

**REPORT TO THE  
UTAH LEGISLATURE**

Report No. 99-08

**A Performance Audit  
of  
Municipal and County Taxation**

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# Digest of A Performance Audit of Municipal and County Taxation

This audit was initiated at the request of a legislative task force studying municipal revenues. The task force is concerned that municipal residents are taxed for similar or duplicate services by the counties in which they reside. Perceived taxing inequities characterized as “double taxation” is a cause of conflict between Utah’s cities and counties. Both county and municipal governments have the authority to provide services and to tax the same municipal residents.

This taxation/service overlap between two governments, serving nearly the same population, brings complaints that services are inefficiently duplicated or accounted for inaccurately; resulting in a rising tax burden without corresponding service improvements. Conflicts occur when counties and municipalities provide similar services and when counties provide some services countywide and others only to selected areas. This report’s chapters deal with the following areas:

- Utah Legislature Addressed Double Taxation Concerns
- Improvements in Accounting for Municipal-Type Services Are Needed
- Continual Refinements Needed to Reduce Salt Lake County Inequities

**Utah Legislature Addressed Double Taxation Concerns.** The Utah Legislature has recognized that the municipal services counties provide are comparable to the services municipalities provide to their residents. The basis for county municipal services began with the Legislature passing an initiative establishing a legal framework for counties to account for the municipal services they provide to unincorporated areas. The initiative reasoned that because municipal taxpayers already pay the city for their own municipal services, county-provided municipal services should also be funded only by individuals benefitting from the service.

The **Utah Code** requires counties of a given size to establish a Municipal Services Fund, separate from the countywide General Fund, to account for the various municipal-type services they provide. A separate fund is necessary to ensure countywide General Funds are not used by the county to fund municipal services provided in unincorporated areas. Unfortunately, this legislative direction has been interpreted in a variety of ways.

**Improvements in Accounting for Municipal-Type Services Are Needed.** Additional efforts are needed for counties to comply with the requirements that they separately account for the municipal services they provide. While most counties have established a separate Municipal Services Fund, all counties do not maintain sufficient accounting information to accurately identify either what municipal services are being provided or how much those services cost. Consequently, counties cannot accurately pass the costs on to unincorporated residents benefitting from these municipal services.

Most counties have taken only the first step in alleviating inequitable taxation concerns. Of thirteen counties required to maintain separate Municipal Services Funds, ten have established funds and one has established separate special districts. However, all municipal services are not necessarily accounted for in each county's fund, either because a county doesn't provide the service, because counties classify services differently, or more often, because the costs and revenues have not been separated from countywide General Funds. The complexity of accounting for municipal services varies with a county's population density, available tax base, and if the costs of some services must be apportioned between both the General and Municipal Services Funds.

**Recommendations:**

1. We recommend the Legislature consider reevaluating municipal service statutes to reestablish basic services, revenues and costs for Municipal Services Funds.
2. We recommend the Legislature consider studying methods of bringing counties and municipalities together regularly to identify and evaluate equity issues, negotiate solutions, and refine Municipal Services Fund procedures.

### **Continual Refinement Needed to Reduce Salt Lake County**

**Inequities.** Salt Lake County has responded to many past inequity issues, but continual refinements are needed to reduce existing inequities. Earlier studies encouraged improvements by starting a process of cooperation. These studies, however, asserted countywide revenues subsidize county-provided municipal services for selected services. Scarce and incomplete information make calculating subsidies on a service-by-service basis difficult and controversial.

The studies did successfully initiate the process of cooperating to evaluate and amend procedures and reduce inequities. Salt Lake County modified accounting procedures for sheriff, park and attorney prosecution services and sought to provide more equitable levels of paramedic services. However, this modified system will always need ongoing evaluation to identify where inequities have not been resolved or have resurfaced.

Prescriptive statutes may actually promote conflict. While current statutes are not always clear, clarifying statutes with an itemized list of services may not necessarily improve municipal and county relations. County demographics change and, as such, statutes should not permanently declare a specific service as countywide or municipal. Service delivery situations are complex and unique to each county and therefore require cooperation and negotiation as much as legislation.

Periodically monitoring each county program is necessary to ensure that the full cost of any municipal-type services is included in the Municipal Services Fund. Monitoring is needed for both unincorporated areas and for cities who contract for services from the county.

### **Recommendation:**

1. We recommend that Salt Lake County and municipal representatives meet on a regularly specified basis to explore alternatives and to continue the process of sharing information, identifying inequities, and negotiating solutions to inequitable taxation issues.

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# Chapter I

## Introduction

Perceived taxing inequities viewed as “double taxation” are a cause of recurring conflict between Utah’s cities and counties. The root of this conflict is that both cities and counties have the authority to provide services and to tax the same municipal residents. This overlap between two governments, serving nearly the same population, brings complaints that services are inefficiently duplicated or inaccurately accounted for, resulting in a rising tax burden without corresponding service improvements.

Identifying specific inequities is difficult due to the complex interrelationship of revenue collection and delivery of services by cities and counties. Both are competing for limited local funding and, as such, both emphasize concerns and promote solutions that favor their positions.

Although addressed in **Utah Code** 17-34, taxing inequity likely exist for some city residents across the state in that countywide General Funds may subsidize the cost of municipal services in unincorporated areas. Municipal taxpayers subsidize unincorporated area services when the county does not account for all municipal service costs in a separate fund. Conversely, some unincorporated taxpayers may subsidize General Fund activities when all revenues are not applied that could counter some of their municipal service costs.

The following are equity issues discussed in this report:

- Additional efforts are needed for counties to separately account for the municipal services provided to their unincorporated areas.
- Salt Lake County has responded to past inequity issues, but continuing refinements are needed.

Of greater importance is the realization that changing population patterns and services require an ongoing, cooperative process. The

best identification of what is equitable today may not be equitable tomorrow. County-municipal taxation issues, as a result, have always existed and have become even more complex. Legislative recognition of the conflict began the process of identifying and accounting for municipal services separately, but additional legislative assistance may be needed.

## **County-Municipal Taxation Issues Are Complex**

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**Both counties and municipalities have the authority to provide services and levy taxes to pay for those services.**

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Taxing equity is a complex, recurring issue straining federal-state, state-county and county-municipal relations. Conflicts persist because, in each case, both entities have the authority to provide services and to levy taxes from the same taxpayers to pay for those services. Overlapping taxing authority gives rise to allegations of duplicated services, funding inequities, and service delivery inefficiencies. At the county-municipal level, cities contend that they may subsidize the municipal-type services the county provides to unincorporated areas.

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**Conflicts can occur when counties and municipalities provide similar services.**

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Counties have historically provided a wide variety of services to all county residents. As municipalities were established to gain greater local control over services, taxing and service delivery structures were altered. Conflicts generally occur because counties continue to provide both countywide and municipal services. As political subdivisions of the state, counties provide major government services such as health and human services and public safety services such as sheriff protection and jails. Countywide services are financed with state and federal funds; with fees and property taxes levied to all county residents.

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**Further conflicts arise when counties provide some services countywide and others only to selected areas.**

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In addition to countywide services, counties provide local municipal-type services such as planning, fire protection and police patrol to unincorporated area residents and by contract to some municipalities. Since municipal-type services are comparable to the services cities provide to their residents; unincorporated residents are required to independently finance those services.

In Utah, there are 240 cities and towns located within the state's 29 counties (Appendix A). Tension between county and municipal governments is common, especially in Salt Lake County where



county-municipal taxation issues are more complex. Cities and counties disagree as to what services should be designated as a countywide or municipal service.

Cities contend that their residents pay taxes for which they sometimes receive little or no services and that they should receive a reduced tax burden for “opting out” of some countywide services. County officials counter that cities choose to duplicate, enhance, or not use some countywide services, but the county must maintain a viable service level should that service be needed. Counties also reason that it would unfairly weaken services to the rest of the county if a few cities were allowed to choose not to receive or be taxed for select countywide services.

Conflicts often involve complex legal and philosophical issues. For example:

- Are municipal residents inequitably taxed if a city chooses not to use or to enhance the level of service provided on a countywide basis?
- What is considered an equitable share of each countywide service since taxpayers rarely receive equal services for equal taxes?
- Should cities (or counties) be allowed to choose not to receive some countywide services and receive a reduced tax burden?
- If a specific service is not clearly defined by statute as countywide, what mechanism should be used to determine if the service is countywide or municipal?

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Service and taxing equity issues need to be addressed continually.

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Equity issues, both in Utah and nationally, rarely have definitive solutions. Issues are ongoing and continually changing and, therefore, need to be addressed continually.

Conflicts often involve the complexities of separately and fully accounting for municipal-type services. Because city residents finance their own municipal services, unincorporated residents should also finance their own municipal services. Municipalities contend that they

subsidize a portion of unincorporated residents' municipal services because the county, by not separately and accurately accounting for all of the costs of municipal services provided to unincorporated areas, may use countywide taxes to help finance those services. The Utah Legislature long ago began addressing double taxation accounting concerns by passing legislation that directs counties to account for municipal-type services separate from countywide General Fund services.

## Legislature Addressed Double Taxation Concerns

In 1971, the Utah Legislature passed an initiative providing a legal framework for counties to account for the municipal services they provide to unincorporated areas. **Utah Code** 17-34 allows counties to provide municipal services to unincorporated areas and requires them to pass on the costs to residents benefitting from these services. At the same time, statutes required Salt Lake County, by virtue of its size, to budget for municipal services in a fund separate from their countywide General Fund (**Utah Code** 17-36-9). A 1976 Supreme Court decision supported these provisions and forced Salt Lake County to comply. Amendments in 1985 and 1991 extended budgetary requirements to first through third class counties.

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The Utah Code recognizes some services are provided by municipalities and requires a county to charge unincorporated areas for the municipal services it provides.

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Utah law distinguishes between countywide and municipal services and establishes procedures to prevent inequitable taxation of municipal residents. Countywide services are defined as services provided in both incorporated and unincorporated areas of a county (**Utah Code** 17-36-3(8)); whereas, municipal services are defined as

*...service(s) not provided on a countywide basis and not accounted for in an enterprise fund, and includes police patrol, fire protection, culinary or irrigation water retail service, water conservation, local parks, sewers, sewage treatment and disposal, cemeteries, garbage and refuse collection, street lighting, airports, planning and zoning, local streets and roads, curb, gutter, and sidewalk maintenance, and ambulance service (**Utah Code** 17-36-3 (22)).*

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Select counties are required to establish a Municipal Services Fund to account for municipal services separate from countywide General Fund activities.

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While allowing counties to provide municipal services, statutes prohibit using countywide General Funds to finance those services.

*Counties may: (1) furnish municipal-type services and functions to areas of the county outside of incorporated municipalities; and, (2) fund those services by: (a) levying taxes on taxable property in the county outside the limits of incorporated municipalities; or, (b) charging a service charge or fee to persons benefitting from the services and functions. (**Utah Code** 17-34-1).*

Statutes also require that first, second, and third class counties budget for revenues and expenditures in a special revenue fund called a Municipal Services Fund that is separate from General Fund monies used to finance countywide services (**Utah Code** 17-36-9). We have included statutes governing municipal services in Appendix B.

While laws have addressed some double taxation concerns by requiring counties to separately account for providing municipal services to unincorporated areas, additional legislation may be necessary to encourage counties and municipalities to cooperate to more effectively account for the services and resolve ongoing issues by reevaluating statutory requirements.

## **Audit Scope and Objectives**

This audit was initiated at the request of a legislative task force studying municipal revenues. Prior to the task force, the Conference of Salt Lake Valley Mayors commissioned a study, released in 1994, citing the existence of double taxation in Salt Lake County. Similar evaluations were conducted in Weber County when the county first established its Municipal Services Fund. The major concern of the task force was that municipal residents may be taxed for similar or duplicate services by the counties in which they reside.

We evaluated if first, second, and third class counties have complied with established statutory requirements that they account for revenues and expenditures for municipal-type services to unincorporated areas of the county in a separate Municipal Services Fund. Our audit work included visits to five counties and an extensive review of General Fund

expenditures in one of those counties. We also interviewed auditors in eight other third-class counties to determine the extent of their county-municipal conflicts and to evaluate compliance. Specifically, our audit objectives included:

2. Determining if counties have complied with state requirements that they account for municipal services to unincorporated areas in a separate Municipal Services Fund and if compliance has effectively prevented inequitable taxation.
3. Investigating specific allegations of taxing inequity within Salt Lake County's Municipal Services Fund.

## **Chapter II**

### **Improvements in Accounting for Municipal-Type Services Are Needed**

Separate and full accounting by counties of unincorporated area municipal-type services is necessary to improve taxing equity. While Salt Lake County has a detailed separate Municipal Services Fund, not all counties maintain sufficient accounting information to accurately identify what municipal services are being provided or how much those services cost. Consequently, counties can not accurately pass the costs on to unincorporated residents benefitting from these municipal services. Further, not all counties apply locally-generated revenues appropriately which could offset some of the municipal service costs.

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Not all counties sufficiently account for municipal services. Legislative action may be necessary to encourage equity.

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By statute, counties of a given size are required to establish a Municipal Services Fund separate from the countywide General Fund to account for the various municipal-type services they provide to unincorporated areas. Because municipal taxpayers already pay the city for their own municipal services, a separate Municipal Services Fund is necessary to ensure General Funds are not used by the county to subsidize municipal services provided in unincorporated areas. Eleven of the 13 counties required by statute to maintain a separate fund have either established a fund or equivalent special districts.

While following the statute is a good first step in accounting for municipal services, many of the funds we reviewed did not effectively account for services provided in unincorporated areas of the county. It is also likely that legislative action may be necessary to address the need for service and taxing equity, given the widely divergent county programs.

Few counties accounted for all of the expenditures nor did they identify all revenues related to providing municipal services. Without more accurate accounting, the extent of either municipal or unincorporated residents being inappropriately taxed can not be determined. The lack of good accounting also means that conflicts will persist. Conflicts may also persist if cooperative efforts are not made to address inequities.

## Most Counties Have Established a Separate Municipal Services Fund

Of 13 counties required to maintain a separate Municipal Services Fund for unincorporated resident services, ten have established separate funds and one has established equivalent special districts. Two smaller counties anticipate establishing a fund for the next budget year. Counties required to establish a Municipal Services Fund vary considerably in their total population, the distribution of their population and, in the type and extent of municipal services included in their Municipal Services Fund. While statutes generally direct which services must be accounted for in the Municipal Services Fund, statutes leave what municipal services a city or county decides to provide to their discretion.

### Thirteen Counties Are Required to Establish a Municipal Services Fund

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Of thirteen counties required to have a separate Municipal Services Fund, ten have established funds.

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State law requires 13 first, second and third class counties to account for the municipal-type services they provide to unincorporated areas in a separate Municipal Services Fund. Funds must be kept separate from countywide General Funds to keep municipal taxpayers from subsidizing municipal services the county provides to unincorporated areas.

Utah laws authorize counties to provide municipal services exclusively to unincorporated areas and requires the services be funded by persons benefitting from the service (**Utah Code** 17-34-1). Municipal services are defined as:

*a service not provided on a countywide basis and not accounted for in an enterprise fund, and includes police patrol, fire protection, culinary or irrigation water retail service, water conservation, local parks, sewers, sewage treatment and disposal, cemeteries, garbage and refuse collection, street lighting, airports, planning and zoning, local streets and roads, curb, gutter, and sidewalk maintenance, and ambulance service (**Utah Code** 17-36-3 (22)).*

Laws prohibit counties from using countywide General Funds to finance municipal services. First, second, and third class counties are

instructed to establish a Municipal Services Fund or a special district to account for the entire cost of the services and to defray costs with taxes or fees collected from unincorporated taxpayers (**Utah Code** 17-34-3 and 17-36-9). Appendix B lists related statutes. While the **Utah Code** attempts to differentiate counties by class, there are other criteria that also influence taxing equity. For example, each county's unincorporated area population and the ratio of population to land area may influence taxing equity. Figure 1 lists the 13 counties required to establish separate Municipal Services Funds and the ratio of unincorporated area to total county population.

**Figure 1. Counties Required to Establish Municipal Services Fund.** Thirteen first, second, and third class counties are required to separately account for the municipal services provided to their unincorporated areas.

County By Class*	Unincorporated Population	County By Class	Unincorporated Population
I Salt Lake	26%	III Box Elder	20%
		Cache	7
		Carbon	32
		Iron	12
		Sanpete	14
II Davis	3%	Summit	56
Utah	4	Tooele	26
Weber	11	Uintah	62
		Washington	5

\* A county's class is determined by the total population of the county (Utah Code 17-36-13). Population ratios are based on US Census estimates.

Utah County has established special districts to account for municipal services.

Sanpete, Iron, and Utah counties have not established a separate Municipal Services Fund. Auditors from Sanpete and Iron counties told us they anticipate establishing a fund for the budget year 2000 to separately account for the municipal services that they already provide. While Utah County also has not established a distinctly separate Municipal Services Fund, the county has established four separate special service areas to account for municipal services including law enforcement, two fire districts, and planning and zoning. Laws permit

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The complexity of accounting for municipal services for unincorporated areas varies with a county's population density and available tax base.

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counties to use special districts to account for municipal services (**Utah Code** 17-36-9(2)(i)). Special districts appear equivalent to a Municipal Services Fund except some revenues may be accounted for differently. Revenue concerns are discussed later in this chapter.

Accounting for municipal services is more important and more complex for some counties than for others because counties vary considerably in their total population and in the distribution of their unincorporated population. For example, about 1/4 of Salt Lake County's population resides in unincorporated areas of the county. This large, non-contiguous area exceeds the population of any of the county's incorporated municipalities. By contrast, only about 3 percent of Davis County's population resides in unincorporated areas. Salt Lake County must account for municipal services more carefully than Davis County to avoid taxing inequities.

Counties with small unincorporated populations also have equity concerns. For example, while unincorporated residents make up only about 7 percent of Cache County's population, they reside in 92 percent of the county's land area. Sparsely populated rural areas have difficulties generating revenues to support their municipal services because, unlike most cities, they may lack a significant commercial tax base to help generate either sales or property tax revenues.

Variations in county demographics other than population are not directly addressed in current statutes. Statutes assume, by default, that all 13 counties and county issues are roughly equivalent. Several third-class county officials felt that the statutory requirements should not apply to their rural unincorporated areas.

### **Municipal Services Funds Vary by County**

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Counties are unique in the services they provide and in classifying services as either countywide or municipal.

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Municipal services provided and the accounting procedures used vary from county to county. Counties may provide similar services to their unincorporated areas but do not account for the costs in the same way. The municipal services defined earlier in this chapter are not necessarily included in each county's Municipal Services Fund, either because a county doesn't provide the service or because counties classify services differently. For example, Salt Lake, Davis and Weber counties all provide sheriff patrol services. Salt Lake and Weber counties account



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Costs of some county services must be apportioned between both funds.

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for patrol costs as a municipal service in their Municipal Services Fund because patrol services are provided only to unincorporated areas and to municipalities who contract for services from the county. In contrast, Davis County accounts for patrol services in its' General Fund because patrol services are provided countywide and the cost to provide these services is shared by all taxpayers in the county.

Appendix C lists the primary municipal services accounted for in each county's Municipal Services Fund. While the services accounted for are not uniform, most counties have accounted for sheriff patrol, fire protection, and planning services. Appendix D is an example of how two counties provide and account for select county-provided services differently.

Counties have difficulties in separately accounting for countywide and municipal costs because there is not always a clear separation between services departments provide and the funds that finance those services. Costs of some services must be apportioned between both the General and Municipal Services Funds. For example, sheriff departments provide both patrol services that are classified as municipal and accounted for in the Municipal Services Fund and investigations services that are classified as countywide and accounted for in the General Fund. All counties do not hire separate patrol officers. At what point an officer is patrolling or investigating is not always clearly delineated. Consequently, allocating the costs to each fund is difficult. For a county to allocate the appropriate ratio of costs to each fund, every individual department has to evaluate all of their activities and estimate the ratio of services that are countywide or municipal.

Municipal Services Funds are not uniform partly because counties and cities continue to disagree if some services should be countywide or municipal. While statutes define municipal services and direct counties to separately account for them, what services each county provides is left to their discretion. What specific services a county or a city is mandated to provide, or is only allowed to provide, or which entity has the authority to make that determination, involve issues that are not easily resolved.

## Few Counties Fully Account for Municipal Services

Not all of Utah's counties fully account for expenditures and revenues related to municipal-type services they provide to unincorporated areas. Rather than identify and separate costs, counties may be continuing to fund municipal services with countywide General Funds. Only three counties have extensively evaluated what costs should be included and also allocated a portion of indirect costs.

In addition, not all counties account for all revenues that could be used to offset some municipal service costs. Only five counties levied a municipal services property tax to fund such services in 1997 and 1998. Because counties have not fully accounted for all revenues and all expenditures in a separate Municipal Services Fund, we could not determine if sales taxes and other revenue sources were sufficient so that a property tax levy was not necessary.

### Few Counties Account for All Expenditures

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Only three counties have allocated a portion of indirect costs as statutes require.

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Utah laws direct counties to separately and strictly account for all of the costs of providing municipal services (**Utah Code** 17-34-5). Few of the 13 counties we reviewed, however, appear to account for all of their municipal service expenditures. All expenditures must be kept separate from countywide General Funds to keep municipal taxpayers from subsidizing municipal services the county provides to unincorporated areas. Only three counties have extensively apportioned costs for county services consistent with the statutory requirements. Salt Lake, Weber and Summit counties have evaluated each cost category to identify all of the costs associated with municipal-type services and included indirect costs as well. For example, Weber County sent questionnaires to each department and evaluated each General Fund account before deciding how to allocate municipal service costs. Allocations are complex, especially for services that overlap funds.

Counties are also required to include indirect costs related to municipal services. Statutes direct counties to apportion the salaries of each county commissioner and the salaries and wages of all other elected and appointed county officials and employees (**Utah Code** 17-34-5).

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Inappropriately placed municipal revenues may contribute to inequitable taxation.

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## Few Counties Account for All Revenues

Counties are also required to separately account for municipal service revenues. Statutes direct that the municipal service costs be defrayed from taxes, service charges, or fees charged to unincorporated areas and that they should also be kept separate from countywide funds (**Utah Code** 17-34-3). Few counties we reviewed have separately accounted for all revenues in their Municipal Services Fund.

Inequitable taxation conflicts often involve concerns that city residents are at risk of subsidizing municipal services in unincorporated areas. There are also instances where unincorporated area residents may subsidize General Fund services because county's Municipal Services Funds exclude some revenues. For example, we found several counties that transferred surplus funds from the Municipal Services Fund to the General Fund when Municipal Services Fund revenues exceeded service costs. One county did not apply any local sales tax revenues to the Municipal Services Fund but, instead, levied a property tax to finance municipal services. The following section provides revenue information and discusses some of the issues we encountered.

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Municipal services are often financed with local sales tax revenues.

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**Sales Taxes Are Primary Revenue Source Financing Municipal Services.** As shown in Figure 2, local sales taxes are the primary revenue source in seven of the ten counties that have established a separate Municipal Services Fund. Two counties primary revenues came from Payment in Lieu of Taxes (PILT), and in one county, most revenues were from licenses and permits.

**Figure 2. Counties Municipal Services Fund Revenues.**

Local sales taxes are the primary revenue source used by most counties to fund the municipal services for unincorporated areas.

County	Primary Revenue Source
Salt Lake	Local Sales Tax, Property Tax, Licenses & Permits
Davis	Local Sales Tax, Property Tax
Weber	Local Sales Tax, JP Court Fines
Cache	Local Sales Tax
Washington	Federal PILT, Local Sales Tax
Box Elder	Federal PILT, Local Sales Tax
Tooele	Local Sales Tax, Licenses & Permits
Uintah	Local Sales Tax, Federal PILT
Summit	Local Sales Tax, Property Tax
Carbon	Licenses & Permits, Property Tax
<i>* Revenue sources are listed in order of significance and do not represent all sources. PILT = Payment in Lieu of Taxes</i>	

While statutes do not specifically state that sales tax must be used to finance municipal services, they evidently are used to defray municipal service costs more so than property taxes.

**Municipal Property Taxes Are Levied in Five Counties.** Figure 3 shows the property tax rates for five counties that levied a municipal tax in 1998 and 1999. However, not levying property taxes does not necessarily indicate that other revenue sources were sufficient to fund the municipal services of unincorporated areas. We could not determine if property taxes should also be levied in other counties because counties have not fully accounted for municipal service revenues and costs separate from the countywide General Fund.

Five counties levy municipal property taxes to help finance municipal services .

**Figure 3. Counties Municipal Services Property Tax Rate.**

Five counties levy property taxes to help fund county provided municipal services.

County	Property Tax Rate	
	1998	1999
Salt Lake	.001634	.001649
Davis	.000805	.000838
Summit	.000541	.000578
Carbon	.000167	.000173
Utah*	.002518	.002478

\* Note: Utah County levies taxes for individual service areas separately. We combined them for comparisons with other counties.

Counties may use  
municipal revenues  
inappropriately.

**Municipal Revenues May Be Used Inappropriately.** While counties are restricted from using countywide revenues to fund municipal services, they also should not use municipal service revenues to fund countywide services. In some counties, it appears revenues that rightfully should be used to fund municipal services were used to fund countywide services. We examined some counties' use of local sales tax and Payment in Lieu of Taxes (PILT) revenues for county-wide services and the subsequent transfer of revenue surpluses from the Municipal Services Fund into the General Fund.

**Local Sales Tax Revenues.** All counties do not use local sales taxes to help fund municipal services for unincorporated areas. Local sales taxes are generated from retail sales in unincorporated areas and correspond to sales taxes used in cities to help finance their own municipal services. Sales taxes do not always help fund the municipal services of unincorporated areas. For example, Carbon County uses a property tax levy to fund municipal services while applying local sales tax revenues to its General Fund.

By using special service districts, Utah County also funds municipal services with property tax. As shown in Figure 3 above, law enforcement, fire, and planning and zoning expenses are all funded by property tax levies in separate special service districts. These

special districts omit local sales tax revenues that could offset some of the municipal service costs if revenues and expenditures were all accounted for together in a combined Municipal Services Fund. Officials stated sales tax revenues are applied to the General Fund but indirectly used for other services provided in unincorporated areas.

We were unable to identify any Utah statutes specifically stating that local sales taxes must be used as revenues for the Municipal Services Fund. However, in our opinion, the practice is unfair to unincorporated taxpayers because it does not substantially link the sales taxes they pay with the expenditures.

**Surplus Revenues.** We also found that at year-end, three counties transfer surplus revenues from their Municipal Services Fund to their General Fund. Utah law states that a surplus should accumulate in the Municipal Services Fund but not exceed the estimated revenues for the current fiscal year (**Utah Code** 17-36-9). Transferring excess revenues from the Municipal Services Fund appears akin to transferring cities' excess revenues to the county General Fund. For example, Box Elder County's 1998 budget anticipated transferring \$1.2 million in surplus revenues from their Municipal Services Fund to the General Fund. Most of their municipal revenues were from Federal and State PILT and from local sales taxes. By using these funds for General Fund costs, unincorporated taxpayers may subsidize countywide services. However, the county also did not account for all municipal service costs in the Municipal Services Fund. Since some unknown portion of the municipal service revenues and costs are intermingled with countywide General Funds, it's not possible to quantify taxing inequities.

To be equitable, counties need to separately and fully account for all municipal services. They must include all direct and indirect costs, include all appropriate revenues, and not inappropriately transfer surpluses to the General Fund.

In summary, most counties have taken only the first step in alleviating inequitable taxation concerns by establishing a separate Municipal Services Fund as required by the **Utah Code**. However, counties need

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Full and separate accounting for municipal services is needed to assure equitable taxation.

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to better account for all of the costs and all of the revenues and only then determine if countywide or municipal property taxes are needed to fund the services. The poor compliance of counties in accounting for all of the revenues and expenditures make it impossible for us to evaluate if the municipal service tax burden is equitable.

**Recommendations:**

1. We recommend the Legislature consider reevaluating municipal service statutes to reestablish basic services, revenues and costs for Municipal Services Funds.
2. We recommend the Legislature consider studying methods of bringing counties and municipalities together regularly to identify and evaluate equity issues, negotiate solutions, and refine Municipal Services Fund procedures.

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## **Chapter III**

# **Continual Refinement Needed to Reduce Salt Lake County Inequities**

The accounting of municipal services by Salt Lake County is more equitable now than before a 1994 study identified inequities. However, some inequities continue to exist. The major concern is that municipal residents may subsidize some county-provided municipal services to unincorporated areas because of inaccurate accounting and unclear municipal service definitions. This subsidy of county provided municipal services is characterized by municipalities as “double taxation.”

Subsidies were alleged to occur because all costs were not separately accounted for in the Municipal Services Fund and, as a result, municipal residents were inequitably taxed for the services received. Municipal officials maintain that costs for some services should be accounted for as a municipal service instead of a countywide service because the services are primarily delivered to unincorporated areas. County officials counter that, legally, only services provided for the exclusive benefit of residents of the unincorporated county must be accounted for in the Municipal Services Fund.

Salt Lake County, by virtue of its large budget and municipality/unincorporated population distribution, has been the bellwether of the state in municipal service funding concerns. Past corrections have improved equity within the county, but have not fully addressed all of the county’s taxing equity concerns. Salt Lake County, however, is not alone in its taxing equity problems.

Efforts to correct similar problems throughout the country have indicated that there are several alternatives but no permanent fix. Rather, the experience of other county/city relationships indicates that the constantly changing relationships between counties and cities requires on-going, pro-active cooperation. In Salt Lake County, cooperation is needed to address equity issues by continually refining

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On-going, pro-active cooperation between the county and its cities is needed to continue improving procedures to reduce inequities.

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and improving the procedures used to deliver and account for county-provided municipal services.

Identifying and amending inequities is a continual process that may require legislation encouraging cooperation. By identifying and acting on concerns addressed in a 1994 report issued by the Conference of Salt Lake Valley Mayors, Salt Lake County reduced inequities. While all issues were not resolved, fewer instances of taxing inequities now appear. Periodic monitoring of each county program is necessary to ensure that the full cost of any municipal-type service is included in the Municipal Services Fund. Monitoring is needed for both unincorporated areas and for cities who contract for services from the county.

This chapter evaluates allegations of taxing inequity in Salt Lake County that are currently unique within the state and very complex. Even after recent incorporations and annexations, the non-contiguous, unincorporated areas, taken together, still comprise the largest population and land mass in Salt Lake County. The following issues are discussed in this chapter:

- Earlier evaluations encouraged improvements by identifying where inequitable procedures needed amending.
- On-going evaluation is necessary due to changing county environments. Inequities persist in that some services the county provides; (1) are duplicated or augmented by municipalities; (2) favor unincorporated areas; or, (3) are subsidized using countywide General Funds because all costs are not separately accounted for.

### **Earlier Evaluations Encouraged Improvements**

The 1994 evaluation of Salt Lake County General Fund services began a process that appears useful because it identified specific inequities and encouraged improvements in municipal service funding. Salt Lake

County responded to many study issues and improved their procedures in accounting for municipal-type services. Unfortunately, these evaluations have been viewed as a one-time fix rather than the start of a useful process. As a result, some service inequities have resurfaced, and conflicts involving inequities unresolved in the past have remained.

The county's earlier study and the subsequent counter-study by municipalities have focused on identifying dollar subsidy amounts. Both the county and municipalities agree identifying inequities appears more useful than measuring individual service subsidies.

Estimating subsidies may be useful in understanding the significance of a problem, but the information is not accurate enough to be used to provide tax rebates or calculate tax differentials. However, even when an inequity is identified, cities and counties may disagree whether a service should be financed only by those taxpayers using the service in a Municipal Services Fund. City representatives submit they have little leverage in making those decisions and that eliminating ambiguous statutes is needed.

While it appears impractical to measure subsidies, the studies were successful at pointing out and encouraging improvements. Both the county and municipalities believe the situation has improved and that there is now greater equity in services delivered and in taxing.

### **Early Studies Started Process of Cooperation**

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Early studies started a process of cooperation.

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The county's taxation equity study and the subsequent counter study by municipalities focused on identifying dollar subsidy amounts. This subsidy information provided a starting point for cooperative negotiations between the county and municipalities, and these negotiations have resulted in better accounting of county-provided municipal services. Municipalities cited the existence of at least \$5.4 million of "double taxation" in Salt Lake County and adopted a resolution–

*finding the existence of double taxation in Salt Lake County and calling for corrective actions to assure equitable financing of county*

*provided municipal-type services in the unincorporated areas of the county.*

The municipalities' study concluded that double taxation existed for four of eight services areas in that–

*expenses for paramedic services, police protection, local parks maintenance and operations and misdemeanor prosecution... were paid out of county general fund revenue providing a subsidy of over \$5.4 million to the unincorporated areas.*

There are two primary concerns with this study. First, errors in allocating benefits between municipalities and unincorporated areas occurred because neither county nor municipalities track the services used for the purpose of allocating benefits. Second, disproportionate service benefits do not necessarily represent subsidies.

The first segment of this study evaluated service benefits even though there had never been any consistent tracking of either services or expenditures. As such, no actual values were known. The county auditors had to dissect each service to estimate who was receiving the benefit.

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Scarce and incomplete information make calculating subsidies difficult and controversial.

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Auditors' allocations were imprecise because county organizations seldom tracked services by municipality. In effect, no benefit allocation information existed. Consequently, auditors allocated benefits using the best statistical information available, along with empirical information gleaned from county service providers. For example, park costs were allocated based on assumptions as to which residents benefit from each park's location. Steps used to allocate park service benefits include the following:

- Identifying a park on a map.
- Determining the distance people would travel to use the park with the radius listed in the county's master plan.
- Identifying resident affiliation by municipality within the radius identified on the map.

- Allocating benefits based on municipal boundaries identified on the map.

While a reasonable method of allocating park benefits, this methodology was questioned by the cities. Their concerns were with municipal park locations, their classifications, and with the underlying assumption that set the radius for park service recipients.

Disagreements continue because county park classifications differ from those used in municipal service statutes.

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Disproportionate  
benefits may not  
represent subsidies.

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The basic premise of identifying many of these subsidies assumes that taxpayers should receive equal benefits to the same extent as other taxpayers and in some relation to the taxes that they pay. Equal benefits are not required by law. Although social service benefits such as aging services and substance abuse should be provided wherever the needs occur, statutes are not always clear if that premise also holds true for other services, such as sheriff investigative services.

While the prior studies incorporated poor information and focused on subsidies, municipal and county representatives now focus more on what services should be classified as municipal. The study attempted to attach dollar amounts, based on poor information, and attach that amount to specific service subsidies rather than focus on the process of accurately identifying municipal service costs.

### **Evaluation Process Improved Procedures**

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The process of  
identifying inequities  
improved procedures  
and reduced inequities.

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Salt Lake County continued the process by responding to many concerns cited by the municipalities. They addressed inequities for each of the four services where the study alleged that countywide funds subsidized municipal services provided to unincorporated areas. More county-provided municipal service costs are now included in the Municipal Services Fund and borne by unincorporated area taxpayers. In addition, municipalities are receiving more services paid for with countywide General Funds.

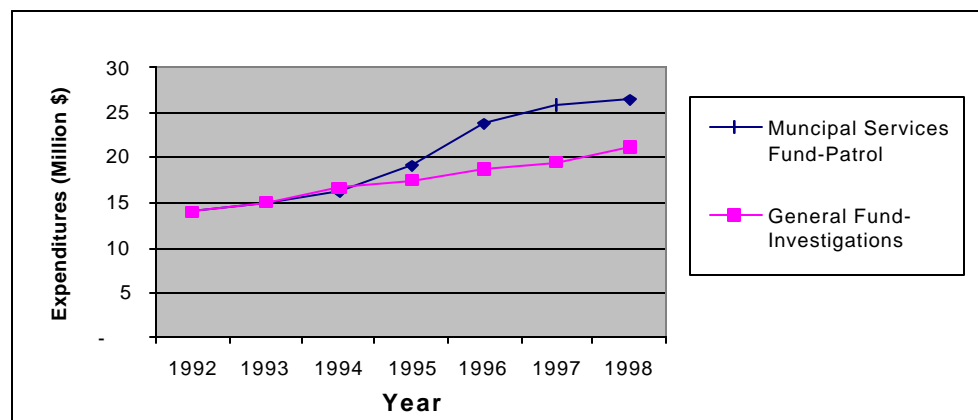
The following discusses the four inequities identified by the municipalities' study and subsequent improvements made by the county.

Salt Lake County has modified accounting procedures for sheriff, park, and attorney services and sought to provide more equitable levels of paramedic services.

**More Sheriff Costs Are Now Funded by the Municipal Services Fund.** The study stated that cities subsidize the sheriff/police services by over \$4.3 million and recommended most of the investigative and support service costs be transferred to the Municipal Services Fund. Cities maintain that their taxes are subsidizing services to unincorporated areas because the sheriff provides more benefits to unincorporated taxpayers than what they pay for. The subsidy amount was calculated by estimating the share of services each city and the unincorporated area received from the sheriff, using available statistical information or estimates provided by organization officials.

More costs are now included in the Municipal Services Fund than were included in 1992. As shown in Figure 4, Municipal Services Fund expenditures have increased more than General Fund expenditures, possibly as a result of better identification of municipal patrol services.

**Figure 4. Salt Lake County Sheriff Expenditures.** Municipal Services Fund expenditures exceed General Fund expenditures.



Since 1992, Sheriff Patrol expenditures increased 88 percent while Investigative and Support Services increased only 51 percent. Consequently, a larger proportion of the 1998 expenditures were financed directly by taxpayers from unincorporated areas and contract cities who use sheriff patrol services.

Reaction to the study has resulted in more sheriff employee costs being funded by the unincorporated area's Municipal Services Fund.

Increased expenditures may be related, in part, to the county shifting more employee costs into the Municipal Services Fund. Figure 5 summarizes sheriff employee assignments by the funds financing the costs.

**Figure 5. Salt Lake County Sheriff Employees by Fund.** More sheriff employees are now financed by the Municipal Services Fund than in 1992.

Bureau - Division	Municipal Services Fund	General Fund	Total
<b>Investigations Bureau</b>			
Communications	53	43	96
Detective	1	59	60
Special Investigations	1	57	58
Support Services	2	53	55
<b>Total</b>	<b>57 (21%)</b>	<b>212 (79%)</b>	<b>269</b>
<b>Operations Bureau</b>			
Community Services	13	17	30
Special Operations	251		251
Professional Standards	3	17	20
Patrol Services	216		216
<b>Total</b>	<b>483 (93%)</b>	<b>34 ( 7%)</b>	<b>517</b>
<b>Corrections Bureau</b>			
Jails, Court & Bailiff Services		520	520
Jail Construction, Olympic Planning	16	16	32
Fiscal & Human Resources	3	21	24
Elected Officials*		3	3
<b>Total Sheriff Employees</b>	<b>559 (41%)</b>	<b>806 (59%)</b>	<b>1365</b>

Source: Salt Lake County Sheriff 1999 job assignments.

\* A portion of elected officials costs is allocated at year-end.

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County paramedics  
were placed in some city  
fire stations.

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Almost half (41%) of the sheriff employees are now funded with Municipal Services Funds. A large shift of employee costs involved the Investigations Bureau. County representatives stated that in 1992, all Investigation Bureau employee costs were financed by the General Fund. This accounting practice was inequitable because much of the dispatch employees' time was spent on calls for unincorporated areas. Of the 57 investigation employees now financed by the Municipal Services Fund, 45 are dispatchers in the Communications Division.

**Paramedics Were Placed in City Fire Stations.** The 1994 study stated that cities subsidized paramedic services by approximately \$557,000. Although we are unsure of the accuracy of the subsidy amount, Salt Lake City tax dollars do appear to subsidize countywide paramedic services. This subsidy is a result of the concurrent growth of paramedic services in both Salt Lake City and County. The county, as a long time sole provider of paramedic services to the rest of the county's municipalities, has historically financed the cost of paramedic services with countywide General Funds. Since Salt Lake City has its own paramedics, it has not needed the county services. Thus, by paying into the General Fund, the city has supported the county's operation.

While negotiations to place county paramedics in Salt Lake City have not succeeded, the county has negotiated joint licensing agreements with Sandy and West Valley City and placed paramedics in their fire stations. Joint licenses are necessary because state licenses are issued for exclusive geographic areas currently held by the county. Salt Lake City does not require a joint license because it already holds a separate license. The paramedic issues remain a hotly contested topic.

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Some attorney and more  
park costs are now  
funded through the  
Municipal Services  
Fund.

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**Some Misdemeanor Attorney Prosecution Costs Are Reimbursed from the Municipal Services Fund.** The 1994 study stated that cities subsidized the prosecution services for unincorporated areas by \$305,000 because the county attorney prosecuted class B and C misdemeanor cases for unincorporated residents with costs financed through the countywide General Fund. Each municipality pays to prosecute these cases in their own jurisdictions. The inequity occurred because the county attorney's office also prosecutes felony, class A



misdemeanors, and juvenile prosecutions countywide and, prior to the study, did not identify costs associated with each category. The county now accounts for each category separately and reimburses the General Fund for the appropriate costs at year-end. For example, \$237,000 was transferred from the Municipal Services Fund to the General Fund to reimburse the 1997 costs of two attorneys and one secretary assigned to the Justice Courts to prosecute class B and C misdemeanors for unincorporated areas and contract cities.

**More Park Costs are Transferred to the Municipal Services Fund.**

The 1994 study stated that municipalities subsidized municipal park costs for unincorporated areas by \$261,000 because insufficient costs were allocated to the Municipal Services Fund and because only a few cities benefitted from the small county parks located within their cities or near their boundaries. The county responded by re-categorizing some parks and by transferring operating costs to the Municipal Services Fund.

The county classifies parks by size and by use in three categories—regional, community, and neighborhood. Regional parks are large parks serving the entire county. Community parks are smaller parks serving residents of about a two mile radius. Neighborhood parks are small, local parks serving residents within about a half-mile radius. Generally located in unincorporated areas, neighborhood park costs are financed by the Municipal Services Fund whereas regional and community parks are financed by the General Fund. Accounting disagreements have occurred because Utah statutes use different language. **Utah Code** 17-36-3 (22) includes *local parks* when defining municipal services. The municipal services statute does not specifically identify parks (**Utah Code** 17-34-2).

County park officials stated they exceeded the study's recommendations by reclassifying several community parks as neighborhood parks and by allocating both direct and indirect overhead costs to the Municipal Services Fund. In 1992, \$97,000 in maintenance costs for 17 parks were financed by the Municipal Services Fund. In 1997, \$344,059 of the operating costs for 18 neighborhood parks were transferred to the same fund. The county

now adjusts park classifications as the nature of the park changes and when incorporations and annexations occur.

## **Modified System Needs Ongoing Evaluations**

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Ongoing evaluation is needed to identify where inequities have not been resolved or have resurfaced.

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Since allegations of double taxation were made in 1994, Salt Lake County has modified some accounting procedures and sought more equitable levels of service. However, due to the complex county environment, inequities persist because some services the county provides are, (1) duplicated by municipalities, (2) favor unincorporated areas or, (3) are subsidized with countywide General Funds because all municipal service costs are not accounted for.

The resolved equity conflicts between municipalities and the county frequently involved inconsistent or deficient accounting practices that could be readily addressed. The unresolved equity conflicts are more difficult and seem to have persisted because they involve the harder issues of duplicated services and disagreements over whether a service should be designated countywide with costs borne by all county taxpayers or whether services should be designated municipal with costs borne only by the taxpayers receiving services. Cities contributing more taxes would like to see more services directly paid for by the entities receiving the service and to share less in paying for services for which they receive little benefit.

We evaluated each of the county's General Fund services and found conflicts that were unresolved and inequities that persisted for at least three services—paramedics, sheriff investigations, and jail services. We also found accounting inconsistencies have resurfaced for at least two services—parks and attorney prosecution services.

### **Equity Conflicts Involve Countywide Versus Municipal Designation**

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Conflicts involving countywide versus municipal designation are complex and unique to each county.

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Conflicts between Salt Lake County and municipalities frequently revolve around whether or not services should be designated and accounted for as a countywide service or as a municipal service.

Services designated as countywide are funded by the General Fund and borne by all county residents. Services designated as municipal are funded through the Municipal Services Fund and borne only by unincorporated area residents. County officials hold to a case law interpretation of the **Utah Code** which says that a service is countywide unless it is exclusively provided to unincorporated areas. Municipal officials maintain that if services are primarily delivered to unincorporated areas or if cities provide a similar service, then it is a municipal service and should not be funded with countywide General Funds.

Services do change and, as such, statutes cannot clearly state if a specific service is countywide or municipal. For example, while statutes clearly state that fire protection is a municipal service, paramedic services are not specifically listed (**Utah Code** 17-36-3 (22)). Paramedic operations were not viewed by anyone at the time the statute was written as either countywide or municipal and, therefore, were not included. Although non-specific statutes may promote conflicts, clarifying the statute is not necessarily a reasonable solution. Not only do Salt Lake County and Salt Lake City disagree, but other counties would have difficulties following specific directives because they have already developed alternate methods of providing paramedic services. Along with paramedic services, sheriff investigations and jail cost reimbursements seem to be generating the greatest amount of concern.

The following discusses three services where inequities have persisted and issues have not been completely resolved involving countywide versus municipal designations.

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Paramedics financed with countywide taxes are not provided in Salt Lake City. The equity conflict has yet to be resolved.

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**County Paramedics Paid Through the County's General Fund Do Not Serve Salt Lake City Residents.** Consequently, the distribution of paramedic services remains clearly inequitable for Salt Lake City taxpayers because their taxes are used to finance both city and county services, but they only receive paramedic services from the city. The Salt Lake County Fire Department provides paramedic services countywide except to Salt Lake City, whose own fire department provides paramedic services. Conflicts involve two main causes: (1) County fire services are designated as a municipal service while its'

paramedics are designated countywide even though fire fighters serve as paramedics; and, (2) Salt Lake City's fire fighter union, where the conflict is centered, takes issue with terms the county has for placing paramedics in city stations.

As stated, the conflict is primarily between Salt Lake City and Salt Lake County. The County provides paramedics throughout the county except in Salt Lake City. The county employs 110 paramedic certified firefighters to provide paramedic services in 15 different stations. Eight are county fire stations, six are city stations, and one station is located in a city but separate from the city fire station. Appendix E summarizes where paramedics are located.

Negotiations to place county paramedics in Salt Lake City stations reached an impasse in 1998, when the city declined the county's offer to place paramedics in their fire stations based on unresolved employee integration issues.

Conflicting interpretations of the **Utah Code** have contributed to the disagreement (**Utah Code** 17-34-2 and 17-36-3(22)). Utah statute lists both fire protection and ambulance services as municipal-type service that counties may provide but does not specifically list paramedic services. Salt Lake City suggests that paramedics be considered a municipal service because the coordination of paramedic and fire services are so close that they should be funded in the same way. Unfortunately, if statutes were amended to specifically designate paramedics as either municipal or countywide, other counties would have difficulties. This difficulty arises because paramedic services are not provided by fire departments in all counties. For example, the Davis County Sheriff provides paramedic services instead of the fire department, with the costs financed through the countywide General Fund.

Salt Lake County and Salt Lake City established paramedic services at about the same time. Their services have evolved independently, and both defend their own procedures. A state licensing official offered another explanation that may contribute to the difficulty in resolving this conflict. Fire departments have a monetary incentive to function

as paramedics. Paramedics generate some user fee revenues from insurance companies that help to justify fire department budgets.

Although efforts were made to rectify inequities, Salt Lake City and Salt Lake County are at an impasse. Consequently, Salt Lake City residents are still paying both the city and county for services but only receive services from the city. The only settlement that appears acceptable to the city is to allow the city to “opt out” of countywide paramedic services and receive a reduced tax burden. Such a settlement may be inadvisable as it is equally difficult to determine an appropriate tax differential and could set a controversial precedent to follow.

However, this situation is unique in that Salt Lake City paramedics were established at the same time as county paramedics and issued an independent license. State paramedic licenses are issued for exclusive geographic areas. In Salt Lake County, cities other than Salt Lake City cannot obtain an independent license because the license is already held by the county.

The county has made similar concessions for other unique Salt Lake City services. For example, Salt Lake City and Murray are not required to contribute to the county library because they have independent library systems. Library services are funded by taxpayers in other cities and the unincorporated areas through a special revenue fund for which Salt Lake City and Murray taxpayers do not contribute. Instead of offering tax rebates or differentials, a special revenue fund could also be established for paramedic services. Taxpayers would have to vote to authorize establishing a separate special revenue fund for paramedic services.

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Sheriff services are funded by both General and Municipal Services Funds.

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**Sheriff Investigative Services Provide More of Some Services in Unincorporated Areas.** While more sheriff costs are now financed by the Municipal Services Fund, the issue of investigation service cost placement remains. Sheriff officials feel that investigative services are rightly countywide General Fund items that benefit the entire county. Municipal officials maintain that investigative services should not be funded countywide and that municipal residents are paying for duplicated services for which they receive little benefit.

Public safety funding conflicts occur when cities provide either augmented or replacement services.

Sheriff offense reports for 1997 demonstrate that for several investigative units, funded entirely by the countywide General Fund, considerably more reports were for unincorporated areas and contract cities than for other cities. If almost all of the services are to unincorporated areas, as is the case with patrol services, then those investigative services probably should not be considered as countywide services. Figure 6 shows the number of sheriff offense reports for 1997. While the number of offense reports does not indicate the amount of effort each case entails, it indicates where sheriff efforts were focused and where possible inequities may occur.

**Figure 6. Number of Sheriff Offense Reports by Area.** More offense reports were handled for unincorporated areas.

Unit	Unincorporated Areas		Contract Cities		Other Cities		Total Reports
Population	26%		11%		63%		
Patrol	86,713	77%	20,583	18%	4,716	4%	112,012
Burglary	15,551	80%	3,299	17%	533	3%	19,383
Auto Theft	8,859	83%	1,567	15%	284	3%	10,710
Other Units	17,338	70%	3,678	15%	3,685	15 %	24,701
<b>Total Reports</b>	128,461	77%	29,127	17%	9,218	6%	166,806
<b>Total Less Patrol</b>	41,748	76%	8,544	16%	4,502	8%	54,794

There were 166,806 offense reports filed in 1997, with the majority (67%) of the offenses being handled by patrol units. Patrol costs are already financed by unincorporated areas and four contract cities though the Municipal Services Fund. Over half of the remaining reports were for burglary and auto theft units. Almost all (97%) of these reports were in response to calls from unincorporated areas and contract cities. Officials explained that more reports may be for these

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County jail services are paid mostly with countywide funds. Cities do not pay the small portion of billings that are considered municipal.

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communities because property crimes are often reported by patrol officers who work for the county. All 16 employees assigned to the auto theft and burglary units are financed by the General Fund. If these units are related more to patrol activities, then it may be reasonable for the employee costs to be funded through the Municipal Services Fund.

Sheriff officials stated that unincorporated areas and smaller, less affluent communities may receive proportionally more benefits because they rely on the county sheriff to provide more of their services. Cities often prefer to use their own police for investigations, but county sheriff services are available regardless. When city police do not respond to a call, the sheriff must respond. As shown in Figure 6, four percent of the patrol reports were for other cities. Patrol costs are financed by taxpayers from unincorporated areas and contract cities.

It appears that additional adjustments to the funding for sheriff investigations should be considered. Decisions require more analysis and continuing negotiations to determine what investigation costs should be financed by the Municipal Services Fund.

**County Jail Billings Are Unpaid.** Cities have not reimbursed the county the costs of incarcerating inmates who violate city ordinances, as is required by law, and have disregarded the county's argument that the outstanding jail billings provide an offset to claims of inequitable taxation in that jail services more often benefit metropolitan areas.

The sheriff manages two jails with a third opening soon. Metro Jail is located in Salt Lake City and incarcerates the most serious offenders, in addition to contracted state and federal prisoners; Oxbow Jail is a minimum security facility located in Murray; and a new, much larger, adult detention facility is nearing completion.

Disagreements in designating the civil portion of jail services as municipal have persisted even when statutes are clear. While the code directs that cities have a legal obligation to pay the county for costs incurred for prisoners confined to the county jail for violating city ordinances (**Utah Code 17-22-10**), Salt Lake County agreed that Metro jail services were countywide in a lawsuit dismissed in 1981.

Cumulative outstanding jail service invoices sent by Salt Lake County to municipalities totaled over \$22 million at the end of 1998. Approximately \$14 million of these outstanding billings were for Salt Lake City inmates. City officials contend that as a joint owner of the Metro Jail, they cannot be charged for these jail costs. However, other municipalities in Salt Lake County and throughout the state appear to have followed Salt Lake City's lead and do not pay their counties for the jail costs. Municipalities maintain that all jail services are



countywide and that they have paid all jail costs through their county General Fund property taxes.

County officials acknowledge that most jail services are countywide. The county jail billings are only for each city's misdemeanor inmates, which make up only a small portion of the costs incurred by the county. For example, Figure 7 shows that for 1997, Salt Lake County billed municipalities for only 10 percent of its total expenditures. Twenty-two percent of the costs were collected from state and federal contracts. The remaining 68 percent are for countywide costs that county officials agree are countywide services.

**Figure 7. 1997 Salt Lake County Jail Expenditures.** Unpaid municipal billings make up only a small portion of the county's jail expenditures.

	Jail Expenditures	Percent of Total
State & Federal Contracts	\$ 4,725,964	22%
Municipal Billings	2,183,901	10
Countywide & Unincorporated	<u>14,781,989</u>	<u>68</u>
<b>Total Expenditures</b>	<b>\$21,684,223</b>	<b>100%</b>

*Source: 1997 Salt Lake County Consolidated Annual Financial Report*

Sheriff officials state they will likely demand payment of these billings when the new jail is opened. To be equitable, the county must also identify and bill the Municipal Services Fund for expenses associated with misdemeanor inmates from unincorporated areas that have not been separated from the countywide portion of costs.

### **Other Inequities Relate To Accounting Inconsistencies**

In response to the 1994 report, Salt Lake County modified accounting procedures to resolve equity conflicts between municipalities and the county. We found inequities have resurfaced for at least two services,

Accounting inequities  
need  
to be addressed  
continually.

parks and attorney prosecution, because county accounting practices have not sufficiently met statutory requirements that all municipal-type services costs be separately accounted for and passed on to unincorporated taxpayers (**Utah Code** 17-34-3 and 17-34-5).

**Park Classification Improvements Have Faltered.** As discussed earlier, the county responded to the municipalities' study by re-categorizing some community parks as neighborhood parks and charging all overhead costs to the Municipal Services Fund. Since these modifications, inequities resurfaced after a new municipality was incorporated. After modifying its procedures to reclassify some neighborhood parks and include all of their maintenance costs in the Municipal Services Fund, the county continued to maintain Taylorsville's two neighborhood parks after it was incorporated. Maintenance costs for these two parks are now placed in the countywide General Fund instead of the Municipal Services Fund. This change is inequitable because other cities pay their own local park costs. Past conflicts were caused because countywide funds were used to subsidize unincorporated municipal park costs. Now, countywide funds are subsidizing an incorporated municipality's park costs. This accounting inequity could be resolved by requiring Taylorsville to either contract from the county for those services or to secure and pay for park maintenance independent from the county.

**More Attorney Prosecution Costs Should Be Allocated to the Municipal Services Fund.** The county now transfers payroll costs related to prosecuting class B and C misdemeanors for unincorporated areas and contract cities from the General to the Municipal Services Fund. However, the transfer only includes direct payroll costs. Indirect costs, such as employee benefits and administrative overhead, have not been included in the allocation as required by statute (**Utah Code** 17-34-5).

Both large and small taxing inequities may be found in each county department. Regularly evaluating and amending procedures and policies and negotiating changes are necessary to maintain a reasonable level of equity.

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Alternatives used to help alleviate inequitable taxation all require cooperation and on-going evaluation.

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## Evaluation of Alternatives Are Needed

There are numerous alternatives to help alleviate inequitable taxation of municipal and county residents. Alternatives include:

- Variable property tax rates (tax differentials or rebates)
- Consolidated city/county government structures
- Metropolitan services by function
- Special districts
- Tax base sharing

Municipalities and counties in Utah and in other states disagree on which is a better alternative but generally recommend that the Legislature allow counties and municipalities to establish alternative processes to suit their individual needs. Legislation encouraging cooperation between counties and municipalities have proven useful, regardless of the alternative selected. For example, Maryland requires counties to compensate municipalities for parallel services with tax set-off rates. Set-offs take the form of either a property tax rate differential (i.e., a lower county property tax rate in a municipality) or a tax rebate (i.e., a direct grant from a county to the municipality) to compensate a municipality that provides a service in lieu of similar county services. Because there are as many ways to determine appropriate compensation levels as there are counties, rather than establishing a statewide methodology for tax set-off rates, a legislative task force in Maryland recommended the Legislature encourage cooperation by: (1) defining timing requirements for the negotiation of tax set-offs; (2) specifying information to be shared; and, (3) establishing alternative negotiating processes.

### Variable Tax Rates

Some states require equal services for equal taxes. Maryland law does not require county property tax rates to be uniform. Specific counties are even restricted from imposing a county property tax for services that a municipality provides for its residents. However, allowing tax rates to vary according to services received has not resolved the conflict because each methodology selected to calculate tax set-off rates becomes controversial. Consultants researching methods to calculate

tax differentials or tax rebates concluded that differentials could not be adequately formulated that are applicable to all local governments because differential programs likely reflect the political climate in each county and the relative political clout of municipalities within the county.

County and municipal officials are required to meet annually to discuss and negotiate tax set-off rates. While laws provide flexibility and encourage cooperation, they rely on the goodwill of the parties entering into negotiations. A Maryland legislative task force was formed in 1997 to recommend a more specific framework to negotiate tax set-off rates and encourage cooperation between county and municipal governments. Their report, submitted in December 1997, concluded that the concerns regarding the adequacy of tax set-offs need to be addressed locally on a case-by-case basis and, consequently, proposed draft legislation to encourage cooperation.

Virginia completed a two year study in 1995 that included a survey of 190 cities and towns to determine the nature and frequency of overlapping local government services and evaluated the feasibility of establishing tax differentials. Their study concluded that...

*double taxation is not a compelling concern affecting town-county relations...both town and county officials are more concerned that any effort to address double taxation not disturb good town-county relations...and encourages towns and counties to consider utilizing existing statutory authority to address any inequities in their own jurisdictions.*

### **Consolidated City/County Government Structures**

A Texas study evaluated the consolidating of city/county governments and found that consolidated structures save money by improving the efficiency of local government by (1) eliminating overlap and duplication between two governments serving practically the same population; and, (2) gaining advantages of economies of scale in delivering services to a larger area more efficiently and under unified management. The report provided case studies of numerous

consolidations. Consolidations summarized in their report and others we reviewed include:

- Jacksonville, Florida
- Lexington, Kentucky
- Athens, Georgia
- Augusta, Georgia
- Denver, Colorado
- San Antonio, Texas
- Kansas City, Kansas
- Indianapolis, Indiana,
- Anaconda, Montana
- Baton Rouge, Louisiana
- Columbus, Georgia
- Nashville, Tennessee
- Indianapolis, Maryland

Utah laws, already passed in 1998, permit consolidated city and county governments as an accepted structural form of government. **Utah Code 17-35b-304(1)** states:

*The structural form of county government known as the "consolidated city and county" form unites in a single consolidated city and county government the powers, duties, and functions which, immediately prior to its effective date, are vested in the county, the largest city in the county, such other cities and towns as elect to merge in it, and all special taxing districts, public authorities, county service areas, and other local public entities functioning within the boundaries of the county, except school districts. The consolidated government shall, with the consent of the continuing municipalities, have power to extend, on a countywide basis, any governmental service or function which is authorized by law or which the previous county, cities, and other local public agencies included in them were empowered to provide for their residents. No such service, however, shall be provided within an incorporated municipality which continues to provide that such service for its own inhabitants, except upon a contract basis for the municipality.*

### **Metropolitan Services by Function**

Consolidating selected services is sometimes more desirable than completely integrating all city and county services. A study quantifying the economies of scale achieved by consolidating specific services stated that each municipal service has a different economy of scale. The study indicated that efficiencies are not determined by the size of an organization but are affected by attitudes, policies, and

procedures. Occasionally, public safety concerns have required state legislatures to coerce consolidation.

Nevada established a Metropolitan police department for Las Vegas and unincorporated areas of Clark County in 1973 by passing a bill to combine services and provide a method for funding. Consolidating the County Sheriff and four city police departments (Las Vegas, North Las Vegas, Henderson, and Boulder) became necessary when physical separation and *professional jealousy of investigative units* impeded communication about criminal activities. The Las Vegas Metropolitan Police Department is headed by the elected County Sheriff.

Salt Lake County officials stated that difficulties in communicating about criminal activities currently exist between the separate police departments located in Salt Lake County.

### **Special Districts**

Special service districts allow taxpayers to *pay for services they receive and receive services they pay for* by dividing the total area into service districts and systematically linking taxes and services financed with a single tax rate. In our opinion, while service districts may successfully achieve equitable taxation to cities, efficiencies gained by economies of scale may be lost because each district operates independently. Further, when the municipal services of unincorporated areas are accounted for in a special district, sales taxes are not used to offset some of the costs. This was the case discussed in Chapter II when Utah County established special service districts to finance all municipal service costs for unincorporated areas and omitted local sales tax revenues.

This option is more desirable for cities contributing more taxes than the benefits they receive. Paramedic services could be provided in Salt Lake City as a special district and then only those receiving the service would pay for the service with fees or property taxes.

### **Tax Base Sharing**

Conflicts about inequitable taxation and levels of service often result from some communities' inability to raise revenues that support basic

services. Tax base sharing plans are used in some cities to reduce fiscal disparities and allow communities, which lack a substantial commercial tax-base, to fund services. In Minneapolis-St. Paul, 40 percent of all increases in the market value of commercial-industrial property is shared among municipalities that have low per-capita property values within the metro area.

Prior evaluations successfully encouraged changes that reduced inequitable taxation of taxpayers currently supporting both county and municipal governments. While improvements were made, identifying and amending inequities is a continual process. If all areas of the county were incorporated and the county only provided countywide services, there would be less conflict. However, wall-to-wall cities will not resolve all issues because many of the services provided to newly incorporated municipalities are services provided by the county under contract. Costs still need to be accounted for fully and accurately.

Evaluating alternatives to eliminate the inefficiency of two governments producing similar services for nearly the same population is difficult and contentious because both municipalities and counties are concerned with maximizing budget advantages. County and municipal representatives need to meet regularly to share information and to identify and negotiate inequitable taxation issues.

**Recommendation:**

1. We recommend that Salt Lake County and municipal representatives meet on a regularly specified basis to explore alternatives and to continue the process of sharing information, identifying inequities, and negotiating solutions to inequitable taxation issues.



## **Appendices**

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# Appendix A

## Counties and Municipalities

<b>Beaver County (5)</b>	Scofield	Cannonville	Morgan City	<b>Salt Lake County</b>	Salina
Beaver City	Sunnyside	Escalante		(1)	Sigurd
Milford	Wellington	Hatch	<b>Piute County( 6)</b>	Alta	
Minersville	East Carbon	Henrieville	Circleville	Bluffdale	
		Panguitch	Junction	Draper	
<b>Box Elder County( 3)</b>	<b>Daggett County 6</b>	Tropic	Kingston	Herriman	
Bear River	Manila		Marysvale	Midvale	
Brigham		<b>Grand County (5)</b>		Murray	
Corinne	<b>Davis County (2)</b>	Castle Valley	<b>Rich County (6)</b>	Riverton	
Deweyville	Bountiful	Moab	Garden City	Salt Lake City	
Elwood	Centerville	East Green River	Laketown	Sandy	
Fielding	Clearfield		Randolph	South Jordan	
Garland	Clinton	<b>Iron County (3)</b>	Woodruff	South Salt Lake	
Honeyville	Fruit Heights	Brian Head		Taylorsville	
Howell	Farmington	Cedar City		West Jordan	
Mantua	Kaysville	Enoch		West Valley City	
Perry	Layton	Kanarraville			
Plymouth	North Salt Lake	Paragonah		<b>San Juan County</b>	
Portage	South Weber	Parowan		(4)	
Snowville	Sunset			Blanding	
Tremonton	Syracuse	<b>Juab County (5)</b>		Monticello	
Willard	West Bountiful	Eureka			
	West Point	Levan		<b>Sanpete County (3)</b>	
<b>Cache County (3)</b>	Woods Cross	Mona		Centerfield	
Amalga		Nephi		Ephraim	
Clarkston	<b>Duchesne</b>	Rocky Ridge		Fairview	
Cornish	<b>County(4)</b>			Fayette	
Hyde Park	Altamont	<b>Kane County (5)</b>		Fountain Green	
Hyrum	Duchesne City	Alton		Gunnison	
Lewiston	Myton	Big Water		Manti	
Logan	Roosevelt	Glendale		Mayfield	
Mendon	Tabiona	Kanab		Moroni	
Millville		Orderville		Mt. Pleasant	
Newton	<b>Emery 4</b>			Spring City	
North Logan	Castle Dale	<b>Millard County (4)</b>		Sterling	
Paradise	Clawson	Delta		Wales	
Providence	Cleveland	Fillmore			
Richmond	Elmo	Hinckley		<b>Sevier County (4)</b>	
River Heights	Emery City	Holden		Annabella	
Smithfield	Ferron	Kanosh		Aurora	
Wellsville	Green River	Leamington		Elsinore	
Trenton	Huntington	Lynndyl		Glenwood	
Nibley	Orangeville	Meadow		Joseph	
		Oak City		Koosharem	
<b>Carbon County (3)</b>	<b>Garfield County (5)</b>	Scipio		Monroe	
Helper	Antimony			Redmond	
Price	Boulder	<b>Morgan County (5)</b>		Richfield	

**Summit County (3) Wasatch County (4)**

Coalville  
Francis  
Henefer  
Kamas  
Oakley  
Park City

**Washington (3)  
County**

**Tooele County (3)** Enterprise  
Erda Hildale  
Grantsville Hurricane  
Lakepoint Ivins  
Lincoln La Verkin  
Ophir Leeds  
Rush Valley New Harmony  
Stansbury Park Rockville  
Stockton Santa Clara  
Tooele City Springdale  
Vernon St George  
Wendover Toquerville  
Virgin

**Uintah County (3) Washington City**

Ballard

Naples

Vernal

**Wayne County (6)**

Bicknell

Loa

Lyman

Torrey

**Utah County (2)**

Alpine

American Fork

Cedar Fort

Cedar Hills

Eagle Mountain

Elk Ridge

Genola

Goshen

Highland

Lehi

Lindon

Mapleton

Orem

Payson

Pleasant Grove

Provo

Provo Canyon

Salem

Santaquin

Saratoga Springs

Spanish Fork

Springville

Vineyard

Woodland Hills

**Weber County (2)**

Farr West

Harrisville

Huntsville

Marriott-Slaterville

North Ogden

Ogden

Plain City

Pleasant View

Riverdale

Roy

South Ogden

Uintah

Washington Terrace

West Haven

(Class of County)

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## **Appendix B**

### **Utah Municipal-Type Services Statutes**

#### **17-34-1. Authorization to furnish services.**

Counties may: (1) furnish municipal-type services and functions to areas of the county outside of incorporated municipalities; and (2) fund those services by: (a) levying taxes on taxable property in the county outside the limits of incorporated municipalities; or (b) charging a service charge or fee to persons benefitting from the services and functions.

#### **17-34-2. Types of services authorized.**

Counties may provide to the areas of the county outside the limits of any incorporated cities or towns the following municipal-type services or functions without providing the same services or functions to incorporated cities or towns: fire protection, waste and garbage collection and disposal, planning and zoning, street lighting, and all other services or functions that are required by law to be budgeted, appropriated, and accounted for from either a municipal services fund or a municipal capital projects fund as defined under Title 17, Chapter 36.

#### **17-34-3. Taxes or service charges.**

(1) (a) Whenever a county furnishes the municipal-type services and functions described in Section 17-34-2 to areas of the county outside the limits of incorporated cities or towns, the entire cost of the services or functions so furnished shall be defrayed from funds that the county has derived from either: (i) taxes which the county may lawfully levy or impose outside the limits of incorporated towns or cities; (ii) service charges or fees the county may impose upon the persons benefitted in any way by the services or functions; or (iii) a combination of these sources. (b) As the taxes or service charges or fees are levied and collected, they shall be placed in a special revenue fund of the county and shall be disbursed only for the rendering of the services or functions established in Section 17-34-2 within the unincorporated areas of the county. (2) For the purpose of levying taxes, service charges, or fees provided in this section, the county legislative body may establish a district or districts in the unincorporated areas of the county. (3) Nothing contained in this chapter may be construed to authorize counties to impose or levy taxes not otherwise allowed by law.

#### **17-34-4. Contracts under Inter-local Co-operation Act.**

This act shall not be construed to prevent counties, cities and towns from entering into contracts covering the furnishing by one to the other of all or any of the municipal functions and services listed in Section 17-34-2 of this act under the provisions of the Inter-local Co-operation Act, except that where incorporated cities or towns perform one or more of the municipal services set forth in Section 17-34-2 for unincorporated areas of a county, payment shall be made from the special revenue fund.

**17-34-5. Budgeting, accounting for, and disbursing of funds - Annual audit.**

(1) (a) With respect to the budgeting, accounting for, and disbursing of funds to furnish the municipal-type services and functions described in Section 17-34-2 to areas of the county outside the limits of incorporated towns and cities, including levying of taxes and imposition of fees and charges under Section 17-34-3, each county legislative body shall separately budget and strictly account for and apportion to the costs of providing municipal-type services and functions the following: (i) the salaries of each county commissioner and the salaries and wages of all other elected and appointed county officials and employees; (ii) the operation and maintenance costs of each municipal-type service or function provided, set forth separately as line items in the Municipal Services Fund budget; (iii) the cost of renting or otherwise using capital facilities for the purposes of providing municipal-type services or functions; and,

(iv) all other costs including, but not limited to, administrative costs associated directly or indirectly with the costs of providing municipal-type services or functions. (b) At all times these funds and any expenditures from these funds shall be separately accounted for and utilized only for the purposes of providing municipal-type services and functions to areas of the county outside the limits of incorporated towns or cities. (2) To implement Subsection (1):

(a) a budget shall be adopted and administered in the same manner as the budget for general purposes of the county which furnishes the municipal-type services and functions is adopted and administered, either as a part of the general budget or separate from it; (b) funds for the purposes of furnishing municipal-type services and functions under this chapter shall be collected, held, and administered in the same manner as other funds of the county are collected, held, and administered, but shall be segregated and separately maintained, except that where, in the judgment of the county legislative body, advantages inure to the fund from co-investment of these funds and other funds also subject to control by the county legislative body, the county legislative body may direct this co-investment, but in no event may the funds to furnish municipal-type services and functions or the income from their investment be used for purposes other than those described in Section 17-34-2; (c) expenditures shall be made in the same manner as other expenditures of the county are made; and, (d) any taxes levied under this chapter shall be levied at the same time and in the same manner as other taxes of the county are levied. (3) An annual audit of the budgeting, accounting for and disbursing of funds used to furnish municipal-type services and functions, shall be conducted by an independent certified public accountant.

**17-36-3 (22) "Municipal service"** means a service not provided on a countywide basis and not accounted for in an enterprise fund, and includes police patrol, fire protection, culinary or irrigation water retail service, water conservation, local parks, sewers, sewage treatment and disposal, cemeteries, garbage and refuse collection, street lighting, airports, planning and zoning, local streets and roads, curb, gutter, and sidewalk maintenance, and ambulance service

### **17-36-9. Budget - Financial Plan - Contents Municipal Services and Capital Projects Funds.**

(1) (a) The budget for each fund shall provide a complete financial plan for the budget year and shall contain, in tabular form, classified by the account titles as required by the uniform system of budgeting, accounting, and reporting: (i) estimates of all anticipated revenues; (ii) all appropriations for expenditures; and, (iii) any additional data required by Section 17-36-10 or by the uniform system of budgeting, accounting, and reporting. (b) The total of appropriated expenditures shall be equal to the total of anticipated revenues. (2) (a) Each first, second, and third class county that provides municipal-type services under Section 17-34-1 shall: (i) establish a special revenue fund, "Municipal Services Fund," and a capital projects fund, "Municipal Capital Projects Fund," or establish a special district to provide municipal services; and, (ii) budget appropriations for municipal services and municipal capital projects from these funds. (b) The Municipal Services Fund is subject to the same budgetary requirements as the county's general fund. (c)(i) Except as provided in Subsection (c)(ii), the county may deposit revenue derived from any taxes otherwise authorized by law, income derived from the investment of money contained within the municipal services fund and the municipal capital projects fund, the appropriate portion of federal money, and fees collected into a municipal services fund and a municipal capital projects fund. (ii) The county may not deposit revenue derived from a fee, tax, or other source based upon a countywide assessment or from a countywide service or function into a municipal services fund or a municipal capital projects fund. (d) The maximum accumulated unappropriated surplus in the municipal services fund, as determined prior to adoption of the tentative budget, may not exceed an amount equal to the total estimated revenues of the current fiscal year.

### **17-36-10. Preparation of tentative budget.**

(1) On or before the first day of the next to last month of every fiscal year, the budget officer shall prepare for the next budget year and file with the governing body a tentative budget for each fund for which a budget is required. (2) The tentative budget shall set forth in tabular form: (a) actual revenues and expenditures in the last completed fiscal year; (b) estimated total revenues and expenditures for the current fiscal year; (c) the estimated available revenues and expenditures for the ensuing budget year computed by determining: (i) the estimated expenditure for each fund after review of each departmental budget request; (ii) (a) the total revenue requirements of the fund; (b) the part of the total revenue that will be derived from revenue sources other than property tax; and, (c) the part of the total revenue that must be derived from property taxes; (d) if required by the governing body, actual performance experience to the extent available in work units, unit costs, man hours, and man years for each budgeted fund that includes an appropriation for salaries or wages for the last completed fiscal year and the first eight months of the current fiscal year, together with the total estimated performance data of like character for the current fiscal year and for the ensuing budget year. (3) The budget officer may recommend modification of any departmental budget request under Subsection (2)(c)(i) before it is filed with the governing body, if each department head has been given an opportunity to be heard concerning such modification. (4) Each tentative budget shall contain the estimates of expenditures submitted by any department together with specific work programs and other supportive data as the governing body requests. The tentative budget shall be accompanied by a supplementary estimate of all



capital projects or planned capital projects within the budget year and within the next three succeeding years.

(5) (a) Each tentative budget submitted in a county with a population in excess of 25,000 determined pursuant to Section 17-36-4 shall be accompanied by a budget message in explanation of the budget.

(b) The budget message shall contain an outline of the proposed financial policies of the county for the budget year and describe the important features of the budgetary plan. It shall also state the reasons for changes from the previous year in appropriation and revenue items and explain any major changes in financial policy. (c) A budget message for counties with a population of less than 25,000 is recommended but not incumbent upon the budget officer.

(6) The tentative budget shall be reviewed, considered, and tentatively adopted by the governing body in a regular or special meeting called for that purpose. It may thereafter be amended or revised by the governing body prior to public hearings thereon, except that no appropriation required for debt retirement and interest or reduction, pursuant to Section 17-36-17, of any deficits which exist may be reduced below the required minimum.

**59-2-924 Property Tax Act- Levies-Report of valuation of property to county auditor and commission - Transmittal by auditor to governing bodies - Certified tax rate - Adoption of tentative budget.** (B) for each municipality incorporated on or after July 1, 1996, the certified tax rate is: (I) in a county of the first, second, or third class, the levy imposed for municipal-type services under Sections 17-34-1 and 17-36-9; and (II) in a county of the fourth, fifth, or sixth class, the levy imposed for general county purposes and such other levies imposed solely for the municipal-type services identified in Section 17-34-2 and Subsection 17-36-3(22).

#### **17A-2-402 Special Districts County Service Areas**

(1) The Legislature finds that the need for county service areas is a result of the growth in unincorporated areas of some counties. As a result of the large population growth and intensive residential, commercial, and industrial development in unincorporated areas, extended governmental services are needed. (2) The Legislature recognizes the duty of counties as instruments of state government to meet adequately the needs of unincorporated areas, and also recognizes that unincorporated areas should pay for the extended services provided. (3) The Legislature recognizes that the services provided by a county service area may also be extended to incorporated areas of the county at the request of the municipality and pursuant to procedures set forth in this part.

### **17a-2-403. Services Which May Be Supplied by a County Service Area**

(1) (a) Whenever an unincorporated area in a county requires one or more of the following extended services which are not provided on a countywide basis: extended police protection; fire protection; culinary or irrigation water retail service; water conservation; local park, recreation or parkway facilities and services; cemeteries; public libraries; sewers, sewage and storm water treatment and disposal; flood control; garbage and refuse collection; street lighting; airports; planning and zoning; local streets and roads; curb, gutter and sidewalk construction and maintenance; mosquito abatement; health department services; hospital service; or the underground installation of an electric utility line or the conversion to underground of an existing electric utility line— such services may be supplied by a county service area. If the provision of said services shall require the issuance of bonds or the creation of long-term obligations said services may be supplied by means available at law as herein provided. (b) Each county service area that supplies the service of the underground installation of an electric utility line or the conversion to underground of an existing electric utility line shall, in installing or converting the line, provide advance notice to and coordinate with the utility that owns the line. (2) All provisions of this part that establish, govern, or state the requirements and procedure for the creation of a county service area: (a) are superseded by the provisions of Title 17B, Chapter 2, Part 2, Creation of Local Districts, with respect to the creation of a county service area; and, (b) remain valid to the extent they establish, govern, or state the requirements or procedure for annexation to an existing county service area.

### **17a-2-404. Establishment of Service Area.**

A county service area shall be established if: (1) The county legislative body determines that such service should be provided on an extended basis within an unincorporated area in the county; or (2) Such services are requested in a petition for the initiation of proceedings for the formation of a county service area or for the furnishing of additional types of service within an unincorporated area in the county.

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## Appendix C

### Counties Municipal Services Fund Accounting

County	Primary Types of Municipal Services Included
Salt Lake	Sheriff, Fire, Planning, Justice Courts, Animal Services, Public Works, Developmental Services, Street Lighting, Parks
Utah	Separate Special Service Areas for Sheriff, Fire, Planning
Davis	Fire, Animal Services, Roads, Building Inspection, Business Licenses
Weber	Sheriff, Planning, Roads & Highways, JP Courts, Garage, Weeds, Public Works, Building Inspection, Animal Control, Professionals, Special Revenue Fund for Paramedics
Cache	Sheriff, Fire Dept, Zoning Dept, Bldg Inspector, Animal Control. Sanitation/Waste
Washington	Sheriff, Fire, Engineering, Planning & GIS Building Inspector, Special Revenue Fund for Class B&C Roads
Box Elder	Fire, Planning, (All Sheriff financed countywide in Special Revenue Fund
Tooele	Engineering, Animal Control, Library
Uintah	Sheriff, Fire, Planning Office, Building & Zoning, Forest Patrol, Gang Task Force, Animal Control, Street Light & Signs
Summit	Sheriff, Planning & Zoning, Administration, Courthouse Offices, Courts, County Attorney, Public Safety, Public Works, Support Departments, County Buildings
Carbon	Fire, Planning & Zoning, GIS, Building Inspection, Predator Control, Street Lighting, Utilities, Library
<i>Auditors in Sanpete and Iron Counties anticipate establishing a Municipal Services Fund for the Year 2000 Budget</i>	

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# APPENDIX D

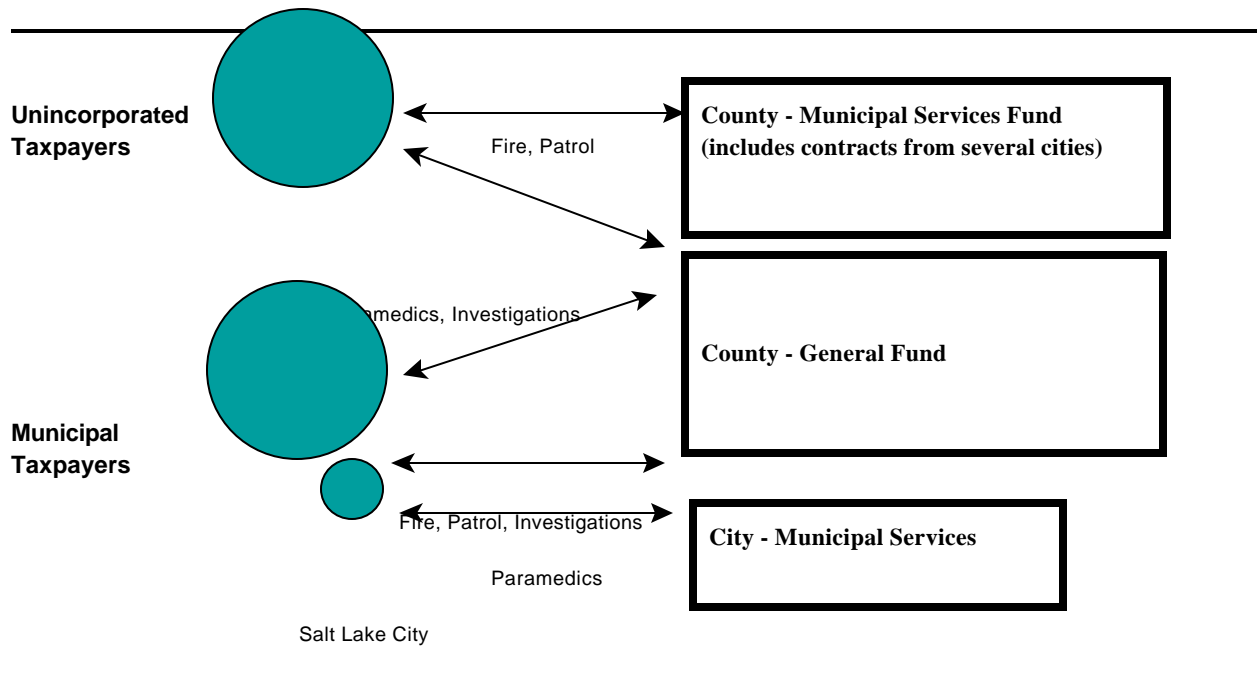
## Salt Lake County Accounting Compared with Davis County

### SALT LAKE COUNTY

**Fire Department - Fire Protection** Municipal  
- Paramedics Countywide

**Sheriff Department - Patrol Services** Municipal  
**Investigative** Countywide

Unincorporated and municipal taxpayers pay for their own fire and patrol services because services are classified as municipal. Classified as countywide, paramedics and investigation services are paid for from the General Fund. Municipal taxpayers also pay their city for investigation and paramedic services if their city also provides that service regardless of the classification.

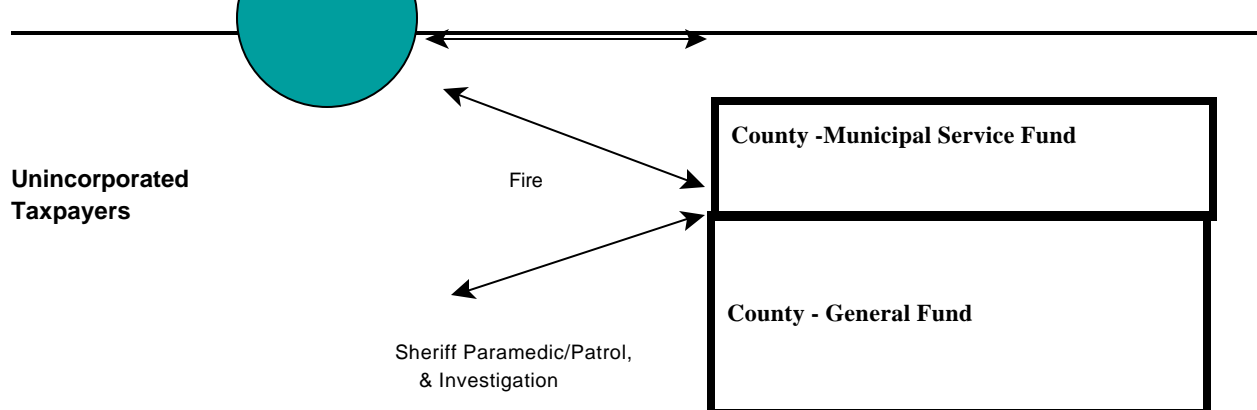


### DAVIS COUNTY

**Fire Department - Fire Protection** Municipal  
Countywide

**Sheriff Department - Investigative Services, Paramedics/Patrol**

Unincorporated and municipal taxpayers pay for their own fire services either through the MSF or to their city because services are classified as municipal. Services, including patrol, investigative and paramedic, are classified as countywide and paid for from the General Fund. Municipal taxpayers also pay for investigation and patrol if their city also provides that service.

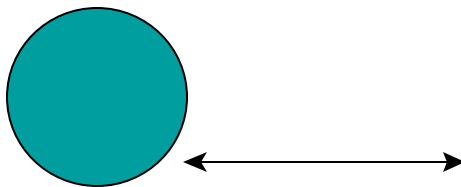


**Municipal  
Taxpayers**

Fire, Patrol, Investigations

**City - Municipal Services**

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## Appendix E

### Location of Paramedic Services Within Salt Lake County

Salt Lake City	13 City fire stations with own paramedics
Unincorporated	6 County fire stations with paramedic 6 County fire stations without paramedics
Bluffdale	1 City fire station
Draper	1 City fire station with County paramedics
Midvale	2 City fire stations
Murray	3 City fire stations-1 with County paramedics
Riverton	1 City fire station with County paramedics
Sandy	4 City fire stations, 1 with County paramedics (also have own paramedics in 1 station)
South Jordan	1 City fire station with County paramedics
South Salt Lake	2 City fire stations 1 County fire station with paramedic (County contracts fire services)
Taylorsville	1 County fire station with paramedic (County contracts fire services)
West Valley City	4 City fire stations 1 County paramedic station separate from City station
West Jordan	3 City fire stations-1 with County paramedics
<b>Total</b>	8 County fire stations with paramedics 6 County fire stations without paramedics 22 City fire stations (6 have County paramedics) 13 Salt Lake City fire stations 1 County Paramedic located in a city but separate from fire station



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## **Agency Responses**

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**Salt Lake County  
Board of Commissioners**

Mary Callaghan, CHAIR

Brent Overson

Mark Shurtleff



October 29, 1999

Mr. Wayne L. Welsh  
Legislative Auditor General  
130 State Capitol  
P.O. Box 140151  
Salt Lake City, Utah 84114-0151

Dear Mr. Welsh:

Attached please find a copy of Salt Lake County's response to the draft of the double taxation audit presented to us by Sue Verhoef. We appreciate the opportunity to review the draft and to provide audit information concerning its content. We would request that our response be incorporated as an addendum to your report.

Again, thank you for the opportunity to respond and for the gracious manner in which your audit team has worked with Salt Lake County and its personnel.

Sincerely,

A handwritten signature in cursive script, appearing to read 'Mary Callaghan', is written over a light blue background.

Mary Callaghan, Chair  
Salt Lake County Commission

# **SALT LAKE COUNTY**

## **RESPONSE**

### **A Performance Audit Of Municipal and County Taxation (Report No. 99-08)**

**October 25, 1999**

Salt Lake County participated with the Legislative Auditor General (“Auditor”) in a review of the issues raised by the Cities within Salt Lake County in a 1994 audit entitled “Review of the Financing and Service delivery of County-provided Municipal Type Services” (“Audit”). Our work with the Auditor General involved several sessions over a year’s period of time. It appears that the stated purpose of that review was to determine if the cities’ conclusion that Salt Lake County was “double taxing” municipal residents was accurate. Salt Lake County responded to the 1994 city review with our own analysis of service delivery of both countywide and municipal services and funding for those programs. In addition, Salt Lake County has in every budget cycle analyzed budgets to meet the statutory requirements in the Municipal Type Services to Unincorporated Areas Act, 17-34-1 et seq. U.C.A.

This response is primarily focused on the parts of the Audit that pertain to Salt Lake County, mostly Chapter III. Preliminarily, it appears that the Audit does not attempt to resolve the question of what is “double taxation”. The Auditor was provided substantial reference material related to this issue as well as being familiar with Utah authority and statutes. When the auditor examines “... the service equity of current countywide General Fund expenditures”, this is really not an examination of “double taxation”. Equal service benefits from taxes paid is not required in the law nor is it a definition of “double taxation”<sup>1</sup> Likewise, cities’ choice to augment or replace otherwise available countywide services is not “double taxation”. The Audit never really defines this concept as a standard for which the rest of the Audit could be measured or recommendations applied. “Double taxation” is an elusive concept frequently advanced for a political reason unrelated to any meaningful legal or fiscal definition of the concept.

The Utah Supreme Court has held that “double taxation” occurs “. . . when municipal residents are required, through county tax assessments, to finance services provided exclusively to residents of the unincorporated areas of the county”, *Salt Lake City Corp. v. Salt Lake County* 50 P2d 1291 (Utah 1976). The Court applied this definition and indicated that a county providing exclusive services to unincorporated residents under the requirements of 17-34-1 et seq. must likewise fund those programs from unincorporated area revenue. Sections 17-34-2 and 17-36-3(24) U.C.A define these

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<sup>1</sup> See page 23, para. 1 of the Audit. “Equal benefits are not required by law.”

exclusive “municipal services”. The municipal type services to unincorporated areas act, 17-34, was passed in 1971 and amended in 1975, 1982, 1985, 1991, 1995 and 1996. In order to establish double taxation, it first must be established that the service being provided by the county tax assessments is exclusively municipal services. In Utah this standard is established by statute and, although not addressed in Utah Court decisions, it is arguable that the only municipal services recognized in law are those set out in statutes. None of the services identified by the Audit, paramedics, sheriff investigation, parks, and misdemeanor prosecution, are identified as municipal services in the statutes. Each of these areas will be discussed later in this report.

If it is determined that defining municipal services by means other than the statutory language is necessary then some case authority from other jurisdictions may be helpful. Florida has been the scene of most of this litigation based upon the Florida Constitution, which has similar language to the legal standard in the *Salt Lake City* case, supra. Under the Florida standards a county is still authorized to use county general funds for certain services if those services, although typically municipal, also provide a “real and substantial benefit” to a city.<sup>2</sup> This has been held to be true even where those services may duplicate a city service. These courts have upheld use of general funds in both direct and indirect benefit circumstances. On-call and backup services have been recognized as indirect benefits to cities.

Throughout the Audit the Auditor has chosen to use the terms “inequities, taxing inequities, etc.” instead of the terminology under 17-34 U.C.A. Chapter III in regard to Salt Lake County also uses the term “inequities”. To the extent that the Auditor views inequity in taxation compared to tax benefits, Salt Lake County takes exception to that characterization as “double taxation”. The County believes that it is in compliance with the requirements of 17-34-1 et seq. U. C. A. and continues to annually review the requirements of those sections and adjust budgets where necessary. We further believe that our county has dedicated more resources countywide to the proper accounting for services, particularly the appropriate costing of internal services and administrative costs, than any other county. Salt Lake County has provided leadership and support statewide in this accounting program.

We take further exception to the idea that Salt Lake County only responded to the “double taxation” issue after the 1994 cities report. Salt Lake County for almost 20 years prior to that report had been annually analyzing budgets to meet the requirements of section 17-34. Some issues remained after 1994 but those issues were essentially disagreements over paramedic services with Salt Lake City as the lone protagonist. In addition to paramedic services, sheriff administration and investigative services, local parks, and prosecution services were mentioned in the 1994 report.

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<sup>2</sup> See *Town of Palm Beach v. Palm Beach County*, 460 So2d 879 (Florida 1985) (sheriff patrol and sheriff detective services), *Ormond Beach v. County of Volusia* 383 So.2d 671 (Florida 1980) (duplicate library systems), *Dressel v. Dade County* 219 So2d 716 (Florida 1969) (County ready and willing to make services available to cities).

#### **Sheriff administration and investigative services**

The Audit correctly indicates that the County has continued to evaluate sheriff services and particularly investigative and support services and there has been a transfer of many of those costs to municipal service programs.<sup>3</sup> Detective services, special investigations, and support services are still weighted in favor of general fund expenditures but the county feels this weighting is correct as the Sheriff is elected countywide and is a countywide law enforcement official. These general fund services are available to all cities in the County if requested and continues to be a substantial beneficial resource to all areas of the county. Section 17-36-3 U.C.A. lists “police patrol” as a municipal service. Currently all patrol functions and their administrative costs are allocated to the unincorporated area and to contract cities. As a further note, these contract cities are not charged for general fund detective and support functions. The Legislature, in its wisdom, has only chosen to require the costs of sheriff’s patrol function to be specifically allocated to municipal services.<sup>4</sup>

The Audit did acknowledge the jail, operated by the Sheriff, may suggest an area of costing that the cities tend to ignore in the discussion of double taxation or, in the terms of the Audit, “inequities”. Cities, since the case, *Utah Co v. Orem City, et al*, 699 P2d 707 (Utah 1985), have been required to pay counties the cost of housing city ordinance misdemeanants in county jails. That bill has reached \$22 million and remains unpaid. This is a huge form of inequity as Salt Lake City is subsidized by the rest of the county in its ordinance enforcement program. The County is continuing to evaluate this issue to determine the proper approach to city costs.

### **County Paramedics**

The Audit concludes that the distribution of paramedic services is clearly inequitable to Salt Lake City as they already pay for these services and receive no benefit for county paramedic services. This may be true but it is largely the choice of Salt Lake City. Of the 15 paramedic units, 9 are in cities in the county.<sup>5</sup> Paramedic units respond to calls as needed, including Salt Lake City as requested. The County made an offer to Salt Lake City to expand services into the City.<sup>6</sup>

The placement of paramedic services as countywide or municipal is not clear in the statutes. Both Salt Lake City and the County began their respective services in 1974 and the County in 1976 split out the costs of paramedics from the fire department. As apparent, most of the County’s paramedic units are located in cities and the availability of

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<sup>3</sup> See figures 4 and 5 in the audit. Note that figure 5 is incorrect.

<sup>4</sup> The legislature amended 17-34 5 times since its enactment in 1971 and many of those amendments were at the request of cities but none has attempted to add other than patrol services to the municipal funding requirement.

<sup>5</sup> Please note that Appendix E is inaccurate on this point.

<sup>6</sup> During the last negotiations the County paramedics division had gone as far as to hire and train paramedics for Salt Lake City before they withdrew their request.

these units to all cities, including Salt Lake City, is a real benefit either in direct response or backup. The legislature has chosen not to include this service as a municipal service despite several amendments to the statute. The fact that Salt Lake City has its own paramedic operation is not dispositive of the double tax issue. Paramedic services is a public safety program protecting people which is not always susceptible to political boundaries. Salt Lake City's proposal to opt out of the paramedics program is unacceptable as it would set a bad precedent that Salt Lake County considers bad policy as well as being questionably illegal as a violation of the uniform taxation requirements.

### **Local Parks**

Salt Lake County generally supports the Audit's conclusions in regard to local or neighborhood parks. These parks, "open space areas intended to serve local resident living within 1/2 mile of the park", are funded in the municipal fund and equate to local municipal parks. Definition of the 1/2 mile service area came after careful study and advice from national planning professionals.

The Audit is critical of the county continuing to maintain the parks within the new city of Taylorsville. These parks are owned by the County and predate the incorporation. Taylorsville has not seen the way to buy these parks or pay for their maintenance. Since they are a county-owned asset, they need to be maintained.

### **Misdemeanor Prosecution**

Salt Lake County through the office of the District Attorney prosecutes misdemeanors in justice courts of the unincorporated county. The District Attorney has countywide jurisdiction to prosecute state code misdemeanors. City attorneys may also prosecute state code misdemeanors. The only true municipal misdemeanor prosecution is ordinance enforcement and the equivalent in Salt Lake County would be enforcement actions in the justice court for Salt Lake County ordinance violations. Very few ordinances are cited in the unincorporated area and it appears the County may have attributed too great of a cost of misdemeanor prosecution to municipal services program. This should be reviewed and limited to county ordinance cases and include overhead and full costs to this limited area.

### **Audit Recommendations**

There is generally nothing wrong with the Audit recommendation for Salt Lake County to continue to meet with the cities in the county attempting to resolve taxing inequities. The difficulty is in the determination of inequities and more specifically whether double taxation exists based upon the standards of 17-34. We do meet periodically with the cities in the Salt Lake County Council of Governments. Unfortunately, the cities tend to discuss these issues among themselves in the Council of Mayors meetings in which the County is not involved. Further input from the cities



would be valuable at the time of our budget setting process in November and December. City representatives infrequently attend this countywide general fund budget process.

The Audit also suggests exploring alternatives, assuming that tax inequities still exist. Some of the alternatives create legal problems under current Utah law including variable tax rates, which is prohibited by the Utah Constitution, Article XIII, sec. 2(1). Consolidated government or services is a good suggestion and the County has urged consolidation of services where possible. Most cities resist loss of local control to the larger more regional government. Special districts, though legally possible, now require voter approval for taxation and debt which is not always a practical way to run a day-to-day service program. Sales tax would not be available to special districts under current law. Voters rejected a consolidated fire special service district the last time it was proposed. Tax base sharing is possible under the authority of the Interlocal Cooperation Act, 11-30-1 et seq. U.C.A. but this requires an agreement and acceptance by all parties.

### **Conclusion**

Salt Lake County appreciates the work done by the Auditor on this sensitive and politically difficult area. The County does not believe it consciously engages in double taxation and has gone to significant expense in fully costing programs to achieve the requirements of 17-34. We think we follow that act completely and closer than any county and continue to review the requirements at every budget setting process. Taxes paid compared to service benefits does not amount to double taxation. There will always be these inequities at every level of government. Municipal services in Salt Lake County should be paid from municipal funds and we will continue to achieve that goal.

October 29, 1999

Wayne L. Welsh, Auditor General  
Office of the Legislative Auditor General  
130 State Capitol  
Post Office Box 14051  
Salt Lake City, UT 84114-0151

Dear Wayne:

Thank you for the opportunity to respond to your performance audit of municipal and county taxation - the so-called, double taxation issue. Your staff are to be complimented on the thoroughness and fairness of their effort to establish the existence and define the boundaries of double taxation in the State. Their work product should help to inform the legislative response.

I would make just four points in response to the draft report.

1. Counties are Not Budgeting as Specifically Required by Law

The evidence and facts presented in the audit support a much more conclusive finding about compliance with state law than the report actually reaches. The statutory standard is clear - each county legislative body shall separately budget and strictly account (emphasis added) for the costs of providing municipal-type services and functions [UCA 17-34-5(1)(a)]. The audit report notes that "[c]ounties have difficulties in separately accounting for countywide and municipal costs because there is not always a clear separation between services departments must provide and the funds that finance those services" and "counties and cities continue to disagree if some services should be countywide or municipal". While such observations are accurate, they understate the basic finding of the audit - that counties are not separately budgeting and strictly accounting for the costs of municipal services, as state law requires.

This inescapable conclusion should be clear to all readers of the report.

2. Legislative Definition of Municipal Services is Adequate

The audit implies, but stops short of stating, that the statutory definition of "municipal services" is inadequate. Rather, the report seems to resolve an implied statutory inadequacy of definition by concluding that the distinction between countywide and municipal services is ultimately a matter to be resolved by a debate between a county and its incorporated cities. However, the report cites the specificity in the statutory law, where legislative policy is clear and unambiguous, as for example in 17-34-2, 17-23-5, and 17-36-3.

These provisions (which have added and clarified the law since the original adoption of 17-34-1 *et seq.* U.C.A. and the 1976 Utah Supreme Court decision ordering Salt Lake County to implement this law) provide additional standards for County budgeting. The statutory amendments require that a municipal service be “a service not provided on a countywide basis (emphasis added) and not accounted for in an enterprise fund. Such services must be separately budgeted and excluded from the general tax appropriations. [UCA 17-36-3(22)] Also, the statutory language specifically notes that the named services are by way of illustration, but not limitation. The illustrative municipal services include: fire protection, waste and garbage collection and disposal, planning and zoning, street lighting [UCA 17-34-2], police patrol, fire protection, culinary or irrigation water retail service, water conservation, local parks, sewers, sewage treatment and disposal, cemeteries, garbage and refuse collection, street lighting, airports, planning and zoning, local streets and roads, curb, gutter, and sidewalk maintenance, and ambulance service [UCA 17-36-3(22)]. Thus, it is statutorily clear that Salt Lake County’s narrow reading, based on pre-amendment language is not consistent with the letter and intent of the Legislature.

In addition, clarification of where to draw the bright line between county-provided municipal services and countywide services can be determined from a review of the use by the Legislature of the term “municipal service.” For example, UCA 10-1-203(5)(b)(iii) indicates that “Municipal services” for which a business license fee or tax may be charged include: public utilities; police; fire; storm water runoff~ traffic control; parking; transportation; beautification; or snow removal. At UCA 10-2-104(2)(b)(ii), the Legislature determined that a parcel should be exempted from a proposed incorporation if it “does not or will not require municipal provision of municipal-type services including: (A) culinary or irrigation water; (B) sewage collection or treatment; (C) storm drainage or flood control; (D) recreational facilities or parks; (E) electric generation or transportation; (F) construction or maintenance of local streets and roads; (G) curb and gutter or sidewalk maintenance; (H) garbage and refuse collection; and (I) street lighting.” In another section dealing with disconnection of property from an incorporated municipality [UCA 10-2-503(2)], the legislature indicated that municipal services include: “. . . (c) existing or projected streets or public ways; (d) water mains and water services; (e) sewer mains and sewer services; (f) law enforcement; (g) zoning; . . .” Respecting the services needed at the University of Utah Research Park, the legislature directed “[t]he Salt Lake City Council [to] provide police and fire protection and furnish, install, and maintain customary municipal services and facilities for street lighting, traffic control, sidewalks, curb, gutter, drainage, sewage disposal, and water supply to all areas of the research park established upon lands conveyed to the University of Utah under the patent.” [UCA 53B-17-505(1)].

Thus, when all these statutes are read in the context of the history of their adoption and sequence of statutory amendments, it is clear that separate budgeting and accounting is required for all services not provided to the county as a whole. Salt Lake County maintains that it only separates service costs, if they are “exclusively provided in unincorporated areas.” This

interpretation is at odds with the statutory budgeting standards that have the reverse requirement and presumption. That is, budget separation is required, unless a service is provided on a county-wide basis. The draft quotes the law, but implies that the County practice is an appropriate interpretation of the law.

Legislative action to harmonize the varied references to municipal services may help to accelerate resolution of double taxation disputes. However, the existing statutory language and distinctions are sufficiently clear to conclude that Salt Lake County is not in compliance with the statutes. Readers of the audit report should understand this very important concept.

3. Off-setting County services, Mandated by Law, Against Costs of Municipal Services is Improper and Only Confuses an Evaluation of County Legal Compliance.

The ongoing dialogue between Salt Lake County, Salt Lake City and the other Salt Lake Valley municipalities has primarily focused on making sure that the County complies with the requirements regarding fairly and legally financing municipal services. The report's discussion about differential levels of countywide services, which are either services the County has accepted County-wide (e.g. the jail) or are ones assigned by State law to the County (e.g. welfare, environment, social services) simply clouds the real issue of double taxation and failure to comply with State mandated budgeting law. A discussion of off-setting costs of County services should not be a part of the audit report.

4. City/County Negotiations to Resolve Double Taxation Requires a New Constitutional Principle.

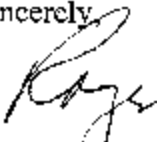
The report's suggestion that the Salt Lake County problem can only be resolved by continuing discussion/negotiation assumes that the parties to the process have roughly equivalent standing in making the decision. This assumption is not the case.

To date, the City has had to rely on the courts and the marshalling of public opinion to secure movement by the county toward full compliance with State law. As the audit report correctly concludes, there is still a ways to go. Therefore, legislative intervention to cause the parties to cooperatively carry out established public policy would have to include an accountability of the County to its cities. To our knowledge, this is a new concept not found in Utah State law.

Wayne L. Welsh  
October 29, 1999

Thank you, again, for the opportunity to respond to the audit. We look forward to a productive discussion about these issues in the upcoming legislative session. Your work promises to be very beneficial.

Sincerely,

A handwritten signature in black ink, appearing to read "Roger Black", written over the printed name.

Roger Black, Director  
Management Services

cc: Mayor Corradini  
Roger Cutler  
City Council