

The Low-Income Home Energy Assistance Program (LIHEAP) *Issue Brief*

Created by Congress under Title XXVI of the Omnibus Budget Reconciliation Act of 1981 (P.L. 97-35), the Low Income Home Energy Assistance Program (LIHEAP) is a federal block grant distributed to states for the purpose of assisting “low-income households, particularly those with the lowest income, that pay a high proportion of household income for home energy, primarily in meeting their immediate home energy needs.” The program evolved from other federal programs, such as the Emergency Energy Assistance Program, that Congress had created in response to the energy crisis in the 1970s. LIHEAP was designed to minimize government bureaucracy and maximize assistance to low-income households by relying on states rather than the federal bureaucracy to administer the program and local community organizations for program implementation.

While each state has the discretion to determine how it administers its LIHEAP program, most states allow their LIHEAP recipients to use these funds to help pay for costs associated with heating, cooling, weatherization activities that make their homes more energy efficient, and other energy requirements. The federal statute specifically limits eligibility to households earning up to 150 percent of the federal poverty level¹, which, for a family of four, is \$31,800, or 60 percent of state median income, whichever is greater. It is estimated² that there are 22,670,022 households in the U.S., and approximately 7,701,762 households in Southern states and territories³, that meet these eligibility criteria.

Despite low-income households’ need for energy assistance nationwide, Congress views LIHEAP largely as a regional program, intended to benefit primarily Northeast and Midwest states. Its funding distribution formula relies on data that is more than a quarter century out of date, and unnecessarily pits the different states and regions of the country against one another in their efforts to assist their poorest residents meet their year-round energy needs.

This paper will outline some of the current flaws in the program, and the disproportionate impact these flaws have on Southern and some Western states. SGA supports modifications to the existing LIHEAP program that will allow it to more appropriately meet its national policy objective: to provide needed energy assistance to eligible households in all regions of the country.

¹ The term federal poverty level refers to the federal poverty guidelines, which are used for administrative purposes, such as determining financial eligibility for certain federal programs, including LIHEAP. HHS 2008 Poverty Guidelines.

² Average of 2001, 2002, and 2003 state-level estimates of the number of LIHEAP income-eligible households. LIHEAP Home Energy Notebook for FY2003, pg. 65

³ SGA defines Southern states and territories as those in our membership: Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, Missouri, North Carolina, Oklahoma, Puerto Rico, South Carolina, Tennessee, Texas, U.S. Virgin Islands, Virginia, and West Virginia.

The Mechanics of LIHEAP Funding Distribution

LIHEAP funds are distributed to states either through allocations to the base formula grant (sometimes referred to as the LIHEAP block grant) or emergency funding provided through LIHEAP's contingency fund. The annual funding levels for both of these funding streams are determined by the federal appropriations process.

The Base Formula Grant: LIHEAP base formula grant funds are allotted to states based on a funding distribution formula created in the initial program authorizing legislation, the Omnibus Budget Reconciliation Act of 1981. This formula uses static data from the 1980 census and does not take into account the changes in energy expenditure, climate, or demographics that have occurred since that time period. Congress later passed the 1984 Human Services Reauthorization Act, which amended the original authorizing statute to create a new formula, designed to be dynamic so that it would respond to changes in population, poverty, climate and households' energy expenditures. However, Congress included in the 1984 Act a "hold harmless" provision requiring the Department of Health and Human Services to distribute the first \$1.975 billion in base formula grant appropriations by the old formula from the 1981 Act, and only base formula grant appropriations above \$1.975 billion by the new formula authorized in the 1984 Act. *Unfortunately, base formula grant funding has surpassed the \$1.975 billion trigger point and enabled the new formula only once over the last twenty years.*⁴

The old formula is entirely based on pre-1980 data for state climate, fuel price, demographics, and energy expenditure patterns. Congress designed the old formula in response to the specific conditions of the time, emphasizing the increase in fuel oil prices during the late 1970s; therefore the old formula strongly favors the cold weather climates of Northeastern and Midwestern states. The old formula is entirely static, and therefore not influenced by any changes over time. States receive the exact same proportion of the total appropriation each year. Between fiscal years 2003 and 2007, 69.5 percent of total LIHEAP block grant funding has been allocated to 27 cold weather states, while only 30.5 percent has been allocated to 23 hot weather states.

The new formula, which kicks in only for base formula grant appropriations above \$1.975 billion, is a simple, strait forward formula based on the actual energy expenditures of low-income households according to the best available statistical data. This dynamic formula takes into consideration changes in demographics, weather patterns, fuel prices, and energy consumption levels of low-income households.

The legislative history suggests that when Congress reauthorized LIHEAP in 1984, it recognized that the original formula was inequitable and did not respond to actual energy needs. However, members of Congress from the Northeast and Midwest did not want their cold-weather states to suddenly receive a significant decrease in funding. The trigger, after which the new formula would go into effect, reflects the compromise Congress eventually reached. By creating the new formula that would be triggered after funding reached the \$1.975 billion level, it can be inferred that Congress expected appropriations for LIHEAP to grow over time, and that the trigger threshold would be surpassed regularly. However, the only year during the last two decades in which the new formula has been activated is 2006. Therefore the inequities inherent in the old formula have continued to plague the program.

⁴ For purposes of this paper, SGA refers to the 1981 formula as the "old formula" and the 1984 formula as the "new formula."

The Contingency Fund: In addition to funding distributed through the LIHEAP base formula grant, Congress also may make available appropriations for the LIHEAP contingency fund. The Secretary of Health and Human Services, at the discretion of the President, distributes contingency grant funding to provide resources to states above the amount they receive in LIHEAP base formula grant funds for emergency situations. Congress did not always include contingency funding in its appropriations in the early years of the program. However, it has appropriated contingency funding every year since 1994. The amount of funding available in the contingency fund has varied greatly from year to year—from a low of \$99.41 million in FY 2004 to a high of \$744.35 million in FY 2000. The amount of funding in the contingency grant has no impact on the triggers in the base formula grant. Therefore, if Congress provides \$1.975 billion in base formula grant funding, and an additional \$500 million in contingency funding, base formula grant dollars are still distributed by the old formula. The South tends to receive a disproportionately low share of contingency funds. Over the last five years, the 27 cold weather states have received 80.5 percent of the total contingency funding allocated, while the 23 hot weather states have received only 19.5 percent of contingency funds.

SGA Position on Changes to LIHEAP

While the old formula approach for distributing LIHEAP funding may have made sense in 1981, much has changed over the last 25 years: Energy prices for all types of energy sources—not just heating oil—have escalated, population growth trends have changed, and more data about weather-related health risks has become available. For all these reasons, SGA is supporting changes to the LIHEAP program that would guarantee that Southern states would receive an equitable portion of annual program funding so they can better meet their low income citizens' energy needs throughout the year.

While SGA recognizes that many stakeholders in this debate would prefer to simply add more money to the program, it is critical that Congress take a look at the foundation of the current distribution formula and replace it with a formula that would ensure that the LIHEAP program will in fact be national in its scope of assistance every year, regardless of overall funds available. When considering the relevancy of the current distribution formula, the following should be taken into consideration:

Heat Related Deaths and Health Problems: Though far more people die from extreme heat than exposure to the cold, the LIHEAP funding formula (minus significant new appropriations) is heavily skewed towards providing more funding to cold weather states than hot weather states. According to the Center for Disease Control (CDC), between 1999 and 2003, 3,442 Americans died from exposure to extreme heat, an average of over 860 each year.⁵ However, other experts believe the number of heat-related deaths is even higher than the CDC numbers. Lawrence Kalstein, senior fellow at the Center for Climatic Research at the University of Delaware, estimates that approximately 1,500 people die in the US on average each year from heat.⁶

Heat is especially dangerous for the elderly, young children and people with chronic medical conditions. Prolonged exposure to heat can aggravate underlying health conditions, in particular cardiovascular diseases. As compared with other regions of the country, the South is home to a

⁵ Figures derived from CDC's *MMWR Weekly*, July 28, 2006 / 55(29);796-798, article entitled "Heat-Related Deaths -- United States, 1999—2003", pg. 1.

⁶ "In aid for the poor, hotter states get the cold shoulder", Rebecca Smith, *The Wall Street Journal*, August 18, 2005

larger percentage of people who have illnesses that are aggravated by heat, such as heart disease. In fact, nine of the 10 states with the highest heart disease death rate are Southern states.⁷

A study done by the Department of Environmental Sciences at the University of Virginia found that air conditioning has likely been a “a critical factor in reducing heat-related mortality.”⁸ Moreover, the CDC maintains that air conditioning is the number one protective factor against heat-related illness and death.⁹ As more and more households across the South have begun to air-condition their homes, heat-related deaths in the region have declined steadily. However, low income households—many of which are comprised of the elderly, people with disabilities, and working families with young children—struggle to cover the cost of their energy bills, especially the increased energy costs associated with air conditioning.

State-By-State Poverty Rates: The LIHEAP program is designed to provide energy assistance to low income families. Because they have less income, these families are forced to spend a greater percentage of their income on energy costs than higher income families. In 2004, low-income families spent 14 percent of their income on energy costs, compared to 3.5 percent spent by families with greater means.¹⁰ The South has a higher concentration of families living in poverty compared to other regions of the country. For example, the percentage of families living in poverty in Southern states is 11 percent, while it is only 7.5 percent in Northeastern states.¹¹ Yet, the LIHEAP funding allocations to Southern states does not reflect the poverty of the region.

Population Shifts: Over the last quarter century, the nation has seen a major population shift away from the Northeast and towards the South and Southwest—the regions of the country that receive a disproportionately low share of LIHEAP funding. Because the old formula is static, these massive population changes have not impacted the distribution of LIHEAP funds.

Summary

LIHEAP has long been thought of as a heating assistance program because the funding formula by which base formula grant dollars are distributed is skewed to disproportionately benefit states in the Northeast and Midwest, where heating needs are greatest. However, America’s energy needs are much more extensive than the need for heating assistance. Many states struggle to balance the need for heating assistance in the winter with the need for cooling assistance in the summer and with other energy needs throughout the year. ***As America’s energy needs change, LIHEAP must also change to become a national program that better assists families throughout the country with their overall energy needs, rather than a regional program that focuses primarily on the heating needs of households living in specific areas of the country***

⁷ The Henry J. Kaiser Family Foundation

⁸ “Changing Heat-Related Mortality in the United States” Robert E. Davis, et. al., Department of Environmental Sciences, University of Virginia. Published in Environmental Health perspectives, Volume 111, Number 14, November 2003, pg. 1716

⁹ CDC’s *MMWR Weekly*, July 28, 2006 / 55(29); 796-798, article entitled Heat-Related Deaths --- United States, 1999—2003, pg. 1.

¹⁰ The U.S. Department of Energy

¹¹ US Census, Current Population Survey, 2006 Annual Social and Economic Supplement