

# The Failure of Opportunity Zones in Oregon: Lifeless Place-Based Economic Development Implementation Through a Policy Network

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## Abstract

*The 2017 Tax Cuts and Jobs Act created a new place-based economic development tool to induce economic activity in identified low-income census tracts throughout the United States. In response, the State of Oregon established 86 Opportunity Zones (OZs) at Governor Kate Brown's direction (Business Oregon, 2020). This report examines the rollout of Opportunity Zones in Oregon and what policymakers can learn from its implementation. It looks at how well Opportunity Zones are understood in Oregon by local governments and economic development agencies and how local governments, local economic development agencies, and the private sector are using and marketing OZs. To assess these questions, we surveyed individuals in the public sector in areas with Opportunity Zones across the state to assess these actions. To supplement the survey, we conducted interviews with private sector actors and shadowed developers in the Portland area to assess their engagement with Opportunity Zones. To analyze the implementation of OZs in Oregon, we used the policy tools and networked implementation literature as a theoretical foundation. We conclude that Oregon lacks a hierarchical system to implement OZs, so the network has to take a more substantial role in implementation. Opportunity Zones are a clear example of third-party implementation; because the government funds economic development activity through tax expenditures, the private sector is taking the leading role in implementing these projects.*

## Introduction

In response to the 2017 Tax Cuts and Jobs Act call to create Opportunity Zones (OZs), the State of Oregon established 86 OZs at Governor Kate Brown's direction (Business Oregon, 2020). The Governor designated the OZs from a list of low-income census tracts nominated by local governments with an "extraordinarily quick" pace for decisionmaking (Business Oregon, 2020; Wessel, 2021). The state forwarded nominations to the United States Department of the Treasury for final approval. The federal government required states to propose OZs within 90 days, limiting the time available to review census tracts or facilitate public engagement or long-term visioning (Business Oregon, 2020). The quick decisions on designations were made "without really understanding what the brand-new program was" (Wessel, 2021: 170).

Despite the limited evidence of the efficacy of these economic development policies similar to OZs, they are just the latest iteration. Since the 1980s, several place-based policies have existed that mimic the intent of the OZ policy. We have a broad sense of the effectiveness of these policies and their administration. However, the literature is very thin concerning how well these prior policies were implemented, understood, or marketed during their early stages. This report hopes to shed some light on the early-stage implementation of OZs. We hope to improve the implementation of future iterations of location-based tax policy to induce economic development—even if those policies may not be as effective as other types of economic development policy.

This report examines the rollout of Opportunity Zones in Oregon and what policymakers can learn from its implementation. More specifically, we are interested in understanding how well Opportunity Zones are understood in Oregon by developers, local governments, and economic development agencies. Next, we are interested in understanding how local governments, local economic development agencies, and the private sector are using and marketing OZs. To assess these questions, we surveyed individuals in the public sector across the state to assess these actions. In addition to the survey, we conducted interviews with private sector actors, and we shadowed developers in the Portland area to assess their engagement with Opportunity Zones. The report analyzes the OZ implementation in Oregon using a networked governance framework to better understand the successes and failures of this policy. Networked governance is when policies are governed or implemented through a network of organizations, often across levels of governments; this network can also include the nonprofit and private sectors.

The arrangement of the remainder of this report is as follows:

1. We examine some of the lessons learned from the prior place-based tax-based economic development efforts that mimic some aspects of the Opportunity Zones.
2. We dive deeper into Oregon's implementation of OZs. This section also provides a set of research questions that guide the analysis of this report.
3. We then discuss our analysis methods and follow this with a discussion of the findings from this analysis.
4. We provide a set of recommendations for future action on OZs and similar policies in the future.

## **The Historical Foundations of Opportunity Zones**

A historical understanding of how prior economic development efforts with similar characteristics to Opportunity Zones will help us better understand the potential of OZs. Opportunity Zones have similarities to earlier efforts that were deemed necessary in high-poverty, low-employment communities because of what some saw as “market failure—where market forces have not resulted in an optimum allocation of resources to certain kinds of places. Indeed, a lack of access to patient (i.e., long-term), reasonably priced capital has seriously hindered the community and economic development prospects of such places despite the fact that many of them contain valuable assets and viable opportunities” (Abravanel et al., 2013: 9). In urban areas, these market failures are due to a range of past disinvestments due to past and present discriminatory practices in lending/insurance, (perceived) elevated security costs, higher taxes, and white flight (Abravanel et al., 2013). In rural areas, a lack of local banking assets hinders the availability of capital, and those that do exist are more conservative in their lending than those outside the rural areas. Additionally, the low population density in rural areas and inadequate or insufficient supporting infrastructure led to lower quality capital projects that these traditional funding mechanisms support (Abravanel et al., 2013).

Earlier efforts to induce economic growth using tax expenditures have largely failed. The basis for a firm’s decision to locate somewhere has many sources and “is far more complex than making a comparison of taxes across jurisdictions” (Clark, 2014: 41). Amenities, quality of infrastructure, quality of life, safety, quality and cost of the workforce, utility cost, unionization, and strength of regulation are all determinants of those decisions as well—and often are placed high above the tax benefits that a project may create for the developer or firm.

We will briefly explore similar place-based efforts and the known results of these efforts; they shed light on what we might expect from OZs. We draw upon the lessons learned from the state-enacted Enterprise Zones in the 1980s, the federal Empowerment Zones/Enterprise Communities (EZ/EC) program in the 1990s, and the New Markets Tax Credit Program (NMTC) of the 2000s. One of the biggest obstacles facing OZs and similar tax expenditure-based efforts to address poverty is that they are all based on the theories of “trickle-down” economics of the 1980s (Jordan, 2020), which historically were not highly successful in economic development.

### **Enterprise Zones**

The British government enacted a nationwide Enterprise Zone (EZ) plan in the 1980s, later emulated by many U.S. states (Jordan, 2020). The Thatcher and Reagan governments’ supply-side economics theories (“Trickle Down Economics”) influenced the Enterprise Zones design in the United Kingdom and United States. While “Enterprise zones [became] the foundation of the Reagan urban economic development agenda” (Blair, 2002: 166), his administration failed to get support in Congress for EZs (Blair, 2002; Jordan, 2020; Mossberger, 1999).

The EZ approach to economic development uses a different set of tools than traditional economic development policy by aiming to “direct the policy benefits to selected companies within a specific geographic area, stimulating community or neighborhood revitalization as well as business development” (Blair, 2002:167).

## **Empowerment Zones/Enterprise Communities (EZ/EC)**

Following the riots in Los Angeles in 1992, the Empowerment Zones/Enterprise Communities (EZ/EC) legislation paired tax incentives with social services support in targeted communities (Jordan, 2020). This multi-tool approach (Salamon, 2002) to implementation is a key difference between the EZ and the EZ/EC approach. The goal of EZ/EC was to use progress toward benchmarks as the indicator of success rather than the amount of money spent on projects. In practice, this became very difficult to measure because each project developed its own set of “baselines, methods, and benchmarks for measuring the success of its plan.”; thus, most measures of success were on “outputs” rather than the results of the projects themselves (Government Accountability Office, 1997: 1–2). While that statement may apply to nearly all economic development programs, it is particularly salient for the EZ/EC program because of its particularly poor design. “The relative impact of EZ/EC remains largely unknown” (Jordan, 2020: 75).

Analysis of the EZ/EC effectiveness shows that while empowerment zones could create jobs, the cost per job (in some instances costing more than \$100,000 in investment per job) was far too high to justify the investment (Busso & Kline, 2008). To give a sense of the scale of the EZs financial imprint, the estimates of the first round of investments were around \$2.5 billion over 10 years in a geographic area that had a population of fewer than 1 million people (Busso & Kline, 2008). Due to the measurement issues previously mentioned, however, and the lack of a clear target, these programs failed to generate the desired economic outcomes.

## **The New Markets Tax Credit Program (NMTC)**

The New Markets Tax Credit Program (NMTC) is the prior policy most similar to the OZs. NMTC was established in 2000 and was reauthorized as recently as 2017. The goal of the NMTC was to use tax incentives “to stimulate economic growth, create jobs, and revitalize low-income areas” (Jordan, 2020: 75), but it did not provide the social services seen in the EZ/EC. The NMTC program is competitive, with the Community Development Financial Institutions (CDFI) Fund making the award decisions (Abravanel et al., 2013). There is a wide range of eligible projects, but most were “office, retail, manufacturing/industrial, and mixed-use” (Abravanel et al., 2013: vii).

The “lack of transparency and data collection by the Treasury Department” clouds the ability to gauge the effectiveness of the NMTC (Qian, 2019). Most studies looking at NMTC indicate modest but positive results of the program. Qian (2019) notes that “NMTC encouraged new investment from individuals, and it seems to have encouraged corporations to shift investment from higher income communities to eligible low-income communities,” adding that other studies have seen “modest reductions in the poverty rate and unemployment rate in affected communities.” The increasing complexity of the NMTC made “it more difficult to trace the flow of private and public funds and the benefits from the tax subsidies” (Government Accountability Office, 2014: 9) than other programs.

While many developers are willing to take the extra benefits the NMTC provided, a 2013 Urban Institute study shows that only about one-third of the projects needed the program to get underway (Abravanel et al., 2013). Creating a job through the NMTC is estimated at \$53,000 per job—a cost much higher than other federal government programs and one that is more than 3

times more expensive than the Earned Income Tax Credit (EITC) (Abravanel et al., 2013; Qian, 2019). The overall impact of the NMTC is negligible because “no change in corporate investment levels in response to the NMTC” was seen as a result of the program (Gurley-Calvez et al., 2009: 371). Individual investors saw some minor benefits, whereas corporate investors did not (Gurley-Calvez et al., 2009). The share of individual investors, however, is a small fraction of all investments made through the program—about 5 percent of the total (Gurley-Calvez et al., 2009).

## **Opportunity Zones in Oregon**

Of the 834 total Census Tracts in Oregon, more than 300 met the Opportunity Zone criteria (Business Oregon, 2020). The Tax Cuts and Jobs Act allowed the state to nominate 25 percent of those tracts for Opportunity Zone designation. In 2018, Oregon established 86 Opportunity Zones across all of the state’s regions (see exhibit 1). Thirty-one percent of designated Opportunity Zones are in rural areas, 31 percent are in the Portland Metropolitan Region, and the remaining 38 percent are in other urban areas of Oregon. The justification for selecting tracts within the state was not entirely transparent, likely due to the limited time given for selection and the fact that the legislation had no requirements for transparency. Several studies have demonstrated that quite a few of the projects in Oregon were placed with the intention only to help development projects underway, whereas others were selected to attract purely out-of-state money (Buhayar & Leatherby, 2019; Wessel, 2021). One such project in downtown Portland already had a certificate of occupancy ready before the OZ legislation, yet legally could use the OZ designation to create a windfall for the development’s investors (Wessel, 2021). While the designation of which areas get the OZ tag is a state-level decision, local and regional governments in the Portland metro area requested that some eligible tracts not be included out of fear that the designation would exacerbate gentrification in areas of Portland (Buhayar & Leatherby, 2019; Wessel, 2021). In fact, several neighborhood and community groups rallied to keep the OZ designation from their census tracts because their “neighborhood is ‘already threatened by outside investment that works against the interests of lower-income residents and people of color,’” and that OZs would “make gentrification even more profitable” (Wessel, 2021: 172). These neighborhoods were left off the OZ selected list.

OZs have, thus far, failed “to incentivize community engagement, preserve affordable housing, and mitigate against displacement. Opportunity Zones may amount to little more than a tax cut for the wealthy that only furthers the economic burden on low-income residents who can no longer afford to live in areas they once called home” (Jordan, 2020: 68). How representative these early findings are, which show minimal impact, is hard to determine because implementation is so recent. Chen, Glaeser, and Wessel (2019: 2) have noted, however, some declines in property values in target neighborhoods.

Oregon is a diverse state. The Oregon Office of Rural Health (ORH) divides the state into urban, rural, and frontier areas (Oregon Office of Rural Health, 2020). Urban areas are population centers with 40,000 people or more, rural areas are areas 10 or more miles from the centroid of a population center of 40,000 people or more, and frontier areas are counties with population densities of six or fewer persons per square mile. Ten of Oregon’s 36 counties are designated frontier counties. Using data from Claritas LLC, ORH found that 33 percent of Oregon’s population lives in rural areas, 2 percent in frontier areas, and 65 percent in urban areas.



channeling some money to other parts of the state. Left alone, the market wouldn't do it." These efforts were described as "a flop" because "identifying promising projects in smaller communities across the state proved difficult," and finding investors "was no easier" (Wessel, 2021: 193).

This difficulty in attracting projects within a rural Oregon OZ stems from the systemic barriers to acquiring labor, materials, and adequate rents (Steckler, 2017). Long distances from materials and long commute times eat away at project returns and jeopardize fulfilling the Opportunity Zone legislation requirements. Additionally, given the comparatively little demand for housing than a larger municipality, rural communities often cannot charge rents that provide an attractive return (Steckler, 2017). Because of these additional barriers, the marginal return on a project in a rural area is usually smaller than that of an urban area, and projects are generally riskier. These challenges also require that government (state and local) in Oregon take a larger role than might be seen in more densely populated areas of the United States.

In this report, our goal is to examine Oregon OZs and explore how public and private entities within the state have approached implementing the Opportunity Zone legislation. We address three primary research questions:

- How well are Opportunity Zones understood in Oregon by local governments and economic development agencies?
- How are local governments and economic development agencies using and marketing OZs?
- How is the private sector navigating OZs in Oregon?

The report emphasizes how urban, rural, and frontier areas capitalize on their Opportunity Zones.

## **Opportunity Zone Implementation**

To better understand the analysis presented in this report, we draw from the policy tools and networked implementation literature. The tools used for policy implementation are varied (Salamon, 2002), so understanding how the less direct means of implementations in OZs in context is essential. In this report, we examine the indirect implementation of economic development policy. OZs use the tax code form of implementation—a class of policy tools commonly known as tax expenditures. Tax expenditures include tax credits, tax abatements, and tax deductions. Since colonial times, they have been used for economic development through "public investments via tax abatements and credits, infrastructure investments, and workforce training" (Clark, 2014: 37); their use increased dramatically, however, after World War II.

Opportunity Zones are implemented through networks. Implementation networks are a way to look at control over policy implementation in contrast to strong hierarchal control found in many government programs. O'Toole and Meier (1999) have noted that the lack of strong hierarchical control of policy implementation indicates that policy is then implemented through a network. In hierarchies, governments have "formal authority to compel" through a "stable set of relations" (O'Toole & Meier, 1999: 508). The formal structures imbedded in traditional hierarchies "makes it possible to coordinate the efforts of many toward the achievement of common purpose without

overwhelming the capacities of individual decisionmakers,” yet this formal structure can hinder outcomes and does not always provide the flexibility needed to implement policy (O’Toole & Meier, 1999: 508). In the hopes to take advantage of the vast heterogeneity of economic conditions and potential solutions to address the economic despair at the local levels, a set of programs have been implemented using a network of actors, subsidized through the tax code, to achieve goals that have often seemed elusive through traditional policy implementation. Blair’s (2002) evaluation of Enterprise Zones across the U.S. confirms the key findings of O’Toole and Meier concerning these public-private networks.

Policy implementation through networks requires a different set of management and oversight tools than hierarchical implementation. This type of policy implementation is more susceptible to environmental shocks to the system (O’Toole & Meier, 1999). The stability and consistency of implementation of the policy through network mechanisms go from highly stable (typical hierarchy) to completely networked (and less stable) (O’Toole & Meier, 1999). The network itself is more adaptable to innovation and change in its environment, but this comes at the expense of being overwhelmed, potentially, by these changes. In the context of OZs, the stability of organizations involved in the process is also quite different from the network’s stability. The networked approach to implementation has less stability given the less stable environment they are working in and the susceptibility to external shocks. Blair (2002) suggests that state governments sought to improve the stability of the network by implementing earlier policies similar to OZs by increasing the state’s involvement in the networks to increase the level of private sector investment. This, of course, appears to be antithetical to the goals of these free-market-oriented policy structures, but it provides a pragmatic realization of the instability of the networked implementation.

To overcome these barriers to successful implementation, the incentives for continued participation in the network will have to be greater than the incentives for non-participation. Furthermore, in the case of OZs, the savings and/or subsidies must be financially sufficient to keep them in the game when implementation is inevitably shocked by the environment. Since OZs are incentive-based, rather than punitive or regulatory, it is vital to understand that there may be tools policymakers can use to supplement financing, including reducing red tape (Bozeman, 2000; Bozeman & Feeney, 2011) or administrative burdens (Herd & Moynihan, 2019) to induce this continued engagement in the implementation by these private actors. These shocks may include changes to the economic outlook, changes in the real estate market, political dynamics, or leadership, among other adverse circumstances. The COVID-19 pandemic introduced all of these to OZs in Oregon and had devastating impacts on the implementation.

The complexity of a networked environment of policy implementation could have the effect of pushing more novice, less experienced, or economically weaker actors out of the network. The desire to stay in the network and absorb the shocks from outside is expected to be inverse to their role within the network (O’Toole & Meier, 1999). This is compounded when the size of the network grows. In the case of Opportunity Zones, we look at a statewide implementation occurring between sectors (local governments, developers, and OZ funds), while most of the specific projects themselves are taking place within just one or perhaps two local jurisdictions.

Many of these tax expenditure schemes have a limited time duration for implementation. This means that when we expect a policy implementation through a network of actors, trust between the partners is even more critical (O'Toole & Meier, 1999). Networks tend to be less permanent, but some networks for policy are designed to be longer lasting than others. In the case of the OZs, the time horizon is relatively short. OZ partnerships may include partners that have not yet worked together, actors in other jurisdictions, and actors with competing interests. What we would expect to happen as the policy is implemented based on this theory is that, until the interactions become repeated over time, the ability to generate cooperation between actors is challenging, at best (Ostrom, 1990). The expectation in the design of OZs is that this is essentially a one-time game. Thus costs of coordination and collaboration are much higher—and may also increase the need for more support, subsidization, or incentives to stay in the network.

The public benefit of many of the proposed OZ projects in Oregon—workforce housing, for example—has spurred many local governments to try and draw the private sector into these projects. This may not be the case in other parts of the country that do not see their economies stifled by the lack of affordable housing, but this is very much the case in Oregon. Private sector organizations in these networks have options for other developments to pursue. They do not have to cooperate with others (public or private sector) to build a new apartment building or shopping center. However, the government actors need private or nonprofit sector actors to act as partners to implement the OZs since public organizations do not need tax expenditure benefits—nor could they use them if they were available.

The tensions and challenges of networked policy implementation are clear from the historical record of EZ/EC, NMTC, and Enterprise Zones. This theoretical framework described previously will help us to better understand the findings from our survey, interviews, and shadowing of OZ stakeholders in the state of Oregon.

## **Methods and Data**

This research builds from two primary data collection methods: (1) a survey of Oregon municipalities that have Opportunity Zones; and (2) interactions with two of the three actors in the network (developers and funds) through a “shadowing” process.

### **Survey**

We distributed a survey to municipal and county planners, city managers, mayors, and economic development professionals within Opportunity Zones to understand the knowledge and use of Opportunity Zones within Oregon among government agencies. The League of Oregon Cities aided the researchers by providing a mailing list of local officials, which was further narrowed to only a subset with Opportunity Zones within their jurisdiction. The complete list of individuals comprised 86 planners, mayors, managers, and other public officials and administrators in Oregon. In addition to using the League of Oregon Cities, the Oregon Economic Development Association sent an email solicitation to members on this report's behalf.

A total of 54 individuals responded to the survey, and 43 fully completed the survey. Forty-six of the respondents provided location information; of these, 26 (57 percent) are rural, 13 (28 percent) urban, and 7 (15 percent) frontier. The Oregon Office of Rural Health (ORH) provides definitions of the population density of Oregon cities and counties (ORH, 2020). ORH defines rural as a geographic area 10 or more miles from the centroid of a population center of 40,000 people or more. Frontier is defined as any county with six or fewer people per square mile. ORH classifies 10 of Oregon's 36 counties as frontier (Oregon Office of Rural Health, 2020).

This report relies upon the perspectives of individuals who would promote and understand Opportunity Zones in the public realm rather than people outside of OZs. This approach ensures that the sample of individuals obtained from the implemented survey accurately reflects the utilization and dissemination of Opportunity Zone knowledge within the state.

This survey was administered using Qualtrics and shared through the University of Oregon and the Institute for Policy Research and Engagement. We accepted survey responses from mid-March until the end of April 2020. The survey was 36 questions long and took about 10 minutes to complete. The University of Oregon's Institutional Review Board approved the survey before distribution.

## Shadowing

To complement the survey results, we shadowed the creation of a private workforce housing group in Portland, Oregon. The shadowing campaign started in late 2019 and continued until the COVID-19 pandemic led to lockdowns in March 2020. The group aimed to implement workforce housing across the state of Oregon, using OZs to attract investors. Socially responsible investing by meeting unmet housing needs was also an objective.

The workforce housing group included a real-estate attorney, a tax attorney, a private investment group, a CPA, a workforce housing development contractor, and a prominent investor from a wealthy Oregon family. The prominent investor group member initiated the idea of a workforce housing group to engage philanthropically and expand the availability of workforce housing throughout the state. Frustrated with navigating Portland's regulatory environment, this individual sought out an attorney to begin implementing workforce housing throughout Oregon, primarily in rural Oregon; however, they considered all communities with Opportunity Zones if they had viable land. By shadowing this team and analyzing their methods to creating a viable company, a direct and real-world perspective of how private industry in Oregon utilizes Opportunity Zones was experienced.

Each team member played a crucial role in facilitating the workforce housing group's mission. The real-estate attorney used existing connections and previous knowledge of the Oregon real-estate environment to form the group and generate company operational and funding mechanisms for using Opportunity Zones. The tax attorney provided a systemic understanding of the Opportunity Zone legislation and connections to heads of municipalities and planners throughout the state. The investment group acted by reaching out to property owners and cities that had Opportunity Zones. They educated them on what Opportunity Zones are and what personal and community gains they sought to receive by utilizing them. The CPA ensured that generated frameworks complied with

the regulatory guidelines of the Opportunity Zone legislation. Moreover, the prominent wealthy family member provided connections to investors and was seen as “a spiritual guide” for the group by ensuring that its mission was to provide reasonable housing to populations without reasonable means to acquire it.

## **Results**

We organize the results around the three key research questions using the networked implementation framework:

- How well are Opportunity Zones understood in Oregon by local governments and economic development agencies?
- How are local governments and economic development agencies using and marketing OZs?
- How is the private sector navigating OZs in Oregon?

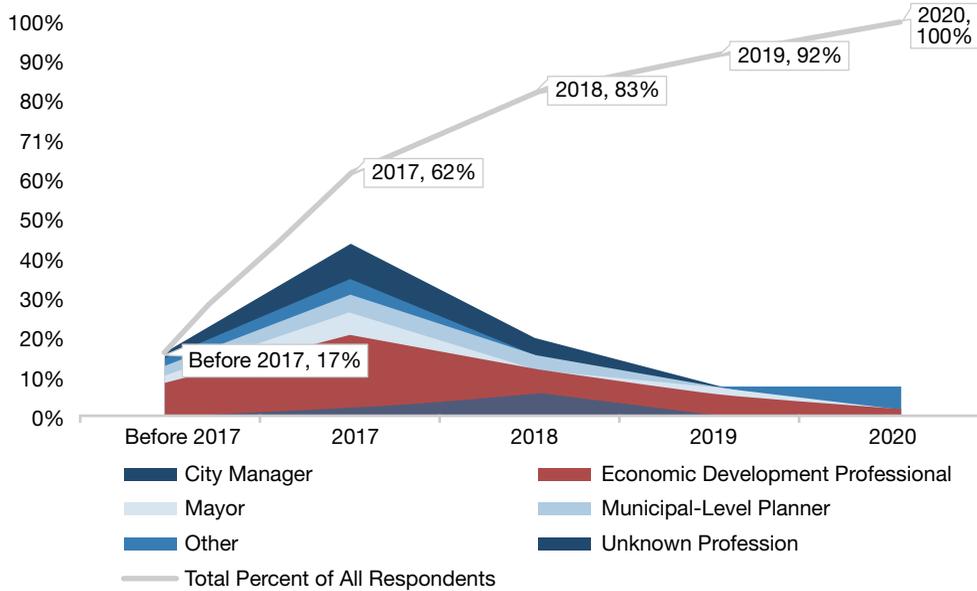
For purposes of describing the results, the key actors in the OZ network in Oregon are (1) public sector entities, (2) OZ funds, and (3) developers. Each has a unique role in the network. Public sector entities establish, manage, and market OZs. Forward-thinking communities like Erie, Pennsylvania, have identified a pipeline of potential projects, assessed project viability, and published the results in an OZ prospectus targeted at fund managers and developers (City of Erie, PA, 2018). We are unaware of any community in Oregon that has developed such a sophisticated approach to the OZ program. The role of fund managers is clear—they finance the projects. Developers implement projects. Without interaction between the three actors, OZs do not work.

### **How Well Are Opportunity Zones Understood in Oregon by Local Governments and Economic Development Agencies?**

Our first research question asked how well stakeholders understood Opportunity Zones. The 2017 Tax Cuts and Jobs Act created Opportunity Zones. Consequently, we did not expect many stakeholders to be aware of OZs before this date—although the concept was floated during the Obama Administration, and thus our finding that 17 percent knew about OZ in a year before its passage is not surprising. It is also conceivable that these individuals confused OZs with another similar policy. Exhibit 2 shows the cumulative awareness of our survey respondents of OZ, along with a breakdown of their professional identification. Unsurprisingly, individuals in the economic development field were more likely to be aware of OZs earlier than other professions. Non-economic development professionals found out about Opportunity Zones later than economic development professionals. Non-economic development professionals did not find out about Opportunity Zones through economic development professionals. These findings demonstrate that OZs have penetrated essentially all corners of the public sector stakeholders that might use this policy tool as of early 2020.

**Exhibit 2**

Year Respondents Found Out About Opportunity Zones by Self-Identified Profession

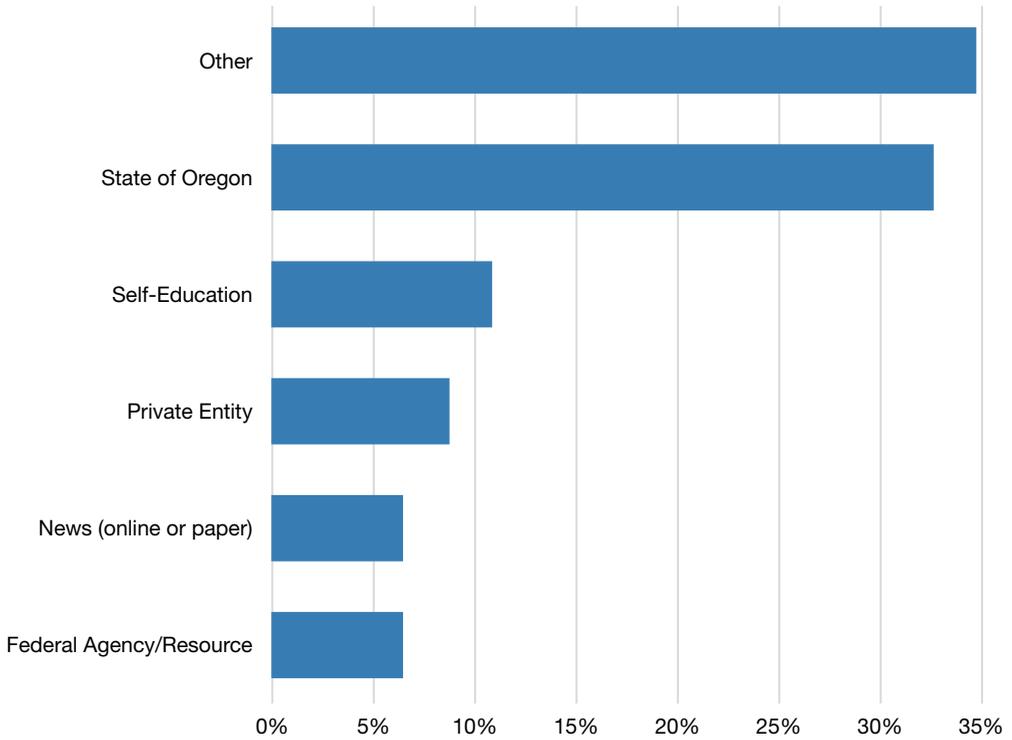


Source: Authors' calculations

In ascertaining the source of respondents' knowledge about Opportunity Zones, we asked them how they initially found out about Opportunity Zones (Exhibit 3). Thirty-one percent (15 respondents) indicated that they learned about OZs from the State of Oregon. The most frequently selected source was "Other," with 33 percent, or 16 respondents. Our data collection through shadowing and interviews mirrored the survey results. There is a wide range of variability of respondents knowing who selected Opportunity Zones or how they work. This is also reflected in our observational work with the workforce housing group. A non-trivial number of survey respondents indicated that the first time they had heard about OZs was from our survey itself.

**Exhibit 3**

How Did You Initially Find Out About Opportunity Zones?

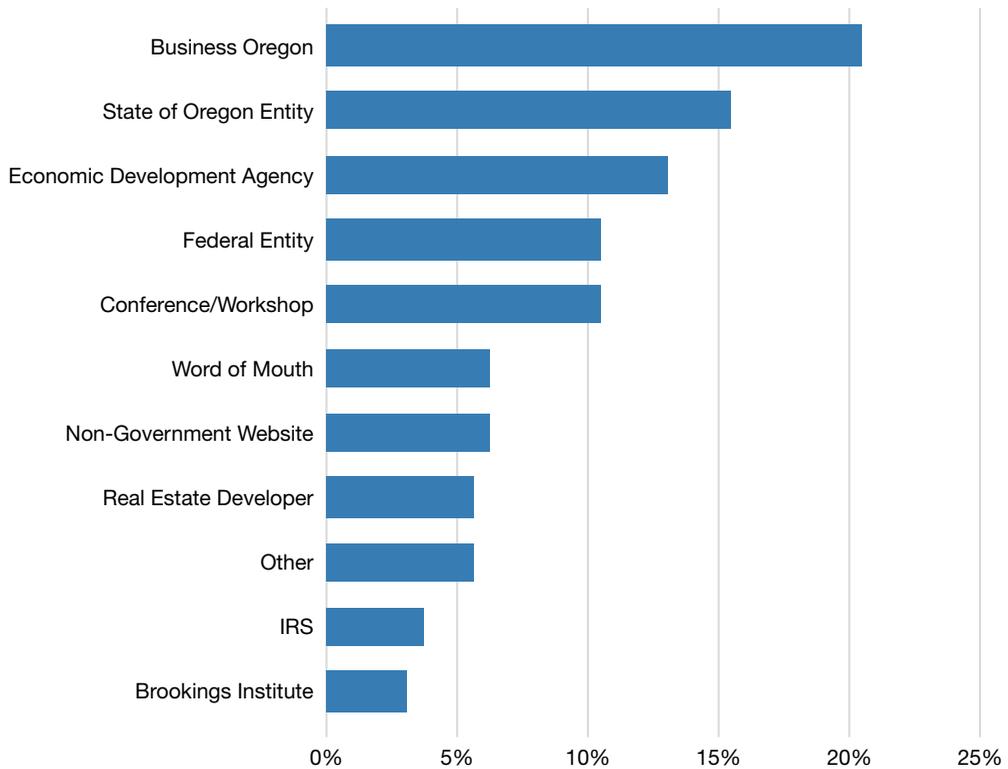


Source: Authors' calculations

In addition to ascertaining respondents' source of OZ knowledge, the survey also strived to understand where respondents gathered continual sources of Opportunity Zone information. Forty-eight percent stated that they got it from Business Oregon, a state economic and business development entity, or an economic development agency. Exhibit 4 shows all the selected sources of continuing information.

**Exhibit 4**

Count of Where Do You Get Information on Opportunity Zones?



IRS = Internal Revenue Service.  
 Source: Authors' calculations

The respondents used varying resources to stay abreast with Opportunity Zones' progress, but there is no single source, nor are they all Oregon-centric sources. Business Oregon was the most commonly cited source of OZ information. Results suggest Business Oregon could significantly increase educational outreach to communities and teach public officials frameworks and tactics to solicit Opportunity Zone projects from funding *within* their jurisdictions.

Seventy-six percent of respondents, or someone within their organization, had done some research to understand the benefits of OZs better. In comparison, 18 percent had indicated that they had not done any research, and 6 percent were unsure. This finding suggests that most public-sector individuals in the network sought to discover if OZs could benefit their communities. Even though most public-sector actors had researched the types of benefits that OZs might provide, our analysis demonstrated that many actors did not know any specific OZ projects. We also found that, of projects that they were aware of, they were not aware of the specifics. In short, the survey results indicate that respondents want to use OZs but do not know how to do this in practice. The inability of the organizations or individuals to translate their desires into action demonstrates the complexity of OZs and policy implementation challenges through a networked structure.

During our shadowing, we discovered that the investment arm of the OZ startup firm went to municipalities to discuss implementing workforce housing in their jurisdictions using OZs to fund the projects. Much of the time in the meetings was spent explaining what OZs are. Even on repeated visits to the same municipality, time was spent on re-explaining the operational framework of OZs and what would be practical applications of OZs in the community. These repeated occurrences of explaining OZs to local planning and administration authorities prevented progress in implementing OZ projects in these municipalities. The workforce housing group eventually contacted individual property owners to identify OZ projects and funds without municipality influence. We also found that while there is enthusiasm to learn how to use Opportunity Zones, there is no clear distinct and touted service in Oregon for stakeholders to look to as a successful example.

In sum, it was clear that many organizations across the state of Oregon that *should* know about OZs knew about them. The complexity of the implementation mechanism for this policy has hindered how much people knew about them. No single entity took charge to create a clear communication channel to stakeholders across Oregon to assure that actors throughout the network knew OZs. Implementing policies through a network (such as the combination of public, private, and nonprofit sector actors involved in OZs) requires additional effort to ensure success. Despite the efforts of the startup firm we shadowed, their efforts often seemed in vain because there was not sufficient public-sector support to clarify how the policy could or should be implemented.

### **How are Local Governments and Economic Development Agencies Using and Marketing OZs?**

More than 60 percent of the public-sector survey respondents believed that OZs could facilitate projects in their community. Nearly one-third of respondents, however, were unsure of their potential. This finding indicates an incoherence with the utility of OZs for a sizeable share of stakeholders in the state. Stakeholders who do not have dedicated economic development staff are more likely to say that OZs are not a tool that they could use by 13 percentage points compared to those with economic development staff. This points to the need for capacity within organizations dedicated to understanding the role of OZs in economic development. This key human capital role is only present in 60 percent of the surveyed organizations (nearly one-half of the respondents were economic development professionals). This finding may point to an essential role in future legislative efforts to assure that there is sufficient capacity within the public sector to understand the role that an OZ-like policy might be able to play in a larger space of economic development in order for these types of policies to be successful.

Less than 40 percent of local governments we polled had formalized pathways to connect with the private sector. Moreover, when we look at the role of having a dedicated economic development staff member to further the goal of OZs, we find a strong relationship between the absence of someone in that role and the likelihood that the local government has established formalized avenues for private entities (Chi-Sq  $p=0.024$ ). This points to a weakness in policy implementation through a weakly formed network rather than more hierarchical structures. Without the formal structure, the implementation in many rural, sparsely populated areas of Oregon (and other states) cannot proceed unless there is a sufficient flow of information about the need or utility of the

OZs. This is because the nature of the types of projects that OZs might help along require multi-sectoral cooperation and coordination in ways that are unnecessary for urban areas, where density and capital can push projects toward completion without coordination. The lack of information flowing from the public sector to private sector firms about OZs is evidence that this policy would have been more successful if public sector partners were better positioned to provide accurate information and technical assistance. Projects in Portland are going ahead because there are few that “ would not have been built if not for Opportunity Zones,” but this is not the case in the communities “that proponents of Opportunity Zones said they were trying to help OZs aren’t doing much at all” (Wessel, 2021: 199).

The state and local governments see affordable housing as a huge challenge that dampens economic development in the state. OZs have been seen as a way to induce more of this type of housing. Thus cooperation across sectors (developers, OZ funds, local governments, housing authorities, etc.) in the implementation is particularly important in Oregon. Additionally, the multi-sector design of the networked implementation of the OZs creates higher transaction costs for developers and governmental actors alike (Coase, 1960; Williamson, 1981). It is harder for each entity to learn about the policy (such as search costs) and understand the benefits appropriately. These challenges are amplified when population density is lower and economic opportunities are further apart, as is the case in rural and frontier counties.

**Exhibit 5**

Responses to Survey Questions from All Respondents Across All Professions

Question	Yes (%)	Unsure or Don’t Know (%)	No (%)	n
Do you think Opportunity Zones are a tool that can facilitate desired projects in your community?	61	32	6	49
Does your local government have any formal avenues for private entities to utilize Opportunity Zones?	38	49	13	47
Does your municipality/county have a dedicated economic development staff/staff member?	38	2	60	42

*n = number of respondents.*

Exhibit 5 illustrates the responses from public entities that operate in Opportunity Zones in Oregon. In total, there are 54 respondents; however, the maximum sample out of the previous question is 50, and the minimum response is 41.

During our shadowing of the workforce housing group, a group member advocated for creating a regional project bank where rural projects could be aggregated and made more profitable by reaching economies of scale. Creating a banking mechanism would help buffer the shocks in rural areas by giving them a more extensive network to operate. The larger network could provide additional human and financial capital to the projects, which would increase their chances of success. While this was suggested, we should note that this mechanism has not been created or used in Oregon.

## **How is the Private Sector Navigating OZs in Oregon?**

Generally, the private sector saw the value of leveraging its goal to be more socially responsible because of the OZ designation. They also saw the OZs as a way to improve the viability of the projects they were proposing because of the OZ designations. The lack of affordable housing, in particular, is increasingly hurting all sectors because many middle-class, two-income families cannot afford housing in many parts of the state of Oregon. The workforce housing group believed that OZs could be vital in attracting private capital to projects that might not otherwise find funding. They saw the local and state governments investing in low-income housing but paying little attention to missing middle housing. They saw OZs filling in some of this gap by making the projects replicable across the state.

While shadowing the housing group, we discovered that due to the time and effort required for finding properties, interested municipalities, and compatible sites, the only way that the group members could implement housing projects through OZs and cover their costs would be if municipalities were willing to waive site development fees. These fees vary based on project type and jurisdiction, but in the state of Oregon, they tend to range from \$10,000 to \$50,000 or more for a single-family residential unit. Municipal governments use site development fees to recoup the costs of providing infrastructure to new developments. These fees may include a plan review fee, a site development permit fee, and other systems development charges that would fund improvements in infrastructure for the site. This results in an unfunded mandate on local governments that host these developments.

The shadowing interviews also revealed that the housing group members generally felt that working with small rural municipalities was easier than urban municipalities because of their less stringent regulatory environment and the direct interactions that the private sector players could have with community leaders. This direct interaction helped the developers to feel as though the projects were built more solidly on trust. This embedded trust helps lower the transaction costs of the negotiation between project partners (Coase, 1960; Williamson, 1981) that may come out of the OZ-based developments. The tradeoff of looser regulatory environments and a network with closer ties were not enough to activate enough projects to consider OZs a success to date.

The challenges of implementing OZs across the state of Oregon are real. In some rural communities, no matter the project, a return to scale that attracts investment is unattainable—“unless you have an investor in need of a tax deferral that is also a philanthropist willing to take a very small return” (Wessel, 2021). The tax incentives associated with Opportunity Zones are not large enough, and other public subsidies would be required to make projects viable. This limitation is a real issue for rural communities across the country and was an issue in prior similar efforts, like NMTC and EZ/EC. Implementing policy through a network requires that the network carry out implementation despite external or environmental shocks. The responsiveness of a system to these shocks, or its ability to buffer these shocks, is weaker in networked governance structures like the one we are studying in this report (O’Toole & Meier, 1999). Since the private sector is more open to the external environment through their profit- and market-driven focus, they will “need to respond to the environment effectively or lose market share,” and this creates a need for these organizations “to adapt rather than buffer” (Meier & O’Toole, 2011: i291).

In contrast, public sector organizations “have massive processes to buffer the environment” (Meier & O’Toole, 2011: i291). This buffer means that the failure or success of the policy as a whole is more likely to be sustained by the external environment of private organizations involved in the implementation of the policy. This means, for OZs, that we might expect that the heterogeneous implementation at the local level, through a loose set of public, private, and nonprofit sector actors, would be unstable.

## Conclusions and Recommendations

Oregon lacks a hierarchical economic development policy, particularly with the implementation of Opportunity Zones. Consequently, the network has to take a more substantial role in implementation. Opportunity Zones are a clear example of third-party implementation. Because the government funds the economic development activity through tax expenditures, the private sector is taking the leading role in implementing these projects. So far, the results of OZs in Oregon mimic those of other efforts to use tax expenditures to fund economic development—they play a minimal role in economic development across the state. While tax expenditure policy often creates outcomes that are hard to measure, in the case of Oregon’s OZ implementation, the number of projects is so tiny that it is reasonable to say that the promise of the legislation is failing to deliver on its potential.

Field experience supports this finding. Stephen Brooks led an effort to develop a platform to link elements of Oregon’s network together. In reflecting on the experience, Brooks concluded, “Oregon (still) lacks a coordinated, infrastructure-based approach to resource deployment. I interacted with innumerable associations, committees, agencies, private stakeholder groups, consortiums, and the like, throughout the process of establishing this OZ infrastructure. Despite universal interest in the OZ initiative, and strong expressions of interest in utilizing OZ for local community and economic development, it proved nearly impossible to widely deploy, on a coordinated and robust basis, the integrated statewide system we developed” (S. Brooks, personal communication, May 11, 2021). In summary, all the relevant parties have to participate in efforts to implement OZs. Moreover, achieving locally targeted outcomes requires communities to identify investable projects, willing investors, and skilled fund managers.

The immaturity of Oregon’s implementation network has led to substantial challenges. Brooks (personal communication, May 11, 2021) has noted that most local, outcome-focused stakeholders are not familiar with how private investors make decisions. While OZs provide a more flexible tool for communities with a wide range of needs, the lack of a strongly activated network across the state led to very few projects getting off the ground. The consistent message we heard from the private sector was that their local and state partners had to be continually educated about what OZs were; their methods of operation demonstrated that these governments did not have sufficient resources to aid the private sector. Communities commonly express the fear that developers will start snapping up properties in disadvantaged communities before the community has time to put a project together (S. Brooks, personal communication, May 11, 2021). This lack of experience with what to expect from outcomes is intrinsically tied to the network’s struggles. Brooks (personal communication, May 11, 2021) reported that the public and private sector stakeholders continue

to have different expectations of the outcomes of OZs, which further stresses the effectiveness of networked implementation.

The localities that have made investments in dedicated economic development staff members were in much better positions to activate and sustain the network necessary to implement OZs. Future policies that seek to use this tax expenditure and networked implementation might benefit from a more hierarchical technical assistance and guidance structure. Many local governments did not create an environment that helped facilitate these projects because they lacked an understanding of the mechanisms, and they did not have the staff to support them.

The finding that developers found the rural environments more favorable to these projects is telling, given that these localities often had few technical experts on municipal government staff. One could debate whether any of these sparsely populated areas are ripe for an OZ-styled policy. However, success in these areas requires coupling network support and technical assistance to the funding itself. The OZ system implicitly assumes that viable projects will exist in every OZ and that a network will develop around these opportunities. Our data suggest that in most OZs in Oregon, these two assumptions do not hold.

Additionally, the size of the incentives was often not large enough for players to be enticed to the table or stay at the table long enough for the target neighborhoods to feel the benefits. Working to attract private investments that couple with these tax benefits, policymakers need to recognize that the sole purpose of many of these private developers is to make money, not social change. While there are developers with a more social benefit mission, none of the partners will stay at the table if participation costs are higher than these benefits. Tax incentives alone do not create jobs or facilitate new housing construction, though they may create a nudge for projects on the edge of viability. Tax expenditures on their own from the federal government may require, as our study revealed, that local governments may also reduce the fees that they collect (impact fees, etc.) if the projects are to pencil out for these private developers.

Taxes and fees are not, however, the be-all and end-all in economic development. The findings from other studies have shown similar findings to those we observed. The limited impact of OZs is potentially a sign that the problem is more than a lack of “capital subsidies,” but instead a sign that we “need investments in human capital and neighborhood amenities” (Chen, Glaeser, and Wessel, 2019: 11).

The state ought to think about how to build up these local economic development networks of public, private, and nonprofit sector actors over the long run so that trust in the network is high, expertise is built-in, and cooperation is already the norm. Reducing the financial, opportunity, and transactions costs will be essential to future iterations of this style of economic development policy. Knowing that a complex implementation was underway, using a policy that their public sector partners did not fully understand, was one that had a high risk of failure for the private sector—even with the promise of lower financial costs associated with proposed developments. This collective learning effort is not isolated to OZ implementation but seen in other public sector projects over the years (Krueger and McGuire, 2005). The reason that the coordination across the sectors is so important is that the type of interactions inherent in OZs for them to be successful,

especially in rural areas, is that the static capacity of these sectors by themselves is not sufficient for success. The frequency with which these partnerships occur is too low, and the depth of the organizations is insufficient to be confident that we would see success regularly. Having support built into the economic development system across the state would give the success of OZs and similar policies a fighting chance.

The literature on networked governance would suggest that building and investing in more structures to encourage the efficient management of these programs is critical for their success. Governments should be supporting the growth and interconnections of the network players so that the outcomes will be more directed and consistent. A number of means can accomplish this, but one such step would be to increase the time between the program's start and expected completion. The goals of selecting designated OZs and starting projects had far too short of a time horizon for appropriate networks to develop to respond to the policy. This left incomplete planning and poor targeting in its wake.

This report is not likely to be the last word on Opportunity Zones in Oregon or the United States. We suggest that moving forward, the federal, state, and local governments take research on the topic more seriously ahead of time and design evaluations into the legislation more seriously. For example, Bartik (2002) has argued that not only should we evaluate economic development projects more frequently, but that the task is not nearly as difficult as it often seems. Randomized controlled trial studies (RCT) have a place in evaluating these programs moving forward, but they require action by those implementing these programs to ensure that these types of studies are introduced earlier in the process (Bartik, 2002). Future studies on how much different parties knew of OZs, how they are being used, and how effective the legislation has been in spurring economic growth, should consider the features of RCT in designing evaluation tools. RCT can also be used to evaluate the effectiveness of specific tactics, messaging, or approaches to implementing policies like OZs through networks. Network policy delivery is here to stay, and we need to be conscious of the implications of this implementation method.

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