

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Chief Financial Officer

Natwar M. Gandhi
Chief Financial Officer



MEMORANDUM

TO: The Honorable Linda W. Cropp
Chairman, Council of the District of Columbia

FROM: Natwar M. Gandhi
Chief Financial Officer

DATE: May 3, 2002

SUBJECT: Fiscal Impact Statement: "College Savings Program
Emergency Amendment Act of 2002"

REFERENCE: Draft Legislation - Bill Number Not Available

Conclusion

Funds are sufficient in the FY 2003 through FY 2006 budget and financial plan to implement the College Savings Program Emergency Amendment Act of 2002.

Background

The District of Columbia College Savings Plan (DC Code 47-4501) authorizes pre-tax college savings accounts for District residents. The College Savings Program Emergency Amendment Act of 2002 sets a \$3,000 limit per year on District of Columbia income tax deductions resulting from contributions to a College Savings Plan. Yearly contributions greater than \$3,000 can be carried forward as a deduction, subject to the annual limit, for a maximum of five tax years. Interest earnings and qualified withdrawals are also tax exempt. Unqualified withdrawals are subject to District of Columbia taxation.

The College Savings Program Emergency Amendment Act of 2002 also limits ownership of a college savings account to one person and eliminates the requirement that an account owner or the beneficiary be a resident of the District of Columbia.

Financial Plan Impact

Funds are sufficient in the FY 2003 through FY 2006 budget and financial plan to implement the College Savings Program Emergency Amendment Act of 2002.

The average participation rate of the population that is most likely to participate in a college savings plan among the Mid-Atlantic States is 0.75%. We estimate that the District of Columbia's participation rate will be slightly higher and estimated that 1.0% of District residents between the ages of 20 and 64 will contribute to a college savings plan account.

Other Similar Plans and Participation Rates

State	Likely Population (ages 20-64)	Program Start Date	Total Number of Accounts	% of Likely Population with Savings Accounts	
District of Columbia	314,500	Fall-02	3,145	1.00%	Expected
Connecticut	1,906,879	Jan-98	13,393	0.70%	
Delaware	451,903	Jul-98	6,692	1.48%	
Maryland	3,129,536	Fall-01	10,366	0.33%	
New Jersey	4,827,779	Aug-98	8,029	0.17%	
New York	10,842,124	Oct-98	152,601	1.41%	
Pennsylvania	6,920,505	Fall-01	61,402	0.89%	
Virginia	4,233,978	Dec-99	12,600	0.30%	
				0.75%	Average

The maximum tax-deductible yearly contribution to the College Savings Plan is \$3,000. We estimate that the average yearly contribution (or income tax deduction) will be \$2500 because not all individuals will contribute the maximum amount. In addition, based upon other states participation rates, we believe that it will take the District of Columbia approximately 4 years to reach 1.0% participation. As shown below, the forgone tax revenue from this program will be \$317,016 in FY 2003 and \$1,921,117 in FY 2003 through FY 2006.

Estimated Reductions to Local General Fund Revenue					
(\$ in millions) (Average DC tax rate: 7.5%, Average interest earned: 5%)					
Year	FY 2003	FY 2004	FY 2005	FY 2006	4-Year Total
Expected # of Participants (Cumulative)	1,610	2,194	2,808	3,145	
% of Likely Population Participating	0.51%	0.70%	0.89%	1.00%	
Average Contribution Level (max. \$3000)	\$2,500	\$2,500	\$2,500	\$2,500	
Forgone Total Tax Revenue (savings plan contributions plus interest earned)	\$317,016	\$432,009	\$552,920	\$619,172	\$1,921,117