Fiscal Note & Local Impact Statement

122 nd General Assembly of Ohio

BILL: **Sub. H.B. 100** DATE: **May 6, 1997**

STATUS: **In House Family Services** SPONSOR: **Rep. Kasputis**

LOCAL IMPACT STATEMENT REQUIRED: **No — Permissive**

CONTENTS: **Authorizes the establishment of Individual Development Accounts (IDA) for persons with incomes at or below 200% of the federal poverty guidelines.**

State Fiscal Highlights

STATE FUND	FY 1997	FY 1998	FUTURE YEARS
General Revenue Fund			
Revenues	- 0 -	Potential loss of up to $61.1 million	Potential loss of up to $61.1 million
Expenditures	-0-	Potential Indeterminate Increase	Potential Indeterminate Increase

- The bill allows the county departments of human services to establish an IDA for persons with incomes below 200% of the federal poverty guideline. The state or county is not obligated to match recipient contributions, but if they do so, their expenditures will increase accordingly.
- The tax credits could cost the state up to $65 million annually in lost corporate franchise and personal income tax revenue. Of this amount, about 94 percent, or $61.1 million, would be borne by the state GRF.
- The bill permits county departments of human services to reimburse a fiduciary organization for all or part of the cost of administering IDAs.
- The bill requires the county departments to report information concerning the IDA program to the state semi-annually and requires the state department to compile all the county reports into a single report for the Governor and General Assembly, which will require a minimal increase in expenditures to develop and prepare these reports.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 1997	FY 1998	FUTURE YEARS
Counties			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	-0-	Potential Indeterminate Increase	Potential Indeterminate Increase
Counties, Municipalities, Townships and Libraries (loss from LGF, LGRAF, and LLGSF)			
Revenues	- 0 -	Loss of up to $3.9 million	Loss of up to $3.9 million

- The bill allows counties to establish and contribute funds into an IDA for persons with incomes at or below 200% of the federal poverty guideline. The county is not obligated to match the recipient contributions, but if they do so, their expenditures will increase accordingly.

- The tax loss from the credits for donations to IDAs would be shared by the three local government funds. LBO is assuming that, since both individuals and corporations can make donations and claim the credits, the percentage of the loss borne by the LGFs is a blend of the personal income tax percentage (10.5 percent) and the corporate franchise tax percentage (4.8 percent). LBO is assuming that more corporations will claim the credit, so that the weighted average percentage of the loss borne by the LGFs is 6 percent. This means that the loss will be up to $3.9 million annually.

- The bill mandates counties to report to the state on the IDA program, this will require a new reporting mechanism to be implemented, which will result in additional costs to the counties.

Detailed Fiscal Analysis

The bill permits county departments of human services (CDHS) to establish an Individual Development Account (IDA) for persons with income at or below 200% of the federal poverty guidelines. The IDA works as a tool to accumulate assets in a manner that does not jeopardize the eligibility for welfare benefits. The bill would allow welfare recipients with earned income to make deposits into an IDA and permit (but not mandate) the organization that established the IDA (CDHS, the fiduciary organization, or various other organizations) to match the recipient's deposits. All assets in an IDA would be exempt from consideration in determination of eligibility and amount of aid for which the family is eligible (this includes TANF and Medicaid). The account balance of an IDA is not allowed to exceed $10,000 at any time. Withdrawals from an IDA may only be used for educational expenses, a first home purchase, business capitalization, or in the case of an emergency(which will result in the loss of matching funds).

The Personal Responsibility and Work Opportunity Act (PRWOA), which created the TANF block grant, allows states to establish IDAs for TANF recipients. The TANF program only allows monies in an IDA to be used for the three purposes this bill designates. Furthermore, TANF allows state block grant funds to be used for the state's contribution to an IDA for TANF eligibles.

The most recent report on JOBS participation indicates that on average 13,183 JOBS participants were employed in a given month. If every one of these recipients established an IDA and contributed the maximum amount, with the public or private entity providing the match dollar for dollar, the total cost to the state, county, or nonprofit organization would be approximately $40 million. However, according to ODHS it is highly unlikely the counties or the state would be able to contribute funds at this level considering how tight funding will be under TANF. Complicating the determination of the impact of this bill is the fact that there will be more participants in work as a result of TANF, how many more is indeterminate. Then there is the question of how many TANF recipients will be in a position to set money aside, rather than using it for day to day expenses. These problems of estimation only deal with the population that is receiving welfare, once the eligibility for an IDA is opened up to a significantly larger population (as the substitute bill does) the impact of this legislation increases dramatically

Undoubtedly some people will want to establish an IDA. However it is unknown how many IDAs will be established as a result of this bill and how much money the working poor will divert to the IDAs. Furthermore, how much if any the various organizations could contribute to an IDA is in question. One thing is certain, if a county or the state establishes IDAs and is the agency providing the match, expenditures will increase for that agency.

Tax Credits

The bill provides a tax credit for individuals and corporations who contribute matching funds to county IDA programs. According to information from the National Governors' Association (NGA) and the Corporation for Enterprise Development (CFED), Colorado and Virginia have proposed the same sort of tax credit, and Pennsylvania is about to implement a pilot IDA program that includes this type of tax credit. However, because these programs are either just getting under way or are still in the proposal stage, LBO has not found any data from other states which would help in estimating the impact of this credit on Ohio. Since the tax estimates below have been prepared without any guidance on participation rates, they must be regarded as extremely rough.

Persons who would be eligible for IDAs are those whose income is below 200 percent of the federal poverty guideline. U.S. Census data for 1993 shows roughly 1.5 million Ohioans bellow the federal poverty line. Less precise estimates for 1995 put the number at about 1.3 million (this is not unrealistic given the improvement in the state economy in 194 and 1995). Using other Census data on number of Ohioans by income level, LBO estimates that about 2.2 million Ohioans are below the federal poverty line. Of these, an estimated 600,000 are children from 5 to 17.

How many counties would develop IDA programs is unknown. If we assume that, at least in the early years, only those counties that have over 100,000 persons below 200 percent of the federal poverty line establish programs (Cuyahoga, Franklin, Hamilton, Lucas, Montgomery, and Summit, based on LBO's estimates using the detailed 1993 Census data) then the number of eligible persons is narrowed from 2.2 million to 1.3 million. If all those counties establish IDA programs and 5 percent of all eligibles choose to participate, then there would be 65,000 IDA beneficiaries. If individuals and corporations contribute matching funds to all six county programs, at an average amount of $1,000 per eligible, then the tax credit claimed could be as much as $65 million annually. Because the credit is nonrefundable, the credit would be smaller to the extent that donations exceed the individual's or corporation's liability.

The estimated $65 million in annual tax revenue loss will be split between the state GRF and the three local government funds. The precise nature of the split depends on how many credits are claimed by corporations and how many are claimed by individuals, since the GRF/LGF split is different for the personal income tax and the corporate franchise tax. For purposes of simplicity, LBO assumes that the majority of the credits would be claimed by corporate taxpayers, so that the GRF would absorb about 94 percent of the loss and the LGFs would absorb the other 6 percent. This puts the potential GRF loss at $61.1 million and the LGFs loss at $3.9 million.

Synopsis of Changes

The substitute bill adds the section on tax credits, which has a dramatic fiscal effect (see Tax Credits). In addition, it raises eligible participants to 200 percent of poverty, having little or no fiscal effect, and it adds the mandate that a fiduciary organization must administer such funds, costs may be reimbursed by the county to the fiduciary organization.

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