

LINDA LINGLE
GOVERNOR



LILLIAN B. KOLLER, ESQ.
DIRECTOR
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DEPUTY DIRECTOR

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

March 11, 2008

MEMORANDUM

TO: The Honorable Maile S. L. Shimabukuro, Chair
House Committee Human Services & Housing

FROM: Lillian B. Koller, Director

SUBJECT: **S.B. 2837, S.D. 1 - RELATING TO INDIVIDUAL DEVELOPMENT
ACCOUNTS**

Hearing: Tuesday, March 11, 2008; 8:30 a.m.
Conference Room 329, State Capitol

PURPOSE: This bill proposes to amend the Individual Development Account (IDA) statute by: 1) including one motor vehicle for purchase for school or work as a "qualified expenditure"; 2) requiring the Department of Human Services (DHS) to determine the income of household for eligibility; 3) requiring DHS to provide technical and administrative assistance to fiduciary organizations; 4) 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 who in turn shall report to the Legislature; 6) deleting reference to ten per cent limit on using appropriations for administrative expenses; and 7) appropriates general 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 provide 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 to ensure that the program was meeting Legislative purposes and accomplishing Legislative intent. 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.

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.

TESTIMONY IN SUPPORT OF SB2837 SD1
RELATING TO INDIVIDUAL DEVELOPMENT ACCOUNTS

March 11, 2008 at 8:30 a.m.

The Legal Aid Society of Hawaii hereby provides testimony in support of SB2837 SD1 – Relating to Individual Development Accounts. This bill would expand the efficiency and effectiveness of Individual Development Account programs.

Founded in 1950, the Legal Aid Society of Hawaii is the oldest provider of legal services in the state. We provided civil legal assistance to those in need through nine offices located in Lihue, Waianae, Honolulu, Kahaluu, Kaunakakai, Lanai City, Wailuku, Kona and Hilo. Over the years we have seen the benefit of linking community based economic development and asset building to legal services as critical to assisting our clients out of poverty.

IDAs are vital tools in assisting individuals with improving their financial literacy and encouraging saving toward the goal of homeownership, higher education costs or start-up costs for a small business. For the majority of IDA participants, this is the first time that they have ever saved their money toward a goal.

We understand that DHS is requesting amendments to this bill and are open to discussing these amendments with the department.

We support this effort to establish the individual development accounts and we support this bill.

Thank you for this opportunity to testify.

Sincerely,

M. Nalani Fujimori
Deputy Director
527-8014

March 8, 2008

Committee on Human Services and Housing
Thursday, March 11, 2008, 8:30 a.m.
Conference Room 329
SB2837, SD1 – Support
3 copies

Dear Chair Shimabukuro, Vice Chair Rhoads, and Committee Members:

Thank you for this opportunity to provide testimony in support of SB2837, SD1- Relating to Individual Development Accounts. My name is Glen Hayase and I am providing this testimony on my own behalf and on behalf of the Asset Building Initiative of Hawaii.

SB2837, SD1 recognizes the need for the state to support and encourage asset building for Hawaii's economically disadvantaged families. This will help ensure programs and policy are synergistically working to create asset building opportunities for all of Hawaii's communities. Importantly, this bill smartly allows the Department of Human Services the discretion to create a state Individual Development Account (IDA) program that is in-tune with community needs.

From 1998 to 2003, I worked for one of the few individual development account programs in the state. During that period of time, I was able to see how individual development accounts (IDAs) positively impact individual, family, and community lives. Since then, I continue my efforts with IDAs on a volunteer basis as the Director of the Asset Building Initiative of Hawaii, a collaborative of local organizations working to broaden the reach of IDAs in Hawaii. We truly believe that IDAs are a critical tool to asset building for Hawaii's lower income residents. Whether families are saving for a first home, small business, a vehicle for school or work, or to pursue a higher education, the significance of acquiring a high-return asset have long term positive effects that flow from individual to family to community.

The call to appropriate funds for IDAs, and ultimately Hawaii's low-income communities, is a wise investment for the state. Due to the successes many families have experienced in recent years, most local IDA programs have long waiting lists of eligible low-income individuals but not the operating or matching funds to support them. In addition, local and national IDA programs have learned that adequate operational funds to provide financial management workshops, credit counseling, homebuyer education, business training, and other support services is integral to those IDA programs. State support is needed for these and other IDA programs to assist more families.

IDAs are a proven tool within a larger asset-building toolbox that can help move low-income families toward economic self-sufficiency. Along with financial education, IDAs, and other support services, SB2837, SD1 can become an essential part of a larger

continuum of economic development opportunities for Hawaii's economically disadvantaged families and communities. Again, thank you for the chance to testify.

Sincerely,

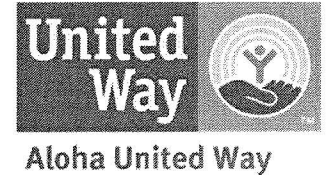
//SIGNED//

Glen Hayase

Director, Asset Building Initiative of Hawaii

Aloha United Way

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Honolulu, Hawaii 96817-3938
Telephone (808) 536-1951
Fax (808) 543-2222
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March 10, 2008

House Committee on Human Services & Housing
Rep. Maile S. L. Shimabukuro, Chair
Rep. Karl Rhoads, Vice Chair
Tuesday, March 11, 2008 at 8:30 A.M.
Conference Room 329

SB 2837, SD1 Relating to Individual Development Accounts - Support

Dear Chair Shimabukuro, Vice Chair Rhoads and Committee Members:

Aloha United Way encourages your favorable consideration of SB 2837, SD1 which makes numerous changes intended to facilitate the use of Individual Development Accounts by low- and moderate-income residents. Individual Development Accounts are matched savings accounts that enable participants to more quickly save funds for the purchase of a home or car, creating a business or additional education.

Individual Development Accounts are an integral part of a comprehensive policy to help people build assets and move from poverty to self-sufficiency. These asset building strategies augment the traditional welfare income support programs and move people away from dependency on government support and toward self-sufficiency.

Individual Development Accounts are a critical part of the strategy because they enable families to progress towards the acquisition of key assets more quickly. Currently, Hawaii's IDA programs are relatively small, privately funded efforts of nonprofit organizations. A common challenge for IDA providers is a lack of adequate organizational capacity and administrative funding. Another challenge is the limited amount of IDA matching dollars.

SB 2837, SD1 helps correct these deficiencies in our current programs and Aloha United Way encourages favorable consideration of this important legislation.

Sincerely,

A handwritten signature in cursive script that reads "Susan Doyle".

Susan Doyle
President & Chief Professional Officer

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Public Charter School

Kukui & Gary Maunakea-Forth
(O'ahu)
WCRC/Mala Ai 'Opio

Wayne Tanna (at large)
Asset Building Coalition &
Chaminade University

Rian Dubach (at large)
American Savings Bank

Tommy Otake (at large)

HACBED Staff

Robert Agres, Jr
Executive Director

Justin Fanslau
Associate Director

Larissa Meinecke
Public Policy Associate

Tony Hall
Administrative Manager

March 9, 2008

House Committee on Human Services & Housing
Tuesday, March 11, 2008 at 8:30 a.m.
Conference Room 329
SB 2837 SD1 - IDA – SUPPORT

Dear Chair Shimabukuro and Committee Members:

The Hawai'i Alliance for Community Based Economic Development (HACBED) is submitting testimony in support of **SB 2837 SD1** which would appropriate funds to the individual development account (IDA) program and require the Department of Human Services to provide technical and administrative assistance to fiduciary organizations.

Hawai'i needs a comprehensive public policy to help people build assets. This should include a package of programs, tax incentives, regulatory changes, and other mechanisms to help people earn more, save more, protect hard earned assets, start businesses and become homeowners. We support **SB 2837 SD1** in that it is part of a package that we believe does just that. The Ho'owaiwai Asset Policy agenda addresses these needs by putting together a comprehensive package of bills and policies that encourages and widens opportunities for asset building.

Assets are essential for three reasons:

1. To have **financial security** against difficult times
2. To create **economic opportunities** for oneself
3. To **leave a legacy** for future generations to have a better life

Individual development accounts (IDAs) are matched savings accounts that enable low-income families to save, build their assets, and enter the financial mainstream. IDAs reward working families who are building toward an asset, such as buying a home, paying for college tuition, or starting a small business. This makes for a better life for Hawai'i families and communities while giving families a sense of empowerment when they achieve their savings goal.

Chair Shimabukuro and Committee Members
March 11, 2008
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This bill will provide organizations running IDA programs access to sufficient operational funds that are needed to provide financial education and planning, resources for case management, and funds for technical assistance and support.

In Hawai'i, most IDA programs are small programs with approximately \$20,000 for both operating and matching funds. Most IDA programs have long waiting lists of eligible low-income individuals but not the matching funds to support them. The investment in this bill will allow more families in Hawai'i to achieve their asset goals.

Thank you for the opportunity to submit testimony.

Sincerely,

Justin Fanslau
Associate Director

Larissa Meinecke
Public Policy Associate

March 10, 2008

House Committee on Human Services and Housing
Tuesday, March 11, 2008; 8:30 am
Conference Room 329
SB 2837, SD1 - SUPPORT

Dear Chair Shimabukuro and Committee Members:

I am submitting testimony in support of SB 2837, SD1. Among other things, SB 2837, SD1 requires the DHS to provide technical and administrative assistance to fiduciary organizations; deletes reference to ten per cent limit on using appropriations for administrative expenses; and appropriates funds for fiduciary organizations to operate individual development accounts.

IDAs are matched savings account programs that enable low-income families to save toward the purchase of an asset. Participants enroll in financial literacy, receive tailored case management, and have their savings “matched” toward the purchase of an asset. The most commonly approved assets include purchase of first home, college tuition and fees, and small business startup.

I support SB 2837, SD1 because it will address the growing wealth gap by (a) expanding opportunities for Hawai‘i’s low- and moderate-income persons to save and build wealth, and (b) building the capacity of fiduciary organizations to adequately provide IDAs.

IDAs are effective at helping low- and moderate-income persons save toward their financial goals and build wealth. As a Ph.D. candidate in social welfare at the University of Hawai‘i at Mānoa conducting research on ALU LIKE, Inc.’s IDA program for my dissertation, I have studied closely the social research demonstrating the benefits of IDA participation. The most important finding is that persons with low- and moderate-incomes *can* and *do* save when given the opportunities like those provided by IDAs¹. Other key findings from IDA research include the following:

- the average participant accumulated \$1,609 in the program which equates to \$576 per year;²
- IDA participants had higher home ownership rates after program participation compared to an experimental control group;³
- participants reported greater responsibility, orientation towards the future, and control over their lives.⁴

¹ Schreiner, M., & Sherraden, M. (2006). *Can the poor save? Saving and asset accumulation in Individual Development Accounts*. Piscataway, N.J.: Transaction Publishers.

² Ibid.

³ Mills, G., Gale, W., Patterson, R., & Apostolov, E. (2006). *What do individual development accounts do? Evidence from a controlled experiment*. Cambridge, MA: Abt Associates.

⁴ Sherraden, M., Moore-McBride, A., Johnson, E., Hanson, S., Ssewamala, F., & Shanks, T. (2005). *Saving in low income households: Evidence from interviews with participants in the American Dream Demonstration*. St. Louis, MO: Center for Social Development.

Despite the observed benefits to program participants, the administration of IDAs is costly. Providing effective and culturally appropriate financial literacy courses is expensive for non-profit organizations. Moreover, it takes considerable time for case managers to develop relationships and to help their clients form the best plans to reach their short to long-term financial goals. Current funding provisions are simply not adequate to support these necessary services. SB 2837, SD1 would address this deficiency by providing IDA organizations access to sufficient operational funds to provide financial education and planning, resources for case management, and funds for technical assistance and support.

An investment of \$1 to \$2 million with an operating cost rate of 25% for fiduciary organizations will give hundreds of families the opportunity to participate in IDA programs and provide a mechanism to save and build wealth for families. Additionally, funding for IDA programs is often multiplied throughout our economy to benefit small businesses, real estate and home sales, and higher education markets.

Thank you for the opportunity to submit testimony.

Sincerely,

David W. Rothwell
Ph.D. Candidate
University of Hawai'i at Mānoa
