

# Memorandum



DATE March 29, 2019

TO The Honorable Members of the Economic Development & Housing Committee:  
Tennell Atkins (Chair), Rickey D. Callahan (Vice-Chair), Lee M. Kleinman,  
Scott Griggs, Casey Thomas, II, B. Adam McGough, Mark Clayton, Kevin Felder,  
Omar Narvaez

SUBJECT **Dallas Opportunity Zones Briefing**

## Summary

On April 1, 2019, the Committee will be briefed on the Investing in Opportunity Act, a federal statute designed to encourage investment in low income census tracts.

## Background

Included in the December 2017 federal tax reform legislation was a bipartisan act to spur investment in economically distressed communities. The Investing in Opportunity Act allows investors certain tax benefits if they invest in designated low-income census tracts known as Opportunity Zones through investment tools known as Opportunity Funds. There are 15 designated Opportunity Zone census tracts in Dallas. The briefing will describe the federal program, review the 15 Dallas zones, and discuss state and local roles in the program.

## Financing

There is no City financing associated with the federal legislation or the local Opportunity Zones.

## Recommendation

This briefing is for informational purposes only, and no council action is required at this time.

Should you have any questions, please contact me at (214) 670-1696.



Courtney Pogue, Director  
Office of Economic Development

Investing in Opportunity Act  
March 29, 2019  
Page 2

- c: Chris Caso, City Attorney (Interim)  
Carol A. Smith, City Auditor (Interim)  
Billerae Johnson, City Secretary  
Preston Robinson, Administrative Judge  
Kimberly Bizer Tolbert, Chief of Staff to the City Manager  
Majed A. Al-Ghafry, Assistant City Manager
- Jon Fortune, Assistant City Manager  
Joey Zapata, Assistant City Manager  
Nadia Chandler Hardy, Assistant City Manager and Chief Resilience Officer  
M. Elizabeth Reich, Chief Financial Officer  
Laila Aleqresh, Chief Innovation Officer  
Directors and Assistant Directors

# Dallas Opportunity Zones Briefing

## Economic Development and Housing Committee

April 1, 2019

Robin Bentley, Assistant Director  
Office of Economic Development  
City of Dallas



# Overview

Included in the December 2017 federal tax reform legislation was a bipartisan act to spur investment in economically distressed communities.

The “*Investing in Opportunity Act*” allows investors certain tax benefits if they invest in designated low-income census tracts known as Opportunity Zones through investment tools known as Opportunity Funds.

# What is an Opportunity Zone?

An “Opportunity Zone” is a census tract which has been designated by a state or territory and certified by the U.S. Treasury as eligible to receive investment through qualified Opportunity Funds.

On June 14, 2018, the U.S. Treasury designated more than 8,000 Opportunity Zones across the 50 states, the District of Columbia, and five U.S. territories.

The designations will remain in effect until December 31, 2028. The statute does not contemplate adding to or revising the designations during the 10-year period.

# What is an Opportunity Fund?

An “Opportunity Fund” is an entity formed for the purpose of investing in Opportunity Zones.

An Opportunity Fund is capitalized by investors’ realized capital gains, and must deploy 90% of that capital in Opportunity Zones.

Investment into an Opportunity Fund must be made within 180 days of the date of the sale or exchange giving rise to the capital gain.

# Tax Benefits

**Opportunity Fund investors may potentially realize 3 tax benefits:**

- 1. DEFERRAL of Capital Gains Tax Payment:** The original gain invested in the Opportunity Fund is taxable when the investment in the Opportunity Fund is sold or on Dec. 31, 2026, whichever occurs first.
- 2. REDUCTION of Capital Gains Tax Payment:** A taxpayer investing in an Opportunity Fund has an initial basis in the Fund of 0. After 5 years, the investor's tax basis is increased by 10%. After 7 years, the investor's tax basis is increased by an additional 5%.
- 3. FORGIVENESS of Additional Gain:** If an investor holds its interest in an Opportunity Fund for at least 10 years, its basis is stepped up to FMV as of the date of sale. The result is no gain (and therefore no tax liability) on any appreciation above the amount of the initial investment.

# Tax Benefits Example

**April 1, 2019:** Investor invests \$20M of capital gains in an Opportunity Fund. Payment of taxes on these gains is deferred until December 31, 2026.

REDUCTION

**April 2, 2024:** Investor's basis in the Fund is increased from 0 to 10% after 5 years. The new basis is \$2M (10% of \$20M). Investor now owes taxes only on \$18M of the original capital gain.

REDUCTION

**April 2, 2026:** Investor's basis in the Fund is increased from 10% to 15% after 7 years. The new basis is \$3M (15% of \$20M). Investor now owes taxes only on \$17M of the original capital gain.

**December 31, 2026:** Investor has to pay taxes on the \$17M.

FORGIVENESS

**April 2, 2029:** The investment in the Fund has increased from \$20M to \$60M (\$40M of potential gain). However, when the investment is sold, no taxes will be due on the \$40M in gain.

DEFERRAL



# Texas Opportunity Zones

The Act allowed each state's governor to designate up to 25% of all eligible census tracts as Opportunity Zones eligible for investment under the Act.

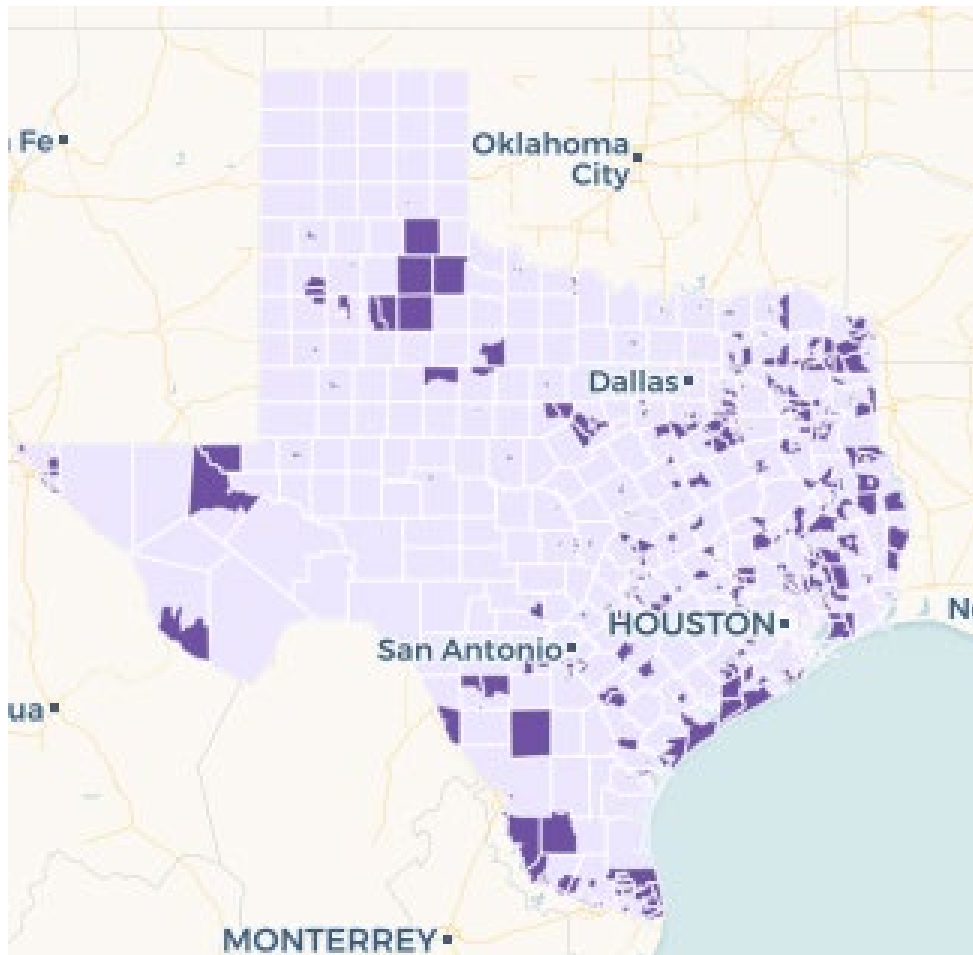
Mayor Rawlings proposed 62 census tracts in the City of Dallas to the State of Texas Office of the Governor.

Governor Abbott nominated 628 census tracts in 145 counties of Texas. All 628 were confirmed by the U.S. Department of Treasury.

The Governor's Office's analysis was weighted toward three factors:


1. Areas of chronic unemployment
2. Areas with lower population density
3. Areas experiencing significant economic disruptors such as natural disasters within the past two years

# Texas Opportunity Zones

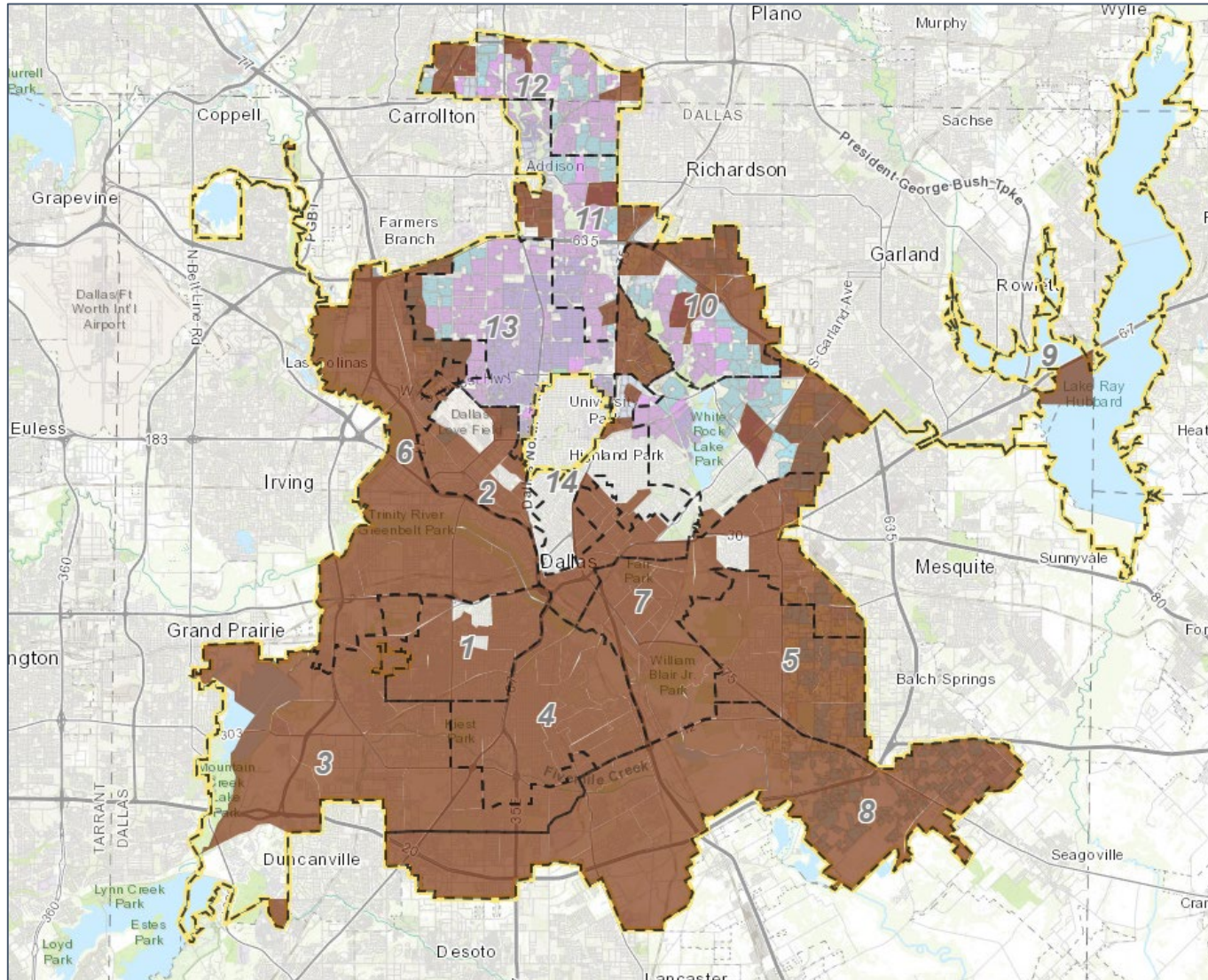


- 628 Total Opportunity Zones
- 60% of Texas's zones are in a partially or fully rural census tract
  - Rural areas are overrepresented in zone selection, as only 38% of all Texas census tracts fall into the partially or fully rural designation
- Counties with the most zones:
  - **Harris** (105 zones, representing 16.7% of the total zones)
  - **Bexar** (24, 3.8% of the total)
  - **Hidalgo** (23, 3.7% of the total)
  - **Travis** (21, 3.3% of the total)
  - **Dallas** (18, 2.9% of the total)

# Texas Opportunity Zones

	Not Eligible	Eligible, Not Selected	Opportunity Zone
<b>Race/Ethnicity (%)</b>			
White	60.5	27.2	34.0
Black	8.0	14.8	18.9
Hispanic/Latino	24.1	54.2	44.6
<b>Poverty (%)</b>			
In poverty	8.6	26.5	28.1
<b>Education (%)</b>			
Less than high school	9.7	28.3	28.0
Bachelor's or higher	37.4	16.4	13.4
Percentage point increase in college graduates 2012–2016	7.6	19.2	21.9
<b>Median Home Value</b>			
Median home value 2016 (\$)	211,141	102,343	89,932
Percent increase in home value 2012–2016 (%)	12.5	7.0	9.3
 Indicates significant difference between OZ tract and eligible, not-selected tract			

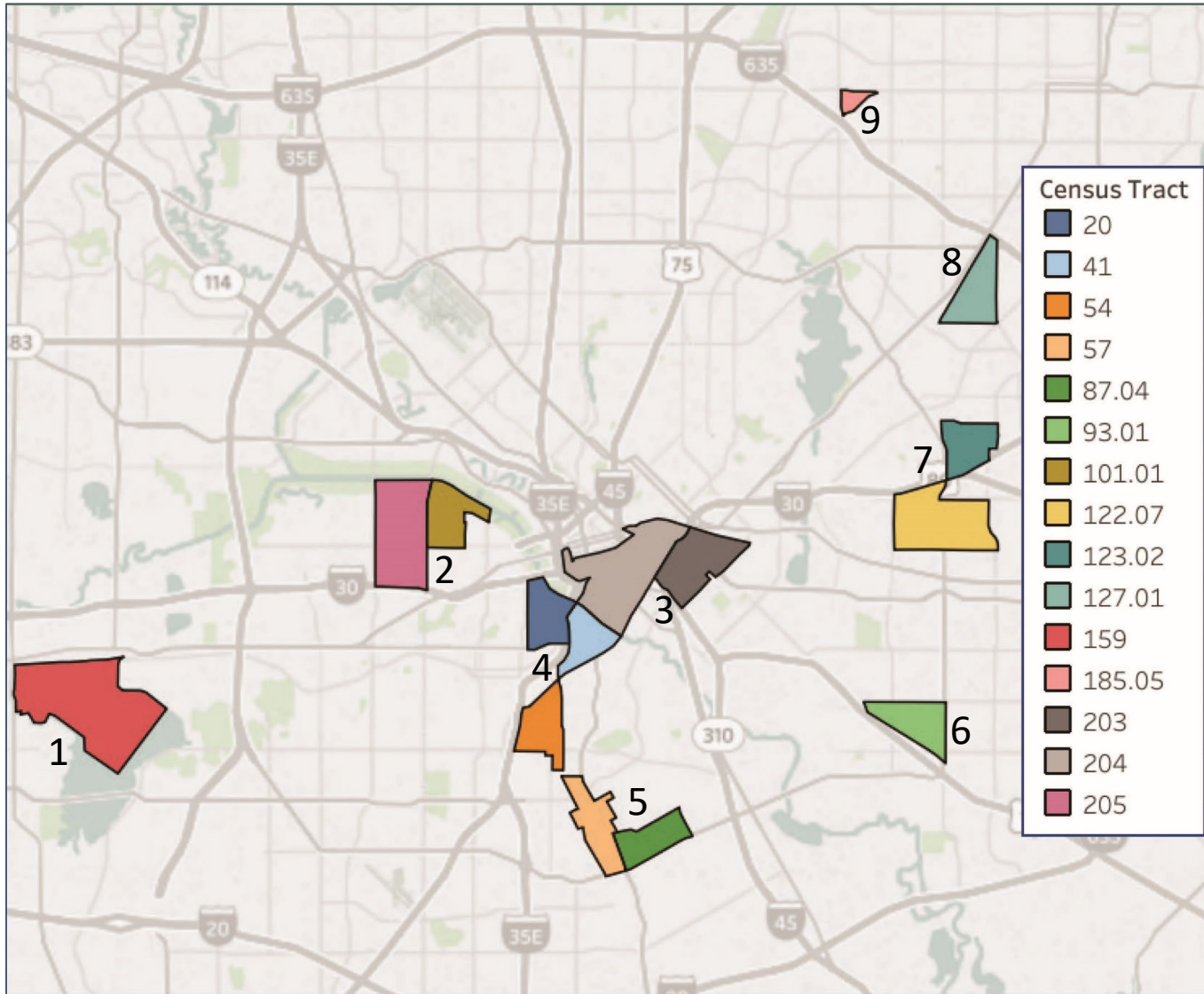
# Eligible Census Tracts in Dallas



Census Tracts eligible for nomination as an Opportunity Zone



# Designated Dallas Opportunity Zones



The City of Dallas has 15 designated Opportunity Zones.

The zones are in 9 general clusters:

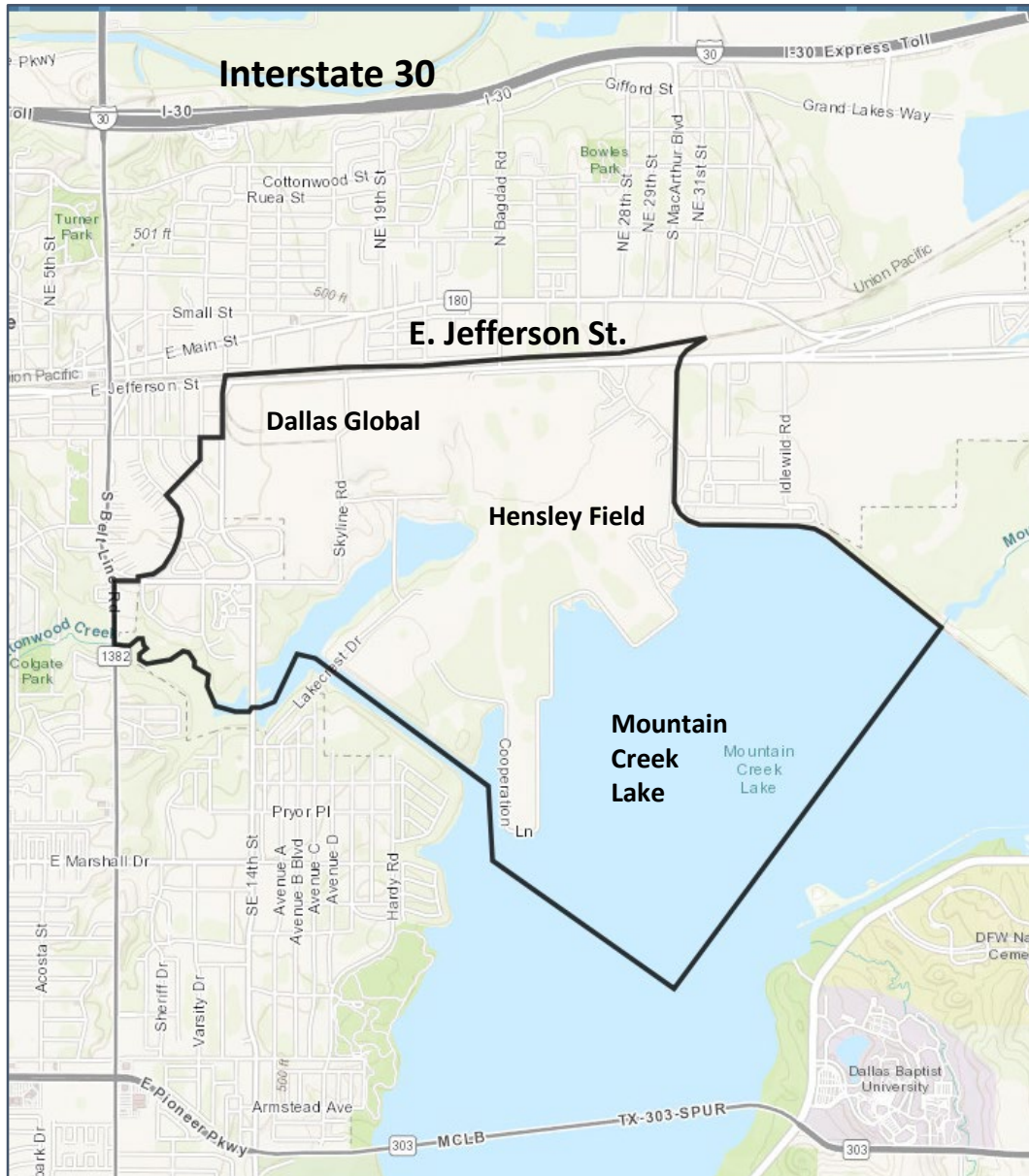
1. Hensley Field
2. West Dallas
3. Cedars/Fair Park
4. Southern Gateway
5. Lancaster Corridor
6. Buckner Station
7. Buckner/I-30
8. Garland Road
9. Forest Audelia



## Cluster #1: Hensley Field



# Hensley Field - Overview



**Council District 3** (also includes a small part of Grand Prairie on the western edge)

**Census Tract 48113015900**

## Opportunities:

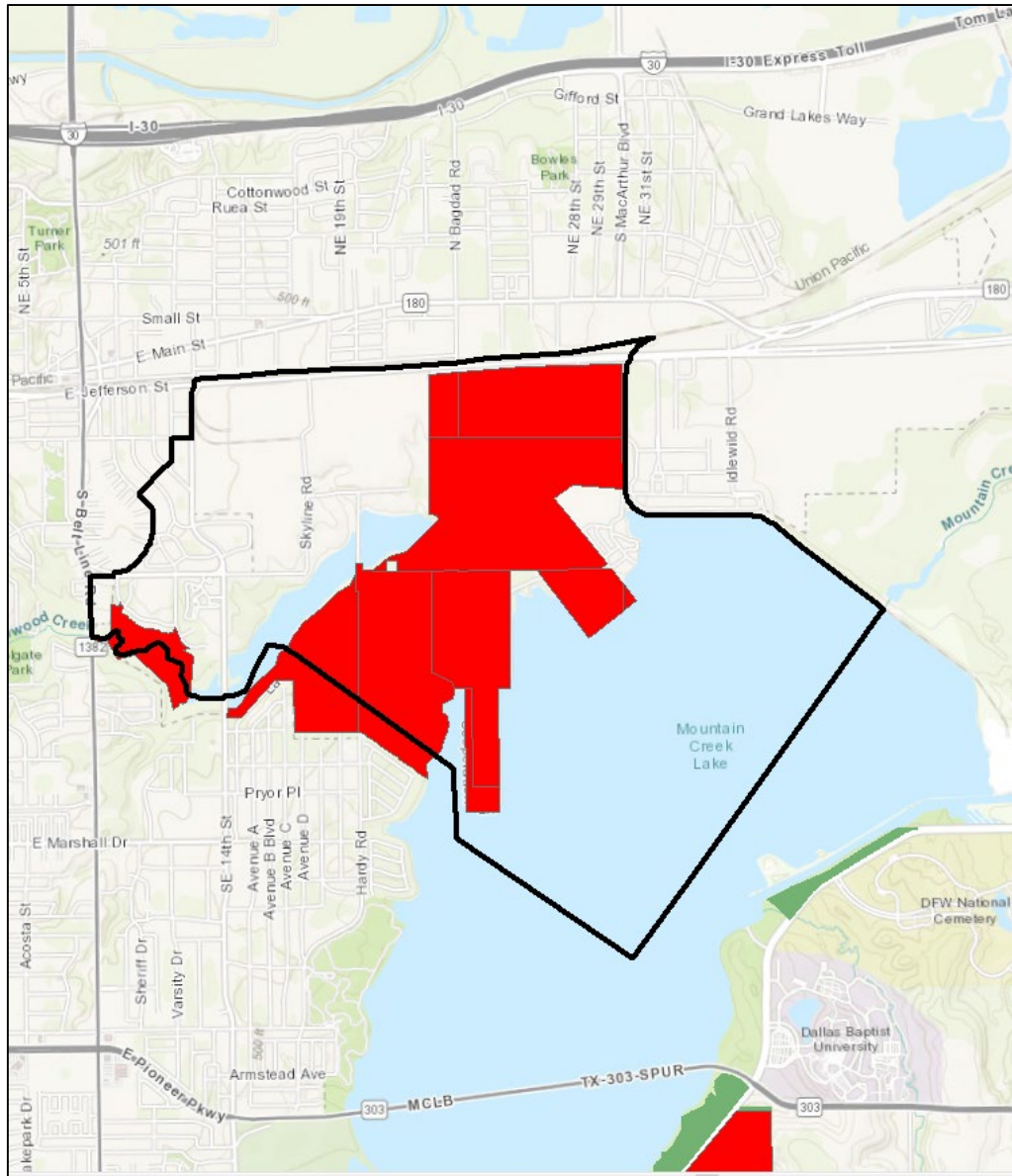
- Entire census tract is NMTC and CDBG eligible
- City owns approximately half of the land (Hensley Field)
- Recent redevelopment of Dallas Global site


## Challenges:


- Hensley Field environmental contamination and associated litigation
- No transit stops in the zone



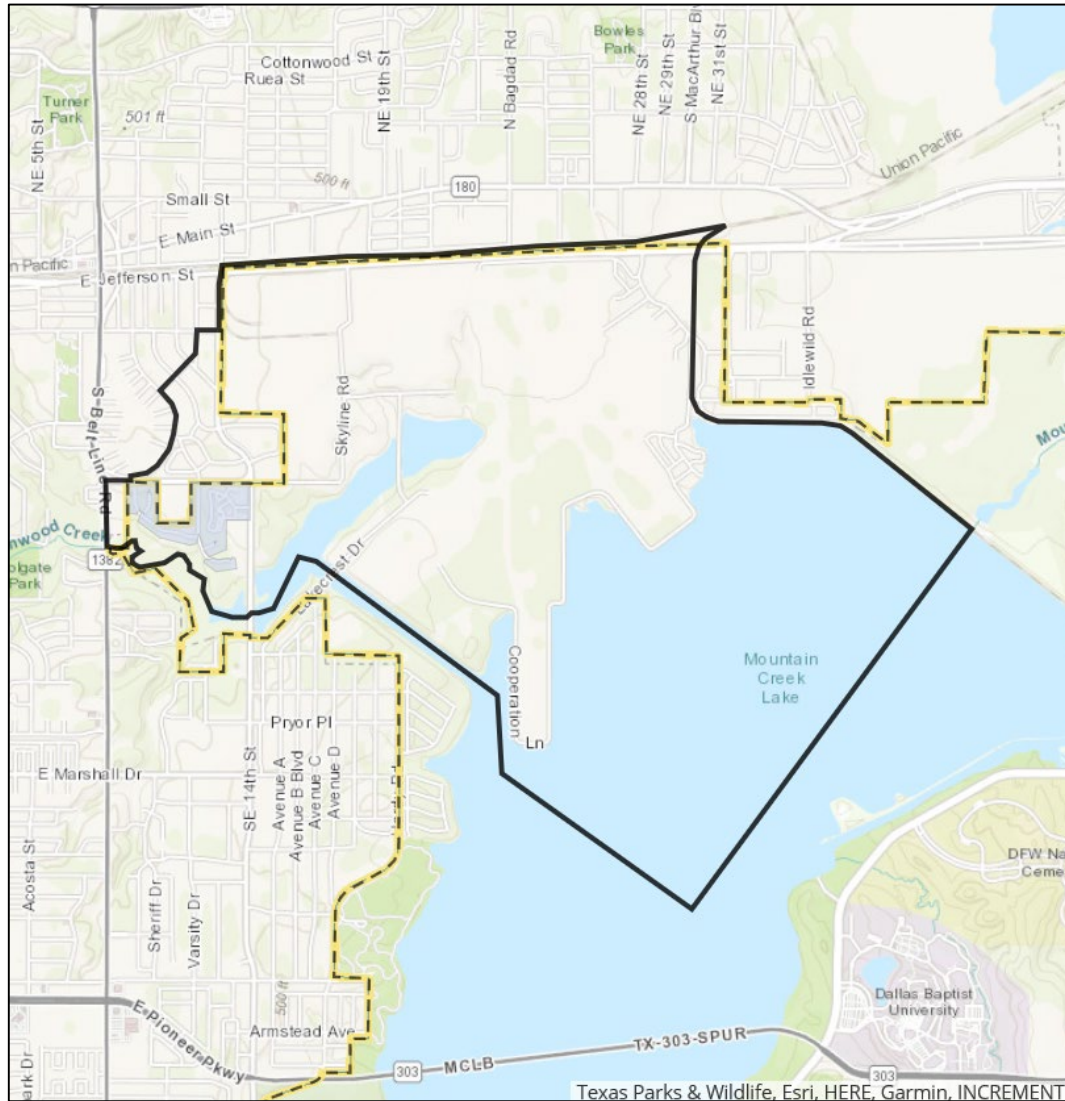
# Hensley Field – City Owned Property













 City-owned property –  
Park & Recreation

 City-owned property –  
all other departments

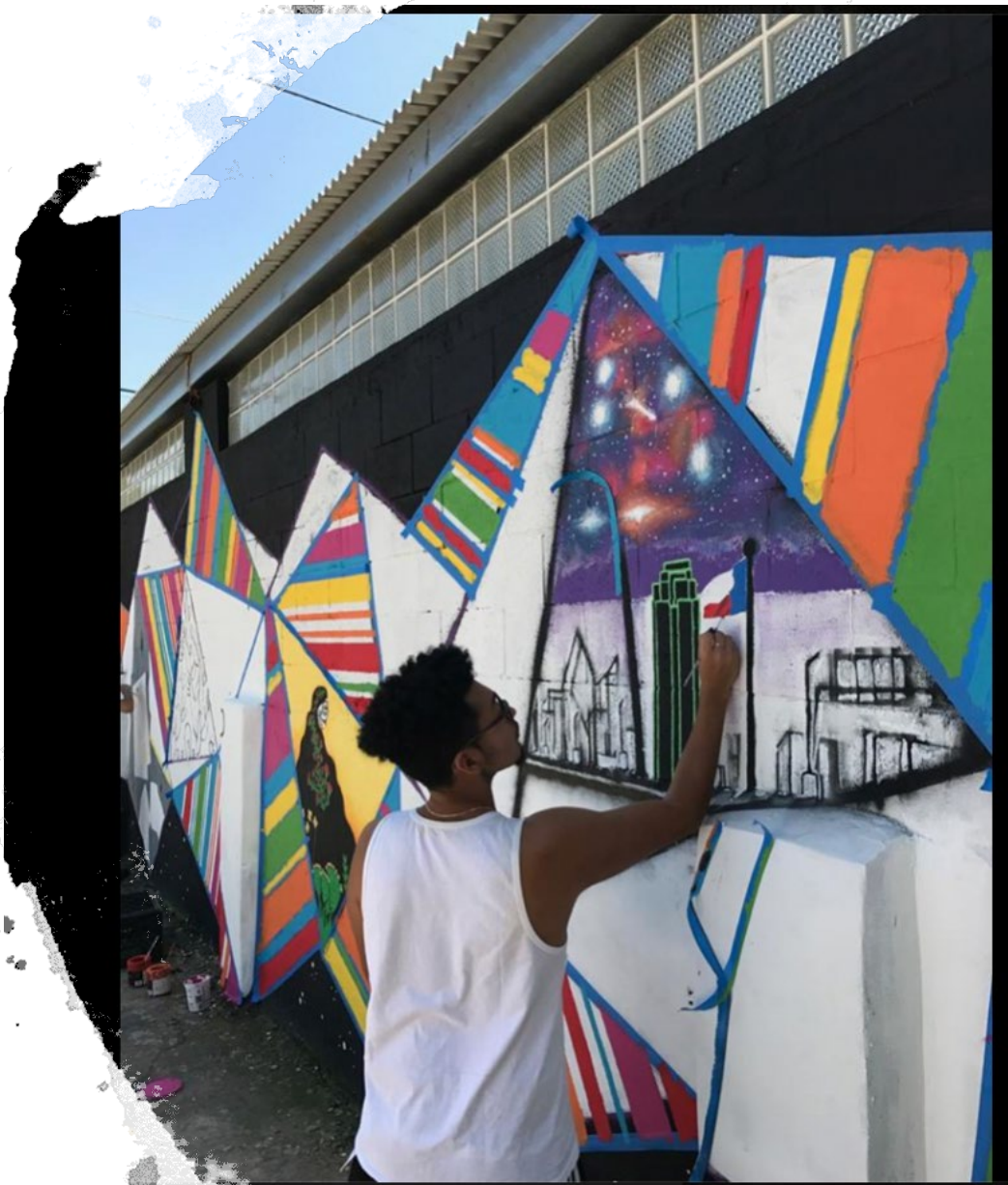
# Hensley Field - MVA



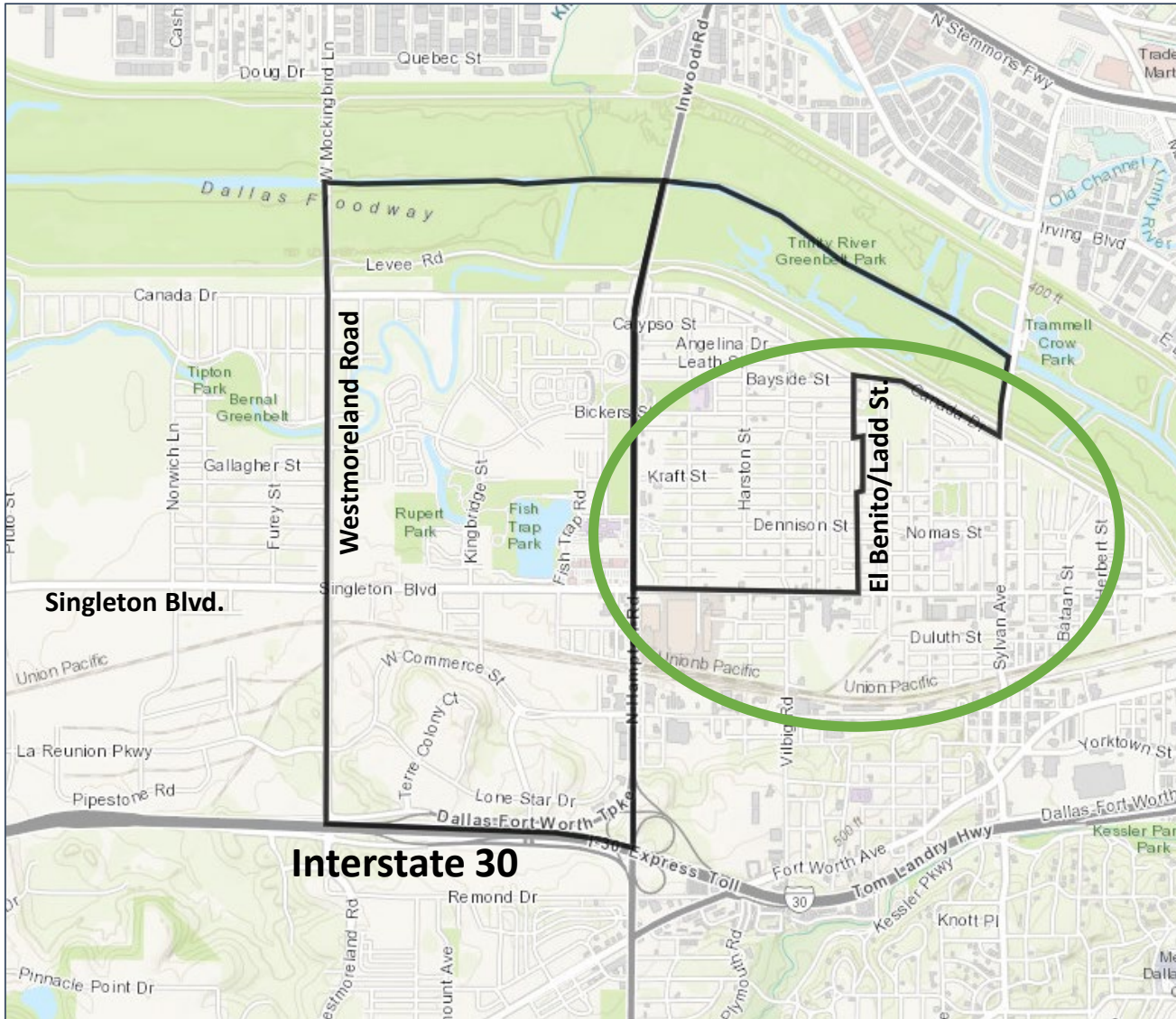
MVA Legend

	A		F
	B		G
	C		H
	D		I
	E		NA

# Cluster #2: West Dallas



# West Dallas - Overview



## Council District 6

Census Tracts 48113010101 and 48113020500

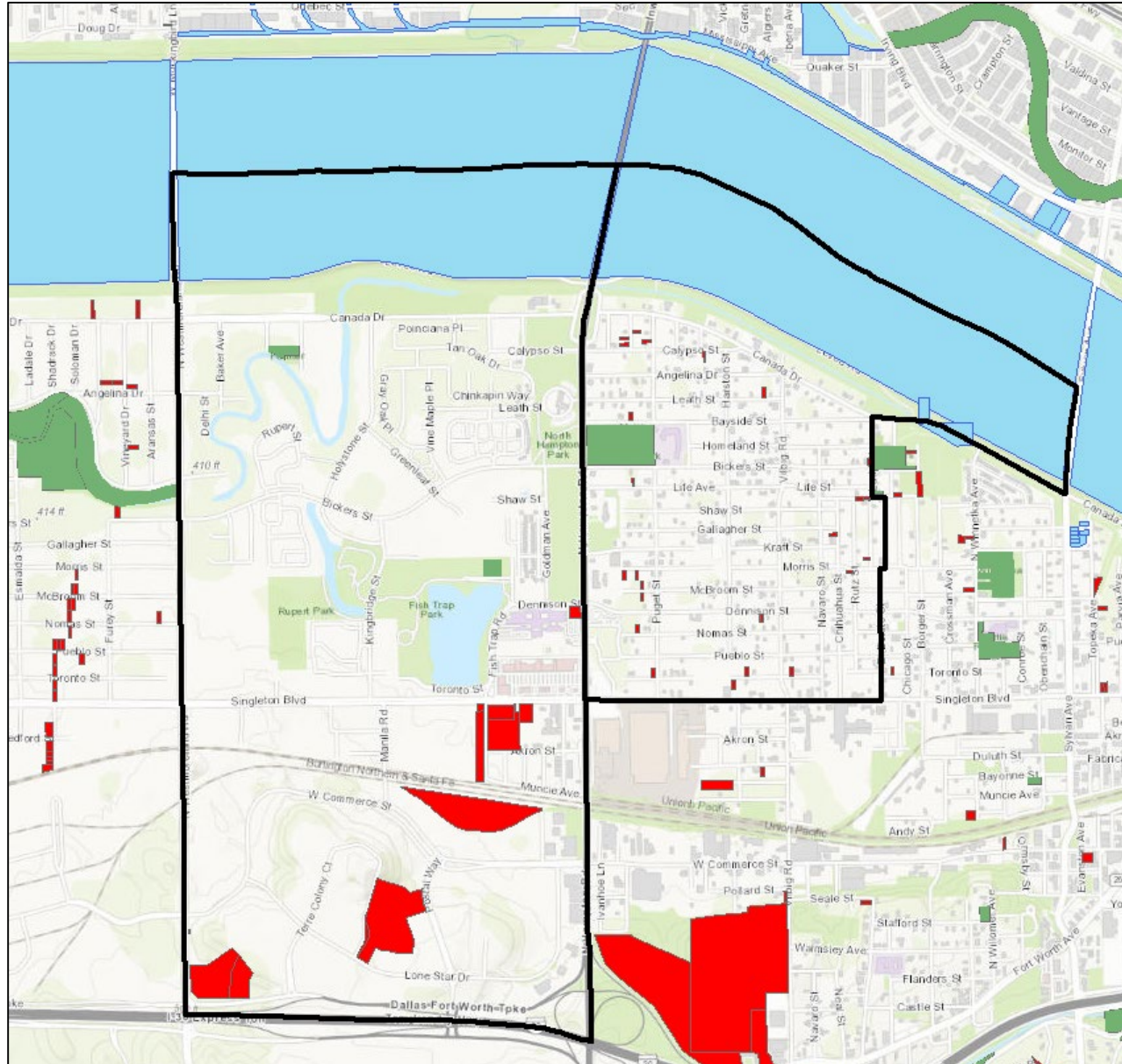
### Opportunities:

- Both census tracts are NMTC and CDBG eligible
- The zone is partially in a **Housing Stabilization Area**
- DISD, SMU, and Toyota partnering for new K-8 STEM campus in the area

### Challenges:

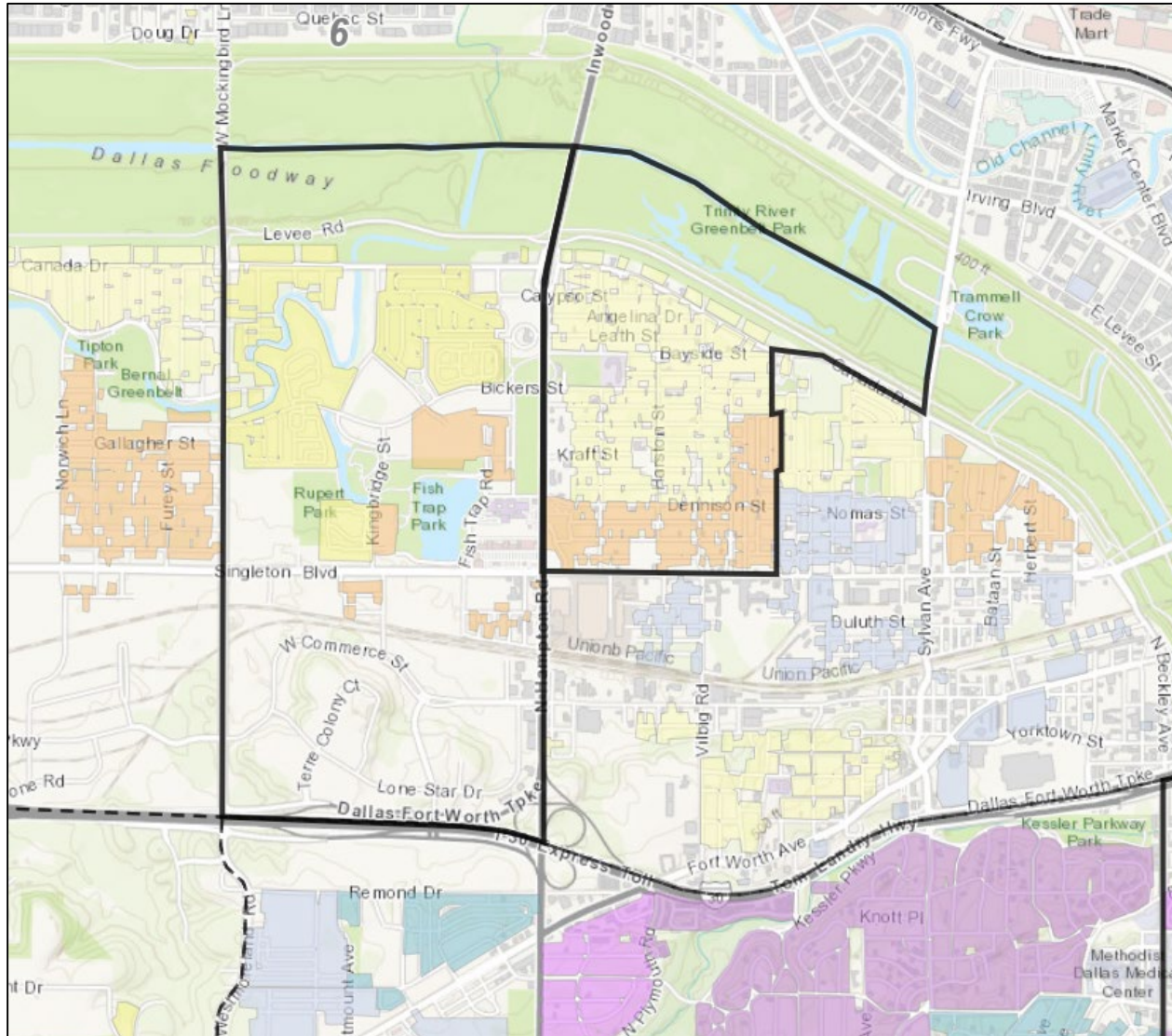
- Census tract 48113020500 (the western tract) is a RECAP area

# West Dallas – City Owned Property


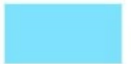



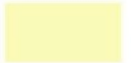






-  City-owned property – Trinity Watershed
-  City-owned property – Park & Recreation
-  City-owned property – all other departments

# West Dallas- MVA



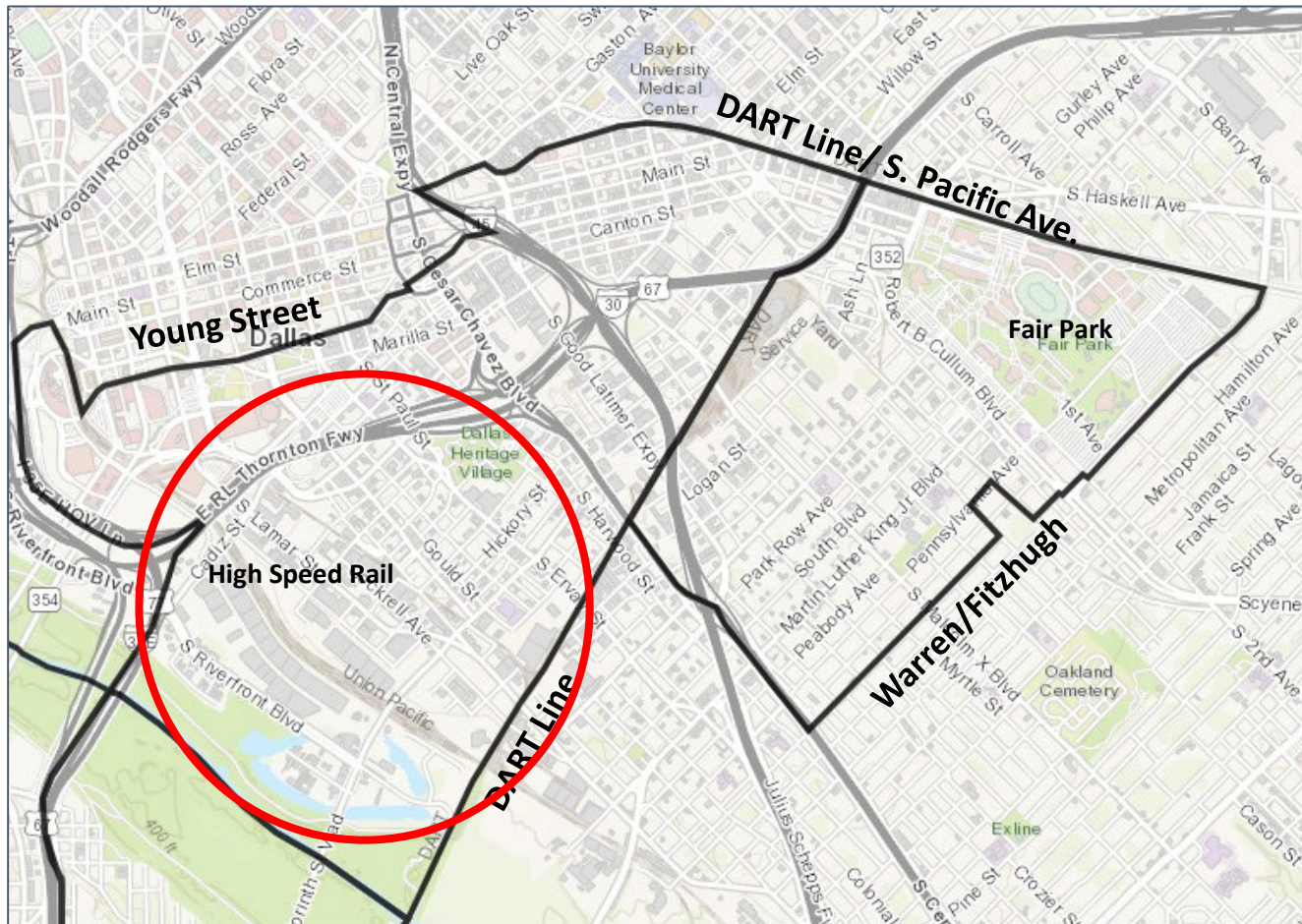
MVA Legend

	A		F
	B		G
	C		H
	D		I
	E		NA



## Cluster #3: Cedars/Fair Park

# Cedars/Fair Park - Overview



## Council Districts 2 and 7

Census Tracts 48113020400 and 48113020300

### Opportunities:

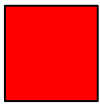
- Both tracts are NMTC eligible.
- New Fair Park management agreement
- High Speed Rail station location
- **Housing Redevelopment Area**
- TOD, Cedars, Farmers Market, Grand Park South, and Deep Ellum TIFs cover portions of the zones.
- Six DART rail stops in zones
- South Dallas Fair Park Opportunity Fund covers the eastern tract


### Challenges:

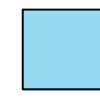
- The median household income of the western tract is \$66,304, while the eastern tract is \$19,970. Potential for displacement of low income residents.

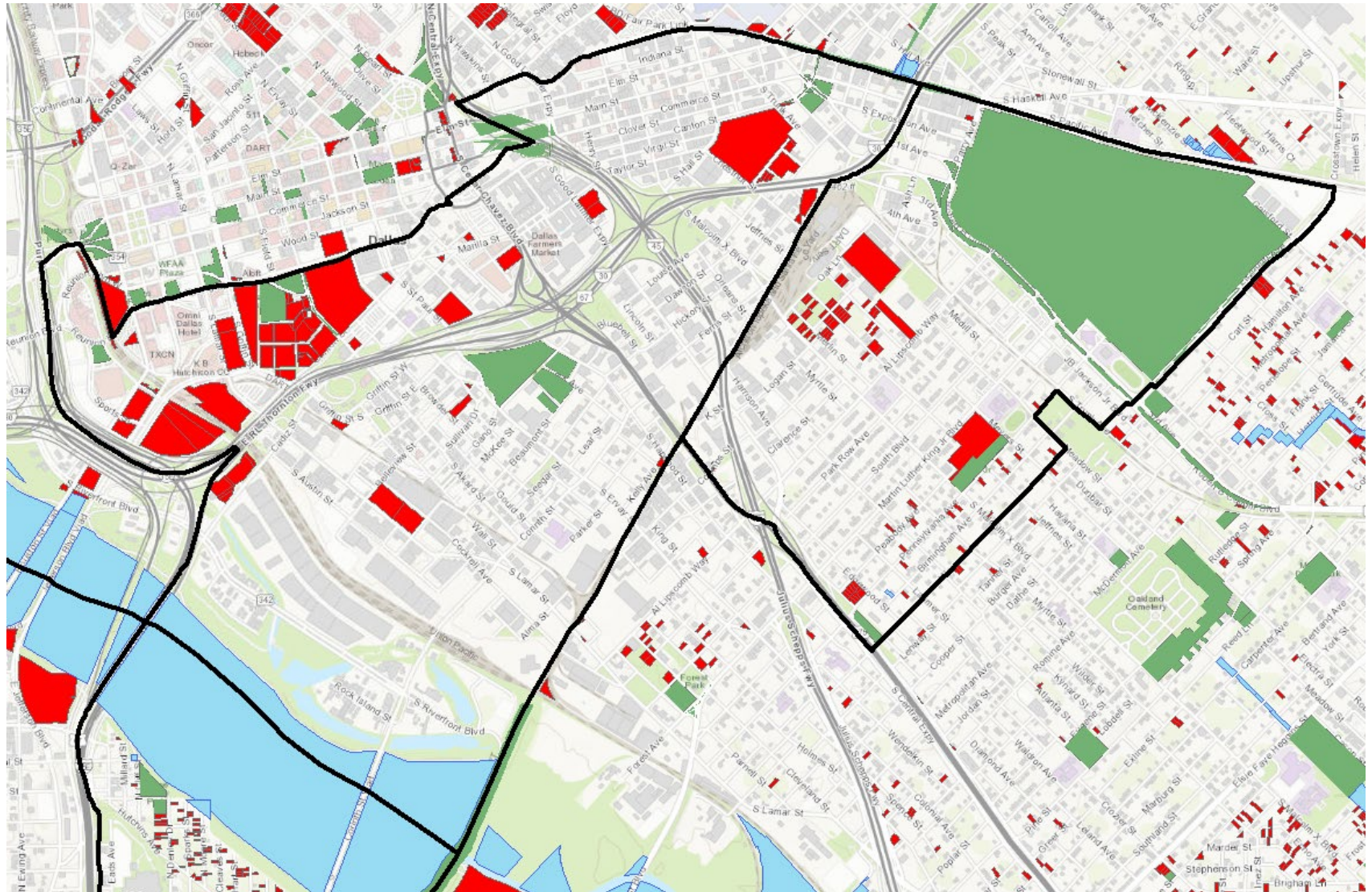


# Cedars/Fair Park – City Owned Property

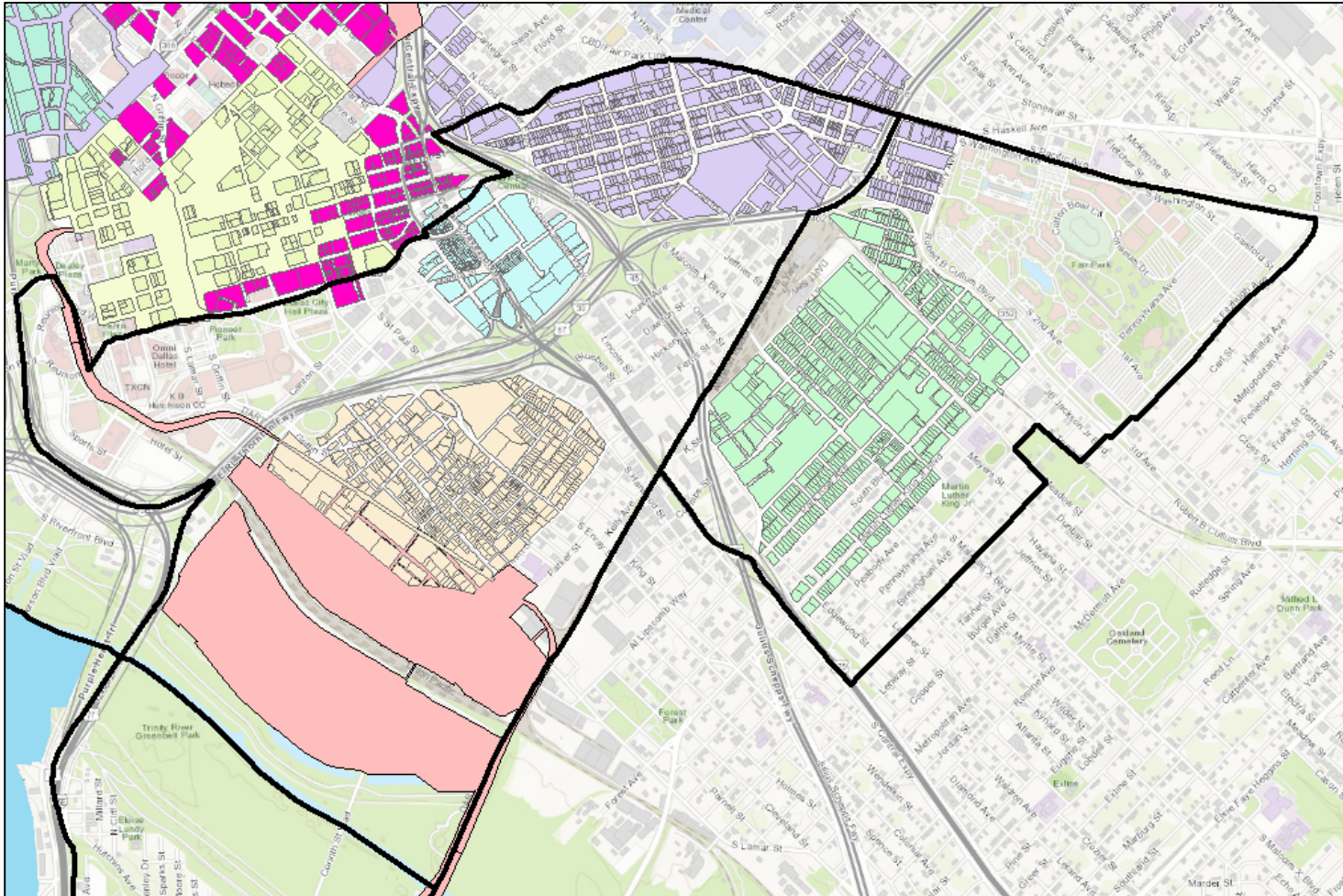
 City-owned property – all other departments

 City-owned property – Park & Recreation

 City-owned property – Trinity Watershed



# Cedars/Fair Park – TIF Districts



Farmers Market  
TIF District



Deep Ellum  
TIF District



Grand Park South  
TIF District



Cedars  
TIF District

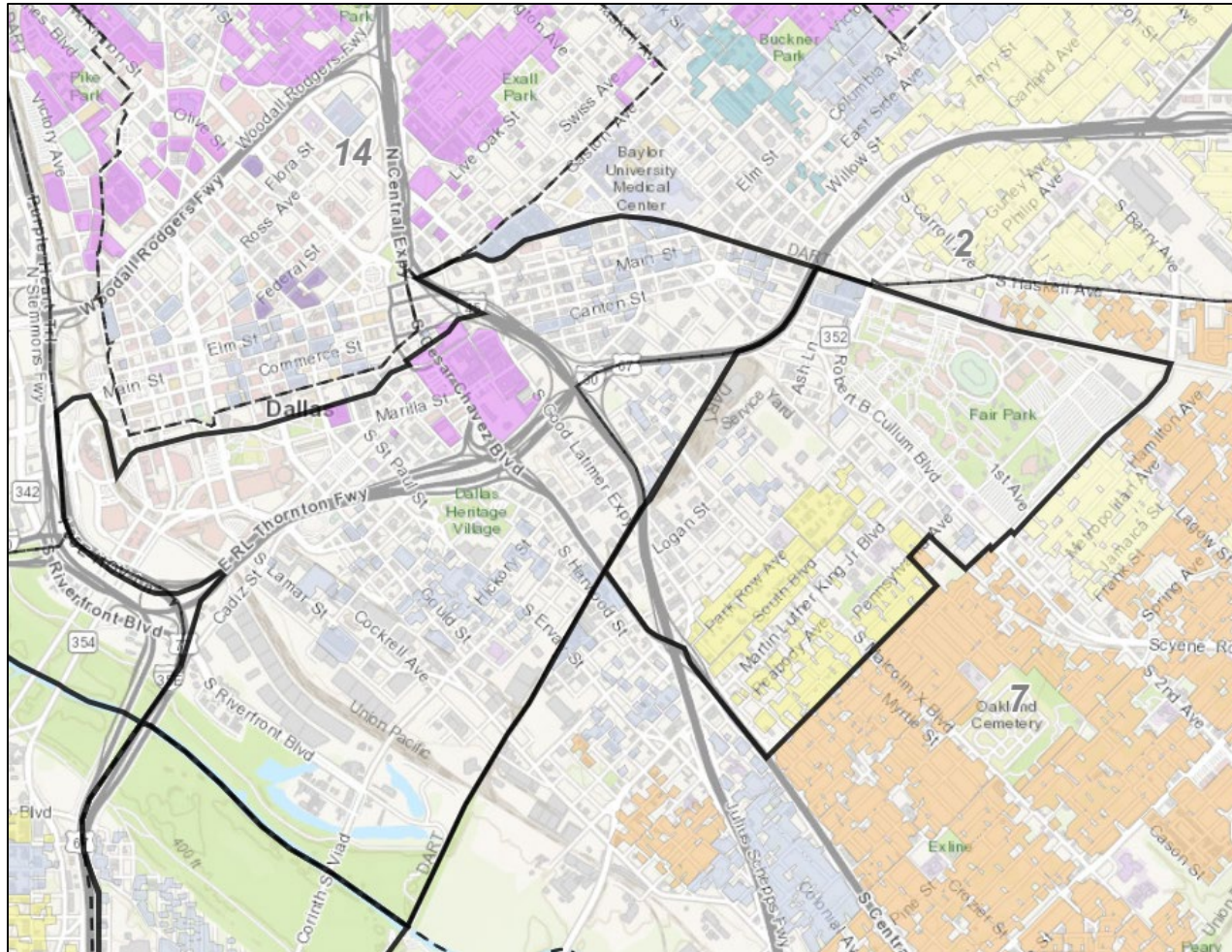


TOD  
TIF District













Downtown  
Connection  
TIF District

# Cedars/Fair Park - MVA



MVA Legend

	A		F
	B		G
	C		H
	D		I
	E		NA



# Cluster #4: Southern Gateway

# Southern Gateway - Overview

## Council Districts 1 and 4

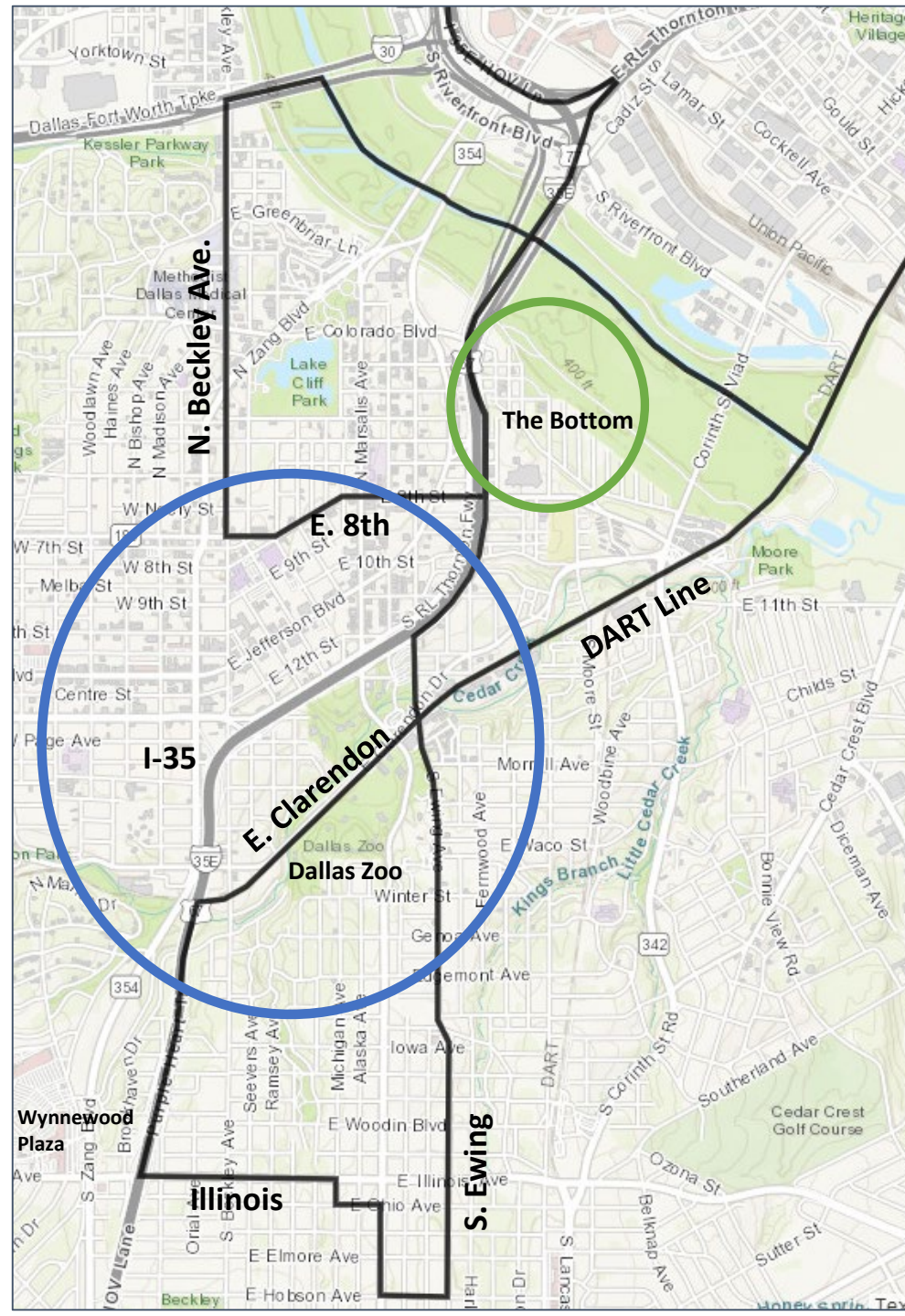
Census Tracts 48113002000, 48113004100, and 48113005400

## Opportunities:

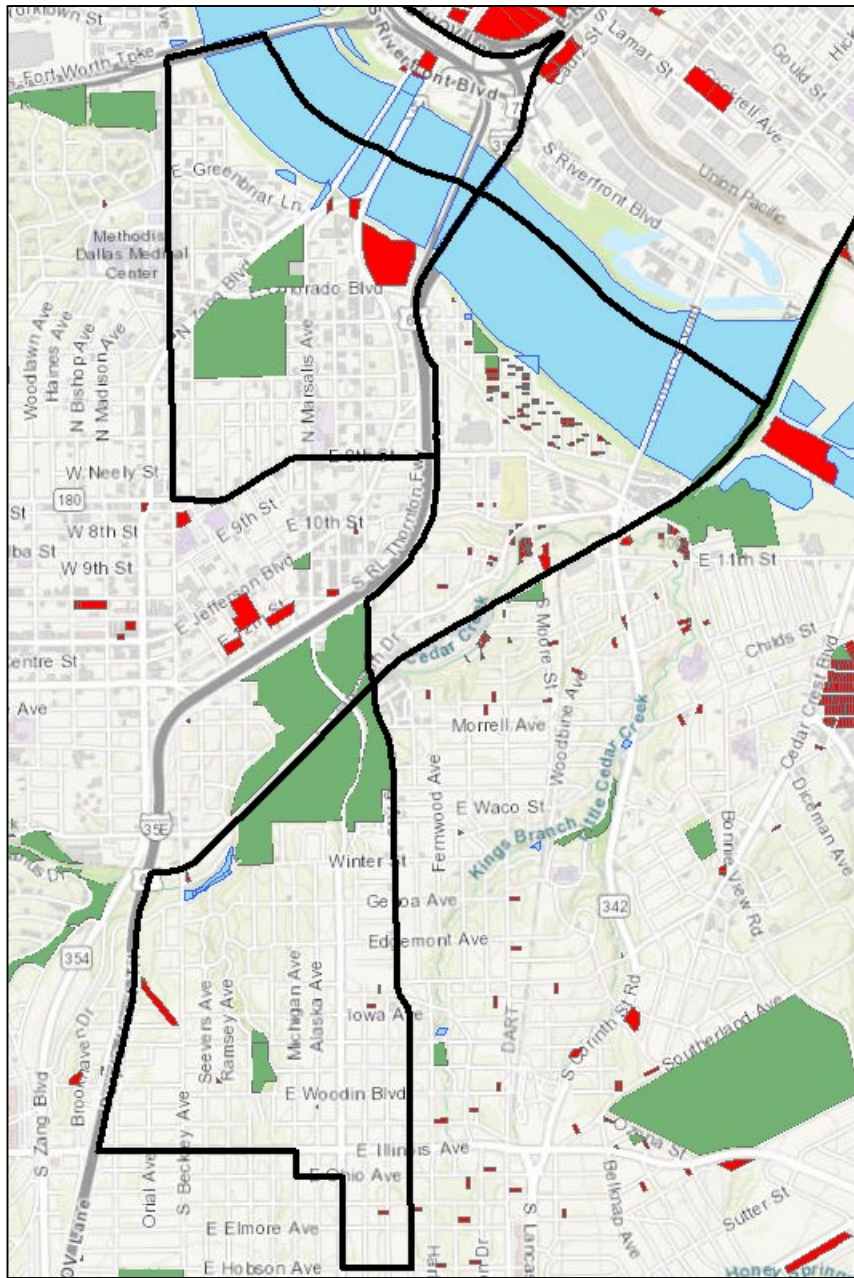
- All census tracts are NMTC and CDBG eligible.
- Portions of the zones are in **Housing Stabilization** and **Emerging Market Areas**
- Oak Cliff Gateway and TOD TIFs cover portions of the zones.
- Nearby redevelopment of Wynnewood Plaza shopping center
- Southern Gateway - TxDOT redevelopment of I-35
- Potential Southern Gateway Deck Park near Dallas Zoo

## Challenges:

- Census tract 48113004100 (the easternmost tract) is a RECAP area

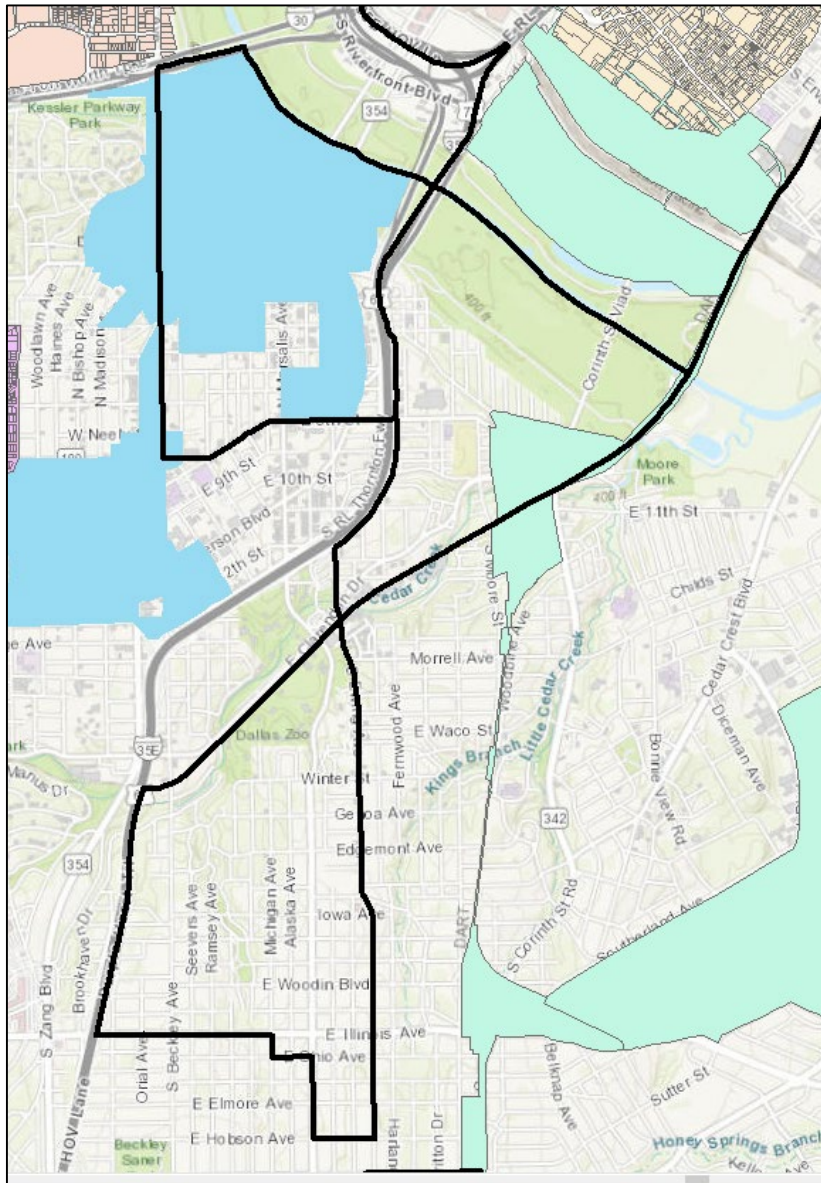


# Southern Gateway – City Owned Property



-  City-owned property – Trinity Watershed
-  City-owned property – Park & Recreation
-  City-owned property – all other departments

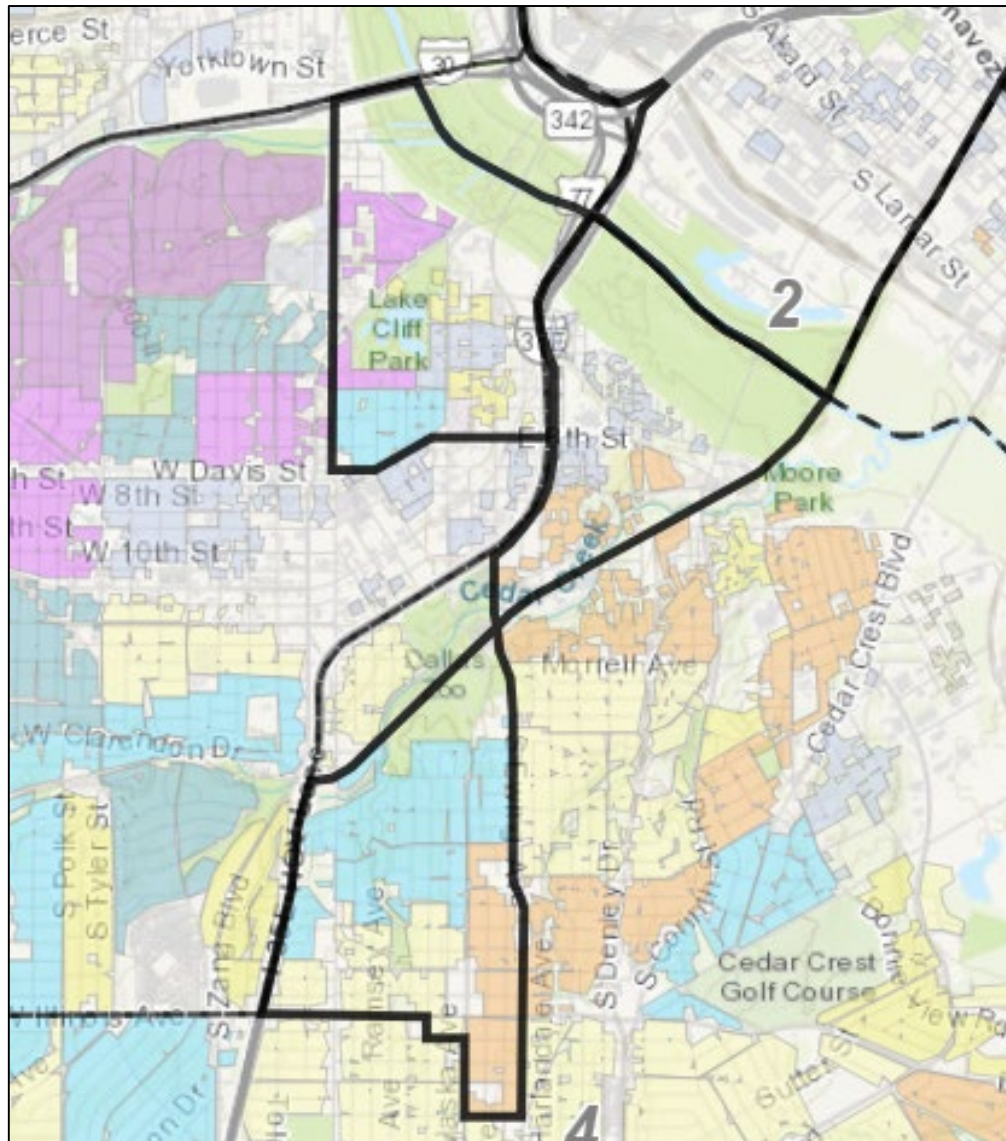
# Southern Gateway – TIF Districts



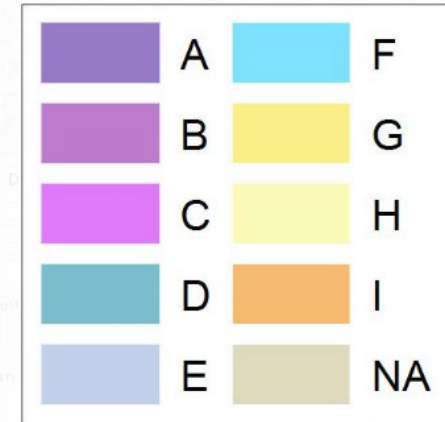
 Oak Cliff Gateway TIF Boundary

 TOD TIF Boundary

# Southern Gateway- MVA



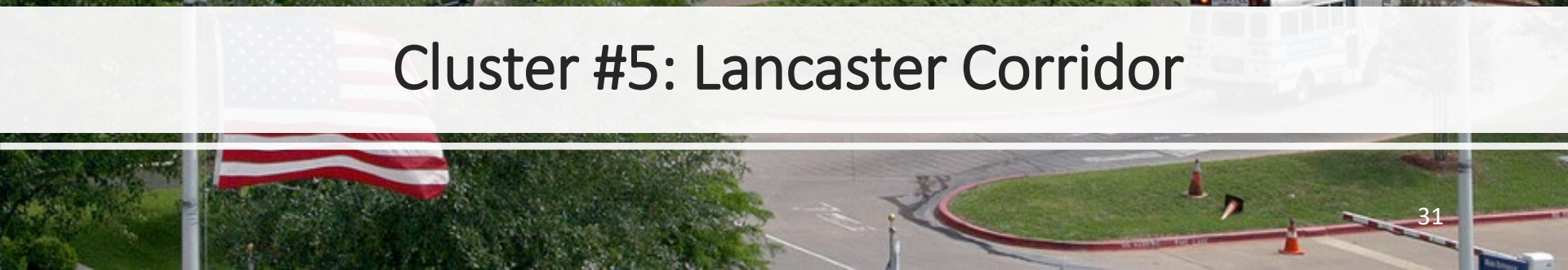
MVA Legend







## Cluster #5: Lancaster Corridor



# Lancaster Corridor - Overview



## Council Districts 3 and 4

Census Tracts 48113005700 and 48113008704


### Opportunities:


- Both census tracts are NMTC and CDBG eligible.
- TOD TIFs cover small portions of the zones.
- City owns 7-acre site across from VA facility (Patriot's Crossing)
- Recent City investments (Rudy's Chicken, Serenity Apartments, Lancaster Urban Village)


### Challenges:

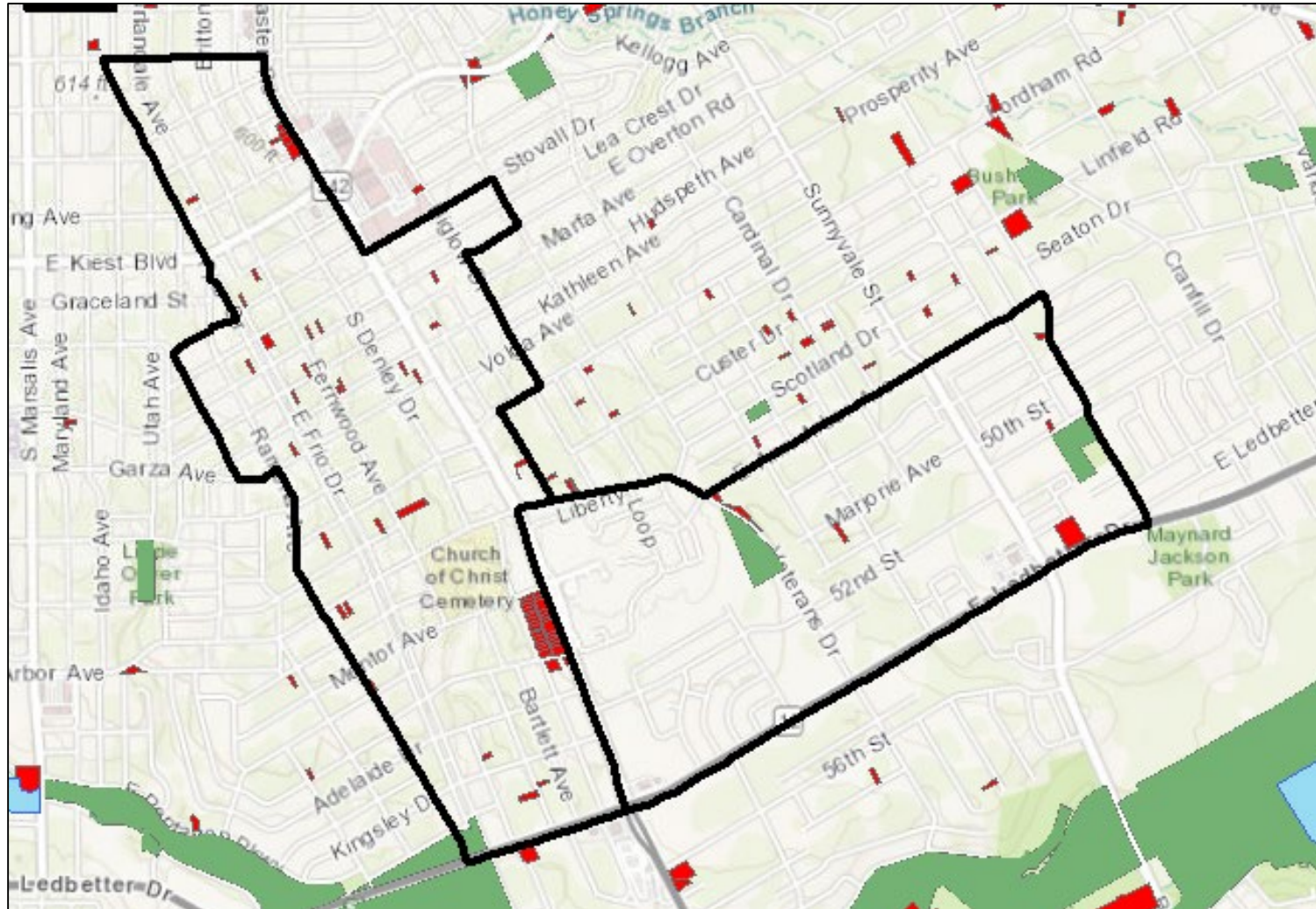
- Per Market Value Analysis, most residential properties in the zones are Categories G, H, and I (most stressed categories)

# Lancaster Corridor – City Owned Property

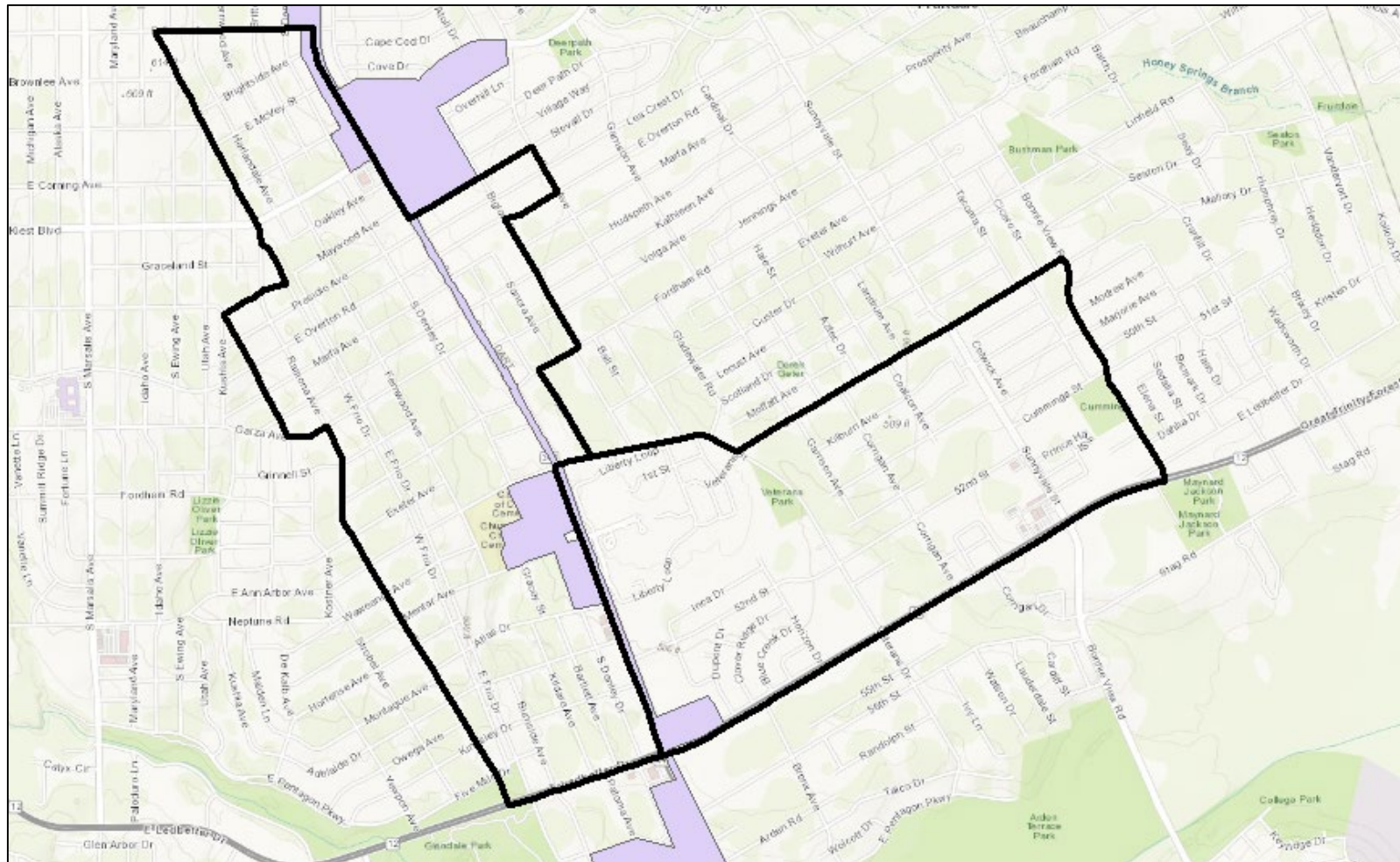
 City-owned property – all other departments

 City-owned property – Park & Recreation

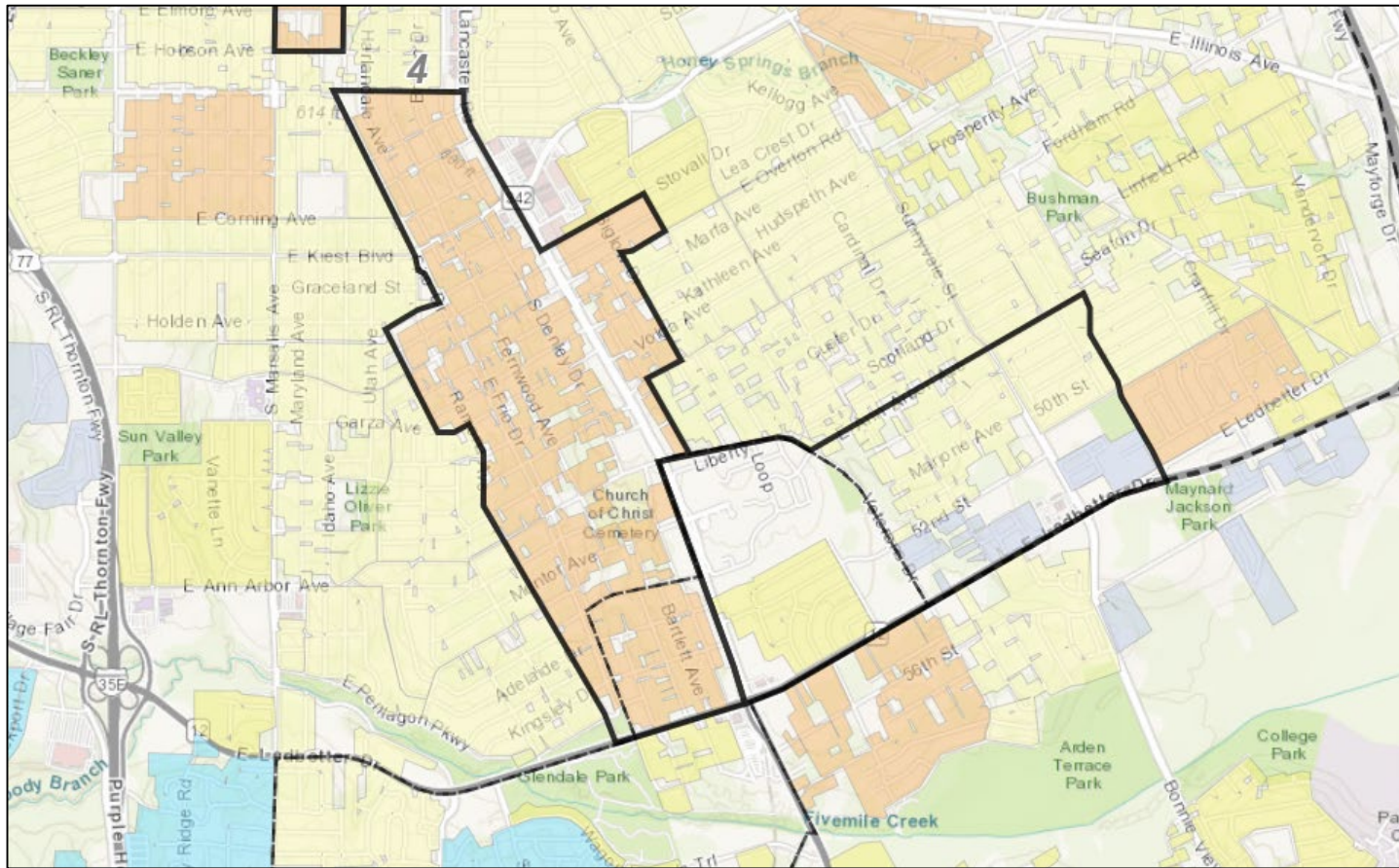
 City-owned property – Trinity Watershed








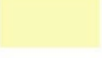




# Lancaster Corridor – TIF Districts



# Lancaster Corridor - MVA



MVA Legend

	A		F
	B		G
	C		H
	D		I
	E		NA



**Cluster #6:  
Buckner Station**

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# Bucker Station - Overview



**Council District 5**

**Census Tract 48113009301**

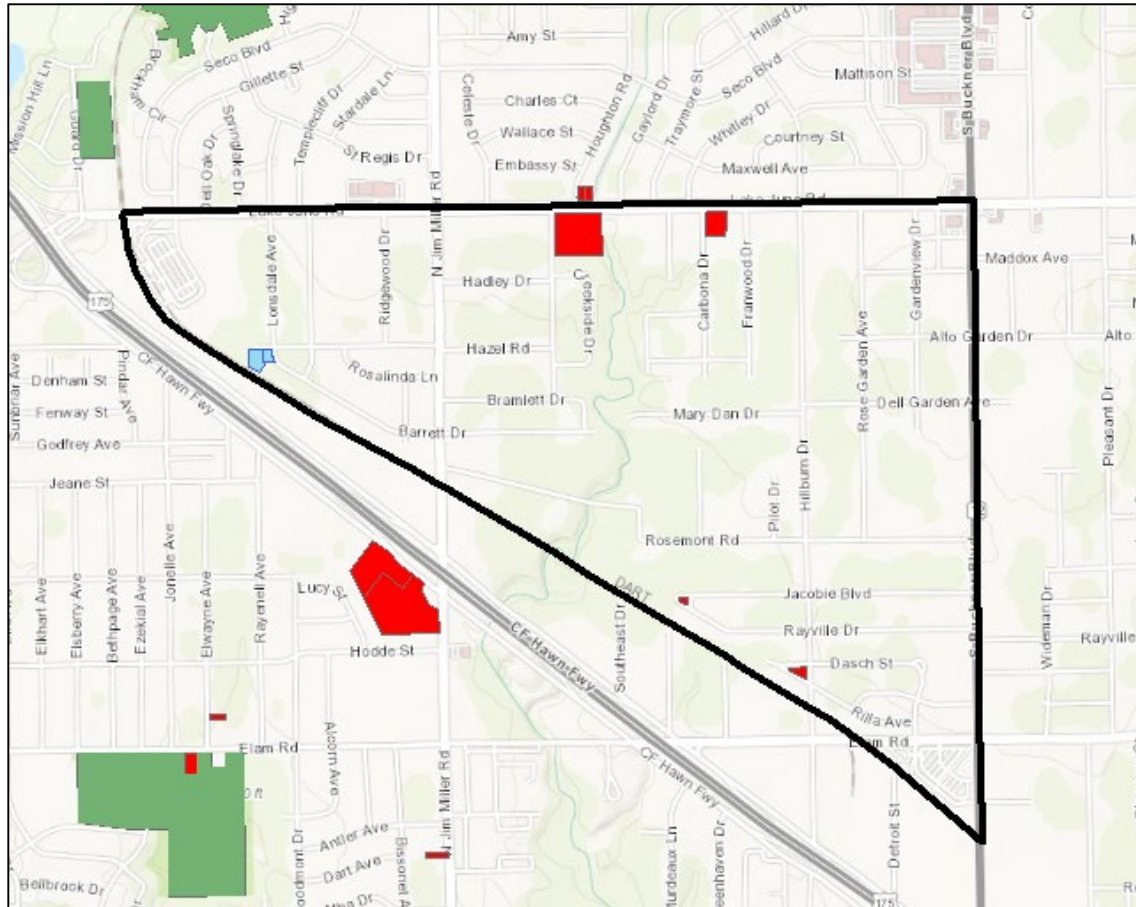
Opportunities:

- The tract is NMTC and CDBG eligible.
- The southeast portion of the tract is located in a **Housing Emerging Market Area**

Challenges:

- Per Market Value Analysis, all residential properties in the zone are Category H. However, nearby pockets of E and F markets may indicate strength.

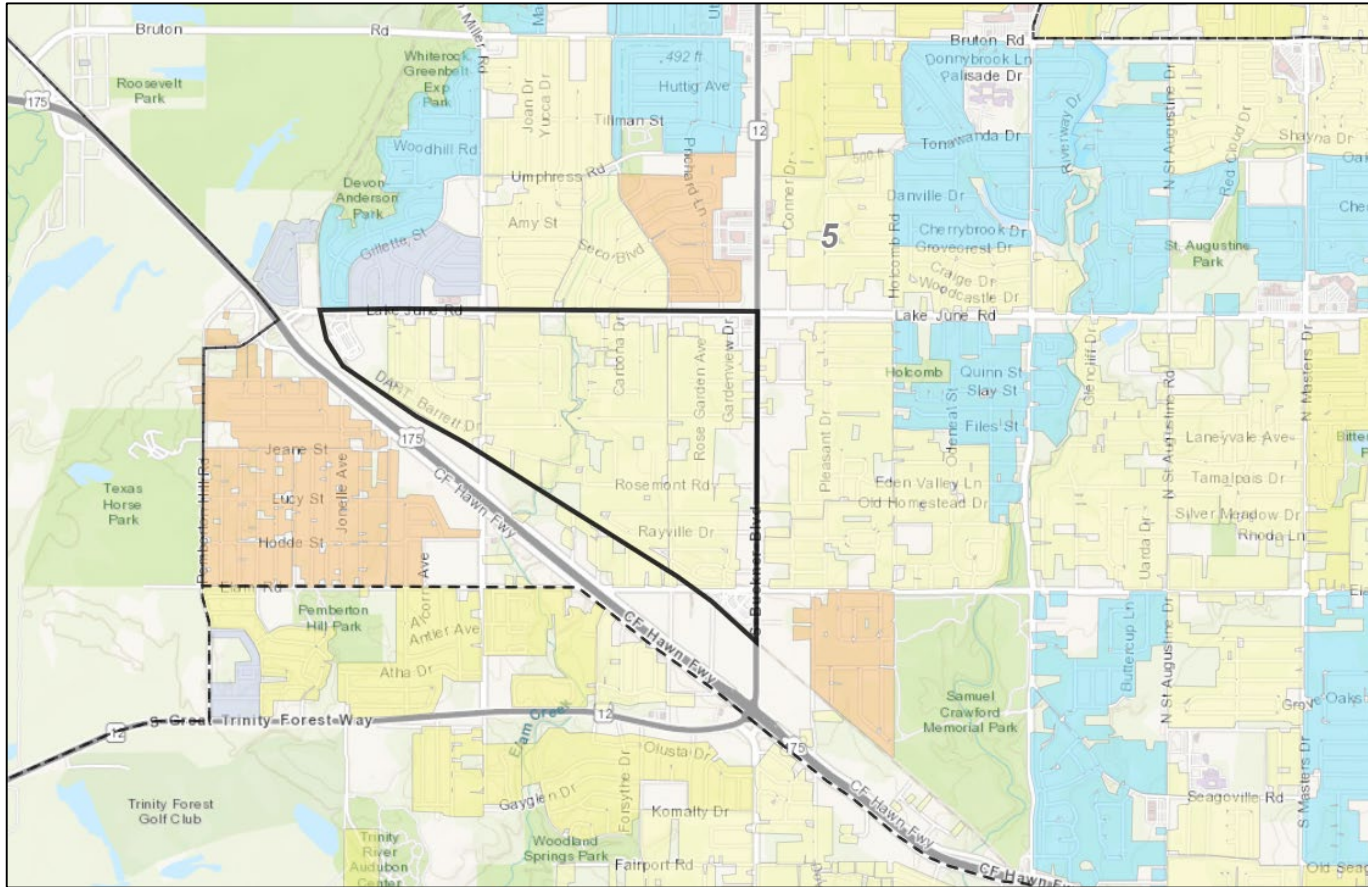
# Opportunity Zone – Buckner Station












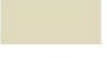
-  City-owned property – Trinity Watershed
-  City-owned property – Park & Recreation
-  City-owned property – all other departments



# Buckner Station - MVA



MVA Legend

	A		F
	B		G
	C		H
	D		I
	E		NA



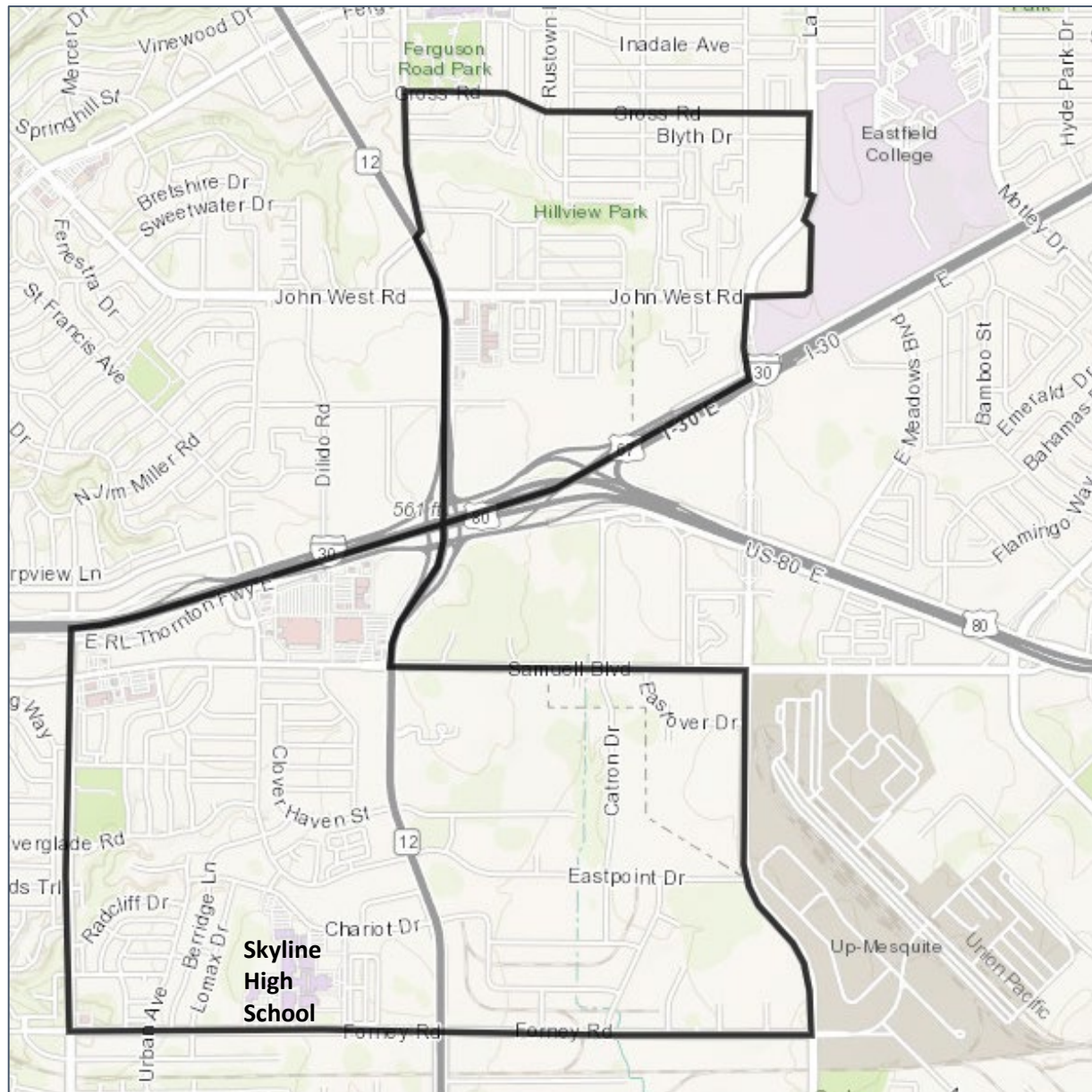
BUCKNER TERRACE  
EAST DALLAS EST. 1965

Chariot Dr  
7900

RO... Rd

Cluster #7: Buckner/I-30

# Bucker/I-30 - Overview



**Council District 7** (also includes small portions of Mesquite on the eastern edge)

**Census Tracts 48113012302 and 48113012207**

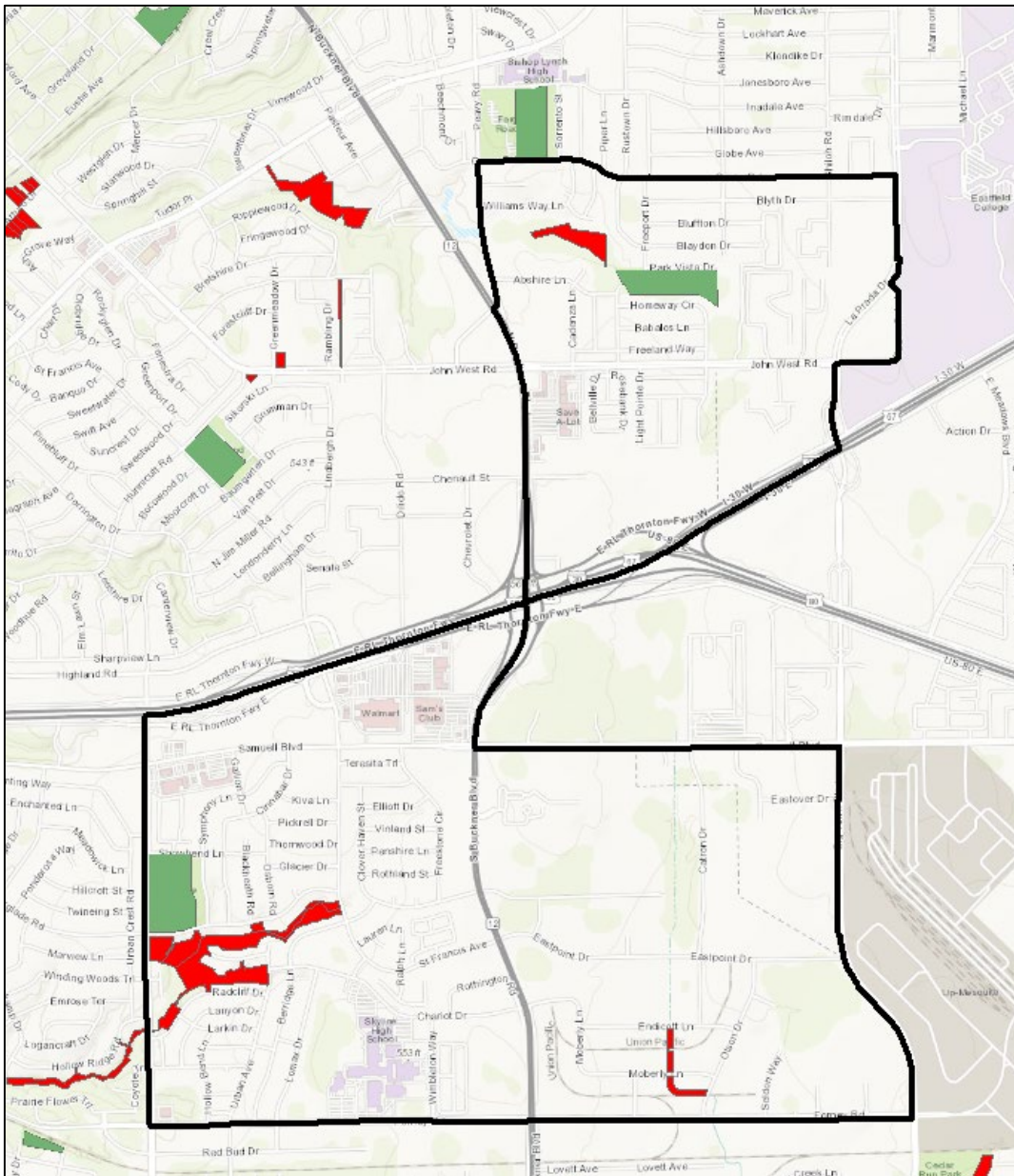
### Opportunities:



- The tracts are NMTC eligible and partially CDBG eligible.

### Challenges:

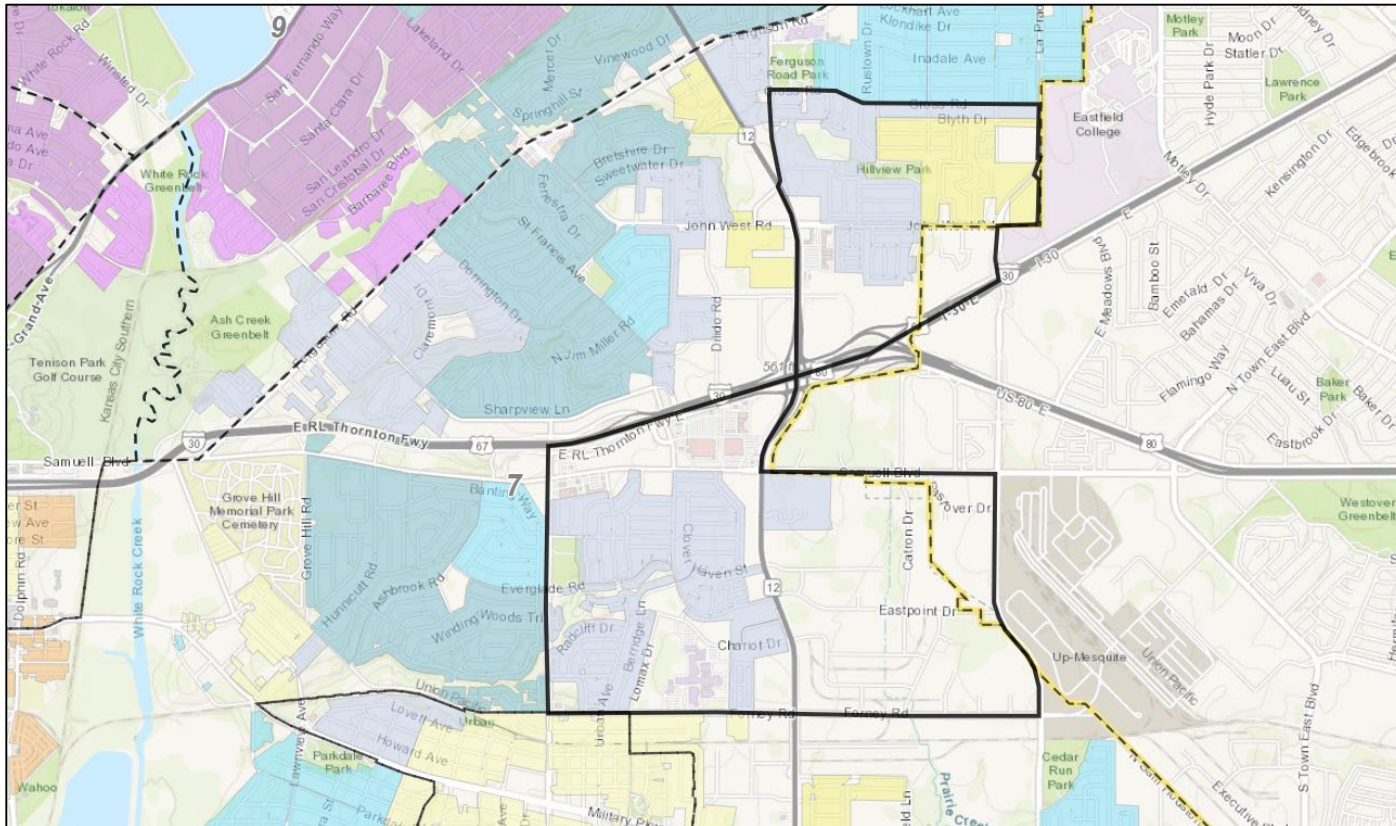
- The northern tract is a RECAP area.

# Buckner/I-30 – City Owned Property






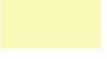






-  City-owned property – Park & Recreation
-  City-owned property – all other departments

# Buckner/I-30 - MVA



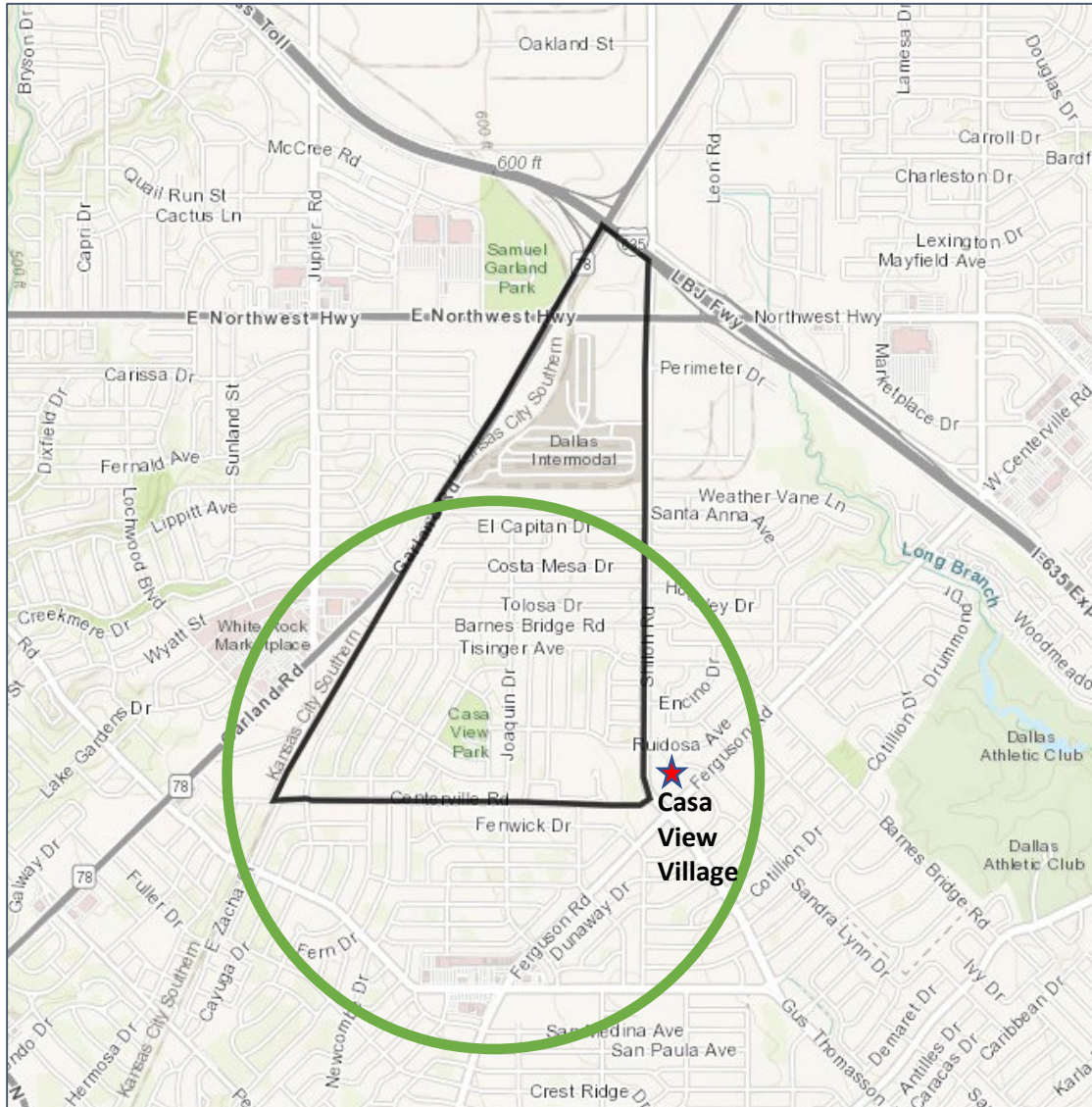
MVA Legend

	A		F
	B		G
	C		H
	D		I
	E		NA



## Cluster #8: Garland Road

# Garland Road - Overview



**Council District 9**

**Census Tract 48113012701**

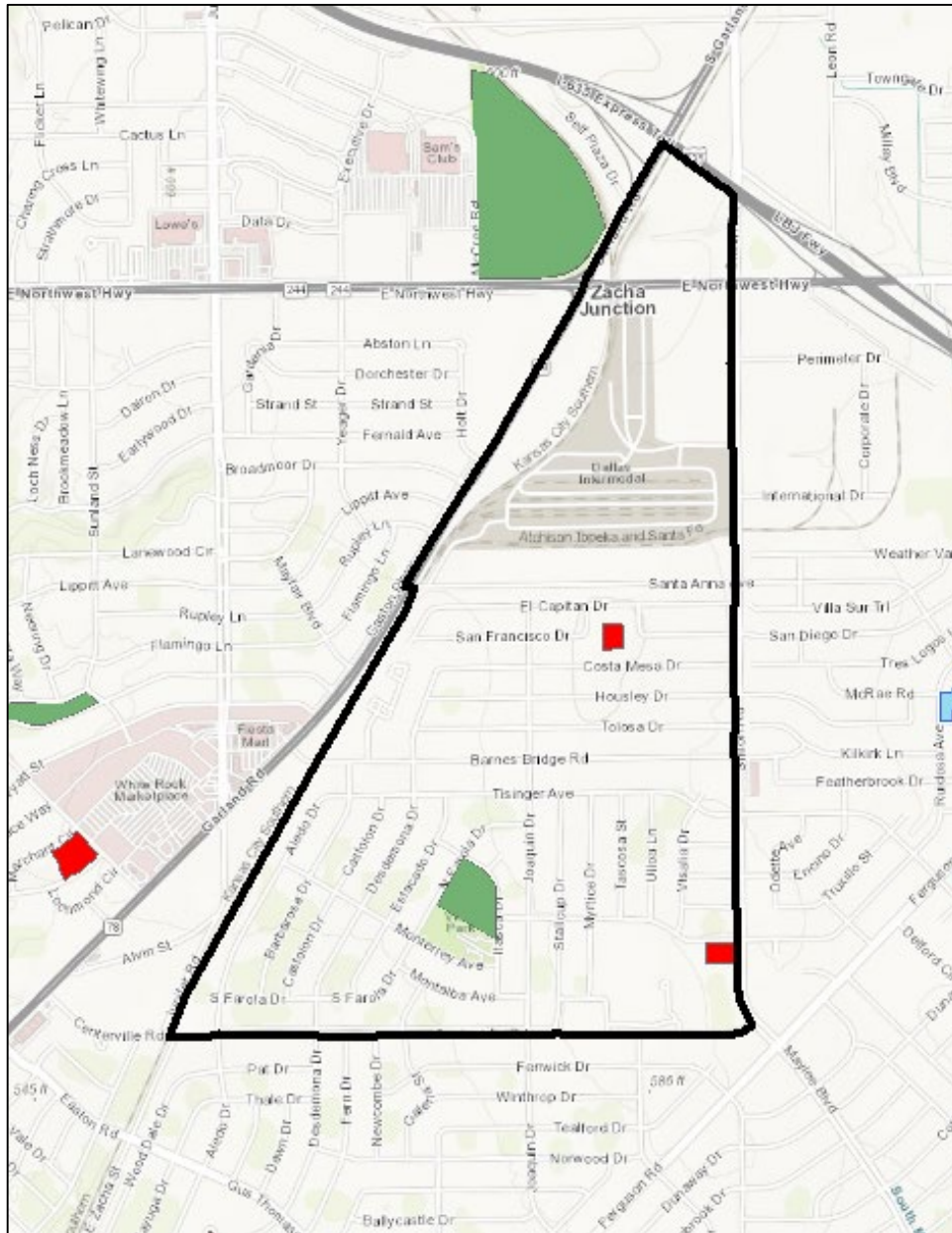
## Opportunities:



- The tract is NMTC and CDBG eligible.
- Southern half of the zone is in a **Housing Stabilization Area**
- Nearby redevelopment of Casa View Village shopping center

## Challenges:

- The zone is categorized under the MVA as including E, F, G, and H residential properties. West of the zone is predominantly F, and east of the zone is predominantly C and D, which could indicate market strength.

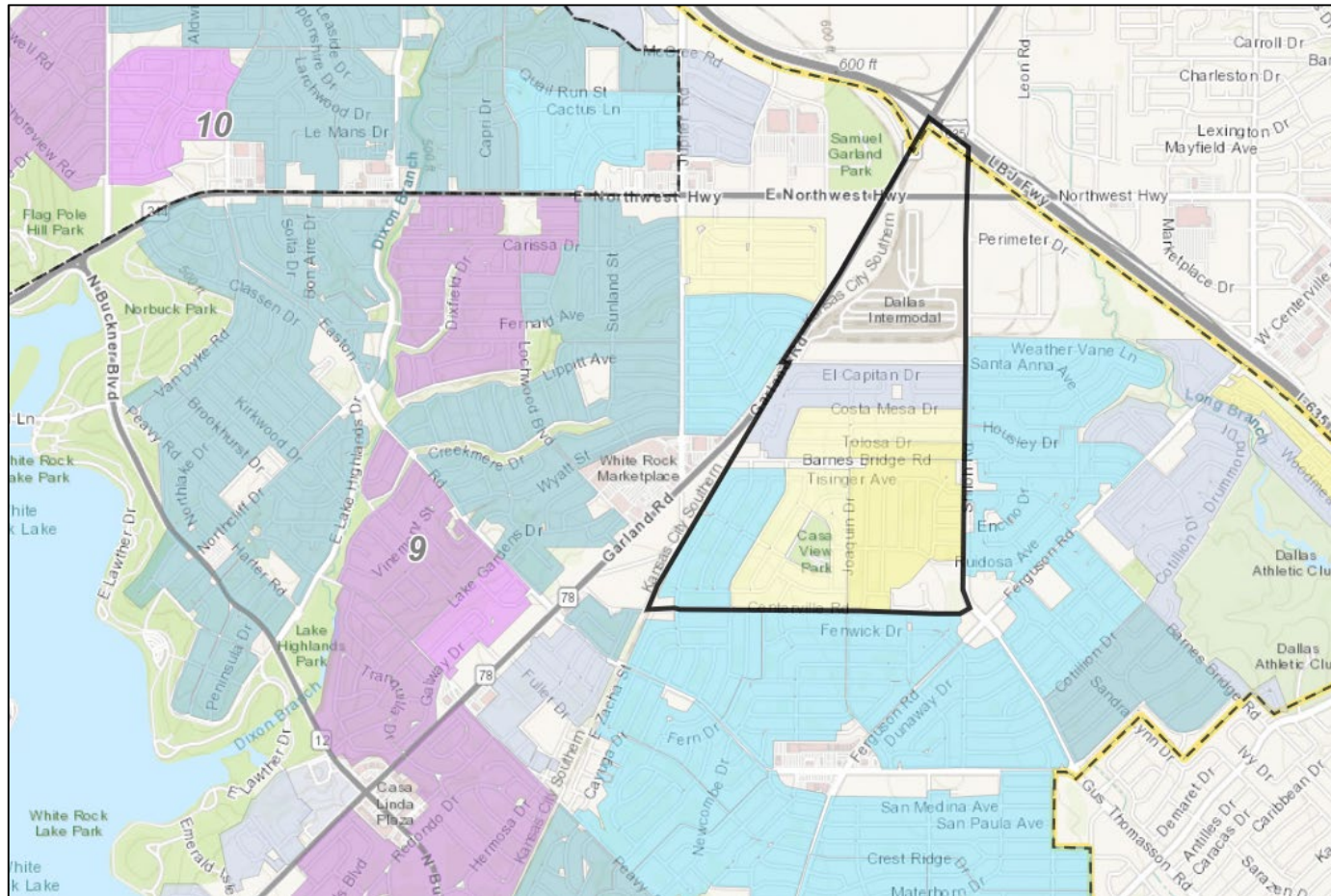
# Garland Road – City Owned Property








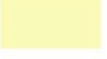




-  City-owned property – Park & Recreation
-  City-owned property – all other departments



# Garland Road- MVA



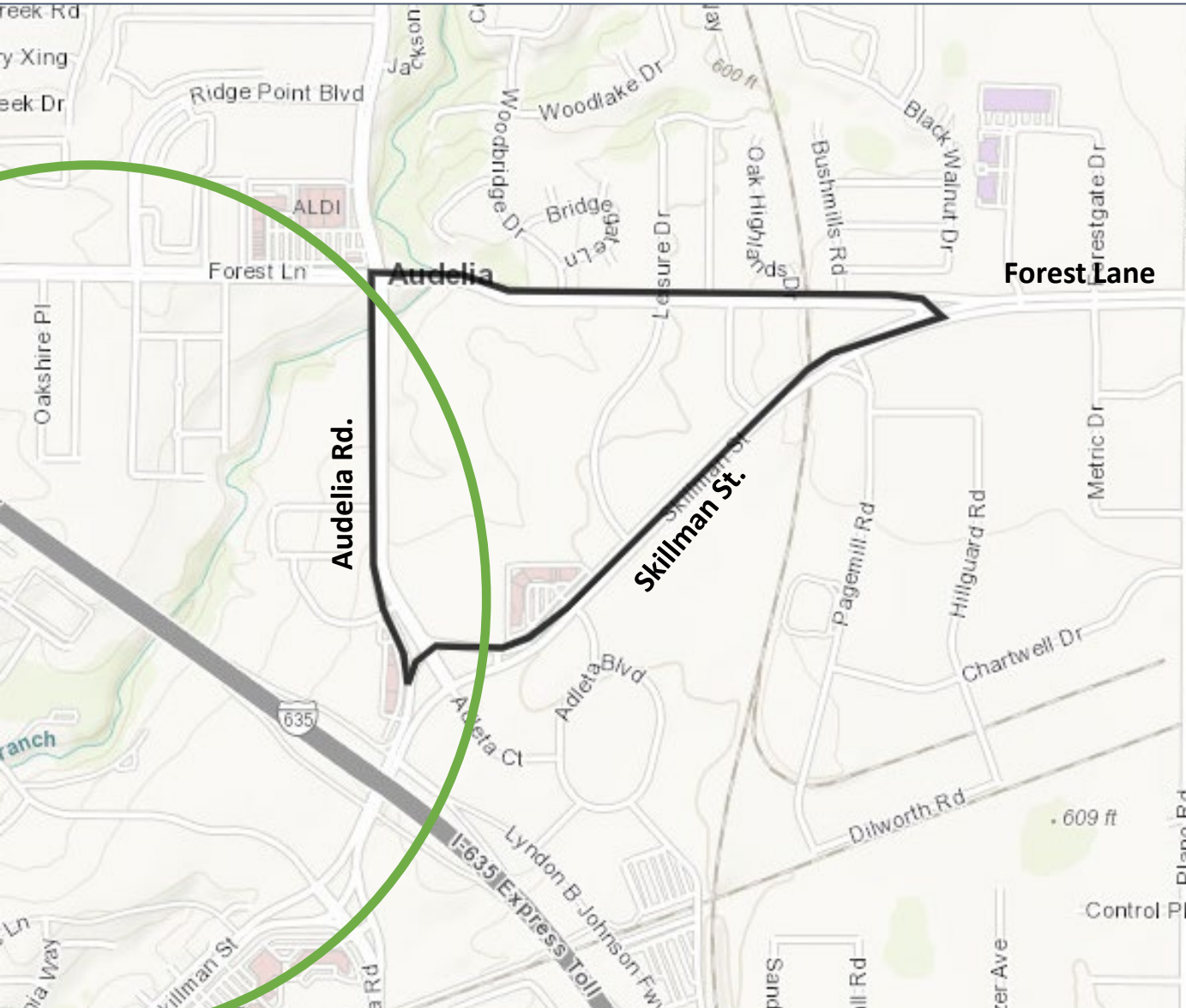
MVA Legend

	A		F
	B		G
	C		H
	D		I
	E		NA



**Cluster #9:  
Forest/Audelia**

# Forest & Audelia - Overview



**Council District 10**

**Census Tract 48113018505**

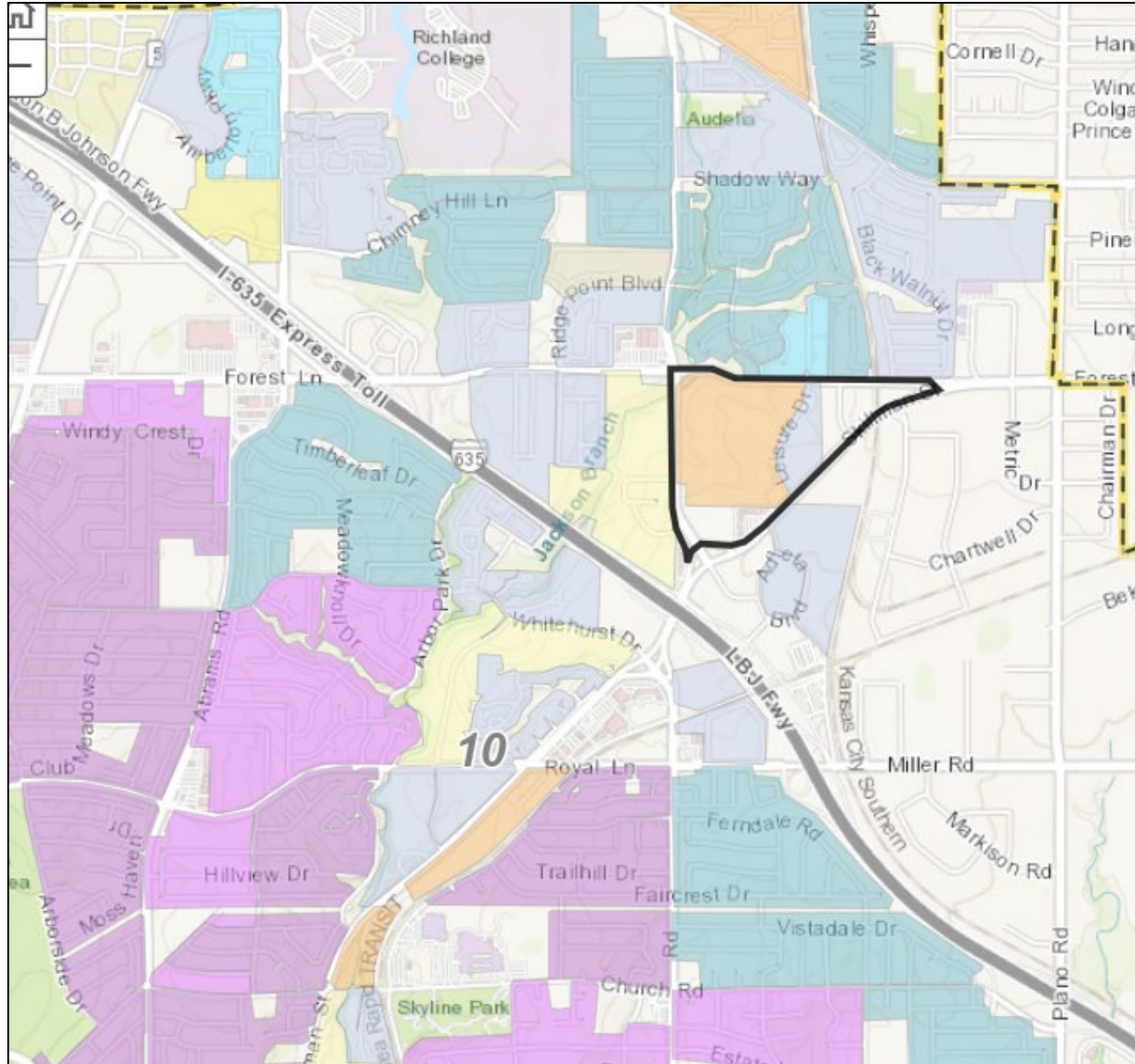
## Opportunities:

- The tract is NMTC eligible and partially CDBG eligible.
- Eastern edge of the zone is in a Housing Policy Stabilization Area.











## Challenges:

- Residences in the zone are MVA category I, the most stressed classification. Surrounding residential is predominantly D, E, and F, signaling potential future market strength.
- No city-owned properties in the zone.

# Garland Road- MVA



MVA Legend

	A		F
	B		G
	C		H
	D		I
	E		NA

# Federal Regulations

The IRS announced the first tranche of proposed regulations in October 2018. Public comments were due by the end of December. An IRS public hearing was held on February 14 to discuss the comments.

Commenters generally agreed that Opportunity Fund investments are on hold due to confusion regarding implementation of the proposed regulations.

A second tranche of regulations was submitted by the IRS to the White House Office of Management and Budget on March 12. Once the OMB completes its review, the regulations will be published in the Federal Register.

# State Policies

**MISSISSIPPI:** Commits 12.5% of state's LIHTC authority to applicants in Opportunity Zones for the next four years. (Proposed)

**MARYLAND:** Creates a state affordable housing tax credit for designated areas of the state including Opportunity Zones. (Proposed)

**MISSOURI:** Reserves \$30 million of the state's Historic Preservation Tax Credits allocation for projects in Opportunity Zones. (Enacted)

**NEBRASKA:** Gives priority to Opportunity Zones in allocation of state affordable housing funds. (Proposed)

**MICHIGAN:** Amends LIHTC Qualified Allocation Plan to add Opportunity Zones into points system. (Proposed)

**WEST VIRGINIA:** New Opportunity Zone businesses exempted from corporate net income tax and personal income tax for 10 years. (Enacted)

# Texas Bills

Texas's favorable tax climate is already in general alignment with the program. However, opportunities exist to align OZ policies with the LIHTC QAP, the state historic tax credit program, state economic development incentives, and other state programs and policies.

Pending Texas Bills (as of March 29):

- ❑ HB 2397 (Clardy) – Creates a franchise tax credit and a sales tax refund for certain Opportunity Zone investments.
- ❑ SB 826 (Hancock)/ HB 1000 (Paddie) – Creates a 25% tax credit against state insurance for eligible contributions to an Opportunity Fund that invests in rural areas.
- ❑ SB 1841 (Hinojosa) – Adds residents of Opportunity Zones to the list of individuals eligible for new jobs created under the Enterprise Zone program. Existing categories are residents of enterprise zones, economically disadvantaged individuals, and veterans.

# Role of Local Government

- Unlike other federal programs such as New Markets Tax Credits or Low Income Housing Tax Credits, local governments do not have control of or approval rights over Opportunity Fund investments.
- There are no reporting requirements in the federal regulations, so there is no way to track Opportunity Fund investments in our community.
- Therefore, the city may have no awareness of or influence on an Opportunity Fund project unless the development is also seeking local incentives, zoning changes, etc.



# Role of Local Government

Local roles may include:

1. Marketing the zones to attract investors.
2. Convening meetings between Opportunity Funds and property owners in Opportunity Zones.
3. Mitigation of any negative impacts of investment in low income areas and protection of existing low income residents.

# Next Steps

1. Develop a marketing plan. Staff is working with national experts and local partners to develop an opportunity zones prospectus.
2. Continue to reach out to Opportunity Funds focusing on Texas investments, and facilitate meetings where appropriate.
3. Stay abreast of developing federal regulations and any state bills related to the program.
4. Incorporate Opportunity Zones into new departmental policies as part of the Economic Development Strategic Plan process.

# Dallas Opportunity Zones Briefing

## Economic Development and Housing Committee

April 1, 2019

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Office of Economic Development  
City of Dallas

