

**Report of the Social Services Finance Working Group
Presented by Joe Morrissette
Deputy Tax Commissioner and Working Group Member
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The 2015 legislature authorized the establishment of a Social Services Finance Working Group through passage of Senate Bill 2206. The Working Group met several times during the 2015-16 interim and concluded its work on September 12, 2016. As required by SB2206, the Working Group has developed a transition plan for transferring the costs of operating social services programs from county property tax levies to the state.

The transition plan includes a comprehensive formula to allow the state to assume the costs of operating social service programs, the elimination of local mill levy authority for social services, and a transition to a new property tax relief methodology.

Reasons for the State to Assume Responsibility for Social Services Costs

Eliminating the county social services levy will provide immediate property tax relief. In tax year 2015, 9 counties levied the statutory maximum of 20 mills and another 24 counties levied between 10 mills and 20 mills for social services. Social services costs are extremely variable from county to county and this results in a disproportionate and inequitable tax burden for property tax payers.

Under the proposal, counties will continue to employ personnel and manage social services programs. Future state spending on social services will be set by the legislature each session through a specific reimbursement rate per case, similar to the per student state school aid formula rates.

Comprehensive Property Tax Relief Proposal

The current 12% state property tax credit program costs the state more each year. The cost automatically increases as local property taxes increase with no legislative decisions other than appropriation of the required funding. It provides no incentive to control spending at the local level. The recommendation of the Working Group works in conjunction with the current 12% state property tax credit and replaces it over time.

The proposal provides:

- State-paid property tax relief will be delivered through two methods:
 - Social services formula
 - Property tax relief hold harmless payments
- Every county will receive no less funding than the amount of property tax relief received in calendar year 2017 through the 12% property tax credit program
- Funding calculated for each county through the social services formula is compared to the amount actually received in calendar year 2017 through the 12% property tax credit
- Any county receiving less through the social services formula receives a property tax relief hold harmless payment.
- Moneys received by a county through the property tax relief hold harmless payment are required to reduce the county general fund levy or other county-wide levy.
- Payment amounts are certified to the county by October 15 each year for use in the mill levy calculation for the subsequent year.
- Payments are distributed January 31 each year.

Social Services Formula Proposal

The Working Group recommends a state funding formula with the following provisions:

- Actual social service cost levels established for every county for calendar year 2015 (base year), including 25% of indirect costs
- CY2018 will be first year of formula implementation; county authority for social services levies will be repealed effective for the 2017 tax year
- Costs pooled in two categories:
 - Economic assistance (EA) programs
 - Social services (SS) programs
- Base year (2015) expenditure data adjusted for inflation to be equivalent to calendar year 2017
 - 5% for 2016
 - 5% for 2017
- Adjusted base year expenditures divided by base year caseload to calculate formula base rates
- Formula base rates adjusted for inflationary growth to arrive at CY2018 and CY2019 formula rates
 - 5% for 2018
 - 5% for 2019
 - Economic assistance formula rates
 - \$22.78 per case for calendar year 2018
 - \$23.92 per case for calendar year 2019
 - Social services formula rates
 - \$568.78 per case for calendar year 2018
 - \$597.22 per case for calendar year 2019
- Costs for the largest county are used to establish the base rates. Smaller counties receive a weighting factor due to the inefficiencies associated with a smaller caseload. Factors are determined by historic costs for each size group.
- Weighting factors and caseload ranges:

Economic Assistance	
Caseload	Factor
250,000 or more	1.00
45,000 to 249,999	1.60
22,000 to 44,999	1.75
8,000 to 21,999	2.00
5,000 to 7,999	2.20
less than 5,000	2.35
Social Services	
Caseload	Factor
10,000 or more	1.00
1,800 to 9,999	1.35
900 to 1,799	1.50
210 to 899	1.60
145 to 209	2.00
less than 145	2.50

- Formula payments will be based on caseload, so formula payments for each county will change over time to reflect changes in caseload.

- For transition purposes, in 2018 each county will receive a minimum of 102% of the adjusted base year expenditures and a maximum of 110%; in 2019 each county will receive a minimum of 104% of the adjusted base year expenditures and a maximum of 120%
- Formula payments funded from state sources; no federal funds included in formula
- Distribution schedule
 - Semi-annual payments distributed on:
 - January 10
 - June 15
- “True up” payment
 - June 1 recalculation of current year formula based on most recent caseload
 - If recalculation results in an increase of more than 5%, June 15 payment will be adjusted to reflect new amount
 - If recalculation results in an increase of 5% or less, no adjustment is made
- Formula incentive for consolidations
 - Phase in from higher factor (prior to consolidation) to lower factor (after consolidation, based on higher caseload of combined service area)
 - Phase in to new factor over five years
 - New factor is not lower than factor equal to 50% of the difference between old factor and factor applicable to new size category
- Fund balances
 - Limit = 35% or \$100,000, whichever is higher
 - If December 31, 2017 balance exceeds limit, excess will be transferred to county general fund with a required corresponding mill levy reduction
 - If December 31, 2018 or subsequent year balance exceeds limit, the excess will be deducted from June 15 formula payment

Estimated Costs

Social services formula payments – CY 2018	\$90,000,000
Property tax relief hold harmless payments – CY 2018	39,000,000
Social services formula payments – CY2019	95,600,000
Property tax relief hold harmless payments – CY2019	34,100,000
Allowance for caseload growth (unknown at this time)	_____?
Total estimate – 2017-19 biennium (without allowance for caseload growth)	\$258,700,000