

SOCIAL SERVICES FINANCING STUDY - BACKGROUND MEMORANDUM

Section 12 of 2015 Senate Bill No. 2206 (attached as an [appendix](#)) provides for a Legislative Management study of transferring the costs of operating social services programs from county property tax levies to general fund appropriations. The development of a proposed transition plan must include a timeline for the major milestones of the transition plan, considerations for the transition, estimated costs, a plan to require a property tax reduction for the amount of the budgeted savings brought about by the transfer of county social services costs to the state, a plan resulting in the elimination of the county social services levy under Section 50-06.2-05, and potential legislation to implement recommended changes. The study must also include consideration of the feasibility of implementing the proposed transition plan. The Political Subdivision Taxation Committee has been assigned this responsibility for the 2015-16 interim.

BACKGROUND

A county's ability to levy tax for comprehensive human service programs arose in 1989 with the passage of House Bill No. 1521. The bill granted the board of county commissioners the authority to levy an annual tax, not to exceed 20 mills, "for poor relief purposes." Prior to the passage of 1989 House Bill No. 1521, the costs of human service programs were funded primarily by state and federal sources.

As the realm of social services programs expanded and populations shifted, funding formulas developed in the early 1980s for certain economic assistance programs began to lose relevance. Consideration of the responsibilities of county social services agencies, regional human service centers, and the Department of Human Services became a topic for review, as was evidenced by the passage of 1995 House Concurrent Resolution No. 3045 directing a study of the responsibilities of these agencies. The 1995-96 Budget Committee on Human Services was the interim committee selected to conduct the study provided in 1995 House Concurrent Resolution No. 3045, and as a result, recommended 1997 House Bill No. 1041 to the Legislative Management for introduction during the 1997 legislative session. House Bill No. 1041, as passed by the 1997 Legislative Assembly, required counties to assume the financial responsibility for the costs of administering the following economic assistance programs:

1. Aid to families with dependent children.
2. Job opportunities and basic skills program.
3. Child care block grant.
4. IV-A at-risk child care.
5. Food stamps.
6. Medical assistance.
7. Low-income home energy assistance program.
8. Refugee assistance.
9. Basic care.

In return, the state was required to assume complete financial responsibility for grant programs including temporary assistance to needy families, basic care, child care assistance, and medical assistance. The state was also required to provide additional support for administrative costs of counties with Indian land. The bill's provisions were described as the "swap" agreement and resulted from joint discussions between the Department of Human Services, the North Dakota Association of Counties, and the North Dakota Association of County Social Service Board Directors regarding alternative methods for the delivery and funding of the administrative costs of economic assistance programs.

The effects of the 1997 "swap" legislation were later reviewed by the 2003-04 Budget Committee on Human Services pursuant to the study provided in Section 14 of 2003 Senate Bill No. 2012, directing the study of administrative costs of human services programs, including costs incurred by the central office of the Department of Human Services, human service centers, and county social services. The success and effects of the 1997 "swap" legislation was also studied by the 2007-08 Human Services Committee. Testimony provided to the Human Services Committee indicated that since the "swap" agreement, the reimbursement process and budgeting process had become easier for counties. Counties had better control over staffing issues and were able to better manage tax revenue requirements. The agreement had resulted in efficiencies to counties for administering economic assistance programs.

Legislation passed in 2009 provided for yet another study addressing the funding responsibilities for certain social services programs. House Bill No. 1425 (2009) directed the study of the feasibility and desirability of transferring from the county to the state, the responsibility for the funding of nonfederal foster care and subsidized adoption costs.

Following the 2009 study provided in House Bill No. 1425, legislation was introduced during the 2011 legislative session containing substantive provisions to provide for state assumption of county foster care and subsidized adoption costs that were currently funded at the county level. The restructuring proposed in 2011 House Bill No. 1333 was ultimately unsuccessful, as was a proposed study in 2011 Senate Bill No. 2240 for the development of a plan for restructuring the human service delivery system.

The concepts provided in 2011 House Bill No. 1333 were reiterated within the provisions of 2013 House Bill No. 1233, yet legislators raised concerns regarding accountability for passing along savings derived from state tax relief against local property tax bills and 2013 House Bill No. 1233 failed to pass.

2015 LEGISLATION

Discussion of restructuring social services funding responsibilities resumed in 2014 as the Governor's Property Tax Task Force began the daunting task of reviewing the multitude of tax levies available to political subdivisions for potential areas of consolidation or simplification. As the task force proceeded to review levies, it was determined that four levies could potentially be repealed through state assumption of county social services costs. After receiving testimony from individuals involved in the administration of state and county social services, the task force determined that the complex task of restructuring funding responsibilities for social services programs exceeded the scope of the consolidation and simplification efforts being undertaken in Senate Bill No. 2144. The provisions for restructuring funding responsibilities for social services programs was ultimately placed in Senate Bill No. 2206.

Senate Bill No. 2206 provides for the assumption of certain county social services costs by the Department of Human Services. The bill provides for a phased transition of county social services funding from the county level to the state level. The first phase of the transition takes place during the 2015-17 biennium and is anticipated to result in over \$23 million in property tax savings. County property tax savings for the 2017-19 biennium are estimated at just over \$31 million.

During the first phase of the transition, the bill requires county social service boards to submit their 2016 budget using the budget submitted in 2014 as a starting point and subtract the reduction in the county's social services funding responsibility for 2014, derived from transferring the county social service costs from the county social service boards to the Department of Human Services, and apply to the resulting amount the percentage salary and benefits increase provided by legislative appropriation for state employees for taxable year 2015. For 2017, a county's social service budget may not exceed an amount determined using the 2015 budget as a starting point and applying to that amount the percentage salary and benefits increase provided by legislative appropriations for state employees for 2016.

The cost savings realized by the counties are derived from state assumption of certain social services costs including the county portion of foster care and subsidized adoption assistance payments, medical assistance payments for therapeutic foster care services, service payments for the elderly and disabled, county administrative costs for providing family preservation services, computer processing costs for the technical eligibility system, and the costs of electronic benefit transfers for the supplemental nutrition assistance program.

The bill requires the remaining county share of the human service budget to be funded entirely from the county's property tax levy for that purpose. The bill does not allow the county to use funds from any other source to supplement the human services budget with the exception of a county's use of an identifiable amount of other sources the county has used to supplement its human services budget for 2015, and any funds received from the human services grant program.

The bill also requires the Department of Human Services to develop a process to review requests from a county social service board if increased staff is needed to address substantially increased caseloads. Consideration must be given to the potential for multicounty sharing of staff when reviewing caseload information. A human services grant program is established by the bill for counties adjacent to or included as part of an Indian reservation or a state hospital, which has utilized the emergency human services mill levy provided in Chapter 50-03 to cover human service costs in the past.

Section 12 of the bill provides for the study of transferring the costs of operating social services programs from county property tax levies to general fund appropriations which has been assigned to this committee. Section 12 also provided for the optional formation of a County Social Services Finance Working Group consisting of:

1. The Director of the Department of Human Services or the Director's designee;
2. The Chief Financial Officer of the Department of Human Services;
3. Two members representing elected county officials identified in Section 11-10-02 as selected by the North Dakota Association of Counties;
4. The Tax Commissioner or the Tax Commissioner's designee;
5. The Director of the Office of Management and Budget or the Director's designee;
6. Two county social services directors selected by the North Dakota County Social Services Directors Association; and
7. One member representing the North Dakota Association of Counties.

The optional working group was created and held its first meeting in June 2015, at which time the group selected a Chairman, discussed the purpose of the working group, and discussed the proposed collection of financial information from counties.

Pursuant to Section 12 of Senate Bill No. 2206, the Legislative Management may request the working group to report its progress and findings to the interim committee tasked with conducting the study under this section.

PROPOSED STUDY APPROACH

In addressing the assigned study, the committee may consider the following approach:

1. Receive information from the Department of Human Services regarding social service programs, staffing, number of clients served, cost of providing services, and sources of funding.
2. Receive information from county representatives regarding county administered and funded social service programs, staffing, number of clients served, cost of providing services, and sources of funding.
3. Receive periodic updates on the progress of the County Social Services Financing Working Group.
4. Receive comments from interested persons regarding the study of transitioning county social service costs to the state level.
5. Develop recommendations and any bill drafts necessary to implement the recommendations.
6. Prepare a final report for submission to the Legislative Management.

ATTACH:1