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DATE: April 24, 2001

**HOUSE OF REPRESENTATIVES
AS FURTHER REVISED BY THE
COUNCIL ON LIFELONG LEARNING
ANALYSIS**

BILL #: HB 423
RELATING TO: Individual Development Accounts
SPONSOR(S): Representative Greenstein
TIED BILL(S):

ORIGINATING COMMITTEE(S)/COUNCIL(S)/COMMITTEE(S) OF REFERENCE:

- (1) WORKFORCE AND TECHNICAL SKILLS YEAS 9 NAYS 0
- (2) TRANSPORTATION & ECONOMIC DEVELOPMENT APPROPRIATIONS YEAS 15 NAYS 0
- (3) COUNCIL ON LIFELONG LEARNING YEAS 12 NAYS 0
- (4)
- (5)

I. SUMMARY:

HB 423 establishes Individual Development Accounts (IDAs) to enable families to save earned income while they are receiving temporary cash assistance, for the specific purposes of either purchasing a home, paying for a college or vocational education, or starting a business. The funds become available for these purposes after the family ceases to receive temporary cash assistance. Funds in the IDAs are matched by other funding sources and are not considered in determining TANF, food stamps, or Medicaid benefits. Specifically, the bill:

- Establishes individual development accounts to provide families with the opportunity to accumulate assets to promote education, home ownership, and micro-enterprise development.
- Identifies eligible participants in an IDA program as any family who is fully complying with the temporary cash assistance program, who is subject to the time limits, and who has entered into an agreement with an approved fiduciary organization outlined within the bill.
- Stipulates that IDA funds can only be accessed after the family is no longer receiving cash assistance and only for one of the qualified purposes.
- Provides for fiduciary organizations to serve as intermediaries between the families with the IDAs and the financial institutions holding the IDAs.
- Provides that contributions into the IDAs can only be made from earned income and that funds in the IDA are to be disregarded in determining eligibility for any federal or state program.

This bill creates an unnumbered section of the Florida Statutes and has an effective date of 10/1/2001.

On April 17, 2001, the Transportation & Economic Development Appropriations Committee adopted one amendment to the amendment traveling with the bill. The amendment is explained in Section VI, AMENDMENTS AND COMMITTEE SUBSTITUTE CHANGES.

II. SUBSTANTIVE ANALYSIS:

A. DOES THE BILL SUPPORT THE FOLLOWING PRINCIPLES:

- | | | | |
|-----------------------------------|---|-----------------------------|---|
| 1. <u>Less Government</u> | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |
| 2. <u>Lower Taxes</u> | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |
| 3. <u>Individual Freedom</u> | Yes <input checked="" type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |
| 4. <u>Personal Responsibility</u> | Yes <input checked="" type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |
| 5. <u>Family Empowerment</u> | Yes <input checked="" type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |

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

B. PRESENT SITUATION:

Individual Development Accounts (IDAs) are a policy tool to enable low-income families to build assets and achieve economic well-being. IDAs are dedicated savings accounts that can only be used for purchasing a first home, education or job training expenses, or capitalizing a small business.

Section 404(h) of the Personal Responsibility and Work Opportunity Reconciliation Act of 1986 (P.L. 104-193), authorizes states to create IDA accounts for individuals eligible for assistance under the state's Temporary Assistance for Needy Families (TANF) program. The IDA accounts are designed to enable families to accumulate funds for one of the following qualified purposes:

- Postsecondary educational expenses: Tuition, fees, books, supplies, and equipment required for attendance and course work at an eligible educational institution.
- First home purchase: Cost of acquiring or constructing a residence for first time home buyers.
- Business capitalization: Expenditures for the capitalization of a qualified business pursuant to an approved business plan.

Individuals may only contribute funds to an IDA account that are derived from earned income which are then matched by or through a qualified entity. The qualified entity can be either a not-for-profit organization or a state or local governmental agency. States can use TANF funds, Welfare-to-Work funds, or non-state or federal dollars to match an individual's contribution to the IDA account. The funds in an IDA account are to be disregarded in determining eligibility for, or the amount of, any assistance in any federal means-tested program, including TANF, Food Stamps, and Medicaid. Withdrawals from the IDAs must be paid directly to a college or university, a bank, savings and loan institution, an individual selling a home, or a special account (if the recipient is starting a business).

Eligible educational institutions to which postsecondary educational expenses can be paid are as follows:

- i. Institutions described in section 481(a)(1) or 1201(a) of the 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
- ii. Area vocational educational schools as defined in subparagraph (C) or (D) of section 521 (4) of the Carl Perkins Vocational and Applied Technology

Education Act, which in Florida are the vocational education programs operated by the school districts and community colleges.

An Issue Brief published by the National Governor Association stated that 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, IDA savings accounts are intended to encourage savings and increase asset accumulation with matching funds. IDAs can also act as an employment incentive and promote job retention since they provide the means to invest in additional training, skill upgrading, entrepreneurial avenues of employment, and affordable housing.

The Center for Social Development at Washington University published an IDA *Policy in the States* report which revealed that since 1993, 29 states and the District of Columbia have passed legislation to support IDAs and eight states have implemented state IDA policy initiatives through administrative rule. 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.

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

- 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 the rent. A portion 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 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, Department of Health and Human Services. The Catholic Charities IDA program allows for the purchasing of a home, an automobile, micro-enterprise 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 their 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. Persons with a job and incomes of less than \$25,000 per year will be eligible to participate. 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. All are relatively new, with only two programs just beginning to see participants reach their goal of purchasing a vehicle or home with IDA savings. However, for participants in these IDA programs who apply for other public assistance programs, with possibly some rare exceptions, their contributions to the account would be considered in determining their eligibility for the assistance and could prevent the receipt of welfare transition services, such as food stamps or Medicaid.

C. EFFECT OF PROPOSED CHANGES:

HB 423 establishes Individual Development Accounts (IDAs) to enable families to save earned income for the specific purposes of either purchasing a home, paying for a college or vocational education, or starting a business while they are receiving temporary cash assistance. The funds become available for the specific purposes after, the family no longer receives temporary cash assistance. Funds in the IDAs are matched with other funding sources and are not considered in determining TANF, food stamps, or Medicaid benefits.

Specifically, the bill sets forth the purpose of the act as establishing individual development accounts to provide families with the opportunity to accumulate assets to promote education, home ownership, and micro-enterprise development. This act implements the provisions of 404(h) of the Social Security Act [also 404(h) of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996], relative to the individual development accounts.

The terms used in the act are defined. "Individual development account" is defined as an "account exclusively for the purpose of paying the qualified expenses of an eligible individual or family. The account is funded through periodic contributions by the establishing individual and matched by or through a qualified entity for a qualified purpose." With the exception of "financial institution," all of the terms identified in the bill are delineated in federal law. The definitions set forth closely mirror those provided in federal law. One exception is the term "qualified plan," which includes both "a business plan or a plan to use a business asset purchased."

The Department of Children and Family Services is directed to amend the Temporary Assistance for Needy Families State Plan to provide for the individual development accounts as specified in this act.

Individuals eligible to participate in an IDA program are identified in the bill as any family who is fully complying with the work requirements of the temporary cash assistance program, who is subject to the time limits, and who has entered into an agreement with an approved fiduciary organization. Minimum requirements for the account agreement are delineated.

Contributions into the IDAs can only be made from earned income. Matching funds may be contributed from state and federal funds under the control of the regional workforce boards, from local agencies, or from private donations for an eligible participant. Eligible participants may be awarded bonus payments for program compliance. The matching funds and bonus payments are provided as stipulated in the strategic plan for workforce development.

The bill stipulates that IDA funds can be accessed after the family is no longer receiving cash assistance, but 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 home buyers 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 which is established in a financial institution.

The *WAGES Program State Board of Directors*¹ is directed to develop procedures for regional workforce boards to establish IDA programs. Procedures are also to be established for controlling

¹ *WAGES Program State Board of Directors/ regional workforce boards*-The Workforce Innovation Act of 2000 (ch. 2000-165, L.O.F.) dissolved the WAGES State Board/regional workforce boards and created the regional workforce boards.

the withdrawal of funds for uses other than qualified purposes, including conditions under which an account must be closed.

The bill provides for fiduciary organizations to serve as intermediaries between the families with the IDAs and the financial institutions holding the IDAs. Their responsibilities include marketing participation, soliciting matching contributions, counseling program participants, and conducting verification and compliance activities. The fiduciary organization is required to establish a grievance committee and procedures for considering any grievance made by an IDA participant who disputes the determination that funds were withdrawn for uses other than the qualified purposes. Either *local WAGES coalitions* or other community-based organizations can serve as fiduciary organizations.

IDA participants are to name a contingent beneficiary at the time the account is established. In the event of the death of the IDA participant, the IDA may be transferred to the ownership of the contingent beneficiary.

The bill authorizes financial institutions that are approved by the *WAGES Program State Board of Directors* to establish individual development accounts. The financial institutions are to certify that the establishment of the IDAs are in accordance with the forms, documentation and requirements prescribed by *WAGES Program State Board of Directors*. The bill provides that funds in the IDA, including interest accrued, are to be disregarded in determining eligibility for any federal or state program.

HB 423 provides statutory authority for the establishment of an IDA program. Minimum requirements for the program and its operation are provided. Parameters are established for creating and operating the accounts. Funding for the match is not specifically allocated by this bill. Instead, the bill permits *local WAGES coalitions* to use the funds under its control to provide the match. While IDA programs can be established without legislation, legislation is required to disregard the funds in the IDA in determining eligibility for federal and state public assistance programs. Legislation also expressly permits the use of TANF funds for the IDAs. Many families no longer needing the temporary cash assistance due to earnings often continue to need other federal or state supports, such as Medicaid or food stamps, and the savings accrued could quickly disqualify them from these important transition services. 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.

The bill provides an effective date of October 1, 2001.

D. SECTION-BY-SECTION ANALYSIS:

This section need be completed only in the discretion of the Committee.

III. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT:

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

N/A

2. Expenditures:

The IDA program may be established using current funding and appropriations and may have a beneficial effect even without a specific allocation for matching funds. 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 could be tied to the funding level a particular regional workforce board allocates for the program.

Workforce Florida, Inc. reports that the oversight, policy and procedure responsibility required of Workforce Florida, Inc. in the bill will increase workload, but only minimally. The additional workload for Workforce Florida, Inc. and the Agency for Workforce Innovation staff will not require additional administrative funding.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

N/A

2. Expenditures:

N/A

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

The establishment of IDAs could 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 utilizing 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.

D. FISCAL COMMENTS:

N/A

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 expend funds.

B. REDUCTION OF REVENUE RAISING AUTHORITY:

This bill does not reduce the authority of counties or municipalities to raise revenue.

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

This bill does not reduce the percentage of state tax shared with counties and municipalities.

V. COMMENTS:

A. CONSTITUTIONAL ISSUES:

N/A

B. RULE-MAKING AUTHORITY:

N/A

C. OTHER COMMENTS:

The objectives of the IDA program, namely education, home ownership and micro-enterprise development, are strategies fully supported by Workforce Florida, Inc., Agency for Workforce Innovation, the regional workforce boards and other partners in the workforce system. In fact, in a recent competitive procurement process for "Step-Up Challenge Scholarship Grants," the Workforce Florida, Inc. board provided funding in Welfare-to-Work funds that allowed and encouraged the use of IDAs as the vehicle for establishing scholarships for current and former welfare participants.

VI. AMENDMENTS OR COMMITTEE SUBSTITUTE CHANGES:

On April 2, 2001, the Committee on Workforce and Technical Skills adopted a strike everything amendment which differed from the original bill by:

Revising references to the WAGES program and the local WAGES coalitions to reflect the current organizational and program structure.

Providing for the process for the regional workforce boards to apply to Workforce Florida Inc. to offer an IDA program for their community. Minimum components to be included in this process are identified.

Providing a definition of "qualified purposes".

Identifying minimum components of the account agreement between the individual and the fiduciary organization for the IDA.

Eliminating the provision for a receipt of bonus payments be stipulated in the regional workforce board plan.

Replacing the development of the penalties for withdrawal of funds under false pretenses and arrangements for loss of matching funds with development of procedures for controlling the withdrawal of funds for use of other than qualifies purposes. References to penalties in the bill are eliminated.

Replacing the development of penalties for withdrawals of funds under false pretenses and arrangements for loss of matching funds with development of procedures for controlling the withdrawals of funds for uses other than qualified purposes. References to penalties in the bill are eliminated.

Replacing the delineated requirements of the financial institution in establishing the IDA and in certifying the establishment of the accounts with the requirement that financial institutions are to certify the establishment of IDA in accordance with requirements prescribed by Workforce Florida Inc.

Eliminating references to depositing the matching funds into the participants' accounts.

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Eliminating from the definition of "Individual Development Accounts" the stipulation that the account is a trust.

On April 17, 2001, the Transportation & Economic Development Appropriations Committed adopted one amendment to the amendment traveling with the bill. The amendment gives the Agency for Workforce Innovation rulemaking authority to implement the bill.

VII. SIGNATURES:

COMMITTEE ON WORKFORCE AND TECHNICAL SKILLS:

Prepared by:

Staff Director:

Alex Amengual

Ken Winker

AS REVISED BY THE COMMITTEE ON TRANSPORTATION & ECONOMIC DEVELOPMENT APPROPRIATIONS:

Prepared by:

Staff Director:

Loretta Jones Darity

Eliza Hawkins

AS FURTHER REVISED BY THE COUNCIL ON LIFELONG LEARNING:

Prepared by:

Staff Director:

Alex Amengual

Pat Levesque