Illinois Department of Commerce & Economic Opportunity
JB Pritzker, Governor

Opportunity Zones in Illinois

Program Overview, Performance Analysis, and Framework for OZ 2.0 Designations

Executive Summary

The federal Opportunity Zones (OZ) program represents a significant opportunity for Illinois to channel private capital into economically distressed communities. In 2018, Illinois designated 327 census tracts in the original OZ 1.0 program. While notable investments did reach some of the designated communities, the program's outcomes have been uneven and overall program utilization in Illinois has underperformed against national averages.

The passage of the One Big Beautiful Bill Act (H.R. 1) in July 2025 fundamentally restructured the federal program, making it permanent and introducing stricter eligibility criteria. This whitepaper examines lessons learned from OZ 1.0 implementation in Illinois and outlines the State's strategic approach to OZ 2.0 designations.

What was OZ 1.0?

The OZ program was created in 2017 through the Tax Cuts and Jobs Act and was set to expire at the end of 2026. The program was designed to unlock long-term private capital for economically distressed communities by providing tax incentives for capital gains reinvested in projects located in designated census tracts. Under the current program, investors reduce tax liability by reinvesting capital gains into Qualified Opportunity Funds (QOF), which must in turn invest in projects within designated Opportunity Zones.

For the initial round of OZ designations in 2018, the federal government established that governors could designate up to 25% of their state's low-income census tracts as Opportunity Zones. A census tract qualified as "low-income" if its median family income was at or below 80% of the statewide median family income.

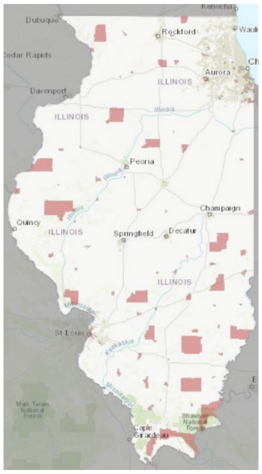
The OZ program requires investors to work through a QOF, which is an entity specifically organized to invest in Opportunity Zones and maintain at least 90% of their assets in eligible property within designated census tracts. Eligible investments included:

- New construction projects
- Substantial improvements to existing structures (equal to or greater than the property's basis)
- Operating businesses within the designated tracts

If requirements are met, the OZ 1.0 program offers multiple tax incentives:

1. **Deferral of Capital Gains:** Investors who realize a capital gain can defer taxation on that gain if they reinvest it within 180 days into a QOF. The deferral would extend until December 31, 2026.
2. **Basis Step-Up:** Investors who hold their QOF investment for at least five years received a 10% basis step-up on the original capital gain, meaning 10% of the initial capital gain effectively became permanently tax-free.
3. **Permanent Exclusion:** Any appreciation in the value of the QOF investment could be permanently excluded from taxation if the investment was held for the full 10-year period.

<u>Gov. Rauner's OZ 1.0 Selection Process</u>



In 2018, Gov. Rauner nominated 25% (327) of the state's 1,305 qualifying low-income census tracts as Opportunity Zones.[1]

The Rauner Administration determined tracts for nomination using a three-phase approach:

Phase One: Need-Based Analysis
The state conducted a comprehensive need-based indexing of all eligible census tracts, incorporating multiple distress indicators:

- Poverty rates
- Unemployment rates
- Crime rates
- Population trends
- Educational attainment levels

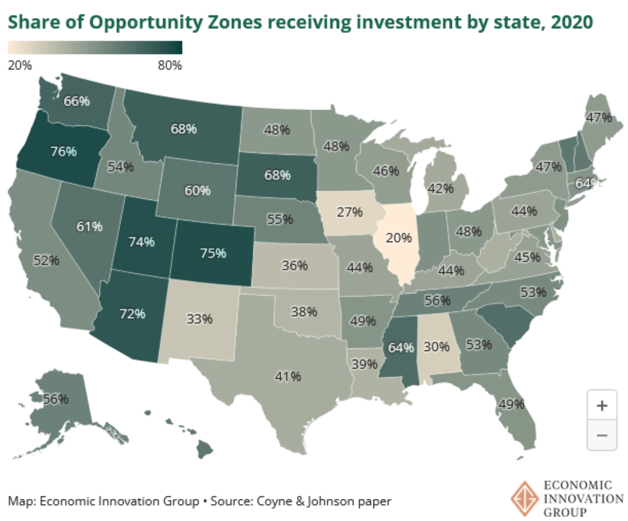
This quantitative analysis created a scoring mechanism to identify tracts with the greatest economic need and potential for private capital attraction.

[1] https://www.illinois.gov/news/release.html?releaseid=16763

Phase Two: Geographic Representation
Heavily prioritizing balanced regional representation, the state ensured that designated zones were distributed across Illinois' diverse geographic regions. Each county with qualifying tracts received at least one zone and towns and cities across the state were limited on the number of zones included.

Phase Three: Local Engagement
The State solicited input from local governmental entities, regional economic development corporations, municipal leaders, and community stakeholders.

What was the efficacy of OZ 1.0 in Illinois?



The OZ 1.0 benefit was underutilized in Illinois compared to other states. By the end of 2020, only one-fifth of all eligible tracts in Illinois had received OZ investment, the lowest of any state.[2]

While limited, investment did flow to a select number of projects that included but were not limited to neighborhood corridor commercial or mixed-use developments, residential projects, and large tracts of industrial land.

Successful Projects
National Equity Fund, Inc. and Fifth Third Bank invested $25M in the Hope Manor Village in the Englewood neighborhood of Chicago, transforming 16 vacant lots into 36 apartments for low-income and homeless veterans.[3]

- "*Because of the Opportunity Zones initiative, we were able to expand our total community investment activity and help respond to this critical need*." – Catherine Cawthorn, President, Fifth Third Community Development Corporation

[2] EIG Report - Examining the Latest Multi-Year Evidence on OZ Investment
[3] National Equity Fund Press Release

RiseKit secured a $4.75 million investment from venture capitalists to build behavioral and skills-based machine learning models to help job seekers in underserved communities.[4]

- *"Verte's fund was structured to comply with OZ requirements and designed to provide the type of capital that startups truly need to accelerate their growth."* – Leonard Mills, CEO, Verte OZ

PNC Bank invested $15 million into the Ogden Commons on the West Side of Chicago to build a mixed-use building complex with a public green space.[5]

Challenges
A fundamental challenge in evaluating Illinois' OZ 1.0 performance results from structural deficiencies in the OZ program's original design. The original OZ legislation did not mandate public disclosure of investment data and tax information related to OZ investments has been treated as confidential tax information, limiting the ability of state policymakers and researchers to conduct comprehensive impact analysis.

This lack of transparency has prevented Illinois from fully understanding which zones attracted capital, the magnitude and type of investments, and the economic outcomes generated. Despite these limitations, available public information and disclosed projects provide insights into program utilization.

The Economic Innovation Group, a nonpartisan policy organization, has characterized Illinois as experiencing historically underperformed outcomes from its Opportunity Zone portfolio relative to national averages. [6]

Lessons Learned in Illinois from OZ 1.0
The Illinois Department of Commerce and Economic Opportunity's research and stakeholder discussions have identified several factors contributing to underinvestment in OZ tracts in Illinois.

Selection Misalignment: The Rauner Administration's emphasis on geographic breadth in their zone selection, while politically attractive and administratively sound, did not maximize potential for capital deployment. Investors seeking to deploy OZ capital look for tracts near markets with discernible development momentum, often areas with existing infrastructure, workforce, real estate market signals, and institutional anchors. The overfocus on spreading designations evenly across counties meant that many zones lacked these conditions.

---

[4] RiseKit Press Release
[5] REjournals Article
[6] Advantage News Article

Investor Information Asymmetry: National research, including analysis by KPMG, indicates that many investors and developers often lack a clear understanding of OZ program mechanics, tax implications, and implementation requirements[7]. This knowledge gap has been exacerbated in states, such as Illinois, where there is no systematic state-level effort to educate potential investors and developers about the program.

Absence of Matchmaking Infrastructure: Illinois historically lacked systematic mechanisms to connect investor capital with development opportunities in designated zones. The Chicagoland Opportunity Zone Consortium has partially filled this gap for Chicago-area projects, but no comparable infrastructure existed statewide. In states with a high rate of investment in OZs, such as Arizona, there are often significant informational resources and matchmaking event opportunities made publicly available.

Uneven Investment: The Urban Institute and other research organizations have also documented that OZ 1.0 investment nationally has been concentrated unevenly. Investment has also carried an urban bias and not been geographically distributed equitably across designated zones.[8] Census tracts in OZ communities have experienced limited economic growth in many regions, despite capital availability. Additionally, residential development within OZs has frequently generated housing priced above local median rents rather than addressing affordability gaps.

Illinois' experience mirrors these national patterns, with most documented OZ investments concentrated in Chicago.

Changes in OZ 2.0

The passage of H.R. 1 in July 2025 included significant reforms to the OZ program, including making it permanent, tightening eligibility requirements, and adding additional rural benefits. The updated program is being referred to as OZ 2.0.

Making the Program Permanent: H.R. 1 established the OZ as a permanent component of the federal tax code. This permanence enables long-term planning and investment by both public and private entities.

Rather than a one-time selection, H.R. 1 establishes recurring designation opportunities. Governors will now nominate new zones every 10 years (the next designations will take effect January 1, 2027, with subsequent rounds every 10 years thereafter). Under this framework, Illinois's current 327 OZ designations will sunset on December 31, 2028, necessitating new selections for January 1, 2029, forward.

[7] KPMG Report

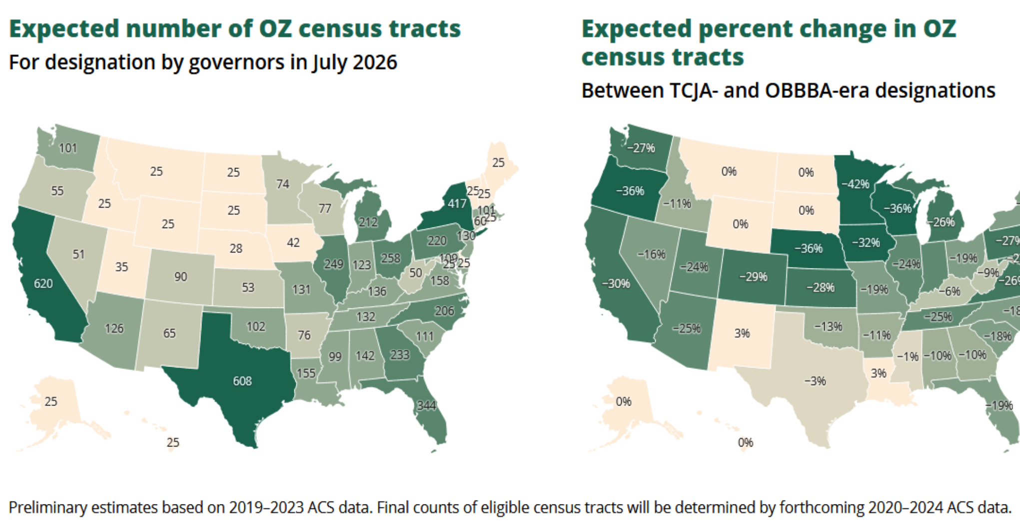
[8] Urban Institute Analysis

Tightened Eligibility: H.R. 1 tightened eligibility thresholds, reducing eligible census tracts with the following changes.

- *Stricter Income Threshold*: Median family income qualification reduced from 80% to 70% of state median family income.

- *Elimination of Contiguous Tract Rule*: Non-low-income contiguous tracts can no longer be designated as Opportunity Zones. This change eliminates an aspect of OZ 1.0 that permitted the designation of zones adjacent to low-income communities, sometimes resulting in benefits flowing to areas not meeting program intent.

- *Anti-Gentrification Provisions*: Census tracts with median family income exceeding 125 percent of applicable area or statewide median family income are disqualified from OZ designation, even if they otherwise meet poverty-rate criteria. This provision prevents the program from inadvertently incentivizing investment in rapidly gentrifying neighborhoods that have already experienced income growth.



[9]

Rural Opportunity Zones: H.R. 1 added additional benefits for census tracts that are both designated and defined as rural (not within or adjacent to a municipality with over 50,000 inhabitants). The law provided an increased 30% basis step-up and lower substantial improvement requirement to investments made in these OZs. In order to receive the benefits, investors must also utilize a Qualified Rural Opportunity Fund, which holds at least 90% of its investments in rural OZs.

[9] Economic Innovation Group OZ 2.0: A Guide for Governors and Mayors

The stricter income threshold and elimination of the contiguous tract rule are expected to significantly reduce Illinois's eligible census tract pool, meaning the State is expecting to select 249 census tracts (25% of ~1,227 eligible tracts) in OZ 2.0 rather than the 327 allowed in OZ 1.0. This constraint requires more strategic, focused selection rather than broad geographic distribution. However, the new rolling 10-year cycle and additional rural benefits will allow Illinois to recalibrate designations as economic conditions change and to learn from prior rounds' performance.

State of Illinois OZ 2.0 Framework

The Illinois Department of Commerce and Economic Opportunity (DCEO) has outlined the following process for OZ 2.0 designations:

Phase 1: Quantitative Analysis

DCEO, in partnership with the Northern Illinois University Center for Governmental Studies, will construct a data and mapping tool to help evaluate and designate new zones in Illinois. The tool will consider eligible census tracts across multiple dimensions:

Need-Based Metrics:

- Poverty and income levels (including those near and above respective thresholds)
- Employment and unemployment rates
- Population characteristics (age, education, race/ethnicity, migration patterns)
- Housing indicators (prices, rental costs, affordability, vacancy rates)

Business Attraction Indicators:

- Proximity to higher education institutions and research centers
- Identified high-growth industry clusters and anchor employers
- Existing IEDC site inquiry locations and vetted development sites
- Industrial composition and occupational opportunity

Stacking and Complementary Investment:

- Locations of existing Rebuild Illinois investments
- Locations of place-based state incentives (Enterprise Zones, QEZs, Star Bond Districts)
- Locations of prior DCEO grants and investments
- Proximity to federal programs (NMTC, HUD Empowerment Zones, USDA rural development)

Phase 2: Qualitative Stakeholder Engagement
DCEO, in partnership with the Civic Consulting Alliance, will conduct structured stakeholder engagement to gather qualitative insights about development readiness and investment potential including:

- Public recommendation form for stakeholders and regional partners to nominate candidate census tracts and provide context about local conditions.
- Assembly of ad-hoc advisory board of private sector experts to facilitate engagement with regional economic development corporations, chambers of commerce, and regional planning agencies.

Phase 3: Post-Designation Resources & Matchmaking
Following designation, DCEO will partner with regional partners and OZ experts to:

- Publish educational resources about OZ 2.0 program mechanics and application procedures.
- Launch regular matchmaking events convening communities, investors, developers, and project sponsors.
- Provide OZ-specific technical assistance and training to DCEO regional teams and municipal economic development organizations.
- Partner with federal and state entities to monitor OZ 2.0 investment activity and community outcomes.

Conclusion

The federal OZ program represents a powerful tool for directing private capital to economically distressed communities. Illinois' experience with OZ 1.0 demonstrates both the program's potential and the necessity of strategic, intentional implementation. The state's 327 designated zones created geographic coverage but insufficient catalytic impact, pointing to the importance of market-ready targeting, investor education, post-designation support, and alignment with complementary investments.

OZ 2.0's structural reforms of making the program permanent, tightening eligibility criteria, establishing a rolling 10-year cycle, enhancing rural incentives, and requiring enhanced reporting has created conditions for more effective state-level strategy. Illinois has the opportunity to continue to distinguish itself as a national leader in evidence-based, inclusive economic development through the strategic use of this tool to reach our goals.