



# City of San Antonio

## Agenda Memorandum

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**Agenda Item Number:** 2.

**Agenda Date:** 6/4/2019

**In Control:** Economic and Workforce Development Committee

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**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 update

### **SUMMARY:**

The Opportunity Zones (OZ) tax incentive, established by *The Tax Cuts and Jobs Act of 2017*, is an economic development tool designed to encourage long-term private investments in low-income areas. This briefing will provide an overview of the program and the City's strategy around this federal incentive including stakeholder engagement, creation of educational resources, and opportunity zones marketing efforts. Additionally, staff will provide an update on the release of the second round of U.S. Internal Revenue Service (IRS) regulations, current legislative activity, and public *Requests for Information* seeking public input on data collection, tracking investment, and maximizing benefits in opportunity zones.

### **BACKGROUND:**

The Opportunity Zones federal tax incentive was established by the *Tax Cuts & Jobs Act of 2017* to foster economic growth by encouraging the long-term investment of unrealized capital gains in designated OZ's in exchange for deferment and reduction of capital gains taxes. The OZ designation expires on December 31, 2028. The federal government estimates that there are more than \$6 trillion in unrealized capital gains available nationwide.

All investments seeking to benefit from the OZ tax advantages must be made through an IRS-certified Qualified Opportunity Fund. The tax benefits include deferment of capital gains taxes until December 2026; reduction of deferred capital gains taxes of up to 15%; and invested capital gains grow tax free if the investment is held for at least 10 years. An Opportunity Fund is required to hold at least 90% of its assets in qualified OZ business and/or property. Eligible investments include property, stocks, or a joint partnership within a designated OZ.

### ***Opportunity Zones in San Antonio***

In early 2018, Governors were tasked with designating up to 25% of their states' qualifying low-income census tracts as OZs. To be eligible, census tracts were 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, 27 of which were identified as high-priority. On March 21, 2018, Governor Abbott recommended 24 census tracts across Bexar County, which the U.S. Treasury designated as Opportunity Zones in April 2018. San Antonio had the second highest number of designated tracts in Texas following Harris County.

### ***Opportunity Zones Strategy***

In FY 2018, the City created an Opportunity Zones Manager position within the Economic Development Department to coordinate efforts in opportunity zones, maximize investment, and ensure alignment with ongoing City Council policies such as SA Tomorrow and the Housing Policy Framework. The OZ Manager leads the City's strategies including stakeholder engagement and outreach; education and enhancement of resources; researching best practices; coordinating OZ projects with City departments; OZ marketing efforts to maximize investment opportunities; and overseeing development of a strategic plan for the near Westside opportunity zones, which was funded as part of the FY 19 budget process.

### ***Opportunity Zones IRS Regulations Update***

The U.S. Treasury and the IRS released the first round of proposed regulations in October 2018 followed by a public comment period. The second round of proposed regulations was released on April 17, 2019, which provided clarification on issues identified in the first public comment period. Draft regulations are expected to be finalized by the end of 2019.

### ***Opportunity Zones Published Requests for Information (RFIs)***

Following the release of the second round of proposed regulations, the IRS posted a *Request for Information (RFI)* on the Federal Register seeking public comment on the proposed regulations. The IRS RFI was posted on May 1, 2019, and closes for comment on July 1, 2019. Additionally, the Treasury Department and the Housing and Urban Development Department (HUD) posted RFIs on the Federal Register for public comment. The Treasury RFI was posted on May 1, 2019 (closing on May 31, 2019) seeking public comment on data collection and tracking of qualified opportunity funds. The HUD RFI was posted on April 17, 2019 (closes on June 17, 2019) seeking public comment on how HUD can utilize existing authorities to maximize impact in Opportunity Zones.

EDD has convened internal and external stakeholders to formulate responses to participate in the public comment periods. The Opportunity Zones briefing will include a summary of the recommended responses for participation in the RFI public comment period to ensure advocacy for San Antonio's Opportunity Zones.

### **ISSUE:**

This tax incentive has the potential to attract new investments to low-income communities across San Antonio that are designated as OZs. EDD is engaging stakeholders, tracking the development of OZ legislation, and will continue to improve strategies to educate the community and ensure OZ projects align with long-term community priorities such as SA Tomorrow and the Housing Policy Framework.

### **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.