MEMORANDUM

To: Sustainable Strategies DC Clients

From: Morgan Harron, Associate & Grant Writer

Date: April 15, 2026

Subject: Opportunity Zones 2.0: Preparing for New Designations

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This memorandum provides an overview of the Opportunity Zones 2.0 designation process and explains how local governments and community organizations can position themselves to compete for new designations.

Congress established the Opportunity Zone (OZ) program through the 2017 Tax Cuts and Jobs Act to attract private investment to economically distressed communities. Investors who direct capital gains into designated census tracts through a Qualified Opportunity Fund (QOF) receive preferential tax treatment, with stronger benefits for those who hold investments longer. Over 8,700 tracts were designated nationwide in the first round, and the program catalyzed more than $100 billion in qualifying investment across more than 5,600 low-income communities. Research indicates that OZ designation led to a net increase of approximately 414,000 housing units above and beyond what would have otherwise occurred between 2019 and early 2025. The first round demonstrated that tract designation can drive investment activity, particularly in housing and commercial revitalization, and communities that competed successfully for designation and followed through with strong project pipelines saw the most tangible results.

The One Big Beautiful Bill (OBBB), signed July 4, 2025, made the OZ program permanent and established a ten-year redesignation cycle. A new round of OZ census tract designations will take effect January 1, 2027, and state governors have a 90-day window beginning July 1, 2026 and closing September 29, 2026, to nominate eligible census tracts to the Department of the Treasury. State governments will set their own state-specific deadlines, likely well before this September 29 final deadline, for localities and organizations to nominate eligible census tracts to their state's governor for designation. Changes under OZ 2.0 from the original program include updates to the eligibility standards, how designations are selected, and the incentive structure for rural communities, and each of those changes has direct implications for communities preparing for this new round. Investors already in qualifying OZ 1.0 tracts continue to benefit on the 1.0 timelines and are not affected by the transition, but none of the OZ 2.0 benefits accrue to the old designated tracts, and new investments can be made under OZ 1.0 terms after existing designations expire on December 31, 2028.

What Changes Under OZ 2.0

⇒ **Tighter Eligibility -** Every census tract that held a designation under the original program will need to go through the nomination process again (if eligible), and not every community will qualify. The income threshold for eligible census tracts has been lowered from 80 to 70% of the area median family income, contiguous tract designations (of tracts that do not meet those income thresholds) have been eliminated, and thus the total number of eligible tracts nationwide has shrunk by roughly 25%. The OBBBA also introduced a new income cap at 125% of the area median income, closing a loophole that allowed some higher-income tracts to qualify under the original rules. The average eligible tract now has a poverty rate more than twice the national figure, compared to 1.68 times under the original program. The official list of 25,332 eligible tracts is published in the appendix to Rev. Proc. 2026-14 on IRS.gov. For tracts that do not appear on the list but for which local data suggests they should qualify under income criteria, the Treasury will consider off-list nominations accompanied by a documented analysis. However, that pathway requires the nominating state to make the case on the community's behalf and should be initiated immediately if applicable.

⇒ **More Competition -** Under OZ 2.0, each state can designate only up to 25% of its eligible tracts, meaning governors will need to make real decisions about which census tracts to prioritize. A strong nomination typically includes evidence of prior investment activity in the tract, two or three identified projects where OZ capital would make a tangible difference, demonstrated local commitment, and at least preliminary investor interest. Criteria for this designation process will vary by state, so it is important to stay up to date with your state officials.

⇒ **Stronger Rural Incentives -** The OBBB defines a rural area as any census tract outside of a city or town with a population greater than 50,000, or its adjacent urbanized areas. Investors in rural-designated tracts benefit from a 30% basis step-up compared to 10% for standard OZ investments, a reduced 50% "substantial improvement" threshold down from 100% under OZ 1.0, and enhanced tax treatment through Qualified Rural Opportunity Funds. These provisions make rural OZ tracts a more attractive investment opportunity than non-rural ones, and communities in rural areas should make rural designation a centerpiece of their nomination argument wherever geography supports it.

⇒ **Updated Program Rules -** The fixed deferral deadline under OZ 1.0 has been replaced with a rolling five-year deferral from the date of each investment, with a standard 10% step-up in basis for non-rural investors. This removes the cliff that made the original program less attractive over time, ensuring more consistent investor participation moving forward. On reporting, Treasury will now be required to issue annual public reports detailing the number of active funds, total assets deployed, confirmed investment by tract, housing units created, and employment impacts. In years six and eleven after enactment, Treasury must also publish assessments comparing the economic performance of designated tracts with that of comparable non-designated areas. Tract boundaries are fixed through December 31, 2036, with no mid-cycle adjustments, providing long-term certainty for communities and investors alike. S2 will monitor and distribute implementing guidance as it becomes available.

Key Dates

Governors have a 90-day window beginning July 1, 2026, to submit nominations to Treasury through the online nomination tool, with one possible 30-day extension. Treasury has indicated that all nominations will be treated as received on September 30, regardless of when they are submitted, so there is no procedural advantage to submitting early. The preparation work that determines whether a community is well-positioned for designation, however, needs to happen well before July.

Date	Milestone
Now through mid-June 2026	Confirm tract eligibility; review OZ 1.0 investment activity; build project narrative; engage state economic development office
July 1, 2026	90-day nomination window opens via CDFI Fund nomination tool
September 30, 2026	Window closes (one 30-day extension possible at state request); all nominations treated as received on this date
Late 2026	Treasury certifies and designates nominated tracts
January 1, 2027	New OZ 2.0 designations take effect
December 31, 2028	OZ 1.0 designations expire; no new investments may be made under OZ 1.0 terms
December 31, 2036	OZ 2.0 designation period ends

How to Prepare

Communities that were most successful under the original program understood their local investment landscape, had projects ready to move, and could make a clear connection between designation and tangible outcomes for residents and local businesses. That foundation matters even more now that governors are making deliberate choices among competing communities. Before building that case, it is worth thinking through which eligible tracts are not only technically qualified but genuinely attractive to investors — factors like proximity to development markets, availability of ready sites, existing local investment momentum, and alignment with ongoing community plans, all impact whether designation translates into real activity.

1. Confirm tract eligibility.

The official list of eligible tracts is published in the appendix to Rev. Proc. 2026-14 on IRS.gov and is the first thing to check. Prior OZ 1.0 designation does not carry forward, so some communities will need to shift focus to different tracts than those previously designated. For tracts that do not appear on the list, but where local data suggests they should qualify, the Treasury will consider off-list nominations. However, this pathway requires the nominating state to submit the case on the community's behalf. That means communities interested in pursuing an off-list tract need to make a compelling argument to their lead state office. This pathway will be resource-intensive and should be initiated immediately if applicable.

2. Review past investment activity.

Many local officials may be uncertain about which OZ 1.0 projects were completed in their jurisdiction, which OZ funds were active, or what private capital was deployed in their communities during the original program. Taking stock of that activity helps identify which tracts attracted genuine investor interest and are likely to do so again. From there, the nomination is strongest when it connects tract selection to the community's current and future plans, whether as an active revitalization strategy, housing plan, brownfields project, or economic development corridor where OZ investment can make a real difference. Identifying two or three specific sites or projects within eligible tracts can give a nomination a concrete anchor.

3. Understand which federal financing tools can work alongside OZ.

The strongest deals from the first round combined OZ with other federal programs to make projects financially viable. The most common stacking tools are the Historic Tax Credit for historic rehabilitation, Low-Income Housing Tax Credits for affordable and workforce housing, New Markets Tax Credits for larger commercial or community facility projects of $5 million or more, EPA Brownfields grants and liability protections for contaminated site redevelopment, and state economic investments. Knowing which of these applies to your strongest projects strengthens the nomination case and expands the pool of developers likely to engage.

4. Prioritize census tracts.

State governments have a limited number of census tracts that they can delegate across the state and many localities. Your success in securing designations requires you to clearly prioritize your top choices of tracts, and not asking for an unrealistic number of designations.

5. Engage your state and potential investors before July.

In most states, nomination requests are reviewed at the agency level before reaching the governor's desk, and communities that have already made their case to the right staff contacts will be better positioned than those making contact for the first time in July. While some state economic development agencies have a relatively informal process for communities to advocate for tract selection, many states set up a more formal application process. Reach out to your state economic development entity to determine what the process will be and whether deadlines have been set. Communities that arrive at the nomination process with development partners or community development finance organizations already engaged are better positioned to demonstrate that designation will translate into real activity, and those early conversations also serve as a practical check on which tracts are realistically competitive.

The following resources support tract analysis, nomination preparation, and investment strategy development. S2 will update this list as additional tools and guidance are released throughout the spring and summer.

- **Rev. Proc. 2026-14 — Official Eligible Tract List.** The official list of 25,332 census tracts eligible for OZ 2.0 nomination, including rural designation status.
- **Novogradac OZ 2.0 Eligibility Mapping Tool.** Free interactive mapping tool showing which census tracts are likely eligible or ineligible for OZ 2.0 designation based on Rev. Proc. 2026-14 data.
- **NADO OZ 2.0 Resource Guide.** Practical guidance from the National Association of Development Organizations on designation preparation, rural tract considerations, and implementation planning for economic development practitioners.
- **Urban Institute Tax Policy Center — Opportunity Zones Briefing Book.** A plain-language explainer covering how the OZ tax incentive works, what qualifies as an eligible investment, and how QOFs are structured. Useful as a reference for local officials or community partners who want a foundational understanding of the program mechanics before engaging investors or advisors.
- **EIG — Opportunity Zones 2.0: A Guide for Governors and Mayors.** A practical guide written specifically for state and local officials navigating the OZ 2.0 nomination process. Covers how to set up a selection process, how to identify strong census tracts, and how to align nominations with supportive policy tools and local investment strategies.
- **HUD — OZ 1.0 vs. OZ 2.0 Updates and FAQ**. A plain-language reference page from HUD covering every major dimension of the OZ 2.0 changes in a side-by-side comparison chart, plus a comprehensive FAQ written specifically for state and local officials.

How S2 Can Help

S2 worked closely with clients through the first round of OZ designations and is actively engaged in OZ 2.0 preparation. We are cross-referencing client communities against the Rev. Proc. 2026-14 eligible tract list and can provide individualized eligibility analysis as a starting point for any community ready to begin. From there, we can assist with building the strategic justification and project pipeline narrative for your nomination, identifying potential investment partners, coordinating and supporting outreach to your state lead agency, and advocating to your governor. We have also played an active role in helping localities put together compelling "OZ Pitchbooks" as economic attraction tools for investors and developers. We will continue to monitor Treasury and IRS guidance releases and developments in the state nomination process and distribute updates to clients as they become available. If your community is ready to begin preparing for the OZ 2.0 designation, please reach out to your S2 client manager to discuss next steps.

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