TESTIMONY
SENATE BILL 2301 - DEPARTMENT OF HUMAN SERVICES
HOUSE HUMAN SERVICES COMMITTEE
CLARA SUE PRICE, CHAIRMAN
MARCH 2, 2005

Chairman Price, members of the House Human Services Committee, I am Mike Schwindt, Director of the Child Support Enforcement Division of the Department of Human Services. I am here to present the Department of Human Services' perspective on the bill.

If the Committee prefers, we would be willing to help with amendments to make the bill "budget neutral" and address some of the peripheral issues associated with the transfer of administration from the counties to the State. The primary budgetary impacts stem from freezing the county maintenance of effort at the 2004 expenditure base and from the inflationary impacts that will occur before we can begin to effect improvements to program operations. Without budget neutrality, we cannot support the bill since it is not part of the Governor's budget.

We suspect the discussion on this bill is going to fall into two categories – the program side and the financial side.

Programmatically, state administration presents a unique opportunity to reorganize the state child support enforcement program to help our 162,000 customers in 53 states and territories, several foreign countries and on Indian reservations. When the current regional structure was created over twenty-five years ago, no one knew what a "mature" child support enforcement program would be doing. Today, there are many potential benefits in moving to a state administered program. These include improved enforcement in tribal and interstate cases through specialization, consistency of services, targeting cases for criminal prosecutions, improved locating of parents, and better communication throughout the program. Specialization will also continue our customer service improvements.

Financially, as a result of the 1997 SWAP legislation, much of the cost of administering the child support enforcement program at the local level is funded by the counties, either through mandatory reinvestment of federal incentives or property taxes. By covering these costs, the counties are not simply paying for child support enforcement. This is the way, under SWAP, that the counties agreed to fund their share of the costs of all economic assistance programs delivered in the counties.

As originally introduced, Section Eleven of the bill would have phased out the county responsibility for funding our program beginning with the 2007-09 biennium and ending with the 2013-15 biennium. We believed this phase out was a bit too fast since the significant benefits to be gained would most likely be just starting to accrue during the 2007-09 biennium.

With federal performance measures, potential penalties, greater competition for federal incentive funds, and a growing caseload along with arrearages exceeding $200 million, ours is a program that cannot afford to have its funding reduced before these efficiencies can be achieved. As they occur, these savings can either be reinvested in the program to keep pace with the growing caseload, implement any new federal requirements, or reduce the outlay of state and county funds.

Turning to the bill, <u>Sections One, Two, Five, Six, Seven, Eight, Nine, Twelve, and Thirteen</u> make the technical changes in state law necessary to transfer administration of the child support enforcement program from the counties to the State.

<u>Section Three</u> cleans up the definitions. Within subsection 2, the original language would have imposed an added cost on the Department to share in preparing the annual countywide cost allocation plans. This expense was assumed by the counties under the SWAP legislation in exchange for other costs assumed by the

State. This provision is unrelated to state administration of child support and was deleted by the Senate.

<u>Section Four</u> is also unrelated to state administration, except that it will help tribal counties maintain the level of payments required in Section Eleven of the bill. Unless the Committee wishes to add an appropriation to the bill to offset the negative fiscal effect to the State of making the additional $235,666 expenditure, this section could be removed from the bill. The Department's appropriation bill, HB 1012, originally included both the 90% Indian county allocation ($2.8 million, including $459,000 for the child support component) plus an additional $630,000 to transfer to the Lake Region Regional Child Support Enforcement Unit (RCSEU). The House deleted $65,000 of general funds which, when the associated federal funds are included, leaves the RCSEU $191,000 underfunded unless they find local matching funds.

<u>Section Ten</u> transforms the existing training fund into an improvement fund and increases the funding from one percent to five percent of federal incentives. This fund gives the child support enforcement program authority to spend the money on improvements in operations that may not be anticipated when a biennial budget is prepared. The flexibility in this section is key to testing and developing proposals needed to maximize existing resources in the program and achieve some of the savings needed to offset the future reductions in county funding under the bill.

<u>Section Eleven</u> is the heart of the bill and enacts three new sections to the code.

Subsection one of the first new section sets county expenditures for child support during calendar year 2004 as the baseline maintenance of effort (MOE) for future county funding. For future periods, this MOE, which is net of the federal incentives received in 2004 and the added payment for the Lake Region RCSEU, would be

reduced by the schedule in subsection two of the new section. This also leaves future budgets underfunded.

The Senate changed the original provision by delaying the start of the phase out until the 2009-11 biennium, dropping 20% for three biennia and retaining a 40% county contribution thereafter. There has been some objection to the continuing 40% contribution; however, counties begin accruing savings in 2006 when their responsibility reverts to the 2004 expenditure level and remains constant until dropping in 2009. Beginning in 2006, county budgets are also positively affected as the inflationary impacts from 2005 forward shift to the state.

County budgets from 2006 forward can be further reduced $300,000 from the 2004 level because the county MOE responsibility is based on 2004 expenditures instead of budget level. Avoiding future increases in program expenditures by freezing at the 2004 expenditure level is a fundamental change in the SWAP legislation and provides significant property tax relief to the counties. It also leads to greater exposure to the state general fund.

Any office space provided by a host county is treated as an expenditure, but the host county and the Department can agree to accept the rent-free use of the same office space as an in-kind payment from the host county.

In subsection three of the first new section, all equipment, furnishings, and supplies in the control and custody of a regional unit at January 1, 2006, would be transferred to the Department. This is important for a smooth transition and continued operations.

Since the attorneys now employed locally by the child support enforcement program would be employed by the state rather than the counties, the second new section created in Section Eleven provides that these attorneys would be employed by the Department and appointed by the Attorney General rather than

the county state's attorneys. It is our understanding that Attorney General Stenehjem does not object to this provision.

The third new section provides that all existing employees of the eight regional child support enforcement units would be transferred into the state merit system as employees of the Department at their existing salaries. The Department strongly supports this provision – the key to continued success for our program is to retain these experienced employees. By avoiding a wholesale change in employees, transition to state administration can be less traumatic.

A balance must be struck between consolidation of services and reasonable access to caseworkers at the local level to accommodate the 90,000 parents involved in our program. Therefore, we do not foresee closing any of the existing offices if the program becomes state administered and have no objection to the last sentence in Section Eleven.

<u>Section Fourteen</u> is important because it sets the tone and expectations of the Legislature for the transition. It sets goals for us to offset the reduction in county funding as much as possible, yet recognizes the inevitable replacement of county funding with state general funds. It also calls for a comprehensive review of the classification and compensation of child support employees, which will address salary equity issues that may arise when the county employees are brought into the state merit system.

<u>Section Fifteen</u> enables the bill before you to be limited to 13 pages instead of 40 or more, as all the statutory corrections can be made by Legislative Council staff instead of itemized in the bill before you.

<u>Section Sixteen</u> provides the appropriation authority for DHS to accept and use the county funds in the operation of the child support program for the 2005-07 biennium.

Finally, <u>Section Seventeen</u> sets January 1, 2006, as the effective day for the transfer of administration. This gives the Department only six to eight months to meet with the regional staffs and develop a long-term plan for managing the program. However, because the bill is written to maintain the status quo through July 1, 2009, change can occur with careful planning to ensure that the quality of services we provide to families is not diminished.

Madame Chairman, we believe the North Dakota child support enforcement program is a worthwhile investment of taxpayer dollars. We believe that the Senate adjustments on the timing of reductions in county funding will more closely match the potential savings to our existing operations so that we do not have to be prematurely resize operations. We also believe that state administration will make our program even stronger. Nonetheless, we are concerned that using 2004 expenditures will not be budget neutral for the state general fund and ask that the attached amendments be adopted.

We are also concerned that HB 1334, if enacted, would not provide sufficient time to study the best use of any vacated positions and our amendments address that concern as well.

A technical item has arisen concerning the county shares. Within Section 11, beginning on line 9, the engrossed bill defines "...the county's allocated share of the regional expenditures for administration ... for year 2004 minus any ...incentive payments ...received..." (Page 10, lines 9-13). Some counties did not receive their final 2004 incentive payment from the host county until after January 1, 2005. We would expect the county share to be calculated as though the funds had been received in time so there would be no distortion among counties.

This concludes my testimony. I would be happy to answer any questions the committee may have.