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BILL ANALYSIS

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Senate Bill 562 (Substitute S-2 as reported)
Sponsor: Senator Jeff Irwin
Committee: Housing and Human Services

CONTENT

The bill would amend the Income Tax Act to increase the percentage of Low-Income Home Energy Assistance Program (LIHEAP) funding that the Department of Housing and Human Services (DHHS) must use for home weatherization assistance.

MCL 206.527a

BRIEF RATIONALE

The State uses LIHEAP funds to provide the Home Heating tax credit, energy crisis intervention, and weatherization assistance to low-income households. Weatherization is the process of protecting a building from the weather and making it more energy efficient. As weatherization provides residents with long-term energy savings instead of short-term assistance, some believe that the State should invest more heavily in weatherization assistance. Accordingly, it has been suggested that the State raise the percentage of LIHEAP funds allocated to weatherization assistance.

Legislative Analyst: Abby Schneider

FISCAL IMPACT

The bill would have no fiscal impact on State or local revenue. The bill would affect the distribution of Federal funds from LIHEAP. From Federal revenue received under LIHEAP, an amount is used to pay for administrative expenses, and reductions are made for crisis assistance and weatherization assistance. Any remaining amount is used to fund payments for claims under Michigan's Home Heating Credit. If claims under the Home Heating Credit exceed the amount available to pay them, the credit amount that is paid is prorated.

Current law restricts the amount of Federal revenue that may be directed to weatherization assistance. The bill would eliminate the sunset on that restriction and replace the current ceiling on weatherization expenses with a floor. Absent the bill, weatherization assistance no longer would be restricted and if weatherization assistance expenses were more than are currently paid under current law, revenue available to pay the Home Heating Credit would be reduced (or possibly eliminated) and the proration applied to the Home Heating Credit would be greater than under current law (lowering average credits). Because the bill would swap the current 15% maximum with a 12.5% minimum, the bill would exhibit a similar effect and almost certainly reduce, relevant to previous years, the proportion of revenue available for the Home Heating Credit. If 100% of the expenses were used for weatherization, Home Heating Credits would effectively be eliminated. In fiscal year 2024-25, the total LIHEAP award from the Federal government to Michigan was $183.3 million.

However, the net impact of the bill on Home Heating Credits is indeterminate: the Home Heating Credit is based on energy costs, which partially reflect energy usage and presumably greater weatherization would reduce energy usage. For taxpayers with more weatherization, usage will fall and reduce claims eligible for the credit. The net effect of reducing the number and/or dollar amount of claims due to increased weatherization and reducing the revenue available to fund credits is unknown.

Date Completed: 11-10-25

Fiscal Analyst: John P. Maxwell
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