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BILL



ANALYSIS

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House Bill 4308 (Substitute S-1 as reported)
Sponsor: Senator Ron Jelinek
Committee: Appropriations

CONTENT

The bill would provide supplemental appropriations in FY 2008-09 to the Departments of Education; Energy, Labor, and Economic Growth; and Military and Veterans Affairs. The appropriations would be funded primarily with Federal funds from the American Recovery and Reinvestment Act (ARRA) of 2009 and would be available to the Departments for expenditure until September 2012. The appropriations in the bill are summarized in the table below.

Appropriations in House Bill 4308 (S-1)	
Department/Item	Actual Dollars
Department of Education	
Education Technology (ARRA).....	\$24,533,000
Department of Energy, Labor, and Economic Growth	
Energy Office (ARRA)	108,756,000
Unemployment Programs (ARRA).....	84,400,000
Department of Military and Veterans Affairs	
Grand Rapids Veterans' Home (ARRA)	457,100
Total	\$218,146,100

The House of Representatives approved House Bill 4308 (H-2) on May 21, 2009. The House-passed version of the bill provides for \$194.1 million of Federal ARRA funding and does not include the Office of the State Budget (OSB) recommendation for education technology grants within the Department of Education. The House also added \$500,000 of food assistance funding in the Department of Human Services. This funding was not recommended by the OSB. The Senate version of the bill restores the ARRA funding to a level consistent with OSB recommendations.

The bill also contains boilerplate sections that would make the appropriations subject to the Management and Budget Act and require compliance with the provisions of ARRA, including establishment of a website to report ARRA expenditures. The bill would provide for the automatic appropriation of additional Federal funding available to Michigan due to recalculation of State awards and would require a report of any additional Federal awards received due to recalculation.

In addition, the bill would require the allocation of \$69.5 million from the Unemployment Programs line item for increasing service capacity and making technology improvements in the Michigan Unemployment Insurance Agency. This program would be funded from the Unemployment Program Modernization Incentive (ARRA) payment. Boilerplate also would specify that the proposed Education Technology (ARRA) appropriation be allocated 50.0% for formula grants and 50.0% for competitive grants.

FISCAL IMPACT

Department of Energy, Labor, and Economic Growth

Energy Grants

Two energy programs would be funded with the appropriation included in this bill. The first is an \$82.1 million appropriation for the State Energy Program. The ARRA legislation includes one-time funding to expand this program to advance energy efficiency and increase conservation activities. The Department of Energy, Labor, and Economic Growth intends to use the funding to provide \$56.0 million for energy upgrades in State buildings by funding projects that include replacing existing boilers and HVAC systems, improving insulation, and installing Energy Star Products wherever feasible. The program will be competitive between the State agencies that will submit proposed projects for funding. The Bureau of Energy Systems will award the funds and monitor the projects. Another \$23.2 million will be used to provide grants and loans to the private sector to increase the manufacturing capacity of wind turbines, solar panels, and their component parts. Approximately \$600,000 will support a grant to place five anemometers on State Police towers to identify locations for wind energy systems. The remaining \$2.3 million will be available for administration and oversight expenses.

The second energy program, the Energy Efficiency Conservation Block Grant Program, will provide \$11.8 million in competitive grants to smaller, nonentitlement local communities for conservation and efficiency activities. These include cities with populations less than 35,000 and counties with populations less than 200,000. Cities and counties with larger populations will receive their funding directly from the Federal government. The funds may be used to perform energy efficiency audits and retrofits to buildings, develop and implement a conservation strategy, and develop and implement building codes and inspections to promote energy efficiency. The remaining \$7.8 million will be used to fund regional grants and administration. The line includes additional expenditure authority of \$7.1 million that would be available if the State qualifies for additional funding through the ARRA competitive energy grant program, a \$400.0 million Federal program.

Unemployment Modernization Funding

This appropriation would provide \$84.4 million to support the increased costs of administration in the Unemployment Agency. The increased unemployment rate has created staffing and service challenges in the Agency due to capacity issues in the current technology available for the filing of claims. Since January 1, the Agency has increased its staff by 414 full-time equated positions (FTEs) and has incurred increased information technology costs related to expanding internet services and phone lines to address the volume of claimants now entering the system.

The American Recovery and Reinvestment Act of 2009 included \$500.0 million for all states to cover the increased administrative costs being incurred due to the current economic slowdown. Of these funds, Michigan is eligible for \$14.9 million.

Also under ARRA, \$7.0 billion was appropriated to the states to support "modernizing" unemployment benefits through the expansion of benefits and eligibility. The legislation allows states to draw down additional Federal funds to offset some of the costs of initiating these changes. One-third of these funds are available to those states that have an "alternative base period" for determining eligibility for benefits. The remaining two-thirds are available to states that have adopted the "alternative base period" *and* adopted at least two of four benefit expansion provisions such as part-time work, compelling family reasons, dependent allowances, and training benefits. The appropriation included in this bill would be only for the one-third payment related to the "alternative base period" provision. Separate legislation to amend the Michigan Employment Security Act would be required to make changes to the existing benefit structure for Michigan to be eligible for the remaining two-thirds payment.

Because Michigan's statute already includes an "alternative base period", the State is eligible for this one-third payment of \$69.5 million. In determining unemployment benefits, the Michigan Employment Security Act (MCL 421.45) defines "base period" as "the first 4 of the last 5 completed calendar quarters before the first day of the individual's benefit year". The statute also allows an "alternative base period" which includes the four most recently completed calendar quarters for those individuals who cannot meet the earnings threshold under the standard base period when determining eligibility.

According to the Unemployment Agency, the U.S. Department of Labor has pre-approved the State's plan to use these funds to cover administrative costs. However, under Federal regulations, funds are available for administrative costs only as long as Michigan is not borrowing to pay benefits. Currently, Michigan's first-quarter (April) tax collections have allowed Michigan to suspend borrowing temporarily and to make benefit payments from the State's Unemployment Compensation Fund. Under the current economic climate, however, Michigan tax collections are less than in previous years; combined with the increased benefit payments, this has placed additional stress on the Unemployment Compensation Fund. Therefore, the time frame for including this appropriation is shortened as the window of nonborrowing status is estimated to last only until approximately June 25, 2009. After the State exhausts all of the recent collections, it will be required to begin borrowing from the Federal government for benefit payments. The estimate for this time frame includes a weekly payment rate of \$95.0 million per week and attempts to account for an expected increase in claims from the many recent announcements in the auto industry affecting suppliers and dealerships. As of May 15, 2009, Michigan's outstanding loan balance from the Federal government for benefit payments was \$2.2 billion.

The Senate Appropriations Committee added to the bill boilerplate language (Sec. 404) requiring the Department of Energy, Labor, and Economic Growth to complete the request for proposal process relating to the modernization of the State's unemployment insurance computer system by July 31, 2009.

Department of Education

Education Technology grants would be funded in the bill at the level of funding recommended by the State Budget Office, \$24,533,000. One-half of the grants are distributed to school districts based on their share of children in poverty, and the other half are competitive grants.

The Department of Education's plan for the competitive grants focuses on a program called Improving Instruction through Regional Data Initiatives, with a goal to get usable information into the hands of educators to improve classroom instruction. This would be coordinated through intermediate school districts to identify gaps in learning, more quickly than waiting

for MEAP results. Some examples of the initiative could involve schools starting to share common assessments across the county and have reports on results the next day, and others could focus on assisting teachers to offer differentiated instruction to accommodate different learning styles.

Military and Veterans Affairs

The bill would appropriate a total of \$457,100 to the Department of Military and Veterans Affairs to provide for a fire suppression system for the McLeish Building at the Grand Rapids Veterans Home. The building, built in 1975, houses 350 residents and constitutes the last building on the grounds of the home that has not yet been made compliant with the Federal 2000 Life Safety Code. The project is being funded on a reimbursement basis by 65.0% Federal ARRA funds (\$297,100), matched with 35.0% funding from State restricted income and assessment revenue from the home (\$160,000). The Department must have the project ready to go by June 15, 2009, in order to receive the Federal funds. The Department reports that materials are now being delivered to the site and construction is ready to commence at any time.

Date Completed: 5-26-09

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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.