

OPPORTUNITY ZONES



REDEVELOPMENT DIVISION

PLANNING COMMISSION PRESENTATION

JULY 13, 2019

Agenda

- Background
- Opportunity Zone 101
- Considerations
- EDD Recommendations

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

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

What are Opportunity Zones?

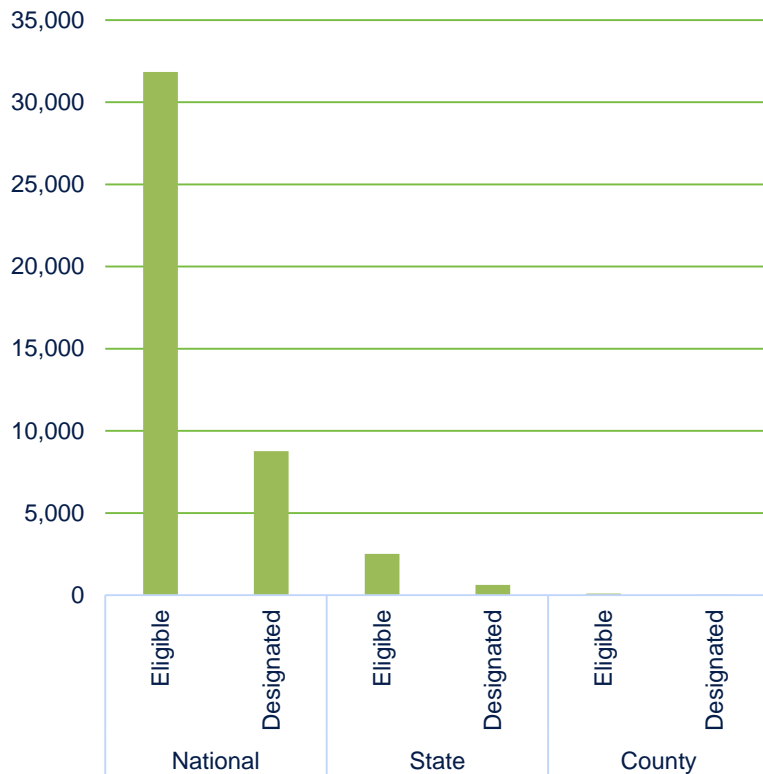
Opportunity Zones are low-income census tracts designated by the Secretary of the Treasury through a nomination process involving the Governors of each U.S. state and territory

- 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 to Governor
 - 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**

Census Tract Eligibility - Perspectives

The following charts display the total number of census tracts eligible for designation versus the total number nominated/designated as Opportunity Zones on a national, statewide, and county level.

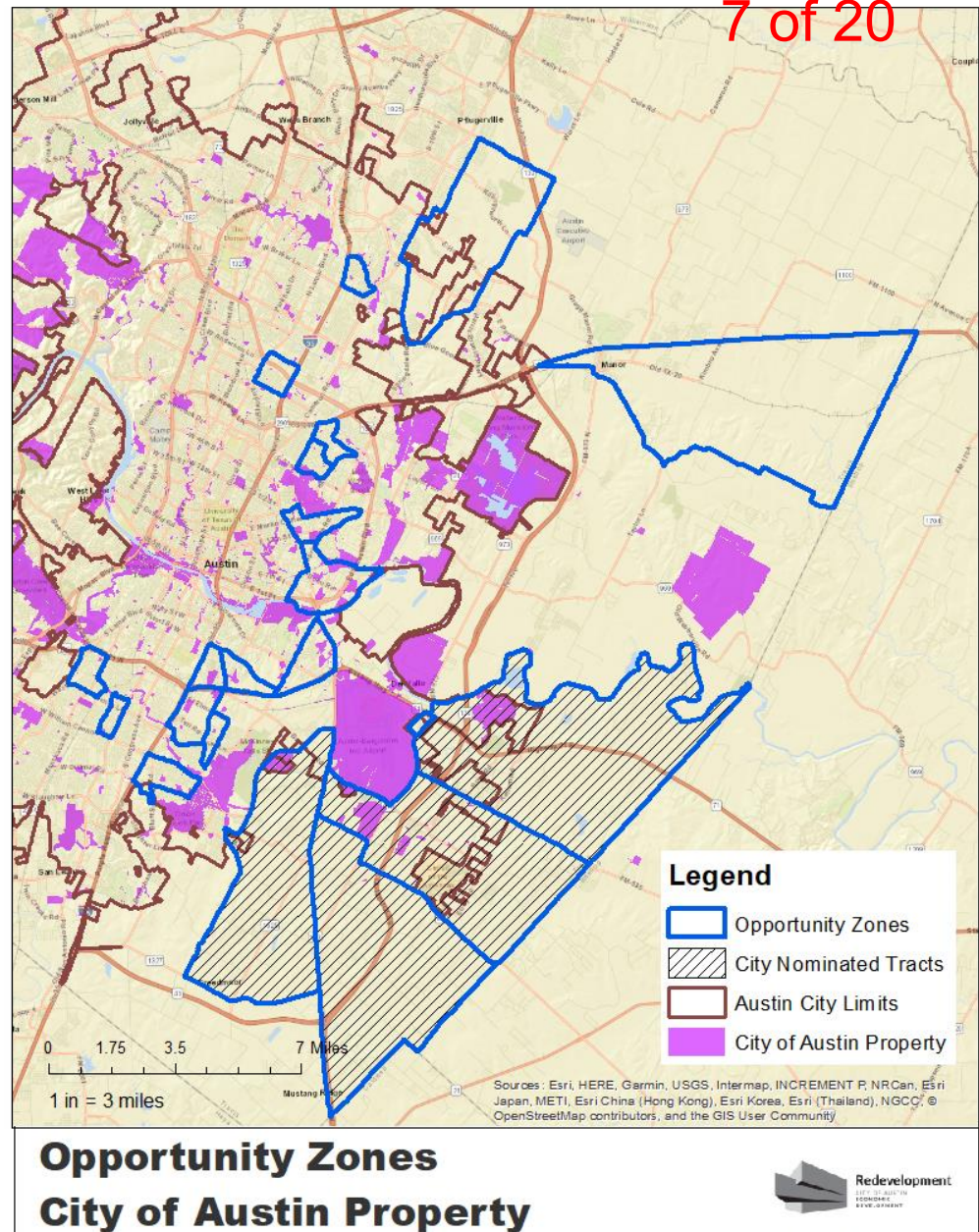
Eligible Vs. Designated



	Eligible Census Tracts	Designated Census Tracts	%
National	31,848	8,764	27.52%
State	2,510	628	25.02%
County	94	21	22.34%

Opportunity Zones – City of Austin Map

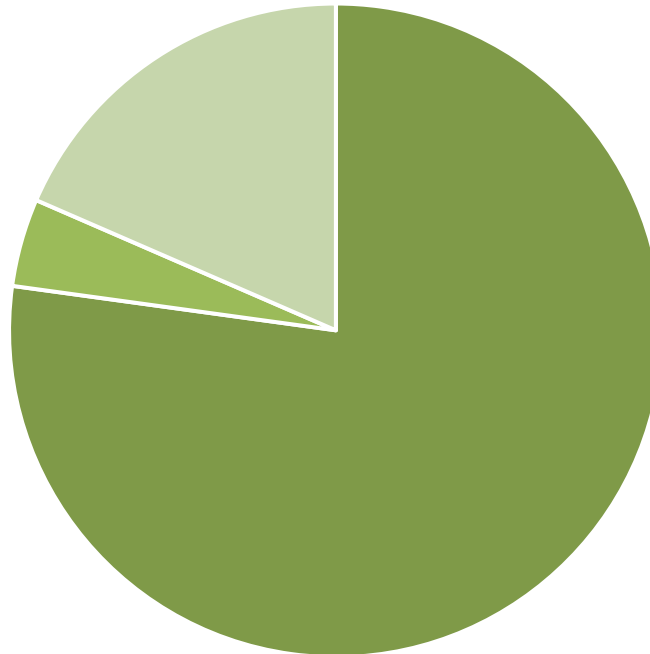
Designated vs.
Nominated Census
Tracts



Created By: D Jackson
Revised: June 10, 2019

City of Austin Designations

City of Austin - Eligible Vs. Nominated



■ Eligible - Not Nominated ■ Eligible - City Nominated ■ Eligible Governor Nominated

Of the 92 eligible census tracts located in the City of Austin Boundaries, the City submitted four (4) census tracts for designation. While accepted, the Governor's Office nominated an additional seventeen (17) tracts. The Treasury Secretary approved all Governor-nominated census tracks.

Tax Provision Offerings

The Opportunity Zones tax incentive 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.



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 with authority to establish a corporation or partnership for tax purposes.
 - *Subject to State of Texas rules and regulations related to municipal development of corporations/partnerships
- Funds are self-certifying by completing IRS Form 8996, which is submitted 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



Benefits of Opportunity Funds

Initial Sale of Assets

- < 180 Days Prior to Opportunity Funds Investment

Temporary Tax Deferral

- Investment from prior sale of assets reinvested into Opportunity Zone

Step-Up in Basis – 10%

- Realized upon investment in Opportunity Fund for +5 years

Step-Up in Basis – 5%

- Realized upon investment in Opportunity Fund for +7 years

Permanent Exclusion

- Sale/Exchange of investment in Opportunity Fund after 10+ years

Important Investment Dates

- December 31, 2019**

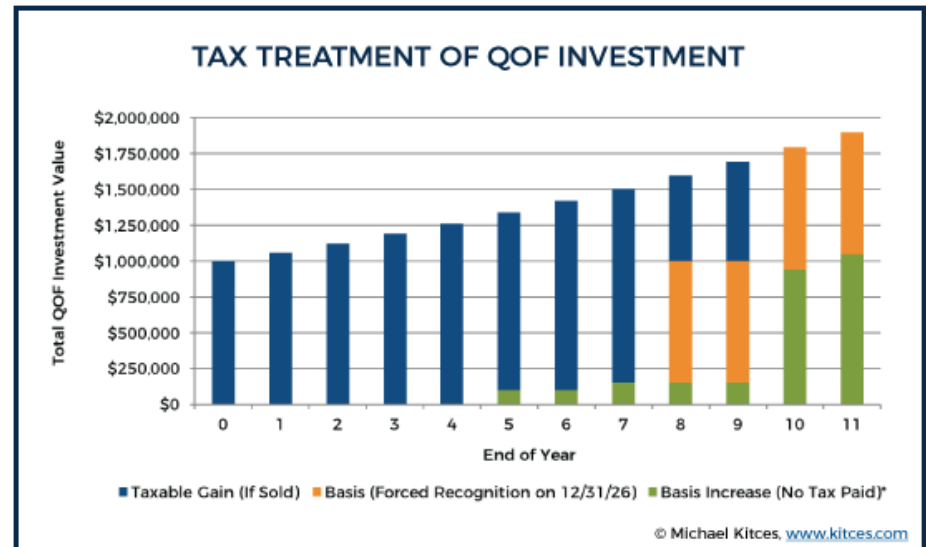
Last day to invest in Opportunity Fund to recognize maximum program offerings

- December 31, 2021**

Last day to invest in Opportunity Fund to realize at least 10% Step-Up Basis

- December 31, 2026**

Last day to recognize deferred gain on investment reinvested in Opportunity Fund (Forced Recognition of Gains)



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

Working Capital Safe Harbor

- Initial regulations allowed developers a 31-month safe harbor for the following activities:
 - Acquisition of Property
 - Construction of Property
 - Substantial Improvement of Property
- Additional Guidance expanded upon those activities to include:
 - Development of Trade or Business
- Delays attributed to government actions, may extend the safe harbor (Local development timeline concerns)

Best Practices

EDD staff conducted nation-wide best practice research from a local and statewide perspective:

- **Baseline**

- Development of basic Census Tract maps

- Development of basic Opportunity Zone education material

- Federal resource links

- Press Release/Media Outreach

- **Mid-level**

- Prospectus Development to include; city goals, demographics, community assets, specific projects

- Interactive Maps

- **High**

- Exploration of development of Opportunity Fund

Local Context

The City of Austin's market context differs significantly from that of its peer cities, which impacts the investor decision into Opportunity Zones.

- Central Texas and Austin's economy is one of the strongest in the nation
- Majority of census tracts fall within the federal definition of "urbanized area"
- Austin naturally attracts significant amount of capital
- Austin Opportunity Zones compete regionally for Opportunity Zone capital
- Concerns of whether local needs will be met by the attraction of Opportunity Zone capital

City of Austin Policy Alignment/Considerations

Item E-02

16 of 20

Chart 3: City of Austin Opportunity Zone Policy Alignment

Council District	Census Tract	Imagine Austin Center	Imagine Austin Corridor	Neighborhood Plan	Sidewalk Master Plan	E. Riverside Corridor Small Area Plan	Lamar / Justin Lane TOD Plan	Healthy Food Access Initiative	Strategic Housing Blueprint	Status of Gentrification			
										Susceptible	Early Type 1	Dynamic	Not Available or Present
1	21.11	X	X						X			X	
	22.09				X				X				X
	21.12		X	X					X	X			
	21.09		X	X					X		X		
	21.06		X	X					X				X
	18.32		X						X				X
	18.42	X	X						X				X
2	24.35	X			X			X	X		X		
	23.19				X				X				X
	24.27		X		X				X	X			
	24.33	X			X			X	X	X			
	24.32	X	X	X	X			X	X	X			
	24.36							X	X				X
	24.11	X	X	X	X				X	X			
	24.1		X	X	X				X	X			
	24.13		X	X					X				X
3	23.12	X	X	X	X	X			X		X		
	23.07	X		X	X				X	X			
	23.13	X	X	X					X	X			
4	18.04	X	X	X			X	X	X		X		
5	17.12	X	X	X					X		X		

Recommendations Baseline

- Continued Best Practice Exploration

 - Engage with local and national municipalities on approaches

 - Attend educational webinars and events

 - Continue engagement with developers, investors, and community members

- Development of Opportunity Zone Website/Outreach

 - Creation of web page on Opportunity Zones that contains basic information on Opportunity Zone tax provisions

 - Link website to most recent IRS Guidance, Local News, Opportunity Funds, and educational material

 - Development of Opportunity Zone maps and profiles

 - Create and conduct educational webinars, to target residents and investors

<http://www.austintexas.gov/departments/opportunity-zones-austin>

<http://arcg.is/0znaPb>

Recommendations Mid-Level

- Identify and promote community beneficial Opportunity Zone projects to Opportunity Fund Investors

Identify potential projects in Opportunity Zones in need of investment that meets community benefits

Develop relationships with Opportunity Fund investors

Provide potential matchmaking services between Opportunity Fund Investors and potential Opportunity Zone projects

- Create an Incentive Program to deliver Community Benefits

Creation of a “Location Enhancement Incentive Policy”, in accordance with City Council Resolution 20180830-058, taking into account Opportunity Zone designations in addition to local market context

Program development set to kick-off in fall of 2019

Location Enhancement Program

- The purpose of a Location Enhancement Program is to develop a real estate gap financing program to support the creation of “complete communities”

Goals of Program:

Support the creation and retention of vibrant centers of commerce, culture and residences

Provide stable location for specific types of tenants and target market industries that advance City Council goals

Increase the availability of diverse commercial affordable spaces

Promote projects that strengthen local economy, sustain economic activity and build resilience against economic downturns

Engage an equitable lens in projects to ensure City-wide benefits

Build the policy on market context

Provide basic services and amenities to all communities

Ensure displacement and gentrification are not unintended consequences of specific projects

- The City of Austin is currently procuring consultant services to assist in the research and development of the program

QUESTIONS?