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BILL ANALYSIS

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House Bill 5798 (Substitute S-2 as reported)
Sponsor: Representative Joseph Rivet
House Committee: Energy and Technology
Senate Committee: Technology and Energy

Date Completed: 7-8-04

RATIONALE

The Low Income Energy Assistance Program (LIHEAP) is a Federally funded program to help low-income families pay their heating and cooling bills. In Michigan, the LIHEAP block grant is used to fund the home heating credit for eligible low-income families; the State Emergency Relief (SER) program, which aids families experiencing a home energy crisis, such as a shut-off notice; and the Weatherization Assistance Program, which provides free home energy conservation services to low-income homeowners and renters. Weatherization services typically are administered by local community agencies and include wall insulation, attic insulation and ventilation, foundation insulation, air leakage reduction, smoke detector installation, and dryer venting.

An eligible claimant may receive a home heating credit in the form of an energy draft negotiable through an enrolled heating fuel provider. If the amount of the credit exceeds the total of the claimant's outstanding heating bills, the claimant may request that the energy provider refund the excess. It has been suggested that LIHEAP's efficiency would be improved if providers were allowed to apply the excess amount to the claimant's future home energy bills, and if the Department of Treasury could submit an energy draft directly to an energy provider. Additionally, it has been suggested that allowing a certain portion of the Federal block grant available for the home heating credit to be used for weatherization purposes would help low-income families conserve more energy.

- **Require the allowable amount of a claimant's home heating credit to be remitted to the claimant in the form of an energy draft (regardless of whether the allowable amount of the credit exceeded the State income tax that otherwise would be due).**
- **Require the Department of Treasury to submit directly to the enrolled heating fuel provider the energy draft of a claimant whose name was submitted by the provider and who met Department standards, if the Department established a program or pilot program for doing so.**
- **Require an enrolled heating fuel provider that submitted names of claimants who were not its customers to return the energy drafts or pay their value to the Department plus interest.**
- **Require an enrolled heating fuel provider to apply the amount of an energy draft that exceeded a claimant's outstanding heating bills to subsequent bills until the credit was used up, or nine months passed, if the claimant received home heating assistance.**
- **Allow up to \$9 million, less the amount used for weatherization from the emergency contingency funds received in the preceding year, of LIHEAP block grant funds to be used for weatherization purposes.**
- **Require the Department to meet with interested parties to identify and implement methods of improving home heating credit claim and payment processing.**

CONTENT

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

The bill would apply to tax years beginning after December 31, 2003. It is described below in further detail.

Energy Draft

Under the Act, a claimant may claim a credit for heating fuel costs for his or her homestead in Michigan. (A "claimant" is an individual who filed a claim under Chapter 9 of the Act, which governs property tax credits.) Currently, if the allowable amount of the credit exceeds the State income tax the claimant otherwise would owe for the tax year, the amount of the credit that is not used as an offset against the income tax must be remitted to the claimant in the form of an energy draft issued by the Department of Treasury. (An energy draft may be negotiated only through the claimant's enrolled heating fuel provider.) Under the bill, the allowable amount of the credit would have to be remitted to the claimant in the form of an energy draft.

FIA Identification or Direct Vendor Payments

Under the Act, for a claimant for whom, at the time of filing, the Family Independence Agency (FIA) is making direct vendor payments to an enrolled heating fuel provider, the Department of Treasury must send the energy draft directly to the provider. After July 31, a refundable credit for a prior tax year may be paid in the form of a negotiable warrant. Under the bill, these provisions also would apply to a claimant for whom the FIA had identified the enrolled heating fuel provider at the time of filing.

Pilot Program

The bill would allow enrolled heating fuel providers to submit to the Department of Treasury, in a manner prescribed by the Department, the names of their customers who were claimants, if the Department established a program or pilot program for the direct payment of energy drafts to providers. If a claimant whose name was submitted met the Department's standards, the Department would have to send his or her energy draft directly to the claimant's enrolled heating fuel provider.

If the provider submitted names of claimants who were not its customers and the energy drafts of any of those claimants were sent to the provider, the provider would have to return the energy drafts or

pay the value of the energy drafts, plus interest at the rate calculated under the Act for deficiencies in tax payments, to the Department.

Credit Greater than Outstanding Bill Total

Under the Act, if a claimant remits to his or her enrolled heating fuel provider an energy draft that is greater than the total of the claimant's outstanding bills, the claimant may request payment for the difference from the provider. The provider must issue the payment within 14 days after the request. The bill would apply this provision only to a claimant who received home heating assistance from the FIA, a governmental agency, or a nonprofit organization 12 months before remitting an energy draft in an amount greater than the total of the claimant's outstanding bills as of the date the energy draft was remitted. In this situation, the provider would have to apply the full amount of the energy draft to the claimant's outstanding bills first, and then apply any remaining amount to subsequent bills until the full amount was used up or until the expiration of nine months after the date on which the energy draft was first applied to the claimant's outstanding bills. If any energy draft amount remained after nine months, or if before nine months passed the claimant no longer were a customer of that provider, the provider would have to remit the remaining amount to the claimant in the form of a fully negotiable check within 14 days after the end of the nine-month period, or 14 days after the termination of service, whichever occurred sooner. The claimant still would be allowed to request a payment for the remaining balance of the credit, but only if he or she did not receive home heating assistance from the FIA, a governmental agency, or a nonprofit organization 12 months before remitting an energy draft. The bill also specifies that, for the purposes of these provisions, home heating assistance would not include the home heating credit.

Weatherization

Under the Act, the term "amount available for the home heating credit" means the sum of the Federal LIHEAP block grant allotment for Michigan for the Federal fiscal year beginning in the tax year and the amount as

certified by the FIA Director carried forward from the immediately preceding fiscal year for the LIHEAP block grant minus the sum of the amount certified by the FIA Director for LIHEAP block grant administration, and the amount certified by the FIA Director for crisis assistance programs. The bill would include in the second sum the amount certified by the FIA Director for weatherization. The amount used for weatherization could not exceed \$9,000,000 less the amount used for weatherization from the emergency contingency funds received in the preceding year. For the State's 2004-05 fiscal year, however, the amount used for weatherization could not exceed \$9,000,000 and could not be reduced by the amount used for weatherization from the emergency contingency funds received in the immediately preceding year.

Processing Improvements

The bill would require the Department of Treasury to meet with interested parties, including enrolled heating fuel providers and advocacy groups, to identify and implement methods of improving the processing of claims for the home heating credit and payments attributable to those credits.

MCL 206.527a

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

People who cannot afford to pay their utility bills face health and safety risks from inadequate or dangerous heating and cooling systems. Low temperatures can cause hypothermia, which in turn can lead to illness or death. Young children, the elderly, and the disabled are particularly vulnerable to the negative consequences of a lack of heat. Some people reportedly try to keep their homes warm by using fireplaces, stoves, improperly vented portable heaters, and barbecue grills. Although these methods may be affordable, they can cause carbon monoxide poisoning and create fire hazards. Furthermore, the use of extra heating appliances can overload

electrical circuits, which also increases the risk of fire.

While some charitable organizations provide home energy assistance for low-income people, the need for such assistance exceeds what these nongovernmental organizations are able to provide. The Federal program helps fill a critical need in communities. The program focuses on making home energy more affordable for vulnerable households that include individuals who may face serious health risks without adequate home heating and cooling, and the families who can least afford to pay for home energy costs and might resort to unsafe methods of heating and cooling their homes.

The bill would allow for the earmarking of part of the LIHEAP block grant for weatherization, establish measures to improve the program's efficiency, and authorize the Department of Treasury, the FIA, and enrolled heating fuel providers to develop a universal electronic system for use of the home heating credit. These measures would help reduce energy consumption and make it easier for low-income families to pay energy bills, ensuring that fewer people were subjected to unhealthy household temperatures or unsafe methods to keep warm.

Legislative Analyst: Julie Koval

FISCAL IMPACT

This bill would have no fiscal impact on State or local government. The bill would allow up to \$9 million of the funds currently designated for home heating credits to be used to fund weatherization programs. In order for these funds actually to be spent on weatherization programs, this spending would have to be appropriated by the Legislature.

Fiscal Analyst: Jay Wortley

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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.