Prioritizing and Achieving Impact in Opportunity Zones

Opportunity Zones have captured the attention of investors, fund managers, policy makers and community advocates. Proponents anticipate that the policy will unlock billions of dollars to support vital community development projects and create economic opportunity in distressed areas. As interest in Opportunity Zones increases, it is important that early participants in the Opportunity Zones market maintain focus on achieving the purpose for which the policy intended: positive economic and social outcomes.

The tax benefits associated with the Opportunity Zones policy will allow investors to leverage more capital for projects in these communities while also reducing their capital gains tax bill. Many of the investors entering this market are doing so with an explicit goal of creating positive social, economic and environmental impact. But even where an investor's objectives are purely commercial, successfully investing in the Zones will require careful attention to existing community assets, needs and priorities.

For residents of these communities, and for the investors who will bring those dollars to bear, a clear approach to Opportunity Zones investment, guided by a shared set of principles and implemented through a common and flexible reporting framework, offers the best chance to deliver on the promise and potential of the Opportunity Zones policy.

The U.S. Impact Investing Alliance, the Beeck Center at Georgetown University, and the Federal Reserve Bank of New York recognized that a broad range of actors will benefit from a shared approach. Last year, the 3 entities convened multiple roundtables with community development investors, researchers, policy makers and other practitioners to discuss how to ensure that these investments result in meaningful and inclusive economic development. Following those discussions, the U.S. Impact Investing Alliance and the Beeck Center partnered to develop such an approach that we believe will allow stakeholders of all kinds to link their work to the emerging nationwide body of Opportunity Zones practice. Simultaneously this will enable each stakeholder to effectively measure and manage for the impact and outcomes they seek to achieve.

This document is specifically focused on how Opportunity Fund managers can thoughtfully deploy the capital they raise from investors. Fund managers will be responsible for identifying and tracking Opportunity Zones investments and as such will be well placed to collect basic market and impact data. Proactive efforts to do so will enable fund managers and their investors to understand the impact of investors and enable independent evaluators and researchers to more deeply analyze the long-term outcomes of the overall policy. This approach includes:

- **Guiding Principles**: We agree that Guiding Principles are core to effective and equitable Opportunity Zones investment and implementation.
- **Reporting Framework**: We agree that a Reporting Framework is necessary to promote beneficial Opportunity Zones investment at scale. This common approach should include a set of core criteria, while maintaining the flexibility to be effectively deployed by diverse stakeholder groups across a wide range of asset classes.

- **Shared Goal of Measuring Outcomes:** We understand that different entities including state and local government, industry groups and other organizations, serving multiple stakeholder groups, may seek out different types or amounts of data. We believe that the approach we outline here allows for each organization to develop deeper layers of data collection, building on the common Reporting Framework. We also believe that this approach is the most effective pathway to widescale deployment of the Framework and, ultimately, achievement of the outcomes sought by the Opportunity Zones policy.

Guiding Principles for Opportunity Zones Stakeholders

We are optimistic about the possibilities that Opportunity Zones and Opportunity Funds offer to combat economic inequality and barriers facing low-income and underinvested communities. We also believe that doing so will require focus on these goals, as well as diligent efforts to avoid unintended outcomes. These principles are designed to guide stakeholders, of all kinds, as they conceptualize and implement their Opportunity Zones activities.

1. **Community Engagement:** Opportunity Fund investors should request that fund managers integrate the needs of local communities into the formation and implementation of the funds, reaching low-income and underinvested communities with attention to diversity.
2. **Equity:** Opportunity Fund investments should seek to generate equitable community benefits, leverage other incentives and aim for responsible exits.
3. **Transparency:** Opportunity Fund investors should be transparent and hold themselves accountable, with processes and practices that remain fair and clear.
4. **Measurement:** Opportunity Fund investors should voluntarily monitor, measure and track progress against specific impact objectives, identifying key outcome measures and allowing for continuous improvement.
5. **Outcomes:** Opportunity Fund metrics should track real change, with an understanding that both quantitative and qualitative measures are valuable indicators of progress.

Opportunity Zones Reporting Framework

The Opportunity Zones Reporting Framework contains criteria that represent the shared, common and collective metrics that should be utilized by all stakeholders across the Opportunity Zones landscape. By introducing these consistent data points at the inception of Opportunity Zones implementation, we can ultimately gain a deeper understanding of activity across the Opportunity Zones landscape – what is working, where hidden barriers lie, and where policy adjustments or enhancements may be needed.

By enabling various entities, including state and local government, industry groups and other organizations, to develop additional layers of data collection on top of this common Framework, we seek to enable innovation in measurement, and impact, across asset classes and stakeholder types.

I. Investment Intention and Community Engagement: Opportunity Fund managers should proactively report information that will encourage effective market formation and enable community engagement before and during investments.

Prospective Information

- Geographic focus (state, zip code, urban focus, rural focus, etc.)
- Intended investment focus (housing, small business, growth business, etc.)
- Target investment size
- Mission statement or impact objective

Basic Fund Demographics

- Size of fund
  - Total assets
  - Eligible deferred gain assets
- Type of investor (corporate, individual filer)
- Tax-paying residence of investors (aggregated by state and portion of fund assets)
- Structure of fund (single, multi-asset)
- GP demographics (including racial and gender composition)

Community Engagement

- Community support indicators
  - Community engagement narrative
  - Community needs assessment
  - NGO partnership
  - Public notice of development
- Engagement with regional economic development strategies
  - *Example – Fund manager has conducted consultations with the relevant economic development agency.*

<u>II. Impact Measurement and Reporting</u>: Opportunity Fund managers should commit to tracking and reporting basic transaction-level data, a core set of community impact metrics that are widely applicable to Opportunity Funds and additional metrics applicable to the specific investment thesis and impact vertical(s) of the fund. These should be reported in a common standard to allow for regional and national aggregation of data.

Transaction Data Reporting

- Size of investment
- Location of investment (census tract or address)
- NAICS code of operating business
- Type of qualifying property

Core Community Impact

- Jobs
  - Number of employees
    - Permanent
    - Seasonal
    - Construction
  - Net new jobs created
  - Number of employees from LMI communities
  - Employment of targeted disadvantaged groups (i.e., returning citizens, veterans, etc.)

- Entrepreneurship (if applicable)
    - NAICS code of commercial tenants (real estate)
    - Percentage of woman- or minority-owned enterprises
    - Percentage of first-time business owners
- Real Estate (if applicable)
    - Affordable housing
        - Net new number of affordable units
        - Number of net additional individuals housed based on development
        - % of units that are affordable
        - Number of affordable units renovated
    - Square footage of real estate
        - Commercial
        - Residential
    - Infrastructure improvements

Investment Thesis Reporting – Fund managers should additionally select, measure and report on metrics specific to the investment thesis and impact vertical of the fund. Where possible, this should be done in alignment with validated third-party evaluation methodologies. There are many widely accepted methodologies, including, but not limited to AERIS, BLab, IMP, IRIS, iRR, etc.

- *Example:* Education and Training (if applicable)
    - Student transition rate (% of students transitioning from one level to the next)
    - Dropout rates
    - Truancy rates
    - Number of people receiving vocational or technical training for 21st century jobs
- *Example:* Environment (if applicable)
    - LEED certification/compliance
    - Other environmental impact standards

III. Lasting Community Impact: Opportunity Fund managers should seek opportunities to create durable community benefits by prioritizing responsible investment exit strategies where feasible.

Responsible Exits

- Attention should be given to exit considerations at the outset of investment. Side letters, term sheets or non-binding exit plans could provide various considerations, including:
    - Stakeholder first right of refusal
    - Employee stock ownership plans
    - Management continuity
- These formal provisions may not be appropriate for all funds and investors. In such cases, a broad commitment to preserve community wealth could be issued by fund managers without obligating specific action.

IV. Transparent Outcomes Reporting: While it is beyond the expertise and scope of most fund managers to perform rigorous impact outcomes assessments themselves, managers should commit to working forthrightly and transparently with independent evaluators and researchers.

Towards a Common Goal

Opportunity Zones are a powerful tool to provide improved quality of life and economic empowerment for underserved communities across the United States. We believe that, by utilizing the common approaches articulated in this document, we can enable an important collective step towards a shared and equitable future.

***DRAFT* Sample Reporting Form**

Mission statement: Key target impact of investments.

Investment Thesis: What are the sectors or industries in which the fund seeks to invest and why?

Commitment to report publicly: Yes/No

Fund information

- Size of the fund
- Location of capital deployment (census tracts)
- Type of qualifying property or business
- GP demographics (race and gender composition)

Intended impact: Defined for each fund and investment. [There are existing tools available for fund managers to help define, measure and quantify impact].

- Intended impact, e.g. (not limited to)
    - Education – high school graduation rates, school retention rates, job retained
    - Affordable housing – number of affordable units created as % of development
    - Jobs – number of jobs retained within community, % of salary increase for lowest paid employees
    - Entrepreneurship – number of new businesses started, number of female and minority owned businesses created
    - Access to healthy food
    - Environment impact

Community Engagement

- Method of community engagement
- Type of feedback incorporated
- Partnerships with local organizations and type of partnership
- Community needs assessment or alignment with established community priorities
- How investment is aligned with local/regional economic development strategies

Post-Exit Evaluation

- Community impact beyond hold period
- Variation from original intention