Department of Fiscal Services

Maryland General Assembly

FISCAL NOTE

House Bill 996 (Delegate Rosenberg)
Appropriations

Maryland Individual Development Account Act

This bill seeks to promote personal savings on the part of low-income Marylanders by establishing a Maryland "Individual Development Account" Program as a pilot program within the Department of Human Resources (DHR). These accounts may be used by Temporary Cash Assistance (TCA) recipients for post-secondary education expenses, first home purchases, and business capitalization. Individuals wishing to establish an Individual Development Account (IDA) may apply to DHR for approval as an eligible IDA account holder. The State is to provide necessary appropriations in the State budget to effectively implement and manage the State IDA Program.

The bill takes effect July 1, 1997 and sunsets on December 31, 2000.

Fiscal Summary

State Effect: General and special fund revenues could decrease by a minimal amount in FY 1998. General fund expenditures could increase by $145,500 in FY 1998 to provide State matching funds and savings refunds for IDA account holders and for one-time computer programming modifications. In addition, expenditures for State grants to fiduciary organizations could increase by a significant amount. Future year expenditures reflect an increased number of accounts, annualization, and inflation.

(in dollars)	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
GF/SF Revenues	----	----	----	----	$0
GF Expenditures	$145,500	$584,200	$584,500	$584,700	0
Net Effect	($145,500)	($584,200)	($584,500)	($584,700)	$0

Note: ( ) - decrease; GF - general funds; FF - federal funds; SF - special funds

Local Effect: Minimal revenue decrease based on extent of State tax revenue decrease. Expenditures would not be affected.

Small Business Effect: Meaningful effect on small businesses as discussed below.

Fiscal Analysis

Background: Federal welfare reform law permits welfare recipients to accumulate funds from earnings in individual development accounts.

Bill Summary: Any funds contributed into an IDA account are not subject to State taxation. The total number of IDAs may not exceed 1,000 for the three-year period beginning January 1, 1998, with not more than 250 IDAs established during the first year of the program. Accounts can be established only for those Marylanders whose household income does not exceed 200% of the federal poverty level ($31,200 for a family of four). The amount of money in an IDA may not exceed $20,000. Only individuals who have entered into an IDA agreement with an approved fiduciary organization and whose household net worth does not exceed $20,000 are eligible to be an IDA holder. Any person may apply to DHR to become an approved fiduciary organization to administer IDA accounts.

The State must provide a savings refund on IDA deposits, up to a maximum of $1,000 for each account. The amount of refund is based on household income level. Individuals, organizations, or businesses contributing matching funds for an IDA will receive a 50% tax credit on the contribution amount.

The State IDA program must be established in accordance with all applicable federal laws addressing Temporary Assistance for Needy Families (TANF) funds. State TANF funds may be used to match account holders' contributions to IDAs, up to a maximum of $500 per year. The amount of State match funds provided depends on the account holder's income level. TANF funds may also be used to provide operating expenses to fiduciary organizations selected to run IDA programs. IDA funds must be disregarded for the purpose of determining eligibility to receive public assistance or benefits authorized by federal law.

The bill provides for penalties to be imposed by the fiduciary organization on individuals who are using IDA funds for other than the approved purposes. Improperly used IDA funds are subject to State taxation. Fiduciary organizations are required to establish a grievance committee and procedures to review IDA account holder grievances and to report annually on the number and uses of IDA accounts.

The Department of Human Resources is required to report to the General Assembly each year by October 1 on the implementation of and recommendations concerning the State IDA Program.

State Revenues: State income and business tax revenues would decrease by an indeterminate amount due to the bill's tax exemption and credit provisions. It is not possible at this time to reliably estimate the total amounts that might be deposited in IDA accounts and the resulting loss in tax revenues. However, since the bill is targeting low-income individuals who don't pay substantial taxes and may not be able to contribute substantial amounts that could be matched, it is assumed that any decrease in tax revenues would be minimal.

Individual income tax exemptions affect general fund revenues. Corporate tax credits will affect both general and special fund revenues, since approximately 23% of this tax is allocated to the Gasoline and Motor Vehicle Revenue Account (GVMRA); these special funds are then distributed 70/30 to the Transportation Trust Fund and to local governments. The credit could be applied against the financial institution franchise tax, the public service company franchise tax, or the insurance premium tax rather than the income tax.

State Expenditures: Exhibit 1 provides a summary of the bill's provisions which affect State expenditures. Additional detail is provided below.

Exhibit 1
Summary of Expenditures

(in dollars)	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
State Match	$42,100	$309,200	$309,500	$309,700	$0
Savings Refund	34,400	275,000	275,000	275,000	0
Comptroller	69,000	0	0	0	0
Total	$145,500	$584,200	$584,500	$584,700	$0

Note: ( ) - decrease; GF - general funds; FF - federal funds; SF - special funds

Department of Human Resources - State Matching Funds

The Department of Human Resources advises that State matching fund expenditures could increase by an estimated $76,676 in fiscal 1998, which reflects a 90-day start-up delay for positions and 180-day start-up delay for matching grant funds. This estimate reflects the cost of hiring two Income Maintenance Specialists to administer the State IDA Program and providing State matching funds for contributions made to IDA accounts. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses and assumes that individuals will not deposit more than $350 in IDA accounts.

The Department of Fiscal Services advises, however, that there should be no need for additional positions to administer the IDA Program because TCA caseloads have decreased by 16% since fiscal 1996 without a corresponding drop in the number of caseworker positions. The average monthly caseload was 209,957 in fiscal 1996, is 175,434 in fiscal 1997, and is expected to be 167,400 in fiscal 1998. In addition, much of the responsibility that departments of social services have shouldered in the past for determining Medicaid eligibility for pregnant women is planned to be shifted to local health departments under implementation of the Medicaid 1115 waiver.

Fiscal Services further advises that if IDA account deposit amounts exceed $350, State matching funds would be greater than that estimated by the Department of Human Resources because the bill stipulates that the State can provide matching funds up to a maximum of $500.

Fiscal Services estimates that general fund expenditures for matching funds would increase by only $42,054 in fiscal 1998. This estimate reflects (1) the cost of providing State matching funds for contributions made to IDA accounts; (2) associated operating expenditures; and (3) a 180-day start-up delay for matching grant funds. The information and assumptions used in calculating the estimate are stated below:

- the number of IDA accounts in fiscal 1998 is limited to 250;
- deposit amounts in IDA accounts exceed $500, and the State matches up to $500 for each account;
- for the 20% of depositors (50 accounts) assumed to have income less than 100% of the federal poverty level, the State will match $1 for each $1 deposited;
- for the 30% of depositors (75 accounts) assumed to have income between 100% and 150% of the federal poverty level, the State will match $0.50 for each $1 deposited;
- for the 50% of depositors (125 accounts) assumed to have income between 150% and 200% of the federal poverty level, the State will match $0.25 for each $1 deposited; and
- bank fee charges are $5 per month per account.

Matching State Funds	29,688
Bank Fees	7,500
Other Operating Expenses	4,866
FY 1998 State Matching Fund Expenditures	**$42,054**

Future year expenditures reflect (1) an increase in the number of IDA accounts to 1,000; (2) annualization; and (3) 2% annual increases in ongoing operating expenses.
Although the bill specifies that TANF funds can be used to match account holders' contributions to IDAs and to provide operating expenses to fiduciary organizations selected to run IDA programs, it is assumed that fiscal 1998 federal funds under the TANF block grant are already earmarked in the proposed fiscal 1998 budget for other uses, such as cash assistance and providing child care and job training to TANF recipients. It is possible that federal funds in future years could be earmarked for the IDA Program, although it is likely that any such usage would displace federal funds currently used for other functions.

Department of Human Resources - State Savings Refund

The bill requires the State to provide a savings refund on IDA deposits, up to a maximum of $1,000 for each account and based on household income level. Accordingly, general fund expenditures could increase by $34,375 for savings refunds in fiscal 1998 which reflects a 180-day start-up delay. The information and assumptions used in calculating the estimate are stated below:

- the number of IDA accounts in fiscal 1998 is limited to 250;
- each account holder deposits $500;
- for the 20% of depositors (50 accounts) assumed to have income less than 100% of the federal poverty level, the State will match $1 for each $1 deposited;
- for the 30% of depositors (75 accounts) assumed to have income between 100% and 150% of the federal poverty level, the State will match $0.75 for each $1 deposited;
- for the 50% of depositors (125 accounts) assumed to have income between 150% and 200% of the federal poverty level, the State will match $0.25 for each $1 deposited; and

FY 1998 State Savings Refund Expenditures $34,375

Future year expenditures reflect (1) an increase in the number of IDA accounts to 1,000; and (2) annualization.

The bill provides that both State matching funds and savings refunds be based on IDA deposits. This estimate reflects the assumptions that the bill's intent is for State contributions to be based on the amount deposited by the account holder and not on any matching funds provided by the State or private party. If that is not the bill's intent, then State expenditures could increase by a significant, but indeterminate amount in addition to the expenditure increases already noted.

Department of Human Resources - State Grants to Fiduciary Organizations

The bill requires DHR to make a grant to approved fiduciary organizations. It is silent as to the grant amount. General fund expenditures could increase by a significant amount, depending on the number of fiduciary organizations and grant amounts.

Office of the Comptroller

The Office of the Comptroller will incur costs of $40,000 for computer programming changes required for the individual income tax, and $29,000 for changes required for the corporate income tax. The Department of Fiscal Services advises that if other legislation is passed changing the Maryland income tax calculation, economies of scale regarding computer programming changes could be realized. This would reduce computer programming costs associated with this bill and other income tax legislation.

Local Revenues: The bill stipulates that the assets and income of the program are not taxable by the State. As a result, local governments would lose 54.5% of any State income tax revenues lost and 7% of any credit taken against the State corporate income tax. Any decrease in tax revenues is assumed to be minimal.

Small Business Effect: Small businesses could be favorably affected, depending on (1) the extent to which reduced tax liabilities and account withdrawals are used for investment in or establishment of small businesses; (2) small businesses are selected as fiduciary organizations to administer IDAs; and (3) small businesses take advantage of the business tax credit on contributions to IDAs.

Information Source(s): Comptroller of the Treasury, Department of Human Resources, Department of Fiscal Services

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