

HOUSE BILL REPORT

HB 1527

As Reported By House Committee On:
Appropriations

Title: An act relating to funding of the dependent care program.

Brief Description: Modifying funding of the dependent care program.

Sponsors: Representatives Linville and Locke; by request of Office of Financial Management.

Brief History:

Reported by House Committee on:
Appropriations, February 25, 1993, DPS.

HOUSE COMMITTEE ON APPROPRIATIONS

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 24 members: Representatives Locke, Chair; Valle, Vice Chair; Silver, Ranking Minority Member; Carlson, Assistant Ranking Minority Member; Appelwick; Basich; Cooke; Dellwo; Dorn; Dunshee; G. Fisher; Jacobsen; Lemmon; Linville; Morton; Peery; Rust; Sehlin; Sheahan; Sommers; Stevens; Talcott; Wang; and Wolfe.

Staff: Barbara McLain (786-7153).

Background: The Dependent Care Assistance Program allows state employees to set aside a portion of their salary, before taxes, to be used to reimburse dependent care providers. The federal Internal Revenue Service establishes various limitations on the amount of money that can be set aside and how it may be used. One limitation is that any amounts set aside that are not used by the end of the year are forfeited. Forfeitures are currently transferred to the general fund, as is the interest earned during the year on funds set aside by employees.

The program is administered by the Committee for Deferred Compensation. Administrative expenses for the program are appropriated from the general fund. The program's budget for the 1993-95 biennium is expected to be \$353,000.

Employers experience a slight cost savings when employees participate in the plan because the employer does not have to pay social security taxes on any salary dollars set aside under the program.

Summary of Substitute Bill: The Dependent Care Administrative Account is established to pay administrative expenses of the Dependent Care Assistance Program, rather than having expenses paid through a general fund appropriation.

The following are deposited in the account: (1) Any funds set aside but unused at the end of the year and considered forfeited under the program -- previously deposited in the general fund; and (2) charges to agencies for all or a portion of the estimated savings experienced due to reductions in employer social security contributions for program participants.

The Committee for Deferred Compensation is authorized to bill agencies periodically to recoup the employer savings to pay for program expenses.

Substitute Bill Compared to Original Bill: Interest earned on the salary dollars set aside remains credited to the general fund, rather than moving to the new administrative account. Charges to agencies may be based on the estimated savings experienced due to lower employer social security taxes, rather than on the actual savings experienced.

Fiscal Note: Available.

Effective Date of Substitute Bill: The bill contains an emergency clause and takes effect July 1, 1993.

Testimony For: The Committee for Deferred Compensation supports the funding change. The program generates an estimated \$600,000 per biennium windfall to agencies in the form of social security tax avoidance.

Testimony Against: None.

Witnesses: Lee Dreisbach, Committee for Deferred Compensation (pro).