

Testimony Prepared for the  
**Senate Appropriations Committee**

March 10, 2021

By: Terry Traynor, NDACo Executive Director



**RE: Engrossed House Bill 1012 – DHS Budget/Zones**

Chairman Holmberg and committee members, thank you for the opportunity to briefly address 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 budget that comes to you from the House. I think it is important to note that these funds support not just zone employees, but also 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 zone 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, the inclusion of sufficient funds to address inflationary costs of salaries and benefits by the House was critical and must be retained.

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 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 of property taxes 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 any of those reserve funds would make your job significantly more difficult, but I must raise this issue as those perceptions exist.

The Senate Human Services Committee, in addressing the “social service redesign” technical corrections bill (SB2086), removed the language giving unilateral authority for the Department to use all the reserves to offset a state general fund appropriation, however the budget before you, as adopted by the House, anticipates zeroing out these reserves. It would be our request that the Senate provide sufficient funding to at least preserve the threshold amount of \$250,000 in each of the nineteen zones for the future (\$4.75 million).

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 CY2018 (as addressed in SB2086), 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 three years and into the next two, the property tax burden for these costs has, and will continue to, erode the “relief” you as a legislature have provided. This is becoming critical for the counties that have already 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 in the future. However, I would respectfully request that consideration be given to some sort of multiplier to the total allocated for indirect cost reimbursement. I have copied part of the amended section of law from SB2086, with our suggestion in red for one approach.

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

**50-35-04. Calculation of formula payment - Expenditures.**

4. The director, during the period between January 1, ~~2020~~2021, and December 31, ~~2021~~2023, shall calculate payment for indirect costs ~~according to a formula established by the department, during the period between January 1, 2020, and December 31, 2021.~~ Indirect costs of the human service zone may not become direct costs without written approval of the department. The total payment by the department for reimbursement of indirect costs incurred to support human services may not be less than the prorated amount paid to counties for this purpose in state fiscal year 2018 and increased by the percentage allowed for state salary adjustments during the previous biennium, as identified in the indirect cost plan, unless a cost reduction or cost-savings is achieved by the county.