

Testimony Prepared for the
House Appropriations – Human Resources Division

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RE: House Bill 1012 – DHS Budget/Zones

Chairman Nelson and committee members, thank you for the opportunity to briefly address you regarding the ongoing process of social service redesign and the budget to support the Human Service Zones across the state. Zones, and particularly zone employees, are very literally the boots on the ground for delivering so many of the state funded services critical to our most vulnerable North Dakotans.

I want to preface my testimony on the bill by thanking this Committee and the Legislature for passing the redesign enabling legislation, and funding, last session, as well as DHS staff and the many county officials – zone directors, county auditors, state’s attorneys, and commissioners – that have devoted so many hours to implementing this monumental change. My conclusion is that the transition, thus far, has gone well considering the short amount of time that we have been at this, but it is not without its difficulties. Some of which are fiscal and will ultimately be addressed by HB1012.

First and foremost, counties very clearly support the funding requested for Zones in the base budget and the critical additions identified by the Department. I think it is important to note that these funds support not just zone employees, but also all former county and zone employees transferred to state employment through the various redesign initiatives – all of which became, and continues to be, property tax relief. As proposed, this will be the third biennium that the Legislature has set aside \$200 Million in oil tax revenue specifically to make this redesign successful, and thus far, significantly less has been requested and appropriated.

While efforts have been made since formal zone formation, barely a year ago, to achieve some degree of compensation equity, for many employees this goal has not been met. As some zones require much greater employee share for benefits, it has been, and will continue to be, challenging. Obviously, if the Department is not

provided with sufficient funds to address inflationary costs of salaries and benefits – treating zone budgets similarly to DHS division budgets – this concept collapses.

Because the Property Tax Relief Fund transfer as proposed in HB1012 is insufficient for fully funding the zones, the budget anticipates spending over \$15 million in zone reserves (exhausting all reserve accounts in one biennium). These reserves were largely built up over many years. They, very honestly, include some state reimbursement, however, they are largely dedicated social service property tax levy funds. We are a team – state and county – working together and pooling our resources to make human service redesign work, but the perception that property taxes (although clearly collected specifically for human service purposes) will be used as a one-time harvest to offset state general fund dollars is difficult for many zone board and county commission members to accept.

I recognize that reserve funds should not sit unused indefinitely, and the legislature has mandated that DHS fund the human service delivery needs – by transfers from other divisions if necessary – many local officials are (after barely a year) unsure about the potential emergency needs that DHS may not be able to fund, or fund immediately. I also recognize that not utilizing those reserve funds would make your job significantly more difficult, but I must raise this issue as those perceptions exist. Possibly consideration could be giving to reserving a small amount in each Zone, as we gain more experience as to its need.

A final point I wish to address is the meager offset to the property taxes supporting the indirect costs of human service zone support. I thank the Department for budgeting to continue the partial funding at the same level as 2016, but only wish to point out that the costs of space, utilities, janitorial, insurance, IT support, state's attorney salaries and benefits, and all the rest are not stagnant. Over the past five years the property tax burden for these costs has continued to erode the "relief" you as a legislature have provided. This is becoming critical for the counties that have reached their 60-mill general fund limit. DHS, zones and counties are working to analyze and hopefully better standardize how these indirect costs are identified and I sincerely hope we can present a better picture of this property tax supported piece of the puzzle before you adjourn.

Thank you again for the opportunity to address this important bill.