Government of the District of Columbia
Office of the Chief Financial Officer

Fitzroy Lee
Interim Chief Financial Officer

MEMORANDUM

TO:	**The Honorable Phil Mendelson** **Chairman, Council of the District of Columbia**
FROM:	**Fitzroy Lee** **Interim Chief Financial Officer**
DATE:	**July 8, 2021**
SUBJECT:	**Fiscal Impact Statement – Child Wealth Building Act of 2021**
REFERENCE:	**Bill 24-236, Committee print provided to the Office of Revenue Analysis on July 7, 2021**

Conclusion

Funds are not sufficient in the fiscal year 2021 budget and proposed fiscal year 2022 through fiscal year 2025 budget and financial plan to implement the bill. The bill will cost $3.3 million in fiscal year 2022 and $32 million over the four-year financial plan to fund the bill's initial and annual deposits for babies born through fiscal year 2025. Outside the financial plan, costs will increase every year for eighteen years as new cohorts of children enter the program. The annual fiscal impact of benefits in year 18 (fiscal year 2039) is estimated at $47 million based on current trends but could vary depending on birth and income eligibility trends over the next two decades. This estimate assumes current birth trends. If a "baby boom" occurs, it could significantly increase the steady-state cost beyond the $47 million outlined in this analysis.

Background

The bill establishes a government-funded investment account for children born and residing in the District who are born with medical coverage provided by Medicaid[1], and whose household incomes do not exceed 300% of the Federal Poverty Level ("FPL")[2]. An initial deposit will be made into a District-controlled Child Trust Fund account in the year of birth, and so long as the child continues to

[1] D.C. Official Code 4-204.12(2).
[2] The federal poverty thresholds vary based on location and number of people living in the household. For a family of 4 in the District, 300% of FPL is $79,500 household annual income. (https://aspe.hhs.gov/2021-poverty-guidelines)

live in the District and meet eligibility requirements, annual deposits will continue to be made based on the child's household income, until the child turns 18.[3] To receive a disbursement, the participant must certify that he or she will only use the funds for education purposes, ownership or investment in a District business, property ownership in the District, or retirement savings. The amount of money to be disbursed will depend on how much was deposited over the years and the performance of the account's investments. The only reason funds may be disbursed prior to reaching age 18 is if the child becomes disabled and receives a disability certification.

The bill requires the Office of the Chief Financial Officer (OCFO) to establish and manage the investment accounts. Following the effective date of the bill, an initial deposit of $500 will be made for each child born in the District and meeting residence and Medicaid eligibility requirements. Each subsequent year the child continues to live in the District and remains eligible, annual deposits will be made based on an eligible child's household income: $1,000 for those with household income equal to or under 100 percent of FPL, $800 for those with household income from 101 percent to 200 percent of FPL, and $600 for those with household income from 201 percent to 300 percent.

The bill increases the amount to be deposited each year by the amount of inflation, provided that the Chief Financial Officer certifies funds are sufficient

The bill allows up to two percent of the fund balance in the accounts to help pay for Fund administration, including contracting with a fiduciary account manager (i.e. a professional asset management company.)

No deposits will be made if the individual does not meet eligibility for District Medicaid. However, the deposits that have been made so far will remain in the investment account until the child turns 18, provided the child has resided in the District for 16 years.

The bill requires OCFO to provide an annual report with information on eligible children, and performance of the funds.

Lastly, the bill exempts fund disbursements from District income taxes.[4]

Financial Plan Impact

Funds are not sufficient in the fiscal year 2021 budget and proposed fiscal year 2022 through fiscal year 2025 budget and financial plan to implement the bill. The bill will cost $3.3 million in fiscal year 2022 and $32 million over the four-year financial plan to fund the bill's initial and annual deposits for babies born through fiscal year 2025. Outside the financial plan, costs will increase every year as new cohorts of children enter the program. The annual fiscal impact of benefits in year 18 (fiscal year 2039) is estimated at $47 million based on current trends, but could vary depending on birth and income eligibility trends over the next two decades.

To estimate the first year of required deposits in FY 2022, we reviewed recent District birth numbers, births under Medicaid, and U.S. Census estimates of the percent of families currently in each

[3] For purposes of establishing residency, the bill requires that an eligible child be domiciled in the District for at least 16 years prior to the age of majority and who has continuously domiciled in the District for the 12 months immediately before reaching the age of majority.
[4] D.C. Official Code 47-1803.02(a)(2).

household income category. From this, we estimate that 4,150 children will be eligible for initial deposits in the first cohort of recipients. We assume the number of eligible children in the cohort will decrease over time as families move to other places. In the second year, another cohort of similar size is added, benefits are increased by estimated inflation rates, and the first cohort receives second year deposits based on household income. This process continues for each new cohort, growing the program for 18 years, until the first cohort receives their disbursements and leaves the program. At that point the growth will stabilize, and we estimate a steady state of approximately 45,000 participants in the program in year 18. This estimate assumes current birth trends. If a "baby boom" occurs, it could significantly increase the steady-state cost beyond the $47 million outlined in this analysis.

Start-up costs to establish the program include the administrative costs of establishing rules and procedures; contracting with an asset manager; developing a website to be able to access program information, track individual accounts and provide reports on income; and a communication plan to notify eligible recipients. We estimate this start up effort will cost $500,000, similar to the level required for the establishment of the District's 529 plan program.

Outside of the financial plan, we expect some administrative costs could be funded from the bill's two percent set-aside for administrative costs. However, during the first few years, General-fund support will be required. The Department of Health Care Finance (DHCF)[5] will require systems changes to the District Access System (DCAS) to handle parental consents and data maintenance requirements, and potentially staff to manage those parental consents and manage data sharing with the OCFO. This FIS will be updated upon receipt of cost estimates.

OCFO personnel will be required for the ongoing oversight of the asset manager and working with DHCF to set up accounts for babies born under Medicaid, and processing and reviewing updates of Medicaid eligibility information for ongoing participants. By year four of the program there will be an estimated 15,000 participants that will need to be verified on an annual basis. Customer service staff will be required to communicate eligibility changes and field calls. We estimate 3 FTEs are required for OCFO to handle data needs and for customer service. One additional OCFO FTE will be required to oversee a contract with an asset management company. Additional administrative staff could be required beyond the financial plan as the program grows in size beyond the four-year financial plan.

Lastly, the bill exempts the contributions and distributions from District income taxes, but the District's revenue estimates do not take these contributions into account so there is no impact of this provision to the budget and financial plan.

[5] As the state Medicaid agency, DHCF will manage functions currently outlined for Department of Human Services in the bill.

Fiscal Impact of Child Wealth Building Act of 2021 Fiscal Year 2022– Fiscal Year 2025 ($ thousands)					
	FY 2022	**FY 2023**	**FY 2024**	**FY 2025**	**Total**
Benefit Costs – Required deposits in accounts	$2,076	$5,464	$8,815	$12,131	$28,485
Administrative Start-up Costs - OCFO	$500	$0	$0	$0	$500
OCFO Administrative Support (4 FTEs)	$449	$463	$477	$491	$1,879
DHCF Administrative Support / systems changes (estimate will be updated upon receipt of cost estimates.)	$268	$276	$285	$293	$1,123
TOTAL	$3,293	$6,203	$9,576	$12,915	$31,987