THE LAND OF "OZ":

What do Opportunity Zones Mean for Central Texas?

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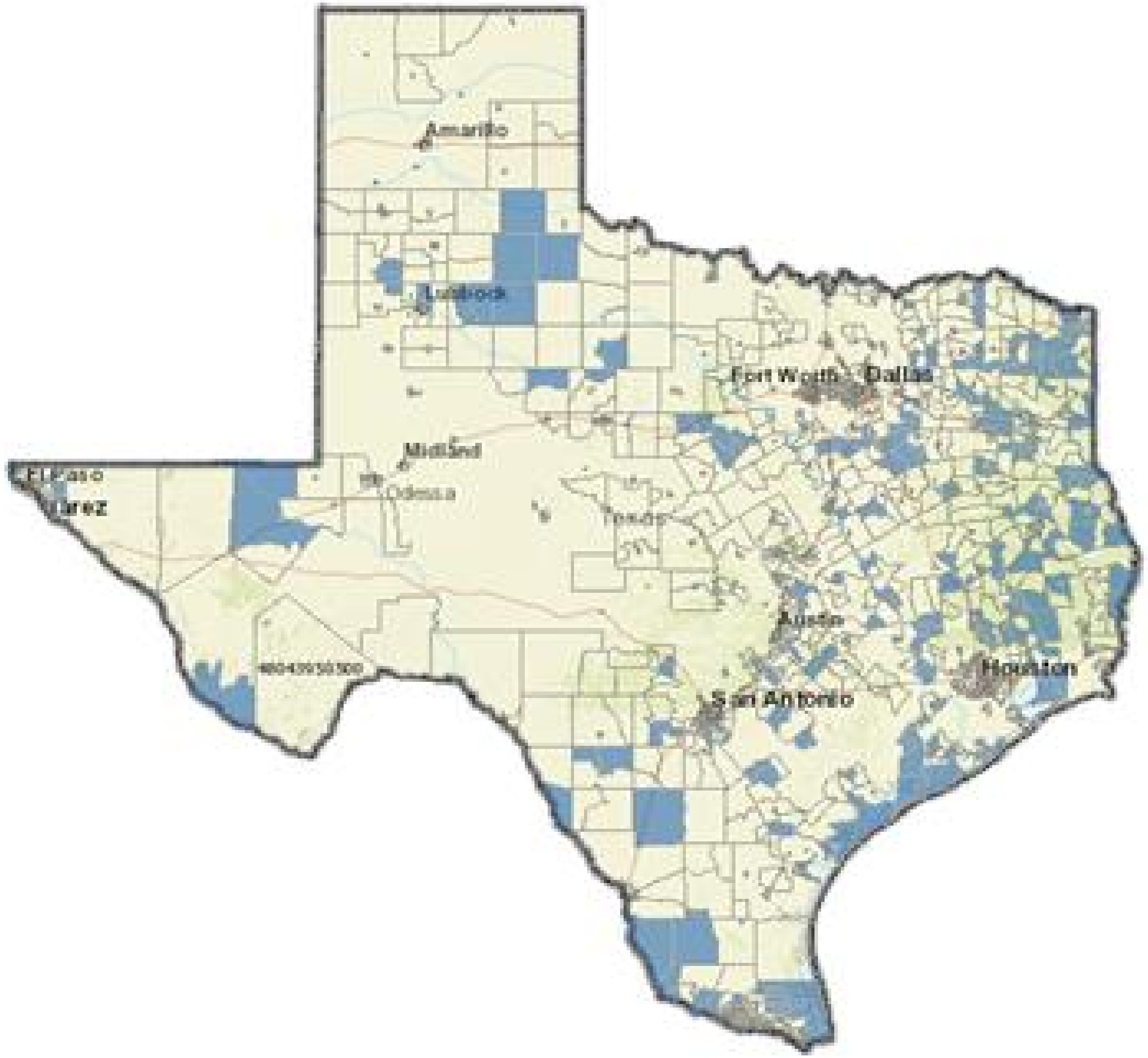

OPPORTUNITY ZONES AND OPPORTUNITY ZONE INVESTMENTS

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What are Opportunity Zones?

- A low-income community census tract that is designated as a qualified opportunity zone

- Certain non-qualified contiguous census tracts may also be designated under certain circumstances

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Qualified Opportunity Zones

- Texas designated 628 census tracts in 145 counties
- Treasury certified the Texas QOZs on April 9, 2018
- A map of the designated QOZs is available at https://www.cims.cdfifund.gov/preparation/?config=config_nmtc.xml
- Opportunity Zones in Central Texas - Travis County has 21; Williamson County has 4; Hays County has 4; and Bastrop County has 3

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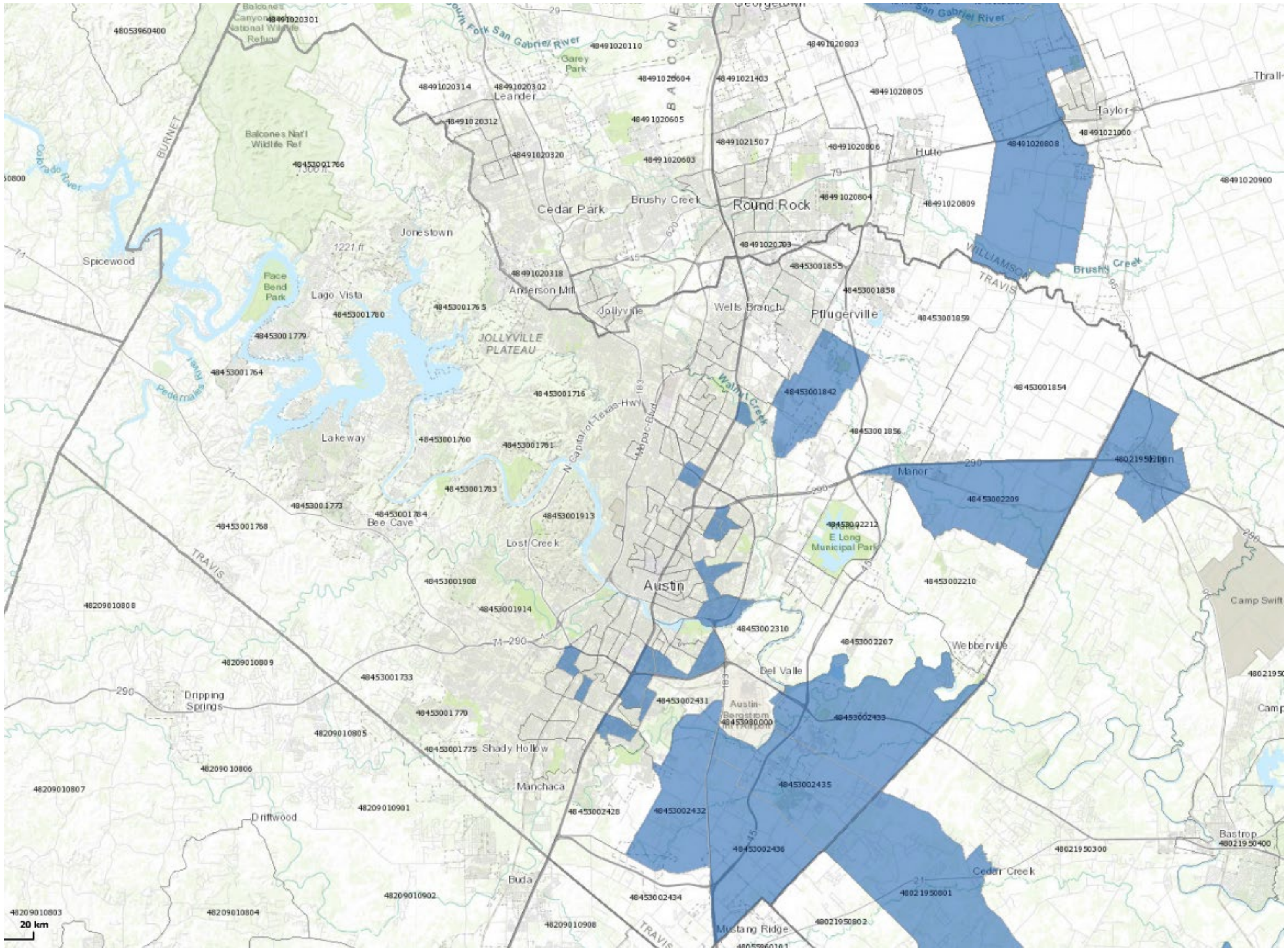
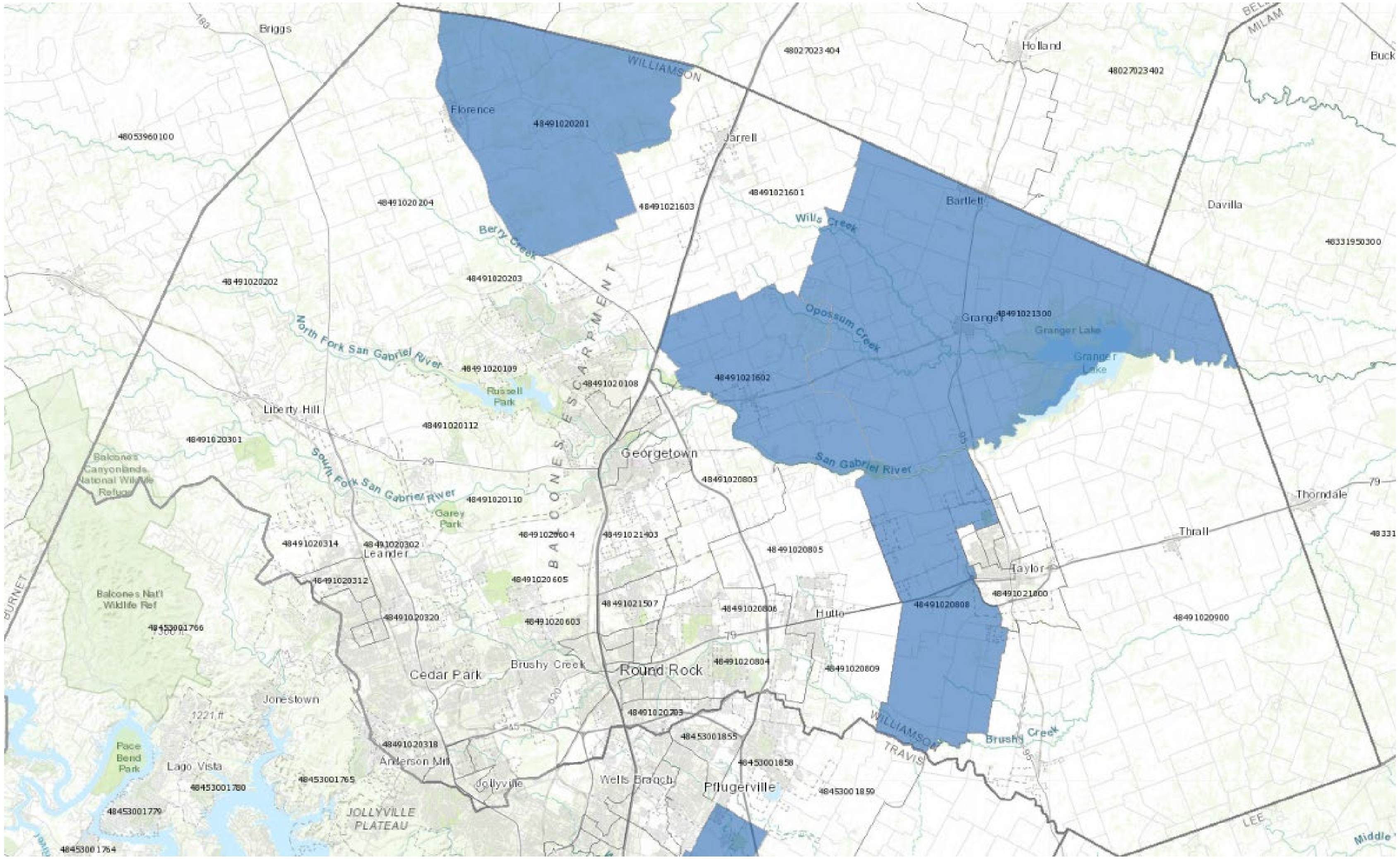


TRAVIS COUNTY



WILLIAMSON COUNTY

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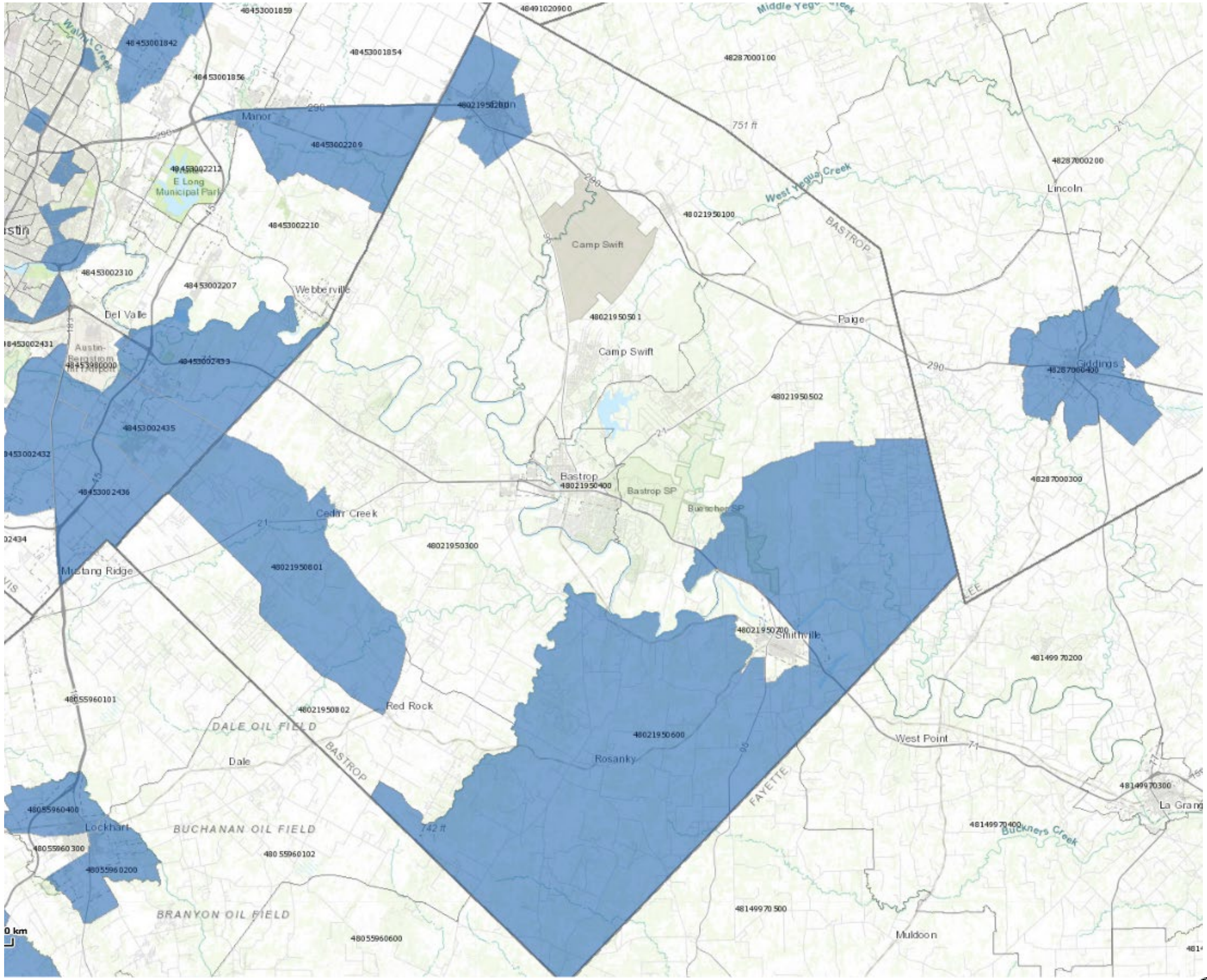

BASTROP COUNTY

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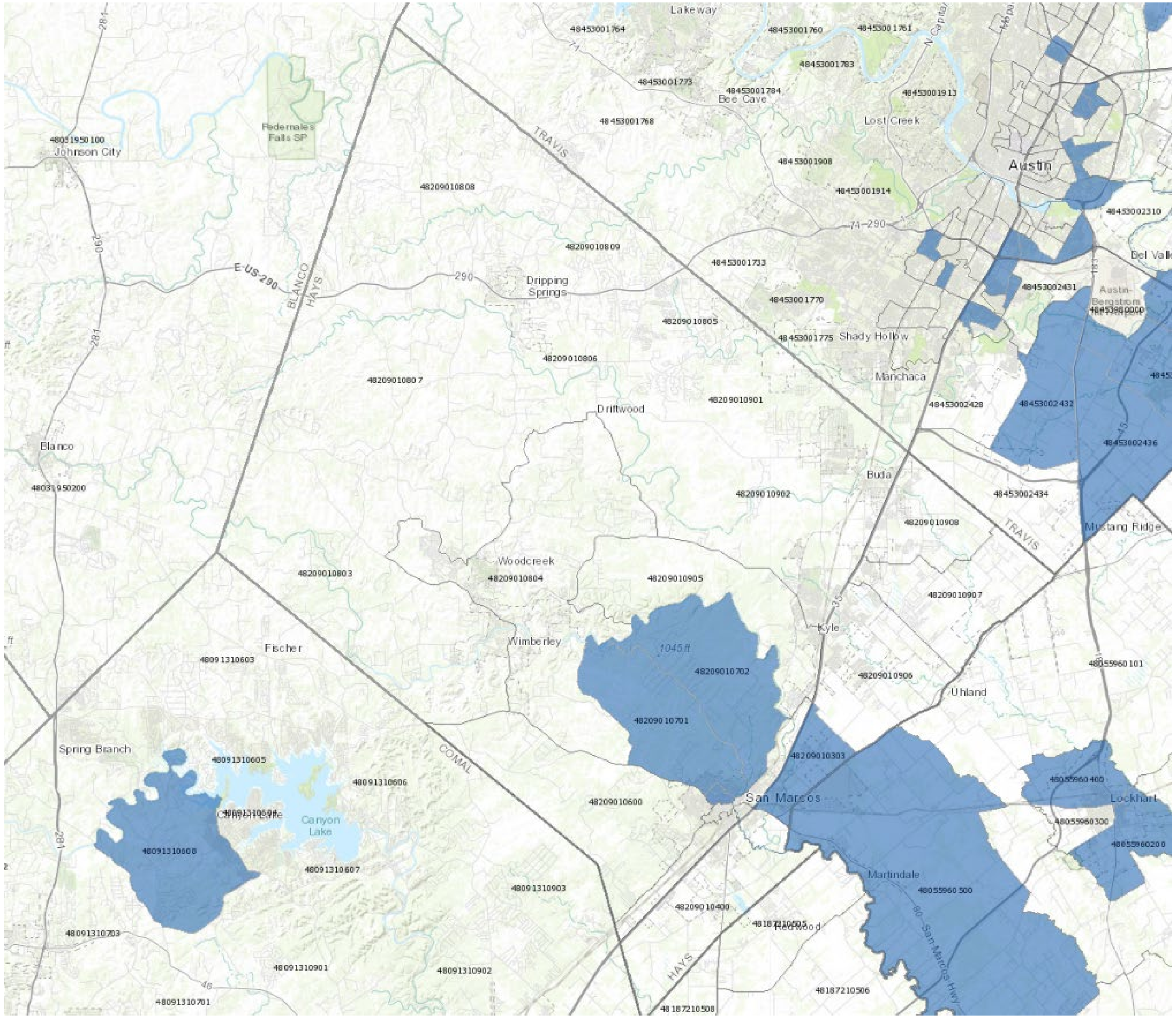
Lakeway
Johnson City
Pedernales Falls SP
Bee Cave
Lost Creek
Austin
Dripping Springs
Shady Hollow
Manchaca
Driftwood
Buda
Blanco
Mustang Ridge
Woodcreek
Kyle
Wimberley
Fischer
Uhland
Spring Branch
Canyon Lake
San Marcos
Lockhart
Martindale
TRAVIS
HAYS
COMAL

HAYS COUNTY

Tax Incentives

1. A tax deferral on capitals gains reinvested in a Qualified Opportunity Fund until earlier of 2026 or date investment is sold

2. Potential 10% tax exclusion from taxation if the investment is held for 5 years or 15% tax exclusion if held for 7 years

3. Potential 100% tax exclusion on the appreciation of the investment (but not the original gains reinvested)

Example

- Suppose a taxpayer realizes a $1 million capital gain from the sale of stock on January 1, 2018, and properly elects to defer that gain by purchasing a $1 million interest in an Opportunity Fund on June 1, 2018. A sale of the taxpayer's Opportunity Fund investment for $2 million on December 31, 2028, should have the following results:

Example

- No tax on the $1 million of gain that is reinvested in the Opportunity Fund until December 31, 2026.

- 15% of the original $1 million of reinvested gain is excluded from taxation so that only $850,000 of gain is recognized and subject to tax on December 31, 2026.

- The additional $1 million of gain from the December 31, 2028 sale of the Opportunity Fund appreciation is excluded from tax.

Example

- The taxpayer's taxable gain is reduced from $2 million to $850,000.
- The taxpayer owes $170,000 in tax on December 31, 2026, instead of $200,000 on January 1, 2018.
- On a present-value basis, assuming a 20% capital gains tax and a 5% discount rate, the true economic cost of the taxpayer's tax in 2026 is $104,600 compared to the $200,000 tax that would be levied in 2018.
- Total present value savings of $295,400.

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Streamlined Process
Unlimited Benefits

- Taxpayer's self-certify QOF
- No allocation process like New Markets Tax Credits or Low Income Housing Tax Credits
- No limitation on the amount of capital gain that can be deferred from tax
- No limitation on the amount of QOF appreciation that can be excluded from tax

Eligible Interest

- Equity Interest
  - Stock (including Preferred Stock)
  - Partnership Interest (including a Partnership with special allocations)
- Debt will not qualify

Qualified Opportunity Fund

A Qualified Opportunity Fund (“**QOF**”) is

- any investment vehicle which is organized as a corporation or a partnership
- Organized for the purpose of investing in qualified opportunity zone property
- Holds at least 90 percent of its assets in qualified opportunity zone property (the “**90% Test**”)
- 90% test measured twice a year and averaged; penalty imposed equal to the shortfall multiplied by the IRS underpayment rate
- Taxpayers self-certify QOF on Form 8996

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QOZ Property

The term "qualified opportunity zone property" means:

- QOZ Business Property
- QOZ Business
  - Partnership interest
  - Stock

QOZ Business Property

Tangible property in a QOZ used in a trade or business if—

- acquired after December 31, 2017 and original use or substantial improvement
- land can not meet original use test, but land and existing building can with substantial improvement
- substantial improvement means rehabilitation or improvement costs with in excess of the original cost within 30 months
- No rules for acquisitions of unimproved land

QOZ Business

A trade or business in which

i. substantially all (70%) of the tangible property owned or leased is "qualified opportunity zone business property";

ii. at least 50% of the gross income is derived from the active conduct of a qualified business within a Qualified Opportunity Zone;

iii. a substantial portion of the intangible property must be used in the active conduct of a qualified business within a Qualified Opportunity Zone;

iv. has less than 5% nonqualified financial property; and

v. is not a golf course, country club, massage parlor, hot tub facility, suntan facility, racetrack or other gambling facility, or a store the principal business of which is the sale of alcoholic beverages for consumption off premises.

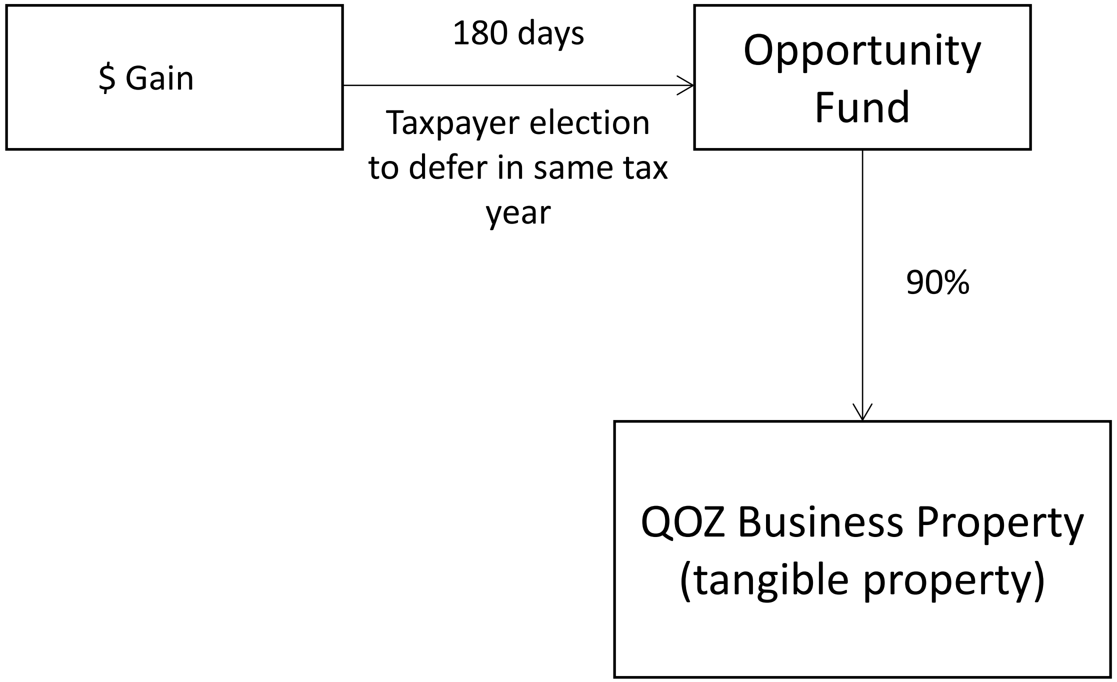
Active Conduct of Business

- The Statute does not define the "active conduct of a trade or business"
- Expect most activities that constitute a trade or business for federal income tax purposes to be considered the active conduct of a business with the exception of passive activity rental real property, triple net leases and possibly residential rental property

Working Capital

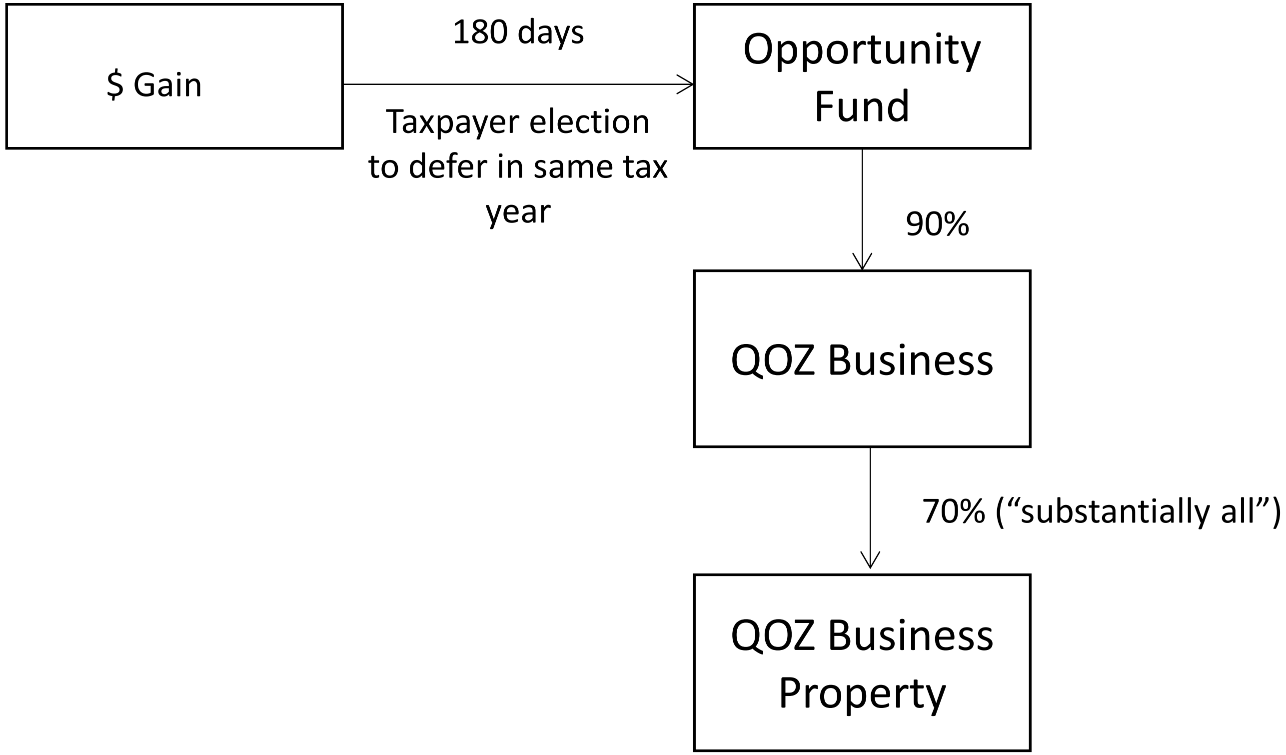
- 5% limit on "nonqualified financial property"
- Exception for Working Capital Safe Harbor - up to 31 months pursuant to a written plan for the acquisition, construction, or substantial improvement of tangible property in a Qualified Opportunity Zone
  - The plan includes a schedule of expenditures consistent with ordinary business operations
  - The schedule shows the working capital assets being spent within 31 months
  - The working capital assets must be used consistent with the written plan

Planning Considerations
QOF Direct Investment in Real Property



Planning Considerations

QOF Indirect Investment in Real Property



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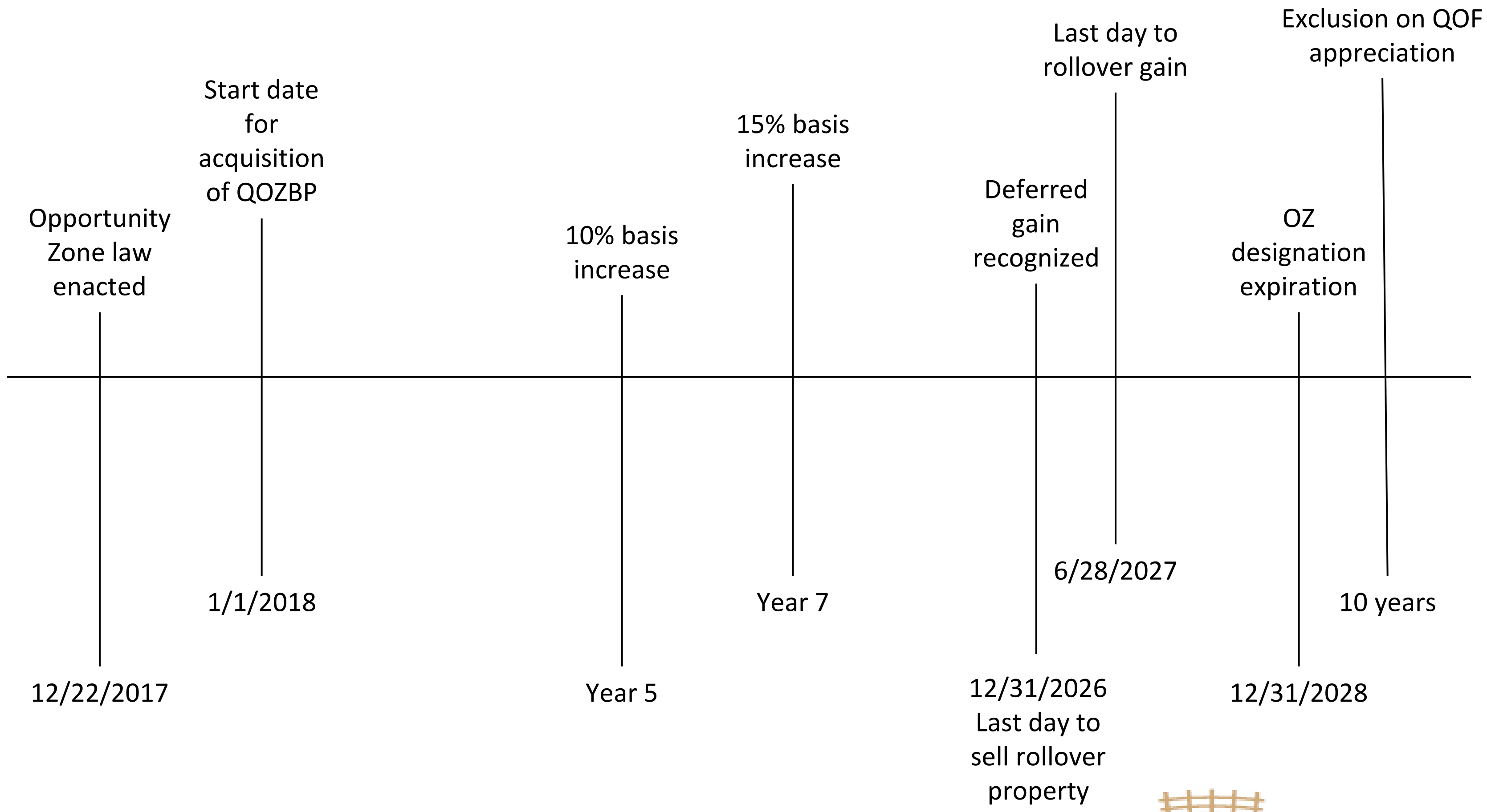
Comparison of Direct/Indirect Investment

Direct	Indirect
90% of assets must be QOZBP	70% ("substantially all") of tangible property must be QOZBP
No guidance on working capital safe harbor	Working capital safe harbor applies to unlimited amount of cash
No active conduct standard	50% of gross income from active conduct of trade or business
All IP counts toward 10% of non-QOZBP assets	Can own unlimited amount of IP (if substantial portion used in QOZB)
No prohibition on sin businesses	Prohibition on sin businesses
No specific reference to lease of property by a QOF	Property leased by a QOZB subject to QOZBP rules

Opportunity Zone Timeline



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Timing Considerations

Investments made in 2019

- Eligible for all incentives

Investments made after 2019 but before 2022

- The rollover gain will be deferred and 10% may be excluded
- The tax exclusion on appreciation is available if the investment is held for 10 years

Investments made after 2022

- Only the tax exclusion on appreciation is available if the investment is held for 10 years

Selected Open Issues

- Treasury has requested comments on all aspects of "original use" and "substantial improvement"
- Alternatives to sale of QOF investment for tax exclusion on appreciation
- 90% Test
  - grace period
  - "reasonable cause"
  - failure to meet at inception