

LINDA LINGLE
GOVERNOR



LILLIAN B. KOLLER, ESQ.
DIRECTOR

HENRY OLIVA
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF HUMAN SERVICES
P. O. Box 339
Honolulu, Hawaii 96809-0339

LATE

March 13, 2008

MEMORANDUM

TO: The Honorable Suzanne Chun Oakland, Chair
Senate Committee on Human Services & Public Housing

FROM: Lillian B. Koller, Director

SUBJECT: **H.B. 2047, H.D. 2 - RELATING TO INDIVIDUAL DEVELOPMENT ACCOUNTS**
Hearing: Thursday, March 13, 2008; 1:15 p.m.
Conference Room 016, State Capitol

PURPOSE: This bill proposes to amend the Individual Development Account (IDA) statute by: 1) defining "Department as the Department of Human Services, 2) including one motor vehicle for purchase for school or work as a "qualified expenditure"; 3) requiring the Department of Human Services (DHS) to determine the income of household for eligibility; 4) requiring the Department to contract with the fiduciary organizations who meet the criteria, either directly by the Department or through another agency contracted by the Department; 5) deleting references to making grants to for each individual development account and requiring instead, a State match for qualified expenditures in a ratio as determined by DHS; 5) requiring fiduciary organizations to report to DHS; and 6) appropriates general funds and other federal funds for fiduciary organizations to operate individual development accounts.

DEPARTMENT'S POSITION: The Department of Human Services (DHS) supports the intent of this bill but has concerns regarding the placement of the IDA

program solely in DHS and that the appropriation needed to implement this bill will adversely impact or replace the priorities in the Executive Supplemental Budget.

This bill would expand the responsibilities of the Department by requiring the Department to administer the IDA program which requires technical and administrative assistance to fiduciary organizations to implement this program. The auditing of the records of the numerous vendors selected would take considerable time and expertise. The Department has no expertise regarding the fiduciary responsibilities required for this program so implementation of this program will need to be contracted out as this bill would allow. There will be other costs to the Department in staff time and other resources needed to monitor the contracts and provide basic oversight to ensure that the program was meeting Legislative purposes and accomplishing Legislative intent.

Also, this bill will require the Department to determine the State match ratio for this program. The Department currently has no data to be able to project what the funding needs for this program will be.

This bill proposes to amend chapter 257, Hawaii Revised Statutes, Individual Development Accounts, by making DHS replacing the references to the "State" with the "Department of Human Services". It should be noted that the Department of Human Services is not the only Department that may issue IDAs. In other States, IDAs are issued by various departments, depending on the funding source. Replacing the "State" with the "Department of Human Services" will limit the kinds of IDAs that can be issued.

We request that chapter 257 not be amended to make DHS the sole providers of IDAS and respectfully request that its passage does not replace nor adversely impact the priorities in the Executive Supplemental Budget.

Thank you for the opportunity to provide comments on this bill.

LATE

Report Title:

Individual Development Accounts; DHS; Appropriation

Description:

*Clarifies guidelines for individual development accounts (IDAs).
Designates the Department of Human Services or a contracted agency to
administer IDAs. Appropriates unspecified amounts of funds.
Appropriation effective 07/01/2020. (HB2047 HD2)*

HOUSE OF REPRESENTATIVES
TWENTY-FOURTH LEGISLATURE, 2008
STATE OF HAWAII

H.B. NO. 2047
H.D. 2

A BILL FOR AN ACT

RELATING TO INDIVIDUAL DEVELOPMENT ACCOUNTS.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

SECTION 1. The legislature finds that economic stability does not arise solely from income; financial assets, including cash savings, stocks, bonds, and home and business equity are all critical components of economic security. The accumulation of financial assets can offer individuals hope for the future, stimulate growth in all societal sectors, and enhance the welfare of families and children. For example, a home is often a primary asset for a family in Hawaii and forms a large component of household net worth for most Americans.

The legislature further finds that saving for a down payment on a home is a formidable prospect for too many low- and moderate-income earners in Hawaii. While developing affordable housing properties is necessary, it is equally important to invest in additional strategies that can also expand a family's ability to purchase a home. Individual development accounts (IDAs) are special savings accounts that match the deposits of low- and moderate-income account holders to save towards certain qualified financial goals. IDAs have provided proven assistance to families who are saving to purchase a home, pay higher education expenses, and fulfill other asset-building goals.

The purpose of this Act is to support asset-building among low- and moderate-income families by:

- (1) Clarifying the guidelines for IDAs;
- (2) Designating the department of human services or a contracted agency to administer IDAs; and
- (3) Appropriating funds for IDA programs.

SECTION 2. Section 257-1, Hawaii Revised Statutes, is amended as follows:

1. By adding a new definition to be appropriately inserted and to read:

"Department" means the department of human services[^] or its designee."

2. By amending the definition of "qualified expenditures" to read:

"Qualified expenditures" means an expense as determined by a fiduciary organization [~~which~~] that may include [~~but not be limited to~~]:

- (1) Costs associated with first homeownership;
- (2) Post-secondary education;
- (3) Vocational training; [~~and~~]
- (4) Small or micro-business capitalization[~~-~~]; and
- (5) One motor vehicle purchase for school or work transportation."

SECTION 3. Section 257-2, Hawaii Revised Statutes, is amended by amending subsection (a) to read as follows:

"(a) The income of the household of the individual development account holder shall not exceed [~~eighty per cent of the area household median income.~~] an amount determined by the department."

SECTION 4. Section 257-3, Hawaii Revised Statutes, is amended

to read as follows:

" [†] §257-3 [†] **Fiduciary organizations.** (a) Fiduciary organizations shall serve as an intermediary between individual development account holders and financial institutions holding accounts. The fiduciary organization's responsibilities may include:

- (1) Marketing participation;
- (2) Soliciting matching contributions;
- (3) Counseling program participants; and
- (4) Conducting verification and compliance activities.

(b) Locally-based organizations shall enter into a competitive process for the right to become fiduciary organizations [~~for a portion of the state matching dollars that would be authorized initially~~]. Fiduciary organization proposals shall be evaluated and participation rights awarded on the basis of such items as:

- (1) Their ability to market the program to potential individual development account holders and potential matching fund contributors;
- (2) Their ability to provide safe and secure investments for individual development accounts;
- (3) Their overall administrative capacity, including:
 - (A) Certifications or verifications required to assure compliance with eligibility requirements;
 - (B) Authorized uses of the accounts matching contributions by individuals or businesses; and
 - (C) Penalties for unauthorized distributions;
- (4) Their capacity to provide financial counseling and other related services to potential participants; and
- (5) Their links to other activities designed to increase the

independence of individuals and families through high return investments, including homeownership, education and training, and small business development.

The department shall contract with fiduciary organizations who meet the criteria described in this section. To provide this assistance, the department may contract with another agency, and shall identify and make use of available federal moneys wherever appropriate.

(c) If the [~~State~~] department approves an application to fund an individual development account project under this section, the [~~State~~] department shall [~~, not later than one month after June 28, 1999,~~] authorize the applicant to conduct the project with state funds [~~for five project years~~] in accordance with the approved application and this section; provided that an applicant may apply for funding during future fiscal years [~~for five project years if the State lacks the~~] if there are insufficient resources to fund an individual development account project pursuant to this subsection.

~~[(d) For each individual development account program approved under this section, the State shall make a grant to the qualified entity or collaboration of entities authorized to conduct the project on the first day of the project year in an amount not to exceed \$100,000 per year for five years.]~~

~~(e)]~~ (d) From among the individuals eligible for assistance under the Hawaii individual development account program, each selected fiduciary organization shall select the individuals whom the fiduciary organization deems to be best suited to receive such assistance."

SECTION 5. Section 257-8, Hawaii Revised Statutes, is amended to read as follows:

" ~~[†] §257-8 [†]~~ **Matches.** ~~[(a)]~~ The State shall match ~~[an amount of up to \$100,000 per calendar year for individual development accounts.]~~ a specific match ratio for qualified expenditures as determined by the department. The department may adopt rules regarding specific match ratios pertaining to qualified expenditures of an individual development account.

~~[(b) Not more than a 2:1 match of state funds to account holder deposits shall be deposited into any individual development account in a given year.] "~~

SECTION 6. Section 257-11, Hawaii Revised Statutes, is amended to read as follows:

" ~~[†] §257-11 [†]~~ **Administration; evaluation; information; reporting.** (a) The fiduciary organization running an individual development account program shall have sole authority over the administration of the project. ~~[The State may prescribe only such regulations with respect to demonstration projects under this chapter as are necessary to ensure compliance pursuant to this chapter.]~~

(b) Each individual development account program shall annually report the number of accounts, the amount of savings and matches for each account, the uses of the account, and the number of businesses, homes, motor vehicles, and educations purchased, as well as other information as may be required ~~[for responsible operation of the program.]~~ by the department.

(c) The fiduciary organization shall submit to the ~~[legislature its findings and recommendations no later than twenty days prior to the convening of each legislative session.]~~ department an annual report as determined by the department.

~~[(d) Selected fiduciary organizations may use no more than ten~~

~~per cent of state funds as appropriated under this [chapter] to cover administrative costs in any given year.] "~~

SECTION 7. There is appropriated the sum of \$ out of the general revenues of the State of Hawaii and the sum of \$ out of other available federal funds or so much thereof as may be necessary for fiscal year 2008-2009 for fiduciary organizations defined in section 257-1, Hawaii Revised Statutes, to operate individual development account programs; provided that the aggregate total of the expenditures during fiscal year 2008-2009 out of these appropriations shall not exceed \$.

The sum appropriated shall be expended by the department of human services for the purposes of this Act.

SECTION 8. Statutory material to be repealed is bracketed and stricken. New statutory material is underscored.

SECTION 9. This Act shall take effect upon its approval; provided that section 7 shall take effect on July 1, 2020.

LATE

Report Title:

Individual Development Accounts; DHS; Appropriation

Description:

*Clarifies guidelines for individual development accounts (IDAs).
Designates the Department of Human Services or a contracted agency to
administer IDAs. Appropriates unspecified amounts of funds.
Appropriation effective 07/01/2020. (HB2047 HD2)*

The purpose of this Act is to support asset-building among low- and moderate-income families by:

- (1) Clarifying the guidelines for IDAs;
- (2) Designating the department of human services or a contracted agency to administer IDAs; and
- (3) Appropriating funds for IDA programs.

SECTION 2. Section 257-1, Hawaii Revised Statutes, is amended as follows:

1. By adding a new definition to be appropriately inserted and to read:

"Department" means the department of human services^{or its designee}."

2. By amending the definition of "qualified expenditures" to read:

"Qualified expenditures" means an expense as determined by a fiduciary organization [~~which~~] that may include [~~but not be limited to~~]:

- (1) Costs associated with first homeownership;
- (2) Post-secondary education;
- (3) Vocational training; [~~and~~]
- (4) Small or micro-business capitalization[~~-~~]; and
- (5) One motor vehicle purchase for school or work transportation."

SECTION 3. Section 257-2, Hawaii Revised Statutes, is amended by amending subsection (a) to read as follows:

"(a) The income of the household of the individual development account holder shall not exceed [~~eighty per cent of the area household median income.~~] an amount determined by the department."

SECTION 4. Section 257-3, Hawaii Revised Statutes, is amended

independence of individuals and families through high return investments, including homeownership, education and training, and small business development.

The department shall contract with fiduciary organizations who meet the criteria described in this section. To provide this assistance, the department may contract with another agency, and shall identify and make use of available federal moneys wherever appropriate.

(c) If the ~~[State]~~ department approves an application to fund an individual development account project under this section, the ~~[State]~~ department shall ~~[, not later than one month after June 28, 1999,]~~ authorize the applicant to conduct the project with state funds ~~[for five project years]~~ in accordance with the approved application and this section; provided that an applicant may apply for funding during future fiscal years ~~[for five project years if the State lacks the]~~ if there are insufficient resources to fund an individual development account project pursuant to this subsection.

~~[(d) For each individual development account program approved under this section, the State shall make a grant to the qualified entity or collaboration of entities authorized to conduct the project on the first day of the project year in an amount not to exceed \$100,000 per year for five years.]~~

~~(e)]~~ (d) From among the individuals eligible for assistance under the Hawaii individual development account program, each selected fiduciary organization shall select the individuals whom the fiduciary organization deems to be best suited to receive such assistance."

SECTION 5. Section 257-8, Hawaii Revised Statutes, is amended to read as follows:

~~per cent of state funds as appropriated under this [chapter] to cover administrative costs in any given year.] "~~

SECTION 7. There is appropriated the sum of \$ out of the general revenues of the State of Hawaii and the sum of \$ out of other available federal funds or so much thereof as may be necessary for fiscal year 2008-2009 for fiduciary organizations defined in section 257-1, Hawaii Revised Statutes, to operate individual development account programs; provided that the aggregate total of the expenditures during fiscal year 2008-2009 out of these appropriations shall not exceed \$.

The sum appropriated shall be expended by the department of human services for the purposes of this Act.

SECTION 8. Statutory material to be repealed is bracketed and stricken. New statutory material is underscored.

SECTION 9. This Act shall take effect upon its approval; provided that section 7 shall take effect on July 1, 2020.