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December 18, 2023

Governor's Office of Economic Opportunity  
c/o Jim Grover  
Managing Director of Incentives and Grants  
60 East South Temple, Suite 300  
Salt Lake City, Utah 84111-1041

Mr. Grover,

On November 20, 2023 the Tax Commission received the South Salt Lake City Downtown - Housing and Transit Reinvestment Zone (HTRZ) Application dated October 2023. Pursuant to Subsection 63N-3-604(3)(c), the Tax Commission is required to review each HTRZ application and provide an evaluation to the Governor's Office of Economic Development describing any challenges it poses to tax administration or indicating that the proposal can be administered as presented.

For purposes of sales tax increment, each proposal must:

- clearly and unambiguously identify boundaries of the HTRZ based on state sales and use tax collection boundaries;
- establish a base year against which sales and use tax increment can be measured; and
- indicate a collection period for which increment revenue will be distributed.

Based on a review of the above referenced application, the Tax Commission has can administer the proposed sales and use tax increment distribution subject to the following modifications and conditions.

- 1. Adoption of the attached map as the sales and use tax increment collection area** - To determine the boundary of the HTRZ for purposes of the sales and use tax, the Tax Commission has examined existing USPS 9-digit zip code areas which serve as the fundamental basis for sales and use tax collection areas. The Tax Commission has then overlaid these 9-digit zip code areas over the identified HTRZ parcels to create the attached map. Please note that this map is constrained by the fact that it is not administratively feasible to subdivide a sales tax area into a unit that is smaller than what is represented by a 9-digit zip code. In situations where the HTRZ parcels form the dominant portion of a 9-digit zip code, the entirety of the area within the 9-digit zip code is included in the HTRZ sales tax area. In situations where an HTRZ parcel represents the minority of the 9 digit zip code, the entirety of the 9 digit zip code is excluded. (see attached map).

2. **Modify the sales and use tax base year so that it is established prospectively** - Once the official sales and use tax boundary of the HTRZ is settled by adoption of the attached map, the Tax Commission will require 1 year of collection data to set the sales and use tax base amount within the defined boundary. To begin collecting the data necessary to determine the base amount, the Tax Commission must establish the new boundary with impacted sellers and provide notice of modified reporting requirements. As a result, implementation of a new sales and use tax boundary cannot take effect until the beginning of a calendar quarter after 90 days notice has elapsed. This means that if this proposed sales and use tax boundary is adopted by December 31, 2023, the base year can begin on April 1, 2024 and run through March 31, 2025. Thereafter the increment revenue generation can begin on April 1, 2025. If this sales and use tax boundary is not adopted by December 31, 2023, the establishment of the sales and use tax base year must be delayed accordingly.
3. **Modify the proposal to allow only a single uniform sales and use tax increment collection period** - It is not practical for different sales tax collection periods to apply to different areas of the HTRZ. This means that the entire HTRZ sales and use tax boundary must be subject to the same collection period beginning and ending date. This is essential for the proposed boundary in the attached map to function as a single unit. If multiple collection periods are permitted, the attached map will not function as expected because the area covered by each collection period will need to be examined independently of those areas subject to a different collection period. This will have the effect of further distorting the HTRZs sales and use tax boundaries.

For purposes of property tax increment, the proposal must:

- adequately identify the individual parcels subject to inclusion in the HTRZ;
- establishes the base year against which the increment will be calculated during the collection period; and
- indicate the increment collection period.

Based on a review of the above referenced application, the Tax Commission has identified the following challenge to the administration of the property tax increment:

1. The proposal sets the property tax base year as 2022. A retroactive property tax base year will result in the 2022 increment value for these parcels being clawed back from the local taxing entities. To the extent that these parcels include 2022 increment value, that increment value has already been included in 2023 base budgets for each local taxing entity, a claw back of that increment value will result in an automatic tax rate increase in each impacted taxing entity to maintain budgeted revenue. The tax rate increase will be proportionate to the revenue that was generated by the removed increment value. **Please consult with the county assessor to determine the impact of a claw-back of 2022 increment value for these parcels.**
2. This proposal appear to contemplate that the property tax increment boundaries will shift over time on a parcel by parcel basis as development occurs. This may pose an administrative burden on the local assessor. **Please consult with the county assessor on the administrative impact of a shifting property tax increment boundary.**
3. Related to the previous comment, if a parcels are permitted to be phased into the calculation of property tax increment, it will result in a substantial number of non-contiguous parcels for the

period of time until the HTRZ is fully phased in. The inclusion of non-contiguous parcels precludes the ability to create a single tax area. A tax area is the smallest subdivision of real property that can be managed by the certified tax rate system. The certified tax rate system is not designed or capable of tracking real property on a parcel by parcel basis. Without the ability to create a tax area, the certified tax rate system cannot be automatically adjusted to account for value changes of the properties included in the HTRZ. This shifts the burden of tracking the properties included in the HTRZ to the county recorder, assessor, and auditor. The county must then provide the increment value to the Tax Commission for manual inclusion in the certified tax rate. If the Tax Commission is not informed of the increment value for the specific properties the certified tax rate will not be adjusted correctly to generate the increment revenue. This could result in properties outside of the HTRZ bearing the property tax cost of the revenue going to the HTRZ. **Please consult with the county recorder, assessor, and auditor regarding the administration of non-contiguous parcels.**

I am available to answer any questions you may have or to discuss how to address each of the issues raised.

Sincerely,

Jason Gardner  
Director of Policy, Planning, and Public Affairs  
Utah State Tax Commission