

**Department of Legislative Services**  
 Maryland General Assembly  
 2000 Session

**FISCAL NOTE**  
**Revised**

House Bill 640 (Delegate Rawlings. *et al.*)

Appropriations

**Maryland Individual Development Account Act**

This bill requires the Secretary of the Department of Human Resources (DHR) to establish an Individual Development Account Demonstration Program. The program will run from July 1, 2001, until June 30, 2006. An individual development account is a matched savings account for specific goals for qualified individuals. Matching funds from the State and private donations will be provided to eligible individuals.

**Fiscal Summary**

**State Effect:** No impact on FY 2001 expenditures. General fund expenditures increase by \$131,900 in FY 2002 for administrative expenses of the demonstration program. Accounts are assumed to be activated and matching and training funds of \$720,000 from general/federal pooled funds will be made beginning in FY 2002. Future year expenditures increase with annualization and inflation. Revenues would not be affected.

(in dollars)	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
GF Rev.	\$0	\$0	\$0	\$0	\$0
GF Exp.	0	131,900	134,300	136,900	139,500
GF/FF Exp.	0	720,000	720,000	720,000	0
Net Effect	\$0	(\$851,900)	(\$854,300)	(\$856,900)	(\$139,500)

*Note: ( ) = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect*

**Local Effect:** None.

**Small Business Effect:** Potential minimal.

## Analysis

**Bill Summary:** The individual development account is a savings account for individuals who contract to save funds for educational expenses, a home, home repairs, or for deposit into a business capitalization account. Each account is only active for a three-year period from the time the account is opened; a maximum of 600 accounts may be established. The individual account holder will be assisted in account management and goal attainment by a service provider. A technical assistance organization is to provide overall program management.

The Secretary must solicit and select technical assistance organizations, with overall funding of up to \$80,000 annually, for a maximum of five years. Technical assistance organizations design the program and: (1) manage the reserve fund and matching funds; (2) solicit additional funds; (3) select service providers; and (4) provide technical assistance, training in financial literacy, and tracking and evaluation of program participation. Technical assistance organizations must provide an annual report to DHR by December 31 of each year with detailed financial information, including the number of program participants.

Service providers are public entities or non-profit organizations that serve as intermediaries between the account holders and the financial institutions to give educational assistance in account management, thereby helping participants to reach pre-set goals. The service provider is also required to recruit and select eligible program participants; maintain matching funds; foster independence; and assist, educate, and support the success of the program participant. Each provider will assist a maximum of 150 program participants for a maximum of three years. Pooled federal and State funds under the Temporary Assistance to Needy Families (TANF) program and State Maintenance of Effort (MOE) funds may be used to provide these services to eligible program participants.

The participant must: (1) enter into a contract with a service provider regarding the opening and management of the account; (2) make monthly deposits; (3) select purchase goals; and (4) communicate regularly with the service provider regarding the account. The bill also sets limits on emergency withdrawals, sets penalties for unauthorized withdrawals, addresses grievance procedures, and addresses account termination.

The State must provide a \$2 match for each dollar saved, up to a maximum match of \$1,000 per account annually. Pooled TANF and MOE funds may be used to provide State matching funds. The department will provide the funding for the program to the technical assistance organizations on or before July 1 of each year beginning in fiscal 2002. The program cannot be allocated more than \$2.56 million for the five-year period of the program. The Secretary shall submit an annual evaluation of the program including a financial statement for the program by July 1 to the Senate Budget and Taxation Committee and the House Appropriations Committee. At the end of the five-year demonstration period, a report

detailing the program's effect and the Secretary's recommendations on program extension must be submitted to the appropriate committees.

**Current Law:** None applicable.

**State Fiscal Effect:** The program is limited to 600 accounts with a maximum grant amount of \$1,000 per account per year for a maximum of three years. The technical assistance organizations will be provided with \$80,000 each year for five years for a total of \$400,000. The service providers will receive \$200 annually per participant for 600 accounts for a total of \$120,000 per year with a three-year limit.

For the purposes of this analysis, it is assumed that individual accounts will become active and accept initial savings and State matching funds beginning in fiscal 2002. Assuming 600 accounts, each with a \$1,000 match, general/federal expenditures will increase by \$600,000 in fiscal 2002 through 2004. The maximum of \$120,000 per year for participant training and education is assumed to be allocated through the pooled State/federal TANF and MOE fund sources for three years beginning in fiscal 2002. Therefore, expenditures increase by a net total of \$851,900 in fiscal 2002. This estimate includes \$131,900 in general funds and \$720,000 in pooled funds.

General fund expenditures increase by an estimated \$131,900 in fiscal 2002 for administrative expenses. This estimate reflects the bill's October 1, 2000 effective date and the cost of hiring one program administrator (human services administrator) to administer the demonstration program. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses for the staff position as indicated below.

Salaries and Fringe Benefits	\$50,452
Operating Expenses	<u>1,439</u>
<b>Total FY 2002 State Expenditures</b>	<b>\$51,891</b>

Future year expenditures reflect: (1) a full salary with 4.5% annual increases and 3% employee turnover; and (2) 1% annual increases in ongoing operating expenses. Revenues would not be affected.

The bill limits the allocation of funds for the program to \$2.56 million over the life of the demonstration project, with funding concentrated in fiscal 2002 through 2004. The Department of Legislative Services advises that personnel costs could increase expenditures for the demonstration program by \$285,000 more than the maximum allocation (\$2.56 million) during the five-year period of the program.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Department of Human Resources, Department of Legislative Services

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