ISSUE BRIEF

THE LOW INCOME HOME ENERGY ASSISTANCE PROGRAM

PROVIDING HEATING AND COOLING ASSISTANCE TO LOW INCOME FAMILIES

NATIONAL ENERGY ASSISTANCE DIRECTORS' ASSOCIATION

November 26, 2007

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The National Energy Assistance Directors' Association represents the state directors of the Low Income Home Energy Assistance Program.

Issue Summary

The Low Income Home Energy Assistance Program (LIHEAP) provides heating and cooling assistance to some of nation's poorest families. Federal funding is only sufficient to meet the needs of about 16 percent of eligible households. Rising energy prices are rapidly reducing the purchasing power of program grants: between FY 2003 and FY 2007, the purchasing power of the average LIHEAP grant for heating oil declined from 36.7 percent to 20.8 percent, natural gas from 58.2 percent to 37.6 percent, propane from 37.7 percent to 22.6 percent and electricity from 50.1 percent to 37.1 percent.

The states have called upon Congress to increase program funding to its fully authorized level of $5.1 billion to offset the decline in LIHEAP's purchasing power and increase the number of households served. In the absence of increased federal funding, many states are planning to increase grants and reduce the number of households served in order to maintain the purchasing power for the program's poorest families.

Background

There are four components to the LIHEAP program:

- Block grant providing formula grants to states to help low-income families pay their heating and cooling bills.
- Emergency contingency funds that can be released by the Administration for a number of reasons including natural disasters, rapid increases in home energy prices, high unemployment rates, and other economic conditions.
- Residential Energy Assistance Challenge (REACH) grant providing competitive discretionary grants to states to develop new strategies to assist households in reducing their home energy burden.
- Leveraging grants providing states with additional incentives to raise non-federal funds for energy assistance.

In addition, the law authorizes the appropriation of advance funds one year before the start of the program year in order to allow states to plan for the design of their programs. This is especially important in years when the appropriation for the federal fiscal year is delayed and states in cold weather states have to start their programs without knowing the final appropriation level. As a result, states sometimes have to revise their program benefit and eligibility levels several times during the course of the program year, until a final appropriation level is reached. This can cause considerable delay and confusion in the delivery of program services.

Authorization and Appropriations Levels

The LIHEAP appropriation level for FY 2007 was $2.1 billion of which $1.98 billion was for the block grant and $181 million was allocated for emergency contingency funding. Of the amount provided for the block grant grant, $27.3 million was set-aside for REACH and leveraging. No advance funding was appropriated.

For FY 2008, the appropriation level as provided in the FY 2008 Labor, Health and Human Services and Education Appropriations Act, as passed by the Congress and vetoed by the President, would provide the same level for the block grant and increase the emergency contingency funding level by $250 million from $181.5 million to $431 million. As in FY 2007, no advance funding was appropriated.

The President's Budget would have reduced the LIHEAP basic grant appropriation to $1.5 billion and provided $282 million in emergency contingency funds.

The authorization level for LIHEAP was increased from $2 billion to $5.1 billion by the Energy Policy Act in FY 2005. The Act also continued the authorization level for emergency funds at $600 million. The program's authorization expired at the end of FY 2007. The following table compares the current block grant funding level by state with the authorized funding level of $5.1 billion.

Eligibility Criteria

LIHEAP allows states to set eligibility at the greater of 150 percent of the federal poverty level, or 60 percent of state median income. In FY 2007, 150 percent of the federal poverty level for a family of four was $30,975. In practice, most states target funds to lower income families.

More than 70 percent of families receiving LIHEAP have incomes of less than 100 percent of the federal poverty level ($20,650 for a family of four) and 44 percent have incomes of less than 75 percent of the poverty level ($15,488 for a family of four).

State agencies generally contract with non-profit agencies to conduct outreach and sign-up activities. The application process is relatively straightforward. Most states require only proof of income and a copy of an applicant's most recent utility bills. Generally, asset tests are not required and some states now allow applications by mail.

Households Served

The number of households receiving assistance has been rising rapidly. This reflects a significant rise in home energy prices and in the numbers of low income households. Since 2002, the number of households receiving LIHEAP heating assistance has increased from 4.2 million to an estimated 5.8 million in FY 2007. Even at this level, the program serves only 15.6 percent of eligible households. The majority of households have at least one member who is elderly, disabled or a child under the age of five.

Families receiving LIHEAP assistance carry a higher energy burden than most Americans – spending on average about 15 percent of their income on home energy bills, as compared to 3.4 percent for all other households. Many of these households also have at least one member who is disabled (43 percent) or elderly (41 percent). These families also have very low incomes: 74 percent have incomes below $15,000 and 50 percent have incomes below $10,000.

Uses of Formula Grant Funds

LIHEAP is a block grant providing grantees with considerable flexibility delivering program services. In designing their programs, states are allowed to set-aside up to 10 percent of their allotment to cover administrative costs, up to 15 percent of program funds (25 percent with a waiver from the U.S. Department of Health and Human Services) to support weatherization activities and up to five percent to support activities that enable households to reduce their home energy needs, including needs assessments, counseling, and assistance with energy vendors to reduce the price of energy.

On average, states set-aside 10 percent of their block grant to support weatherization activities. These funds complement program support provided by the Weatherization Assistance Program

LIHEAP: FY 08 Basic Grant Appropriations Status ($'000)					
State	FY 2006	FY 2007	FY 08 President	FY 08 Congress	Energy Policy Act
Alabama	$31,310	$16,770	$12,645	$16,770	$87,205
Alaska	16,475	10,704	8,071	10,704	26,002
Arizona	15,142	8,110	6,115	8,110	42,233
Arkansas	22,765	12,796	9,648	12,796	47,082
California	153,182	89,963	67,835	89,963	316,814
Colorado	43,165	31,367	23,652	31,367	58,158
Connecticut	62,727	40,920	30,855	40,920	98,878
Delaware	10,140	5,431	4,095	5,431	21,871
District of Columbia	7,851	6,355	4,792	6,355	16,239
Florida	49,541	26,534	20,007	26,534	138,181
Georgia	39,170	20,979	15,818	20,979	109,253
Hawaii	2,555	2,113	1,593	2,113	5,284
Idaho	14,370	12,235	9,226	12,235	29,721
Illinois	187,251	113,259	85,401	113,259	301,871
Indiana	72,682	51,280	38,666	51,280	111,654
Iowa	50,013	36,343	27,404	36,343	60,776
Kansas	26,798	16,690	12,585	16,690	55,424
Kentucky	44,346	26,686	20,122	26,686	91,718
Louisiana	32,009	17,144	12,927	17,144	85,072
Maine	36,480	26,509	19,989	26,509	47,034
Maryland	58,499	31,332	23,625	31,332	136,730
Massachusetts	112,639	81,853	61,720	81,853	157,890
Michigan	147,974	107,529	81,080	107,529	199,566
Minnesota	106,606	77,469	58,414	77,469	90,280
Mississippi	26,843	14,377	10,841	14,377	74,871
Missouri	76,035	45,240	34,112	45,240	123,142
Montana	22,088	14,351	10,821	14,351	34,861
Nebraska	27,661	17,973	13,552	17,973	43,658
Nevada	7,112	3,809	2,872	3,809	19,836
New Hampshire	23,846	15,493	11,683	15,493	37,634
New Jersey	105,244	75,986	57,296	75,986	160,368
New Mexico	11,925	10,153	7,656	10,153	24,663
New York	341,432	248,112	187,084	248,112	471,752
North Carolina	69,037	36,976	27,881	36,976	164,462
North Dakota	23,995	15,590	11,755	15,590	37,869
Ohio	158,789	100,194	75,549	100,194	252,854
Oklahoma	28,780	15,415	11,623	15,415	64,604
Oregon	24,591	24,311	18,331	24,311	42,504
Pennsylvania	183,399	133,273	100,492	133,273	272,515
Rhode Island	20,737	13,473	10,159	13,473	32,728
South Carolina	24,866	13,318	10,042	13,318	69,357
South Dakota	19,488	12,662	9,548	12,662	30,756
Tennessee	46,362	27,033	20,384	27,033	95,888
Texas	82,421	44,144	33,286	44,144	229,887
Utah	22,434	14,576	10,991	14,576	35,407
Vermont	17,872	11,613	8,757	11,613	28,208
Virginia	71,258	38,166	28,778	38,166	149,727
Washington	40,449	39,988	30,152	39,988	64,001
West Virginia	23,818	17,660	13,317	17,660	49,261
Wisconsin	95,961	69,733	52,581	69,733	105,404
Wyoming	8,983	5,836	4,401	5,836	14,176
Territories/HHS Training	3,658	2,951	2,294	2,951	7,171
Leveraging	27,225	27,225	27,500	27,225	27,500
Total	**$2,980,000**	**$1,980,000**	**$1,500,023**	**$1,980,000**	**$5,100,000**

1/ FY 06 included $1 billion in supplemental funding.
2/ FY 07 included $181 million in emergency contingency funding
3/ Adm. FY 08 Budget included $282 million in contingency funds

4/ FY 08 Appropriations, as passed, included $432 million in contingency.

(WAP). Weatherization assistance can include insulation, appliance and furnace repair and replacement and related health and safety measures. A weatherized home can use up to 30 percent less energy than a comparable home.

States are also required to set-aside "a reasonable amount" of funds to be used until March 15 of the program year for energy crisis intervention. These interventions are defined to include households that need additional assistance to address life-threatening situations including shut-offs due to non-payment.

Program Appropriations

The distribution of formula grant funds is based on a complex formula that provides that no state beginning in FY 1986 will receive less than the amount of funds it would have received in FY 1984 if appropriations for this part for FY 1984 had been $1.975 billion. FY 1984 funds were distributed to states on the same share of funds they received in FY 1981 under the predecessor program to LIHEAP, the Low-Income Energy Assistance Program (LIEAP). The FY 1981 allotment percentages were derived from an extremely complex formula included such factors as heating degree days squared, home heating expenditures, total residential energy expenditures, and the population with income equal to or less than 125 percent of the poverty income guidelines.

The law also provides that when LIHEAP block grant appropriation exceeds $1.975 billion (only in FY 1985, FY 1986 and FY 2006), not including $27.5 million in other program set-asides, funds are allocated under a complex formula that includes cooling as well as heating degree days and a small state minimum allocation.

LIHEAP is not an entitlement program like Medicaid providing a minimum benefit level of health care coverage for eligible households. When the number of households receiving Medicaid increases, for example, the appropriation is automatically increased to guarantee the same benefit level for all recipient households. In the case of LIHEAP, however, when energy prices increase, the purchasing power is reduced; when the number of households receiving assistance is increased, the average benefit is reduced. This is the situation the program is currently facing.

Declining Purchasing Power

Between FY 2003 and FY 2007 the number of households receiving assistance increased by 26 percent from 4.6 million to about 5.8 million or about 15.6 percent of the eligible population. During this same period, the federal appropriation increased by only 10 percent with the resulting average grant declining from $349 to $305. This would not be a problem if energy prices were decreasing proportionally or remaining stable.

Unfortunately, energy prices are soaring. Home heating prices are projected by the US Energy Information Administration (EIA) to reach almost $1,000 this year for the typical family, an increase of almost 80 percent higher than the average cost of home heating during the winter of 2001-02 and 47 percent higher than 2002-03. As a result, there has been a significant decrease in the program's purchasing power.

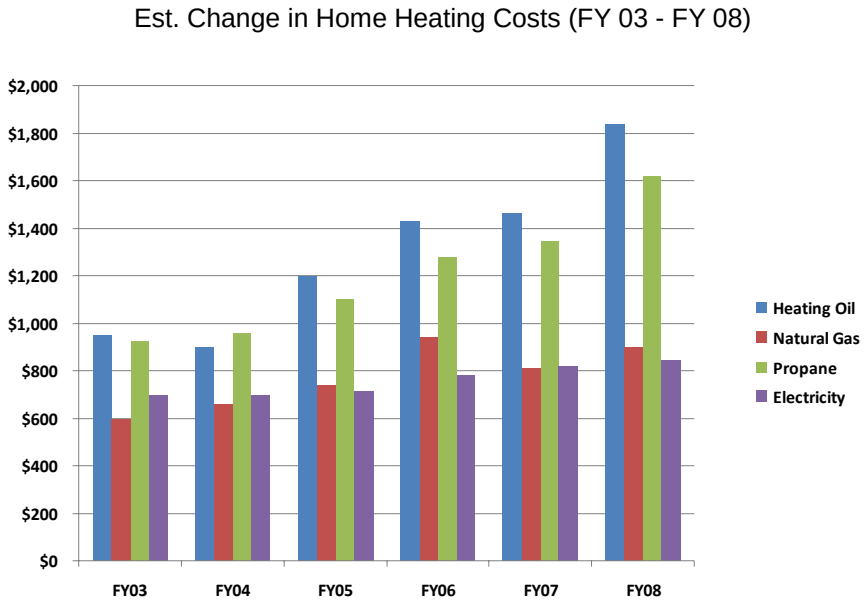
Between FY 2003 and FY 2007, as shown in the following tables, the average LIHEAP grant began to decline as a percentage of total home heating costs. As shown in the following tables, the purchasing power for heating oil declined from 36.7 percent to 20.8 percent, natural gas from

58.2 percent to 37.6 percent, propane from 37.7 percent to 22.6 percent and electricity from 50.1 percent to 37.1 percent.

LIHEAP is not only a heating program; it also provides cooling assistance, which is especially important to the elderly. While we do not yet have price data for summer cooling, we are concerned that rising electric prices are also limiting the ability of LIHEAP to help families pay their cooling bills.

Outlook for FY 2008

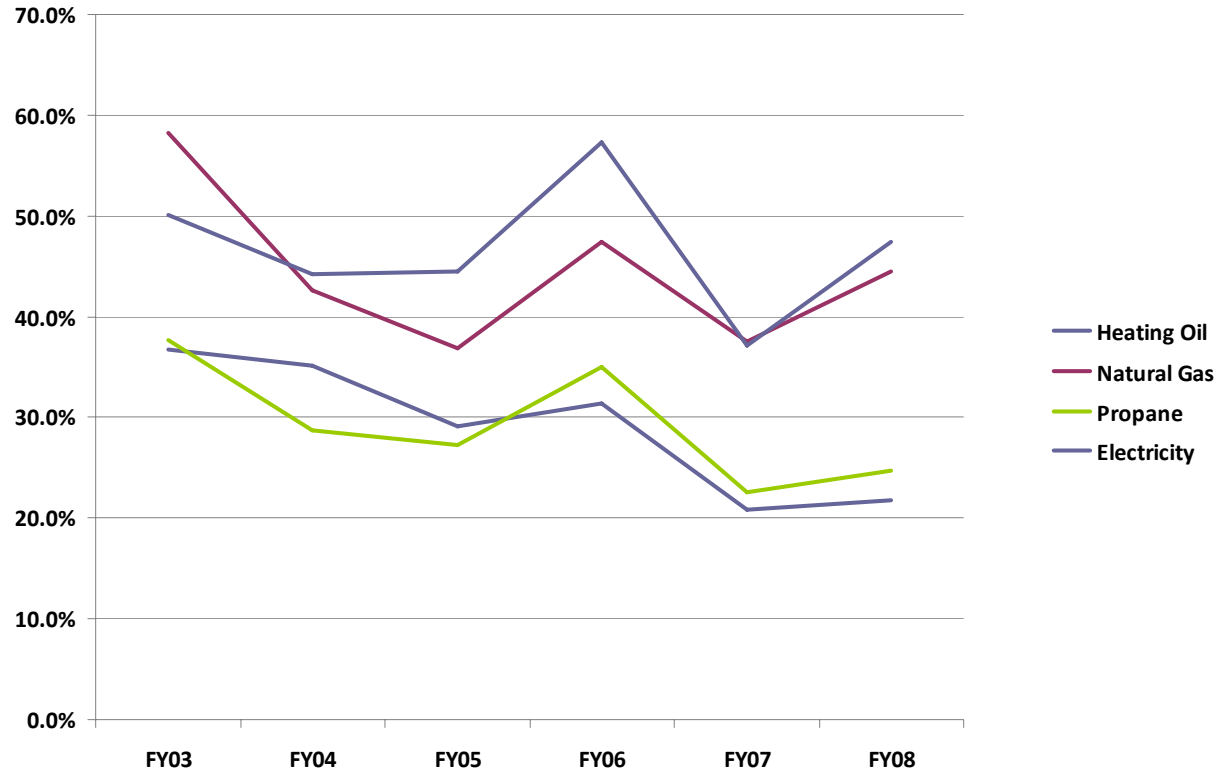
We are currently conducting a state survey to find out how states are planning to set benefit and eligibility levels for FY 2008 in light of rising energy prices and the current funding level. In summary, states are reporting that the program cannot sustain further cuts in benefit levels without significantly reducing the program's purchasing power. As a result they are planning to reduce the number of households served by about 15 percent in the absence of additional federal and supplemental state funding. The result would be a decline in the number of households served from about 5.8 million in FY 2007 to 4.9 million with the average grant increased from $305 to $400.



Est. Change in Home Heating Costs (FY03-FY08)

Fiscal Year	Heating Oil	Natural Gas	Propane	Electricity
2003	$951	$600	$926	$697
2004	$903	$659	$962	$699
2005	$1,198	$743	$1,102	$717
2006	$1,430	$945	$1,281	$782
2007	$1,466	$813	$1,349	$823
2008	$1,841	$900	$1,622	$845
% Change 03-08	93.6%	50.0%	75.2%	21.2%

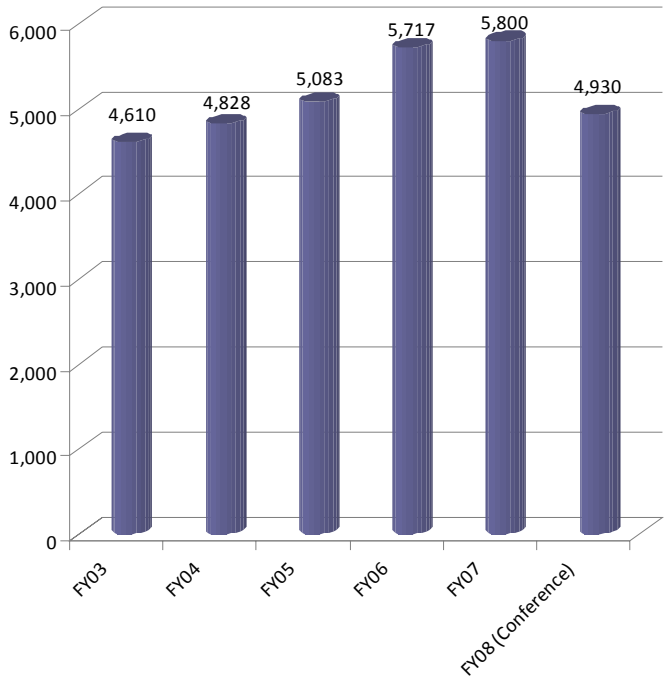
Est. Average % of Home Heating Purchased with LIHEAP (FY03-08)



Est. Average % of Home Heating Purchased with LIHEAP (FY 03- FY 08)

Fiscal Year	Heating Oil	Natural Gas	Propane	Electricity
2003	36.7%	58.2%	37.7%	50.1%
2004	35.1%	42.6%	28.8%	44.2%
2005	29.1%	36.9%	27.2%	44.5%
2006	31.3%	47.4%	35.0%	57.3%
2007	20.8%	37.6%	22.6%	37.1%
2008	23.1%	47.3%	26.2%	50.3%

Est. Change in Households Served (FY 03 - FY 08)
# of Households (in thousands)



Est. Change in Households Served & Average Grant (FY 03- FY 08)

Fiscal Year	Appropriation (in thousands)	# of Households (in thousands)	Average Grant
2003	$1,988,300	4,610	$349
2004	$1,888,790	4,828	$317
2005	$2,186,000	5,083	$348
2006	$3,162,000	5,717	$448
2007	$2,186,000	5,800	$305
2008 (Conference)	$2,436,000	4,640	$425

The following provides a brief summary from several of the initial group of states that have responded to the survey:

- Arizona: the state continues to struggle in meeting the increasing demand for LIHEAP services due to various factors working together as the "perfect storm" to deplete all available resources. Providers report that requests for energy assistance services continue to increase and include inquiries from non-traditional populations who are in financial distress due to the sub-prime lending problem. One of the largest utility companies the state has reported a 42 percent increase in calls to its customer service department from September 2006 to September 2007, most calls from customers who cannot pay their home energy bills. One LIHEAP provider (the Community Action Human Resources Agency in Pinal County) reported a total of 1,000 families turned away due to lack of funds between August and September of 2007. In FY 2007, Arizona served approximately 33,000 households with LIHEAP benefits. However due to the sharp decrease in funding, together with an increase in energy costs, Arizona estimates that at least 10,000 fewer families will be served in 2008.

- Arkansas: the state expects to reduce the number of households served by up to 20 percent as compared to the number served in FY 2007.

- California: the state expects to serve fewer households and will have to reduce the amount of funding available for weather-related (and fire-related) emergencies and disasters than they have used in the past. No change has been implemented in the eligibility criteria or benefit structure. The maximum benefit is still $200 and with higher prices that won't cover much. The maximum for emergency assistance will remain at $1,000 and that may not be enough to prevent cutoffs of utility service as energy costs increase. They are only able to serve eight percent of the eligible population and there has been an increase in the number of applications at the local level - with some local agencies exhausting their allocations sooner. The available funding will be prioritized to those with the lowest income and highest energy burden.

- Connecticut: the state set their income eligibility level at 60 percent of state median income as a result of state statute. Benefits were also set in statute. There is concern that the high cost of fuel will result in households exhausting their benefits early in the heating season and there will not be sufficient funding available to provide adequate benefit levels throughout the winter heating season.

- Delaware: the state will serve up to 20 percent fewer households than in FY 2007 in order to maintain adequate benefit levels. Delaware's average benefit is $355 which currently buys at least 100 gallons of heating oil, propane or kerosene. While the $355 benefit is not a problem for those homes heating primarily with gas or electricity, approximately 50 percent of Delaware's LIHEAP households heat with delivered fuel. In many situations vendors will not deliver less than 100 gallons of fuel to a home without adding a surcharge. For this reason, the state did not want to lower their benefit levels from last year.

In some rural areas the minimum delivery is 150 gallons. If the state were to lower the average benefit, LIHEAP or the customer would be paying a premium just to have the fuel delivered. The state believes that this approach would be unacceptable and therefore they have opted not to reduce the benefit level this year. In many instances the LIHEAP benefit is only about 20 percent of the households total winter heating bill; if the winter is especially cold, the LIHEAP percentage will be even lower.

- Kentucky: the state is expecting to maintain benefit and eligibility levels; in light of the reduction in federal funding, they are expecting to have to reduce the number of households served. With last year's funding, Kentucky was able to serve 100,566 households with basic grant funds and 123,728 with crisis assistance. Kentucky's program generally operates until the end of March and into April as funding allows, but could run out of funds as early next February. Kentucky has made no change to its eligibility criteria or benefit structure, but will reduce the number served as necessary based on final funding.

- Maine: for the more than 84 percent of the LIHEAP households that heat with oil or kerosene, the cost of oil as of 11/6/07 averaged $3.09 per gallon and kerosene at $3.40 per gallon. An average benefit of $579 to service 48,000 households will only purchase 193 gallons of oil and kerosene at $3.40 will only purchase 170 gallons. This will provide two to three weeks of home heating in most low income housing. The average household's income is $13,000 annually, many senior citizens with only $7,000 a year to survive on. Right now Maine would need to receive another $17.5 million just to provide a $370 supplemental benefit to LIHEAP households and this will still not provide the same relief as in past program years.

- Maryland: the state increased their grant amounts this year but reduced eligibility from 200 percent of the federal poverty level to 175 percent. Governor O'Malley has stated that Maryland will serve all who apply and are qualified and has stated that "we will find the money" to serve them.

- Michigan: the state reduced the maximum amount it will pay to prevent shut-off or to restore payments from $550 per household to $350 per household for natural gas and electricity and from $850 to $650 for households using deliverable fuels in June 2007 due to lack of sufficient funds to meet the demand during the last fiscal year that ended 9/30/07. Michigan will continue that reduction into FY 2008 and is closely monitoring weekly expenditures with these reduced maximums in place to determine if additional reductions will be needed to stay within available funds. If the high rate of expenditures the state experienced in October continues, an additional reduction in these maximums will be needed without additional funds.

- Minnesota: the state is maintaining current eligibility and benefit levels but could run out of funds as early as February.

- Nebraska: deliverable fuels make up around 12 percent of the heating fuels used; the rest is provided by natural gas and electricity. Nebraska is not planning on reducing benefits but is looking at how much they can pay in crisis funds for a household this early in the heating year. Nebraska runs a year around crisis program along with a cooling program and will

continue to make heating/cooling payments and crisis payments as long as they have the funding to do so.

- New York: the state has increased the program's maximum regular grant by $100 to $540 in order to maintain the program's purchasing power. The program has only been open for two weeks and they are finding many situations where a regular and an emergency grant must be issued simultaneously for deliverable fuel customers to be able to meet minimum delivery requirements. This means that a household's entire LIHEAP benefit amount will be exhausted in November. If additional funding is not provided, the state will have to reduce the number of households receiving benefits.

- Ohio will have to cut back its regular benefit by between 15 and 20 percent. The cost of all utilities are up across the board, mostly for propane and heating oil. In addition, Ohio has already received about 10 percent more applications this year than last year at this time.
- Pennsylvania: the state is planning on maintaining current eligibility and benefit requirements but anticipated serving fewer households if federal funding is not increased.

- Rhode Island: the state expects to serve 15 percent fewer families this year compared to last year. Rhode Island has reduced its average primary grant benefit from $475 to $350. Even with reducing the average benefit, Rhode Island will assist approximately 15 percent fewer families as compared to last winter.

- Texas: the state operates a year-round energy assistance program. Their eligibility criteria is set at 125 percent of the federal poverty level. They are expecting to serve only six percent of the eligible population, down from seven percent in FY 2008.

- Virginia: the state will serve all eligible households who apply during the application period. In order to do so, they are expecting to reduce the percent of heating costs covered by the program grant. The state is concerned that as a result of the expected reduction in purchasing power, it could prove to be very difficult for households that use deliverable fuel, since most vendors have minimum delivery requirements that will likely well exceed their benefit amounts.

Supplemental Funding

Many states, in partnership with their local utilities, also provide supplemental funding through direct appropriations or by creating system benefit funds, which are small charges against the utility rate base that are used to provide discounts and arrearage protection programs. In addition, utilities have also taken steps to provide low income families with additional time to pay their bills by providing flexible payment arrangement and in many cases actively supporting state efforts to develop system benefit funds.

The combined total of state, utility and charitable giving was about $3.2 billion in 2006 with charitable giving being the smallest amount at about $140 million annually. It is important to note, however, that these state, utility and charitable funds are no substitute for adequate federal funding. The level of support varies considerably with only 12 states accounting for 83 percent of the total non-federal spending on energy assistance.

Arrearages and Shut-Offs

NEADA has also been tracking the impact of rising energy bills on low income families. Last spring, states reported that 1.2 million households were cut off from natural gas and electric service due to nonpayment of their energy bills. Several states reported significant increases in arrearage and shut-off rates from previous years. In addition, we are also learning that traditional arrearage management programs that provide matching payment programs to help families reduce their outstanding debt are becoming less and less effective. States are reporting that families increasingly do not have the resources to meet matching payment requirements and as a result are at greater risk of shut-off.

What Happens When Families Do Have Sufficient Funds to Pay for Home Heating or Cooling? Research Findings

Funding provided by the appropriations committee has allowed us to conduct surveys of families receiving LIHEAP assistance. Among the findings of our last survey:

- 44 percent said that they skipped paying or paid less than their entire home energy bill in the past year. Households with children (67 percent) and those with income below 50 percent of the federal poverty level (62 percent) were more likely to do so.

- 30 percent reported that they received a notice or threat to disconnect their electricity or home heating fuel. Again, households with children (51 percent) and those with income below 50 percent of the federal poverty level (51 percent) were more likely to experience this problem.

- 8 percent reported that their electricity or gas service was shut off in the past year due to nonpayment of utility bills. In addition, 16 percent of households with children and 22 percent with income below 50 percent of the poverty level reported a service termination in the past year.

- 18 percent said that they were unable to use their main source of heat in the past year for reasons ranging from their heating system was broken and they were unable to pay for its repair, they ran out of their bulk fuel and could not afford to pay for more, or because their utility used for heat was disconnected. Households with children (27 percent) and households with income below 50 percent of the poverty level (36 percent) were more likely to face this problem.

- 13 percent reported that broken air conditioners or termination of electric service prevented them from using their air conditioner. Households with a disabled member (19 percent), households with children (19 percent) were somewhat more likely to report this problem.

Public Health Consequences of Unaffordable Energy

Unaffordable home energy presents a threat to public health and safety directly in the following ways:

- Households respond to high bills, arrearages, or worries about incurring high costs, by choosing not to heat their homes adequately in winter or cool them during the summer, or by using unsafe means to heat or illuminate their homes, for example, heating with a kitchen oven or barbeque grill or lighting by means of candles. Utility service shutoffs directly threaten health in this manner. In addition, when homes in poor structural shape need weatherization, it may be prohibitively costly or impossible to keep interiors within a safe temperature range.
- Lack of access to energy assistance also threatens health indirectly. The squeeze put on home budgets by high utility bills and the threat of shutoff leads households to make difficult trade-offs, purchasing heat or electricity for air-conditioning instead of food or medications. In northern states, for example, poor families with children spend less on food, and children eat fewer calories, compared with higher-income families (Bhattacharya et al., 1993). Poor seniors in the north are also more likely to go hungry in late winter and early spring, while seniors in the south, where energy bills for air-conditioning can be high, are more likely to go hungry in late summer (Nord and Kantor, 2006).
- Seasonal differences in heating and cooling costs explain much of the difference in hunger prevalence for low-income households without school-aged children. Young children from families that are eligible for but not enrolled in energy assistance are more likely than children from families receiving LIHEAP to be small for their age (underweight) and more likely to need hospital admission on the day of a health care visit (Frank et al., 2006).
- Researchers from the Children's Sentinel Nutrition Assessment Program (C-SNAP) at the Boston Medical Center, conclude that "the health consequences of trade-offs in spending can be serious especially for the youngest children. The first three years of life are a uniquely sensitive period of extraordinary brain and body growth; the cognitive and physical development that takes place at this stage will never occur to the same degree again. Babies and toddlers who live in energy insecure households are more likely to be in poor health; have a history of hospitalization; be at risk of developmental problems and be food insecure."