To Whom It May Concern:

The Local Initiatives Support Corporation (LISC) is pleased to offer comments in response to the Request for Information relating to the Review of HUD Policy in Opportunity Zones (Docket Number FR-6155-N-01).

LISC is a non-profit housing and community development organization and certified Community Development Financial Institution (CDFI) with offices in 35 cities throughout the country, and a rural network encompassing 90 partner organizations serving 44 different states. LISC’s work supports a wide range of activities, including affordable housing, economic development, building family wealth and incomes, education, community safety, and community health. In 2018 alone, LISC raised and deployed approximately $1.5 billion of capital into low-income urban and rural communities – including over $1 billion in private equity capital through federal Low Income Housing Tax Credits and New Markets Tax Credits. We believe that the Opportunity Zones tax incentive has the potential to unleash tremendous amounts of patient, private capital into the underserved urban and rural communities that are the core of LISC’s markets.

**Overarching Comments**

LISC appreciates HUD’s efforts to coordinate its programs and related activities with the communities that have been designated by states as Opportunity Zones. Since the selection of these communities was delegated to state agencies, it is fair to assume that these communities are precisely the ones that states would like to target with investment incentives, and likely ones that are also being targeted by localities for development incentives. In that respect, there could be additional synergies if HUD were to align its programs with these communities. Furthermore, HUD can play a role in identifying Opportunity Zones that are “heating up” and that run the risk of displacing low-income community residents, so that they can target additional resources to help ensure the preservation of affordable housing in those communities. In fact, preservation of affordable housing would appear to be an important rationale for targeting HUD resources to Opportunity Zones.
That being said, HUD must exercise caution in devoting excessive resources to these communities, particularly at the expense of the approximately 75% of eligible low income communities that were not designated as Opportunity Zones. HUD programs are already dramatically underfunded. In inflation adjusted dollars, CDBG and HOME have been cut significantly over the past 20 years; and during the same period, HUD has shifted much of its housing budget from production of new housing to tenant-based rental subsidies. With fewer resources available for housing development, it would be unwise of HUD to further disadvantage communities that weren’t selected as Opportunity Zones by shifting vital resources away from them. HUD should therefore consider requesting from Congress the budget resources needed to support all of its communities, and to request additional resources to be targeted to Opportunity Zones as may be appropriate.

Responses to Selected Questions Posed in the Request for Information

1. How should HUD use its existing authorities to maximize the beneficial impact of public and private investments in urban and economically distressed communities, including Opportunity Zones?

LISC appreciates efforts that HUD has already taken to help facilitate investment activities in Opportunity Zones, including issuing a FHA Multifamily Notice which reduces mortgage application fees and expedites transactions for rental housing projects with FHA insured debt in Opportunity Zones. ¹

However, we would recommend significant caution to HUD with respect to prioritizing funding to Opportunity Zones. The common approaches of either directing funding to these communities or placing priorities or preferences as part of competitive applications strikes us a blunt tool. HUD should first determine whether the additional funds will be deployed in a manner that will in fact benefit the residents of the Opportunity Zones, by either: (i) facilitating investments by Opportunity Funds in support of projects that bring direct benefits to low income community residents; or (ii) facilitating investments outside of the Opportunity Fund structures to develop or preserve affordable housing as the communities start to gentrify.

In making these determinations, HUD would benefit greatly from being able to access real time data about the investments being made into Opportunity Zones – to determine which ones could use additional incentives to secure private investments, and which ones may be close to a tipping point and in need of HUD subsidies to prevent displacement of residents. Notably, the Treasury Department recently released its own Request for Information seeking feedback on Opportunity Zone data collection and reporting requirements. We would encourage HUD to weigh in with the Treasury Department to encourage then to collect data points, and share information through a Memorandum of Understanding, that will help HUD to have a real time sense of the investment activities in Opportunity Zones throughout the country.

Other ways in which HUD could further assist Opportunity Zone and other investments in affordable housing include:

• **Restarting the Rental Policy Working Group**, which was an interagency effort to streamline federal rental housing compliance requirements across various programs. One achievement from it was the use of a common capital needs assessment electronic tool for HUD and USDA Rural Housing Service programs. There are still many outstanding items identified by this group that could be restarted under the auspices of the White House Opportunity and Revitalization Council.

• **Expediting reviews of projects** that have secured Opportunity Zone investments or similar tax-incented investments from the private sector (e.g., projects utilizing Low Income Housing Tax Credits, New Markets Tax Credits or Historic Rehabilitation Tax Credits).

• **Restarting the HUD Section 542c Housing Finance Agency (HFA) Risk Sharing Initiative** with the Federal Financing Bank at the Department of the Treasury. This initiative allows housing finance agencies to receive low-cost, long-term debt for affordable housing. It could complement O-Zone investments in that the low-cost debt could help balance out the higher yields needed by investors and allow a deeper targeting of units to low-income families.

• **Allowing CDBG funds to be used** by municipalities to reduce permit and impact fees on Opportunity Zone projects that provide housing for low and moderate income households.

2. **HUD is considering creating an information portal on Opportunity Zones. What types of information should HUD include in such a tool? How can it be made accessible to and most usable by HUD’s various stakeholders and customers? If the portal includes information on Federal financing programs and incentives beyond those offered by HUD, what information would be most useful to include?**

HUD should consult with the Treasury Department before embarking on the creation of a portal. Many commentators wrote in response to the Treasury Department that, as the entity that is principally engaged in Opportunity Zone implementation, they should be more engaged in providing this kind of information to the public. To the extent the Treasury Department does not intend to engage in these efforts, then it may be appropriate for HUD to take a lead role.

However, the best role for HUD may be to help facilitate states to develop their own portals, perhaps through technical assistance funding or by a sharing of best practices. Many states already have started developing these portals, with some already showing tremendous promise. For example, the Indianapolis-LISC office has partnered with the state government of Indiana and others to create an Opportunity Zone site for Indiana. This site provides information about upcoming training events and seminars; helps connect projects sponsors to potential Opportunity Funds; and helps to identify a network of service providers working in the state.

To the extent HUD develops a portal, it should include links to all of the various state portals, rather than trying to replicate information already being collected and disseminated by the various states.
3. In what ways could HUD structure preference points for Opportunity Zones and incorporate policy objectives in the rating factors for applicants in discretionary grant competitions to increase the incentive to invest in Opportunity Zones? In addition, how should HUD prioritize support for urban and economically distressed areas, including Opportunity Zones, in its grants, financing and other assistance?

As noted previously, we would have concerns about steering already limited development finance resources to Opportunity Zones at the expense of other low-income communities. To the extent HUD intends to try and prioritize Opportunity Zones for investments, we would encourage HUD to be very deliberative in ensuring that the HUD resources will be used to further only those investment activities that benefit low-income community residents, as opposed to broader investment activities which may not be supporting the residents of the communities and/or would likely occur without the additional HUD assistance. This information should be collected from program applicants at the time of application, scored appropriately, and the outcomes verified in a post-award auditing process.

4. What types of technical assistance should be offered through HUD?

We noted earlier that one place HUD could provide technical assistance is to the state agencies to develop portals to share information and connect investors to projects in their markets that benefit low-income community residents. HUD could also provide technical assistance, through its Community Compass initiative, to municipalities that are interested in developing prospectuses to attract investments into their Opportunity Zones. HUD should also consider providing additional capacity building resources to support non-profit CDCs that are working in Opportunity Zones.

5. What role can HUD play in helping to ensure that existing residents, businesses and community organizations in Opportunity Zones benefit from the influx of investment and remain the focus of their community’s growth going forward?

We noted earlier that, in partnership with the Treasury Department, HUD should access real time data to ascertain which Opportunity Zones are receiving significant investment activity so that HUD can intercede as necessary to ensure that HUD resources are being appropriately deployed to prevent displacement of residents. HUD could also provide targeted support to municipalities that are working to incorporate significant inclusionary zoning requirements in their Opportunity Zones.

But preserving affordable housing is only part of the solution. HUD can also provide incentives for municipalities to use CDBG funds to support economic development activities in the Opportunity Zones, including activities relating to job training and placement, as well as small business development.

Perhaps most significantly, HUD is in the process now of revising and strengthening its Section 3 rule. Section 3 is HUD’s main tool for ensuring that employment and economic opportunities generated from HUD covered funding benefit our nation’s low-income communities and people.
The proposed rule, if enacted, will require Recipients of HUD covered funding to support longer-term employment since HUD will measure total labor hours worked on a project instead of only tracking new hires. In this way, we view Section 3 as an important complement to OZ investments, making it more likely that low-income residents and Section 3 businesses receive employment and contracting opportunities generated from new OZ investment activity.

LISC’s full response to HUD’s Section proposed rule can be found at: http://www.lisc.org/media/filer_public/f6/5f/f65fe22f-2b70-442e-af62-7b5829798cbc/060419_policy_comments_section_3_response.pdf.

We encourage HUD to consider our recommendations on further strengthening the Section 3 rule and devoting technical assistance for covered projects which have OZ investments. We believe the twinning of HUD and OZ dollars can lead to sustained employment and increases in earned income for low income residents.

6. How can HUD properly evaluate the impact of Opportunity Zones on communities?

While we continue to believe that this is first and foremost a responsibility of the Treasury Department, we would welcome HUD taking on a role in these efforts as well, particularly to the extent the Treasury Department is not engaging in these activities. LISC recently submitted comments in response to Treasury’s RFI on data collection and reporting in which we made the argument for collecting both quantitative data (e.g., job creation numbers; affordable housing units created; slots as community facilities; etc.) and qualitative data, to better determine the true impact of the investments on low-income communities as well as the extent to which the investments would not have occurred but for the Opportunity Zones incentive.

We further suggested that a more rigorous research design might also compare investment levels and trajectories in O-Zones compared to similar low-income tracts that are not O-Zones, by examining home sale or other forms of investment data, such as may be provided through the Home Mortgage Disclosure Act (HMDA). Census has access to business and wage data that may also be of use in determining impacts, though it is not necessarily available to the public in a form that can easily allow these analyses to occur. That being said, researchers must be cognizant that it may take several years for Opportunity Zone investments to generate significant changes in communities.

LISC’s full response to Treasury’s RFI on data collection and reporting can be found at: http://www.lisc.org/media/filer_public/17/c8/17c8a75b-21f1-487d-910b-87df0e0bff74/060419_policy_comments_opportunity_zone_rfi_data_collection.pdf

7. How should HUD interact with other stakeholders to maximize the success of the Opportunity Zone incentive?

We believe that HUD, as the host agency of the White House Opportunity and Revitalization Council, has a significant role to play in helping to maximize the success of the Opportunity Zone incentive. Primarily, we believe that HUD should work with Treasury to ensure that adequate analytic data is being collected and shared in real time with other federal agencies and the general public; as such data can be used to identify which geographies are benefitting from Opportunity Zone investments already, and which may benefit from additional public
sector investments to help prime the pump. HUD can also play a role, especially to the extent that the Treasury Department is not fully engaged, in supporting research and analysis that examines whether the Opportunity Zone incentives are supporting low income communities in the manner intended by Congress. Finally, HUD can play a role in supporting an “innovation clearinghouse” that shares real time information about what is working or not working in the Opportunity Zone marketplace; particularly with respect to projects that are serving low income persons in the Opportunity Zones.

8. How might Qualified Opportunity Fund investments support the goal of ending homelessness?

We think it is unlikely that Opportunity Fund investments will be used to support housing or social services that will be targeting homeless populations. Simply put, the Opportunity Zone incentives (equity investments that yield long term asset appreciation) do not align well with supportive housing projects or with non-profit providers of social services. In fact, the bigger risk is that homelessness may increase in some of these communities if HUD does not lead efforts to preserve, if not increase, the stock of affordable housing properties located in Opportunity Zones. We would encourage HUD to inventory its assisted housing properties in Opportunity Zones that are coming to the end of their extended use agreements, and work with non-profit housing organizations to ensure that these units are maintained as affordable housing.

We thank you for considering these comments, and look forward to working with HUD and the White House Opportunity and Revitalization Council implementation issues going forward.

Sincerely,

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