

HOUSE BILL REPORT

HB 1408

As Reported by House Committee On:
Economic Development, Agriculture & Trade

Title: An act relating to individual development accounts.

Brief Description: Creating an individual development account program.

Sponsors: Representatives Pettigrew, Hinkle, Morrell, Jarrett, Darneille, McDonald, B. Sullivan, Kagi, Skinner, Schual-Berke, Chase, McIntire, McCoy, Hasegawa, Upthegrove, Ormsby, Woods, Miloscia, P. Sullivan, Santos and Simpson.

Brief History:

Committee Activity:

Economic Development, Agriculture & Trade: 2/2/05, 2/22/05 [DP].

Brief Summary of Bill

- Authorizes an Individual Development Account program to assist low-income individuals and foster youth.

HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT, AGRICULTURE & TRADE

Majority Report: Do pass. Signed by 19 members: Representatives Linville, Chair; Pettigrew, Vice Chair; Blake, Buri, Chase, Clibborn, Dunn, Grant, Haler, Holmquist, Kenney, Kilmer, McCoy, Morrell, Newhouse, Quall, Strow, P. Sullivan and Wallace.

Minority Report: Do not pass. Signed by 3 members: Representatives Kristiansen, Ranking Minority Member; Condotta and Kretz.

Staff: Tracey Taylor (786-7196).

Background:

The Individual Development Accounts (IDAs) are dedicated savings accounts that help low-income families save money to pay for job training or education, buy a home or start their own business. Saving is encouraged through a match by government or nonprofit organizations. These savings plans are similar to the 401(k) savings plans offered by many employers. Under federal welfare reform in 1996 and the reform of the state program in 1997, IDAs were encouraged for Temporary Assistance for Needy Families (TANF) recipients. Currently, Washington has a TANF IDA program; however, it is set to expire in June 2005.

Summary of Bill:

The Savings, Earning and Enabling Dreams (SEED) Act authorizes the Department of Community, Trade and Economic Development (DCTED) to create an IDA program to facilitate the creation by sponsoring organizations of IDA accounts for low-income individuals.

Low-Income Individuals and Foster Youth

The IDA program is created for low-income individuals and foster youth. A low income individual is defined as a person whose household income is equal or less than either: 80 percent of the median family income, adjusted for household size, for the county or metropolitan statistical area where the person resides; or 200 percent of the federal poverty guidelines.

A foster youth is a person who is 15 years of age or older who is a dependent of the Department of Social and Health Services (DSHS); or a person who is at least 15 years of age, but not more than 23 years of age, who was a dependent of the DSHS for at least 24 months after his or her 13th birthday.

Sponsoring Organizations

A sponsoring organization is a 501(c)(3) organization, a housing authority, or a federally recognized Indian tribe. The selection of a sponsoring organization to establish and monitor IDAs for low-income individuals and families must consider the ability of the organization to implement and administer the program, the capacity of the organization to provide or raise matching funds, the capacity of the organization to provide financial counseling and other services, and the links the organization has to other activities and programs that relate to the purposes of the IDA program. The selection of a sponsoring organization to establish and monitor IDAs for foster youth must be from those entities that have contracts with the DSHS to provide independent living services to youths who have been dependents of DSHS.

Use of IDA funds

An IDA may be established by or on behalf of a low-income individual to accumulate funds for: post-secondary education or job training; the purchase of a primary residence; the capitalization of a small business; the purchase of a computer, automobile or home improvements; or assistive technologies that would allow a person with a disability to participate in work-related activities. In addition, the sponsoring organization may authorize emergency withdrawals from an IDA for: necessary medical expenses; to avoid eviction from a residence; necessary living expenses following the loss of employment; and any other emergency circumstances as determined by the sponsoring organization. The amount withdrawn must be reimbursed by the individual within 12 months or the IDA shall be closed.

An IDA may be established by or on behalf of a foster youth to accumulate funds for: post-secondary education or job-training; housing needs; the purchase of a computer if necessary for post-secondary education or job-training; the purchase of a car if necessary for employment; and the payment of a health insurance premium.

Contributions

A low-income person may contribute to his or her IDA any amount derived from earned income or other income, including child support payments, supplemental security income and disability benefits. A foster youth may contribute to his or her IDA earned income and other income, including financial incentives provided by organizations providing independent living services for foster youths.

IDA funds may not be used to determine eligibility for, or the amount of, assistance in any state or federal means-tested program.

Matching Funds

Nothing in this Act shall be construed to create an entitlement to the matching moneys.

The DCTED shall set the match amount of up to \$4 for every \$1 of an individual's contribution to an IDA. The maximum match provided to an IDA shall be \$4,000.

Sponsoring organizations may seek additional funds to increase the match rate and the maximum annual match amount.

Individual Development Account Program Account

The IDA Program Account is created in the custody of the state treasurer. The IDA Program Account shall be composed of all moneys appropriated by the Legislature and any other federal, state, or private funds, appropriated or nonappropriated, that the DCTED receives for the purpose of matching low-income individuals' contributions to their IDAs. Expenditures may be used only for: grants to sponsoring organizations to assist in financial counseling and other related services to low income individuals or for program administration purposes; a match of up to \$4 for every \$1 deposited by the individual into his or her IDA; and the DCTED's administrative costs in carrying out the program.

Only the Director of DCTED or his or her designee may authorize expenditures from the account. The account is subject to allotment; however, an appropriation is not required for expenditures.

The IDA Program Account shall retain its interest earnings.

Report

The DCTED shall provide an annual report to the governor and the Legislature on the IDA program.

Appropriation: The sum of \$3 million for the biennium ending June 30, 2007.

Fiscal Note: Available.

Effective Date: The bill takes effect 90 days after adjournment of session in which bill is passed.

Testimony For: (In support) IDAs are an asset building tool for people in poverty, with a focus on home purchase, capitalizing a business, and getting an education. It assists low-

income individuals without a safety net and foster youth aging out of the system. In addition, the services and education provided in conjunction with the IDA accounts teach people how to become self-sufficient. Moreover, almost 100 businesses were started in Washington with the soon to be ending TANF IDA program funds and all are still in business, employing people and generating taxes. This is not just a social program; it is also an economic development program with safeguards to ensure the money is used for asset purchases.

An IDA begins when an individual opens an IDA account at a bank and begins depositing money. Matching money is set aside in a reserve account and is only spent when an asset is purchased. The money then goes directly to the vendor. The banks, real estate companies and other vendors benefit by developing new, financially responsible clients. Currently, there are many communities in Washington without a participating financial institution. This bill ensures that people in those communities have the opportunity to benefit from an IDA.

(Neutral) The current TANF IDA that is scheduled to end in June provided a \$2 to \$1 match. The IDA was usually provided with a continuum of services to the individual. There are about 300 active TANF IDA accounts with \$538,000 saved to date. So far, 138 individuals have used their TANF IDAs to purchase assets. Another 493 individuals used their TANF IDAs to get education and job training.

Testimony Against: None.

Persons Testifying: (In support) Representative Pettigrew, prime sponsor; Representative Hinkle; Dave Sieminski, United Way of King County; Gary Gardner, Boeing Employees Credit Union; Kevin Glackin-Coley, Children's Alliance; Laurie Lippold, Children's Home Society; Michelle Sotello; Donald Ballard; Julie Watts; and Yared Demdeyes.

(Neutral) Janet Abbett, Department of Community, Trade and Economic Development.

Persons Signed In To Testify But Not Testifying: None.