



## Fiscal Estimate Narratives

DFI 3/7/2024

LRB Number	23-5826/1	Introduction Number	AB-1143	Estimate Type	Original
<b>Description</b> creating a baby bond program and baby bond fund, granting rule-making authority, and making an appropriation					

### Assumptions Used in Arriving at Fiscal Estimate

This legislation would create “baby bonds” for Wisconsin children born to families that meet certain income thresholds. After receiving notice of an eligible child’s birth from the Department of Health Services, the Department of Financial Institutions must deposit \$3,000 into a baby bond fund administered by the Investment Board and credit it to an account in the child’s name. After turning 18, the child can obtain distribution of the funds from DFI if the child meets certain residency requirements, passes a financial literacy course, and certifies that the funds will only be used for eligible expenses, which include costs associated with education, child care, the purchase of a home, starting a business, or saving for retirement.

This bill will require DFI to incur several categories of costs, as follows:

(1) Funding baby bond accounts for eligible newborns. The primary expense of the program is the cost to fund the initial \$3,000 contribution to each baby bond account. According to data provided by the Department of Health Services, approximately 26,000 to 29,000 newborns each year would be eligible to receive a baby bond under the income criteria set forth in the bill. Assuming that these numbers remain stable in future years, there would be an annual cost of \$78 million to \$87 million to fund the accounts.

Once the program is fully mature, it may realize some cost offsets attributable to accounts that are terminated due to a beneficiary’s death or failure to meet the requirements for disbursement by age 30. In addition, the bill also authorizes DFI to solicit and apply charitable donations to help offset the state’s expenses in funding the program. At this time, however, the amount of any potential offsets is too speculative to be accounted for in this fiscal estimate.

(2) Developing and administering the required financial literacy course. The bill requires DFI to develop and administer an online, interactive financial literacy course, which participants must pass as a condition of receiving the funds in their baby bond accounts. Existing DFI staff members possess the expertise to help develop course content, but the agency will need to incur outside vendor costs to develop the online, interactive modules. DFI estimates that it would incur one-time software development costs of \$100,000, plus ongoing maintenance and update costs of \$20,000 per year.

(3) Recordkeeping, account and website maintenance, statements to participants, and other program tasks to be performed by outside vendors. The bill requires DFI to open new accounts for eligible newborns; keep records of investment performance; send account statements to participants; give notices to participants upon certain events; and review eligibility and process requests for withdrawals. These are specialized functions, and DFI anticipates outsourcing these tasks to an outside vendor that specializes in recordkeeping functions for financial institutions and others that administer similar account-based programs.

The cost to retain a qualified vendor to perform these functions for a program of this nature is uncertain. Connecticut’s baby-bond legislation, which its treasurer touted as the first in the nation, was signed into law in June and its costs have not yet been reported. (Administrative costs for that program are paid for out of investment gains, rather than the state budget, so the costs were not estimated in advance.) DFI does not believe it would be appropriate to borrow numbers from different Wisconsin programs that involve similar tasks, such as the college savings program, because those programs tend to be more complex and likely have shallower pools of qualified vendors to draw from than this one. For these reasons, DFI is unable to fairly estimate of the costs to carry out the recordkeeping tasks required of this program at this time.

(4) General program administration and vendor oversight. Though certain program responsibilities may be best delegated to vendors, DFI will need qualified staff members to oversee and direct their performance, to coordinate information sharing and promotional efforts with other state agencies, to address questions of participants and the public at large, and to ensure that all aspects of the program are functioning properly. DFI estimates that these duties will require at least two full-time employees with relevant knowledge and

experience, with an estimated salary, fringe, and supply costs of \$236,300.

### **Long-Range Fiscal Implications**

## Fiscal Estimate Worksheet - 2023 Session

Detailed Estimate of Annual Fiscal Effect

Original     
  Updated     
  Corrected     
  Supplemental

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<b>Description</b> creating a baby bond program and baby bond fund, granting rule-making authority, and making an appropriation		
<b>I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):</b>  One-time costs of software development costs of \$100,000		
<b>II. Annualized Costs:</b>		
	<b>Annualized Fiscal Impact on funds from:</b>	
	Increased Costs      Decreased Costs	
<b>A. State Costs by Category</b>		
State Operations - Salaries and Fringes	\$196,300	\$
(FTE Position Changes)	(2.0 FTE)	
State Operations - Other Costs	78,060,000	
Local Assistance		
Aids to Individuals or Organizations		
<b>TOTAL State Costs by Category</b>	<b>\$78,256,300</b>	<b>\$</b>
<b>B. State Costs by Source of Funds</b>		
GPR		
FED		
PRO/PRS		
SEG/SEG-S	78,256,300	
<b>III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.)</b>		
	Increased Rev	Decreased Rev
GPR Taxes	\$	\$
GPR Earned		
FED		
PRO/PRS		
SEG/SEG-S		
<b>TOTAL State Revenues</b>	<b>\$</b>	<b>\$</b>
<b>NET ANNUALIZED FISCAL IMPACT</b>		
	<u>State</u>	<u>Local</u>
NET CHANGE IN COSTS	\$78,256,300	\$
NET CHANGE IN REVENUE	\$	\$
<b>Agency/Prepared By</b>	<b>Authorized Signature</b>	<b>Date</b>
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