

Department of Legislative Services
Maryland General Assembly
2020 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 629
Appropriations

(Delegate Queen, *et al.*)

Maryland College Investment Plan - State Contribution Incentives

This bill requires the State Treasurer to make a one-time deposit of \$100 into an omnibus 529 college savings account for each child born or adopted in the State, beginning January 1, 2022, subject to specified requirements. For fiscal 2022 through 2026, the Governor must include in the annual budget bill an amount sufficient to provide incentive money for each eligible child. A parent or grandparent of an eligible child may make a claim for the incentive money, plus interest, if the individual opens a Maryland 529 investment account within five years after the child is born or adopted. Unclaimed money is designated to other eligible children. The Maryland 529 board must submit a related report to the General Assembly by December 1, 2027. **The bill terminates September 30, 2028.**

Fiscal Summary

State Effect: General fund expenditures increase by *at least* \$7.4 million annually from FY 2023 through 2028, and by *at least* \$5.6 million in FY 2029, under the assumptions discussed below. Nonbudgeted revenues for Maryland 529 increase as discussed below. **The bill establishes a mandated appropriation for FY 2022 through 2026.**

Local Effect: The bill does not materially affect local government finances or operations.

Small Business Effect: None.

Analysis

Current Law/Background: The State operates a similar incentive program for 529 investment accounts; specifically, those established after December 31, 2016, are eligible for a State contribution of \$250 or \$500, depending on income, if:

- the qualified beneficiary of the investment account is a Maryland resident;
- the account holder (for example, a parent) submits an application to the 529 board or its designee between January 1 and June 1 of each year; and
- the account holder has Maryland taxable income in the previous taxable year no greater than \$112,500 for an individual or \$175,000 for a married couple filing a joint return.

A minimum amount of funds must be deposited into the investment account by the account holder in order to receive a State match, which is received by the end of the calendar year. Minimum contributions increase with income as the State match decreases. The Governor must provide at least \$3.0 million each fiscal year for matching contributions. If the amount of funding is insufficient to fully fund all contributions, the 529 board must prioritize awards based on the order in which the applications are received and for account holders who did not receive a contribution in any prior year. In practice, the program has been funded significantly more than the minimum: \$10.1 million was provided in fiscal 2020 to meet total demand; that same amount is in the Governor’s proposed fiscal 2021 budget.

State Expenditures: There are approximately 70,000 births and 4,000 adoptions in the State each year, although there are year-to-year variations. Assuming those numbers going forward and that funds are provided December 31 of *each* calendar year the program is operational, general fund expenditures increase by \$7.4 million in fiscal 2023 to provide incentive money for those children born or adopted in calendar 2022. General fund expenditures increase by similar amounts annually thereafter through fiscal 2028, and by \$5.6 million in fiscal 2029 as the bill terminates three fourths of the way through calendar 2028. This analysis discounts the timing for the mandated appropriations specified in the bill, given the definition of “eligible child” and the termination date of the program.

Nonbudgeted revenues for Maryland 529 increase correspondingly from the payments and further increase from interest earnings and, potentially, fees and other monies deposited in association with new Maryland 529 accounts opened to receive the incentive. When the program terminates in fiscal 2029, it is unclear what happens with any unclaimed incentive funds.

Administrative costs for Maryland 529 are unknown at this time; however, to the extent that Maryland 529 requires more staff or other resources that cannot be funded through existing revenues, general fund expenditures may further increase.

This estimate does not include any costs associated with providing additional matching contributions under the existing State program described above. These costs may be significant, depending on whether individuals plan to maximize their incentives and State funding for the program at the same time.

Additional Information

Prior Introductions: None.

Designated Cross File: None.

Information Source(s): Maryland 529; Department of Budget and Management; Maryland Department of Health; Comptroller's Office; Department of Legislative Services

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