TABLE OF CONTENTS

Digest of
A Performance Audit of Motor Vehicle Registration

This audit was requested by the General Government and Capital Facilities Joint Appropriations Subcommittee. During the 1993 legislative session, counties requested a significant increase in the compensation they receive to perform state motor vehicle functions under contract. During the session, a portion of the additional funding request was appropriated, and this audit was requested. A major factor in determining the compensation which counties deserve is the efficiency of the motor vehicle system. Early in our review of system costs it became apparent that neither customers nor taxpayers benefited from some of the existing practices. Therefore, our audit work included identifying ways to reduce customer inconveniences and administrative inefficiencies.

Rather than being designed for efficiency, Utah's motor vehicle system evolved with both state and county government involvement. Historically, the state registered vehicles for use on public roads while counties collected property tax on vehicles. Although customer inconveniences and administrative inefficiencies have been discussed for many years, the involvement of both state and county organizations have made it difficult to streamline the system. Some problems remain unsolved largely due to the overlapping state and county jurisdictions each guarding their own interests.

The following summaries describe the major findings and conclusions of the report:

Aggressive Legislative Direction Can Reform Motor Vehicle System. Changes in some customer service delivery practices are long overdue. Providing one-check, one-line service through a single government agency in each county benefits customers and is administratively efficient. Prior studies and legislative action have led to improvements in many counties but not in the state's largest counties. In contrast, other states have been able to achieve the consolidation benefits that have eluded Utah.

To overcome the system's historic resistance to change, we feel the Legislature must provide strong direction. An historical perspective helps illustrate how difficult it has been to change the motor vehicle system. Over the past decade, the Legislature has conducted studies, passed resolutions, and enacted laws trying to bring change with modest results. For example, in 1987, the Legislature passed a resolution directing *"the State Tax Commission and the counties to negotiate for the administration and collection of various personal property fees and taxes so as to eliminate duplication in functions and staffing."* The fact that this change has yet to occur in the state's largest counties indicates that more forceful Legislative action is needed.

Specifically, we recommend the **Utah Code** be amended to require that a single agency in each county provides customer service.

Sharing Customer Service Costs Requires More Funding and New Distribution Formula. During the 1993 session, counties requested $850,000 additional funding for customer service costs. The Legislature increased funding by $150,000 and asked us to study the issue. According to a cost-sharing model developed by the Office of the Legislative Auditor General (OLAG), about $200,000 additional state appropriation is needed to fund existing workload patterns. Of that amount, about $130,000 is needed for current contract counties and $70,000 for non-contract counties. Because counties with a small workload cannot be as productive as those with a large workload, we developed a model which pays counties a decreasing rate as workload increases. The OLAG model would more than double payments to the smallest counties, while paying large counties about the same. Because small counties cannot be as productive as those with a larger workload, we recommend the Tax Commission adopt a variable rate reimbursement schedule.

We also estimate the compensation needed in the future for single-agency offices in each county. Without knowing which agency may provide customer service, we applied our cost-sharing model to estimate funding that either party should pay the other. For example, in Salt Lake County, there should be either a county-run office with the state contributing about $800,000 or a state-run office with the county contributing about $350,000. We recommend that the Tax Commission negotiate with each county where both the state and county provide customer service to establish a single-agency office.

Duplication of Effort Creates Inefficiencies. Finally, we address two major sources of inefficiency in Utah's motor vehicle system. First, the state's information system does not provide the counties with timely information to meet taxpayer needs. As a result, many counties have developed duplicate information systems. Some other states have systems which check the accuracy of data at the point of transaction and electronic transfer of information to a central database. Such a system would benefit both levels of government by reducing transaction errors and eliminating the need for duplicate staff and systems. An improved system could also provide more timely responses to public or law enforcement inquiries and support future customer service innovations. We recommend the Tax Commission study the needs of the motor vehicle information system, particularly examining the costs and benefits of a system with on-line edit and electronic data transfer capabilities.

Second, we discuss how a depreciation approach to assigning vehicle values could reduce administrative costs, while being as fair to vehicle owners. The current "blue book" method of valuing vehicles for property taxes requires a duplication of effort from one year to the next. The large workload of re-entering values for approximately 30,000 types of vehicles every year creates many errors requiring both Tax Commission and county effort to identify and correct. While a depreciation approach cannot be completely fair to all taxpayers in all instances, neither is the current system. Besides the many errors which result, compromises

inherent in the current system's design sometimes ignore factors which affect vehicle values. Because it best balances the efficiency and fairness concerns, we recommend that the Tax Commission adopt a depreciation method of valuing vehicles.

Chapter I
Introduction

Utah's motor vehicle system should provide better customer service and cost taxpayers less. Long-known problems have not been solved largely due to the overlapping state and county jurisdictions, each guarding their own interests. Aggressive legislative direction should resolve jurisdictional disputes and consolidate customer service delivery in a single level of government in each county. In addition, the Legislature should consider appropriating some additional funds to compensate counties for completing state work. Finally, the Tax Commission should address other system inefficiencies, including the motor vehicle computer system and the vehicle valuation process.

The public interest is that the motor vehicle system provides good customer service, fair taxation, and administrative efficiency. Although these objectives are not controversial, they are not well realized. The involvement of both state and county organizations have made it difficult to streamline the system. The customer's interest is that service be provided conveniently and the taxpayer's interest is that combined state and county costs are minimized. Unfortunately, officials in different government organizations tend to adopt the more narrow perspective of their agency.

Motor Vehicle System Serves State and County Interests

Rather than being designed for efficiency, Utah's motor vehicle system evolved with the involvement of both state and county government. Historically, the state registered vehicles for use on public roads while counties collected property tax on vehicles.

The state's primary interest in the motor vehicle system is control. The state titles vehicles to protect private property rights and registers vehicles to permit their use on public roads. The state's database of registered vehicles is an important resource for law enforcement. State requirements for safety inspections and no-fault insurance are enforced through the registration process. The state also completes other vehicle transactions such as lien changes and impound releases through the motor vehicle system. In addition, the state controls recreational vehicle (boats, off-highway vehicles, and snowmobiles) usage through its motor vehicle system. While fees for vehicle transactions generate some revenue for the state, the revenue generated for counties is more significant.

Unlike the state, counties' primary interest in the motor vehicle system is revenue. Counties realize an important source of revenue through the annual collection of a uniform fee on vehicles in lieu of property tax. **Utah Code** sets the uniform fee at 1.7 percent of vehicle value. Although technically due on January 1 each year, in practice, the uniform fee is paid when the vehicle is registered during the year. The state's registration of motor vehicles provides a convenient and effective method to collect the county's fee. By law, the Tax Commission must verify that county fees have been cleared before it registers a vehicle. In addition, county-based requirements for vehicle emission certificates along the Wasatch Front are also enforced through the state registration process. Elected county assessors are responsible for ensuring that vehicles are appropriately valued for the uniform fee. In most counties, either the assessor or treasurer collects the uniform fee.

System Problems Are Widely Recognized

Utah's motor vehicle system has long been a source of frustration to the public. Although prior audits and studies have identified customer inconveniences and administrative inefficiencies, the system has resisted change. As a result, many customers have to wait in long lines and sometimes two lines and write two checks, largely because the two levels of government involved do not effectively cooperate.

The news media periodically reports customer frustration with the inconveniences it must endure. For example, on the Friday before Memorial Day in 1993, *KSL Television* reported that *"long lines today led to simmering tempers."* One customer claimed he had been in line for an hour without moving. A sheriff's deputy was on hand to provide crowd control. In July, a *Salt Lake Tribune* article reported an incident in the Salt Lake City office where 60 customers waited in two lines while two workers who could have helped sat idle at an information window.

Government officials are well aware of the inconveniences and inefficiencies in motor vehicle offices. Certainly, during our audit field work we observed customers who were justifiably frustrated. On a few occasions we saw customers waiting in line for service from county workers while state workers in the same office sat idle, and conversely we saw county workers sitting idle while customers waited in line for service from state workers. Some customers expressed their frustration to us. While improvements have been made in some counties, in others counties conditions have changed little since our 1988 audit reported *"it is inefficient organizationally and inconvenient to vehicle owners to have two levels of government providing customer services."* More recently, a 1993 state auditor report identified procedures which *"seems to result in the inefficient use of state and county resources."* As described in Chapter II, state legislators have often studied and attempted to improve the motor vehicle system. For example, as early as 1986, representatives of both

levels of government testified to a legislative committee that customer service delivery should be consolidated within in a single level of government.

It is disappointing that problems known to government officials, legislators, and the public have been so resistant to change. Other states have been able to resolve many of the problems which Utah has not. A major obstacle in reforming Utah's motor vehicle system has been disputes between state and county officials. With two levels of government involved, there is a tendency to blame others when problems occur. Such an atmosphere makes it difficult to improve the system. Some of the state and county personnel we spoke with were forthright about their lack of trust in officials from the other level of government.

Audit Scope and Objectives

This audit was requested by the General Government and Capital Facilities Joint Appropriations Subcommittee. During the 1993 legislative session, counties requested a significant increase in the compensation they receive to perform state motor vehicle functions under contract. During the session, a portion of the additional funding request was appropriated, and this audit was requested.

A major factor in determining the compensation which counties deserve is the efficiency of the motor vehicle system. Early in our review of motor vehicle system costs it became apparent that neither customers nor taxpayers benefitted from certain practices. Therefore, audit work included identifying ways to reduce customer inconveniences and administrative inefficiencies.

Specifically, our audit objectives were:

1. Evaluate how the quality and efficiency of customer service delivery can be improved (Chapter II),

2. Develop a fair reimbursement schedule for paying either counties or the state to perform the other's work (Chapter III), and

3. Identify other administrative practices which cause inefficiency (Chapter IV).

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Chapter II
Aggressive Legislative Direction
Can Reform Motor Vehicle System

Changes in customer service delivery are long overdue. Both customer and taxpayer interests would be better served with one-check, one-line service provided by a single government agency. Prior studies and legislative action have led to improvements in many counties but not in the state's largest counties. While meeting the needs of both state and county governments makes administrative consolidation a challenge, most states we contacted have been able to achieve the benefits that have eluded Utah. To overcome the system's historic resistance to change, we feel the Legislature must provide strong direction, including amending the **Utah Code** so that a single agency in each county provides customer service.

A historical perspective helps illustrate how resistant our motor vehicle system is to change. Figure I presents a summary of some legislative attempts to make the system more convenient and less costly. Over the past decade, the Legislature has conducted studies, passed resolutions, and enacted laws trying to bring change with modest results. For example, in 1986 a legislative committee conducted an extensive review of the system. At that time, the Tax Commission told the committee that the existing *"two-step process has led to questions of efficiency as well as customer aggravation"* and reported that the commission had consistently taken the position that administration *"should be consolidated with a single level of government."* Similarly, a representative of the Utah Association of Counties told the committee that *"consolidation of administration procedures by a single unit of government should be implemented."* Also, our 1988 report recommended *"consolidating customer service delivery into a single level of government."* The fact that this change has yet to occur in the state's largest counties indicates that more forceful Legislative action is needed.

Motor Vehicle System Should Be Reinvented. The concept of reinventing the motor vehicle system is attractive because it helps focus attention away from current practices and onto customer and taxpayer needs. Both state and county officials desire the most convenient and efficient service possible and recognize that consolidating customer service delivery in a single level of government would help achieve those goals. Nonetheless, change is difficult because the state and county organizations involved are hesitant to give up control or staff through consolidation. In fact, officials of both levels express concern that customer service quality will decline if the other level of government provides the service. Even though all parties involved want better quality and less costly service, there is no agreement on who should provide service, especially in the larger counties.

Figure I
Partial Time Line Legislative Involvement in Motor Vehicle Issues

1983 The Legislature passes Senate Joint Resolution 8 proposing a Constitutional amendment which allows a uniform fee on motor vehicles in-lieu of property tax. The electorate approves the amendment in November 1984.

1985 Senator Charles Bullen identifies legislation needed to eliminate *"unnecessary duplication of effort and cost,"* including one check *"to one collection agency and do away with duplication."*

1986 The State and Local Affairs Interim Committee studies the motor vehicle system. In testimony, state and county officials agree that administration should be consolidated in a single level of government. The State Auditor also told the committee that one government entity should administer the motor vehicle tax system.

1987 The Legislature passes House Joint Resolution 4 stating *"the Legislature approves the concept of eliminating duplication of state and county administration"* and directing *"the State Tax Commission and the counties to negotiate for the administration and collection of various personal property fees and taxes so as to eliminate duplication in functions and staffing."*

1988 The Legislative Auditor General reports that *"system efficiency could be significantly improved by changing the way vehicle property taxes are calculated, and consolidating customer service delivery into a single level of government."*

1991 The Legislature passes House Bill 397 enacting a uniform fee in lieu of the existing property tax on motor vehicles. The bill also directs the Tax Commission: *"For the purposes of efficiency in the collection of the uniform fee required by this section, the commission shall…study the feasibility of contracting with other counties where contracts are not in place."*

1992 The Legislature passes Senate Bill 71 requiring the commission enter into contracts with all counties which *"at the county's option provide for one of the following collection agreements:"* (1) collection by the commission of the county's uniform fee and all state fees, (2) collection by the county of the county's uniform fee and all state fees, or (3) collection by the county of the county's uniform fee and state registration renewal fees and collection by the commission of all other state fees.

Governor Leavitt has promoted the concept of reinventing government within the state of Utah. At the governor's invitation, the co-author of *Reinventing Government* recently spoke to many Utah government employees, emphasizing the taxpayers' desire for *"seamless*

government." The public does not care which agency an employee works for as long as the job is done right. Unfortunately, the seams in Utah's motor vehicle system are very apparent. For example, most citizens still write separate checks to state and county agencies to renew a vehicle registration. In addition, Wasatch Front and some rural offices still have motor vehicle responsibilities split between state and county employees working at the same location under separate administrative control. Every time citizens write two checks, stand in two lines, or see agencies failing to effectively coordinate workload, they are experiencing the seams in the motor vehicle system. A reinvented motor vehicle system would combine a customer-driven orientation with administrative simplicity.

Other States Appear To Have Better Systems than Utah. Surrounding states have better customer service delivery systems than Utah. All nine of the other western states we contacted only require a single check from customers. Oregon and Idaho do not have county fees, so multiple checks are not an issue. In the other seven states, however, the government agencies are able to divide the funds following collection rather than require customers to submit separate checks. In Utah, some counties allow one-check service, but most residents still must write two checks to register a vehicle.

Customers in other western states have one-line service and encounter employees of only one level of government in motor vehicle offices. As shown in Figure II, some states provide customer service through county agencies, while some provide it only through the state. Arizona and Nevada use state employees in some areas and county employees in other areas, but not both in the same county.

Figure II

Summary of Western States' Customer Service Delivery Systems

State	Method
Arizona	Provided by state in 17 smaller counties Provided by county in largest county
California	Provided by state
Colorado	Provided by county
Idaho	Provided by county
Montana	Provided by county
Nevada	Provided by state in 8 larger counties Provided by county in 9 smaller counties
Oregon	Provided by state
Utah	**Provided by county assessor or treasurer in 21 counties** **Provided by combination of state and county assessors in 8 counties**
Washington	Provided by county or private licensing agent but not both
Wyoming	Provided by county

Only Utah has both levels of government working in the same location, increasing the likelihood of customer inconvenience and administrative inefficiency.

The Public Interest Is Best Realized with One-Line, One-Check Service Through One Agency

By implementing recommendations of prior studies and adopting worthwhile aspects of other states, Utah's motor vehicle system can better meet its goals of customer service and administrative efficiency. Current practices evolved because most vehicle registrations contain both state and county components. Historically, customers first paid vehicle property taxes with their county assessor and then paid state registration fees to the state Tax Commission. The waste and inconvenience of the two step process has long been recognized. For example,

prior to the 1985 legislative session, former Senator Charles Bullen wrote that, *"there is unnecessary duplication of effort and cost. The taxpayer could make out one check to cover the whole process and pay for registration fees and property taxes to one collection agency and do away with duplication."*

Legislative and public pressure has helped bring about change in some counties. A 1987 legislative resolution directed *"the State Tax Commission and the counties to negotiate for the administration and collection of various personal property fees and taxes so as to eliminate duplication in functions and staffing."* In response, the Tax Commission closed twelve state-run branch offices in nine counties and transferred state workload to county personnel under contract. As we discuss later, because only small offices were closed, the savings realized by the state were modest. However, since the nine counties no longer have two levels of government involved, there was no longer any reason for customers to stand in two lines. More recently, in 1993 the state reached agreement with Cache County to contract for state workload.

Utahns Encounter a Range of Procedures. The practices and organization of the motor vehicle system vary throughout the state. The smallest counties usually operate the most sensibly because the workload is so small that the state has long contracted with the counties to perform its functions. Twenty-one counties now provide all state motor vehicle services for their citizens. With only the county providing service, customers visit just a single government employee for combined state and county functions. Because they have a one-line system, many of these counties also have been able to reach an agreement with the Tax Commission so that they allow customers to write one check for combined state and county fees.

In the eight counties which still have state offices, customers encounter a range of practices. These eight medium and large counties account for over 80 percent of the state's vehicles. Depending on the level of coordination among agencies, a registration renewal may require a customer to wait in two lines and write two checks, wait in one line and write two checks, or wait in one line and write one check. In Carbon and Sevier counties, there is minimal, if any cooperation between state and county agencies; customers visit two offices and write two checks. In Davis County, cooperation allows one-line service for customers with pre-printed renewal cards, but two checks are needed. In Weber county, most walk-in customers are able to complete a one-check renewal at a county window. Residents of Salt Lake County may complete a two-check renewal at either a state or county window, unless they are paying with cash, in which case they must go to a county employee. In Utah County, the state and county have divided workload so that customers go to a state window for all plate and title transactions and a county window for registration renewals; in either case customers stand in just one line and write one check. In Washington and Uintah counties, the state generally collects fees for the counties. A customer completing a renewal transaction without a

pre-printed mailer card or plate and title transaction which needs a county fee clearance requires two lines and two checks in Salt Lake, Davis, Weber, Carbon and Sevier counties.

Good Customer Service Requires One Line and One Check

The range of customer service practices described above were not developed by focusing on customer needs. Instead, the practices evolved through the bureaucratic concerns of government agencies. We feel good customer service requires government agencies to adjust to meet citizen needs rather than citizens adjusting to meet bureaucrats' desires. The experience of other states and some Utah counties shows that one-line, one-check service is practical. The only thing preventing all customers from receiving better service is the inability of the government agencies involved to agree to do so.

Customers Want One-Line Service. Many customers who have to wait through two lines and deal with two government employees are understandably frustrated. Requiring customers to wait in two lines arises from having separate state and county agencies providing service in the same county. The only exception is Sanpete County which has chosen to segregate state and county functions in two county agencies.

Recent experience in Cache County highlights the customer benefit of a one-line system. In July, the state began contracting with Cache County to complete state motor vehicle functions in that county. The Cache County Assessor reports that customers are delighted to learn that they do not have to visit a second government office to complete the renewal process. Formerly, residents of Cache County had to go to a separate building and stand in a second line when renewing a vehicle registration.

Ironically, it is the motor vehicle system's busiest offices which often require customers to waste time in two lines. For example, the offices in Salt Lake, Murray, Ogden, and Farmington require two lines for many transactions. Despite the inconvenience to customers, the workload is so great in these offices that both the state and counties usually are able to keep staff productive. As discussed in the next section, a one-line system can also make the government bureaucracy more efficient.

Single Check Service Is Easily Obtainable. While it requires intergovernmental cooperation, there are not any insurmountable obstacles preventing all Utah customers from writing a single check for combined state and county fees. As noted above, residents of other states and of 14 of Utah's 29 counties already have one-check convenience. Tax Commission officials report that they are willing to implement a one-check system in all counties as long as the state's money management act is followed. Hopefully, officials in the 15 two-check counties will be able to work with the Tax Commission to overcome the remaining obstacles to allow a single check.

In some cases, officials have tried and almost succeeded in bringing about needed changes. For example, following release of our 1988 audit, Salt Lake County's deputy assessor said a new *"program will be on line by the end of the year. When the program is in place, the county and state will collect one check from each vehicle owner and divide the money afterward."* In 1994, however, residents of the state's most populous county are still writing two checks when registering their vehicles.

A Single Administrative Office Would Reduce Costs

In addition to facilitating customer convenience, administrative consolidation should reduce costs to taxpayers. The experience of prior office closures indicates savings are available. While some savings occur by eliminating duplicated overhead costs such as rent and utilities, more efficient staff utilization may be an even more significant benefit. Motor Vehicle Division (MVD) officials are concerned that contracting with counties to complete all state workload could sharply increase their cost to ensure the accuracy of the state database. We feel that with adequate state training and support, the quality of county employees' work should not be a problem.

Prior Office Closures Show Savings Are Available. As mentioned above, in response to a 1987 legislative resolution, the state closed 12 small offices and transferred state workload to counties under contract. Because many of the offices were open only part time, a total of only 11.5 state staff were eliminated. Nonetheless, including the personnel and location expenses which were eliminated, the state experienced a gross savings of about $260,000. The gross savings were used not only to compensate the new contract counties for completing state work, but also to double contract payment rates to existing contract counties. Furthermore, a portion of the gross savings was used to hire four new state staff for a training and monitoring section. According to the Legislative Fiscal Analyst Budget Recommendations for Fiscal Year (FY) 1989, $125,000 was budgeted for increased contract payments to counties and $117,000 was budgeted to hire four trainers for contract counties. Thus, most of the savings were used to strengthen the contracting program; the net savings realized by the Tax Commission were minimal.

The recent changes in Cache County also help illustrate the savings experienced from administrative consolidation. On July 1, 1993 the state closed its Logan office and began contracting with Cache County for state service delivery. The state's cost to operate its office in FY 1993 was $105,000; in FY 1994, the state will pay Cache County about $77,000 to serve customers. This $28,000 reduction represents a 27 percent savings to taxpayers. Savings are due to both reduced overhead costs and more efficient staff utilization. The state's former costs included almost $6,000 in rent and $2,500 in utilities expense for a location that is no longer needed. In addition, although the state's former office was staffed with 3.5 employees, the Cache County Assessor reports that she needed to hire only three staff to

complete the same work. Furthermore, the assessor reports that the funding received is adequate to cover the county's additional costs. In fact, the funding level has enabled some salary increases for county workers and has been used to help pay some supply costs.

Consolidation Increases Staff Productivity. Improved efficiency comes from the elimination of duplicated services that occur in a two line system. Chapter III and Appendix A describe the results of a timing study we completed. We found that the time required to process a transaction can be broken into three parts: (a) greeting the customer, (b) processing the transaction, and (c) receiving payment. The time spent greeting the customer and receiving payment from the customer are duplicated in a two line system. Customers are greeted first at the county line, then again at the state line; cashiers wait for customers to write out checks first at the county line, then again at the state line. Our time study on plate and title transactions found that greeting and payment time account for approximately sixteen percent of the total processing time. In one-line, one-check systems, the duplication of greeting and payment time is eliminated allowing cashiers to process more transactions.

The experience in Washington County indicates the benefits from consolidating state and county workload. State officials report that they needed only a slight staffing increase to collect the county fees associated with state transactions. Reportedly, the state was able to assume most of the county's workload with existing state staff enabling the county to eliminate at least one employee.

Consolidation Allows More Efficient Management. As mentioned earlier, some of the busiest motor vehicle offices have state and county employees working nearly side by side. It is not clear to the customer upon entering one of these offices who is a county employee and who is a state employee. No matter how sincerely staff seek to cooperate, different priorities driven by different chains of command lead to inefficiency.

Combined administration facilitates scheduling and adjusting staff effort to meet workload. Even if employees are located together and seek to cooperate, state and county staff have different supervisors and different priorities. For example, in the summer of 1993, the state and Utah county agreed to divide the workload, improving customer service by virtually eliminating two-line transactions. The resulting one-line system improves customer service and cashier productivity. Nonetheless, the Utah County Assessor reports that efficiency and customer service can still be improved. Although the state and county staff can and on occasion do help each other, the assessor reports times when customer lines exist on one side of the office or the other. Similarly, there are times when one or both sides of a two-agency office has excess staff because of independent work scheduling. If each side of a dual office expected a workload requiring the efforts of 2.5 workers, each might schedule 3 employees to work; a combined office would schedule only 5 employees rather than a total of 6. If all employees in each office reported to a single administrator, their efforts could be more easily adjusted to the work needs. Also, fewer supervisory and administrative employees would be needed.

There are many other examples of inefficiency resulting from having two independent staffs co-located. For example, at the Ogden office we saw a long line of customers waiting to be served by county employees while state employees waited at empty customer windows. At the Rose Park office, we saw the opposite problem: customers waiting in long state lines while county employees sat idle. Naturally, the public is frustrated with seeing government employees sit idle while they wait in line. The state and county transactions are not so complex that separate employees need to specialize in different aspects of the workload. Indeed, in the smaller contract counties, employees are able to complete the full range of state and county transactions. If the efforts of all employees in each office were coordinated by a single agency, situations such as those described could be quickly remedied, resulting in better customer service and more productive employees.

Adequate Support and Monitoring Is Essential. State officials are justifiably concerned with the loss of control they experience when county employees complete state work. The integrity of the state motor vehicle registration database is critical as a resource to law enforcement and for the protection of private property rights. State officials' concerns arise from their own experience with tracking errors of current contract counties and problems experienced in Arizona. **Utah Code**, however, already provides the measures needed to maintain adequate state control. This section discusses potential concerns and problems from the state's perspective if counties complete state work; however, similar issues apply from the counties' perspective if the state completes county work.

State officials warn that the cost of detecting and correcting errors made by cashiers may increase significantly if counties take over additional state work. MVD reports that over the past three years, error rates at county offices have been significantly higher than those of state offices, although error rates of both have declined. The Tax Commission currently has an Edit Research group of 10 staff which correct database errors. A significant increase in cashier errors would require additional Edit Research staff. However, officials in other states we contacted told us that in their experience, county employees are as accurate as state employees.

Contracting with counties to complete state work will only be successful if adequate control can be maintained. Arizona experienced many problems because it did not adequately control how counties did state work. One problem Arizona experienced was a proliferation of forms created by counties; at one point state officials identified 369 different forms used to transact state work. Officials of other states, including Colorado and Washington, told us that counties are required to comply with state requirements and loss of control has not been a problem. Certainly, Utah must maintain adequate controls to ensure state objectives are achieved.

By using contract provisions required by the **Utah Code**, the state can maintain the control it needs even if counties complete all motor vehicle work. Provisions of 1992's Senate Bill 71 require that the contracting party utilize prescribed *"forms, guidelines, practices, and procedures"*, *"comply with applicable training requirements"* and *"be subject to a penalty if performance is below the performance standards specified in the contract."* By enforcing these

provisions, the state can maintain the control needed and ensure that county errors do not inappropriately increase state costs.

Legislative Action Can Force Needed Changes

As described throughout this chapter, the changes needed to make our motor vehicle system more convenient and less costly have been discussed for many years. Over the past decade, the Legislature has done much to encourage state and county officials to make needed changes. Based on our discussion with concerned state and county officials, we feel the time is right to reform the system. Continued legislative interest can ensure that needed changes occur.

In most respects, 1992's Senate Bill 71 provides a well-designed motor vehicle system. As amended, **Utah Code 59-2-406** states, *"For the purposes of efficiency…the commission shall"* enter into contracts with all counties which *"at the county's option provide, for one of the following collection agreements:"*

(1) collection by the commission of the county's uniform fee and all state fees,

(2) collection by the county of the county's uniform fee and all state fees, or

(3) collection by the county of the county's uniform fee and state registration renewal fees and collection by the commission of all other state fees.

Senate Bill 71 also requires similar contractual terms for all counties specifying forms, procedures, and training requirements. Furthermore, the use of appropriate data processing systems, to ensure the integrity of the state's motor vehicle database and the county's tax system, was required. In order to compensate the state or county for collecting fees on behalf of the other, the bill directed the commission to recommend a reimbursement schedule *"sufficient to cover the costs of collecting the fees."*

We feel the third option listed above does not meet customer or taxpayer needs as well as the other two options. Under the third option, customers are still required to wait in two lines for a title transaction which needed a county fee clearance. In addition, the third option allows the continuing administrative presence of two levels of government maintaining two offices with independent management structures. Most state and county officials agree that the duplicate chains of command lead to increased overhead costs and decreased staff productivity.

The time is right to make difficult changes to our motor vehicle system. Change is always difficult; it is easy to continue doing things as they have been done in the past. Most state and county officials support the concept of a single government agency delivering services to customers. For example, the Salt Lake County Assessor feels that there is *"too much friction"*

resulting from having both state and county providing customer service in the same location. Although he has previously been reluctant to consider contracting for state work, the assessor said he is now willing to do so. The Utah County Assessor is also anxious to have a single administrative agency provide customer service in Utah County. He is open to having either level of government provide the service.

Recommendations:

1. We recommend that the Legislature amend the **Utah Code** to eliminate section 59-206-(1)(b)(iii) thereby requiring that a single administrative agency provide all motor vehicle customer services in each county.

2. We recommend that officials in the remaining two-check counties reach agreement with the Tax Commission so that all customers may pay for combined state and county fees with a single check.

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Chapter III
Sharing Customer Service Costs Requires More Funding and New Distribution Formula

Changes in motor vehicle reimbursement practices should be considered so that counties and the state recover their costs for completing the other's work. During the 1993 session, counties requested $850,000 additional funding for customer service costs. The Legislature increased funding by $150,000 and asked us to study the issue. Cost calculations vary significantly depending on whether the state and counties share costs incurred in motor vehicle offices or only pay the direct costs of processing the other's work. According to a cost-sharing model developed by the Office of the Legislative Auditor General (OLAG), about $200,000 additional state appropriation is needed to fund existing workload patterns. Of that amount, about $130,000 is needed for current contract counties and $70,000 for non-contract counties. Under an alternate direct-cost model, no additional funds are needed, but other changes should be made to provide equitable treatment of counties. Throughout this chapter, we separate the discussion of reimbursement options for current contract counties from those for counties with state offices.

If the Legislature feels the state should share customer service costs with counties, then it should appropriate an additional $130,000 to reimburse contract counties. Furthermore, if cost sharing is appropriate, the Tax Commission should adopt a variable rate reimbursement schedule. Because counties with a small workload cannot be as productive as those with a large workload, we developed a model which pays counties at a decreasing rate as workload increases. The existing fixed rate reimbursement schedule adequately shares costs in larger counties but not in smaller counties. Our model would more than double reimbursement for the smallest counties, while paying large counties about the same.

In counties with state offices, future reimbursement practices depend on many factors. Currently, in some counties one party completes some of the other's workload without reimbursement. The OLAG cost-sharing model indicates that a net increase of about $70,000 is needed to fund existing practices. In the future, as discussed in Chapter II, one agency in each county should provide customer service. Without knowing which agency may provide customer service, we applied our cost-sharing model to estimate funding that either party should pay the other. For example, in Salt Lake County, there should be either a county-run office with the state contributing about $800,000 or a state-run office with the county contributing about $350,000.

OLAG Reimbursement Model Uses a Variable Payment Rate

This section reviews three different models to compensate contract offices for processing motor vehicle transactions. All three models pay counties different amounts depending on the amount of work completed. The current MVD model pays contract offices a fixed rate for each type of motor vehicle transaction processed. A county-sponsored model presented during the 1993 Legislative session based payments on funding requests from county assessors. OLAG proposes a cost-sharing model that pays contract offices a variable rate based upon the number of transactions processed at each office.

The reimbursement each county receives depends on how much state work it completes. Therefore, our initial effort was to estimate workload volume in each county. To do so, we conducted a time study at various motor vehicle offices throughout the state. Trainers from the MVD assisted our audit team with timing and recording transactions on a number of occasions during the study. Many observations were recorded for most types of transactions. However, some obscure transactions were not observed frequently enough to obtain reliable data. In order to solve this problem, mock transactions were conducted for these transactions with the assistance of a MVD trainer. Based on our timing data, each type of transaction was assigned a standard unit value. The most common transaction, a registration renewal, was assigned a standard unit value of one. All other transactions were assigned a standard unit value based on how long they took to complete compared to a renewal. Overall, the standard unit values computed by the OLAG time study were similar to the standard unit values previously used by the MVD with only slight modifications assigned to some transactions. Appendix A provides more information on our workload study.

The second factor affecting total reimbursement is the amount of compensation received for each workload unit. Figure III compares the payment rates of the three models. Counties are listed in order according to the number of standard units processed, ranging from 2,077 units in Piute County to 87,108 units in Cache County. The vertical axis of the graph shows the reimbursement rate paid to each county under each of the models. The MVD model pays a fixed rate of $.90 for each unit processed. The county model pays a rate that fluctuates according to the funding requests submitted by each county. The OLAG model pays a variable rate that decreases as the volume of workload increases.

Figure III
Comparison of Payment Rates for Current and Proposed Models

If the graph shown in Figure III were extended to include larger offices such as the Wasatch Front motor vehicle offices, the rate paid by the OLAG model would drop below the fixed rate currently paid by the MVD when workload exceeded 110,000 units.

In addition to our time study, we collected information from each county about the staff effort incurred to complete motor vehicle functions. While we were unable to audit the accuracy of the data reported by counties, this information allowed us to analyze the productivity of staff in different size counties. Not surprisingly, the data shows that staff in smaller counties are not as productive as staff in larger counties. Small and medium size offices experience a high percentage of down-time during the work day. Down-time is defined as a period of time in which no motor vehicle work is done. During our study, we witnessed down-time in every motor vehicle office except the state's largest office, the Murray Complex. Because staff can be more productive, the cost of processing transactions decreases as the volume of work in an office increases. Appendix B shows some of the productivity data we collected.

Counties Are Now Paid a Flat Rate

MVD currently pays contract offices a fixed rate of $.90 for each unit processed. This rate was not established through studies or other analysis designed to calculate an appropriate rate. Instead, the rate evolved based upon funding appropriated from the Legislature. Officials from small and medium counties complain that the current rate does not cover the total costs they incur processing state motor vehicle transactions.

The fixed-rate model does not accommodate the relationship that exists between cost and workload volume because it does not account for the employee expense associated with down-time. Under the fixed-rate model, counties with small and medium size offices are not able to process enough units to recover the total labor costs they incur operating an office. For example, Millard County processed 17,181 standard units of state work in fiscal year 1993. Millard County officials report that the equivalent of approximately one full-time employee is needed to process just the state portion of transactions. Our analysis confirms the county's estimate of staff effort is reasonable. At the $.90 per unit fixed rate, Millard County would receive about $15,500 while the average salary of a full-time state cashier is about $21,500 per year. The difference between the cost of a full-time employee and the reimbursement received under the fixed-rate model results in a shortfall of $6,000 to the county. Other counties with small and medium size offices experience similar shortfalls under the fixed-rate model due to their low workload. Of course, if the Legislature feels the state should only compensate

counties for the time employees spend processing state transactions rather than sharing the costs of down time, then the fixed-rate model adequately compensates contract counties at the current payment rate.

County Proposal Used Inconsistent Rates

The reimbursement model proposed by the County Assessor's Association is based on funding requests submitted by each county. Counties were asked to estimate the total costs they incur processing state motor vehicle transactions. After the requests were submitted, a financial analyst from the Salt Lake County Assessor's Office developed the data into a reimbursement model. In the model, counties were divided into four groups based on workload volume and reimbursement rates were established for each group based on the group's combined funding request. Appendix C shows the workload volume, rates, and funding requests for each group in the county model.

Both Appendix C and Figure III show the inconsistency of the rates proposed by the county model. Because of the counties' funding requests and groupings, the recommended payment rates sometimes increased as workload increased. For example, Appendix C shows group (3) counties are paid a 46 percent higher rate than the smaller group (2) counties. This rate structure violates the relationship discussed earlier that staff productivity increases with workload volume. In terms of the standard units we used to measure workload, the county model would have reimbursed Garfield County $1.74 per unit for processing 5,541 units while the much larger Duchesne County would have been reimbursed $2.95 per unit for processing 22,893 units. Furthermore, the county model would have paid Sanpete County more than Tooele County for doing less work. County officials are aware of some inconsistencies in their reimbursement model; however, the officials felt actual costs needed to be considered and that the flat-rate model did not do so.

OLAG Proposal Uses a Declining Payment Rate

The OLAG model is a labor cost model that shares total labor costs between the state and county. Under the OLAG model, contract counties are reimbursed at a declining rate based upon the volume of workload processed at each office. Figure IV shows the declining rate schedule proposed by the OLAG model. The OLAG model proposes that contract offices be paid $2.00 per unit for the first 5,000 units processed; $1.00 per unit for the next 25,000 units processed; and $.80 for each unit processed over 30,000. Multiplying the rate schedule by the volume of state workload processed at each office computes the state's share of total labor costs.

Figure IV
OLAG Model
Proposed Reimbursement Rates
For Contract County Offices

Number of Standard Units Processed	Reimbursement Per Standard Unit
1 to 5,000 units	$2.00
5,001 to 30,000 units	1.00
30,001 or more units	.80

Example of reimbursement calculated using the OLAG model:
Box Elder processed 52,969 OLAG standard units in fiscal year 1993.

Reimbursement equals:

5,000 x $2 = $10,000; 25,000 x $1 = $25,000;
52,969 - 30,000 = 22,969 x $.80 = $18,375;
$18,375 + $25,000 + $10,000 = $53,375 total.

Average reimbursement = $1.01 per unit ($53,375/52,969)

Under the OLAG model, counties with low workload volume are paid at a higher average rate than counties with high workload volume. Referring back to the graph shown in Figure III on page 19, Piute County is paid an average of $2.00 per unit and Cache County is paid an average of $.93 per unit under the OLAG model. The rate schedule corresponds to the improved efficiencies associated with higher workload production documented in our study. It also helps offset down-time expense in small and medium size offices. The OLAG model is designed to fairly compensate contract offices for the labor expense they incur processing state transactions. Under the OLAG model, Millard County would receive $22,181 for processing 17,181 state units, close to the average cost of a full-time state cashier.

Non-labor operating costs are not included in the OLAG model because they varied significantly from one office to another and a meaningful rate could not be derived. For example, our survey found that some counties pay no rent for office space, some pay a small amount, and others pay a significant amount. Instead of attempting to develop a rental rate that could be applied to all offices, we felt that rent expense should be negotiated between the state and the county where necessary. However, we feel that for most counties, negotiation of non-labor costs is not necessary. Most officials with small and medium size offices were not concerned with rent or other non-personnel expenses. County officials' main concern was that they receive adequate reimbursement for labor costs.

Model Would Increase Payments to Contract Counties

Funding to compensate the existing twenty-one contract counties would increase by approximately $130,000 using the OLAG model. Figure V compares the reimbursement paid to each contract county by the OLAG model with the reimbursement paid by the current fixed-rate model. Column two shows the number of standard units processed by each county in fiscal year 1993. Column three shows the reimbursement paid by the OLAG model. Column four shows reimbursement paid by the fixed-rate model. Column five shows the net difference in reimbursement paid by the two models. Current contract counties will be reimbursed $498,691 under the OLAG model compared to $367,942 under the fixed-rate model. The additional $130,000 proposed by the OLAG model should fairly compensate contract offices for the labor costs they incur processing state transactions. While the compensation provided by the OLAG model is greater than currently paid, it is $77,846 less than the compensation provided by the counties' proposal.

Figure V
Estimated Funding Due To Contract Counties

County	Standard Units	Reimbursement per OLAG Model	Reimbursement per MVD Model	Net Difference
Piute	2,077	$4,154	$1,848	$2,306
Daggett	2,576	5,152	2,189	2,963
Rich	3,190	6,380	2,591	3,789
Wayne	4,414	8,828	3,802	5,026
Garfield	5,541	10,541	4,861	5,680
Beaver	6,957	11,957	6,123	5,834
Morgan	9,921	14,921	8,801	6,120
Kane	9,952	14,952	8,564	6,388
Juab	11,197	16,197	9,951	6,246
San Juan	11,802	16,802	10,170	6,632
Grand	11,998	16,998	10,383	6,615
Emery	13,843	18,843	12,132	6,711
Wasatch	15,306	20,306	13,369	6,937
Millard	17,181	22,181	15,301	6,880
Duchesne	22,893	27,893	19,589	8,304
Sanpete	25,360	30,360	22,142	8,218
Summit	29,428	34,428	25,159	9,269
Iron	33,382	37,706	28,796	8,910
Tooele	43,788	46,030	37,908	8,122
Box Elder	52,969	53,375	46,774	6,601
Cache	87,108	80,686	77,488	3,198
Group Total	420,883	$498,690	$367,941	$130,749

All existing contract counties are expected to remain under contract with the state. We believe contracting is the best alternative for counties with small and medium size offices. Contracting in counties with offices of this size is logical because it allows state offices to be closed. Conversely, county offices cannot be closed. Offices for the county assessor or

treasurer must remain open even if the state collects the uniform fee. Closing state offices results in greater savings to the overall system. Another advantage to having these counties contract with the state is that counties can make use of motor vehicle employees during periods of down-time. In some of the contract county offices we visited, motor vehicle employees process other, non-motor vehicle work for the county during periods of down-time. In our opinion, this is an effective use of employees during down-time. This benefit, however, can only be achieved on the county side. In state-run motor vehicle offices, state employees do not have non-motor vehicle work to process during down-time. Based on discussions with officials from each county, no changes are expected in the current status of existing contract offices.

Model Would Increase Payments to Counties with State Offices

Although our primary charge was to estimate funding due to contract counties, the OLAG model also can be applied to non-contract counties. Currently, both county and state personnel complete work for the other. Our model estimates about $70,000 net additional state funds are needed to pay for existing practices. We adjusted our model slightly to estimate the reimbursement due either the county or the state for completing the other's work. Because both levels of government continue to serve residents in these counties, the model's lowest marginal rate of $0.80 per unit was used. We felt it was only appropriate to apply the model's higher variable rates when the greater efficiencies of consolidation were achieved. As before, state workload amounts were based on standard units; county workload amounts were based on the number of uniform fee collections.

Counties with state offices now face inconsistent reimbursement practices. For example, although Salt Lake County completes more state work than Weber County, it receives no compensation while Weber County does. Salt Lake County officials indicate they are not satisfied with the current arrangement and are no longer willing to process the state's transactions free of charge. Similarly, although the contract between the state and Washington County specifies that the county will compensate the state for collecting county fees, no payment has occurred. Since the **Utah Code** requires all counties be *"subject to similar contractual terms,"* we applied our model consistently to all non-contract counties.

As shown in Figure VI, the OLAG model indicates a net increase of $70,000 in state funding is warranted. Based on current workload patterns, two counties should pay the state and three counties should receive payments. A negative workload amount in Figure VI shows that the state completes work on behalf of the county; a positive number shows that the county completes state work. State employees in Uintah and Washington counties collect all uniform fee payments on behalf of the counties. Weber County employees complete state renewal work only for customers with pre-printed mailer cards, including mail and walk-in customers. Utah

County employees complete state renewal work for walk-in customers even without pre-printed cards; state workers complete Utah County work for mail renewals and fee collections associated with state titles. Salt Lake County employees complete state renewal work for many walk-in customers with pre-printed mailer cards; state workers collect, but do not cashier, some Salt Lake County uniform fee payments. In Davis, Sevier and Carbon counties, little or no workload sharing occurs. The workload units in Figure VI are based on fiscal year 1993 transaction data. For Utah county, the 1993 data was adjusted to reflect the new 1994 work sharing arrangement.

Figure VI
Estimated Funding Due To or From Counties With State Offices

County	Standard Units	Reimbursement per OLAG Model	Reimbursement per MVD Model	Difference
Sevier	0	$0	$0	$0
Uintah	(16,049)	(12,840)	0	(12,840)
Carbon	0	0	0	0
Washington	(43,113)	(34,491)	0	(34,491)
Weber	63,207	50,566	33,407	17,159
Davis	0	0	0	0
Utah	13,568	10,854	0	10,854
Salt Lake	113,536	90,829	0	90,829
Group Total	131,149	$104,918	$33,407	$71,511

Our model indicates that Uintah and Washington counties should pay the state $12,840 and $34,491 respectively. The benefits of consolidation are achieved because in most cases only the state provides customer service in these two counties. Officials of each county, however, have indicated that if they are required to pay the state too much to continue current practices, county employees may begin providing customer service. It would not be effective for either county to provide customer service unless it also completed all state transactions. The remainder of the chapter discusses appropriate payments for single-agency offices in all eight counties with state offices, including Uintah and Washington counties. Estimated compensation for both the state-run and county-run options are provided.

Funding Estimates For Single-Agency Offices

In the future, customer service delivery should be consolidated in a single agency in each county to benefit both customers and taxpayers. Therefore, we also applied our model to estimate possible future payments from either the state or each county to the other, depending on who provides the customer service. As discussed in Chapter II, having two levels of government provide customer services is inconvenient and inefficient. The work-sharing practices described in the previous section have reduced some of the inconveniences and inefficiencies. The long-run solution, however, is to have single-agency offices in each county.

The different arrangements that currently exist between state and county in these offices made it extremely difficult to conduct analysis and make comparisons between the offices. Nevertheless, our study determined that additional cost savings are obtainable through consolidation and greater efficiency can be achieved from single agency control in these offices. We recognize there are a number of factors involved with achieving single-agency control in these counties. A major change such as this will require negotiations between the state and each county to ensure fair implementation. The information presented in this section is intended to provide a foundation from which negotiations can commence.

Unless consolidation enables one agency to eliminate its presence in the county, we calculated total reimbursement using the $0.80 per unit rate. In counties where consolidation enables one agency to eliminate its presence, the variable rate schedule shown in the OLAG model was applied. As discussed earlier, our analysis concluded that the greatest overall savings from consolidation result when one agency is able to close its doors and single agency control of motor vehicle operations is achieved. This is only practical, however, when the county contracts to take over state operations because county presence is always required at the treasurer or assessor's office. When counties contract to take over state operations, savings are accomplished in two ways: first, savings occur from greater operational efficiency and reduced personnel expense under single agency administration; and second, savings occur from the elimination of rent and other operating expenses after state offices are closed. When the state contracts to collect a county's uniform fees, all savings except those from completely closing an office are realized.

Especially in larger counties, the benefits of consolidation are realized regardless of whether the state or the county provides customer service. Dual-agency oversight currently exists in six counties: Davis, Salt Lake, Sevier, Uintah, Utah, and Weber. **Utah Code 59-2-406(1)** provides each county the option of providing all customer service or having the state do so. As explained in Chapter II, we recommended that a third option of dual-agency oversight,

now allowed in the law, be eliminated. If the county chooses to operate the motor vehicle office, then it completes all state transactions and is compensated by the state for doing so. If a county chooses to have the state collect the county's uniform fee, then the county should compensate the state. Figure VII shows the appropriate reimbursement under each scenario for each county according to our model.

Figure VII
Reimbursement Due State or County for Single-Agency Office (OLAG Model)

County	County Payment for State-run Office	State Payment for County-run Office
Sevier	($12,626)	$31,757
Uintah	(12,840)	35,333
Carbon	(15,794)	38,720
Washington	(34,491)	81,786
Weber	(85,285)	189,651
Davis	(100,766)	208,594
Utah	(107,907)	235,633
Salt Lake	(344,139)	801,272

The reimbursement totals shown in Figure VII would not represent a net increase in staffing costs for the motor vehicle system. If the county elects to collect the state's motor vehicle fees it will receive the reimbursement shown above from the state for increased staffing expenses. While the state compensates the county for its additional expenses, the state also benefits because it no longer has the expense of staffing and operating an office. Similarly, the state is reimbursed if it collects the county's uniform fees; however, the county would no longer have the expense of staffing and operating an office. It should be noted that the reimbursement rates used to calculate the totals shown in Figure VII are based partly upon data generated from the inefficient two-agency method of operation currently employed in some counties. Consequently, we believe existing staff expenses for any office are greater than the reimbursements paid on the above table; indicating consolidation of work would result in savings for both the counties and the state. It should be noted that Figure VII includes only the staffing expenses, rental and overhead expenses may need to be negotiated between the state and counties.

MVD officials have expressed concern that if counties take over state operations, additional expense may be incurred if error rates increase significantly. Likewise, county officials are concerned that if the state takes over county operations, revenue may be lost if state workers make errors collecting the uniform fee. As discussed in Chapter II, **Utah Code 59-2-406(2)** specifies that, *"The contract shall provide that the party contracting to perform services shall: be subject to a penalty if performance is below the performance standards specified in the contract."* In order to ensure uniformity and accuracy in motor vehicle offices, state and county officials need to develop well-defined performance standards and a schedule of monetary penalties for poor performance applicable to both state- and county-run offices. Penalty payments could be deducted from the reimbursement totals shown in Figure VII.

Uintah and Washington counties are also included in Figure VII although single agency control currently exists in both counties. Under the current arrangement in these counties, uniform fee collections are processed by the state free of charge. County officials recognize that they will have to begin reimbursing the state for processing their uniform fee collections. Thus, the recommended county payments for a state-run office were also shown in the previous section which discussed reimbursement for current practices. For information purposes, we have also included the potential state payment for a county-run office according to our model.

Recommendations:

1. We recommend that MVD adjust its standard units.

2. If the Legislature feels a shared-cost approach is appropriate, we recommend that an additional $200,000 be appropriated to fund current workload patterns.

3. We recommend that the Tax Commission use a variable reimbursement rate to compensate contract counties, such as the OLAG model described in this report.

4. We recommend that the Tax Commission negotiate with each county where both the state and county provide customer service to establish a single-agency office.

Chapter IV
Duplication of Effort Creates Inefficiencies

This chapter addresses two major sources of inefficiency in Utah's motor vehicle system. First, the state's information system does not provide the counties with timely information to meet taxpayer needs. As a result, many counties have developed duplicate information systems. A single system with electronic transfer of data would benefit both levels of government by reducing duplicate staff and enhancing computer capabilities while more efficiently serving the public.

A second major inefficiency discussed in the last half of this chapter is that the current method of valuing vehicles for property taxes requires a duplication of effort from one year to the next. The large workload of re-entering values for approximately 30,000 types of vehicles every year creates many errors requiring both Tax Commission and county effort to identify and correct. In our opinion, the Tax Commission should adopt a depreciation approach to assigning vehicle values in order to significantly reduce administrative costs, while being as fair to vehicle owners.

Improved Information System Is Needed

Because the state's motor vehicle information system is a slow process that can take a month or more to transfer data from the field offices onto the state's computer, many counties maintain independent computer systems. Consequently, the state and counties have separate computer hardware, software, and separate staff maintaining completely independent information systems. Besides leading to duplication, the state's slow processing system creates unnecessary errors which must be researched and corrected. In contrast, many other western states have computer systems that electronically transfer transaction information from the field offices into the state's computer system. The Tax Commission should begin planning for a new system which will meet county needs and support future customer service innovations.

Slow State System Leads to Wasteful Duplication

Compared to other states, Utah has a slow, manual operation for processing transaction information from state and county field offices. Once a transaction is completed at a field office, the information takes approximately four weeks to be processed at the Tax Commission's central database. Since Utah motor vehicle offices do not have the ability to electronically transfer data, each field office must send all original documents from the day's transactions to Tax Commission headquarters. These documents are sent by either courier, United Parcel Services, or mail depending on the location of the field office and mailing services available in their area. Once received at the Tax Commission building, documents are first processed by the accounting section, then microfilmed for a permanent file, and finally entered into the state's computer database.

Because it takes so long for motor vehicle transactions to appear on the state's database, many of the counties first input the information into their own computer systems before sending it to the Tax Commission. Counties feel they need their own systems in order to provide more timely responses to public inquiries. This process is wasteful because the inefficient use of employee time and duplication of effort are unnecessary. There is duplication of effort because the county motor vehicle offices already capture much of the motor vehicle information first and then the Tax Commission staff must enter the information again to record it on the state's computer. In our opinion, Utah's process is clearly inferior to the electronic transfers used in other states because of the time delay and the duplication of effort required to input the same information twice.

The duplication of effort between the state and the counties is significant. The state employs 12 staff to input motor vehicle data into the state's computer. In addition, another 10 full-time state employees research and correct errors in the computer's database. As discussed in the next section, if Utah had on-line edit capability, most of these errors would be prevented by identifying and correcting problems when transactions are conducted in the field offices. In addition to the 22 full-time state staff which input and maintain the integrity of the state motor vehicle information system, the state's five largest counties estimate they devote another 25 full-time county staff completing similar functions for county motor vehicle information systems. Duplicate costs also are incurred for purchasing, servicing, and programming independent state and county computer systems. This duplication clearly leads to wasted resources at both levels of government and does not serve the best interest of the public.

Many parties recognize the wastefulness of the current motor vehicle information system environment. Resources are being spent on creating expensive, duplicate computer systems because the state's system utilizes manual processes to update transaction information instead of capturing the information electronically as current technology allows. Both state and county officials agree that the state needs a quicker and more efficient system for updating motor vehicle information. A recent state auditor's report stated that the duplicate entries and delay in transactions being updated *"seems to result in the inefficient use of state and county resources."*

Slow State System Causes Errors

We believe that most of the errors in Utah's motor vehicle information system would not occur if the state had on-line edit capability. Approximately 15 percent of all records have an error requiring research and corrective action, resulting in more than 15,000 records which must be researched and corrected each month. This is a major effort requiring 10 full-time staff which constitutes the Edit and Research section within the Division of Motor Vehicles.

Three of the most common types of errors that occur are Vehicle Identification Number (VIN) errors, interface errors, and partial record errors. Together, these three types of errors account for approximately 90% of all errors. A VIN error occurs when a vehicle description is inconsistent with information encoded into the VIN by the vehicle maker. An interface error occurs when newly entered information (license plate numbers, title numbers, VIN numbers, vehicle make and year of vehicles) is inconsistent with the existing files on the state's main motor vehicle database. Finally, a partial record error occurs when essential information is missing. The edit research staff reviews current and prior documentation and corrects as many errors as possible. The majority of all errors occur at the time the transaction takes place in a motor vehicle field office and can be made either by a vehicle owner or a cashier. A system with on-line edit capability would prevent many errors from entering the system by identifying them when transactions are completed.

The following example will help to illustrate one of the more time consuming errors to correct. A person planning to sell a vehicle may request a duplicate title because the original title has been misplaced. Before the duplicate title arrives in the mail, the person may find the original title and sell the vehicle. When the buyer applies for a new title, the cashier will not know that the seller had recently requested a duplicate title. The result is two titles for the same vehicle. When this situation occurs, state staff must research the problem and correct it by writing letters to the previous owner, the new owner, and any lien holders involved. Such problems cannot be resolved at the time the transaction takes place because the state's computer system does not provide the field staff with the information that a duplicate title is in process. Currently, the problem is not discovered until the end of the manual process which can take several weeks to complete. An on-line system would enable the cashier to recognize problems such as this and allow for easy correction at the field site.

We believe these problems and other errors could be dealt with more efficiently by adopting an information system with on-line editing capabilities. As mentioned above, many of the errors happen at the time a transaction occurs in a field office. The purpose of on-line editing is to catch as many errors as possible when the customer is conducting the transaction. At this point, the problem can be dealt with quickly and more efficiently because the computer will immediately inform the cashier of a mistake. In addition, the customer is present to answer any questions. Our current method of correcting errors requires more time and

expense because the errors must be researched. An official from one state said their on-line editing *"allows 99% of all errors to be detected at the time the transaction takes place."* This method allows for more accurate information which can be obtained more efficiently.

Careful Planning Is Needed for a New Information System

We believe the duplication of effort and the unnecessary errors in Utah's motor vehicle information system are costly and can be eliminated through a more innovative system. Consistent with the emphasis of reinventing the motor vehicle system (as presented in Chapter II of this report) the Tax Commission needs to plan for a system which better meets user needs and allows customer service improvements. A system such as other states have, with electronic data transfer from field offices and on-line edit capability, could eliminate the need for counties to maintain separate systems. A more innovative system would also benefit customers and law enforcement while supporting future customer service innovations.

Other States Have Better Systems than Utah. All western states, except Utah, have some form of electronic transfer to update the state's motor vehicle database. For example, Colorado's field offices enter transaction information onto a computer tape and the data is electronically transferred to the state's central motor vehicle database at the end of each working day. Washington has an on-line system that is connected to the main frame database which is electronically updated every 48 hours. In some states the electronic updating takes place daily in some locations and weekly in others, depending on the frequency of transactions. However, we were unable to find any state that manually transfers data similar to Utah. In fact, one state upon learning how Utah updates its information stated, *"We used to do that in the 1970's. It is an archaic way of doing it."*

An on-line system can reduce operational costs. One state that converted to an on-line information system five years ago reports significant cost reductions. They report a reduction of more than 50 data input and research verification staff. An official indicated that each year the system becomes more efficient and they plan to reduce additional personnel through attrition. The workload of this state is about three times greater than Utah's present motor vehicle workload.

Utah needs a system which is updated more quickly to better meet user needs. Several of the large counties have indicated the need to respond more quickly to law enforcement requests, as one of the reasons they developed a duplicate motor vehicle information system. One county assessor was surprised Utah law enforcement agencies had not complained more aggressively about the delays which he said can be two months. State officials acknowledge delays ranging from two to six weeks. A recent report of the Utah State Auditor indicated that the delay in updating information on the state system causes problems for law

enforcement as well as the MVD. Using some form of electronic data transfer from field offices to update the state's motor vehicle database would prevent these long delays.

A New System Can Support Customer Service Innovations. Utah State Tax Commission officials report there are no technological barriers to creating a system that would allow the county and state field offices to electronically update their transactions on the state's computer. The ultimate solution would be to develop a on-line system that provides each field office with immediate update capabilities. While an on-line system will be costly to implement, it would allow more innovative customer service practices.

An on-line system would allow more timely responses to customer requests. Currently, MVD's edit research staff can receive up to 30 requests each day from people requiring duplicate titles or other information relating to transactions recently conducted at field offices. These customer needs cannot be met at the field office because the motor vehicle database is not updated for many weeks. Although the information is not yet in the computer system, edit research staff can obtain it by locating the original documentation. An on-line system would provide field office staff information about recent transactions enabling them to respond to more customer requests. In addition to better serving the public, such a system would reduce the time edit research staff spends locating original documentation.

The more innovative systems are able to expand public access to motor vehicle services which reduces the lines or delays at the state or county run offices. Some states are testing and using automatic teller machines (ATM) connected to an on-line system to provide the vehicle owner with convenient access to motor vehicle registration renewals as well as other services. In some cases, the ATM will even print out a new registration form for the customer. The ATM concept is consistent with the idea of reinventing the way the Division of Motor Vehicles operates. The ATM could reduce long lines and provide better service and access to the public. In Wisconsin, the public can even complete renewals using a touch-tone telephone. Such innovation is far beyond the capabilities of Utah's current computer system.

Not as innovative as the on-line ATM concept, but currently in operation and effective is the use of sub-agents in the state of Washington. A sub-agent is a private vendor contracted to provide vehicle registration services with the intent of better serving the public. For example, a sub-agent may be a particular chain of stores common in shopping malls. Even large automobile dealers can be sub-agents. About 140 sub-agents in Washington provide motor vehicle services in the most popular or high demand locations. In Washington, a small additional fee is charged to cover the cost of the sub-agents. However, the public has the choice to pay the fee and get convenient and prompt service or to chance fighting lines at the less convenient state or county locations.

We believe the slow manual system that now exists is a function of limited resources and attention. Since this system clearly does not provide the counties with timely information, the state and some counties have been forced to develop and operate completely duplicate systems.

This duplication of resources and effort has occurred over the last decade and would have been much more cost effective to correct prior to the large counties developing their own systems. However, future advancement in motor vehicle services requires automation of the current system. We believe the Tax Commission should begin planning for a new system considering the needs of all users.

Recommendation:

We recommend that the Tax Commission study the needs of the motor vehicle information system, particularly examining the costs and benefits of a system with on-line edit and electronic data transfer capabilities.

Depreciation Method of Valuing Vehicles Should Be Adopted

The Tax Commission should adopt a depreciation approach to valuing all vehicles for the purpose of assessing a uniform fee. We feel changing to a depreciation approach can reduce costs through its ease of administration while being equally fair to vehicle owners. However, the depreciation percentages used must be accurately set in order to avoid inadvertently increasing or decreasing tax revenue. Each vehicle owner annually pays a uniform fee equal to 1.7 percent of vehicle value. Although some types of vehicles are already valued by depreciation, cars and light trucks are valued using a blue-book approach which requires researching current market value of each vehicle every year. Under a depreciation approach, a vehicle's value is researched only when it is initially registered in the state; thereafter, current market value is estimated as a percentage of initial value.

In October 1993, the Tax Commission proposed adopting a depreciation method of valuing cars and trucks for the 1994 tax year. The change from the blue-book approach had previously been recommended by a 1988 legislative audit, the association of county assessors, and the state Property Tax Division. Due to criticism that changing methods would be unfair to many taxpayers, the commission has decided to study the issue for another year before making a decision.

Depreciation Method Is Widely Accepted

Despite the criticism its proposed adoption generated, depreciation schedules are commonly used in both other states and Utah to value vehicles. The depreciated approach is generally favored because of its administrative cost savings.

Most western states use a depreciation approach to value cars and trucks (See Figure VIII). Other than Utah, only Montana, which has many fewer vehicles than Utah, uses the blue-book approach. The other six western states which value vehicles use depreciation schedules. Five of those states depreciate from the Manufacturer's Suggested Retail Price

Figure VIII
Comparison Of States' Depreciation Schedules

	Utah Proposed	Nevada	California	Wyoming	Arizona	Washington
Tax Rate	**1.7%**	**5%**	**2%**	**3%**	**4%**	**2.2%**
Basis	**MSRP**	**MSRP**	**Sale Price**	**MSRP**	**MSRP**	**MSRP**
Min. Tax	**$8.50**	**$6**	**$1**	**$5**	**$10**	**None**
Year	%	%	%	%	%	%
1	90	100	100	60	60	100
2	78	85	90	50	45	100
3	67	75	80	40	30	91
4	56	65	70	30	15	83
5	45	55	60	20	15	74
6	38	45	50	15	15	65
7	32	35	40	15	15	57
8	27	25	30	15	15	48
9	19	15	25	15	15	40
10	16	5	20	15	15	31
11	12	5	15	15	15	22
12	10	5	15	15	15	14
13	9	5	15	15	15	10
14	8	5	15	15	15	10
15	7	5	15	15	15	10
16	6	5	15	15	15	10
17	5	5	15	15	15	10
18	4	5	15	15	15	10
19	3	5	15	15	15	10
20	3	5	15	15	15	10

Notes:

1. ***Colorado's fee is based on 75% of MSRP times a variable tax rate (the initial rate is 2.1%, followed by 1.5%, 1.2%, 0.9%, then 0.45% for years 5 through 10 with a $10 minimum. 10 years or more is a flat $10 fee.)***
2. ***Montana's fee is % of NADA book value. Tax rate varies depending on location.***
3. ***Oregon and Idaho do not have value based fees.***

(MSRP). In California, vehicles depreciate from an actual purchase price rather than its suggested price. The six other states shown in Figure VIII, including Colorado, have set their depreciation schedules in statute.

Even in Utah, all vehicles except passenger cars and light trucks are valued by depreciation from their MSRP. Motorcycles, boats, snowmobiles, aircraft, heavy trucks, and off-highway vehicles are valued using depreciation schedules which the Tax Commission determines and periodically adjusts for each type of vehicle. The Property Tax Division feels the depreciation approach is an efficient and accurate way to value these types of vehicles. However, passenger cars and light trucks, which account for the majority of all vehicles, are valued using the less efficient blue-book approach.

A Depreciation Approach Would Improve Administrative Efficiency

Changing vehicle valuation methods would provide administrative savings for both the state and counties. The current blue-book system requires researching 30,000 types of vehicles every year, resulting in so many mistakes that counties devote valuable staff time to detect and correct erroneous values. A depreciation system would be much easier for the Tax Commission to administer and would not generate errors requiring county correction or inconveniencing customers.

Currently, Tax Commission staff annually engage in a laborious process to value passenger cars and light trucks. To avoid individually valuing about 1.3 million vehicles each year, the Tax Commission groups vehicles by model year and type. These vehicle groupings are called NADA keys because the values assigned to them are taken from the National Automobile Dealer Association (NADA) Official Used Car Guide. To date, the Tax Commission has established about 30,000 NADA keys, but that number grows each year as new car models are produced. Although vehicles should be valued as of January 1 each year, the Tax Commission uses the October NADA publication to assign values to each NADA key. The October information must be used so that the commission staff can complete its data entry process in time for renewal notices to be mailed to customers whose registration expires in January. Thus, as soon as the October NADA book is available, Tax Commission staff enter new values for all 30,000 NADA keys. The computer automatically updates values for all 1.3 million registered cars and trucks, writing over prior valuation data. Even with 30,000 NADA keys, the Tax Commission does not use much of the available valuation information, including some model and most option information. While using all available blue-book data would increase the accuracy of the valuation process, it also would require the use of many more NADA keys substantially increasing the annual data entry task.

The proposed depreciation approach would significantly reduce the effort needed to value vehicles. Tax Commission staff would not have to research and reenter values for 30,000

vehicle types annually, nor would the workload peak at year end. Instead, an initial value would be established for each vehicle the first time it was registered in the state. The initial value, which could be based on the suggested price of the vehicle including all options or on the actual purchase price, would always remain part of the state's database for that vehicle. Thereafter, the vehicle's current value would be estimated as a percentage of the initial value depending on the vehicle's age.

Current Valuation System Results in Too Many Errors. A high error rate may be inevitable with the current valuation practices. In fact, the Tax Commission's spokesperson recently observed that *"when something is done manually, there are going to be errors."* Our tests indicate the Tax Commission's accuracy has not significantly improved since our 1988 audit which reported that about 8.5 percent of cars and trucks were assigned an incorrect value and 1.5 percent were not assigned any value.

Our 1993 review of the Tax Commission's valuation system showed that about 8.4 percent of vehicles are assigned the wrong value. Our test only evaluated whether the current system was correctly applied; additional NADA book information which Tax Commission does not use was ignored. An 8.4 percent error rate translates to about 110,000 incorrect values each year. Some of the errors result in vehicles being overvalued and some result in vehicles being undervalued. Unless the errors are noticed and corrected by county personnel, or the values are appealed by taxpayers, tax over- or under-payments occur. The errors are primarily due to data entry mistakes by Tax Commission staff. As noted above, every vehicle must be assigned to one of 30,000 NADA keys which are manually assigned a new value every year. Mistakes are made both by assigning a vehicle to the wrong NADA key and by assigning the wrong value to a NADA key. When an incorrect value is assigned to a NADA key, all vehicles in that group receive the wrong value. A depreciation method would not be subject to the data entry problems of the current system.

Besides assigning incorrect values to many vehicles, the current system cannot value other vehicles at all. In our sample, slightly over 0.5 percent of vehicles were not valued. Vehicles which have been altered such as van cutaways or rebuilt and restored vehicles are not valued because they are not included in the NADA book. As a result, the vehicle owner must go to the county assessor to have a value determined. Unfortunately, when the NADA keys are updated each year, the state's computer system writes over the prior year's value. As a result, the vehicle owner may need to return to a motor vehicle office year after year to have a value assigned. Under a depreciation method, vehicles not included in the NADA book would only have to be valued by an assessor once. Thereafter, the database would retain the initial value and the appropriate percentage would be applied annually to estimate current market value.

Depreciation Approach Could Benefit Counties and Customers. Increasing the efficiency of the state's valuation system may help improve the productivity of county staff and help reduce long lines which customers sometimes experience. One important benefit was mentioned above; a depreciation system will be able to routinely value many vehicles which

the current system does not. Thus, counties will experience savings because their staff will not have to assign these vehicle values and customers will benefit from not having to bring their vehicle in to be evaluated every year.

Another advantage to changing to a depreciation method is that counties will no longer need to devote as much employee effort to detecting and correcting Tax Commission errors. Because of the errors that occur under the current system, some counties routinely have staff check the work already performed by the Tax Commission staff. For example, Salt Lake, Utah, and Weber counties together devote between one and two employees to correct as many errors in vehicle values as they can. Nonetheless, because county staff do not have time to research all values, many errors go undetected unless identified by customers. Other counties report that they correct only obvious errors and otherwise rely on customers to find errors.

In addition to saving taxpayer funds, a depreciation approach may also improve the productivity of office cashiers resulting in better customer service. The Utah County Assessor feels cashiers will be able to determine vehicle values much more quickly using a depreciation approach. Currently, if a customer does not have a pre-printed renewal form, cashiers must locate a vehicle in the appropriate NADA book to assign a value even if the vehicle was currently registered in Utah. Under a depreciation approach, the cashier would use information already in the state's database to calculate a value if the vehicle had previously been registered in Utah. The Tax Commission officials also feel that a depreciation approach would help reduce long lines in some motor vehicle offices.

A Depreciation Approach Can Be As Fair As the Current System

In addition to being more efficient than current valuation practices, a depreciation method can be equally fair to vehicle owners. The proposed adoption of a depreciation approach was criticized by some as less accurate and less fair than an idealized blue-book approach. However, current system also suffers in comparison to such an ideal due not only to the errors discussed above but also to compromises inherent in the current system's design. Of course, no mass appraisal system can address every fairness concern with every vehicle. For example, the mass appraisal system cannot consider whether a car value is impaired because it has high mileage or has been in an accident. Such individual factors can be addressed by county assessors upon appeal.

Fairness of Depreciation System Has Been Criticized. Last October, the Tax Commission made plans to adopt a depreciation system to value vehicles. Due to criticism raised during a 30-day public comment period, the Tax Commission decided to retain the current system for at least another year. The commission chairman indicated that a campaign of misinformation had been used to raise false fears about the change.

One criticism of a depreciation method is it applies the same schedule to very different vehicles. In fact, some people argue the depreciation approach is unfair to poor and middle income people because luxury cars depreciate more slowly than other vehicles. While this contention may have some merit, it is not strictly true. For example, a moderately priced 1991 Dodge Caravan depreciated 30 percent in two years, while a higher-priced 1991 Cadillac Fleetwood depreciated 49 percent. We find examples of both high- and low-priced cars which depreciate relatively quickly or slowly. Any time an average is calculated, half of the values are expected to be above average and half below average. One way to address this issue by using separate schedules for different types of vehicles. For example, one schedule could be used for pickup trucks which tend to depreciate slowly, and another schedule for all cars.

Another criticism of the Tax Commission's proposed depreciation method involved the planned use of vehicles' MSRP to calculate values. The complaint that MSRP should not be used because few people pay full MSRP for their vehicle is easily addressed by lowering the depreciation percentages. In fact, the Tax Commission's proposed schedule valued new cars at only ninety percent of MSRP. A more difficult concern to address, similar to the discussion in the prior paragraph, is that while many new vehicles sell for less than their MSRP, others are not discounted. California has addressed that issue by basing initial value on its actual purchase price rather than its MSRP. Of course, using actual purchase price may result in different taxation of identical vehicles because car buyers negotiate different prices with sellers.

Fairness of Current System Can Be Criticized. The Tax Commission's current valuation process is subject to criticism due to both application errors and design flaws. In either case, the accuracy of the vehicle values and customer taxes are affected.

A major weakness in the fairness of the current system is that the Tax Commission makes so many errors applying it. As stated above, approximately nine percent of all passenger cars and light trucks are valued incorrectly. Many of these errors are not discovered by the counties nor by customers. As a result, many vehicle owners are incorrectly charged on their taxes. Depending on how many errors are discovered, approximately $1.1 million may be paid incorrectly every year, including over-payments and under-payments. Since many of the errors are offsetting, the net effect on counties' revenue is small. However, it decreases the fairness of the system if some taxpayers pay more than they should while others pay less.

Another weakness in the current valuation system is that, by design, some factors which affect market value are ignored. Vehicles with different option packages or which are different models may be assigned to the same NADA key by the current system although their market values are different. For example, when the Tax Commission assigns vehicles to NADA keys, it only uses the first seven digits of each Vehicle's Identification Number (VIN). Subsequent digits often provide information which can be used to assign a more accurate vehicle value.

As a result of the compromises inherent in the current system's design, vehicles may be valued either above or below their correct market value according to the NADA book. The following examples show the difference between the 1994 taxable values assigned to some 1991 car models compared to more correct values available in the NADA book. A Chevrolet Camaro without automatic transmission and air condition is overvalued by 15 percent or $1,025 because the current system assumes all Camaros have those options. Conversely, a BMW 325i with the sport package, compact disc player, and leather seats is undervalued by 9 percent or $1,675 because the current system assumes BMW models do not have such options. Similarly, a Porsche Carrera 4 Cabriolet model is undervalued by 21 percent or $11,450 because the current system does not distinguish that model from less expensive Porsche Carrera 2 model. Because the Tax Commission tries to take a conservative approach to valuing vehicles and because it wants to minimize the number of NADA keys, the current system undervalues many luxury models which are loaded with options. The impact on a vehicle owner's taxes could be up to a couple of hundred dollars.

More common vehicles may also be incorrectly valued by the current system. For example, all 1991 Ford Escort 2-door Hatchbacks are valued at $4,325. That value is 26 percent or $900 too high for those vehicles without air conditioning, power steering and automatic transmission, but it is 12 percent or $600 too low for vehicles with a power sunroof, cruise control and other options. In addition, the system does not distinguish among various models of Chevrolet Astro Vans. Thus, the 1991 model passenger van is valued the same as a cargo van even though the NADA book shows the passenger van is worth 33 percent or $3,050 more than the cargo van.

The current system may also be criticized because the vehicle values used are too old. By law, tax lien date is January 1 each year, regardless of when your vehicle is registered. However, if the Tax Commission waited for the January NADA book, it could not have registration renewal packets ready in time for customers whose registrations expired early in the year. Therefore, the current system uses October rather than January values. Comparing NADA books shows that vehicle values decrease about 4 percent during the three-month period; thus, customers are paying higher taxes than they should. The depreciation method can address this issue by adjusting the schedule percentages to reflect January values.

If Properly Implemented, Depreciation Method Best Balances Efficiency and Fairness Concerns

Depending on the procedures used, a depreciation method of valuing vehicles can be much more efficient and equally fair as the current system. Changing to a depreciation approach, however, raises many implementation issues, such as how county revenue will be affected, how many schedules will be used, how initial value will be determined, and how taxpayer appeals of value will be handled.

Changing to a depreciation approach could result in either a net increase or decrease in total fees paid depending on the percentages used in the schedule. In fact, according to a sample we reviewed, the Tax Commission's proposed depreciation schedule would have decreased county revenue by approximately $5.7 million. For our sample vehicles, the proposed depreciation schedule tended to value vehicles slightly less that the current system, thereby reducing fees paid by customers. We think the Tax Commission needs to adjust its proposed depreciation schedule in order to make the change to a depreciation approach revenue neutral.

Because cars tend to depreciate faster than trucks and vans, some assessors feel separate depreciation schedules should be used. Our sample data showed that the proposed depreciation schedule valued cars very closely to the current system, but that trucks and vans were undervalued. In fact, the $5.7 million revenue shortfall discussed above was entirely due to trucks and vans. Revenue from cars actually increased very slightly.

The accuracy of a depreciation system depends, in part, on how a vehicle's initial value is determined. Similar to most states, the Tax Commission has proposed using a vehicle's MSRP as its initial value. To improve the accuracy of vehicle values, the MSRP used should include as much model and option information as possible. Thus, in Colorado, Arizona, and Wyoming, when a new car is purchased, the dealer reports the price of the vehicle including options and extras on the title application. That initial value then remains in the state database unless a special adjustment is made. We feel that, at least for new vehicles entering the system, the Tax Commission should use the exact MSRP of all vehicles, rather than grouping different vehicles by NADA keys as is done by the current system,.

Another implementation issue is how value appeals will be handled. Currently, some assessors will adjust vehicle values based on many factors, but others will not. Adopting a depreciation approach does not necessarily change the appeal process. Some assessors were reluctant to change to a depreciation approach because they felt the NADA book provided more accurate values. However, the Tax Commission Chairman has said county assessors can handle appeals any way they choose, and they may use the NADA book figures to reach their rulings. To help maintain efficiency and uniformity, some states do not allow appeals based on individual vehicle conditions. For example, in Washington factors such as a car's mileage are considered irrelevant to its taxable value.

Recommendations:

1. We recommend that the Tax Commission to adopt a depreciation method of valuing cars and light trucks.

2. We recommend that the Tax Commission adjust its proposed depreciation schedule to maintain revenue neutrality for the counties.

Appendices

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Appendix A

Standard unit values are assigned to each type of motor vehicle transaction in order to measure workload and compute the amount of reimbursement that should be paid to contract offices.

Figure AI

Comparison of OLAG Standard Units to MVD Standard Units

Motor Vehicle Transactions	OLAG Standard Unit Value	MVD Standard Unit Value	Difference
Renewal	1.00	1.00	0.00
Plate and Title	2.50	2.50	0.00
Transfer	3.50	3.50	0.00
Lien Change	1.00	1.00	0.00
Duplicate Title	3.00	2.50	0.50
Plate Replacement	2.50	2.00	0.50
DUI Impound	4.50	2.50	2.00
Other Impound	5.00	5.00	0.00
Disabled Permit	4.00	5.00	-1.00
Temporary Permit	3.00	1.00	2.00
Decal Replacement	2.00	1.00	1.00
Information	0.67	0.67	0.00
Duplicate Registration	0.50	0.00	0.50
Mail Renewal (Wasatch Front Offices)	0.50	1.00	-0.50

Figure AI compares OLAG standard unit values to MVD standard unit values for motor vehicle transaction. Standard unit comparisons for Park and Recreational vehicle transactions are not shown but are similar to those for motor vehicle.

Overall, the standard unit values assigned transactions from the OLAG time study are similar to the standard unit values previously used by MVD with only slight modifications to some transactions. The change in unit value assigned to mail renewals at Wasatch Front offices recommended by the OLAG time study will have the greatest impact on the calculation of the number of standard units processed. Mail renewals for state offices in Salt Lake, Utah, and Davis counties are processed at a central mail room located at the fairgrounds complex. Staff at the fairgrounds mail room also process mail-in uniform fee collections for Utah County. In Weber County, one staff member is permanently assigned to process mail renewals and cashiers from the walk-in lines process mail renewals during down-time. Our time study found that renewals processed at Wasatch Front mail rooms are completed in significantly less time than walk-in renewals. The lower times are the result of two factors: first, there is no greeting or check writing time associated with mail renewals; and second, mail rooms use assembly line type system that greatly reduces the amount of time needed to process a renewal. Based upon the results of our time study, we recommend that mail renewals be counted as half a standard unit for Wasatch Front offices.

Our study found only a slight reduction in the time required to process mail renewals at all other offices. Basically, the time difference was not significant enough to recommend changing the unit value. Therefore, we recommend that mail renewals be counted as one standard unit at all other offices. We concluded that mail provides an effective means of filling-in down-time at other offices. At most of the offices we visited, employees kept themselves busy by processing mail during down-time. Some have suggested that all mail should be processed at a centralized mail room. While time constraints did not permit us to conduct a detailed analysis of centralizing the entire mail program, we do note that taking mail from small and medium size offices would greatly increase the amount of employee down-time at these offices.

Appendix B

Figure BI shows results of our analysis on the number of standard units processed per full-time equivalent (FTE) employees at each office. Offices are grouped according to the total number of standard units processed at each office. Group (1) comprises offices processing less than 9,000 standard units; group (2) comprises offices processing between 9,000 and 80,000 standard units; and group (3) comprises offices processing over 80,000 units.

FTE counts for each office indicate the number of employees processing state work. In contract offices, the number of FTEs processing state work was estimated to be fifty percent of the total number of employees working at the motor vehicle office. For example, the manager at the Box Elder office reported that 3.76 FTEs work in the motor vehicle office. Dividing state and county workload evenly, 1.88 FTEs were attributed to processing state work. At state run offices in Uintah and Washington counties, FTE estimates were provided by MVD officials. At state offices in Cache, Carbon, Davis, Salt Lake, Sevier, Utah, and Weber counties no county work is processed and one hundred percent of the FTE count is attributed to state work. In addition, seven FTEs work at the state's fairgrounds mail room processing mail for Davis, Utah, and Salt Lake. These FTEs were allocated to each office based on the percent of total mail processed for each office. For example, Salt Lake mail accounts for fifty nine percent of the total state mail processed at the fairgrounds mail room. Fifty nine percent of seven FTE equals 3.35 FTE added to the total FTE count for Salt Lake offices.

The number of standard units processed per FTE is derived by dividing workload by the number of FTEs at each office. The analysis shows that larger offices are more productive than smaller offices. The difference in productivity can be seen by comparing the average number of standard units processed per FTE in each group. Group (1) averages 10,410 units per FTE; group (2) averages 20,195 units per FTE; and group (3) averages 24,216 units per FTE. In addition to documenting the relationship between productivity and workload volume, the effect of down-time can also be seen in the fact that FTEs at small offices process less than half the number of standard units as FTEs at large offices.

Figure BI
Analysis of Standard Units Processed per FTE

County/ State Office	OLAG Standard Units Processed in 1993	FTEs Processing State Transactions	Standard Units Processed Per FTE	
Piute	2,077	0.25	8,308	
Daggett	2,576	0.27	9,541	
Rich	3,190	0.25	12,760	
Wayne	4,414	0.59	7,481	
Garfield	5,541	0.53	10,455	
Beaver	6,957	0.50	13,914	
Total Group (1)	**24,755**	**2.39**	**62,459**	
Average Group (1)	**4,126**	**0.40**	**10,410**	**
Morgan	9,921	0.57	17,405	
Kane	9,952	0.90	11,058	
Juab	11,197	0.54	20,735	
San Juan	11,802	0.90	13,113	
Grand	11,998	0.63	19,044	
Emery	13,843	1.21	11,440	
Wasatch	15,306	1.50	10,204	
Millard	17,181	0.95	18,085	
Duschene	22,893	1.40	16,352	
Sanpete	25,360	0.40	63,400	
Sevier*	26,757	1.47	18,202	
Summit	29,428	2.00	14,714	
Uintah*	30,416	1.50	20,277	
Iron	33,382	1.23	27,140	
Carbon*	34,650	2.00	17,325	
Tooele	43,788	2.63	16,649	
Box Elder	52,969	1.88	28,175	
Total Group (2)	**400,843**	**21.71**	**343,318**	
Average Group (2)	**23,579**	**1.28**	**20,195**	**
Cache*	87,108	3.47	25,103	
Washington*	88,483	3.35	26,413	
Weber*	151,900	7.47	20,335	
Utah*	224,652	11.74	19,136	
Davis*	246,992	9.49	26,027	
Salt Lake*	882,918	31.22	28,281	
Total Group (3)	**1,682,053**	**66.74**	**145,295**	

Average Group (3)	**280,342**	**11.12**	**24,216 ****

**** Indicates state run offices. Workload is measured in OLAG standard units. Uniform fee collections are not shown in this table.***
***** Weighted Average based on units processed.***

Appendix C

Figure CI
County Proposed Reimbursement Model

Group	Renewal Rate	Non-Renewal Rate	Average Number of Transactions Processed Per Office	Total Payment	County Request	Difference
1	$1.71	$9.58	2,640	$32,288	$32,276	$12
2	.91	5.09	6,580	92,227	92,239	(12)
3	1.33	7.44	13,278	188,708	188,723	(15)
4	.70	3.94	31,512	302,242	302,275	(33)

Note: Ratio between rates for renewal and non-renewal held constant at 1 to 5.6.

Figure CI shows the reimbursement model developed by the County Assessor's Association. Under the county model, contract counties are divided into four groups based on the number of transactions processed at each office. Workload is separated into two categories: renewal transactions and non-renewal transactions. Reimbursement rates were established for renewal and non-renewal transactions in each group. Rates were based on the combined funding requests of each group. For example, the funding request for counties comprising group (1) totaled $32,276. Rates were set at $1.71 for renewals and $9.58 for non-renewals because when multiplied by the total number of renewal and non-renewal transactions processed by group (1), the total reimbursement comes as close as possible to matching the funding request. Various rates were applied to match the combined funding request of each group. A ratio of 1 to 5.6 renewals to non-renewals was held constant throughout each group. The same ratio was also held constant for rates applied to renewals and non-renewals.

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Agency Response