Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Community & Economic Development & Trade Committee

HB 2256

Brief Description: Establishing the family prosperity act.

Sponsors: Representatives Darneille, Haler, Morrell, Walsh, Pettigrew, Dickerson, Kenney, Schual-Berke, Kagi, P. Sullivan, Lantz, Hinkle, Upthegrove, Appleton, Williams, Seaquist, O'Brien, Hasegawa, Green, Linville, Simpson, Ormsby and Santos.

Brief Summary of Bill

- Directs the Department of Community, Trade and Economic Development to work with local and statewide public and private partners to expand programs that help low-income working families build and manage their assets.
- Levies an additional 1 percent business and occupation tax upon businesses making small loans under chapter 31.45 RCW and directs the proceeds to programs fostering financial self-sufficiency and economic security for low-income working families.
- Restricts the procurement of consumer reports for employment purposes.

Hearing Date: 2/19/07

Staff: Meg Van Schoorl (786-7105).

Background:

Department of Community, Trade, and Economic Development

The Department of Community, Trade, and Economic Development (Department) provides assistance to Washington's communities, businesses and families. The Department is organized into several different divisions, one of which is the Community Services Division. This division works to build community partnerships to provide service and advocacy for individuals and families. The Community Services Division administers federal and state funds for anti-poverty programs including but not limited to the Community Services Block Grant Program, the Low-

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Income Home Energy Assistance Program, and the federal Department of Energy Weatherization Program.

<u>Asset Building Programs</u>

According to the U.S. Department of Health and Human Services, asset building is an anti-poverty strategy that helps low-income people move toward greater self-sufficiency by accumulating savings and purchasing long-term assets. Examples of long-term assets include a home, higher education and training, and a business.

Asset building strategies incorporate many different approaches and use a variety of methods to help achieve the goal of creating asset wealth for low-income people. Some of the most common tools for asset building include the following:

- Individual Development Accounts (IDAs) – Matched savings accounts designed to help low-income and low-wealth families accumulate savings for high return investments in long-term assets such as a house, higher education or a small business.
- Earned Income Tax Credit (EITC) – Refundable federal income tax credit for low-income workers. The EITCs enable many low-income tax filers to receive a cash payment from the government regardless of whether they pay income taxes.
- Financial Literacy - Skills and knowledge that successfully enable low and moderate income individuals to manage their finances.

During the 2005 and 2006 legislative sessions, bills were enacted and funding allocated to assist low-income families to accumulate assets. As a result, one statewide asset building coalition and local asset building coalitions in 12 regions have emerged along with the Department to promote savings and banking, financial literacy, credit repair, the earned income tax credit and home ownership and business start-ups.

In addition, 200 individual development accounts have been created, with another 100 to be added in the first quarter 2007. Funded by the state at $1 million through the 2005-07 budget, the state matches personal savings dollar for dollar, up to a maximum of $4,000. According to the Department, the state's investment has leveraged $579,000 in personal savings and $1.5 million in additional federal and private funds into these accounts. Eligibility is limited to those whose income is 80 percent of the area's median income or 200 percent of the federal poverty rate. The state match is held in trust by a bank until all requirements are met, at which time the match is paid to the entity from whom the asset is being purchased (for example, to a bank for a home mortgage, to a post-secondary institution for education or training, or a car dealer to buy an auto for school or work)

Summary of Bill:

The Washington Asset Building Coalition is created to provide statewide leadership on initiatives that foster financial self-sufficiency and economic security for low-income working families. The Coalition is directed to work with the Department, local asset building coalitions and other partners to identify and promote approaches that help low-income working families build and manage their assets including:

- creating private and public prosperity products;
- promoting lending policies that encourage asset building;
- marketing savings, smart borrowing and federal tax credit programs;

- expanding financial literacy opportunities; and
- increasing protections from predatory lending, fraud and consumer scams.

For 2007-09, the Department and other partners are directed to design, implement and fund a statewide public education and outreach campaign that includes activities such as a website, a telephone-based call-in assistance and referral system, public service announcements and other educational outreach to target groups.

The Department is also directed to:
- provide at least 12 local asset building coalitions with technical assistance or grants to initiate or expand services;
- as funding is appropriated, create an outreach campaign to increase the number of low-income working families who claim federal earned income or child and dependent care tax credits.
- report to the Legislature by December 1, 2008 and annually thereafter on the status of the asset building and financial literacy programs.

The Department of Social and Health Services is directed to encourage recipients of Temporary Assistance for Need Families to learn about and participate in asset-building programs.

An additional 1 percent is levied for the business and occupation tax on businesses that make small loans under chapter 31.45 RCW. Thirty five percent of the tax proceeds shall be deposited into the Family Prosperity Account and the remainder into the Individual Development Account.

The Family Prosperity Account is created in the State Treasury. Expenditures may only be made, after appropriation, to support initiatives that foster financial self-sufficiency and economic security for low-income working families.

A person may not procure a consumer report for employment purposes regarding a consumer who is not presently an employee unless the person procuring the report is a financial institution or a public safety entity where the consumer is seeking employment.

Appropriation: None.

Fiscal Note: Requested on February 14, 2007.

Effective Date: The bill contains an emergency clause and takes effect July 1, 2007.