Economic Impact Statement

Montgomery County, Maryland

Bill 5-24 Finance – Child Investment Fund

SUMMARY

The Office of Legislative Oversight (OLO) anticipates that Bill 5-24 would have an overall positive impact on economic conditions in the County in terms of the Council's priority economic indicators. By establishing the Child Investment Fund and requiring the County to annually allocate $1,800 per child born as a resident into the Fund, Bill 5-24 likely would increase total investment income for certain residents. This income would offset the costs of pursuing vocational or academic education; owning or investing in a County-based business; owning real property in the County; or investing in retirement. Based on a review of studies on baby bonds and Child Development Accounts (CDAs), the Bill also may induce parents of eligible children to open personal savings accounts on their behalf, resulting in increased savings and asset values.

BACKGROUND AND PURPOSE OF BILL 5-24

The racial wealth gap, also known as the racial wealth divide, refers to entrenched racial and ethnic disparities in the wealth of American households. According to the Federal Reserve, as of 2022, "[t]he typical White family had about six times as much wealth as the typical Black family, and five times as much as the typical Hispanic family."[1] The racial wealth gap represents the cumulative impact of centuries of government policies and practices – including land theft, slavery, and segregation – that structurally advantaged White people and structurally oppressed and disadvantaged Black, Indigenous, and Other People of Color (BIPOC).[2]

In recent years, baby bonds have garnered interest throughout the country as a solution for narrowing the racial wealth gap. The Urban Institute describes that "Baby [B]onds are universal, publicly funded child trust accounts" which recipients can use "for wealth-building activities such as purchasing a home or starting a small business" when they reach adulthood.[3] Lawmakers in Congress and in several states have introduced legislation to establish baby bonds programs at the federal and state levels.[4,5] As of 2023, Connecticut, California, and Washington, DC have established baby bonds programs through legislation or budget appropriations.[6]

The purpose of Bill 5-24 is to establish the Child Investment Fund – a baby bonds program to help "address systemic racial inequities and help dismantle barriers to building generational wealth" in the County. [7] If enacted, Bill 5-24 would:

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[1] Aladangady et al, "Greater Wealth, Greater Uncertainty."
[2] RESJIS for Expedited Bill 30-21.
[3] Brown et al., "The State of Baby Bonds."
[4] Ibid.
[5] Markoff et al, "A Brighter Future with Baby Bonds."
[6] Brown et al, "The State of Baby Bonds."
[7] "Introduction Staff Report for Bill 5-24, Finance - Child Investment Fund."

- **Create a Child Investment Fund in the County.** The Bill would create a Child Investment Fund managed by the County's Director of Finance. Subject to appropriations, the County would be required to allocate $1,800 into the Fund annually for each child born in the County on or after January 1, 2024. Money from the Fund would be invested by the County according to Department of Finance policies, which may be established under Method (2) regulations. Young people who were born in the County could receive disbursements from the Fund starting at age 18, provided they are County residents and meet certain income, wealth, and other eligibility requirements when they apply. Disbursements could only be used for: vocational or academic educational expenses; ownership of a business located in the County; investment in a business located in the County; ownership of real property in the County; or retirement investment.

- **Establish a Child Investment Advisory Committee.** The Bill would create a Child Investment Advisory Committee to advise the County on various aspects of the Child Investment Fund, including on fund performance and investment opportunities. The Committee would also be required to provide recommendations to the Council by January 1, 2026 on eligibility requirements to receive disbursements from the Fund and tiered disbursement levels based on financial need. The Committee would be comprised of two ex-officio members from the Departments of Finance and Health and Human Services, and eleven members representing various communities in the County, such as community members with lived experience of poverty. The membership of the Committee would be required to reflect the regional, racial, cultural, and socioeconomic diversity of the County.

The Department of Finance and the Child Investment Fund Advisory Committee would each be required to publish annual reports on the status of the Child Investment Fund and related recommendations.[8]

The Council introduced Bill 5-24, Finance – Child Investment Fund, on March 19, 2024.

INFORMATION SOURCES, METHODOLOGIES, AND ASSUMPTIONS

Per Section 2-81B of the Montgomery County Code, the purpose of this Economic Impact Statement is to assess, both, the impacts of Bill 5-24 on residents and private organizations in terms of the Council's priority economic indicators and whether the Bill would have a net positive or negative impact on overall economic conditions in the County.[9]

Scope of Analysis: The County would use tax revenue to fund the baby bonds program established by Bill 5-24. Importantly, funding the program would entail an internal transfer from the County to the recipients of baby bonds—not a net increase in the amount of economic activity in the County. For this reason, the Bill's total economic impact would depend on: (a) the per year economic impacts to County residents and businesses from the baby bonds; and (b) the per year economic opportunity cost of the forgone County revenues. Because OLO does not know how the forgone property tax revenues would otherwise be used in the absence of enacting Bill 5-24, this analysis does not account for the economic impacts of alternative government spending with the forgone revenue.

Methodology: To assess the economic impacts of Bill 5-24, this analysis draws on evidence from impact evaluations on baby bonds and similar asset-building policies. Impact evaluations are a core tool of evidence-based policymaking that

[8] Ibid.

[9] Montgomery County Code, Sec. 2-81B.

seek to answer cause-and-effect questions regarding the impact of a policy intervention on a specific outcome(s).[10] Using randomized control trials or quasi-experimental designs, they aim to account for what would have occurred in the absence of a policy intervention by comparing treatment groups (i.e., cases where the policy has been implemented) and control groups (i.e., cases where the policy has not been implemented).[11]

Based on the review of impact evaluations, OLO draws evidence-based conclusions regarding the potential economic impacts of baby bonds. These conclusions are the primary basis on which OLO infers the likely economic impacts of Bill 5-24 on businesses, residents, and overall economic conditions in the County in terms of the Council's priority indicators.

Sources of Information: This analysis primarily relies on the following sources of information:

- **A literature review of simulation studies on the impact of baby bonds on wealth inequality conducted by researchers with the Urban Institute.** Simulation studies can be used to predict past or future outcomes of a policy intervention that has not been implemented in the real world. While a powerful tool for anticipating the outcomes of policies, simulation studies can be based on assumptions which may not reflect real-world conditions.[12]
- **A systematic review of experimental impact evaluations of child development accounts published in the peer-reviewed journal, *Journal of the Society for Social Work and Research*.** Given the limited research on baby bonds, OLO identified a systematic review of studies on CDAs, which share similar features as baby bonds. Systematic review provides a critical appraisal of the primary research on a specific topic using explicit and reproducible procedures and standards.[13] As a valuable tool for evidenced-based policy analysis,[14] a systematic review can indicate the extent to which there is high-quality evidence demonstrating a policy's effect on outcomes.

Assumption: The core assumption made in this analysis is that findings regarding the *simulated* impacts of baby bonds and *empirical* impacts of CDAs implemented in other contexts can be generalized to the County.

VARIABLES

The primary variables that would affect the economic impacts of enacting Bill 5-24 are the following:

- Number of fund recipients
- Amount of funds per recipient

[10] Gertler et al., *Impact Evaluation in Practice, Second Edition*; Collins, "What Is Impact Evaluation?"
[11] In randomized control trials, participants are randomly assigned to the treatment or control group. In contrast, quasi-experimental designs do not use random assignment. They typically identify a control group that is as similar as possible to the treatment group.
[12] Axelrod, "Advancing the Art of Simulation in the Social Sciences"; Furtado, "Simulation Modeling as a Policy Tool."
[13] Systematic reviews limit bias and errors that may occur in narrative reviews. Guides.temple.edu, Systematic Reviews & Other Review Types**;** Peričić and Tanveer, "Why systematic reviews matter."
[14] Haddaway and Pullin, "The Policy Role of Systematic Reviews."

IMPACTS

WORKFORCE ▪ TAXATION POLICY ▪ PROPERTY VALUES ▪ INCOMES ▪ OPERATING COSTS ▪ PRIVATE SECTOR CAPITAL INVESTMENT ▪ ECONOMIC DEVELOPMENT ▪ COMPETITIVENESS

Evidence Review

Baby Bonds

To date, there are no impact evaluations on baby bonds.[15] However, three simulation studies have been conducted that model the potential impacts of baby bonds on racial wealth inequities.[16] Given the correlation between race and income, these studies provide insight into the potential of baby bonds to increase wealth for lower-income households across racial and ethnic differences.

In their review of the studies, Brown, Sawo, and Biu (2023) conclude that "[o]verall, all three simulations find that baby bonds would reduce Black-white racial wealth inequities" when measured at the median. However, the authors raise two caveats to this conclusion.

First, the simulations are not based on baby bonds policies that have been passed and implemented. Importantly, the models "all assume larger initial endowments into the accounts than any existing program has." Thus, it is unclear whether these findings can be generalized to baby bonds programs implemented at the state or local level (e.g., California, Connecticut, District of Columbia).

Second, the simulations measure wealth at the median. Because of the extreme concentration of wealth among wealthiest Americans, the mean (or average) wealth inequality in the country is significantly higher than the median. Thus, the baby bonds proposals in the studies would have a smaller impact on mean wealth inequality.

Child Development Accounts

Like baby bonds, CDAs are asset-building policies in which the government provides children with savings or investment accounts beginning at birth and allocates initial deposits in a progressive manner.[17] However, CDAs typically differ from the baby bonds proposal in Bill 5-24 in several noteworthy ways.

- CDAs tend to restrict the use of funds for post-secondary education, though there are exceptions.
- CDAs typically involve a financial education component.
- CDAs often aim to incentivize children and their parents to save by providing a time-limited savings match.[18]

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[15] Brown, Sawo, and Biu, "What Do We Know about Baby Bonds?"
[16] See Zewde, "Universal Baby Bonds Reduce Black-White Wealth Inequality, Progressively Raise Net Worth of All Young Adults"; Mitchell and Szapiro, "Baby Bonds: Income-Based Program Designs Show Promise for Closing the Racial Wealth Gap"; Weller, Maxwell, and Solomon, "Simulating How Large Policy Proposals Affect the Black-White Wealth Gap."
[17] CDAs are also referred to as "children's savings accounts" or "college savings accounts."
[18] Brown, Sawo, and Biu, "What Do We Know about Baby Bonds?"; Birkenmaier, Kim, and Maynard, "Financial Outcomes of Interventions to Improve Financial Capability Through Children's Development Accounts."

In contrast, the proposal in Bill 5-24 would allow recipients to use the funds for vocational and academic educational expenses, owning or investing in a County-based business, investing in real property in the County, or investing for retirement. Also, the Bill does not require financial education among recipients, nor provides a savings incentive.

But despite these differences, analysts have examined the evidence for CDAs to gain insight into the potential impacts of baby bonds.[19] Much of the research on CDAs has been conducted on the following two policy experiments:

- Oklahoma SEED for Kids Child Development Account Experiment (SEED OK)
- Michigan SEED Children's Savings Program (MI SEED).[20]

For a description of the policy experiments, see **Table 1** below.

Table 1. CDA Policy Experiments

Program	Policy Intervention
Oklahoma SEED for Kids Child Development Account Experiment (SEED OK)	The SEED OK experiment was a large-scale randomized test of a universal, automatic, and progressive CDA to support postsecondary education. Randomly assigned children were given a state-owned CDA in the form of an Oklahoma 529 College Savings Plan account with an initial deposit of $1,000. Recipients were also provided with: • A progressive savings match • A $100 incentive for mothers to open a second, parent-owned Oklahoma 529 College Savings account, with savings matches for low- and moderate-income mothers • Ongoing communication that included financial education materials for parents and children, account statements and information, and other materials A randomly selected group of children in the control received nothing.[21,22]
Michigan SEED Children's Savings Program (MI SEED)	The MI SEED experiment involved selecting seven Head Start programs in which low-income parents of children enrolled in the programs were encouraged to open a parent owned CDA for their children's post-secondary education in the form of a Michigan 529 College Savings, with an $1,000 automatic deposit. Contributions by parents were matched one-to-one on the first $1200 of contributions. Recipients were also provided with: • low-intensity financial education (written materials about education savings) • case management Seven other Head Start programs were selected as the control group.[23]

[19] Brown, Sawo, and Biu, "What Do We Know about Baby Bonds?"
[20] Birkenmaier, Kim, and Maynard, "Financial Outcomes of Interventions to Improve Financial Capability Through Children's Development Accounts."
[21] Birkenmaier, Maynard, and Kim, "Interventions Designed to Improve Financial Capability"; "SEED for Oklahoma Kids (SEED OK)"; "Seed for Oklahoma Kids."
[22] For communication materials, see "SEED for Oklahoma Kids Ongoing Communications with Participants"; "SEED OK Parent Tools."
[23] Birkenmaier, Maynard, and Kim, "Interventions Designed to Improve Financial Capability"; "MI-SEED."

In their systematic review of studies on the effectiveness of CDAs, Birkenmaier, Youngmi, and Brandy (2023) reviewed nine studies of the SEED OK experiment and two studies for the MI SEED experiment. They concluded that the policy experiments have had the following impacts:

- **Saving Account Openings:** In the SEED OK experiment, the policy intervention described in **Table 1** resulted in a large and statistically significant increase in *state-owned accounts*, which was expected given that the state opened the accounts on behalf of recipients as part of the experimental treatment. In addition, the intervention resulted in a large and statistically significant increase in *participant-owned accounts*, thus indicating that the incentives for parents to open their own accounts were effective. In the MI SEED experiment, the policy intervention also resulted in a large and statistically significant increase in *participant-owned accounts*.

- **Budgeting:** In the MI SEED experiment, the policy intervention resulted in a small but statistically significant increase in participant budgeting. This outcome was not assessed in the SEED OK studies.

- **Saving Amount:** In the SEED OK experiment, there is some evidence that the policy intervention resulted in an increase in saving amounts in participant-owned accounts. In the MI SEED experiment, the evidence is mixed.

- **Asset Value:** In the SEED OK experiment, there is some evidence that the policy intervention significantly increased asset value, which includes savings, investment earnings, and financial incentives.

Overall, the authors conclude that there is "some evidence that CDAs can improve parent financial behaviors and financial outcomes." The studies provide strong evidence through their rigorous designs, namely randomized controlled trials.

However, the studies largely came from just two policy interventions. In addition, the timeframe of the interventions is insufficient for studies to determine the long-term effects of CDAs, such as lifelong asset accumulation. For this reason, the authors add that "additional studies are needed to produce a body of evidence about shorter term (and eventually, longer term) financial outcomes and behaviors."

Residents

OLO anticipates that Bill 5-24 would positively impact certain residents in the County in terms of the Council's priority economic indicators.

By requiring the County to annually allocate $1,800 into the Child Investment Fund for each eligible child, Bill 5-24 would primarily impact residents who meet the following conditions:

- born in the County on or after January 1, 2024;
- meet "additional eligibility standards regarding financial resources, including income or net worth criteria," which the Council would later establish;
- reside in the County at some point between the ages of 18 and 36 years old; <u>and</u>
- apply for funds and receives a disbursement(s) for eligible purpose.

Investment Income: The Bill likely would increase investment income for residents who receive disbursements. This income would offset the costs of pursuing vocational or academic education; owning or investing in a County-based business; owning real property in the County; or investing for retirement. Based on the review of studies on baby bonds and CDAs, the Bill also may increase the likelihood of parents of eligible children to open personal savings accounts on their behalf and increase savings and asset values in these accounts.

It is worth noting that critics of baby bonds have speculated that participants would reduce savings.[24] However, OLO believes this is unlikely for two reasons. First, poor households generally have little savings to begin with. Second, the research reviewed for this analysis indicates that, if anything, establishing the Fund would increase personal savings than otherwise would be the case.

Wealth Inequality: While simulation studies indicate that baby bonds can reduce wealth inequality, it is unclear whether Bill 5-24 would achieve this outcome for several reasons. Given the undefined standards for eligibility and tiered disbursement, it is difficult to estimate the number of eligible residents on an annual basis and the level of disbursement.

More importantly, the Bill's impact on residents would depend significantly on many eligible residents who would actually apply for disbursements. Experience elsewhere indicates that lack of program awareness among participants in baby bonds can be a challenge.

To illustrate, in a study of the UK's Child Trust Fund, McKay, Tian, and Lymer (2024) found that the program "has not significantly impacted children's financial experiences, as many parents did not actively engage with or even remember the scheme."[25] In their sample, 15 percent of the families with eligible children were unaware of the Child Trust Fund. Moreover, they found that "the proportion of families who are unaware of their eligibility is indeed relatively higher (18%) among the bottom one-third of household income."

The authors note that the absence of a financial education component to UK's program may be responsible for the lack of program awareness.[26] Indeed, the high uptake in the SEED OK and MI SEED programs – both of which included financial education (Table 1) – seem to validate the authors' observation.

The Bill does not include a financial education component to the Child Investment Fund. Without this component, the magnitude of the Fund's impact on residents and wealth inequality may be weakened.

Mobility: It is worth noting that the Bill could economically impact residents if it affects geographic mobility. Census data indicates that from 2016 to 2020, the County experienced negative net domestic migration, meaning more residents left Montgomery County to settle other places in the U.S. compared to the number of people from elsewhere in the U.S. who moved into the County.[27] Nationally, the most common reason for moving was seeking better housing.[28] Certain residents may use disbursements from the Child Investment Fund to subsidize purchasing a home in the County. This could cause certain residents to remain in the County who otherwise would leave in the absence of the Bill, thereby reducing costs associated with moving. However, the lack of evidence on the long-term effects of baby bonds or CDAs prevents OLO from anticipating the likelihood of this potential impact.

[24] Bourne, "Cory Booker's 'Baby Bonds' Wouldn't Support a Savings Culture -- It's Just More Government Subsidies."
[25] McKay, Tian, and Lymer, "Whatever Happened to the Child Trust Fund?"
[26] McKay, Tian, and Lymer.
[27] "County-to-County Migration Flows."
[28] Kerns-D'Amore, "Change in Marital Status Became More Common Reason for Moving from 2021 to 2022, Housing/Neighborhood Improvement Reasons Declined."

Beyond this potential impact, OLO does not expect the Bill to affect residents in terms of the Council's other priority indicators.

Businesses, Non-Profits, Other Private Organizations

OLO anticipates that Bill 5-24 would not directly impact private organizations in the County in terms of the Council's priority economic indicators.

Net Impact

OLO anticipates that enacting Bill 5-24 would have an overall positive impact on economic conditions in the County in terms of the Council's priority economic indicators. By establishing the Child Investment Fund and requiring the County to annually allocate $1,800 into the Fund, Bill 5-24 likely would increase total investment income for residents who receive disbursements. This income would offset the costs of pursuing vocational or academic education; owning or investing in a County-based business; owning real property in the County; or investing for retirement. Based on a review of studies on baby bonds and CDAs, the Bill also may induce parents of eligible children to open personal savings accounts on their behalf, resulting in increased savings and asset values.

In theory, the Bill could have two additional economic impacts:

- improve economic development in the County by decreasing the cost of owning/investing in businesses or real property for certain residents; and/or
- improve the competitiveness of the Couty by attracting individuals to settle in the County or retaining residents.

However, OLO is unable to determine whether the policy would have significant impacts on these indicators given the lack of evidence on the long-term effects of baby bonds and CDAs and the relevant program parameters that have yet to be determined.

DISCUSSION ITEMS

Based on the effectiveness of the SEED OK and MI SEED experiments, Councilmembers may want to consider requiring financial education for recipients of the Child Investment Fund to improve program uptake. See the following materials provided to CDA recipients in the OK SEED experiment:

- SEED for Oklahoma Kids Ongoing Communications with Participants
- SEED OK Parent Tools

In addition, Councilmembers may want to consider reviewing the income requirements for the baby bonds policies examined in the simulation studies cited above to identify parameters that may be sufficient to meaningfully reduce median racial wealth inequality in the County.

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CAVEATS

Two caveats to the economic analysis performed here should be noted. First, predicting the economic impacts of legislation is a challenging analytical endeavor due to data limitations, the multitude of causes of economic outcomes, economic shocks, uncertainty, and other factors. Second, the analysis performed here is intended to *inform* the legislative process, not determine whether the Council should enact legislation. Thus, any conclusion made in this statement does not represent OLO's endorsement of, or objection to, the Bill under consideration.

AUTHOR

Stephen Roblin (OLO) prepared this report.