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FISCAL IMPACT REPORT

SPONSOR Romero, G **ORIGINAL DATE** 2/01/19
LAST UPDATED 2/05/19 **HB** 239/aHEC

SHORT TITLE Children's Savings Account Act **SB** _____

ANALYST Chabot

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY19	FY20		
	\$7,500.0	Recurring	General Fund

(Parenthesis () Indicate Expenditure Decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY19	FY20	FY21	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total		\$1,194.0	\$1,194.0	\$2,388.0	Recurring	General Fund

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

New Mexico Attorney General (NMAG)
 Children, Youth and Families Department (CYFD)
 Higher Education Department (HED)
 Regulation and Licensing Department (TRD)
 State Treasurer's Office (STO)

SUMMARY

Synopsis of House Education Committee Amendment

House Education Committee Amendments to House Bill 239 adds the definition of an authorized 529 vehicles and replaces financial institution with 529 vehicles throughout the bill. It deletes the requirement to complete a financial education program prior to withdrawing funds from the owner's children's savings account.

Synopsis of Original Bill

House Bill 239 appropriates \$7.5 million from the general fund to Office of the State Treasurer for the purpose of carrying out the provisions of the Children’s Savings Account Act which is designed to provide initial funding for savings accounts for New Mexico children with the objective of beginning the process and practice of saving money to be used to help defray the costs of the child’s college education. The bill provides initial funding (\$500) for creating individual accounts, defines eligibility, and assigns duties to the State Treasurer to oversee and promulgate rules for the program. It creates the Children’s Saving Account Council consisting of the lieutenant governor as chair, and eight members appointed by the governor, and the State Treasurer as an ex-officio member. Eligible children are six months of age or younger, citizens or legal residents of the United States, residents of New Mexico, and have a family of household income not exceeding 200 percent of the federal poverty level.

A section by section review compiled by NMAG is at attachment 1.

FISCAL IMPLICATIONS

The appropriation of \$7.5 million contained in this bill is a nonrecurring expense to the general fund. Any unexpended or unencumbered balance remaining at the end of any fiscal year shall not revert. Up to five percent of the appropriation may be used for administrative expenses.

Data on births of children to families living at 200 percent of the Federal Poverty Level is not directly tracked. However, a Kaiser Family Health Study in 2016, estimated that 72 percent of births in New Mexico are paid through Medicaid and that percentage will be used to estimate the number of births qualifying for this program. In 2018, the Department of Health recorded 23,708 births so approximately 16,560 children would qualify for the program which would cost \$8.3 million per year. Factoring in the five percent administrative fee, the program would cost \$8.7 million annually.

SIGNIFICANT ISSUES

The State Treasurer would provide financial education and other necessary training pertinent to allowable uses by account owners, develop partnerships with authorized financial institutions and oversee the management of children's savings accounts established pursuant to the Children's Savings Account Act. The State Treasurer would make an annual report to the Governor and LFC and no more than 5 percent of the money appropriated could be used to administer the program.

NMA and RLD both raise the issue of whether the initial \$500-dollar deposit made by the State Treasurer on behalf of a child may be a violation of the anti-donation clause.

Both RLD and HED assess the bill largely reproduces the purpose and functional operation of the state’s current 529 College Savings Program. In addition, the State Treasurer would have to establish a record-keeping and reporting system similar in scope to the 529 program.

RLD questions how a child six months old or less could become an account holder with a financial institution.

NMAG raises the following issues:

1. Term need to be defined such as household, family, approved post-secondary or vocational educational institution, geographically relating to the council membership, and duties of the council.
2. What happens if a once-deemed eligible individual subsequently becomes a non-New Mexico resident?

RLD states to ensure consistency between state and federal rule governing financial institutions, it would be useful to have a least one member appointed to the Children's Savings Account Council be from the financial industry and have a background bank or credit union compliance officer.

ADMINISTRATIVE IMPLICATIONS

The bill has no information about how the program will be advertised to New Mexico. Eligibility being less than six months results in a small amount of time for enrollment. Consideration should be made to coordinate with the Department of Health to ensure materials are made available to families at the birth of a child. Hospitals, obstetricians, public health offices should all be brought into the program to ensure wide-spread dissemination of the goals and objectives of the program. In addition, DOH may be able to provide information to STO when birth certificates are processed.

GAC/gb/sb

ATTACHMENT 1 NMAG BILL SUMMARY

Synopsis: Notwithstanding its stated purpose of “empower[ing] New Mexico families to plan and save for their children's higher education”, House Bill 239 would create the Children’s Savings Account Act, under which the State Treasurer would open and maintain children's savings accounts pursuant to its provisions.

Section 3 set forth definitions for “account owner”, “allowable use”, “authorized financial institution”, “children savings account”, and “eligible individual”.

Section 4 provides for the establishment of children’s savings accounts (CSA) under certain stated criteria. Withdrawals from CSA can be made only in accordance with rules to be promulgated by the State Treasurer.

Section 5 sets for the criteria for deeming a person an “eligible individual.” These are a person under 6 months of age; citizen or legal resident of U.S.; resident of New Mexico; and family or household income does not exceed 200% of federal poverty level.

Section 6 sets out the responsibilities of the State Treasurer, which include implementing and administering a program that opens and maintains CSA; promulgate rules necessary for implementing CSA program; open accounts upon verification of proposed account owners eligibility; provide financial education and other training regarding allowable uses by account owners, develop partnerships with authorized financial institutions; provide annual report to the Governor and Legislative Finance Committee; mandates no more than 5% of monies appropriated shall be use for administration of program.

Section 7 provides for the establishment of CSA, their allowable uses, and how withdrawals may be made. State treasurer is directed to establish by rule the manner in which eligible individuals may be identified and make initial \$500 deposits with 3 months of identification of eligible individual. Allowable uses include (a) expenses to attend approved post-secondary or vocational institution; (b) expenses to participate in programs established by Department of Workforce Solutions; and (c) other uses specified by State Treasurer rules. If account owner or beneficiary of CSA dies, monies deposited by the account owner are to be paid to account owner’s spouse, dependent or other named beneficiary. Section 7 also provides that account owners will not be allowed to make withdrawals from CSA until they have completed financial education training program and completed high school or high school equivalency credential. The law contemplates that if account owner withdraws money from

CSA for use other than allowable use, the account owner forfeits the amount of initial deposit made by the State Treasurer. If account owner fails to withdraw for allowable uses by age 26, amounts deposited by the state revert to the state and balance paid out to account owner without restriction.

Section 8 creates a CSA council to provide oversight, suggest possible improvements, and obtain subject matter expertise through attendance at training and workshops. The council shall consist of the Lieutenant Governor and 8 members appointed by the Governor to represent the state geographically. The State Treasurer shall serve as ex-officio member of the council. In addition, the State Treasurer is directed to provide adequate staffing for the council.

Section 9 creates CSA fund in the state treasury, which shall consist of appropriations by the legislature, gifts, grants, donations and bequests made to the fund. The fund is non-reverting and appropriated to the State Treasurer for implementing the act.

Section 10 makes \$7.5 million appropriation to the State Treasurer for expenditure in fiscal year 2020 and subsequent years to carry out the provisions of the act. The law would become effective July 1, 2019.