Testimony Before The Subcommittee on Environment of the Committee on Oversight and Reform

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"Jumpstarting Main Street: Bringing Jobs & Wealth Back to Forgotten America"

June 16, 2021

Introduction

Chairman Khanna, Ranking Member Norman, and members of the subcommittee, it is a pleasure to be with you today. This will be my fourth time testifying before Congress, but my first time testifying before the Environment subcommittee, so thank you for having me. I am the Co-founder and President of the Opportunity Funds Association (OFA), a trade association whose members are entrepreneurs, investors, developers and fund managers operating in Opportunity Zones. Through our members, we connect capital to overlooked areas improving lives, creating opportunities, and ensuring long-term economic growth.

This morning, I would like to discuss how Opportunity Zones are targeting private investment in areas of the country that have been deindustrialized and historically disadvantaged, and how Opportunity Zones can be expanded to help provide cleaner, more affordable, more secure energy. Further, I want to emphasize the importance of pursuing an infrastructure plan that makes significant investment in traditional infrastructure without crippling tax increases on small businesses and workers that would undermine the historic progress made prior to the pandemic in minimizing minority unemployment and raising minority incomes.

Prior to co-funding OFA, I served as the Majority Staff Director for the Senate Finance Subcommittee on Energy Natural Resources and Infrastructure and as Tax Counsel to Senator Tim Scott (R-S.C.) where I helped champion the Investing in Opportunity Act, legislation authored by Senators Tim Scott and Cory Booker (D-NJ) that became Opportunity Zones. IRS data shows that over $24 billion has been raised for investment so far with billions being raised in the midst of a pandemic. An August report from the Council of Economic Advisors estimates that Opportunity Zones will lift 1 million Americans from poverty and reduce poverty in designated zones by 11 percent. We also see operating businesses taking root in opportunity zones in critical industries such as clean energy. There are 475 solar energy installations producing more than 1MW of activity in Opportunity Zones, as well as 127 wind farms and 15 battery plants of at least the same capacity.

Jumpstarting Wealth On Mainstreet through Diverse Projects and Diverse Leaders

Hoosier Solar Holdings is embarking on a large scale solar build-out project in Indiana opportunity zones using OZ financing. They're operating under $20M in Opportunity Zone capital and have plans for six utility-scale solar projects across four counties in IN (Adams, Dubois, Rush, and Stark).

OBE Power, a Hispanic-led software company based in Miami, recently raised $300,000 in Opportunity Zone capital funding to expand EV charging infrastructure, with the goal of having 2,500 stations across the United States operational by 2023.

CIT Gap Funds and the Pearl Fund contributed a $3M Opportunity Zone investment in Micronic Technologies, a Virginia-based, woman-led clean technology company that developed "Zero Liquid Discharge" water purification technology, which reduces wastewater volume by 95 percent and removes over 99 percent of contaminants.

Two weeks ago, Alex Bhathal, Managing Partner of Opportunity Fund RevOZ, cut the ribbon on an 11,325 square-foot office project. The facility will house San Bernardino County's Children's Department of Behavioral Health (DBH), providing mental wellness care to some of the most vulnerable and underserved members of the community. The facility's location allows for synergy between the County's collective community resources, such as the San Bernardino County Office, San Bernardino Department of Health, San Bernardino County Public Defender, San Bernardino County Juvenile Court and local schools.

Rebuilding Existing Infrastructure

In many cases the greenest building is the one that is already built. America's legacy communities are full of once vibrant historic buildings that fell into severe disrepair when jobs and industry fled the urban core of many cities.

A vacant nine-story building near Detroit's New Center known for its giant bleeding rainbow wall mural is to reopen later this year as the city's latest food hall and office coworking space. The building will have a 14,000-square-foot food hall that will showcase local food entrepreneurs.

Opportunity Zone investors are transforming an unused industrial location in Midtown St. Louis into a mixed-use development serving local tenants. The investors worked with local and state governments to develop the brownfield location into a food hall, offices, grocery, entertainment, dining, theatre, and space for nonprofit entities. The development is expected to create 800 jobs.

Programs like historic preservation easements and tax credits can make it financially viable to protect and rehabilitate local landmarks instead of bulldozing them and filling up landfills. In my hometown, historic preservation firm GBX Group has leveraged a combination of historic preservation easements, tax credits, and Opportunity Zone incentives to preserve 14 historic buildings in Cleveland's Superior Arts District. Partnerships with the City of Cleveland, State of Ohio, and the Federal government have led to an influx of investment into buildings that have attracted hundreds of new jobs and generated millions of dollars in new tax revenue streams. GBX is also helping to save the birthplace of Jazz in downtown New Orleans, by preserving historic buildings targeted for demolition.

What Congress Should Do to Help

Pursue Infrastructure Investments Without Tax Increases
Increases in the corporate tax rates are ultimately passed through to consumers, investors and workers in the form of reduced employment opportunities. With current inflation rates of 12 percent, it is as if Congress imposed a 12 percent sales tax on the items American families need. Congress should not exacerbate economic distress tax increases. Congress should pay for a targeted infrastructure plan by allocating existing funds and the imposition of transportation fees. The White House and members of Congress have discussed plan that would provide $506 billion for roads, bridges and major infrastructure projects, including $4 billion for electric vehicles, $98 billion for public transit, $72 billion for water systems, $65 billion for broadband, $56 billion for airports, $46 billion for passenger and freight rail systems, $22 billion for ports and waterways, $22 billion for water storage, $21 billion for safety efforts, and $20 billion for infrastructure financing without raising new taxes.

Keep the Playing Field Level for Entrepreneurs
More than 90 percent of small businesses are organized as pass-throughs (sole proprietorships, LLCs, partnerships, or S corporations), not as corporations. This percentage is even higher for minority owned businesses. Because of TCJA, pass-through business owners can now claim a 20 percent deduction on their share of the business's income. The deduction is scheduled to sunset in 2026, Repealing this sunset will benefit millions of pass-through businesses and help level the playing field between small and large businesses.

Maximize Regulatory Clarity at IRS
In order to see historic preservation programs continue to benefit disadvantaged neighborhoods, this committee should press the IRS and Treasury to issue clear guidance to taxpayers, and work cooperatively with the preservation community to ensure these vital tools are effectively driving investments into inner cities across our country.

Encourage Cooperation on Opportunity Zones Across Agencies
As a part of an effort to target, streamline, and coordinate Federal resources to be used in Opportunity Zones, EPA awarded 155 grants for communities and tribes totaling over $65.6 million in EPA Brownfields funding the agency's Assessment, Revolving Loan Fund, and Cleanup Grant Programs. These funds will aid under-served and economically disadvantaged communities, including neighborhoods located in Opportunity Zones, in assessing and cleaning up abandoned industrial and commercial properties. Of the 151 total communities selected, 118 of these communities can potentially assess or clean up brownfield sites in census tracts designated in these zones. Congress should codify coordination across federal agencies to optimize Opportunity Zones and support community development.

Empower CDFIs
Congress should also consider allowing Community Development Finance Institutions (CDFIs) to receive equity investments as Opportunity Zone Businesses. CDFIs are already active as business and project lenders in distressed communities and have a deep understanding of a community's needs, strengths and weaknesses. Allowing CDFIs to take in equity capital from Opportunity Zone investors and then lend this capital out to entrepreneurs in on a larger scale would money in minority hands and minority communities.

Make Opportunity Zones Transparent

Perhaps the most important step Congress can take to optimize sustainable growth in Opportunity Zones is to pass a bill adding reporting and transparency requirements to the policy. Senator Tim Scott along with Senators Sinema, and Grassley introduced a bipartisan bill to this end last Congress. The bill would enable Treasury to collect key information on the location of Opportunity Zone investments, the types of businesses and projects attracting investment, and the number of jobs created. This information will enable Congress to adjust the policy to further incentivize investment in areas remaining underserved, and will demonstrate the viability of the policy as a community development tool.

Extend the Opportunity Zones Policy

Congress should finally consider extending this great policy. Investment in Opportunity Zones was first undermined by untimely regulations, and further hindered by the global pandemic. Extending the policy to account for the time and momentum lost would go far in bringing capital into distressed communities for benefit of existing residents.