

HOUSE BILL REPORT

HB 2827

As Reported by House Committee On:
Trade & Economic Development

Title: An act relating to individual development accounts for low-income wage earners.

Brief Description: Creating individual development accounts for low-income wage earners.

Sponsors: Representatives Chase, Veloria, Eickmeyer, Santos and Kagi.

Brief History:

Committee Activity:

Trade & Economic Development: 2/5/02, 2/7/02 [DPS].

Brief Summary of Substitute Bill

- Creates a state-funded Individual Development Account (IDA) program to provide matching funds so low-income wage earners can save for post-secondary education, purchase their first home, or start a small business.
- Appropriates \$250,000 from general fund--state to the Department of Community, Trade, and Economic Development (DCTED) to fund the IDA Program.

HOUSE COMMITTEE ON TRADE & ECONOMIC DEVELOPMENT

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 5 members: Representatives Veloria, Chair; Eickmeyer, Vice Chair; Chase, Fromhold and Gombosky.

Minority Report: Without recommendation. Signed by 3 members: Representatives Ahern, Dunn and Mulliken.

Staff: Kenny Pittman (786-7392).

Background:

Individual Development Accounts (IDAs) are a tool designed to help low-income families build assets that will help them achieve economic self-sufficiency. The concept of an

IDA is that low-income families are rewarded for monthly savings that are used to purchase their first home, to pay for post-secondary education, or to capitalize a small business. Under an IDA, earned income that is deposited into the account by the low-income family is matched with a variety of public or private funds. Most IDA programs require that the low-income families receive financial management education, as well as other types of training, to help them attain their goals, such as home buyer education or micro-enterprise development.

In 1997 the Legislature created the Washington WorkFirst Program as a part of its welfare reform activities. The Department of Social and Health Services was authorized to operate a program creating IDAs to help recipients of Temporary Assistance for Needy Families (TANF) purchase their first homes, attend school, and capitalize business ventures. The DCTED administers the program under its WorkFirst activities.

Under the state IDA program, the state provides \$2 in match, using federal TANF funds, for every \$1 saved by the TANF participant, up to a maximum match of \$4,000 per participant. The state match is available for the three years after the participant opens the IDA.

Summary of Substitute Bill:

The DCTED is authorized to implement a state-funded IDA program that is targeted to low-income wage earners. A "low-income wage earner" is defined as a person whose adjusted income is less than 80 percent of the median family income, adjusted for household size, for the county or metropolitan statistical area where they reside.

A low-income wage earned may establish an IDA for the purpose of accumulating savings from earned income that can only be used for post-secondary educational expenses, the purchase of a first home, or for small business ownership opportunities.

The DCTED is required to adopt rules: (a) to ensure that funds held in the IDAs are only withdrawn for qualified purposes; and (b) to establish state matching requirements and limitations on deposits into the IDAs.

The establishment of the state-funded IDA program does not create an entitlement to matching funds from the state.

Substitute Bill Compared to Original Bill:

The substitute bill reduces the general fund--state appropriation from \$500,000 to \$250,000 for fiscal year 2003.

Appropriation: The sum of \$250,000 general fund--state to the Department of Community, Trade, and Economic Development.

Fiscal Note: Revised version requested on February 8, 2002.

Effective Date of Substitute Bill: Ninety days after adjournment of session in which bill is passed.

Testimony For: The promotion of self-sufficiency is good public policy. This program, through the creation of IDAs serves two main purposes. First, it helps the person save for those activities that will lead to their self-sufficiency in the form of post-secondary education, the purchase of their first home, or starting a business. Second, it brings the person into the financial mainstream.

Testimony Against: None.

Testified: Representative Chase, prime sponsor; Mark Minickiero, Washington Credit Union League; Mitch Lucas, Washington Credit Union; and Dave Willis, Kitsap Community Federal Credit Union.