Racial Equity and Social Justice (RESJ) Impact Statement

Office of Legislative Oversight

BILL 5-24: FINANCE – CHILD INVESTMENT FUND

SUMMARY

The Office of Legislative Oversight (OLO) finds the anticipated impact of Bill 5-24 is indeterminant. Bill 5-24 mostly aligns with key features for baby bonds programs to narrow the racial wealth gap and advance racial equity and social justice (RESJ). However, it is uncertain whether young people who are Black, Indigenous, and Other People of Color (BIPOC) will disproportionately benefit from the Child Investment Fund since eligibility standards are yet to be determined. OLO offers one policy option for Council consideration.

PURPOSE OF RESJ IMPACT STATEMENTS

The purpose of RESJ impact statements (RESJIS) is to evaluate the anticipated impact of legislation on racial equity and social justice in the County. Racial equity and social justice refer to a **process** that focuses on centering the needs, leadership, and power of communities of color and low-income communities with a **goal** of eliminating racial and social inequities.[1] Achieving racial equity and social justice usually requires seeing, thinking, and working differently to address the racial and social inequities that have caused racial and social disparities.[2]

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."[3] 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 BIPOC.[4]

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" that recipients can use "for wealth-building activities such as purchasing a home or starting a small business" when they reach adulthood.[5] Lawmakers in Congress and in several states have introduced legislation to establish varying versions of baby bonds programs at the federal and state levels.[6,7] As of 2023, Connecticut, California, and Washington, DC have established baby bonds programs through legislation or budget appropriations.[8]

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.[9,10] If enacted, Bill 5-24 would:[11]

- **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 polices, which may be established under through Method (2) regulations. Young people who were born in the County could receive disbursements from the fund starting at age 18, provided they are a County resident and meet certain income, wealth and other eligibility requirements when they apply. Disbursements could only be used for educational expenses; business ownership, investment, or property ownership in the County; or retirement investments.

- **Establish a Child Investment Advisory Committee.** The Bill would create a Child Investment Advisory Committee that would advise the County on various aspects of the Child Investment Fund, including fund performance and investment opportunities, among others. 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.[12]

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

In September 2021, OLO published a RESJIS for Expedited Bill 30-21, Landlord-Tenant Relations – Restrictions During Emergencies – Extended Limitations Against Rent Increases and Late Fees. This RESJIS builds on the background for the racial wealth divide included in the RESJIS for Expedited Bill 30-21.[13]

THE RACIAL WEALTH GAP, BABY BONDS, AND RACIAL EQUITY

Wealth is the value of what a household owns (assets) minus what they owe (liabilities). Assets include valuables such as cash, checking and savings accounts, retirement savings, and the value of a home or small business. Liabilities include debts such as mortgages, auto loans, credit cards, and student loans.

Wealth is fundamental for economic security and mobility. During times of financial hardship – such as a job loss or a medical emergency – families can draw on wealth to maintain stability. Families can also use wealth to build on their wealth by, for example, buying a home, starting a small business, or pursuing a college education. As families pass down wealth, their children, grandchildren, and future descendants can experience these benefits for generations to come.[14] A lack of wealth, in contrast, can be detrimental for families. For instance, research from the Urban Institute found that families with less than $250 in savings were more likely to miss a housing payment and experience eviction.[15]

The racial wealth gap creates racial disparities in which families prosper from having wealth and which families are vulnerable from lacking it. This gap is the culmination of centuries of policies and practices that have prioritized the economic well-being of White people, often at the direct expense of BIPOC. As Prosperity Now describes in *A Brighter Future With Baby Bonds*:

> Since wealth is largely passed down from one generation to the next, this gap stems from a long history of economic exploitation and oppression of Black, Indigenous, Latine and other non-White people in the US. This history includes the enslavement of Black people, when they served as literal capital assets for a White, landowning plantation class, the theft of land from Indigenous peoples, such as in "The Trail of Tears", and government and private-sector wealth-building policies and practices that have benefited White households over households of color, such as the Indian Removal Act, the Homestead Act, the Social Security Act and redlining.[16]

After some periods of progress, the wealth gap between White and Black Americans has steadily grown in the last 40 years.[17] Today, the typical White family has $285,000 in wealth, compared to $44,900 for the typical Black family and $61,600 for the typical Latinx family.[18] Further, a recent study from the Pew Research Center found that 24 percent of Black households and 14 percent of Latinx households either had no wealth or were in debt, compared to 9 percent of White households.[19] Researchers argue that without policy interventions, the racial wealth gap will likely continue to widen in the coming years.[20]

Baby Bonds. The idea of baby bonds as a solution for narrowing the racial wealth gap emerged in 2010 from a paper written by economists Darrick Hamilton and William Darity, Jr. In the report, they propose a national "progressive child development account (CDA)-type program that could go a long way towards eliminating the racial wealth gap."[21] According to research from the Urban Institute, baby bonds policies have the following key components:[22]

- **Universal eligibility.** All children would be automatically enrolled for a baby bond at birth.
- **Financially progressive.** Account deposits would be based on household wealth, with progressively larger deposits for children from lower-wealth households.
- **Flexible use of funds towards wealth building.** The accounts could be used for a range of wealth-building activities, including postsecondary education, homeownership, or a small business.
- **Publicly funded.** Baby bonds would be financed by the government. They would not impact household eligibility for public benefits or financial aid.
- **Substantial initial endowment.** The underlying investment vehicle would protect the principal while earning a return on regular deposits, thereby accumulating sufficient assets for major wealth-building investments.
- **Individual recipient.** Young people, not families or the state, would be the ultimate beneficiaries of and decisionmakers about their wealth and future.

Prosperity Now also proposes the following key design considerations for state or local level baby bonds programs:[23]

- **Meaningful representation** of impacted communities in program design and administration;
- **Outreach** with participants and families; and
- A **pooled public account or trust** used to hold funds.

As explained by the Urban Institute, "Baby bonds policies were designed in the context of a rich body of evidence that demonstrates positive impacts on asset-building when investments are seeded early for children."[24] Because the few existing baby bonds programs are in the very early stages, they have not yet been studied in a real-world context.[25] However, separate simulation studies of baby bonds programs have found they would reduce the White-Black wealth gap to varying degrees.[26]

ANTICIPATED RESJ IMPACTS

To consider the anticipated impact of Bill 5-24 on RESJ in the County, OLO recommends the consideration of two related questions:

- Who are the primary beneficiaries of this bill?
- What racial and social inequities could passage of this bill weaken or strengthen?

For the first question, OLO considered the demographics of community members who would be eligible to make disbursements from the Child Investment Fund. Young people who are born in the County on or after January 1, 2024 would be eligible to apply for disbursements from the fund starting at age 18 if they reside in the County. According to the Bill's lead sponsor, the fund would have universal eligibility, so all young people born in the County would be entitled to a minimum disbursement.[27]

According to Bill 5-24, to reduce wealth inequity in the County, eligibility standards for disbursement from the fund would be based on "financial resources, including income and net worth criteria" at the time of application and would include tiered disbursement levels for applicants based on financial need.[28] However, the specific eligibility standards are pending determination by the Council with guidance from the Child Investment Advisory Committee if Bill 5-24 is enacted.

Whether eligibility is based on a young person's own financial standing or their family's financial standing at the time of application will considerably impact whether there are racial and ethnic disproportionalities among the primary beneficiaries of Bill 5-24:

- If eligibility is based on the financial standing of the young person themself, then all young people will proportionately benefit from this Bill. Especially in early adulthood, all young people are likely to have lower levels of income and wealth when considered separately from their households.[29] So all young adults would likely be eligible for similar disbursements from the fund regardless of race and ethnicity.
- If eligibility is based on the financial standing of a young person's family, then Black and Latinx young adults could disproportionately benefit from this Bill. Since Black and Latinx young adults are from households that are more likely to have lower levels of income and wealth (refer to Table A and B in Appendix), they would likely be eligible for larger disbursements from the fund.

Of note, geographic mobility trends will also impact the primary beneficiaries of Bill 5-24. A study from the Joint Center for Housing Studies at Harvard University suggests that younger adults, renters, and people with lower incomes are more likely to move, though most of those moves are within the same county.[30] The study also found that wanting new or better housing was the most common reason for moves in 2019. Black and Latinx renters in the County are more likely to experience housing instability.[31] If housing challenges such as the affordability crisis push Black and Latinx families out of the County in the coming years, then White young adults could disproportionately benefit from the Bill. On the other hand, if White families migrate from the County in larger numbers, as population trends seem to suggest,[32] then BIPOC young adults could disproportionately benefit from the Bill.

For the second question, OLO considered how this Bill could contribute to narrowing the racial wealth gap among community members in the County. Figure A in the Appendix compares Bill 5-24 to key features of baby bonds policies identified by researchers and advocates (refer to previous section). The comparison demonstrates that Bill 5-24 is mostly aligned with key features necessary for baby bonds programs to narrow the racial wealth gap and advance RESJ.

OLO finds the anticipated impact of Bill 5-24 is indeterminant. Bill 5-24 mostly aligns with key features for baby bonds programs to narrow the racial wealth gap and advance RESJ. However, it is uncertain whether BIPOC young adults will disproportionately benefit from the Child Investment Fund since eligibility standards are yet to be determined.

Recommended Amendments

The Racial Equity and Social Justice Act requires OLO to consider whether recommended amendments to bills aimed at narrowing racial and social inequities are warranted in developing RESJ impact statements.[33] OLO finds the anticipated impact of Bill 5-24 is indeterminant. As such, OLO does not offer recommended amendments. However, should the Council seek to improve the RESJ impact of this Bill, one policy option is offered for Council consideration:

- **Require eligibility standards for the Child Investment Fund to be based on family income and/or wealth and consider changes to better align the fund with key features of baby bonds programs.** Basing eligibility for the fund on the financial standing of a young person's family will ensure that the Child Investment Fund advances RESJ by providing a larger benefit to Black and Latinx young adults, since they are more likely from households with lower levels of income and wealth. The Council could also consider changes that will better align the fund with key features of baby bonds programs, such as:
    - Restricting eligibility to children from households with lower levels of income/wealth at the time of birth;
    - Making larger deposits into the fund for children from households with lower levels of income/wealth; and
    - Requiring the Department of Finance to develop a plan to provide outreach and education on the fund with participants and families, especially in BIPOC communities.

Caveats

Two caveats to this racial equity and social justice impact statement should be noted. First, predicting the impact of legislation on racial equity and social justice is a challenging analytical endeavor due to data limitations, uncertainty, and other factors. Second, this RESJ impact statement is intended to inform the legislative process rather than 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.

Contributions

OLO staffer Janmarie Peña, Performance Management and Data Analyst, drafted this RESJ impact statement.

APPENDIX

Table A: Household Median Net Worth by Race and Ethnicity, Washington Metropolitan Area

Race and ethnicity	Median Net Worth
White	$284,000
Black, US	$3,500
Black, African	$3,000
Latinx	$13,000
Chinese	$220,000
Korean	$496,000
Vietnamese	$423,000
Asian Indian	$573,000

Source: Kilolo Kijakazi, et. al, "The Color of Wealth in the Nation's Capital," Urban Institute (adapted from Table 12).

Table B: Median Household Income by Race and Ethnicity, Montgomery County, Maryland

Race and ethnicity	Median Household Income
All	$125,583
Asian	$138,040
Black	$89,022
Native American	$98,313
Pacific Islander	$139,396
White	$151,572
Latinx	$90,657

Source: Table S1903, 2022 American Community Survey 5-Year Estimates, Census Bureau.

Figure A: Comparison of Bill 5-24 to Key Features of Baby Bonds Policies

An asterisk (*) denotes OLO's assessment that Bill 5-24 mostly aligns with the key feature.

Key Feature	Bill 5-24	Notes
*Universal eligibility**	• A deposit in the Child Investment Fund would be made for each child born in the County on or after January 1, 2024 • All children born in the County would be eligible for a disbursement starting at age 18 if they reside in the County	• Most proposed and enacted baby bonds programs have restricted eligibility by income level or Medicaid eligibility at time of birth[34]

Key Feature	Bill 5-24	Notes
Financially progressive	• A deposit of $1,800 would be made for each child born in the County regardless of household wealth • Young people would be eligible for larger disbursement amounts based on financial need at time of disbursement	• Most proposed and enacted baby bonds programs have the same initial deposit for all children[35] • Prosperity Now notes financial progressivity could be achieved by "a targeted program that limits eligibility only to children from households under a certain income of wealth threshold"[36]
*Flexible use of funds towards wealth building**	• Funds could be used for educational expenses, business ownership or investment, real estate, or retirement investments	
*Publicly funded**	• County would allocate money to Child Investment Fund annually subject to appropriation • The County's investment in the fund will not count towards any household's assets or income	• Prosperity Now notes "relying on general, annual appropriations to pay for the program could diminish its success and make it vulnerable"[37]
Substantial initial endowment	• Unclear whether $1,800 deposit will suffice for major wealth-building investments in 18 years	• The Urban Institute notes "…likely only the federal government has the resources to create a baby bonds program at full scale that would yield the types of endowments capable of substantially reducing racial wealth inequities."[38]
*Individual recipient**	• Young people would be ultimate beneficiaries for disbursement from the fund	

Key Feature	Bill 5-24	Notes
*Meaningful representation**	• 3 of 13 members of the Child Investment Advisory Committee must be community members with lived experience of poverty	
Outreach	• Bill does not prescribe outreach on the Child Investment Fund with participants and families	
*Pooled public account or trust**	• Child Investment Fund would be a general account managed by the County's Director of Finance	

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[1] Definition of racial equity and social justice adopted from "Applying a Racial Equity Lens into Federal Nutrition Programs" by Marlysa Gamblin, et.al. Bread for the World, and from Racial Equity Tools. https://www.racialequitytools.org/glossary
[2] Ibid.
[3] Aditya Aladangady, et. al., "Greater Wealth, Greater Uncertainty: Changes in Racial Inequality in the Survey of Consumer Finances," Federal Reserve, October 18, 2023.
[4] RESJIS for Expedited Bill 30-21, Office of Legislative Oversight, September 9, 2021.
[5] Madeline Brown, et. al., "The State of Baby Bonds," Urban Institute, February 2023, pg.1.
[6] Ibid, pg. 9
[7] Shira Markoff, et. al, "A Brighter Future with Baby Bonds," The New School Institute on Race, Power and Political Economy and Prosperity Now, February 2024, pgs. 8-9.
[8] Brown, pg. 9
[9] Policy Brief: Bill 5-24 Child Investment Fund, Introduction Staff Report for Bill 5-24
[10] Memorandum from Councilmembers Jawando and Albornoz to Council, Introduction Staff Report for Bill 5-24, Montgomery County Council, March 19, 2024.
[11] Bill 5-24, Introduction Staff Report for Bill 5-24
[12] Ibid.
[13] RESJIS for Expedited Bill 30-21, pgs. 3-5.
[14] Benjamin Harris and Sydney Schreiner Wertz, "Racial Differences in Economic Security: The Racial Wealth Gap," U.S. Department of Treasury, September 15, 2022.
[15] Signe-Mary McKernan, et. al., "Thriving Residents, Thriving Cities," Urban Institute, April 2016, pg.3.
[16] Markoff, et. al, pg.5.
[17] Lisa Camner McKay, "How the Racial Wealth Gap Has Evolved—And Why It Persists," Federal Reserve Bank of Minneapolis, October 3, 2022.
[18] Aladangady, et. al.
[19] Rakesh Kochhar and Mohamad Moslimani, "1. Wealth Gaps within Racial and Ethnic Groups," Pew Research Center, December 4, 2023.
[20] Harris and Wertz

[21] Madeline Brown, et. al, "What Do We Know About Baby Bonds?" Urban Institute, September 2023, pg. 2 citing Darrick Hamilton and William Darity Jr., "Can 'Baby Bonds' Eliminate the Racial Wealth Gap in Putative Post-Racial America," Review of Black Political Economy, October 19, 2010.
[22] Brown, et. al., "The State of Baby Bonds," pg. 5.
[23] Markoff, et. al, pg. 10.
[24] Brown, et. al, "What Do We Know About Baby Bonds?" pg. 1.
[25] Ibid.
[26] Ibid, pg. 8.
[27] Video: "March 19, 2024 - Council Session (am)," Montgomery County Council YouTube, March 19, 2024, Councilmember Jawando Comments at 30:24.
[28] Bill 5-24, Introduction Staff Report for Bill 5-24
[29] This assumption is the basis for why most college students are considered dependents of their parents for federal financial aid until the age of 24 with a few exceptions. Refer to "Why Am I Still Considered a Dependent Student? I Am 21 Years Old and Haven't Lived With My Parents for Years," Bay Mills Community College.
[30] Riordan Frost, "Are Americans Stuck in Place? Declining Residential Mobility in the US," Joint Center for Housing Studies, Harvard University, May 2020.
[31] Refer to Housing Insecurity, Affordable Housing, and Racial Equity in RESJIS for Expedited Bill 38-23, Office of Legislative Oversight, October 13, 2023.
[32] Presentation to Council Staff, Montgomery County Demographic Trends, Montgomery Planning, January 25, 2023.
[33] Bill 27-19, Administration – Human Rights – Office of Racial Equity and Social Justice – Racial Equity and Social Justice Advisory Committee – Established, Montgomery County Council
[34] Brown, et. al., "The State of Baby Bonds," pgs. 9-10.
[35] Ibid, pgs. 10-11.
[36] Markoff, et. al, pg. 11.
[37] Ibid, pg. 13.
[38] Brown, et. al., "The State of Baby Bonds," pg. 13-14.