

# SENATE STAFF ANALYSIS AND ECONOMIC IMPACT STATEMENT

(This document is based on the provisions contained in the legislation as of the latest date listed below.)

BILL: CS/SB 350

SPONSOR: Children and Families Committee, Senator Dawson and others

SUBJECT: Individual Development Accounts

DATE: March 21, 2001      REVISED: \_\_\_\_\_

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	Dowds	Whiddon	CF	Favorable/CS
2.	Gillespie	Maclure	CM	Favorable
3.	_____	_____	AGG	_____
4.	_____	_____	AP	_____
5.	_____	_____	_____	_____
6.	_____	_____	_____	_____

## I. Summary:

Committee Substitute for Senate Bill 350 allows families receiving temporary cash assistance to establish Individual Development Accounts (IDAs) for saving earned income to purchase a home, pay for a college or vocational education, or start a business. The committee substitute allows regional workforce boards to match IDA contributions using funds from the federal Temporary Assistance for Needy Families (TANF) block grant and other funds. The funds saved in an individual's IDA are not considered when determining eligibility for TANF, food stamps, Medicaid, or other means-tested programs. The regional workforce boards or other community-based organizations will serve as fiduciary organizations for the IDAs. Funds from an IDA may only be withdrawn after the family no longer receives cash assistance and may only be used for postsecondary education expenses, acquisition costs of a residence for a first-time homebuyer, or business capitalization expenses.

This committee substitute creates an unnumbered section of the Florida Statutes.

## II. Present Situation:

### Temporary Assistance for Needy Families

In 1996, the United States Congress enacted the Personal Responsibility and Work Opportunity Reconciliation Act.<sup>1</sup> The act created block grants for Temporary Assistance for Needy Families (TANF) and replaced the former Aid to Families with Dependent Children (AFDC) program.<sup>2</sup>

<sup>1</sup> Pub. L. No. 104-193, 110 Stat. 2105 (1996).

<sup>2</sup> See 42 U.S.C. s. 601(a); H.R. Conf. Rep. No. 104-725, 104th Cong., 2d Sess. 264 (1996).

The TANF block grant may only be expended under a state plan approved by the United States Department of Health and Human Services.<sup>3</sup> In Florida, the TANF state plan is submitted by the Department of Children and Family Services.

Under Florida's Workforce Innovation Act of 2000,<sup>4</sup> the Legislature created Workforce Florida, Inc., and the Agency for Workforce Innovation. In addition, the act revised the duties of the 24 regional workforce boards. Established as a not-for-profit corporation,<sup>5</sup> Workforce Florida, Inc., is the principal workforce policy organization for the state.<sup>6</sup> The purpose of Workforce Florida, Inc., is "to design and implement strategies that help Floridians enter, remain in, and advance in the workplace, becoming more highly skilled and successful, benefiting these Floridians, Florida businesses, and the entire state, and to assist in developing the state's business climate."<sup>7</sup> The Agency for Workforce Innovation is an independent state agency<sup>8</sup> that ensures the state appropriately administers federal and state workforce funding by administering the plans and policies of Workforce Florida, Inc., under contract with Workforce Florida, Inc.<sup>9</sup>

Workforce development services are delivered to citizens by the regional workforce boards<sup>10</sup> through the one-stop delivery system.<sup>11</sup> These workforce development services include a variety of employment and training programs,<sup>12</sup> some of which are funded through the state's TANF block grant.

### **Individual Development Accounts**

As part of the federal Personal Responsibility and Work Opportunity Reconciliation Act of 1996, the United States Congress allows TANF block grant funds to be used as matching funds for Individual Development Accounts (IDAs).<sup>13</sup> An IDA is a dedicated savings account that may only be used for purchasing a first home, education or job-training expenses, or capitalizing a small business. The federal act permits individuals eligible for assistance under the state's TANF

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<sup>3</sup> 42 U.S.C. s. 602.

<sup>4</sup> Chapter 2000-165, L.O.F.

<sup>5</sup> Section 445.004(1), F.S.

<sup>6</sup> Section 445.004(2), F.S.

<sup>7</sup> *Id.*

<sup>8</sup> The Agency for Workforce Innovation (AWI) is created within the Department of Management Services (DMS), but is not subject to control, supervision, or direction by DMS in any manner, including, but not limited to, personnel, purchasing, transactions involving real or personal property, and budgetary matters. Section 20.50, F.S.

<sup>9</sup> Section 20.50(1), F.S.

<sup>10</sup> Section 445.007, F.S.

<sup>11</sup> Section 445.009, F.S.

<sup>12</sup> *Id.*

<sup>13</sup> Section 404(h), Pub. L. No. 104-193, 110 Stat. 2125-27 (1996) (codified at 42 U.S.C. s. 604(h)).

program to establish an IDA.<sup>14</sup> The IDAs are designed to enable families to accumulate funds for one of the following qualified purposes:<sup>15</sup>

- Postsecondary educational expenses: tuition, fees, books, supplies, and equipment required for courses at an eligible educational institution.
- First home purchase: cost of acquiring, constructing, or reconstructing a residence for a qualified first-time homebuyer.
- Business capitalization: expenditures for the capitalization of a qualified business under an approved business plan.

An IDA is funded through periodic contributions by an eligible individual,<sup>16</sup> but these contributions may only be made from funds that are derived from earned income.<sup>17</sup> The contributions are subsequently matched by or through a not-for-profit corporation or a state or local government agency acting in cooperation with a not-for-profit organization.<sup>18</sup> States may use TANF block grant funds, Welfare-to-Work grant funds,<sup>19</sup> or non-state or federal dollars to match an individual's contribution to an IDA.<sup>20</sup>

The funds in an IDA are disregarded in determining eligibility for, or the amount of, any assistance in any federal means-tested program, including TANF, the Food Stamp Program, and Medicaid. Withdrawals from IDAs must be paid directly to a college or university, a bank, savings and loan, an individual selling a home, or a business capitalization account (if the account holder is starting a business).<sup>21</sup>

Postsecondary educational expenses may only be paid to certain eligible educational institutions: 1) institutions described in the federal Higher Education Act of 1965, which in Florida are any postsecondary education institutions accredited by an agency recognized by the Department of Education, with some exceptions; or 2) area vocational educational schools as defined in the Carl

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<sup>14</sup> 42 U.S.C. s. 604(h)(2)(A).

<sup>15</sup> 42 U.S.C. s. 604(h)(2)(B).

<sup>16</sup> 42 U.S.C. s. 604(h)(3)(A).

<sup>17</sup> 42 U.S.C. s. 604(h)(2)(C) (citing 26 U.S.C. s. 911(d)(2)): "The term 'earned income' means wages, salaries, or professional fees, and other amounts received as compensation for personal services actually rendered, but does not include that part of the compensation derived by the taxpayer for personal services rendered by him to a corporation which represents a distribution of earnings or profits rather than a reasonable allowance as compensation for the personal services actually rendered." 26 U.S.C. s. 911(d)(2)(A).

<sup>18</sup> 42 U.S.C. s. 604(h)(3).

<sup>19</sup> 42 U.S.C. s. 603(a)(5).

<sup>20</sup> 42 U.S.C. s. 604(h)(1).

<sup>21</sup> 42 U.S.C. s. 604(h)(2)(B).

D. Perkins Vocational and Applied Technology Education Act, which in Florida are the vocational education programs operated by the school districts and community colleges.<sup>22</sup>

Federal welfare policy has historically penalized asset acquisition by low-income families by denying eligibility to public assistance for those families with assets in excess of \$2,000. However, IDAs are intended to encourage savings and increase asset accumulation with matching funds. The IDAs can also act as an employment incentive and promote job retention because they provide the means to invest in additional training, skill upgrading, entrepreneurial avenues of employment, and affordable housing.

Since 1993, 29 states have passed legislation to support IDAs,<sup>23</sup> and eight states have implemented state IDA policy initiatives through administrative rules.<sup>24</sup> Thirteen states have either planned or implemented the use of TANF funds for match and administration, and 32 states have included in their TANF state plan that TANF funds would be used or considered for IDA programs.<sup>25</sup>

In addition to state-level IDA initiatives, a number of independent IDA programs have been established in communities. Five community-based IDA programs are identified in Florida:

- The Miami-Dade Passageway to Independence received a Welfare-to-Work competitive grant to offer IDAs to TANF recipients in public housing. As earnings increase, so does housing rent. A part of the rent paid is deposited into an escrow account on behalf of the recipient and matched with grant funds. When the participant has completed the program, the escrow and match would be provided to purchase a home.
- Both the Catholic Charities of the Archdiocese of Miami and the Lutheran Social Services of Northeast Florida in Jacksonville are offering their IDA programs to refugees using a federal grant from the Office of Refugee Resettlement Fund within the United States Department of Health and Human Services. The Catholic Charities' IDA program allows for the purchasing of a home, an automobile, microenterprise expenditures, a computer, or education expenses. The Lutheran Social Services IDA program is currently limited to purchasing a vehicle or computer.
- The Pinellas Opportunity Council uses Community Service Block Grant funds to provide IDAs to individuals with incomes below 125 percent of the federal poverty level who are enrolled in its Family Development or Self-Sufficiency Program. Funds can be used for home ownership, major home repairs, educational expenses, and small business expenditures.
- The YWCA of Greater Miami-Dade will be implementing its IDA program in March 2001. Funding for the IDA initiative is being provided by the Citigroup Bank. Individuals with a job and incomes of less than \$25,000 per year will be eligible to participate.

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<sup>22</sup> 42 U.S.C. s. 604(h)(5)(A).

<sup>23</sup> Center for Social Development, Washington Univ. (of St. Louis), *IDA Policy in the States, Table 6: Summary of State IDA Policy*, 15 (Jan. 2001).

<sup>24</sup> *Id.*

<sup>25</sup> *Id.*

Permitted uses of the IDA funds are to purchase first homes, return to school, and entrepreneurial expenses.

These independent community-based IDA programs appear to target specific population groups based on the funding received. Each is relatively new, with only two programs just beginning to see participants reach their goals of purchasing a vehicle or a home with IDA savings. However, for participants in these independent IDA programs who apply for other public assistance programs, with possibly some rare exceptions, their contributions to the IDA are considered in determining their eligibility for public assistance and can prevent the receipt of welfare transition services, such as food stamps or Medicaid.

### **III. Effect of Proposed Changes:**

#### **Regional Workforce Boards May Fund Individual Development Accounts**

The committee substitute implements the provisions of the federal Personal Responsibility and Work Opportunity Reconciliation Act of 1996<sup>26</sup> relating to Individual Development Accounts (IDAs)<sup>27</sup> and provides legislative intent that the purpose of the committee substitute is to “provide families having limited means an opportunity to accumulate assets and to facilitate and mobilize savings; to promote education, homeownership, and microenterprise development; and help to stabilize families and build communities.”

The committee substitute requires Workforce Florida, Inc. (WFI), to establish procedures for regional workforce boards to include IDAs as part of their allocation from the federal Temporary Assistance for Needy Families (TANF) block grant program. Further, the Department of Children and Family Services is required to amend the TANF state plan to allow for the use of the TANF block grant as matching funds to IDAs.

The committee substitute allows a family subject to time limits and fully complying with the work requirements of the temporary cash assistance program<sup>28</sup> to participate in an IDA. Under this program, the family may establish an IDA by entering into an agreement with an approved fiduciary organization. The fiduciary organization serves as an intermediary between the family and the financial institution holding the IDA. The committee substitute further provides minimum requirements for the account agreement.

The family is permitted to make contributions to the IDA only from earned income. The committee substitute allows, but does not require, regional workforce boards to provide matching funds for these contributions from the state and federal funds under the control of the board, from local agencies, and from private donations. These funds would include funds from the TANF block grant. These matching funds may only be provided under the strategic plan<sup>29</sup>

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<sup>26</sup> Pub. L. No. 104-193, 110 Stat. 2105 (1996).

<sup>27</sup> Section 404(h), Pub. L. No. 104-193, 101 Stat. 2125-27 (1996) (codified at 42 U.S.C. s. 604(h)).

<sup>28</sup> Sections 414.045, 414.065, 414.095, 414.105 & 445.024, F.S.

<sup>29</sup> See s. 445.006, F.S.

developed by WFI, and bonus payments for program compliance are also permitted if included in the strategic plan. WFI is also required to establish procedures that limit, among other things, the ratio and limits on deposits for matching funds.

The committee substitute provides that funds in an IDA, including accrued interest, are to be disregarded in determining eligibility for any federal or state program.

### **Limits on Use of Funds and Safeguards**

The committee substitute mandates that IDA funds may only be withdrawn after the family is no longer receiving cash assistance, and only for one of the following qualified purposes:

- Postsecondary education expenses paid directly to the educational institution;
- Qualified acquisition costs for a home for first time homebuyers paid directly to the persons to whom the payment for the residence is due; or
- Qualified business capitalization paid directly to a business capitalization account that is established in a financial institution.

Workforce Florida, Inc. (WFI), is required to establish policies and procedures ensuring that IDA funds are not withdrawn except for these qualified purposes, including conditions for closing an account. The account agreement between the fiduciary organization and the account holder is required to include penalties for withdrawal of funds not used for one of these qualified purposes.

The committee substitute provides that the regional workforce board or another community-based organization designated by the regional workforce board must serve as the fiduciary organization. The fiduciary organization may be responsible for marketing participation, soliciting matching contributions, counseling program participants, and conducting verification and compliance activities. The fiduciary organization is also required to establish a grievance committee and procedures for considering any grievance made by an IDA participant who disputes a determination that funds were withdrawn for uses other than a qualified purpose.

An IDA participant is required to name a contingent beneficiary at the time the account is established. In the event of the death of the IDA participant, the committee substitute allows the IDA to be transferred to the ownership of the contingent beneficiary.

The committee substitute authorizes financial institutions that are approved by WFI to establish IDAs. These financial institutions are required to certify that establishment of the IDAs is in accordance with the forms, documentation and requirements prescribed by WFI.

### **Compliance with Federal Law**

The committee substitute closely tracks the requirements in the federal Personal Responsibility and Work Opportunity Reconciliation Act of 1996 relating to IDAs,<sup>30</sup> including the definitions

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<sup>30</sup> Section 404(h), Pub. L. No. 104-193, 101 Stat. 2125-27 (1996) (codified at 42 U.S.C. s. 604(h)).

used in the federal act. With the exception of the term “financial institution,” each of the terms used in the committee substitute are prescribed in the federal act. These definitions closely mirror those provided in federal law with one exception. The term “qualified plan” means a specified “business plan” in the federal act. The committee substitute defines the term to mean a specified “business plan or a plan to use a business asset purchased.”

#### **Effective Date**

The committee substitute takes effect October 1, 2001.

#### **IV. Constitutional Issues:**

##### **A. Municipality/County Mandates Restrictions:**

None.

##### **B. Public Records/Open Meetings Issues:**

None.

##### **C. Trust Funds Restrictions:**

None.

#### **V. Economic Impact and Fiscal Note:**

##### **A. Tax/Fee Issues:**

None.

##### **B. Private Sector Impact:**

The establishment of IDAs may produce a positive economic impact in several industries, and through the encouragement to save, invest, and build assets provided by the IDA, some families may be provided with the means to transition to better paying jobs and greater self-sufficiency. 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 using the IDA to fund business capitalization. Third, some former public assistance recipients may use the funds to purchase a home, profiting the real estate and construction industry. And finally, some former public assistance recipients may use the funds to attend private colleges, universities, and schools.

##### **C. Government Sector Impact:**

The committee substitute allows, but does not require, regional workforce boards to allocate funds from the Temporary Assistance for Needy Families (TANF) block grant or other state and federal funds under the control of the regional workforce board as matching funds for contributions by eligible families to Individual Development Accounts (IDAs). In addition, the committee substitute establishes the regional workforce boards or other community-

based organizations designated by the regional workforce boards as the fiduciary organizations for the IDAs. These fiduciary organizations may be responsible for, among other things, soliciting matching contributions. Consequently, funds allocated by regional workforce boards to match contributions to the IDAs may include a mixture of TANF block grant funds, other state and federal funds, funds from local agencies, and private donations.

Workforce Florida, Inc. (WFI), reports that the oversight, policy and procedural responsibilities required of WFI in the committee substitute will increase workload, but only minimally. The additional workload for the staff of WFI and the Agency for Workforce Innovation will not require additional funds for operations.

**VI. Technical Deficiencies:**

None.

**VII. Related Issues:**

None.

**VIII. Amendments:**

None.