STORAGE NAME: h0207.ccc
DATE: February 4, 2000

HOUSE OF REPRESENTATIVES
AS REVISED BY THE COMMITTEE ON
COMMUNITY COLLEGES AND CAREER PREP
ANALYSIS

BILL #: HB 207

RELATING TO: Individual Development Accounts

SPONSOR(S): Representative Greenstein

TIED BILL(S):

ORIGINATING COMMITTEE(S)/COMMITTEE(S) OF REFERENCE:
(1) Children & Families (HFC) YEAS 6 NAYS 0
(2) COMMUNITY COLLEGES AND CAREER PREP
(3) Financial Services (CAC)
(4) Health & Human Services Appropriations (FRC)

I. SUMMARY:

Provides for establishing individual development accounts (IDAs), similar to savings accounts, for families on pubic assistance to save earned income for specified and limited purposes. Individuals may spend individual development account funds only to purchase a home, pay for a college education, or start a business, without losing public assistance benefits while the savings accumulate in the individual development account.

The bill could be implemented entirely through earned income by the recipient, or local WAGES coalitions may provide matching from funds currently spent under their authority.

II. SUBSTANTIVE ANALYSIS:

A. DOES THE BILL SUPPORT THE FOLLOWING PRINCIPLES:

1.	Less Government	Yes []	No []	N/A [X]
2.	Lower Taxes	Yes []	No []	N/A [X]
3.	Individual Freedom	Yes [X]	No []	N/A []
4.	Personal Responsibility	Yes [X]	No []	N/A []
5.	Family Empowerment	Yes [X]	No []	N/A []

For any principle that received a "no" above, please explain:

B. PRESENT SITUATION:

Federal welfare policy historically has penalized asset acquisition by the poor by denying eligibility to public assistance recipients who exceed the $2,000 asset limit.

The IDA is a new policy tool to enable poor families to build assets and achieve economic well being. Individual development accounts are savings accounts that are similar to individual retirement accounts (IRAs). Programs may encourage savings and increase asset accumulation with matching funds. Use of the assets accrued in IDAs is restricted to postsecondary education and training, business capitalization, and home ownership, after the recipient leaves the temporary cash assistance program.

Section 404(h) of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 gives states the option to fund IDAs with Temporary Assistance for Needy Families (TANF) funds for individuals who are eligible for TANF assistance. The IDA program can be established using current funding and appropriations. Under the federal law, states that specify IDA programs in their TANF state plans, whether or not they choose to fund them, effectively eliminate current federal disincentives to saving and investing for public assistance recipients with IDAs. By establishing an IDA policy, the state can remove current penalties for savings and investment and create an infrastructure for future state and federal investment.

Individual development accounts help states meet welfare reform goals by helping families' transition from economic dependency to self-sufficiency through a mechanism that encourages families to save, invest, and build assets. Because IDA savings can only come from earned income, protecting IDA savings acts as an employment incentive.

Thirty-four states have implemented IDA programs in different forms. Twenty-seven states have passed IDA legislation for TANF recipients and/or low-income citizens, including: Arizona, Arkansas, Colorado, Georgia, Hawaii, Illinois, Indiana, Iowa, Kansas, Kentucky, Maine, Michigan, Minnesota, Missouri, New Mexico, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Carolina, Tennessee, Texas, Utah, Virginia, and Wisconsin. Fourteen states provide matching funds for IDAs. Nine provide for using TANF funds, including: Arkansas, Iowa, Missouri, Ohio, Oklahoma, Oregon, Texas, Vermont and Virginia. Six states provide for using state general funds, including: Illinois, Indiana, Iowa, Minnesota, North Carolina, and Pennsylvania.

Monthly deposits in a 2,000-account IDA demonstration in 13 sites across the country ranged from $30-$70 per month.

It is estimated that nearly two hundred community-based IDA programs have been initiated or are in the planning stages in the U.S. There are nonprofit organizations in every state running or planning IDA programs.

C. EFFECT OF PROPOSED CHANGES:

The bill provides for establishing IDAs, similar to savings accounts, for families on public assistance to save earned income for specified and limited purposes. Individuals may spend individual development account funds only to purchase a home, pay for a college education, or start a business. The bill allows eligible public assistance recipients to establish individual development accounts to accumulate savings without losing TANF, food stamp, and Medicaid benefits.

D. SECTION-BY-SECTION ANALYSIS:

Section 1.

- Requires the Department of Children and Families to amend the Temporary Assistance for Needy Families State Plan to accommodate the expanded use of individual development funds provided for in the bill;
- Provides that a local WAGES coalition or an organization it designates is to be the fiduciary organization that will serve as an intermediary between the IDA holder and the financial institution holding the account;
- Provides that the WAGES State Board of Directors will establish the policies, procedures and penalties related to the use and withdrawal of IDA funds. Fiduciary organizations are required to make arrangements with financial institutions for imposing penalties or loss of matching funds to enforce the policies of the board. Account holders may bring disputes related to such enforcement to a grievance committee that the fiduciary organization is required to establish for this purpose;
- Authorizes state or federally [licensed] financial institutions to establish IDAs and prescribes the method for handling such an account;
- Provides a methodology for matching funds to be added to IDAs;
- The bill authorizes families who are subject to the time limits and are in full compliance with the requirements of the WAGES program to enter into an agreement with an approved fiduciary organization to participate in an IDA; and
- Establishes criteria for qualified expenses relating to education, home ownership, and micro enterprise development, which may be paid from IDAs.

Section 2.

The bill provides an effective date of October 1, 2000.

III. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT:

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

   N/A

2. Expenditures:

   The IDA program can be established using current funding and appropriations and can have a beneficial effect even without state matching. A one-to-one match of the first $100 to $500 per account per year would not be extremely expensive. For example, matching the savings in 1,000 accounts would cost between $100,000 and $500,000. The maximum number of accounts created would be tied to the number of recipients expected to transition off welfare and, as a result, would decline over time as the caseload declines.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

   N/A

2. Expenditures:

   Management, monitoring, counseling, and enforcement responsibilities should be delegated to the local WAGES coalition or another organization designated by the local WAGES coalition.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

There will be a positive economic impact on the private sector. First, funds will be held in accredited financial institutions. Second, some former public assistance recipients may be able to create jobs for themselves and others by utilizing the IDA to fund business capitalization.

D. FISCAL COMMENTS:

None

IV. CONSEQUENCES OF ARTICLE VII, SECTION 18 OF THE FLORIDA CONSTITUTION:

A. APPLICABILITY OF THE MANDATES PROVISION:

This bill does not require counties or municipalities to spend funds or to take an action requiring the expenditure of funds.

B. REDUCTION OF REVENUE RAISING AUTHORITY:

The bill will not reduce the authority of municipalities and counties to raise revenues.

C. REDUCTION OF STATE TAX SHARED WITH COUNTIES AND MUNICIPALITIES:

This bill will not reduce the state tax shared with counties and municipalities.

V. COMMENTS:

A. CONSTITUTIONAL ISSUES:

None

B. RULE-MAKING AUTHORITY:

None

C. OTHER COMMENTS:

On page 5, line 5, [paragraph (c) of subsection (4)], community-based organizations are referenced as entities with which individuals or families may open IDAs, but this entity is not otherwise referenced or defined in the bill. Staff recommends that paragragh (c) of subsection (4) be amended to cross reference subsection (7) of the bill (page 6, line 8).

The WAGES State Board states that they have recently focused on education as the next essential strategy for self-sufficiency. Retention Incentive Training Accounts (RITAs), currently used in the WAGES program, are an educational development account that does not require individual savings. Additionally, they state that allowing IDAs to not count as an asset would be helpful for WAGES clients seeking educational opportunities. However, they feel using IDAs for housing and microenterprises would be problematic. Their concerns are that microenterprises are the riskiest of ventures. With very little evidence indicating that a move from welfare to microenterprises is a reliable step toward self-sufficiency, the board recommends that IDAs be an educational savings program that could be in tandem with RITAs. The matching rate could be higher than 1:1. The WAGES state board does not believe that home-ownership or microenterprise should be authorized in the initial program. They argue that it could be added if the evidence of educational savings is encouraging.

The Florida Community College System (FCCS) supports the bill, stating that it provides educational opportunities to current and former WAGES clients, thereby reversing practices of the WAGES program in its early years that basically ignored the educational needs of its participants.

VI. AMENDMENTS OR COMMITTEE SUBSTITUTE CHANGES:

VII. SIGNATURES:

COMMITTEE ON Children & Families:

Prepared by:	Staff Director:
Glenn A. Mitchell	Robert Barrios

AS REVISED BY THE COMMITTEE ON COMMUNITY COLLEGES AND CAREER PREP:

Prepared by:	Staff Director:
Maria L. Eckard	Ken Winker