GOVERNOR'S SPECIAL COMMITTEE ON
WELFARE PROPERTY TAX CONTROLS
Statehouse - Room 212
Indianapolis, Indiana 46204

October 28, 1993

Governor Evan Bayh
Statehouse - Room 206
Indianapolis, Indiana 46204

Dear Governor Bayh:

Your Special Committee on Welfare Property Tax Controls met yesterday and adopted the attached Final Report which we hereby transmit to you for your consideration. The report is based on findings made over two months of work by this committee and its three task forces.

The Committee started with the premise that property taxes for "welfare" were increasing too rapidly.

We quickly learned that the explosion in property taxes was not for public assistance -- what most of us think of as "welfare" -- but for services for abused, neglected, and delinquent children.

And we learned that the most expensive services were the costs of caring for children outside their own homes, especially in institutions of one kind or another, some out of state.

And so the mission of the Committee became identifying more cost-effective ways of financing and providing services for troubled children.

The report contains five recommendations for improving financing services for troubled children designed to increase accountability for taxpayers funds and make greater use of federal funds and parental resources to pay for services.

The report contains six recommendations to improve providing services for troubled children. These recommendations include establishing a state-wide resource center and clearinghouse -- the Indiana Family and Children's Institute -- to assist counties in providing the most cost-effective services for children in need. And these recommendations emphasize better cooperation among the agencies that provide services to children and seek expansion of treatment opportunities so that children can get the treatment that most closely meets their needs.

And this report candidly acknowledges that we as a society must give greater emphasis to family preservation and preventing child abuse and neglect and juvenile delinquency and recommends dedicating 50% of the retroactive reimbursement we expect to receive under various federal programs be dedicated to prevention and family preservation programs.

While it is impossible to predict with precision at this point what the impact of these recommendations will be, I am confident that, when fully implemented, the rate of increase in property taxes for services for troubled children in the vast majority of Indiana counties will no longer be a problem. Just as important, I think we will have a system of financing and providing services for troubled children that will be greatly improved.

This report also attempts to assign specific responsibility for implementing the recommendations and establishes deadlines for doing so. It is my personal recommendation to you that, to the extent these recommendations are acceptable to you, you appoint a senior member of your policy staff to assure their implementation on the time schedule set forth in the report.

The Committee, which contained a broad, bi-partisan group of state and local government officials, adopted this report unanimously. The members of the committee and dozens of other individuals, including juvenile court judges and representatives of social services providers and consumers, deserve commendation and appreciation for their assistance in this important project.

I have appreciated the opportunity to serve as chairman of the Committee and hope our efforts meet with your satisfaction.

Sincerely yours,

Frank Sullivan Jr.

Frank Sullivan, Jr.

GOVERNOR'S SPECIAL COMMITTEE ON
WELFARE PROPERTY TAX CONTROLS

October 27, 1993

Governor Evan Bayh
Statehouse - Room 206
Indianapolis, Indiana 46204

Dear Governor Bayh:

Your Special Committee on Welfare Property Tax Controls has completed its work and transmits to you this Final Report. This Report is the product of three meetings of the full Committee, a total of seven meetings of three task forces of the Committee, a field hearing in Fort Wayne, and numerous additional interviews and discussions.

The Committee has found that property taxes for welfare in Indiana have been growing at unacceptably high rates. But the Committee has also found that these increases have been caused by increases in the cost of services for troubled children, not for public assistance; and that the costliest of the services for troubled children is the cost of caring for them in out-of-home residential placements, primarily in institutions.

The Committee wants to stress at the outset of this Final Report that it is not "welfare," as that term is commonly understood, which has caused the property tax crisis that the Committe has addressed. Rather, it is a society in which children are abused, neglected, and commit serious crimes, leaving child protection caseworkers, juvenile probation caseworkers, juvenile courts, mental health facilities, schools, other social service providers, and taxpayers to pick up the pieces. Until those underlying societal problems are solved, pressures for continually increasing expenditures for services to troubled children will remain.

As a result, the Committee has defined its mission as identifying ways in which services for troubled children and their families can be financed and provided in the most cost-effective way practicable. The Committee has developed a set of recommendations which it believes will relieve many of the pressures for increased expenditures in the short run and begin to address a number of the longer-term, societal problems.

This Committee has been assisted in its efforts by many individuals. The Committee particularly wishes to express its appreciation to the juvenile court judges of Indiana, a number of whom gave generously their time to this project, and the Marion County Children's Services Project, the Indiana Association of

Residential Child Care Agencies, Inc., the Association of Indiana Counties, the Taxpayers Research Association, and the Indiana Fiscal Policy Institute for their contributions and assistance.

The Committee also wishes to express its appreciation to Committee members James Hmurovich, C. Kurt Zorn, and H. Christian DeBruyn, who chaired the Committee's three task forces, and Elizabeth Noyes, who served ably as the Committee's staff.

PART I

INTRODUCTION

The Committee's review of the historical data on property taxes paid for welfare and welfare expenditures shows:

-- Property taxes for "welfare" have been driving civil (non-school) property taxes upward. From 1984 to 1993, welfare levies have increased at a compound annual rate of 12.6% per year; all other civil levies have increased at a compound annual rate of 6.1%. Welfare levies now comprise 11.0% of total civil levies, compared to 6.8% in 1984.

-- Expenditures for "wards" -- referred to in this Report as "troubled children" -- have been driving welfare expenditures upward. From 1987 to 1992, expenditures from the county welfare fund wardship accounts have increased at a compound annual rate of 22.3% per year; all other county welfare fund expenditures have increased at a compound annual rate of 2.2%. Wardship accounts now comprise 78.1% of county welfare fund spending, compared to 57.9% in 1987.

-- Expenditures for institutional placements have been driving the cost of wards upward. From 1987 to 1992, expenditures from the county welfare fund wardship accounts for institutional placements have increased at a compound annual rate of 24% per year; all other wardship account expenditures have increased 18.4% per year. Expenditures for institutional placements now comprise 72.3% of wardship account expenditures, compared to 67.4% in 1987.

"Property taxes for welfare" includes property tax levies for the County Welfare Fund (CWF), hospital care for the indigent, welfare administration, medical assistance to wards, children with special health care needs, welfare bonds, and welfare loans. Because levies for CWFs have been the most rapidly growing and because they comprise approximately 67% of property taxes for welfare (including bond and loan levies), most of the Committee's attention was given to levies for the CWF only.

The nature and funding sources for expenditures from the County welfare fund are shown on Chart I.

The term "troubled children" refers to two categories of children:

-- <u>Children in Need of Services (CHINS)</u>. These are children adjudicated "CHINS" by the county juvenile court, most often because they are in danger of continued sexual abuse, physical abuse, or neglect by a parent. The court generally relies on the advice of child protection caseworkers from the county office of the Division of Family and Children (DFC) in these matters.

-- <u>Delinquents.</u> These are children adjudicated "delinquent" by the county juvenile court because of some difficulty they have had with the criminal justice system. The court generally relies on the advice of probation caseworkers from the county probation department.

By statute, the county is responsible for the cost of services for troubled children. In most counties, the costs of services for <u>both CHINS and delinquents are charged to the CWF</u>.

The nature of services provided for children from the county welfare fund, together with a breakdown of those services between CHINS and delinquents, are shown on <u>Chart II</u>.

Approximately 4,200 CHINS and 2,700 delinquents were placed in institutions in 1992 at a cost to CWFs of $81.4 million. Approximately 13,000 children (almost all of whom were CHINS) were placed in foster homes at a cost to CWFs of $10.9 million. In 1992, $99.1 million was spent from the CWFs for all services for CHINS and $36.2 million was spent for services to delinquents. Approximately 450 of these children were placed out-of-state, 300 of whom were CHINS and 150 were delinquents.

The costs of out-of-state placements can be extremely high. One facility in Wisconsin charges between $93 per day ($34,000 per year) and $158 per day ($58,000 per year) to treat children with particular diagnoses. Another facility in Minnesota charges between $450 per day ($164,000 per year) and $635 per day ($232,000 per year) to care for children with more severe problems.

In addition to placements of CHINS and delinquents by local judges, public funds are used to finance out-of-home placements by a number of other agencies. The most important of these is the state's "S-5" program, administered by the Department of Education, which provides alternative and residential services for children who are not able to be educated in their home school districts. Historically, this program has placed children in out-of-state institutions. However, an effort to provide services in such a way as to keep children in Indiana has begun to bear fruit. In FY 1991, 75% of all S-5 placements were out-of-state; in 1992, that percentage dropped to 56%; in 1993, the percentage dropped again to 37%.

In summary, the Committee concluded that:

-- "Welfare property taxes" pay for far more than what most people think of as "welfare." In fact, 78% of welfare property taxes in 1992 went to pay for services for troubled children.

-- The term "troubled children" is used to cover both CHINS, including children who are innocent victims of serious abuse or neglect at home, and delinquents, including children who are guilty of serious crimes. In 1992, $99.1 million was spent from the CWFs for services for CHINS and $36.2 million was spent for services to delinquents.

-- The services that are really propelling the "welfare" cost increases are the costs of placing children -- both CHINS and delinquents -- in institutions, including many out of state.

This report will make several recommendations intended to improve the current system of financing services for troubled children (Part II) and of providing those services (Part III). However, the Committee believes that in the long run we must devote our efforts to prevention and family preservation. To that end, the Committee has also included additional recommendations in Part IV.

PART II

RECOMMENDED IMPROVEMENTS IN FINANCING SERVICES FOR TROUBLED CHILDREN

Services for troubled children in most counties are paid for from the county's County Welfare Fund (CWF), which receives revenue from a number of sources, the largest of which is the property tax. Property tax revenue, in turn, consists of direct property tax payments from property owners plus transfers of primarily sales tax revenue from the state and, in some counties, county income tax revenue in the form of property tax replacement credits and homestead credits. Other major sources of CWF revenue are state automobile excise taxes, state financial institutions taxes, and federal and parental reimbursement payments.

The Committee received numerous suggestions to the effect that the funding responsibility for services for troubled children be re-allocated among various revenue sources. In particular, there is considerable interest in seeing state revenue sources pay a greater share and local revenue sources pay a smaller share. The views of the members of the Committee on this issue tend to divide along the lines of the level of government with which they are affiliated. However, most members of the Committee agree that the state is not in a position to take on substantial additional financial responsibilities without raising state-level taxes and agree that to recommend raising state-level taxes is beyond the purview of the work of the Committee.

Therefore, the Committee makes no recommendation concerning the re-allocation of funding responsibilities for services for troubled children. However, the Committee has a number of important recommendations which it believes will make the financing of services for troubled children and their families more cost-effective.

Family and Children's Fund

Because the fund from which most services for troubled children in most counties are paid is called the County Welfare Fund, there is widespread misunderstanding of the very nature of the social service problem that is driving up costs. The Committee believes that to address properly the problem of "welfare" property tax increases, it is essential that both government officials and taxpayers clearly understand that the problem is one of delivering and financing services for troubled children and their families on a more cost-effective basis, not a problem of cutting back on public assistance payments to low income people.

RECOMMENDATION #1: The Committee recommends that a new county Family and Children's Fund (FCF) be created. Each county would segregate into the FCF all expenditures for services for children adjudicated CHINS or delinquents now being paid from the CWF (or the county general fund in respect of services for children adjudicated to be delinquent in those nine counties where such services are paid for from the general fund). Revenues to the FCF would include property taxes (from a new Family and Children's levy), excise taxes, financial institution taxes, state replacement and homestead credit payments, and parental and other reimbursement in the same manner that such revenues are currently credited to the CWF. The CWF (and County Welfare Fund levy) would remain in existence and be used for expenditures for public assistance (AFDC) and other current purposes not related to services for CHINS or delinquents, in accordance with current law and practice.

Recommendation #1 will require statutory changes and changes in the rules and procedures of the State Board of Tax Commissioners. The Committee recommends that the Tax Board request that such statutory changes as are needed to implement this recommendation be adopted by the General Assembly in the legislature's 1994 session, effective for the 1995 county fiscal year, and that the Tax Board make all needed corresponding administrative changes.

In a small number of counties, services for children adjudicated to be delinquent are paid from the county general fund and services for children adjudicated to be CHINS are paid from the CWF. In connection with Recommendation #1, the Committee recommends that all such services be paid from the FCF.

The Committee recommends that the FCF be treated in the same way as the CWF for purposes of allocating any County Option Income Tax (COIT) or County Economic Development Income Tax (CEDIT) revenue.

<u>Budgeting for the Family and Children's Fund</u>

Creating the new FCF is unlikely to produce significant savings unless all officials who cause expenditures to be made from the FCF for services for troubled children are committed to those expenditures being made in the most cost-effective manner practicable. The Committee believes that careful and accurate budgeting for FCF expenditures is a crucial prerequisite to achieving that goal.

Under current law and practice, the director of the County Division of Family and Children (DFC) office (formerly known as the county welfare director) is responsible for preparing the budget request for the CWF and presenting that budget request to the county council. While practice varies from county to county, there is no legal requirement that anyone else at the county level be involved in the preparation or presentation of the budget. This has meant that the county director in many situations has had to prepare a budget for services ordered for children adjudicated to be delinquent, even though the county director and county DFC office have had no involvement with these children. And even though the Indianapolis central office of DFC and its parent, the state Family and Social Services Administration (FSSA), must review and approve each county director's budget request before it is submitted to the county, historically FSSA review has been for only compliance with certain mechanical requirements and not cost-effectiveness.

RECOMMENDATION #2: The Committee recommends that new budgeting requirements be established for the new Family and Children's Fund. At a minimum, the county DFC and juvenile court (in both its adjudicatory and probation roles) should be required jointly to develop and present the annual FCF budget to the county council and to meet on a monthly basis after adoption to review expenditures against budget.

Recommendation #2 will require statutory changes and changes in the rules and procedures of the State Board of Tax Commissioners. The Committee recommends that the Tax Board request that such statutory changes as are needed to implement this recommendation be adopted by the General Assembly in its 1994 session, effective for the 1995 county fiscal year, and that the Tax Board make all needed corresponding administrative changes.

Recommendation #2 also will require that an increase in budgeting and financial planning expertise be made available to county DFC offices and county juvenile courts. The Committee recommends that, to assist counties in preparing their 1995 FCF budget requests, the Indianapolis central office of DFC and the Indiana Judicial Center intensively train county DFC and juvenile court personnel in both budgeting and forecasting techniques and in methods of identifying more cost-effective alternatives to proposed budget items. To the extent appropriate, the state Division of Mental Health (DMH) should also be involved in such training.

Excess Levies and Borrowing

Under current law, annual increases in the property tax levy for the CWF are generally limited to a maximum five percent per year (except in counties where assessed valuation has grown at a rate greater than five percent per year, in which case a higher maximum applies). If a county requires a levy in excess of the maximum to meet anticipated expenses, the State Board of Tax Commissioners may grant an "excess" levy, i.e., a CWF property tax levy in excess of the maximum, but only if requested by the county council.

If the county council does not request an excess levy, the CWF levy is usually set at the maximum. During the subsequent year, if the CWF runs short, the county usually borrows money from a financial institution or through a bond issue to pay CWF expenses. Any such borrowing requires the approval of the Tax Board. In the event the borrowing request is not approved by the County Council, the county DFC director is authorized by law to make the request of the Tax Board. The borrowing is repaid, with interest, from a special property tax levy the following year.

A similar problem sometimes arises in those counties where services for children adjudicated to be delinquent are paid from the county general fund (GF). However, because no excess levy is available for the GF, the only recourse available to a county where expenditures exceed the maximum levy is to borrow.

Both of these circumstances place the county in the position of having to borrow money to meet current operating expenses, which the Committee believes is highly undesirable. The Committee recommends that the current law with respect to excess levies and borrowing applicable to the CWF be maintained for the FCF. This procedure gives county councils the ability to avoid borrowing to meet current operating expenses if they elect to request an excess levy. The Committee also discussed, but could not reach consensus on, procedures to adopt an excess levy for the FCF when needed, even if not requested by the county council.

Federal Reimbursement

Reimbursement is available from the federal government for a number of services for troubled children now being financed from the CWF. While the counties and the state have made major strides in receiving federal reimbursement in the last three years, the Committee believes that even more can be done. All such federal reimbursement represents an offset to expenditures from the CWF, thereby saving local and state tax dollars.

Two major reimbursement programs are worthy of mention.

The first, Title IV-E of the federal Social Security Act, provides partial maintenance reimbursement for out-of-home placements of children who meet certain income guidelines. Maintenance costs include the actual per diem of children in foster homes and institutions. The federal financial participation rate has been 63%. County welfare funds in Indiana were reimbursed $2.9 million in IV-E maintenance reimbursement in calendar year 1991, $8.1 million in 1992, and $9.9 million during the first nine months of 1993. The IV-E program also allows for certain administrative costs to be reimbursed. The state welfare administration fund was reimbursed $.325 million in IV-E administrative reimbursement in calendar year 1991, $10.8 million in 1992, and $14.1 million during 1993.

The second, Title IV-A of the Social Security Act, allows for reimbursement for services for most children removed from a home and placed in emergency temporary placement for up to 180 days. Title IV-A also permits reimbursement of in-home services necessary to maintain a child safely in the home. As with Title IV-E, reimbursement is available for both maintenance and administrative costs. The federal financial participation rate for Title IV-E has been 50%. Implementation of the IV-A program in Indiana has not yet begun.

RECOMMENDATION #3: The Committee recommends that the state and counties make aggressive efforts to take full advantage of reimbursement opportunities (including retroactive reimbursement) under the Title IV-E, Title IV-A, and any other available federal programs.

The Committee recommends that the DFC and its parent, the FSSA, and the juvenile courts structure their programs and policies so that they comply to the maximum extent practicable with the requirements of the programs under which the federal government provides reimbursement. The Committee is aware that conducting programs according to federal specifications is not always in the best interests of the state or the people intended to be served by the program. Nevertheless, given the substantial amount of federal reimbursement available to provide relief to Indiana taxpayers in this area, the Committee recommends compliance with applicable federal specifications absent a compelling reason to the contrary.

Recommendation #3 will require increased expertise and effort in identifying federal reimbursement opportunities and maximizing Indiana's participation. The Committee recommends that DFC establish a special unit for those purposes by January 1, 1994. The Committee also recommends that, in preparation for the 1995 budget, the Indianapolis central office of DFC and the Indiana Judicial Center intensively train county DFC and juvenile court personnel to the extent necessary to assure maximum participation in federal reimbursement opportunities. To the extent appropriate, the state Division of Mental Health (DMH) should also be involved in such training. The Committee recommends that the DFC special unit and the DFC and Judicial Center, as appropriate, focus in particular on: (i) retroactive reimbursement from allowable rate recalculations for CHINS in placement from July, 1990, to March, 1991; (ii) retroactive reimbursement for services for previously unidentified eligible children during the last three years; (iii) reimbursement for services for eligible children adjudicated delinquent; (iv) reimbursement for administrative costs of probation officers' time related to case management for eligible children; and (v) designation of institutions as reimbursement-eligible, thereby qualifying for broader reimbursement of costs.

The Committee recognizes that the state's efforts to take advantage of Title IV-E, Title IV-A, and similar reimbursement opportunities have been very inadequate in the past and recommends that FSSA take all necessary steps to institutionalize administrative policies and procedures to secure reimbursement.