

## Foundations Push for Reporting Requirements on Opportunity Zone Funds

By Aziza Kasumov June 27, 2019

The Presidents' Council on Impact Investing, a group of powerful private foundations, is asking legislators to add a mandatory reporting requirement and other regulations to the rulebook for opportunity zone funds.

The push comes as both impact-focused foundations and mainstream investors get ready to invest in opportunity zones, now that the U.S. Treasury Department rulemaking process on the subject appears close to completion.

In an open letter released Tuesday, the Presidents' Council, a network including leaders of 20 foundations under the helm of the **U.S. Impact Investing Alliance**, said ignoring additional reporting and regulatory suggestions could end up leading to the displacement of residents from the 8,700 areas designated as opportunity zones.

"The government is giving up future tax revenues," says Kimberlee Cornett, managing director of social investment practice at the \$3.7 billion Kresge Foundation. "We need to make sure that there's an equal amount of benefit to the communities as to investors."

Investments in opportunity zones allow investors to defer, reduce or even avoid paying capital-gains taxes they they sell assets and place them in designated funds instead. The law was part of the 2017 Tax Cuts and Jobs Act.

The Treasury released its second batch of proposed rules for the law in April, as reported, but language about specific reporting requirements wasn't included. The agency is currently accepting comments on what's been proposed so far. On July 9, there will be another public hearing, during which the U.S. Impact Investing Alliance's executive director, Fran Seegull, is slated to testify on the need for reporting requirements and further regulation. The Treasury so far hasn't ruled out a third round of rulemaking.

Overall, the foundations of the Presidents' Council, which collectively hold more than \$80 billion in assets and include names like the Ford Foundation and the David and Lucille Packard Foundation, say they're optimistic about the potential of opportunity zones. The law "could become one of the largest economic development initiatives in U.S. history," the group writes in the letter. One of the

foundation leaders, Jim Sorenson of the Sorenson Impact Foundation, was involved in creating the legislation. Others have already lined up millions in investments.

The John D. and Catherine T. MacArthur Foundation, the McKnight Foundation, Open Society Foundations, the Omidyar Network, the Annie E. Casey Foundation, the Case Foundation, the Heron Foundation, the Lumina Foundation, the Meyer Memorial Trust, the Nathan Cummings Foundation, the Rockefeller Brothers Fund, the Surdna Foundation, and W.K. Kellogg Foundation and the Rockefeller Foundation are also part of the group signing the letter.

“Ultimately, 10 years from now, what we’d all like to see is this [being] renewed because it delivered on its promise,” says Sorenson, whose foundation had about \$145 million in assets in 2017. Sorenson says he plans to raise \$150 million for a fund to invest in opportunity zones.

One of the main concerns that impact investors have about the lack of reporting requirements is that real estate investments, in particular, could bring up housing prices and push out long-term residents, essentially triggering waves of gentrification in those areas. In addition, there’s concern over certain areas attracting disproportionately more investments, leaving other zones further behind.

“This is a competition for capital,” says Kresge’s Cornett. “And the playing field, even among distressed communities, is not equal,” she adds.

Kresge has already placed \$22 million in guarantees with two managers. Both managers agreed to abide by a reporting framework similar to one released by the U.S. Impact Investing Alliance, according to Cornett. The Presidents’ Council, in its letter, asked that all investors report according to the framework released by the alliance.

“Requiring measurement and reporting, particularly as it relates to the intent behind the developments, and the ultimate results, will help to motivate better social impact,” Sorenson says. The framework, he adds, is important so that, in 10 years, the public can “look at the data ... and see if the poverty rate has measurably decreased, and if unemployment has decreased, and if the medium income has increased.”

The foundations are also pushing for more regulations on the federal, state and local level to ensure close collaboration between investors and community actors, for instance, by aligning other tax incentives for green energy or affordable housing with opportunity zones.

Many of the Presidents’ Council foundations see their role in shaping the rules around this legislation as imperative.

“I want to believe that we’re going to improve the policy,” Cornett says, “but in the meantime, philanthropy has an important role to play.”