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Arizona Opportunity Zones

*What They Are
And How You Can Benefit*

MODERATOR:

Shawn Neidorf, Arizona Commerce Authority

SPEAKERS:

Brion Crum, Caliber (The Wealth Development Company)

Ed Grant, Scottsdale Investment Management

Marc Schultz, Snell & Wilmer

Brett Siglin, Fennemore

ARIZONA
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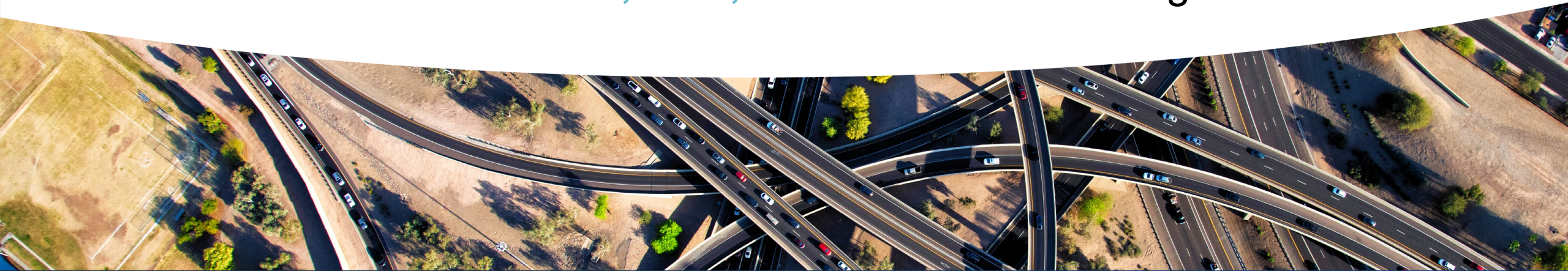
What are Opportunity Zones?

- Distressed, low-income Census tracts nominated by governors and designated by the U.S. Department of the Treasury as “Opportunity Zones.”
- Investors get substantial tax breaks for making long-term investments in OZs—**THE GOAL IS TO DRIVE INVESTMENT TO PLACES THAT NEED IT AND MIGHT OTHERWISE MISS OUT.**
- A tract’s OZ designation lasts for 10 years.



Opportunity Zones history (abridged)

- OZs were **CREATED IN 2017** Tax Cuts and Jobs Act.
- First OZs took effect in 2018; those areas stay OZs through 2028.
- OZs **MADE PERMANENT** part of tax code **IN 2025** One Big Beautiful Bill Act, with tighter qualifying standards and new benefits for investments in rural OZs. New tracts gets designated every 10 years.
- **2.0 OZs IN EFFECT JAN. 1, 2027**, and remain OZs through 2036.



How OZ investing works

- **STEP 1:** An investor sells an asset and generates a capital gain.
- **STEP 2:** Within 180 days of sale (generally), that investor puts the capital gain in a Qualified Opportunity Fund (QOF).
 - Investors **MUST** invest in OZs via Qualified Opportunity Funds to get any tax benefits.
 - Only recently realized capital gains are eligible for tax benefits.
 - A QOF may be professionally managed by a firm or started by investors on their own. Funds may be LLCs or corporations. A fund may invest in a single asset or multiple assets.
- **STEP 3:** That QOF invests in one or more assets in one or more Opportunity Zones. Investments can be in property or businesses. Common investment types include rental housing, hotels, industrial parks and commercial properties.
- **STEP 4:** The investor holds the investment for 10+ years.

Tax benefits to QOF investors

DEFERRAL AND EXCLUSION ON PRIOR INVESTMENT:

- Beginning in 2027, investor defers capital gains tax bill for five years on investment that was sold to invest in QOF.
- Investor also gets a 10% exclusion on the tax owed.
- Investor that put capital gains in QOFs focused on rural OZs get a 30% exclusion.

BENEFITS ON QOF INVESTMENT(S)

A Qualified Opportunity Fund invests in one or more properties/companies. If an investor holds a QOF investment for 10+ years, the capital gains tax can be eliminated.

- Investments through 2026: Investors must sell investments by the end of 2047.
- Investments 2027+: The value of the asset at 30 years will determine the capital gains tax elimination. If held beyond 30 years, the asset may have some capital gains liability.
- No recapture of depreciation upon sale.
- “Substantial improvement rule” is halved for investments in rural OZs.

Arizona's OZ 1.0 experience

Arizona has **168** 1.0 Opportunity Zones, reaching every county.

- Strove for proportional distribution across Arizona.
- AZ OZs disproportionately rural.
- **72%** of Arizona OZs had attracted investment by 2020—a far higher share than the **48%** of U.S. tracts that had drawn investment.

(Coyné & Johnson, 2022)



Arizona has attracted **\$2.655 BILLION** in OZ investment, **MORE THAN ANY STATE EXCEPT CALIFORNIA.**

(Novogradac tracking of Qualified Opportunity Funds, through Q4 2025)

How a tract becomes an Arizona OZ

- Each governor gets to nominate **ONE QUARTER** of a state's qualifying census tracts every 10 years.
- A tract qualifies for OZ status on the basis of having a **LOWER MEDIAN FAMILY INCOME** or a **HIGH POVERTY RATE**. (Standards vary between OZ 1.0 and OZ 2.0)
- Arizona will again aim for **ROUGHLY PROPORTIONAL DISTRIBUTION** of 2.0 OZs across the state.
- **ACA** ran the 2018 recommendation and selection process for OZ 1.0 for Gov. Ducey and is doing the same for OZ 2.0 for Gov. Hobbs.



Census tracts

(What are they?)

- “Census tracts are **SMALL, RELATIVELY PERMANENT SUBDIVISIONS OF A COUNTY**... . Census tracts generally have a population between 1,200 and 8,000 people, **WITH AN OPTIMUM SIZE OF 4,000.**” (Census Bureau)
 - **DO NOT CROSS** state or county boundaries.
 - **DO CROSS** municipal and tribal boundaries.
 - “Generally follow visible and identifiable features.”
 - Small squares/rectangles in urban areas, large, irregular shapes in rural areas.
 - Difference is driven by variance in population density.



Recommending tracts to be 2.0 OZs

ACA knows that local leaders will have the most up-to-date, on-the-ground information to inform the OZ 2.0 selection process. Accordingly, we reach out statewide to get input. We strongly encourage recommending agencies to solicit input from local stakeholders, including landowners, employers, educators, non-profits, residents.



MARICOPA, PIMA & PINAL COUNTIES

- Incorporated communities of 10,000+ will be asked to recommend one quarter of the tracts centered in their jurisdictions.
- The counties will be asked to recommend one quarter of the tracts centered in unincorporated areas and in smaller incorporated communities.
- Tribal nations will be asked to recommend one quarter of the tracts on tribal land.



OTHER COUNTIES

- Counties will be asked to recommend one quarter of the tracts covering both incorporated and unincorporated county areas.
- Tribal nations will be asked to recommend one quarter of tracts on tribal land.



TRIBAL AREAS

Tribal nations will be asked to recommend one quarter of the tracts that are:

- Centered on tribal land,
- Plus one quarter of tracts whose land is at least 1% on a tribal nation's land,
- Plus one quarter of tracts on which at least 1% of a tribal nation's land is located.

OZ qualifications

To qualify to be an OZ, a tract must meet the median family income standard or the poverty rate standard.

METRIC	OZ 1.0 STANDARD	OZ 2.0 STANDARD
Median family income	Median family income of no more than 80% of the state's median family income, if outside a metro. No more than 80% of metropolitan statistical area's (MSA) median family income if in an MSA.	Median family income of no more than 70% of the state's median family income, if outside a metro. No more than 70% of MSA's median family income if in an MSA.
OR		
Poverty rate	20% or higher.	20% or higher AND a median family income of no more than 125% of the state/MSA's median family income, depending on location.

In 2018, states could nominate for 1.0 OZs a few tracts that didn't quite qualify but that came close and were contiguous with tracts being nominated. These so-called "contiguous tracts" are not permitted in for 2.0 OZs.

Tract eligibility for OZ status

Arizona's population growth led to an increase in total census tracts. However, fewer Arizona tracts qualify for 2.0 OZ designation than did for 1.0 designation. This is driven both by growth in Arizona incomes and by tighter standards for 2.0 OZs.

	OZ 1.0 (2018)	OZ 2.0 if OZ 1.0 rules were in place	OZ 2.0 with 2.0 rules (2026)
Total tracts	1,526	1,756	1,756
Eligible tracts	673 (44% of total)	639* (36%)	500 (28.5%)
Uncertain status tracts	--	40	--
OZs (1/4 of eligible tracts)	168	160*	125

* Estimated, assuming none of the uncertain tracts is eligible.

The U.S. Department of the Treasury released some guidance on April 6. The 500 eligible tracts in column three are explicitly listed as eligible by Treasury as part of that guidance.

What OZs do—and don't do

Tracts with OZ status are more likely to attract private investment because investing in them can yield significant tax benefits, but:

- There have to be high quality investment opportunities in an OZ to attract investment—investors want to see capital gains.
- **Opportunity zone tax benefits can make a good deal better for investors, but OZ benefits can't make a bad deal good.**
- Land banking doesn't qualify for OZ-related tax benefits.
- There is no grant money directly associated with a census tract having OZ status, but some programs (e.g., LIHTC, some HUD and USDA programs) favor applications from OZs.

Prioritizing promising tracts

In selecting, OZs, Arizona prioritizes tracts that can draw near-term private investment and deliver great outcomes for their communities:

- Tracts that are **zoned and entitled**.
- Tracts that have **power, water and sewer** service.
- Tracts that have **broadband** or are slated to get it.
- Tracts that have **access to roads/highways** to bring in supplies, customers, workers, residents, etc.
- Tracts that have or are close to **people** who can work, shop and/or live in the tracts.

Next steps and resources

- Jurisdictions are considering which tracts to recommend for 2.0 OZ nomination right now. If you are interested in that process, reach out to your local municipal, county or tribal economic development staff now.
- Review our [website](#) and the [map](#) we've posted. Visit [Novogradac](#), [EIG](#) and [Treasury](#) websites to learn more and keep up with developments.
- Jurisdictions and tribes must submit their OZ 2.0 recommendations by June 19, 2026. ACA will work with the governor's office to determine a final list of 125 tracts to nominate and submit that list to Treasury this summer.
- ACA will work with jurisdictions and tribes on how best to market investment opportunities in your Opportunity Zones to potential investors.

ACA OZ RESOURCES



SHAWN NEIDORF

Chief Opportunity & Research Officer

shawnn@azcommerce.com

602.845.1281

Thank you!

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