

TESTIMONY OF
THE NATIONAL ENERGY ASSISTANCE DIRECTORS' ASSOCIATION
ON THE
THE LOW INCOME HOME ENERGY ASSISTANCE PROGRAM
BEFORE THE
SUBCOMMITTEE ON CHILDREN AND FAMILIES
COMMITTEE ON HEALTH, EDUCATION, LABOR AND PENSIONS
U.S. SENATE

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The members of the National Energy Assistance Directors' Association (NEADA), representing the state directors of the Low Income Home Energy Assistance Program (LIHEAP) are pleased to present this testimony on the role of LIHEAP in meeting the heating and cooling needs of some of the nation's poorest families. The members of NEADA would like to first take this opportunity to thank the members of the Committee for their continued support in working to increase funding for LIHEAP.

By way of 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 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 as well as additional administrative costs.

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, \$27.3 million was set-aside for REACH and leveraging. No advance funding was appropriated.

For FY 2008, the appropriation level provides the same amount for the block grant and increases the emergency contingency funding level by \$408.6 million from \$181.5 million to \$590.3 million. As in FY 2007, no advance funding was appropriated.

The President's Budget for FY 09 would reduce the LIHEAP budget by 22 percent from \$2.57 billion to \$2.0 billion by reducing the block grant from \$1.98 billion to \$1.7 billion and the emergency contingency fund from \$590.3 million to \$300 million.

The impact on low income households would be severe. States would have few choices but to either reduce the share of home heating costs covered from 36.3 percent to 28.2 percent or the number of households served by 1.2 million from 5.7 million to 4.5 million. The Budget recommendations are very disappointing in light of continued high home energy prices and reports of rising arrearages and shut-off rates across the country.

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 contingency 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 5.7 million in FY 2007. Even at this level, the program is only able to serve 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).

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

(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 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 that 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 the 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 of the LIHEAP benefit 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.

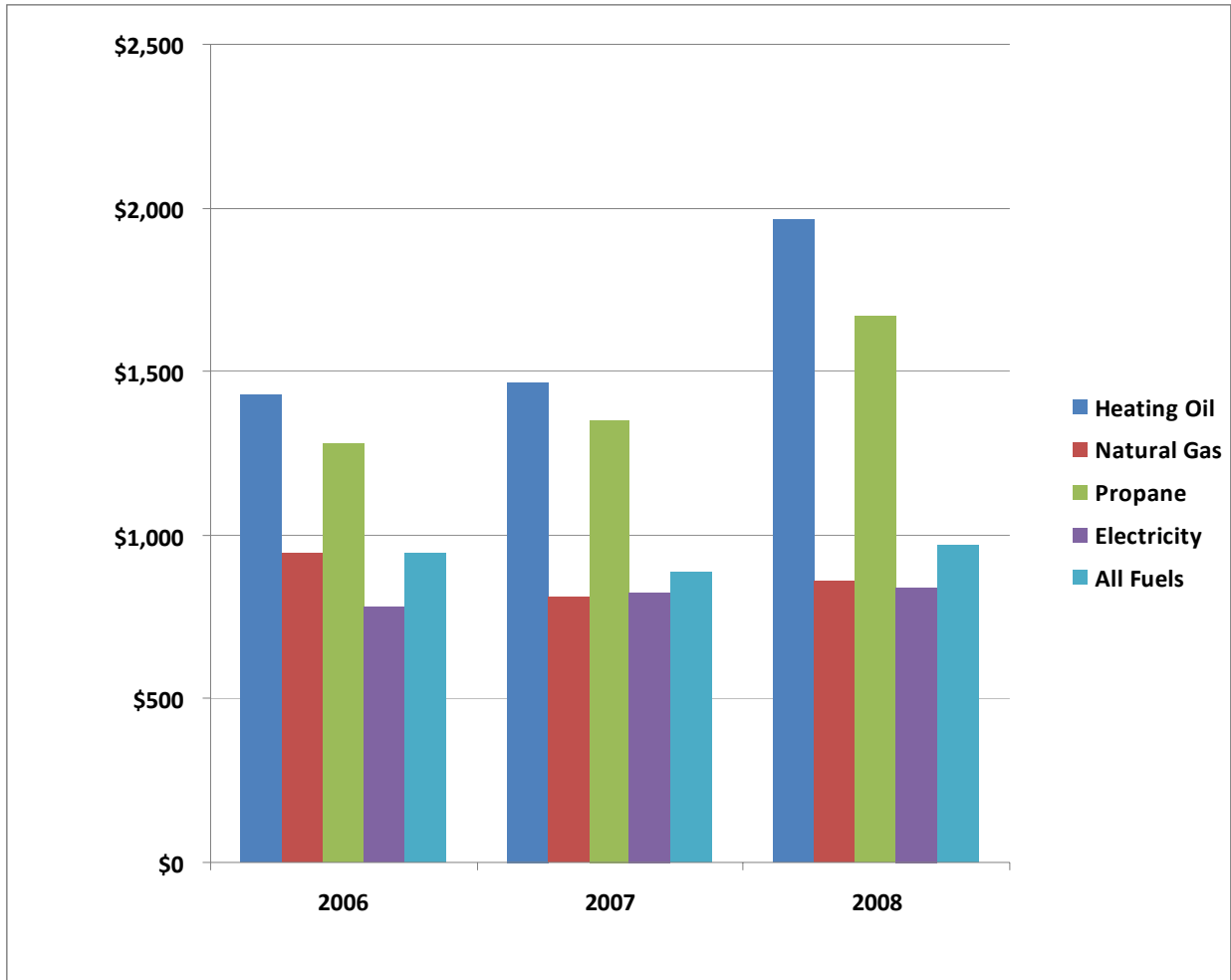
Declining Purchasing Power

As everyone knows, energy prices have been rising. While the number of households receiving LIHEAP has been relatively stable at about 5.5 million households or 15.6 percent of the eligible population since FY 06, the average federal LIHEAP appropriation grant has decreased from \$464 to \$378. This would not be a problem if energy prices were decreasing proportionally.

Est. Change in Households Served & Average Grant (FY 06- FY 08)

Fiscal Year	Appropriation (in thousands)	# of Households (in thousands)	Average Grant
2006	\$3,162,000	5,521	\$464
2007	\$2,186,000	5,507	\$322
2008	\$2,570,000	5,507	\$378

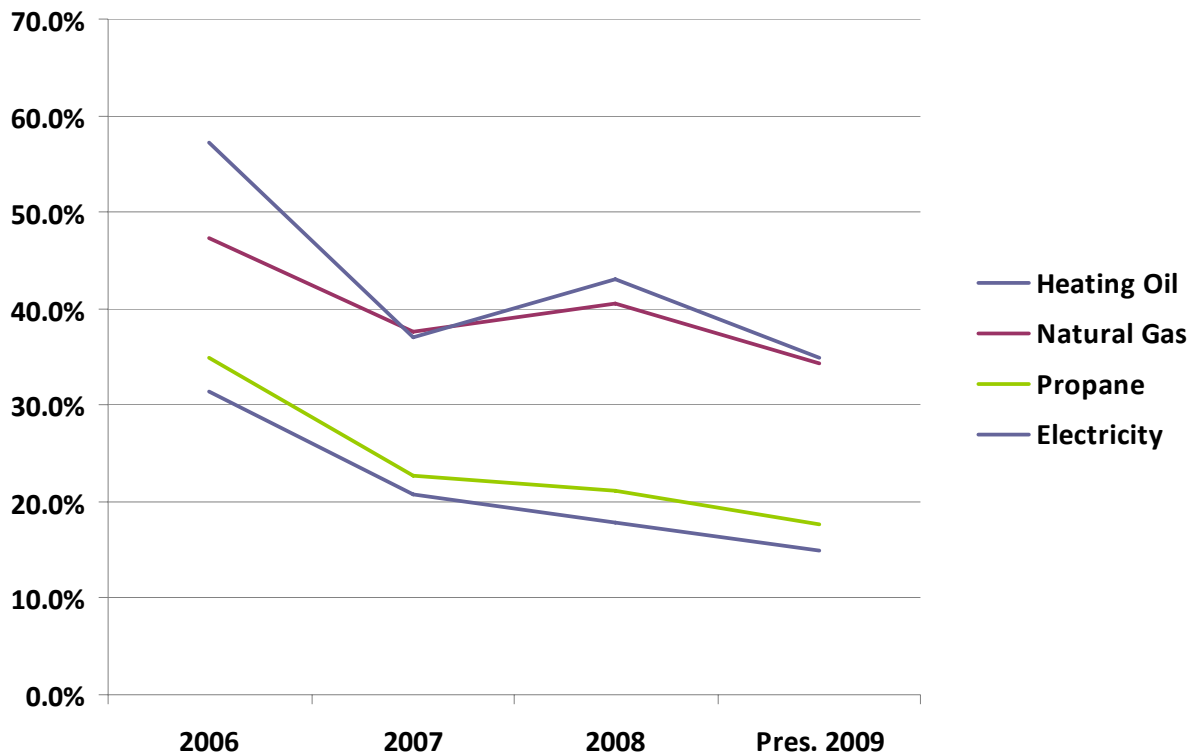
Unfortunately, energy prices are remaining at very high levels. Home heating prices are projected by the US Energy Information Administration (EIA) to reach almost \$1,000 this year for the typical family, an increase of 9.3 percent since last year. As a result, there has been a significant decrease in the program’s purchasing power.



Between FY 2006 and FY 2008, the average LIHEAP grant as a percentage of total home heating costs declined from 32.4 percent to 19.3 percent for heating oil, 49.1 percent to 44.1 percent for natural gas, 36.2 percent to 22.6 percent for propane and 59.3 percent to 44.9 percent for electricity. The increase provided for FY 2008 has helped to offset the decline, however, the share of expenditures covered continues to be inadequate to meet the need.

Under the President’s FY 2009 Budget, the decline would continue, assuming energy prices remain at current level, with the average grant declining to 34.9 percent of total costs.

Est. % of Home Heating Purchased with LIHEAP (FY 06-FY08, President FY 09)



Fiscal Year	Heating Oil	Natural Gas	Propane	Electricity
2006	31.3%	47.4%	35.0%	57.3%
2007	20.8%	37.6%	22.6%	37.1%
2008	17.8%	40.6%	21.2%	43.1%
Pres. 2009	15.0%	34.3%	17.6%	34.9%

The increase in the price of delivered fuels - heating oil and propane - is of special concern to the states because they have fewer controls over the pricing and delivery of these fuels than they do over natural gas and electricity. The US Energy Information Administration has projected that the price of home heating oil will increase from the 2006 – 2007 heating season by \$532 (37.2 percent) to \$1,962 and for propane from \$1,281 to \$1,670 (30.4 percent).

A tank of heating oil, for example, now costs about \$900, more than half of the total monthly Social Security payment for the average aged couple and almost the entire monthly income for an aged widower living alone. The 2008 average increase in Social Security is only about \$24 a month, less than the amount needed to pay for the increase in home heating oil this year.

Low income families using heating oil this winter are facing a difficult situation. This is especially true for those on fixed incomes including the elderly and disabled. I do not expect the situation to change anytime soon.

The situation for natural gas is quite different. Prices are set domestically and have been increasing at a much slower rate. For example, the average cost of home heating with natural gas is projected at \$858 for the current winter heating season, about \$45 more than last year and \$1,104 less than the cost of home heating oil.

Outlook for FY 2008

The increase in emergency contingency funding provided by the Omnibus Appropriations Act will help states adjust benefit levels to pay for higher heating and cooling costs. Yesterday's release of funds will provide needed help to offset the impact of higher energy costs this winter.

The states are concerned that the increase will not be sufficient to meet the growing need for energy assistance and offset the impact of higher energy prices. We are currently conducting a survey of the states and the reports are grim. The states are serving about 15.6 percent of eligible households. State directors believe that the percent served needs to be increased to at least 25 percent of the eligible households to help offset the growing affordability gap as prices increase faster than the rate of income.

Arrearages and Shut-Offs

One indicator of the rising need for energy assistance is the increase in arrearages and shut-offs. The National Regulatory Research Institute, for example, in a recent report found that past-due gas utility accounts rose from 16.5 percent in 2001 to 21 percent in 2006. Last spring, in a survey conducted by NEADA, 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.

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.

What Happens When Families Do Not 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) and 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 barbecue 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 with 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.”

Reauthorization Recommendations

The members of NEADA recommend that the following policies be adopted to strengthen and maintain the current program by:

- Increasing the percentage of eligible households served from the current rate of less than 20% to up to 40% by maintaining the current authorization level of \$5.1 billion.
- Maintaining the current program block grant structure that allows states to develop new and innovative ways to stretch available program resources, including the use of pre-purchase programs, negotiating discounts with vendors and arrearage forgiveness programs.

- Continuing to limit the use of the LIHEAP funds for purposes other than grant assistance. NEADA members believe that funds should not be increased for other purposes including Assurance 16, Weatherization Assistance and REACH demonstration grants, until there are sufficient funds available to meet the core need for grant assistance.
- Encouraging state public utility commissions to collect arrearage and shut-off data and making that data available to HHS and the Congress to help document the need for the release of emergency contingency funds. This data could serve as an indicator about the need for emergency funds to meet potential affordability crises.
- Endorsing raising the Secretary's training and technical assistance program to \$750,000, the same level as was authorized previously.
- Expanding the flexibility of states to provide REACH grants to non-profits and community action agencies. Some states do not contract with CAAs or non-profits to deliver LIHEAP services for a variety of reasons; allowing states to provide REACH grants to other providers, including state agencies, would enhance the delivery of program services by helping to strengthen their delivery network.

Conclusion

There is no substitute for adequate federal funding of LIHEAP. The authorized level of \$5.1 billion would provide sufficient funds to increase grant levels to adjust for inflation in energy prices and allow states to reach out to eligible households who are not currently receiving assistance.

Thank you this opportunity to testify today. NEADA we would be happy to respond to any questions or requests for additional information on this important program.