

Department of Legislative Services
Maryland General Assembly
2000 Session

FISCAL NOTE

House Bill 215 (Delegate Morhaim. *et al.*)

Appropriations

Maryland College Investment Plan - Foster Care Youth

This bill requires the State to make an annual grant of \$2,000 to an investment account with the Maryland College Investment Plan on behalf of each resident of foster care who meets the definition of “qualified beneficiary.” A qualified beneficiary is defined as an individual who resided in a foster care home in the State while under age 18, and includes individuals adopted out of foster care at age 14 or older. The State must maintain a separate investment account for each qualified beneficiary until the qualified beneficiary reaches age 30, dies, or exhausts all money in the account.

The Maryland College Investment Plan must report specified statistics to the Department of Juvenile Justice (DJJ). DJJ must compile specified statistics as they relate to qualified beneficiaries and compare those statistics to statistics for other demographic groups.

The Maryland Higher Education Investment Board must administer the grant moneys paid by the State pursuant to the bill until those funds can be transferred into Maryland College Investment Plan accounts. This transfer must be accomplished by December 31, 2001.

The bill takes effect July 1, 2000, sunsets June 30, 2010, and is contingent on the enactment of HB 11/SB 22 (which proposes to create the Maryland College Investment Plan).

Fiscal Summary

State Effect: General fund expenditures would increase by \$23.8 million in FY 2001 for contributions to the Maryland College Investment Plan for foster care children and administrative costs incurred by Department of Human Resources (DHR) and DJJ. Out-years reflect increases in the numbers of foster care children, inflation, and salary increases. Much of this money, with earnings, would revert to the State in future years due to failure of foster

care children to attend college and receipt of financial aid by foster care children who do attend college. Additional administrative costs would be incurred by the Maryland College Investment Plan. To the extent that the bill would result in an increase in the number of students attending State institutions of higher education in future years, State expenditures would increase by additional amounts. To the extent that the bill would result in an increase in the number of students attending State public institutions of higher education in future years, tuition and fees revenues for those institutions would increase.

(in millions)	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
GF Revenues	-	-	-	-	-
GF Expenditures	\$23.8	\$25.4	\$26.9	\$28.4	\$29.8
Net Effect	(\$23.8)	(\$25.4)	(\$26.9)	(\$28.4)	(\$29.8)

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

Local Effect: To the extent that the bill would result in an increase in the number of students attending community colleges, local expenditures for aid to community colleges would increase.

Small Business Effect: None.

Analysis

Current Law: There is no provision in State law for student financial aid specifically targeted at foster care children.

Background: HB 11 and SB 22 (companion bills) seek to create the Maryland College Investment Plan to allow contributions to an investment account established for the purposes of meeting the higher education expenses of the designated beneficiary of the account. The program would be administered by the Maryland Higher Education Investment Board, which administers the currently operating Maryland Prepaid College Trust. The board would be required to operate the Maryland College Investment Plan in compliance with Internal Revenue Service standards for Qualified State Tuition Programs (QSTPs).

The Maryland College Investment Plan would be a “savings plan” type of QSTP, under which contributors (usually parents, grandparents, and other interested persons) can make contributions to an account to be used to pay the future college expenses of the child beneficiary of the account. A savings plan is analogous to a defined contribution pension plan in which returns are based on investment performance. Set payments are not required.

If the beneficiary ultimately decides not to go to college, or is unable to go to college, the contributions and earnings in the account revert back to the contributor (penalties may apply depending on the circumstances).

The provisions of HB 11/SB 22 creating the Maryland College Investment Plan would take effect July 1, 2000.

For further information about the proposed Maryland College Investment Plan and the Maryland Prepaid College Trust, see the fiscal notes for HB 11 and SB 22.

State Expenditures:

DHR and DJJ - Contribution Amounts

DHR advises that the projected average number of children in foster care for fiscal 2001 is 11,700. Assuming a net gain of 700 children per year entering foster care, the estimated cost to the State of the contributions required by the bill is as shown in **Exhibit 1**.

Exhibit 1
Projected Costs of State Contributions for Foster Care Children

Fiscal Year	Number of Children in Foster Care	Annual Contribution Per Child	Total State Contribution
2001	11,700	\$2,000	\$23,400,000
2002	12,400	\$2,000	\$24,800,000
2003	13,100	\$2,000	\$26,200,000
2004	13,800	\$2,000	\$27,600,000
2005	14,500	\$2,000	\$29,000,000

It is assumed that these costs would be paid out of DHR's budget. DJJ advises that additional amounts, ranging from \$236,260 in fiscal 2001 to \$541,209 in fiscal 2005, would come out of its budget for contributions, because DJJ places approximately 147 children per year in foster care through agencies licensed by DHR as child placement agencies.

Presumably, monies contributed to an account on behalf of a foster care child, with earnings, would revert back to the State if the child does not attend college. Information provided by DHR indicates that a very small percentage of foster children currently attend college. Amounts contributed by the State would also presumably revert to the State to the extent that foster children who do attend college receive other financial aid. Assuming that most foster care children lack significant family financial resources, it is believed that many foster care children would qualify to receive federal student financial aid. According to the U.S. Department of Education, the average family income for federal Pell Grant recipients in 1997-98 was \$15,800. For independent students, the average income was \$11,739.

Therefore, it is assumed that a significant portion of the State contributions would eventually revert to the State. The precise amount and timing of reversions cannot be determined at this time. Reversions would be limited by factors such as students failing to apply for financial aid and the use of account proceeds to pay for costs above and beyond tuition. HB 11 and SB 22 provide that proceeds from a Maryland College Investment Plan account can be used to pay Qualified Higher Educational Expenses, a term defined in the Internal Revenue Code to include tuition, fees, books, supplies, and equipment required for college attendance, as well as certain room and board expenses for students who attend college at least half-time.

DHR - Administration

DHR advises that it would require additional staff to handle administrative functions associated with the bill. Four employees would be required to gather statistical data relative to children eligible to receive the contributions and coordinate with DJJ in information gathering and dissemination. Fiscal 2001 costs for salaries, fringe benefits, supplies, and equipment associated with the four positions, assuming a 90-day start-up delay from the bill's July 1, 2000 effective date, total \$138,008.

DJJ - Administration

DJJ advises that it would need to hire one research statistician to compile and analyze the statistics pursuant to the bill. Fiscal 2001 costs for salary, fringe benefits, supplies, equipment, and other operating expenses associated with this position, assuming a 90-day start-up delay from the bill's July 1, 2000 effective date, total \$42,217.

Maryland College Investment Plan

The Maryland College Investment Plan would undoubtedly incur costs in connection with the bill, but such costs cannot be estimated at this time. **The Maryland Prepaid College Trust did not respond to the request for information regarding the fiscal impact of this bill.**

State Aid to Institutions of Higher Education

To the extent that the bill would result in an increase in the number of students attending State institutions of higher education, State expenditures would increase. The Maryland Higher Education Commission advises that approximately 70% of Maryland students who attend college attend a Maryland institution. State aid to four-year public institutions varies by institution. For the University of Maryland, College Park, the fiscal 2001 estimated State appropriation per full-time equivalent student (FTES) is \$12,990. State appropriation levels for the other four-year public institutions are lower. State aid to community colleges is projected to be \$1,938 per FTES in fiscal 2001. The State also provides aid to non-public institutions of higher education. State aid to non-public institutions is projected to be \$1,292 per FTES in fiscal 2001.

State Revenues: To the extent that the bill would result in an increase in the number of students attending State public institutions of higher education, tuition and fees revenues for those institutions would increase.

Local Expenditures: A portion of community college costs are paid by local governments. To the extent that the bill would result in an increase in the number of students attending college, local expenditures would increase. The average local share of community college costs was \$2,201 per FTES in fiscal 1998.

Additional Information

Prior Introductions: None.

Cross File: SB 296 (Senator Mitchell, *et al.*) - Budget and Taxation and Economic and Environmental Affairs.

Information Source(s): Department of Human Resources, Department of Juvenile Justice, Maryland Higher Education Commission, Department of Legislative Services

Fiscal Note History: First Reader - February 7, 2000
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