

CITY OF AUSTIN ECONOMIC DEVELOPMENT DEPARTMENT

# OPPORTUNITY ZONES



REDEVELOPMENT DIVISION

FEBRUARY 25, 2019

# Background

- Established by Congress in the Tax Cuts and Jobs Act of 2017
- Encourages long-term investment in low-income urban and rural communities
- Provides tax incentive for investors to re-invest their capital gains into Opportunity Funds dedicated to investing in Opportunity Zones
- Goals of Opportunity Zone Funds:
  - Address the uneven economic recovery
  - Spur new business formation
  - Diversify geographic footprint of economic opportunity and growth

# City of Austin – Council Resolution

On October 18, 2018, the City of Austin City Council passed Resolution No. 20181018-039, which charged the Economic Development Department to research and provide comments and recommendations regarding eight (8) key points, specific to the Opportunity Zone Program:

- Program Development
  - Community Needs
  - Engagement Strategies
  - Leveraging Opportunities
  - Best Practices
  - Partnerships
  - Monitor Federal Guidance
  - Identify Additional Guidance Needs
- Response due to City Council on **April 28, 2019**

# Program Offerings

The Opportunity Zones program offers investors three tax incentives for encouraging investments in federally designated Opportunity Zones through qualified Opportunity Funds.

- **Temporary Tax Deferral** – A temporary deferral of inclusion in taxable income for capital gains reinvested into an Opportunity Fund. The deferred gain must be recognized on the earlier of the date on which the Opportunity Zone investment is disposed of or December 31, 2026.



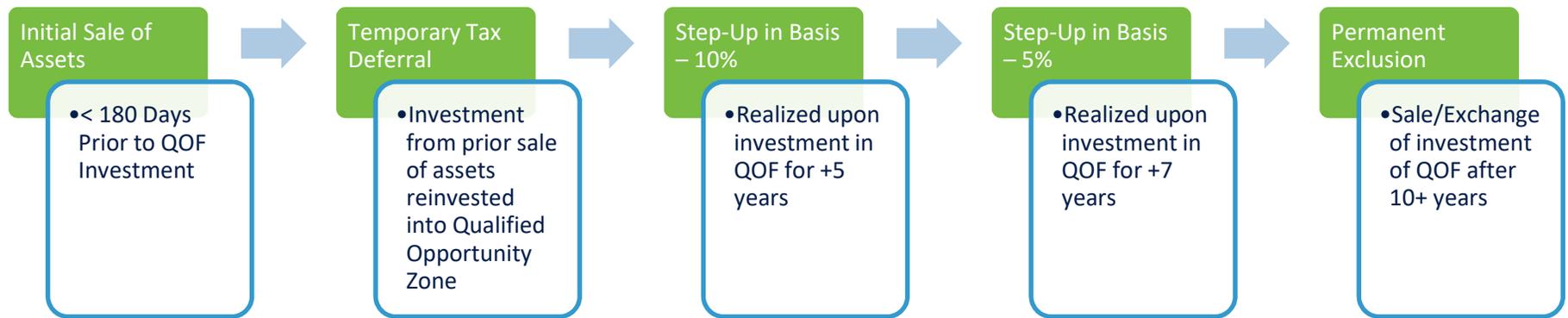
- **Step-Up in Basis** – A step-up in basis for the deferred capital gains reinvested in an Opportunity Fund. The basis is increased by 10% if the investment in the Opportunity Fund is held by the taxpayer for at least 5 years and by an additional 5% if held for at least 7 years, thereby excluding up to 15% of the original deferred gain from taxation.



- **Permanent Exclusion** – A permanent exclusion from taxable income of capital gains from the sale or exchange of an investment in an Opportunity Fund if the investment is held for at least 10 years. This exclusion only applies to gains accrued on investments made through an Opportunity Fund. There is no permanent exclusion possibly for the initially deferred gain.

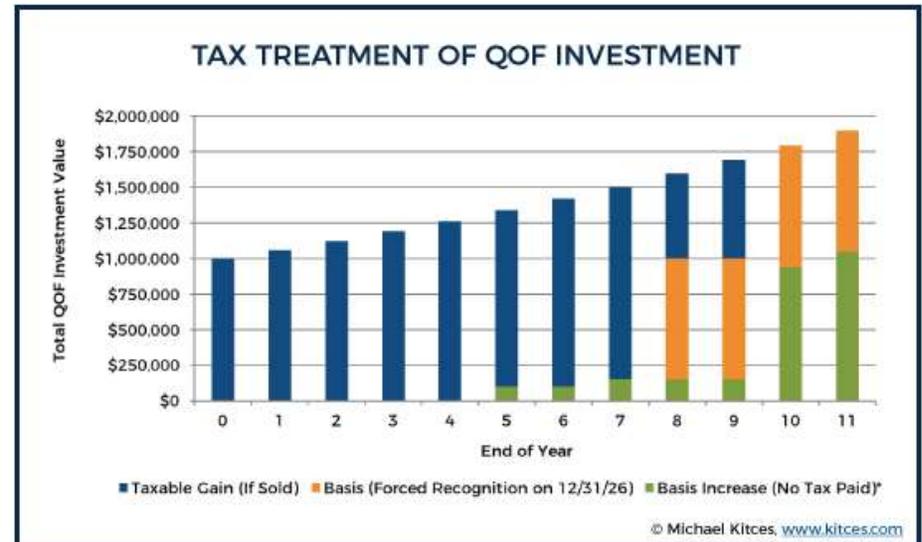


# Benefits of Qualified Opportunity Funds



# Important Investment Dates

- **December 31, 2019**  
Last day to invest in QOF to recognize maximum program offerings
- **December 31, 2021**  
Last day to invest in QOF to realize at least 10% Step-Up Basis
- **December 31, 2026**  
Last possible day or reinvested gain recognition (Forced Recognition of Gains)



\*Guidance still needed to confirm tax treatments of Post-2019 QOF Investments in regards to Permanent Exclusion

# Qualified Opportunity Zone Funds

A qualified Opportunity Fund is an investment tool organized as a corporation or partnership with the specific purpose of investing in Opportunity Zone assets

- Qualified Opportunity Zone Funds can be established by any entity
- Funds are self-certifying by completing IRS Form 8996, and submitting with annual federal income tax returns
- Opportunity Funds are required to hold at least 90% of their assets in qualified opportunity zone businesses and/or business property

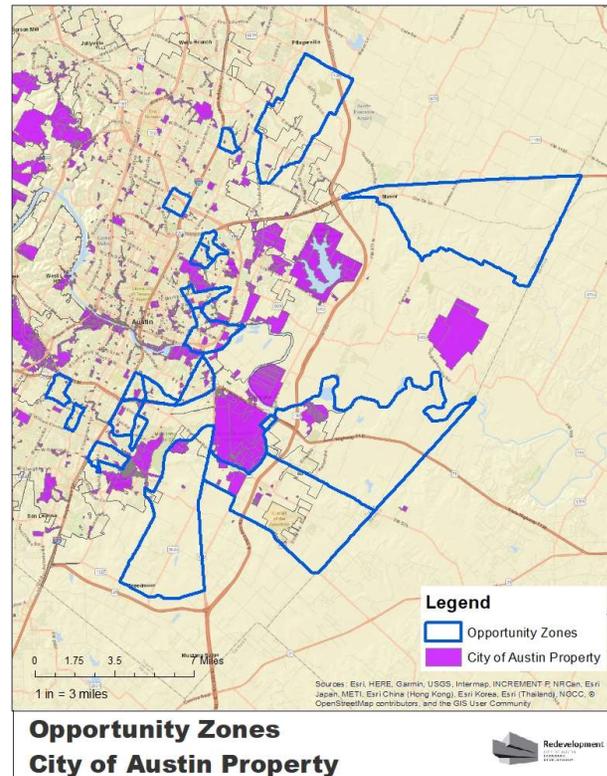
# What are Opportunity Zones?

Opportunity Zones are low-income census tracts designated by the Secretary of the Treasury through a nomination process involving the Governors of each U.S. state and territory

- Initial thresholds established by Section 45D of the Internal Revenue Code
  - Poverty Rates of at least 20 percent; or
  - Annual Median Family Income no greater than 80% of surrounding areas
- Governor may nominate up to 25% of their low-income census tracts to be certified
  - Public and Private entities allowed to provide input
  - Additional Zone Considerations:
    - Chronic Unemployment
    - Lower Population Density
    - Significant Economic Disruptors within past 2 years (i.e. Natural Disasters)
- Designated Zones are set to expire on **December 31, 2028**

# Opportunity Zones and the City of Austin

The City of Austin has twenty-one (21) designated Opportunity Zones significantly impacting census tracts located to the east of Interstate 35.

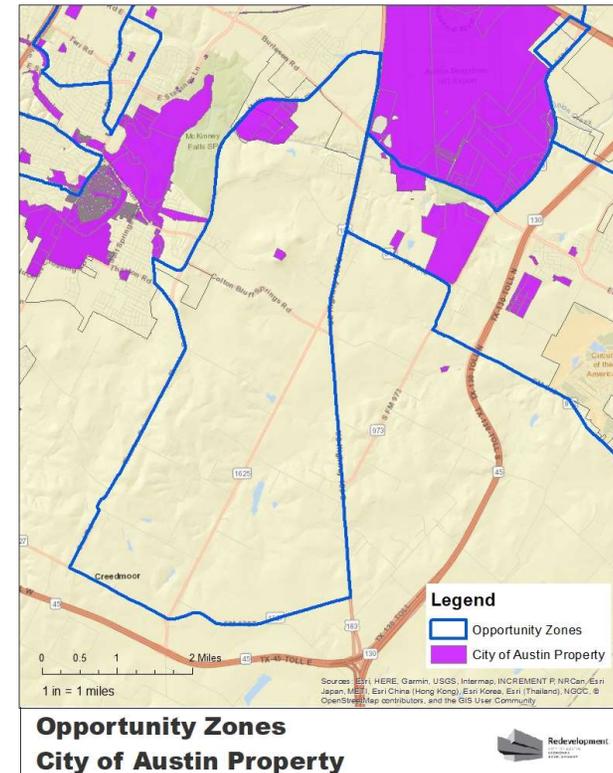


The City of Austin specifically nominated four (4) census tracts located in the Southeast area of the City. All nominated census tracts were certified.

# Sample Profile

## General Characteristics

- Square Miles
- Population
- Median Household Income
- Average Household Income
- Per Capita Income
- Median Age
- Residential Profiles
- Poverty Status
- Educational Profile
- Labor Force and Employment Profiles
- Zoning Profiles
- Residential and Commercial Vacancy
- Emerging Projects



- What is the message we want to/can develop for each zone?

# San Antonio Case Study

On Jan. 8, 2019, the City of San Antonio and the Office of the Governor announced the “first” Opportunity Zone investment made in the State of Texas with the development of a \$16-million, climate controlled self-storage facility with flex space at the Brooks master-planned community of San Antonio’s South Side.

## Lessons Learned

- No State or Municipal role in the deal development
- Taxpayer established Qualified Opportunity Zone fund as sole investor
- Investor commissioned five (5) studies to determine land’s best use, which did include community input
- Based on investors tax consultant, projects must be **FULLY FUNDED** for realization of investment benefit



# Research Methods

- Review of National Best Practices –
  - Texas: Dallas, El Paso, San Antonio
  - National: Indianapolis, **Louisville**, Memphis, **Minneapolis**, Oklahoma City, Phoenix, St. Louis
- Monitoring State Legislative Actions
  - Grocery Access Act
  - Texas Rural and Opportunity Zone Act
- Focus Groups (*In Development*)
  - Internal
  - External
- Stakeholder Conferences, Webinars, and Calls
- Monitoring release of final program guidance (Expected Mar. 2019)

# Research Findings

- **Program Development and Leveraging Opportunities**
  - Lack of State or Local programs specific to incentivizing Opportunity Zones
  - Potential to design/influence programs to incentivize investment for target markets
  - Utilization of existing incentive programs on State and Local level to leverage OZ investments
- **Community Needs and Engagement Strategies**
  - Need to identify gaps in services for census tracts
  - Engaged through mapping strategies of available market and engagement data
  - Identify existing plans for community benefits
- **Best Practices**
  - Profiling Census Tracts to attract appropriate investment
- **Potential Partners**
  - Need to identify Qualified Funds/Investors/External Stakeholders who align with CoA values
- **Federal Guidance and Regulations**
  - Lack of role for municipal involvement
  - Lack of oversight on investment
  - Final Guidelines not releases

# Draft Strategy Recommendations

- Development of Opportunity Zone website
- Development of maps identifying Opportunity Zone tracts
  - City Limits
  - Zoning
  - City-owned Property
  - Emerging Properties
- Research existing plans that include community benefits
- Identify Qualified Opportunity Zone Funds that align with City of Austin goals
- **Engage Internal/External focus groups**
- Development of Census Tract prospectus

# What does this all mean?

- Investments are happening now (whether we are aware of them or not)
- Need for municipal interventions increases as tax incentives diminish over course of program
- Development of **executable** strategies are vital
- Collaboration and Communication

## Significant Dates:

- Texas Opportunity Zone Summit – March 6, 2019
- Response to Council Resolution – April 28, 2019



# QUESTIONS?