Public Hearing on

Bill 5-24, Finance — Child Investment Fund

before

The Honorable Andrew Friedson
Council President
Montgomery County Council

June 18, 2024

Testimony of Aaron Droller
Silver Spring, Maryland

Good evening members of the Montgomery County Council. My name is Aaron Droller and I am a resident of Silver Spring. Thank you for the opportunity to submit testimony on Bill 5-24, Finance — Child Investment Fund ("Bill"). I testify in opposition to the Bill, but I also offer several suggestions should the Council choose to move forward with this proposed legislation.

As described in the Staff Report ("Report"), the purpose of the Bill is to "reduce wealth inequity in the County by establishing a non-lapsing fund to invest public monies for the ultimate benefit of children in low-income families in the County."[1] I know that the sponsors and supporters of this legislation are well-intentioned and working in good faith to address a challenging issue in Montgomery County ("County"). However, there is not sufficient evidence to support the idea that a one-time cash transfer is either an effective or fiscally sustainable method to address the vexing issues of intergenerational poverty and the racial wealth gap.

The County's anemic economic and population growth, coupled with the rising costs of providing core government functions, should make clear to this Council that the County is not in a strong enough fiscal or economic position to support the creation of an expensive new entitlement program. The Council must prioritize the two essential core functions of local government before establishing any new entitlement program, namely, our public education system and public safety ecosystem. The County is failing to provide these two core functions in a manner that residents pay for, expect and deserve. A school system that was once the crown jewel of the County and the state has substantially deteriorated over the last decade. The budgetary woes of Montgomery County Public Schools ("MCPS") are well understood by this Council.[2] MCPS is considering a

[1] Introduction Staff Report on Bill 5-24, Finance – Child Investment Fund, March 19, 2024, at 1.
[2] *See, e.g.* Councilmember Jawando's Statement on the FY25 Operating Budget, May 23, 2024, available here; see also Comments from Councilmember Glass on MCPS funding for FY25, May 23, 2024, available here.

reduction-in-force (RIF) that threatens to significantly increase already-large class sizes.[3] Shamefully, MCPS has already taken steps to reduce staffing levels at vital programs that support the most vulnerable students in MCPS.[4] These cuts are happening despite the County government recently imposing a 4.7% property tax increase on residents, purportedly to increase teacher pay and retention. It's now clear to residents that the underlying policy justification made to residents to justify that property tax increase has not come to pass.

The County's public safety ecosystem is also struggling. Overall crime increased for the third year in a row, with significant increases in carjackings, auto thefts, homicides, and assault, among others.[5] These increases are happening despite crime trending downward nationwide. The Montgomery County Police Department faces its highest sworn officer vacancy rate in the past decade, with a current vacancy rate of 14% percent reflecting 179 vacancies.[6] Recruiting classes remain too low to address current attrition.

It's clear that MCPS and our public safety ecosystem will need significant future investments. Given the large growth in local government spending over the last decade and the poor economic performance of the County generally, the County will have significant issues providing the core services at the level residents need. The County has already asked residents to shoulder higher tax burdens than ever before, even during an inflationary period. The County cannot expect to rely on any increased support from the state of Maryland to help defray costs, as

[3] E-mail from Peter O. Moran, MCPS, re: "Budget Information – Updated SAE 6/3", May 31, 2024, available here.
[4] Lili Zheng, "Montgomery County parents slam plan to cut staff for autistic students," March 19, 2024, available here.
[5] Staff Memorandum from Susan J. Farag, Legislative Analyst, to the Public Safety Committee, "Crime Statistics Update", January 31, 2024, available here.
[6] Staff Memorandum from Susan J. Farag, Legislative Analyst, to the Public Safety Committee, "Police Staffing," March 13, 2024. at 2, available here.

the state too faces significant fiscal headwinds.[7] Put simply, the County has significant ongoing challenges to provide the basic, core services of an effective local government. These services are critical for maintaining a high quality of life and for creating economic vibrancy. Before there is any consideration of an expansion of local government in the form of a new entitlement as proposed in this Bill, the County has a responsibility to first meet the basic education and public safety needs of the community. Prioritizing high quality core services is critical to expanding our tax base in the long term, which would in turn allow the Council to eventually fund new programs.

As introduced, the Bill proposes to allocate, subject to appropriations, $1,800 per eligible child that the child can access between the ages of 18-36. Assuming a six percent compound interest growth rate, a child could expect to receive a disbursement in the approximate range of $5,000-$15,000.[8] The Bill allows five uses of disbursed funds, including: vocational and academic educational expenses; ownership or investment in a business located in the county; ownership of real property in the county; or retirement accounts.[9] Based on the data cited in the Report, the median net of Asian households is $320,900, $250,400 for white households, $48,700 for Hispanic households, and $27,100 for Black households.[10] While the appeal of providing, and receiving, a one-time cash infusion of $5000-$15,000 is certainly understandable, it is not an effective means for building intergenerational wealth over a sustained period of time. Building wealth is a function of many complex factors, but it is not done quickly. Attempts to supercharge that process with a limited, one-time cash payment has not been demonstrated to be successful in the long-term.

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[7] Bryan P. Sears, “Maryland on ‘negative outlook’ as agencies reaffirm highest credit rating,” May 31, 2024, available here.

[8] *See* Bill §§ 20-85; 20-89; Calculation assumes a one-time deposit of $1,800 per eligible child with interest and earnings compounding over 18-36 years.

[9] Bill § 20-88(b)(3).

[10] Staff Report, *supra note* 1 at 11, n.1.

For most people, building wealth is done slowly, methodically, and painstakingly over a lifetime. It requires receiving an education that provides a marketable skillset or knowledge base, obtaining gainful employment, and slowly investing over time. As such, I support the spirit of the provision described in § 20-88(b)(3)(A) that would provide vocational and academic educational expenses. Rather than a cash disbursement as envisioned in the Bill, a more efficient use of taxpayer funds would be to leverage our existing educational institutions and appropriate sufficient funds for attendance at Montgomery College or a Maryland public university at reduced or free tuition rates for Montgomery County residents coming from families at 400% of the federal poverty level or below. Montgomery County could be a leader in the state by creating such an initiative. Students who have received a college education with little to no student debt would be in the best possible position to start their journeys toward wealth building.

I oppose the uses of the funds described in Bill §§ 20-88(b)(3)(B)(C)(D), and (E). The inherent risk, and potential for fraud, of permitting the funds to be used for ownership or investment in a business by a young and inexperienced individual are not suitable for wealth building. An applicant could invest in a county business at age 18, and that business could go bankrupt six months later. This is not a prudent use of taxpayer funds and would not meet the intent of the Bill. Further, given the hugely expensive County housing market, any amount that might be provided by this Bill for ownership of real property would not realistically facilitate home ownership. It may in fact have the opposite effect by making a recipient of these funds responsible for a mortgage they cannot realistically afford in the long run. Finally, the permitted use of "retirement investments," while laudable, is likely not realistic for the target population of this Bill. Most young people do not have a retirement vehicle that would be appropriate for this type of investment of county funds until they are firmly established in a career pathway. The current language authorizing “retirement investments” is too vague and has significant potential for riskier, short-term investments that are contrary to the intent of this Bill. However, I think some variation of this use is supportable if the language in the Bill is made more explicit to only permit investment in tax advantaged Roth, 401(k), or 457(b) retirement accounts.

One of the main issues you must consider is how a disbursement of funds will impact a recipient's eligibility for other state and federal benefits and assistance. A large influx of cash may suddenly make a recipient (or a recipient's family) suddenly ineligible for programs such as Medicaid, Supplemental Nutrition Assistance, and TANF, among many others. It could also impact eligibility for EITC or student loans and grants from the state/federal government, or the educational institutions themselves. You must be very cautious how you structure this program to avoid any unintended consequences. You may wish to amortize the benefits over time rather than in one large payout to try to avoid these consequences.

You must build sufficient guardrails into the Bill (not by regulation) around eligibility to prevent the costs of this program from getting out of hand. The current definitions of eligible child and eligible applicant in the Bill are much too broad. As seen in the experience in Connecticut and the District of Columbia, the costs of the programs have become too much to bear given other priorities, and efforts are underway to reduce costs. Because the target population for the Bill are likely not filing tax returns (because they are not legally required to do so), you must utilize a method where income eligibility can be verified to reach the presumed target population. The most sensible eligibility criteria would be Medicaid enrollment. The program should also be an opt-in, rather than an automatic enrollment based on estimates from county birthrates. This would permit a more prudent and targeted use of taxpayer dollars to reach the program’s intended recipients, rather than a scattershot approach. This, however, creates a challenge in that such information must be shareable with the County, which can create legal challenges (due to privacy concerns) and administrative difficulties. Before moving forward, you must consult with the state to ensure any pertinent information is shareable, if the eligible applicant grants permission to do so. For administrative ease, you should choose one simple threshold, and my recommendation is to align the threshold with Maryland's Medicaid income and asset requirements. While the stated intent of the Bill is to provide tiered disbursement levels, I would discourage the Council from introducing any additional complexity that will significantly add to the administrative costs of implementing the program.

I would also recommend that an eligible child have documentation to prove they have resided in the county for a sustained period before disbursement. Simply being born in the county is too broad and could incentivize fraudulent activity. Eligibility must be anchored in sustained Montgomery County residency and sustained attachment to our communities. Montgomery County birth as the sole eligibility criteria is sheer happenstance and does not establish, on its own, meaningful connection to the community. I recommend either a documented residency requirement of at least four years prior to disbursement, or simply a GED from a Montgomery County institution or Montgomery County Public School diploma as *prima facie* evidence of residency. This has the added benefit of potentially providing a baseline level of financial literacy education to eligible applicants, as MCPS has made moves toward financial literacy instruction in recent years. Special consideration must also be granted to foster children who happen to be housed temporarily outside the county, but who are Montgomery County residents.

I also think the idea permitting an applicant to be eligible up to the age of 36 is too broad for cost control purposes. The age limit should be no older than 24 to claim a disbursement. I recommend this age to allow a person to avoid impacts to student loan eligibility if they so desire.

You must build in sufficient audit requirements within the Bill. To that end, the language at §§ 20-88(d) and 20-91(3) currently states that the Director "may" require the eligible applicant to demonstrate that a disbursement is used for authorized purposes. This should be changed to requiring that the Director "shall" impose this requirement to prevent unauthorized uses of disbursement. Each recipient of funds should be subject to audit one year after disbursement. Explicit claw back provisions are a necessity for a program of this magnitude. I also suggest that the purposes for use of the funds as described in Section 20-88(b)(3)(C)(D), and (E), if maintained, be limited to arm's length transactions only.

Finally, the Child Investment Advisory Committee as currently constituted in Bill § 20-90 lacks the necessary expertise concerning the County's fiscal responsibilities, budgetary constraints, and knowledge of state and federal taxation and benefit programs. You must include as part of any advisory committee people with expertise in federal and state taxation, and expertise in government benefits programs. I recommend reducing from 3 to 1 the members described in § 20-90(2)(A),(B); striking (C); changing (D) to explicitly include one member representing Montgomery College or the State higher education system; striking subsection (E); and adding a new subsection explicitly requiring a member with expertise in State Medicaid; one member with expertise in federal and state benefit programs; and at least one member with expertise in state and federal taxation. The Council and County Executive should also each have an appointment to the committee with institutional knowledge of the County's budget. Any recommendation produced by the Committee must be subject to public scrutiny and should be subject to public hearing and vote by the Council as an amendment to the Bill, rather than a regulatory action.

Thank you for your time and for your service to Montgomery County.