZ finance is currently helping build workforce housing in both Indianapolis and rural Seymour, in the Southeast region.

V. Baselining current engagement

Indiana stepped out of the gates and quickly accumulated some of the most exciting OZ initiatives and developments in the country over the course of the policy's first two years:

- The **Opportunity Investment Consortium of Indiana** (OICI), led by LISC and supported by the Fifth Third Foundation, rapidly activated the state's community development sector and positioned itself as a statewide networking hub for impact-minded OZ investments. The consortium's creation helped raise awareness of OZs faster among key constituents than in many other states.

- Small-town **Brookville, IN**, became a national inspiration for other rural communities when residents leveraged OZs to revitalize historic buildings along the town's Main Street, open the town's only hotel, and save the local newspaper.

- The **East Chicago Logistics Center** in Northwest Indiana is one of the nation's largest OZ-financed projects to date, encompassing hundreds of acres of industrial brownfields that had lied economically dormant—and chemically contaminated—for decades.

- **Greenwave Opportunity Fund**, based in Indianapolis, has some of the most ambitious plans in the country to utilize the OZ incentive to invest in green and clean technologies and energy infrastructure.

- Cleantech startup **10X Engineered Materials** in Fort Wayne was one of the first known businesses to harness OZ capital to finance its growth.

- **Affordable and workforce housing** is already being constructed in Indianapolis, Bloomington, Evansville, and Jackson County utilizing OZ capital.

- Purdue University's **Rural Opportunity Zones Initiative**, a partnership with the state's Office of Community and Rural Affairs, is building the capacity of high-need rural counties to attract and deploy OZ investment. It is one of the few rural-focused OZ initiatives in the country.

These examples make clear that many members of Indiana's civic and business communities have risen to the entrepreneurial challenge presented by OZs and are determined to make this new economic development tool work for their communities. Yet, given the potential scale of the opportunity, engagement across the state and particularly among the investor community could be significantly greater. To fully maximize what OZs can do for Indiana—especially given the acute spike in need generated by COVID-19—the state must focus on two things: raising more local capital for local investing and increasing the capacity of stakeholders to understand and deploy this new financing tool.

Sizing the investment opportunity

According to our analysis of data tracked by the advisory firm Novogradac and Company obtained in early Spring 2020, there are a handful of Opportunity Funds raising money for particular projects in Indiana, and a sizable number of Indiana-based investors have launched closely-held Opportunity Funds for particular projects (many of which are mentioned in this study). Nevertheless, no investors or fund managers have emerged with a vehicle to pool investors and dollars across multiple projects and multiple communities across the state.

There is a significant base of local wealth that could be tapped to invest in Indiana's OZs. In 2017, approximately 447,000 Indiana households claimed capital gains on their tax returns, for a net win of over $8 billion. Realized capital gains are a limited proxy for the total stock of unrealized capital gains held by Indiana households and corporations, but the scale of the flow variable hints at just how large the stock of wealth in the state may truly be. Only a fraction of Hoosiers would need to channel a portion of their gains into Opportunity Funds to quickly assemble a significant amount of investment capital dedicated to strengthening Indiana communities through this federal incentive.

In a mature OZ marketplace, sustainable streams of capital will be channeled to locally-driven projects and growing businesses in diversified portfolios of OZ investments. However, the marketplace remains young in both Indiana and the nation, and few dedicated place-based Opportunity Funds have yet formed. When they do (and newly promulgated regulations make them possible), they will present an efficient on-ramp into OZ investing for local investors who want to do well by the state but may not have the desire or expertise to manage their own proprietary Opportunity Fund or source a pipeline of deals. The availability of these funds is almost a prerequisite for broadening investor participation in OZs and seeding a culture of investing locally, or "local-vesting." Meanwhile, the absence of such funds may drive motivated Indiana-based investors to place their capital out-of-state. Regulations issued at the end of 2019 make such funds possible, as evidenced by the place-based funds popping up in Wisconsin, rural Colorado, and South Los Angeles. Civic and business leaders, high net worth individuals, and philanthropies may wish to consider taking the initiative to launch similar funds or series of funds to further jumpstart the ecosystem in Indiana.

Mapping Indiana's OZ ecosystem

Early efforts to build a statewide OZ ecosystem through the Opportunity Investment Consortium of Indiana (OICI) have borne fruit, resulting in new cross-sector partnerships and community-aligned investment. Investment is occurring, both independently and as a direct result of OICI, to support a wide range of economic and community development activities. City leaders have taken proactive measures to attract investment through the development of investment prospectus documents. Efforts to align state programs to OZs have already driven additional public resources to high-impact projects eligible for OZ investment.

Much of this work aligns with activities that are occurring in other communities throughout the nation, many of which have been catalogued by the White House Opportunity and Revitalization Council (WHORC). The Council's May 2020 **Community Toolkit: Volume II** offers a five-pronged approach for spurring economic growth through OZ investments. The approach is informed by national best practices, and it is utilized here as a framework for organizing the activity taking place in Indiana.

1. Understanding the current environment

Communities throughout the state are in various stages of solidifying their OZ strategy and engaging investors. Local efforts to assess market conditions, identify areas of economic growth, and catalogue local assets have been memorialized in OZ investment prospectus documents. The process of developing a prospectus triggers local partnerships and helps local leaders unify around a long-term economic growth strategy, communicate their competitive advantages, and identify and market sound investment opportunities that are ready for public, private, and civic capital. Examples of OZ prospectus documents span the state: **South Bend**, **Fort Wayne**, **IndyEast Promise Zone**, **Indianapolis**, **Muncie**, and **Michigan City**.

As many as six additional prospectus documents could be rolled out in the near future thanks to Indiana's initiative to help OZs deliver for rural areas. The Purdue Center for Regional Development (PCRD) has partnered with the Indiana Office of Community and Rural Affairs (OCRA) to launch the state's Rural Opportunity Zones Initiative (ROZI). The initiative is supported by a U.S. Department of Agriculture grant and is designed to deliver the technical assistance and capacity-building support needed to help maximize OZ designations in the state's rural communities.

Communities throughout the state are in various stages of solidifying their OZ strategy and engaging investors.

In August 2019, the counties of Crawford, Daviess, DeKalb, Knox, Newton, and Switzerland were selected to participate and are currently in various stages of stakeholder engagement, asset and economic analysis, and prospectus development. Communities have prioritized the following needs: increased availability of affordable single-family starter homes, senior housing, and apartments across the affordability spectrum; expanded access to broadband; commercial space and industrial warehouses; and investments in infrastructure that supports economic activity.

Leaders in Switzerland County are specifically focused on improving livability and diversifying the local economic base by expanding access to broadband, increasing the supply of affordable homes, and attracting new employers. These priorities are deeply intertwined: the extent to which the county may be able to attract new employers is tied to the quality and affordability of their housing stock as well as broadband access, demonstrating the interdependent nature of core needs in many distressed communities. The flexible design of the OZ policy allows investors and communities to tackle a wide range of economic growth pains with one incentive.

2. Aligning assets to steer investment toward local priorities

The prospectus documents position investment opportunities through an asset-based mindset. In them, communities pitch investors on their competitive advantages by highlighting local partnerships and collaborations, city- and county-owned land available for development, or the strength of established or emerging economic sectors. The City of **Muncie** promotes its cluster of medical-educational companies that are reshaping the city's post-industrial economy. **South Bend** highlights recent investments in research and development, human capital, and digital infrastructure, and the **IndyEast Promise Zone** elevates community-backed investment opportunities informed by a decade's worth of work aligning residents, major institutions, and community partners.

Additionally, each prospectus document identifies federal, state, and local financing tools that can be leveraged alongside the OZ incentive. Being forthcoming with this information increases transparency about the local funding environment and signals a willingness to dedicate public resources and incentives to the right OZ-driven transactions. The availability of additional financing and demonstration of community commitment can serve to influence decision-making when investors, Opportunity Funds, and businesses are evaluating multiple options across more than 8,700 OZs nationwide. In aggregate, the six prospectus documents noted above identify more than 30 unique programs, incentives, or designations that may inform decisions on how stakeholders engage, or do not, in Indiana's OZs.

Case study: Activating Local Investors in Brookville, IN

In the **town of Brookville**, IN, a pair of local business owners that recently had a sizable capital gain upon selling their company used OZs to channel their proceeds into a series of strategic investments that will strengthen their community:[4]

Valley House Flats - Community leaders engaged a local developer to renovate and build upon multiple properties along the city's main historic business corridor, creating a new mixed-use development consisting of new apartments and retail space. The project will address community priorities: new homes that are affordably priced for the local workforce, and space for neighborhood-serving businesses including a restaurant, pharmacy, and primary healthcare provider. The Indiana Housing and Community Development Agency provided an allocation of Rental Housing Tax Credits to finance an assisted-living facility for income-restricted senior citizens, and has supported Valley House Flats through other means of financing and project guidance. The OZ investment provided by local residents served as the final source of financing required to advance the project.

Whitewater Publications - The same investor gave the town's local newspaper a second-lease on life by making an OZ investment to modernize its operations and equipment. The investor acquired the Whitewater Publications to steward the business, which was founded in 1833, into its "next iteration."

Stay Cobblestone - With two investments completed, the OZ investor encouraged other Brookville residents to co-invest in an Opportunity Fund, which provided financing to develop the town's first hotel.

*For more information, see LISC Indianapolis, "**Community leaders use OZs to bring new life to small town Indiana**," December 2019.*

4. LISC case study

Case study: Creating an Innovation District in Fort Wayne, IN

Fort Wayne identified its flagship **Electric Works** project as a top ten investment priority in its prospectus, providing information highly valued by investors such as the availability of an economic incentives package and that the redevelopment plan had been approved. The former 18-building General Electric campus will soon undergo a massive renovation and be transformed into a mixed-use district focused on innovation, energy, and culture. It is one of the largest redevelopment projects in the nation. Located in an OZ just south of downtown, Electric Works is slated to make a substantial contribution to the city's economic growth strategy; increasing the local middle-wage income, reinvigorating adjacent neighborhoods, and supporting efforts to diversify the local economy as well as attract and retain top talent.

To support the historic preservation and adaptive re-use of the campus, developer and project sponsor Ancora leveraged multiple sources of public and private financing and remains open to using OZ equity to further capitalize the project. The Indiana University Research and Technology Corporation and not-for-profit health care provider Parkview Health are amongst confirmed future tenants, in addition to Fort Wayne Community Schools, which will open a new STEAM-focused public high school on-site. Ancora anticipates Electric Works will provide a meaningful boost to the local economy, creating more than 1,500 direct jobs once stabilized and generating more than $200 million in tax revenue for the state over 20 years.

3. Assembling tools and incentives to promote local objectives

Some of the most powerful ways that state and local governments can drive desired outcomes in OZs include targeting public resources and incentives, providing enhanced funding to support high-needs communities and high-impact projects, and removing unnecessary bureaucratic red tape or project requirements that would dissuade an investor from entering the local market. The state has taken several efforts to align and enhance public resources with OZs. As discussed below, two distinct initiatives led by the Indiana Housing and Community Development Authority (IHCDA) and IEDC seek to position projects that expand the availability of quality, affordable housing or support community revitalization and historic preservation efforts for OZ investment. While IHCDA and IEDC have taken different approaches to prioritizing OZs, their goal is ultimately the same: to increase investment that breathes life into Indiana's distressed communities.

IEDC: Redevelopment Tax Credit. Launched in 2020, the Redevelopment Tax Credit is a revision of the state's expired Industrial Recovery Tax Credit that provides an incentive for investment in the redevelopment of land and buildings that have sat vacant for a minimum of 15 years, as well as brownfields over 50 acres. An additional allocation of credits may be awarded if the project qualifies for New Markets Tax Credits or is located in an OZ. Eight of 14 project applications received in January during the first allocation round were located in OZs. Ultimately five projects located in OZs were chosen to receive an award, supporting revitalization efforts in Marion, Lafayette, Evansville, Indianapolis, and Crawfordsville.

Case study: Engaging Startups in Marion, IN

The city's historic National Bank building is currently being transformed into a mixed-use property with residential, professional, and retail space. The newly named **Ridley Tower** will be carefully preserved blending multiple sources of financing including federal Historic Tax Credits. In an effort to attract startup businesses to downtown Marion, the project sponsor partnered with the Grant County Economic Growth Council to host a pitch competition for local entrepreneurs. The winner secured a one-year lease at Ridley Tower, rent-free.

IHCDA: Qualified Allocation Plan. IHCDA has been proactive in seeking new and varied opportunities to build a strong OZ ecosystem that benefits every corner of the state. IHCDA prioritized OZs in the **State of Indiana 2020-2021 Qualified Allocation Plan** (QAP) which guides allocation and funding determinations for Rental Housing Tax Credits (RHTCs), Multifamily private activity tax-exempt bonds (Bonds), the Indiana Affordable Housing and Community Development Fund (Development Fund), and HOME Investment Partnership (HOME) funds in conjunction with RHTCs.

While IHCDA and IEDC have taken different approaches to prioritizing OZs, their goal is ultimately the same: to increase investment that breathes life into Indiana's distressed communities.

IHCDA considered 43 applications in the 2020-21 RHTC award cycle. Approximately one-third of project sponsors requested OZ preferential points, indicating they had secured soft commitments from OZ investors. In November of 2019, IHCDA awarded the 2020 RHTC allocation to 18 developments, six of which were located in OZs and seeking OZ investment. The six developments are not concentrated in any one market or community typology, but are in fact located in rural, small city, and urban areas throughout the state.

Diversifying the sources of capital that support public projects is a top priority for IHCDA, as doing so enhances its ability to maximize the impact of its own limited resources and increase the number of residents and communities it serves. Encouraging project sponsors to capitalize on OZ designations and attract new sources of private financing to deals allows IHCDA to redirect tax credits, bonds, and subsidy and therefore potentially support more projects per award cycle.

Case Study: Aligning Investments with Community Plans in Indianapolis

The Wesmont project in Indianapolis is illustrative of how multiple sources of public financing can be leveraged to attract investment that supports activities aligned with local priorities. Located on a former industrial site in the city's federally-designated **Promise Zone** (IndyEast), project financing will support multiple community priorities, including: attracting private investment to a historically underinvested community, creating new apartments which will be affordable to low-and moderate-income residents, and remediating the brownfield on which The Wesmont will stand.

Public and private financing and incentives were assembled to bring The Wesmost to fruition, including: Opportunity Zone equity through Woodforest-CEI Boulos Opportunity Fund, equity facilitated through a state tax credit program, a tax abatement provided by the City of Indianapolis, as well as federally-backed and conventional debt executed through Merchants Capital, a mortgage banking company based in Carmel, IN.

OZ investors provided $4.6 million in equity to support The Wesmont, including the Woodforest-CEI Boulos Opportunity Fund, which made a $3 million OZ investment in the project. Other sources of financing for The Wesmont include loans from Freddie Mac, equity derived from approximately $460,000 in state Industrial Recovery Tax Credits, and a 10-year, $1.47 million tax abatement granted by the city. The tax abatement requires 90 percent of the 188 units to remain affordable for 15 years to residents earning 60 - 100 percent Area Median Income (AMI).

As part of this project, the developer, **TWG Development**, also plans to renovate an existing Indianapolis Public School maintenance facility and the historic Polk stable building to provide commercial and office space for tech businesses and nonprofit uses.

4. Partnering with aligned organizations to support equitable and inclusive opportunities

The enactment of OZs has spurred the formation of new community development ecosystems and innovative cross-sector partnerships throughout the nation as public, private, and philanthropic stakeholders began collaborating to implement local strategies and attract investment. People who would otherwise not have a reason to be in the same room—OZ residents, business owners, policymakers, real estate developers, investors—came together with the shared goal of making OZs work for their communities. Local networks have been strengthened and the connectivity between communities and investors improved. This will be a legacy of the policy far larger than any individual project.

- **Opportunity Investment Consortium of Indiana.** OICI is the state's leading effort to build an OZ ecosystem. Led by LISC and supported by the Fifth Third Foundation, OICI brings together multiple public, private, and philanthropic stakeholders with a vested interest in strengthening Indiana's OZ work, encompassing the State of Indiana, Cinnaire, Indy Chamber, Indiana Bond Bank, IEDC, OCRA, IHCDA, the Indiana Association of Cities and Towns (AIM), Prosperity Indiana, CenterPoint Energy Foundation, and Indiana Economic Development Association.

  Consortium members, or implementation partners, convene on a regular basis to advance initiatives that encourage long-term community-aligned private investment into the state's OZs. The consortium has generated dividends locally even beyond OZs, formalizing a loose network of actors in the community development space that has allowed them to improve delivery systems for capital and technical assistance that support the people and small businesses in OZs—the very systems COVID-19 is now testing.

  In addition to establishing a collaboration framework for other states and communities to emulate, OICI launched one of the first state-wide OZ investment portals designed to connect impact-minded investors with community-aligned projects. The portal provides visibility to project sponsors and businesses throughout the state that otherwise would not have access to a network of potential investors—a major barrier to investment that disproportionately impacts rural, minority, and disadvantaged communities.

- **Other innovative partnership models.** Throughout the state, there are several examples of ways in which aligned OZ stakeholders have partnered to leverage the tax incentive to deliver results aligned with local priorities. Early models of collaboration such as those showcased here—the Kenzie Academy and The Forge on Main—can be tailored to meet varying needs and assets of different communities across the state.

Case study: Preparing Residents for 21st Century Jobs in Indianapolis

Kenzie Academy trains students for the digital economy, offering online and campus-based learning opportunities. The academy's campus is located in an OZ, which positions the company to raise growth capital from OZ investors. As an alternative to college, Kenzie Academy provides technology apprenticeships that prepare students for 21st century jobs.

In 2019, the company formed a **partnership** with Hypothesis Ventures, a company founded to support and invest in startups in underserved markets and OZs. The partnership elevates Kenzie Academy graduates as candidates for open positions within Hypothesis Ventures' portfolio of startups. Hypothesis Ventures supports companies making an impact in advanced industries such as digital healthcare, artificial intelligence, mobile, and software services. Through this partnership Kenzie Academy graduates will be well positioned to secure living-wage jobs in growth sectors.

This partnership demonstrates how OZ investors can align with workforce training programs to support a common goal. Hypothesis Ventures' investments are strengthened by the high-caliber employees they are able to recruit to their portfolio of startups, and the preferential hiring treatment of Kenzie Academy graduates creates a competitive advantage in attracting and retaining local talent.

5. Tracking investment and measuring impact

Presently, there is no formalized framework at the state level for measuring the impact of OZ investments or the efficacy of resources targeted to OZs. Tracking investment and impact has been left to OZ stakeholders to elect to do on an optional basis.

Nevertheless, some actors in Indiana's OZ ecosystem are leading the way. The Woodforest-CEI Boulos Opportunity Fund investing in Indianapolis is structured to evaluate investment opportunities through the lens of impact. The fund's stated objective is to invest OZ capital in real estate projects that promote public welfare, and the social and environmental impacts of proposed investments are evaluated by the fund's social impact advisory board. Additionally, the fund has adopted the **OZ Framework** developed by the U.S. Impact Investing Alliance, Beeck Center at Georgetown University, and the Federal Reserve Bank of New York to measure and report the impact of their investments.

Unsurprisingly, OICI has also dedicated itself to program evaluation. The consortium's case study on the Brookville investments demonstrates that the consortium positions the state well to either formally or informally adopt an impact tracking framework. Just as importantly, it demonstrates one of the reasons why tracking and codifying impact is so critical: at this early stage of market development, resources that chronicle emerging best practices are essential tools for scaling impact and building capacity.

Case study: Working with Local Funders in Evansville, IN

The Forge on Main will bring 180 new market-rate and workforce apartments as well as almost 16,000 square feet of commercial space for neighborhood-serving retail to the Jacobsville neighborhood of Evansville. The project is being developed on the site of a former grocery store, which has sat vacant since January 2018. Evansville is a designated federal Promise Zone, and within the city, Jacobsville stands out as having an acutely high need for reinvestment. In 2017, nearly **$14 million in public funding** was invested through the Jacobsville Complete Streets Improvement Project in the hopes of attracting private investment along the Main Street corridor where The Forge on Main is now being constructed by House Investments.

The neighborhood lacks adequate housing options for employees working at the handful of major companies located in close proximity to the project. By building homes that are affordable for working families, House Investments is helping to address a housing gap in the local market. Rents at The Forge on Main were made affordable thanks to multiple unique financing solutions, one of which was devised with OICI founding member, CenterPoint Energy Foundation.

As part of an ongoing commitment to support community vitality and affordable housing, the foundation provided a grant to a registered 501(c) 3 organization, the Partnership for Affordable Housing, Inc., which converted the grant to a loan for The Forge on Main. The concessionary terms on the loan provided an overall cost savings to the project. That cost savings will be passed on to residents in the form of lower rents. Once the loan is paid off, the grant capital used to originate the loan and any interest earned will be redeployed to finance more affordable housing.

The Forge on Main also received $3.85 million in OZ investment, a separate equity investment from a local mission-aligned investor, as well as local and state incentives from the City of Evansville and a quasi-governmental state agency valued at approximately $6.75 million.

VI. Strategies for delivering investment and impact

Across the nation, cities and states are developing strategies to maximize OZ designations and investment into projects and businesses that generate positive impacts for the community.

For example, a powerful combination of civic entrepreneurship, local leadership, engaged private sector, and committed anchor institutions has resulted in the formation of a dynamic new community and economic development ecosystem in Alabama centered around OZs. State-wide efforts led by an independent non-profit organization, Opportunity Alabama, have yielded multiple OZ investments and the development of a $1 billion pipeline of opportunities in rural and urban communities targeting blight removal, brownfield redevelopment, historic preservation, affordable, senior, and market-rate housing, industrial facilities, commercial storefronts, retail spaces, and startup businesses. The organization spearheaded a major overhaul of the state's economic development policies with the Alabama Incentives Modernization Act and has adeptly pivoted to fill gaps in the small business safety net painfully exposed by the pandemic. Alabama demonstrates that OZs can deliver for sidelined communities and for parts of the country that other federal programs typically bypass. However, Alabama also demonstrates that OZs are most powerful as catalysts for local initiative. Local initiative is what creates a vibrant new investment ecosystem out of an otherwise obscure new provision of the tax code.

Local initiative is what creates a vibrant new investment ecosystem out of an otherwise obscure new provision of the tax code.

Our research and discussions identified two binding constraints on the further expansion and maturation of the OZ marketplace in Indiana: capital and capacity. First, Indiana needs to unlock more local capital for local investing. That job will be made easier by attending to local capacity, or the degree to which affected stakeholders understand OZs and can deploy the tool. There is ample room to further upgrade capacity on all sides of the OZ marketplace—among communities (community and economic development groups, government officials); among investors (fund managers, advisory service providers); and among potential investment recipients (local business owners, real estate developers, and entrepreneurs).

The following strategies borrow from those that have been applied or are being considered throughout the nation. They are offered as opportunities to build upon the good work that has already been accomplished in Indiana, address those binding constraints, and meet local goals of attracting OZ investment in projects and businesses that can forge a dynamic and resilient economy, foster livable communities, improve resident health, and provide quality and affordable housing.

The policy has already taught never to underestimate the power and value of bringing people together.

Beyond the suggestions below, however, the state should not take for granted the importance to attending to the basics: raising awareness, forging connections, educating, conversing, and brainstorming. States that convened diverse stakeholder groups early got off to a head start in the first two years of OZs, but the world is now very different. COVID-19 has dialed up the urgency around stabilizing and renewing neighborhoods. The policy itself finally has a regulatory framework supporting it (and new applications of the incentive), and there is ample inspiration to be drawn from the ferment of activity currently taking place across the country. In its short life, the policy has already taught never to underestimate the power and value of bringing people together. Leadership should consider whether the time is right to again organize around OZs to spark new connections and ideas that can strengthen local economic development ecosystems for the recovery ahead.

1. Establish a statewide OZ coordinator

The most community-aligned engagement from OZ investors is taking root in places where someone—a person or organization—is fully dedicated to cultivating a pipeline of high-impact deals and investor relationships. Places such as Alabama, Colorado, and Baltimore, MD, have at least one full-time employee serving as an OZ coordinator for the city or state, and they have created a long-term framework for directing resources to OZs and measuring impact.

Philanthropic organizations have provided grants to support these efforts, acknowledging the coordinator's importance in advancing equitable outcomes in communities. OZ coordinators educate and engage private investors and support local efforts to attract investment. They serve as wayfinders and brokers of information, are trusted intermediaries and advocates of the communities they work with, and are invaluable to outside investors given their unique insights on local market conditions and dynamics. Coordinators also implement state frameworks for targeting resources and incentives, providing regulatory relief and increased transparency to encourage capital flow, and evaluating the impact of OZ investments and state initiatives.

Efforts led by the OICI have laid the foundation for a framework that encourages collaboration and coordination and marries OZ investments and community-identified priorities. If Indiana chooses to establish a statewide OZ strategy and establish a coordinator position, it should be done in alignment with OICI efforts. Establishing a long-term OZ framework will create the certainty needed to attract investments and ensure state initiatives are efficiently aligned for impact.

2. Create a centralized online directory of essential OZ information

One of the most powerful ways to foster an investable environment is to facilitate the flow of relevant information between state and local governments and OZ stakeholders. States such as Maryland, California, and New Jersey have established digital "one-stop shops" or centralized directories for OZ investors, communities, and potential investment recipients (startups, growth businesses, or project sponsors) containing information about the incentive, who may qualify for what, and complementary state and local resources. Many also showcase the state's own priorities for OZs, and some even contain databases of vacant and underutilized properties in OZs (some publicly-owned, some private) that are primely positioned for redevelopment.

One of the most powerful ways to foster an investable environment is to facilitate the flow of relevant information between state and local governments and OZ stakeholders.

Build a database of vacant and underutilized property

Insights from local stakeholders indicate there are latent assets in OZs that, if activated, could be anchors for transforming distressed neighborhoods into communities of opportunity. The state can inventory vacant and underutilized land in OZs available for redevelopment, and it can encourage local governments and anchor institutions such as universities, hospitals, faith-based organizations, and major employers to do the same. Once complete, the full inventory can be displayed online in one place so OZ investors and other aligned stakeholders can explore opportunities. To the extent possible, both publicly- and privately-owned assets should be included.

In Fort Wayne, the majority of the investment priorities identified in the city's prospectus include the development of city- or county-owned land. The strategy aims to promote urban infill and create value on underutilized parcels. In Tuscaloosa, AL, Stillman College partnered with an Opportunity Fund, a hospitality group, and Opportunity Alabama to **develop a teaching hotel** and mixed-use residential and commercial project on its campus. Stillman College has the option to ultimately purchase the hotel for its long-term use at the end of the investment holding period.

Site-control of land is proving to be a key impact lever across the country. A ground lease structure can be used on both public and private land. Such a model can reduce overall development costs, which can result in higher returns for investors, deeper community impact, or both. Further, in such situations the owner can typically dictate that the future use of the property addresses local needs. This strategy was recently used in Washington, DC, at MLK Gateway I. Project sponsors executed a **ground lease with the city** to redevelop vacant land and dilapidated storefronts along a Main Street corridor and transform the property into a hub for local commerce, innovation, and community activity. Similarly, tech startup company Fifth Seasons **leased land** from Allegheny County to locate its fully-automated vertical farming operation in an OZ in Braddock, PA. The investment will expand local access to fresh food through community programs, build a bridge to jobs, and help to reinvent the former steel town's economy. The city and county facilitated the investment not by offering Fifth Seasons any public subsidies, but rather by allowing it to forgo a lengthy permitting and approvals process, mitigating risk and accelerating timelines.

One way to mitigate that risk and attract investment is by removing unnecessary hurdles where possible.

Opportunity Funds and Qualified Opportunity Zone Businesses are bound by strict timing mandates tied to the deployment of capital eligible for the OZ incentive. Investors will evaluate whether projects can move through the approvals and entitlement process with certainty when making decisions on where to place capital. One way to mitigate that risk and attract investment is by removing unnecessary hurdles where possible. When publicly-owned land is leveraged, it may be easier to provide by-right approvals and provide relief from local regulatory requirements.

List federal, state and local resources and incentives

To provide OZ stakeholders with insights on the full breadth of incentives and resources from which any investment stands to benefit, the state or other designated lead entity should catalogue and provide a list of federal, state and local resources and incentives that can be leveraged alongside OZ financing. The prospectus documents developed by communities throughout the state do a good job of listing the numerous resources and incentives available in individual communities, and an analogous list can be compiled and elevated at the state level.

Identification of incentives and complementary sources of financing

Federal, state and local resources and incentives highlighted in local prospectus documents:

Local
- Tax Increment Financing
- Real and Personal Property Tax Abatements
- Vacant Building Abatement
- H.I.R.E.D.
- Workforce Training

State
- Community Revitalization Enhancement District Tax Credit
- Redevelopment Tax Credits
- Skills Enhancement Fund Workforce Training Grant
- Venture Capital Investment Tax Credit
- Economic Development for a Growing Economy Payroll Tax Credit
- Hoosier Business Investment Tax Credit
- Patent Income Tax Exemption
- Research & Development Incentives
- Industrial Development Grant Fund
- Technology Enhancement Certification for Hoosiers

Federal
- Promise Zones
- Historic Tax Credits
- New Markets Tax Credits
- Community Development Block Grant
- Home Investment Partnerships Program
- HUBZone Designation
- Rental Housing Tax Credits

3. Enhance and align public resources to strengthen OZ communities and shape the market

States can mirror efforts initiated by WHORC at the federal level to align programs and resources behind OZs and reduce regulatory burdens as it sees fit for investments that align with the state's priorities and goals. Similar measures have been implemented or proposed in states across the nation in order to strengthen OZs and influence the behavior of OZ stakeholders in certain directions. For example, Maryland's Opportunity Zone Enhancement Program, enacted in 2019 through the More Jobs for Marylanders Act, authorized financial assistance to certain business and revitalization projects in OZs and established a state income tax credit for certain investments into qualified workforce housing in OZs, among many other things. Similarly, provisions in the Alabama Incentives Modernization Act are designed to foster impact-oriented OZ investments by offering aligned state-level capital gains tax breaks, potential state investment dollars, and new impact investment tax credits to mitigate risk and close financing gaps on especially meaningful projects. Locally, IHCDA and IEDC have already taken steps to target resources to OZs by providing preferential scoring or enhanced credit allocations to qualifying projects. In many cases, states are repurposing existing appropriations to support OZ projects that meet local criteria and have already won competitive awards—seeing a chance to piggyback off of the federal incentive to amplify the impact of their own scarce resources.

The state should review its policy tools in the following four realms and consider if and how it wishes to align them with OZs in order to nudge the young marketplace toward particular ends:

- Programs and incentives to support growing businesses
- Startup accelerators, capacity building, and workforce training programs
- Credit facilities to seed investment
- Programs or grants to monitor and measure impact

Programs and incentives to support businesses

Some states and localities are trying to broaden the impact of OZ designation by aligning certain small business support policies with OZs in multipronged efforts to strengthen local economies. Many such policies and programs support businesses located in OZs, regardless whether those businesses are directly receiving OZ equity investment. New tax exemptions have been enacted in Maryland communities and West Virginia, for example: In Maryland, two counties **waived sales tax** on equipment and supplies for qualifying OZ investments. In West Virginia, the state allows taxpayers to **deduct business income** from newly registered businesses located in OZs. Michigan, for its part, has set procurement targets from small businesses located in OZs and other low-income communities.

Some states have been even more intentional in targeting the incentives they choose to extend to OZs. For example, South Carolina and Washington, DC, either offer or have proposed sales tax rebates or waiver of select taxes and fees for grocery vendors that open stores in food deserts. The suite of **supermarket tax incentives** offered in Washington, DC, predates OZs, but the city prioritized food deserts in its OZ nominations, hoping that the suite of related incentives—exemptions from real and personal property taxes, business license fees, and sales and use taxes on building materials necessary for construction—paired with OZ tax incentives would meaningfully accelerate the development of grocery stores in zones.

Many states are focused on encouraging the creation of high-quality jobs in OZs. Maryland has enhanced a number of **economic development tax credit programs** for eligible businesses and investors engaged in OZs. A proposed measure in South Carolina provides

additional jobs tax credits to businesses operating in the most distressed OZs. New Mexico offers **performance-based grants** for capital improvement projects in OZs. Eligible New Mexico businesses must meet threshold criteria tied to local priorities, such as jobs created, annual payroll generated, and average salaries, in order to receive the grant.

Startup accelerators, capacity building, and workforce training programs

Communities with investment-ready businesses and a prepared workforce provide ample opportunity for investors. Efforts that build local capacity and provide training to current OZ businesses and residents also serve to ensure that equitable and inclusive economic growth are achieved.

Several promising efforts to prepare underserved entrepreneurs for OZ investment have been launched. Most notably, the state agency leading OZ efforts in Colorado has partnered with a local business accelerator to launch the state's **Opportunity Zone Capital Accelerator Program**. Over the course of one year, the Colorado Office of Economic Development and International Trade and the Colorado Center for Innovation for Community Capital (CC4ICC) will provide technical assistance to 12 local businesses to support their capital raising efforts. CC4ICC will provide technical assistance, help develop business plans and materials, and make connections to OZ investors in the state.

In Washington, DC, the **OZ Justice Accelerator,** administered by local non-profit 20 Degrees and funded by a city grant, coached a cohort of four formerly incarcerated entrepreneurs successfully operating small businesses in tech, hospitality, transportation, and the general services sectors on attracting OZ investment. The accelerator provided technical assistance, customized business planning services, trainings, and opportunities to pitch prominent local investors. A similar pitch-style competition was hosted by We Grow KC and the chamber of commerce in partnership with local government entities in Kansas City, MO, to **elevate opportunities** for venture capital in the city's OZs. Meanwhile, New Jersey's Economic Development Authority has doubled the state's **Angel Tax Credit** for investments made in OZs as well as other low-income communities and women- or minority-owned businesses.

Indiana leaders may also wish to consider supporting incubator or accelerator programs aimed at helping would-be fund managers launch mission-oriented Opportunity Funds. The research and development costs associated with launching and managing an Opportunity Fund can present a formidable barrier to entry for small or undercapitalized yet capable organizations. The Kresge Foundation, based in Detroit but supporting equitable growth in cities nationally, provided a grant to Calvert Impact Capital to support an **incubator program** for mission-oriented potential Opportunity Fund managers. Calvert provided technical assistance to help with fund structuring and other legal, tax, and accounting considerations. One participant, the Renaissance HBCU Opportunity Fund, has gone on to become an active OZ investor and support historically black colleges and universities in formulating and executing their own plans to attract OZ investment.

Lastly, states and localities can help investment translate more directly into real economic opportunity for local residents by aligning workforce training incentives with OZs. In early 2019, Maryland focused its **EARN workforce development grant program** directly on OZs and allocated $3 million to establish "Opportunity Works," a job training program specifically for businesses in OZs. In Washington, DC, real estate projects in OZs that create career pathways for residents are prioritized for **workforce development funds**, and project sponsors and businesses located in OZs that participate in the city's On the Job Training Opportunities program can be reimbursed for up to 75 percent of wages for 6 months per trainee.

Credit facilities to seed investment

A number of local stakeholders, especially those operating in rural communities concerned with quality affordable housing, noted concerns about securing financing in places with few new starts or market comps. OZ financing has successfully broken the impasse in a few cases in situations such as these, in communities that have not attracted meaningful private investment for quite some time. This is true in Brookville, IN, as well as Flagstaff, AZ, where OZ financing was utilized to develop **new affordable for-sale homes** in a community that had not seen any new construction for approximately 15 years.

However, OZ investment is rarely the sole source of capital supporting any deal, and project sponsors often need to secure additional sources of financing to move ahead. Inability to secure financing, not-withstanding the creditworthiness of the project, can tack on time and costs, chilling investor interest and lowering returns. To get around this, cities and states are leveraging low-cost credit facilities to accelerate revitalization and position community-aligned OZ stakeholders for success. Such credit facilities can be capitalized by state government as in Virginia; a local anchor institution as in Erie, PA; a foundation as in The Forge on Main in Evansville, noted above; or by blending any number of sources of capital to provide preferable terms and the appropriate level of funding.

In order to expand capital access to community-aligned OZ stakeholders, Virginia created a **$50 million credit facility program** to support property acquisition. The program includes restrictive covenants pertaining the future use of property (i.e. affordable housing mandates) and timing. As borrowers access the credit facility to secure acquisition financing and beat out speculative purchasers, the program may prove to provide the added benefit of boosting transactions in OZs. Borrowers must abide by the covenants, whereas land acquired with private debt could sit without improvement in perpetuity.

A similar strategy has been adopted by private and civic stakeholders to revitalize Erie, PA's, downtown core. The Erie Downtown Development Corporation (EDDC), which has become a qualified OZ business, leverages a dedicated revolving loan fund capitalized by Erie Insurance along with other sources of capital to acquire and assemble property. Erie Insurance, along with Arctaris Impact Investors, has also **committed OZ equity** for downtown revitalization with the support of The Erie Community Foundation. Long-term, concessionary debt from the loan fund will be replaced with OZ financing from the partner organizations once EDDC is ready to begin construction on its properties. This strategy for staging the combination of debt financing and OZ equity has accelerated the city's downtown redevelopment timeline five-fold.

Impact monitoring and measurement

Absent a statutory or regulatory framework for monitoring and measuring OZ activity at the federal level, it is left to states and localities to implement their own regimes using whatever leverage points they have. For example, states can require registration, data, and other information in exchange for receiving reciprocal tax treatment. In addition, emerging best practice has enhanced transparency requirements for OZ investments benefitting from state grants, programs, or incentives. Measures enacted through Maryland's Opportunity Zone Enhancement Program and the Alabama Incentives Modernization Act aim to do just that.

In this vein, in its May 2020 ***Opportunity Zones Best Practices Report***, the WHORC directly encourages states to play a key role in identifying, tracking, and measuring OZ investments. Efforts to do so may not yield a comprehensive inventory of all OZ activity happening throughout the state, but they can procure deeper insights into the OZ marketplace, investor behavior, project needs, and the efficacy of local initiatives to attract investment.

In addition, state and local governments can leverage the high demand from project sponsors to share investment opportunities as an opportunity to capture data. The majority of cities and states actively committed to measuring the impact of OZ investment are leveraging online platforms such as The Opportunity Exchange (TOE) to do so. TOE has baked a social impact and reporting framework into its online OZ platform, which elevates investable opportunities to potential investors. Inspiration can be drawn from their framework and implemented through OICI efforts, such as the Investment Portal.

4. Activate residents, businesses, and community stakeholders

As demonstrated in Brookville, engaging the local investor base can be a powerful way to spark new energy and economic activity locally and unlock OZ investment for projects and businesses that strengthen the community. Beyond individuals and families, major employers, philanthropic institutions and similarly aligned community stakeholders with vested interests in the quality and livability of OZs can be activated in various ways, including via additional investment carrots, the creation of place-based Opportunity Funds, public-private partnerships, and tailored strategies to reach anchor institutions and philanthropy. Models for success that can inspire local initiative can be found all across the country.

Additional investment carrots

Two of Indiana's peer states have enacted measures to provide state capital gains tax relief as a way to enhance the federal OZ incentives and encourage local investors to invest locally. Wisconsin enacted legislation to enhance the state OZ benefits in early 2020, and Ohio provides a state tax credit on individual income valued at 10 percent of qualified investments made in Opportunity Funds. In both circumstances, the additional incentives can only be claimed by investors domiciled in the state and only if capital is invested within the state. Each state's fiscal situation and priorities are unique, but for states hoping to keep local capital investing in-state, rather than flowing to a neighbor or even farther afield, such enhancements may be important to consider. The state could also choose to only extend any extra capital gains tax relief for investments into priority geographies (e.g. rural), asset classes (e.g. startups), or use cases (e.g. affordable housing).

Such carrots may make especially large differences in border areas, such as rural Switzerland County in the Southern region or urban Lake County in the Northwest. Indiana counties that border adjacent states may have difficulty attracting capital from investors whose home state provides additional OZ investment incentives, such as tax credits and reduced tax liability on state capital gains. For example, Switzerland County is located only one hour from Cincinnati, Ohio, yet the county's ability to appeal to Cincinnati-based investors is limited due to Ohio's OZ tax credit.

OZ Legislation or Policies in Neighboring States

State	OZ Policy/Legislation
Ohio	• **Enacted in 2019:** HB 166 - Created the Ohio Opportunity Zone Tax Credit program, which allocates up to $50m worth of individual income tax credits (up to $1m per taxpayer) equal to 10% of the amount of money a taxpayer invests into a qualified Opportunity Fund making qualifying investments in Ohio. To qualify, the fund must be 100% invested in Ohio OZs. The credit may be claimed in the taxable year in question or carried forward for up to five years.
Michigan	• *Introduced in 2019:* SB 378 – Would offer a complementary state research and development tax credit that scales up and down with the level of R&D expenses incurred by a taxpayer within an Opportunity Zone. • **Executive Directive 2019-8:** Calls on all state agencies to prioritize geographically-disadvantaged businesses when allocating government contracts and set a goal that at least 3 percent of the Michigan Department of Technology, Management, and Budget's expenditures would go toward procurements from businesses within OZs or HUBZones by 2023.

Kentucky	•	*Introduced in 2019:* Kentucky Rural and Opportunity Zone Jobs Act, HB 203 – Would establish a new "Growth Fund Tax Credit" equal to the amount of any taxpayer's investment into the growth fund up to 20 percent of the total allocation. Credits could be applied to investments into growth businesses in targeted sectors and located in designated "growth zones," which include rural counties, underemployment zones, and OZs.
Illinois	•	**2020 Illinois Opportunity Zones Initiative** - The Department of Commerce and Economic Opportunity (DCEO) announced a new initiative to invest $12 million to support investment in Illinois' OZs. DCEO invited communities and stakeholders to compete for capital grants to support projects. Grant applications will be judged on a project's prospects in terms of job creation, community support, project readiness and viability, the availability of matching financing, alignment of the project with the Governor's economic plan, and ability of the project to have a positive economic impact in communities of need.
Wisconsin	•	**Enacted 2020: HB 532** - Complementary state tax credits that mirrors federal OZ policy by offering an exclusion of 10 percent of deferred gains if an investment is held in a Wisconsin OZ for five years or 15 percent if the Wisconsin OZ investment is held for seven years (applies to income and franchise taxes)

Place-based Opportunity Funds

Across the country, a handful of state and local governments have worked with private fund managers to create place-based Opportunity Funds with an explicit focus on supporting priority activities in certain communities. This strategy can be utilized to capture home-grown capital and direct OZ investment to areas where it may be most impactful. After Wisconsin enacted enhanced OZ benefits, the City of Racine took measures one step further. Local leaders worked to launch Wisconsin's first state-wide Opportunity Fund to capture interest generated by the enhanced incentive from potential investors committed to their state. **The Badger State Opportunity Fund** is dedicated to partnering with public- and private-sector allies to support investments in real estate, business expansions and new business startups throughout the state.

Similar approaches have been taken to create city funds as well. The City of Coatesville, PA, for example, has announced the **Coatesville Impact Fund**, developed by Activated Capital of New York, which plans to invest up to $25 million to support single- and multi-family housing, small commercial properties, and local businesses.

Public-private partnerships

Throughout the nation, state and local governments are engaging OZ stakeholders through public-private partnerships (P3). State and local governments have a proactive role to play in facilitating OZ investment and local ecosystem development. Models for leveraging publicly-owned assets, executing anchor lease agreements in new developments, participating in innovative collaborations, providing grants and technical support to seed OZ strategies, and blending multiple streams of financing in order to close capital stacks have been established and are ripe for replication. Further, managers of Opportunity Funds are increasingly turning to P3 models to support economic recovery and mitigate various forms of investment risk.

Mission-based Opportunity Fund RevOZ Capital partnered with Sudweeks Development and Investment Co. and the County of San Bernardino to create **new space for the county's Children's Department of Behavioral Health**. RevOZ and Sudweeks Development developed a build-to-suit medical office building that will be leased to the County of San Bernardino for 15 years. Elsewhere, Arctaris Impact Investors (Arctaris) launched an **initiative in response to COVID-19** whereby the fund works with cities to identify investment opportunities and provides 80 percent of project financing to winning deals, while cities will work with local businesses and philanthropy to provide the additional 20 percent.

Similar public-private partnerships can be established to expand affordable options for homeownership. One state housing finance agency is leveraging its homebuyer programs to create a model for connecting Opportunity Funds to a pipeline of potential buyers that have access to favorable mortgages. Having an identified source of takeout financing (homebuyers) creates certainty and mitigates risk for investors, which could be especially helpful in attracting OZ investment to rural communities where modest, single family housing is generally prized.

Major employers and anchor institutions

Anchor institutions and employers have vested interests in the economic well-being of their communities and can play an outsized role in strengthening OZs. Across the nation, Fortune 500 companies, major universities and colleges, healthcare systems, and faith-based intuitions have engaged in local OZ strategies, provided capital to support OZ transactions, anchored OZ developments, and leveraged vacant and underutilized property to attract OZ investments.

Anchor institutions and employers have vested interests in the economic well-being of their communities and can play an outsized role in strengthening OZs.

The opportunity to activate major employers and anchor institutions is abundant in Indiana. Three of the seven Fortune 500 companies headquartered in the state are located in an OZ. Twenty-three OZs are anchored by a hospital, and roughly 60 other zones are adjacent to tracts with a hospital. And 13 OZ tracts either contain or are immediately adjacent to major colleges and universities.

In Erie, PA, Fortune 500 company Erie Insurance Co. launched a **$50 million proprietary Opportunity Fund** with its own capital gains to support local economic development and entrepreneurship. Erie Insurance just announced its first investment to support a local tech startup as well as a partnership with Arctaris Impact Investors to support a **$40 million investment** in the city's downtown core. In addition to OZ equity, major employers and anchor institutions can deliver a suite of financing resources such as grants, debt, and even credit enhancement through unfunded guarantees to support OZ activities. For example, Erie Insurance also capitalized EDDC's revolving credit facility for downtown revitalization noted earlier.

IHCDA's **Anchor Employer Workforce Housing Program** offers another model for how these stakeholders can leverage their assets to enhance livability and seed investment. Program participants, currently French Lick Resort, Impact CNC, IU Health, and Zimmer Biomet, are required to match a $1 million grant from the state and use aggregate funding to develop workforce housing in their communities. OZ equity could be leveraged alongside where eligible.

Adopting a proactive OZ strategy can help colleges and universities amplify their economic development impact.

As noted earlier, anchor institutions can leverage other assets such as underutilized and vacant property to catalyze investment and drive impact as well. In Bethlehem, PA, OZ equity was used to **transform a vacant building** on Lehigh University's campus into 30 apartments and ground floor retail through OZ investment.

Major employers and anchor institutions are also leveraging the OZ designation to directly support local businesses, entrepreneurs, and workforce development. In Cleveland, OH, MetroHealth's planned **$60 million investment** in the community adjacent to hospital's main campus will include commercial space for a jobs center, in addition to affordable and working housing and neighborhood-serving retail. At MLK Gateway I in Washington, DC, the tech firm Enlightened, which is both project sponsor and anchor-tenant for the development, will provide dedicated space in their new office for an incubator for minority tech entrepreneurs and mentorships. Entrepreneurs will benefit from this co-location model not only by networking with a major employer, but also by being able to solicit investment as qualifying OZ businesses themselves.

Case Study: Piloting a New Capital Stack Structure in Cincinnati, OH

High-capacity local developers are leveraging OZ financing to close complicated capital stacks and advance projects that will serve critical community needs, create jobs, and expand local economic growth.

In September 2020, the National Equity Fund, Inc. and Fifth Third Bank announced OZ **investments in the Midwest** totaling $25 million in equity to support the development of nearly 300 apartments for low- and moderate income families, as well as commercial space. A portion of this capital was invested in the **Willkommen** project located in Cincinnati, OH's, Over-the-Rhine neighborhood. Project sponsors, The Model Group and the Cincinnati Center City Development Corporation (3CDC), used 13 sources of financing to develop this scattered site, mixed-use, mixed-income project. OZ capital was leveraged alongside Low-Income Housing Tax Credits, New Markets Tax Credits, federal and state Historic Tax Credits, conventional debt, and local subsidies.

Willkommen consists of the rehabilitation of 16 historic buildings and development of four parking lots into new buildings, and has been in the works for nearly four years. The project is part of a broader strategy led by **3CDC** to address a **40,000-unit deficit of affordable housing** in the city and county. More than 40 percent of the 163 new apartments that will be delivered by mid-2022, will be available to people making 50-80 percent of the Area Median Income (AMI). Willkommen also includes nearly 20,000 square feet of first-floor commercial space across a twelve building footprint. Project sponsors aim to fill half of the retail space with **Black-owned businesses**, and are working with business owners currently operating in properties slated for redevelopment to ensure that they are not forced to close or leave the neighborhood.

The NEF Fifth Third Opportunity Fund portfolio of investments is demonstrative of how local developers can wield OZs to enhance a projects' capital stack and impact. The activities supported through this financing is aligned with the intent of the OZ policy, and the capital stacks piloted by these project sponsors can be replicated to advance similar community development efforts throughout the nation.

Adopting a proactive OZ strategy can help colleges and universities amplify their economic development impact. The 13 OZ tracts in Indiana that either contain or are immediately adjacent to major colleges and universities are spread out across different regions in the state and include many incubators, accelerators, and business districts serving the college community. These zones are well-positioned to be part of universities' startup, tech transfer, and technology commercialization strategies, given that equity investors have good reason to seek out promising university-affiliated startups that are qualified OZ businesses thanks to the potential tax benefits offered by the incentive.

Philanthropic support

The Knight Foundation's report ***How Philanthropies Leverage Opportunity Zones***, laid out seven ways philanthropies can engage with OZs to drive the market towards impact:

1. Coordinate convenings between governments and other key stakeholders.
2. Help design and market prospectus documents.
3. Aid in the collection of data.
4. Support workforce readiness and entrepreneurship.
5. Enhance the capacity of existing organizations within OZs.
6. Reward innovative ideas through competitions and "challenge grants."
7. Help synthesize and share information.

By getting engaged, philanthropies can help establish market norms in this young and evolving space.

Philanthropic organizations can also be engaged to support financing and convene local capital, given their connections to high net worth individuals and other financial institutions.

Funders have provided grants to support local capacity-building efforts across the nation, including in Indiana. The first OZ coordinator position was created in the City of Baltimore and funded by The Abell Foundation. The foundation provided the grant to the Baltimore Development Corporation (BDC), where the coordinator is employed, and the BDC agreed to staff this position for the city. Cleveland, OH's, OZ initiative, Opportunity CLE, was supported by The Cleveland Foundation and The George Gund Foundation. In Kansas City, MO, The Ewing Marion Kauffman Foundation has been a leading force in convening communities around OZs and was one of three partnering organizations that launched the city's OZ initiative, We Grow KC.

Even more directly, the **Kresge Foundation** provided guarantees to two impact-oriented Opportunity Funds committed to transparency and impact reporting. The guarantee helps to mitigate investment risk by providing first-loss protection, thus enhancing the funds' ability to raise capital. CenterPoint Energy Foundation's engagement at The Forge on Main can also serve as a model for supporting developers and businesses battling issues around capital access while preserving and maximizing grant capital.

With community foundations serving each of the state's 92 counties, there is an opportunity for local philanthropy to convene community capital. For example, community foundations can educate donors on leveraging OZs and tap Donor Advised Funds to support high-impact projects in zones. Community foundations are also well-positioned to support the types of activities that will attract OZ investment but are not necessarily an investment opportunity, such as providing community amenities. For example, IHCDA's placemaking program leverages a crowdfunding platform through program partner Patronicity and matches funds raised 1:1 to support activities such as playgrounds, preservation tours, trail security, and community charrettes. Aligning with IHCDA's **CreatINg Places** to support placemaking activities in OZs could be a good fit for community foundations, as well as local philanthropic groups in general.

By getting engaged, philanthropies can help establish market norms in this young and evolving space. The U.S. Impact Investing Alliance and The Beeck Center for Social Impact and Innovation at Georgetown University have emerged as powerful advocates for data, transparency, and mission-mindedness in the market, and many of their members and affiliates now lead by example. Both organizations partnered with the Federal Reserve Bank of New York to develop the **OZ Framework** which provides recommendations on impact evaluation and reporting. The Kresge Foundation supported piloting and testing of the Urban Institute's **Opportunity Zone Community Impact Assessment Tool** in Cleveland and Cuyahoga County, OH. The Sorenson Impact Center based at the University of Utah has done more than almost any other organization to share and scale best practices in order to shape the new market through its **OZ Catalysts Challenge** competition, which recognized civic innovators and entrepreneurs harnessing the OZ incentive for transformative change in distressed communities. Such an award competition could be adapted fruitfully to a state such as Indiana, where one of the threshold challenges for unlocking OZ impact lies in raising awareness of the incentive itself and its diverse range of applications.

VII. Conclusion

Across the country, the places seeing the most robust and aligned investment activity in their OZs are ones that have jumped right in to facilitate a new local investment ecosystem into existence. Early returns show the importance of tending to all sides of the marketplace: building an investor base, cultivating a deal pipeline, engaging residents and communities, educating businesses eligible for investment, and building the capacity of local governments and liaisons. The results in Erie, PA, across the state of Alabama, on the Western Slope of Colorado, and indeed in Brookville, IN, speak for themselves.

There was no shortage of economic and community development priorities that needed financing before the pandemic. Need has only grown more acute since—especially in struggling low-income communities that were only getting by, if at all, when times were good. OZs open up a new financing stream for an extremely wide set of use cases. From providing quality, affordable housing to reinvigorating Main Streets and supporting startup ecosystems, OZ equity can help close financing gaps, accelerate timelines, and magnify impact.

Yet while OZs can be accelerants for community development and catalysts for new ecosystems, the incentives offered by the policy are no panacea for many of the deep-seated issues plaguing historically disinvested communities. OZs are a new tool in the toolbox. The associated incentives influence the viability of certain investments on the margins. Transformational impact comes when they are deployed thoughtfully, strategically, and creatively—often as part of a larger community plan.

The GPS Project gives Hoosiers just such a hook to provide their OZ ambitions strategic focus. This long-term economic and community development tool can help finance the next generation of businesses that will secure the state's prosperity. OZ capital can be harnessed to reinvigorate Main Streets and preserve legacies, be they proud local firms or the heritage of the built environment. OZs can help build vibrant, inclusive places that make Indiana a magnet for talent. And by being a market-based tool that integrates seamlessly into local economies, OZs can be a catalyst for building wealth and restoring economic opportunity in parts of the state where both are sorely lacking. Already disparate actors across that state have seized the opportunity to deploy this new tool, positioning Indiana as an emerging national leader on the OZ stage. The task now is to build off that early momentum, scale it as the market matures, and orient it around a clear vision of a stronger, more resilient, and more inclusive Indiana economy.

Acknowledgments

EIG and the American Enterprise Institute would like to thank Lilly Endowment Inc. for its generous support of this project. The authors are extremely grateful to the Central Indiana Corporate Partnership for their counsel and feedback throughout. We also wish to thank the Indianapolis-based team at the Local Initiatives Support Coalition and the broader Opportunity Investment Consortium of Indiana for their counsel and hospitality throughout the course of this study. In addition, Carol Rogers with the Indiana University Business Research Center graciously provided us with a wealth of local data. Finally, the authors wish to thank the nearly 40 stakeholders from across the state who provided input into this report.