

Winter 2020

Hourglass Quarterly



OPPORTUNITY ZONES

HOURGLASS FALL FORUM

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Letter from the Executive Director

Hello,

I am pleased to welcome you to our new Hourglass Quarterly! This publication has historically been one of our key methods of presenting Lancaster County's leaders with relevant, exciting and important articles from a variety of sources. This new Quarterly reaffirms our commitment to keeping you informed by providing more in depth summaries of our First Friday Forums, increasing the number of articles we showcase, and relating these featured articles to Lancaster County when possible.



In this edition, we first highlight the reporting done by PA Post's Ed Mahon on the City of Erie's use of Opportunity Zones to spur economic growth. We also include a summary of our highly successful forum "The Future Ain't What It Used To Be". This forum featured eight presentations from leaders from Lancaster and York Counties on innovative ideas and practices that will influence our future. Following this summary, we have included two articles which relate to two topics covered in the forum: Artificial Intelligence and Immigration and Refugees.

If you enjoy reading the Hourglass Quarterly, please sign up to receive our bi-weekly email publication "Keeping Lancaster Current" which includes recommendations of articles to read from across the web. You can do so by visiting our website (www.hourglassfoundation.org) and entering your email address on our homepage.

This Quarterly is part of our commitment to educate Lancaster's leaders and to champion and facilitate sound decision-making in order to assure prosperity while maintaining the county's unique character and enviable quality of life.

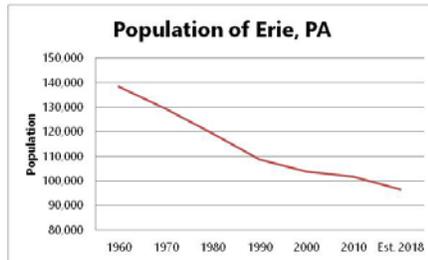
Happy reading!

Jonathan Russell
Executive Director

OPPORTUNITY ZONES IN ERIE

Rust Belt Community Uses Tax Program

Since the 1960's Erie County, like much of Western Pennsylvania and the Rust Belt, has experienced substantial population decline as a result of the loss of many manufacturing jobs. Factories, such as the General Electric locomotive plant, are a shell of their former selves and companies such as Malleable Iron, the American Meter Company, and the International Paper Company have shut their doors. When these middle-class jobs left, the economy started to suffer. Poverty in Erie skyrocketed. For the last 60 years, Erie has been caught in a vicious cycle of job loss, population decreases, and an increase in poverty.



What are Opportunity Zones?

When the 2017 Tax Cuts and Jobs Act was signed into law and established Opportunity Zones, community leaders in Erie saw a solution to their plight. According to the Tax Policy Center, "Any corporation or individual with capital gains can qualify. The program provides three tax benefits for investing unrealized capital gains in Opportunity Zones:

- *Temporary deferral of taxes on previously earned capital gains.* Investors can place existing assets with accumulated capital gains into Opportunity Funds. Those existing capital gains are not taxed until the end of 2026 or when the asset is disposed of.
- *Basis step-up of previously earned capital gains invested.* For capital gains placed in Opportunity Funds for at least 5 years, investors' basis

on the original investment increases by 10 percent. If invested for at least 7 years, investors' basis on the original investment increases by 15 percent.

- *Permanent exclusion of taxable income on new gains.* For investments held for at least 10 years, investors pay no taxes on any capital gains produced through their investment in Opportunity Funds (the investment vehicle that invests in Opportunity Zones).

So, what does this look like? Due to the real estate market, it is difficult to make development projects work in Erie with traditional financial incentives. The purchase price plus the cost to rehabilitate a property oftentimes exceeds the value of the property after rehabilitation. A traditional bank would not approve the financing for this type of project because the property owner would be underwater in their investment after the rehabilitation of the property.

In an Opportunity Zone, individuals and businesses can defer and reduce their capital gains

taxes by putting their profits from other investments toward projects in pre-designated low-income census tracts. Additionally, if someone puts \$500,000 into a new building, and that building grows in value by \$500,000 — then, after 10 years, that additional \$500,000 is excluded from the capital gains tax.

Opportunity Zones in Pennsylvania

Gov. Tom Wolf's administration designated 300 census tracts in Pennsylvania to be part of the Opportunity Zone program. According to the PA Department of Community and Economic Development, these designations were made on the potential for new investment to eliminate pov-

Opportunity Zones in Lancaster:

There are six Census Tracts designated as Opportunity Zones in Lancaster County. Four in southern Lancaster City and two in Columbia.



erty, and if the census tract coincided with already existing local and state economic development priority areas. Approximately 120 of Pennsylvania's Opportunity Zones have a poverty rate above 35 percent.

Opportunity Zones in Erie

Erie is home to eight Opportunity Zones. They are all located geographically close together. Of note, they include the Bayfront Convention Center and residential areas. Community leaders hope to draw investment to the waterfront area and to encourage the elimination of blight in the residential neighborhoods. Five of the eight Opportunity Zones in Erie have a poverty rate above 35 percent.



With 300 Opportunity Zones to choose from in the state, competition is stiff. So why invest in Erie? One of the arguments for investing in Erie is that your money will go farther. In a larger metropolitan area, \$1million might not go far, but in Erie \$1million could make a substantial impact. Another reason to invest in Erie is that community leaders are unified in a strategy for using Opportunity Zones. This type of community support is not common and makes investing in the community much easier.

Effects of Opportunity Zones

Have Erie's efforts paid off? In many ways "yes". The City has seen a \$2.6 million investment into a new culinary arts district, a mixed use project with 87 apartments and 20 businesses including a restaurant incubator space (architectural render-

ing below). Erie has also benefitted from a \$10 million investment by CapZone for startup companies in the Opportunity Zone.



But these projects have also attracted a fair number of detractors. In order to undertake the culinary arts district project, the Erie Downtown Development Corporation announced it would not renew the leases of three restaurants in the project area. At least one of these restaurants is minority owned. The community was outraged. In response, the Downtown Development Corporation created a \$75,000 tenant assistance fund to help business owners relocate.

This conflict underscores the central argument against Opportunity Zones, that money from wealthy investors with no ties to the community are benefiting from investments made in poor communities that do not benefit the community. Much investment in Opportunity Zones is not done in conjunction with the local community nor with their knowledge.

Communities such as Erie are betting that they can attract investors into projects set up to benefit the community as a whole. Time will tell if that bet will pay off.

Article summarized from PA Post "Erie lost people for decades. Now, leaders there hope a new tax break will transform the city". Written by Ed Mahon. October 15, 2019. 