Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536

BILL ANALYSIS

Telephone: (517) 373-5383
Fax: (517) 373-1986
TDD: (517) 373-0543

Senate Bills 1635, 1636, and 1637 (as reported without amendment) *(as passed by the Senate)*
Sponsor: Senator Mark C. Jansen (S.B. 1635 & 1636)
Senator Tupac A. Hunter (S.B. 1637)
Committee: Families and Human Services

Date Completed: 11-25-08

RATIONALE

The Individual or Family Development Account Program Act was enacted in 2006 to give low-income earners an opportunity to save for a home purchase, postsecondary education, or business capitalization, and receive matching funds from public or private sources. The Act established the Program in the Michigan State Housing Development Authority (MSHDA), which is part of the Department of Labor and Economic Growth (DLEG). This Program was modeled upon an individual development account (IDA) program created in the Department of Human Services in 1998 for public assistance recipients, who may contribute to accounts and receive matching funds for the same purposes. Reportedly, nearly 80% of the participants in both programs plan to use their savings to buy a home. It has been suggested that participants in the MSHDA program also should be allowed to save for the purchase of energy-efficient home improvements and appliances.

In addition, since MDHSA was established to help people afford homes, while the Individual or Family Development Account Program also is designed to help participants save for higher education and business start-up costs, it has been suggested that the statute should make DLEG responsible for those aspects of the Program.

CONTENT

Senate Bill 1635 would amend the Individual or Family Development Account Program Act to allow an account to be established for a qualified home improvement (the purchase and installation of a qualified Energy Star product).

Senate Bill 1636 would amend the Individual or Family Development Account Program Act to revise requirements for fiduciary organizations selected to administer a program; and specify responsibilities of the Department of Labor and Economic Growth.

Senate Bill 1637 would amend the State Housing Development Authority Act to authorize MSHDA to implement, administer, or execute administrative, substantive, or supervisory powers pursuant to the Individual or Family Development Account Program Act.

Senate Bills 1635 and 1636 are described in more detail below.

Senate Bill 1635

The Individual or Family Development Account Program Act requires the Program to give eligible individuals and families an opportunity to establish accounts for one or more of the following purposes:

-- To pay educational expenses for the individual account holder who will be 17 years of age or older when the funds in the account will be used.

-- For the first-time purchase of a primary residence by the individual account holder.
-- For start-up capitalization of a business for the individual account holder who is at least 18 years old.

Under the bill, an account also could be established for qualified home improvements.

"Qualified home improvement" would mean the purchase and installation of any qualified Energy Star product intended for residential or noncommercial use that meets or exceeds the applicable Energy Star energy-efficiency guidelines developed by the U.S. Environmental Protection Agency and the U.S. Department of Energy, including windows, doors, insulation, high-efficiency heating and cooling equipment, and any appliances such as dishwashers, clothes washers, and refrigerators.

Senate Bill 1636

The Act requires MSHDA to establish policies and procedures for the Program taking into consideration the policies and procedures adopted by the Department of Human Services to implement the IDA program. Under the bill, MSHDA would have to establish these policies and procedures in consultation with DLEG.

Under the Act, MSHDA must select program sites (community organizations) to administer the Program and fiduciary organizations (which also may be program sites) to assist program sites and manage reserve funds. (Reserve funds are accounts at financial institutions. The funds hold participants' savings as well as contributions from other sources.) Under the bill, MSHDA would be responsible for approving fiduciary organizations and program sites and for all activities related to the Program. The Department, however, would be responsible for approving fiduciary organizations and program sites and for all activities related to those programs that related solely to accounts to be used for education or business capitalization. Also, fiduciary organizations would oversee program sites' reserve accounts, rather than establish and manage them.

Currently, MSHDA must work cooperatively with financial institutions, fiduciary organizations, program sites, and contributors to implement the programs under the Act. Under the bill, MSHDA would have to work with DLEG, rather than contributors.

The Act requires a program site to provide matching funds for contributions to an account by an account holder pursuant to a participant savings plan agreement. Under the bill, a fiduciary organization would have to provide the matching funds upon request from a program site.

Under the Act, the administrator of a fiduciary organization that administers one or more reserve funds must submit to MSHDA the names of contributors and the total amount that each contributes to an individual or family development account reserve fund for each calendar year, and the MSHDA director must determine the date by which the information is to be submitted. The bill, instead, would require the administrator of a fiduciary organization to submit the names of contributors and the amount contributed to a reserve fund within 15 days after receiving each contribution.

Currently, a fiduciary organization selected to administer an individual or family development account program must file with MSHDA an annual report of the program activity. The bill would refer to program activity related to accounts established for the first-time purchase of a primary residence. In addition to other information, the report must include the number of IDAs administered by the organization. The bill would require the report to include the number of IDAs established for the first-time purchase of a primary residence and administered by the organization.

Under the bill, a fiduciary organization selected to administer an individual or family development account program would have to file with DLEG an annual report of the organization's program activity related to accounts established either for educational purposes or for capitalization of a business. The report would have to be filed by September 30 each year, and would have to include all of the following:

-- The number of IDAs established either for educational purposes or for capitalization of a business and administered by the organization.

-- The amount of deposits and matching deposits for each account.
-- The purpose of each account.
-- The number of withdrawals made.
-- The number of terminated accounts and the reasons for termination.
-- Any other information DLEG required for the purpose of making a return on investment analysis.

The Act requires MSHDA to file an annual report with the Secretary of the Senate and the Clerk of the House of Representatives. The report must include the information reported by fiduciary organizations. The bill would require MSHDA and DLEG jointly to file this report.

Currently, MSHDA may promulgate rules needed to implement the Act. The bill would authorize MSHDA and DLEG, in consultation with one another, to promulgate rules needed to implement their respective responsibilities under the Act.

The definitions of "fiduciary organization" and "program site" refer to a charitable organization exempt from taxation under Section 501(c)(3) of the Internal Revenue Code that is approved by the MSHDA director. Under the bill, the organizations would have to be approved by MSHDA.

MCL 206.702-207.704 (S.B. 1635)
206.702 et al. (S.B. 1636)
125.1422 (S.B. 1637)

BACKGROUND

Under the Individual or Family Development Account Program Act, an individual or family whose household income is 200% of the Federal poverty level or less may apply to a program site to establish an individual or family development account. If the application is approved, the person must establish an account with a financial institution and enter into a participant savings plan agreement with the program site.

The program site must provide matching funds for contributions to the account by the participant. Matching fund distributions must be made at the time the participant withdraws money for qualified expenses. Distributions must be a match of at least $1 for every $1 withdrawn by the participant.

Under the Act and Public Act 514 of 2006, which amended the Income Tax Act, an individual who is not an account holder may claim an income tax credit equal to 75% of contributions made to a reserve fund, if he or she obtains a certification from MSHDA. Total credits for this purpose may not exceed $1.0 million annually.

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

Individual development accounts are an innovative way to help low-income earners save toward home ownership, educational advancement, or small business start-up. The provision of funds matching the amounts saved by account holders gives eligible participants incentive to set aside money. The IDA programs operated by the Department of Human Services (DHS) and MSHDA have been highly successful: According to the Michigan IDA Partnership, 1,900 IDAs have been funded since 2001; this includes 500 new accounts set up in 2007 thanks to the DHS, MSHDA, several banks, and private contributors. The Michigan IDA Partnership also reports that nearly 80% of all participants plan to purchase a home.

Expanding the purpose of IDAs to include the purchase and installation of an Energy Star product would be consistent with the goal of promoting home ownership. A joint program of the U.S. Department of Energy and the U.S. Environmental Protection Agency, Energy Star is a voluntary labeling program designed to identify and promote energy-efficient products in more than 50 categories, including refrigerators, clothes washers, insulation, furnaces, windows, doors, and roofing material. By allowing account holders to receive matching funds for energy-efficient products, Senate Bill 1635 would enable participants to reduce their energy costs and enhance the value of their home, while protecting the environment and conserving natural resources.

Supporting Argument

Under Senate Bill 1636, DLEG would be statutorily responsible for aspects of the IDA program that involve activities related to higher education and business capitalization, while MSHDA would continue to be responsible for activities related to home purchases. This would be consistent with the Authority's mission to create and preserve affordable housing for Michigan residents. At the same time, MSHDA would remain the lead agency under the Individual or Family Development Account Program Act, and Senate Bill 1637 would give MSHDA clear authority to oversee the Program in the statute governing the Authority—something that was not done when provisions for the Program were enacted two years ago.

Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

Senate Bill 1635

The bill would have no fiscal impact on State or local government.

Senate Bill 1636

The bill would have no fiscal impact on the Department of Labor and Economic Growth, which includes the Michigan State Housing Development Authority. Staff from the Department have indicated that the proposed changes would not affect current staffing or costs.

Senate Bill 1637

The bill would have no fiscal impact on State or local government.

Fiscal Analyst: Elizabeth Pratt
Maria Tyszkiewicz

A0708\s1635a
This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.