

ECONOMIC OPPORTUNITY STUDIES

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Full Funding for LIHEAP: What is it?

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A. The Needs Standard

A definition of "full" funding depends on the level of assistance to individual families which is defined as adequate, effective, and/or appropriate. The cost of meeting that level, or a specific share of it, for a target population determines the resources needed in LIHEAP.

The concept of reduced "Energy Burden," or reduced percentage of household income spent on energy, is useful for quantifying "adequate" benefits.

Historic Energy Burdens

The average burden for eligible households (the Burden for each household, means its annual energy bills divided by its annual income, added to the mean for all other households and averaged) has varied from 9% to 14% over the past decade, depending on prices and weather. In the winter of 2001, it exceeded 20%.¹ In fact, the average eligible household paid around \$2,000 for its annual energy costs.²

The mean for all households not eligible, i.e. those with incomes above 60% of their state's median income, is around 3%; in 2001, however, on average they paid around 4% and 5% of their incomes.³

If the median income family in the U.S. had had a 20% energy burden, as did the lowest income families, its 2001 energy costs would have exceeded \$9,000; with a 5% burden the bills would still have exceeded \$2,350.

"Capping" the Energy Burden

Selecting a target Energy Burden as a needs standard is an arbitrary exercise. However, using either 10% or 8% of all annual income as the maximum any eligible family should pay would provide one reasonable and round figure. The first represents about three times the average year's burden for the typical ineligible, or higher income, household group.

Using a conservative method to extract updated figures from the DOE Residential Energy Consumption Survey database, i.e. statistics that reflect normal weather and the November–December 2000 costs, not the much higher prices seen in 2001, the average dollar amount per average eligible

¹ Economic Opportunity Studies, "The Winter Energy Outlook for the Poor," Washington, DC, December, 2000. All data on usage and costs are from the U.S. DOE Energy Information Administration 1997 *Residential Energy Consumption Survey*, Washington, DC, 1999.

² *ibid.*

family needed to bring its bill down to 10% of income is calculated and multiplied by the number of eligible households. The details are shown in the Appendix in Tables A1 and B1.

An identical separate analysis of only those households in Poverty, i.e., with incomes below the federal Poverty guideline, in 2001- \$14,150 for a family of three, was also performed. The results are in Appendix Tables A2 and B2. These households make up about 47% of the federally-eligible LIHEAP population.

B. Establishing participation goals

Table I shows the results both of applying the needs standards and participation rates described at the (unrealistic) rates of 100% participation and 40% participation of eligible households, and of 100% participation and 40% participation of all in Poverty. While LIHEAP participation has not reached even 20% of the eligible in recent years, the vast majority of those served were extremely poor; therefore the participation rate for those in Poverty has, in some years, probably reached between 25% and 30% of the low-income families who also have the highest Energy Burdens. Some of the “Funds Needed” figures in Table I are within the order of magnitude of the current program and may seem promising targets.

Table I Aggregate Payment Needs to Meet Alternative Goals

Standard: Household Burden cap at:	Block Grant Funds Needed (in billions)			
	All Eligible HH	40% of Eligible HH	All HH in Poverty	40% of All HH in Poverty
10%	\$12.31 b.	\$4.92 b.	\$9.54 b.	\$3.80 b.
8%	\$18.41 b.	\$7.36 b.	\$11.60 b.	\$4.63 b.

C. Inadequacies and Problems of the Analysis

The method used should not be seen as a “new” LIHEAP eligibility or benefits policy. It was designed to estimate enough funding to meet a general target, leaving distribution formulas and priorities to the states. However even if benefits were limited to those with high burdens, a majority of eligible households and, of course, of the poor, would continue to qualify. In some regions, especially the West, the number who met the theoretical “needs standard” would be far smaller than the present eligible pool, while in the South it would be higher than those typically eligible under current state rules.

Table II shows the percentage of the nationally eligible population that would meet the test for receiving benefits, if it were part of the program.

Table II Percent of Households with Energy Burdens Higher than Cap

ibid.

"Burden CAP" at:	Percent of HH not meeting Standard FY 2001:	
	HH in Poverty	All Eligible HH
10%	85%	74%
8%	77%	65%

Most of the funding would be directed to those in Poverty because the "gap" between their real Energy Burden and the needs standard is so large. Table III shows these results. If any standard of need is applied to LIHEAP resources, (and it already is with respect to the state targeting of the highest benefits to those with high burdens), the low- and moderate-income families' needs will not be adequately served.

Table III Share of Payments Needed by Income Group of Eligible Households

"Burden CAP" at:	HH in Poverty as a % of all HH with Burden above cap	HH in Poverty as % of All Eligible HH, est. 2001
10%	78%	47%
8%	63%	47%

Further:

- Weather, equipment failure, and family financial emergencies cause crises and legitimate demands for immediate relief that are not reflected in annual Energy Burden calculations.
- About one-third of resources needed are due to the burdens of eligible households above the Poverty threshold, including many of the elderly and "working poor."
- This analysis does not reflect the regional redistribution that would result if appropriations distributions followed this needs standard; to the extent a formula is based in part on hold-harmless, increased funding is needed for the high-burden regions, especially the South.
- This analysis leaves no room for those crisis needs and those events where assistance is warranted to families that do not meet a federal "standard of need" test.

These analytic shortcomings mean these figures are below a minimum needed to achieve this modest goal for a minority of the eligible. Appropriations must include both these energy payment needs plus additional funding to deal with the inevitable inconsistencies in matching local and energy market conditions to funding and then to family needs.

D. Conclusion: LIHEAP at \$6 billion makes sense.

A program geared to bring the average Energy Burden down to 10% for less than half of the eligible households is a very modest, and administratively achievable, goal. (So is a program twice as large.) To the \$4.92 billion needed in client payments to achieve that goal must be added 10% for administration and at least another 10% to make adjustments in distribution formulas and to hold lower-burden areas and families at least harmless. Future increases in energy prices, severe weather occurrence, or growth in Poverty rates will push the need upwards.

However inexact, these figures illuminate why the struggle of the current programs to meet the need fall short and why there is desperation evident in communities everywhere in the winter of 2000–

01. The current resources are woefully inadequate to the task of making energy affordable for even a reasonable number of the neediest households. The Block Grant and all emergency funding made available for FY 2001 is just over a third of the amount needed to make a significant impact on a minority share of the currently eligible families.

Appendix: The Total Needed to Lower Energy Burdens

A. To cover energy bills over 8% of annual income:

1. Eligible Households

<i>How Utilities are</i>	Average Amount Needed to Achieve 8% Burden	All Eligible HH w/ Burdens higher than 8%	40% of the Eligible HH w/ Burdens higher than
BY Household	\$733	\$15,240,255,658	\$6,096,102,263
Included in rent	\$379	\$1,026,551,888	\$410,620,755
Some paid, some in	\$779	\$2,139,763,225	\$855,905,290
Total		\$18,406,570,771	\$7,362,628,308

2. Households in

<i>How Utilities are</i>	Average Amount Needed to Achieve 8% Burden	All HH in Poverty w/ Burdens higher than 8%	40% of HH in Poverty w/ Burdens higher than
Household	\$981	\$9,266,299,382	\$3,706,519,753
Included in rent	\$550	\$800,605,612	\$320,242,245
Some paid, some in	\$997	\$1,525,076,749	\$610,030,700
Total		\$11,591,981,742	\$4,636,792,697

B. To cover energy bills over 10% of annual income:

1. Eligible Households

<i>How Utilities are</i>	Average Amount Needed to Achieve 10% Burden	All Eligible HH w/ Burdens higher than 10%	40% of the Eligible HH w/ Burdens higher than
BY Household	\$489	\$10,171,200,000	\$4,068,480,000
Included in rent	\$194	\$523,800,000	\$209,520,000
Some paid, some in	\$586	\$1,610,374,880	\$644,149,952
Total		\$12,305,374,880	\$4,922,149,952

2. Households in

<i>How Utilities are</i>	Average Amount Needed to Achieve 10% Burden	All HH in Poverty w/ Burdens higher than 10%	40% of HH in Poverty w/ Burdens higher than
Household	\$806	\$8,751,978,404	\$3,500,791,362
Included in rent	\$424	\$709,394,824	\$283,757,930
Some paid, some in	\$857	\$1,507,343,877	\$602,937,551
Total		\$9,542,783,881	\$3,817,113,553