



City of San Antonio

Agenda Memorandum

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Agenda Item Number: 2.

Agenda Date: 10/2/2018

In Control: Economic and Workforce Development Committee

DEPARTMENT: Economic Development

DEPARTMENT HEAD: Rene Dominguez

COUNCIL DISTRICT(S) IMPACTED: Council Districts 1, 2, 3, 4, 5, 6, and 10

SUBJECT: Federal Opportunity Zones Program

SUMMARY:

This briefing will provide an overview of the new federal Opportunity Zones Program established by The Tax Cuts and Jobs Act of 2017. Opportunity Zones are a new economic development tool designed to encourage long-term private investments in low-income areas. The program allows investors to defer and reduce their federal capital gains tax liability by investing in qualified projects in designated Opportunity Zones through designated Opportunity Funds.

BACKGROUND:

In early 2018, governors were tasked with designating up to 25% of their State's qualifying low-income census tracts as Opportunity Zones. To be eligible, a census tract was required to have a poverty rate of at least 20% or a median family income at or below 80% of the region's Area Median Income (AMI). San Antonio City staff led a community engagement process, holding several stakeholder meetings, briefing councilmembers, and surveying 200 public and private stakeholders.

As a result of this process, the City ranked and sent all 185 eligible Bexar County census tracts to the Governor, with 27 of those tracts identified as high-priority. On March 21st, Governor Abbott recommended 24 census tracts across Bexar County, which were adopted by the U.S. Treasury in April 2018. San Antonio had the second highest number of tracts designated in Texas after Harris County.

The U.S. Treasury and the IRS (Internal Revenue Service) have developed additional guidance on eligible projects and the investment vehicle (Opportunity Fund) eligibility requirements. The federal guidance is currently with the White House Office Management of the Budget for review and is anticipated to be publicly released in October.

Funds must be fully capitalized and capital must be deployed in an eligible project by the end of 2019 to receive the full tax benefit of up to a 15% reduction capital gains tax liability due in 2026. Eligible investments

include property, stocks, or a joint partnership within a designated Opportunity Zone. The designation lasts until December 31, 2028.

ISSUE:

This program has the potential to draw new investments to low-income communities across San Antonio. Pending further federal guidance, staff recommendation at this time is to serve as a conduit of information and to support community initiatives to attract capital to community-identified projects and businesses in the designated Opportunity Zones. Staff will continue meeting with stakeholders to coordinate efforts in anticipation of the federal guidance. Once released, staff will develop next steps and a plan of action associated with program guidance.

ALTERNATIVES:

This item is for briefing purposes only.

FISCAL IMPACT:

This item is for briefing purposes only.

RECOMMENDATIONS:

This item is for briefing purposes only.