



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



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

Senate Bill 647 (as passed by the Senate)
Sponsor: Senator Dale W. Zorn
Committee: Finance

Date Completed: 4-3-18

RATIONALE

The Income Tax Act allows an eligible individual to claim a credit for heating fuel costs for his or her homestead in Michigan. Eligibility for the credit and the amount of the credit are based on various factors, including household resources, exemptions claimed, and heating costs. The home heating credit is allowed only if there has been a Federal appropriation for certain Federal block grant funds. Public Act 523 of 2014 amended the Act to revise the calculation of the home heating credit when the Federal block grant funds are less than the full credit amount. Specifically, the calculation required a minimum funding level for weatherization, which provided financial certainty for local agencies that provide weatherization services. However, the weatherization calculation was active only from fiscal year (FY) 2014-15 through FY 2016-17.

To ensure that the weatherization program is able to continue with a predictable level of funding, it has been suggested that the weatherization formula be extended through fiscal year 2021-22, and that the Department of Health and Human Services be required to submit to the Legislature a report and recommendations on home heating and weatherization assistance programs.

CONTENT

The bill would amend the Income Tax Act to do the following:

- Extend to fiscal year 2021-22 provisions for determining the amount of Federal block grant funds used for weatherization, in the calculation of the home heating credit when the block grant funds are less than the full credit amount.**
- Require the Department of Health and Human Services to submit a report and recommendations on the home heating and weatherization assistance programs to certain legislative committees and members by July 1 each year, beginning in 2018.**

Specifically, the home heating credit is allowed only if there has been a Federal appropriation for the Federal fiscal year beginning in the tax year of Federal Low Income Home Energy Assistance Program (LIHEAP) block grant funds of any amount. If the amount of LIHEAP block grant funds available for the home heating credit is less than the full home heating credit amount, each individual credit claimed must be reduced proportionately. "Amount available for the home heating credit" means the sum of the LIHEAP block grant allotment for Michigan for the Federal fiscal year beginning in the tax year and the amount as certified by the Director of the Department carried forward from the immediately preceding fiscal year for the LIHEAP block grant, minus the sum of amounts certified by the Director for weatherization, crisis assistance programs, and administration of the LIHEAP block grant.

For fiscal years 2014-15 through 2016-17, the amount used for weatherization each fiscal year had to be determined as follows: If the total LIHEAP block grant received for the current fiscal year was greater than or equal to 90% of the amount of block grant funds received in the preceding fiscal year, then the amount of LIHEAP block grant funds used for weatherization for that fiscal

year had to be at least \$6.0 million but not more than 15% of the total LIHEAP block grant funds received for that fiscal year. If the total LIHEAP block grant received for the current fiscal year was less than 90% of the amount received in the preceding fiscal year, then the amount of LIHEAP block grant funds used for weatherization for that fiscal year had to be at least \$5.0 million but not more than 15% of the total LIHEAP block grant funds received for that fiscal year.

The bill would require the amount used for weatherization each fiscal year to be determined under these provisions through fiscal year 2021-22.

In addition, by July 1, 2018, and each subsequent July 1, the Department would have to submit a report on the operation and effectiveness of the home heating and weatherization assistance programs and any recommendations regarding the programs to all of the following:

- The chairpersons and vice-chairpersons of the Senate and House of Representatives Appropriations Committees.
- The Senate and House of Representative committees on taxation- and finance-related issues.
- The Senate and House of Representatives committees on energy- and technology-related issues.

MCL 206.527a

BACKGROUND

The Weatherization Assistance Program provides free home energy conservation services to low-income Michigan homeowners and renters. Weatherization services are administered by local agencies and nonprofit organizations. These services typically include foundation and wall insulation, attic insulation and ventilation, air leakage reduction, smoke detector installation, and dryer venting.

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

The Low Income Home Energy Assistance Program is a Federal program that provides financial support for low-income households for heating, cooling, and weatherization. As stated above, the Program is used to fund Michigan's home heating credit, among other things. According to Senate Finance Committee testimony, 47 states have dedicated a portion of annual LIHEAP funding toward weatherization. Michigan became the 48th state to do so several years ago under Public Act 523 of 2014, but the Act's provisions have sunsetted and the State is no longer required to set aside a minimum amount for weatherization.

Before the State began committing a base amount to weatherization, the Department provided only whatever it could for weatherization, which led to financial inefficiency and uncertainty for organizations that provided weatherization services. These organizations cannot pay for staff or have local contractors prepared for weatherization projects if funding may not exist to cover their expenses.

Dedicating a specific amount of funding for weatherization at the beginning of the heating season provided financial certainty for groups that offer weatherization and energy assistance services. This enabled the Statewide Community Action Network to weatherize 275 more residences during fiscal year 2016-17 than in FY 2014-15. According to the Monroe County Opportunity Program, the residents of fewer than 3% of homes weatherized in Monroe County will call upon the group's services again for crisis utility assistance. Furthermore, the Department's website states that weatherization services may reduce heating costs by 20% to 25%, which could save someone about \$450 annually.

Increasing energy efficiency makes homes safer and more affordable. By reinstating for five years the formula that provided a minimum amount of annual funding for weatherization, the bill would ensure that the agencies that provide weatherization services would continue to have financial certainty to weatherize as many homes as possible. In addition, the bill would require the Department to produce reports that would help policy-makers determine the effectiveness of the home heating and weatherization assistance programs.

Legislative Analyst: Drew Krogulecki

FISCAL IMPACT

The bill would have no fiscal impact on State or local government. As the bill would extend the recently expired allocation of the Federal Low Income Home Energy Assistance Program block grant funding, there would be no change to the funding formula followed by the Department of Health and Human Services.

Fiscal Analyst: John Maxwell

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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.