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**Testimony of Dr. Meg Power
National Community Action Foundation
Before the United States Senate Committee on Health, Education, Labor, and
Pensions
Subcommittee on Children and Families
March 5th 2008**

***Rising Energy Prices and The Need for the Low-Income Home Energy
Assistance Program***

Thank you for the opportunity to present the views of the National Community Action Foundation which represents the nation's 1,100 local Community Action Agencies. On behalf of our director, David Bradley and our national membership I want to thank the Subcommittee for its history of unwavering support for the LIHEAP programs from the very year of its birth in 1981. Mr. Chairman, you have championed energy assistance from the moment you were elected to the House of Representatives; like Senator Kennedy, you have never failed to keep the heat on every Administration and every Congress to, literally, "keep the heat on". Senator Alexander, under your leadership the Subcommittee reported, and the Senate passed, a solid re-authorization bill in 2003; NCAF was honored to work in partnership with you in that effort.

Community Action Agencies (also called CAAs or CAPs) deliver about one-third of the LIHEAP bill assistance resources to participants. We estimate that our local agencies actually work face-to-face with the vast majority of those who receive "crisis" assistance. CAAs administer nearly all the LIHEAP funds devoted to Weatherization. LIHEAP is second only to Head Start as the largest program in our network.

My testimony is in three parts:

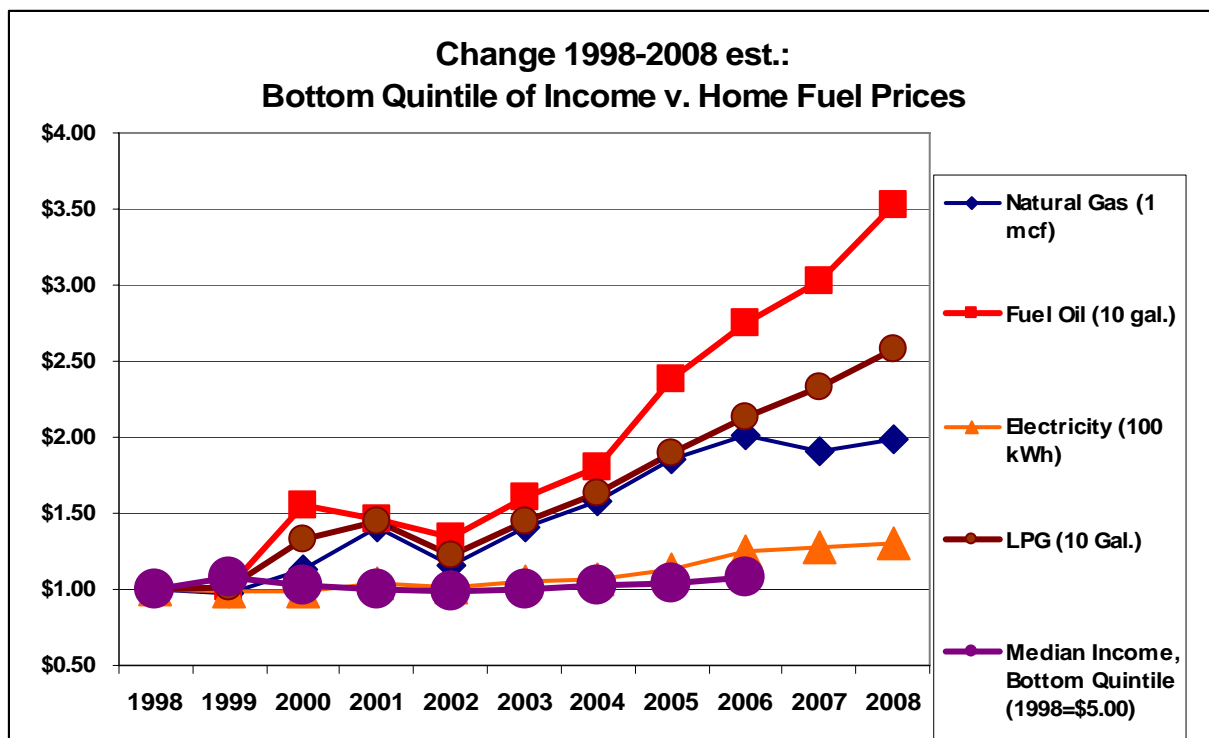
- a situation report on the energy burdens that low wage workers, retirees and their families are carrying this very year;
- a description of the ways Community /Action uses LIHEAP as part of a coordinated strategy to move participants closer to economic security, and
- NCAF's proposals for re-shaping the LIHEAP statute to make the program an even better tool for helping energy consumers in the 21st century.

I. Situation Report: A Forecast of Low-Income Consumers' FY 2008 Energy Burden and Bills

Consumers' energy bills for the gas or oil and electricity they need to meet only the most basic requirements for safe housing have not been higher in a generation, not even in "real" dollars. Every region's small consumers are affected by the cost and by the rapid rate of change. This year, once again, homes that rely on delivered fuels, fuel oil and LP gas, will have the fastest-rising bills, as well as the highest bills. Two years ago that dubious honor went to natural gas users in several regions.

We measure the impact of household bills the simple way, much as the federal housing measure for affordable housing is based on the percent of income represented by out-of-pocket expenditures: energy burden is the percent of annual income a household must spend to buy utilities (not including water) and all other residential fuels the household uses yearly.

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Sources: ORNL October 2007; EOS updates Feb 2008.

Heating and cooling together make up just 50-60% of annual low-income consumer bills, depending on weather and price. Households must pay utility bills that include all uses.

Forecasts based on an Oak Ridge National Laboratory model and using updated federal dataⁱⁱⁱ on incomes and energy show that, during this fiscal year, the population eligible for LIHEAP, about 34 million households, can expect to pay an average of \$1864 for energy. that sum will equal 17% of their average household income. The lowest-income eligible consumers, the approximately 13 million in poverty, will pay less, \$1644, but that bill is an even higher share of their very low incomes: 22%. (Since energy burden is calculated by dividing income by the energy cost, the lower the income the higher the burden for the same energy bill.)

Charts 1 and 2 show forecast bills and energy burdens for the entire eligible population and for

Chart 1.

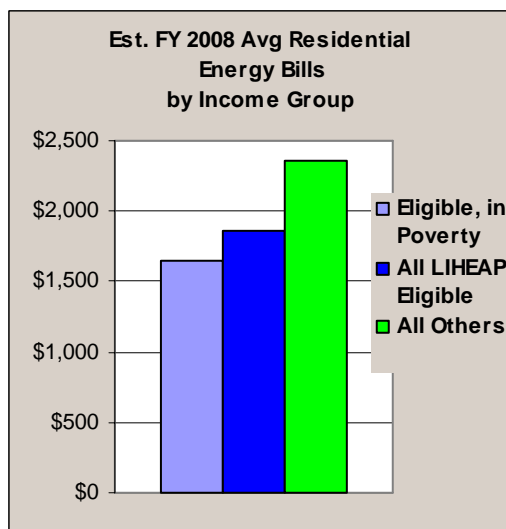
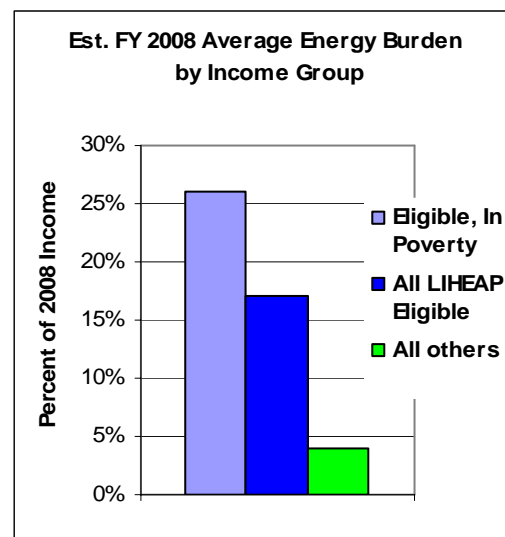


Chart 2.



the subgroup of eligible households in Poverty compared to all households with incomes higher than the LIHEAP eligibility ceiling. Chart 1 shows the poor use less fuel, but Chart 2 shows it costs them a far higher share of their very limited incomes. Households not eligible for LIHEAP average a 4% annual energy burden.

The incidence of high energy burden varies geographically. Chart 4 shows the average energy burden forecast for each Census division. In six of the nine, LIHEAP consumers will have burdens at or above the national average. The differences stem from both the expected bill amounts and the income variation among the regions.

Chart 4.

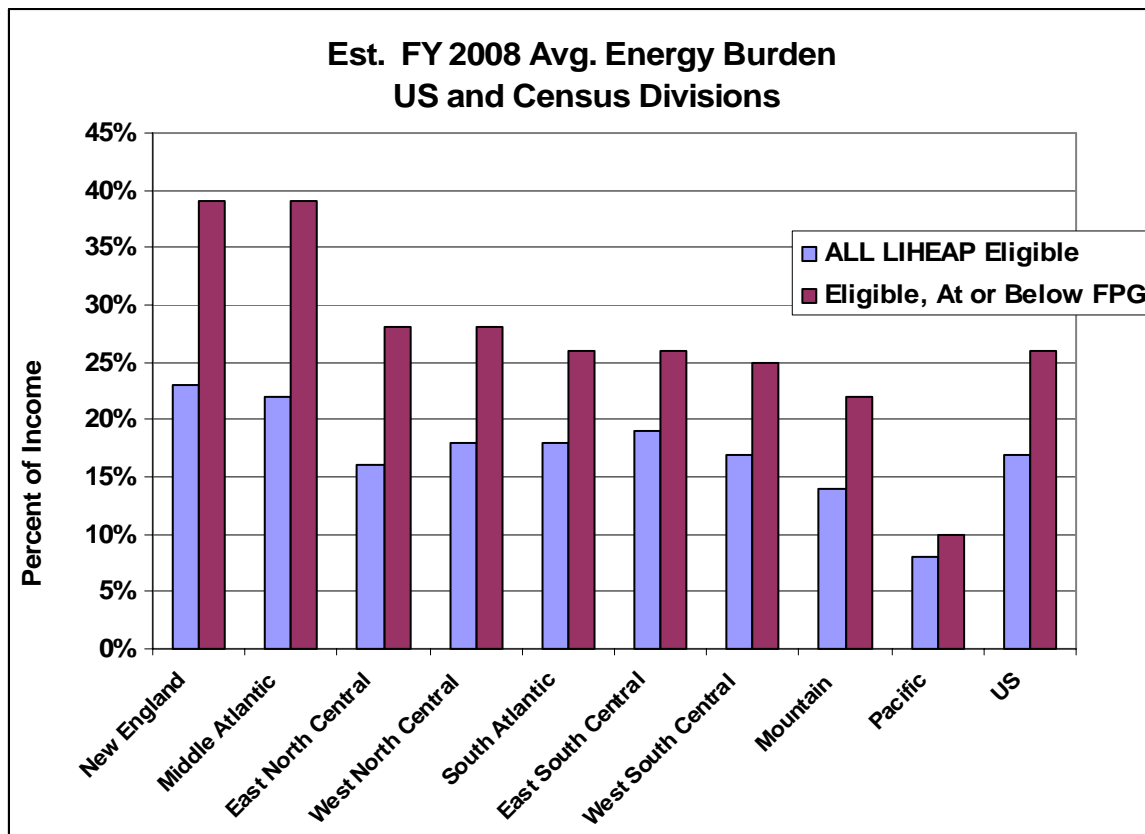
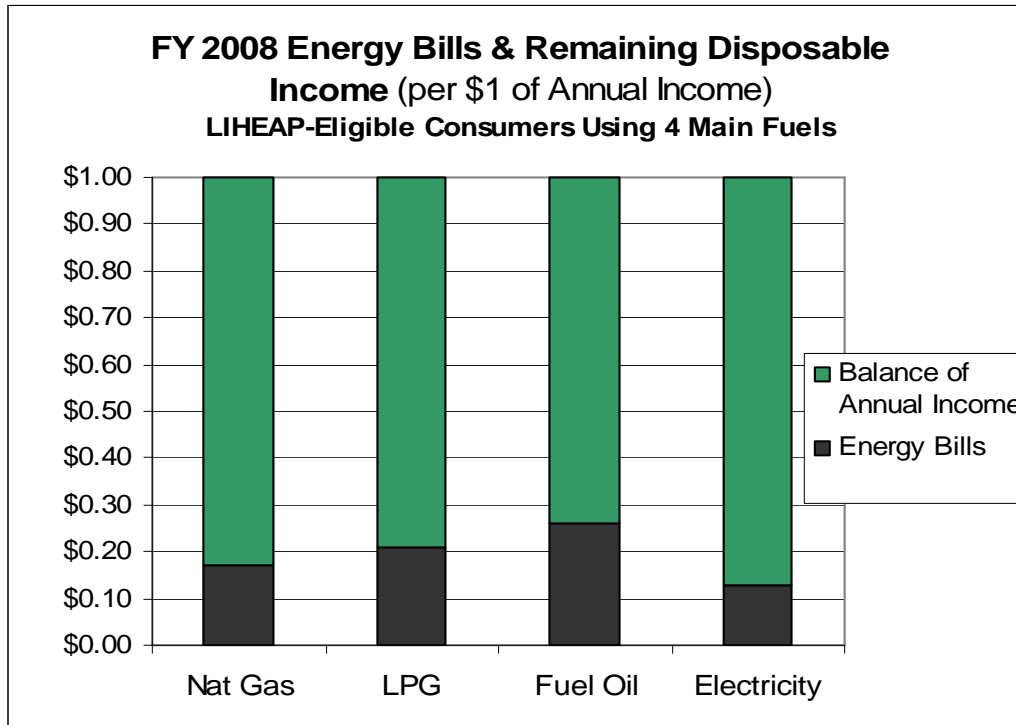


Chart 5 shows how the type of heating fuel a household uses affect the size of its energy burden and the proportion of household income left for other needs. Clearly, there is a basis for the LIHEAP requirement to vary benefits as well as for flexible implementation based on fuels and, as the graph suggests, based on the predictability of extreme hardships of several kinds which will threaten those who use deliverable fuels to heat in a normal winter. However, the clearest message is that that eligible families' after-energy disposable income will be far too low to meet other basic needs for the year. Analysts have developed several descriptive tools for quantifying the shortfall between a minimally adequate annual budget and actual incomes.ⁱⁱⁱ

Will eligible consumers and others of modest means, really pay bills of this magnitude? Millions will make partial payments and a minority will receive help from LIHEAP and utility discount programs. Other will experience catastrophic consequences, some families will be forced to move; those with compromised health, including many children with asthma and allergies, risk health crises from living in poorly heated or un-air-conditioned space. The best documented effects are those tracked in by Children's Sentinel Nutrition Project Dr Frank leads.

Chart 5.



However, it is important to recognize that the choices low-income energy consumers are making are even more complex than 'heat or eat'. These don't rhyme as well, but Census surveys and opinion surveys confirm that the choices frequently are:

- See the doctor/fill the prescription or keep the lights/refrigerator on?
- See a dentist about this toothache or pay for heat?
- Look for another apartment but buy the oil while we're looking, or pay the rent and plug in a space heater because the power can't be shut off until March?

Every one of these methodologically sophisticated studies and surveys confirms that consumers will make such risky sacrifices to keep warm enough and to keep the lights and refrigerator on. The C-SNAP study brings life just some of the cold hard numbers reported in the US Census SIPP survey of Measures of 'material well-being' ^{iv} which showed the national scope of energy related hardships:

In 2001, 9% of US households could not afford to pay their energy bills at least once during the year:

- This was the most common of all inability-to-pay problems reported by the 21 million households who could not afford one or more essential services or goods that year;
- The majority of those with un-affordable energy bills experienced several hardships at once during the same period ; the most common listed in order were:

- Experienced hunger (“critical food insecurity”)
- Skipped medical or dental care
- Missed rent or mortgage payment
- Nearly half had incomes too high for LIHEAP eligibility and nearly every one of them was a working family. However, the number and severity of simultaneous hardships rose in inverse proportion to income, so that the lowest-income had the most simultaneous hardships and the most severe or ‘critical’ hardships.
 - Those in Poverty were by far the most likely to experience crisis-proportion hardships: hunger, utility shutoff and eviction.

At the time of that survey, 2001, prices were lower and the weather was milder than at present. The gap between incomes at the bottom of the national income range and energy prices continues to widen, the first chart we presented demonstrates. Few if any other consumer costs have dropped as a share of household income.

II. How CAAs Target LIHEAP to Enhanced Family Economic Security

LIHEAP is an important tool in the fight to reduce poverty and stabilize workers, retirees and to their families, but it has become too small a lever by contrast to the energy burden that must be relieved. In recent years, many middle class working families have also swelled demand for these scarce resources. Many come in to the CAA for the first time, having never before sought help from any government or charitable program, but unable to pay the high bill to keep from being disconnected from utility service or denied a propane or fuel oil delivery.

How LIHEAP is unique in CAA anti-poverty initiatives

The reasons CAAs believe this distinctive energy assistance program, is more valuable to solve certain household problems that an equivalent amount of generic emergency funding or income support are:

1. LIHEAP payments are structured, by statute, to address the great variation in the size of energy bills, even among homes that look the same and have inhabitants who have similar incomes. While climate, geography and family size explain some of the diversity, experts can only guess that aging equipment and the peculiarities of older buildings have a lot to do with the fact that similar customers have very different bills. The LIHEAP benefit matrix targets the energy burden.
2. LIHEAP is an effective tool for leveraging partnerships with suppliers. State LIHEAP programs are the largest “residential” consumer in their state; they transfer thousands

of payments as electronic credits to the participant accounts. Many utilities and their regulators have reciprocated with consumer protections, free waivers and discounts. Many CAA energy managers also have open access to a utility customer service representative who can tailor flexible payment and even debt-forgiveness arrangements for specific participants and who is available to respond to emergencies in periods of severe weather or disaster.

LIHEAP supports three CAA strategies.

A CAA uses this unique asset three ways. Each is intended to contribute its core mission: building long-term economic stability in partnership with their participant. As the Subcommittee is well aware, CAAs' approach is to coordinate different, appropriate resources and maintain long-standing relationships with low wage workers struggling toward security. They use CSBG funds to manage the coordinated and mobilized partners and funding. LIHEAP is one of the direct forms of assistance essential to most, but not all, of our participants.

LIHEAP is used:

1. To prevent major economic destabilization of low-wage workers and retirees uniquely threatened because of their high energy bills. Every year eligible community residents who have never relied on LIHEAP or other help come to their CAAs because their tight budgets could no longer accommodate their higher energy bills. Such consumers are those who have been 'getting by' on very modest incomes and whose situation has not changed, except for the dramatic increase in the cost of their fuels. They generally seek and accept only LIHEAP help and perhaps registration in utility discount or budget payment plans. No other form of federal or state support would be as effective at maintaining the precarious economic independence as LIHEAP: its benefits are geared to the energy burden of households, and it is efficiently delivered and coordinated by the CAA with related energy subsidies or protections.
 - a. In 2006, CAAs informal and desperate reports to NCAF here in Washington chronicled a flood of such newcomers and others who were ineligible, but of modest means and at great risk. (Fuel funds are able to provide some over-income applicants with assistance for as long as funds last.)
 - b. Many returned in 2007 when prices were similar to those in 2006, or higher in the case of petroleum products, but received inadequate help because LIHEAP funding was much lower.
 - c. At present, CAAs are reporting a new flood of 'new' applicants who are painfully

- realizing they cannot afford energy and still continue to meet their other obligations.
- d. Because benefits vary by energy bills and burdens which (unlike local area rents, or even transportation and child care costs) fall over a wide range even within the eligible group, the effective LIHEAP targeting can result in effective prevention of family insecurity.

2. To stabilize those facing a major economic or personal crisis that threatens their long-run chances of being self-supporting.

Many hardworking Americans fall into poverty as a result of ordinary, but dramatic, personal tragedies – job loss, disability, loss of a loved one, the needs of relatives. Without assets or adequate credit, their loss may lead to many other setbacks and, eventually, true poverty. CAAs have learned how a strong “hand up” early in such a crisis can prevent lasting, catastrophic consequences, and LIHEAP becomes one of the key resources needed to keep or re-establish safe housing. For many, either new service must be set up or large unpaid utility debts must be reduced. CAA staff have developed unique relationships with customer service departments of major suppliers, and, in most states, are able negotiate concessions for their families who are starting to recover from a crisis. These relationships are one result of the “leverage” LIHEAP confers in the energy markets. Because the program is the largest buyer of residential energy in any service area, the vendors it works with are willing partners and seek to keep information flowing as well transactions, to the benefit of the participant.

3. Finally, LIHEAP is an essential support for the long-term development of family security for those who are working hard and learning hard to open future opportunities with the support of their CAAs. Their energy burdens will remain high until their incomes rise significantly, even as the family is working hard.

LIHEAP is one of the key elements in building family credit; participants in CAA family development programs and local asset-building initiatives take part in financial education and budgeting exercises. Some CAAs use LIHEAP as a base or match, for participant out-of-pocket payments for energy after helping them join the utility budget plan. CAAs’ LIHEAP staff helps negotiate debt forgiveness plans with utilities when possible.

Many demonstration programs funded with a REACH grant from HHS have tested the use of LIHEAP as an incentive or family development support in different program contexts. The state

of Texas for many years served only a limited number of younger consumers, but has invested significant case-management resources in them and offers monthly LIHEAP credits for participants who lived up to their development and self-sufficiency goals

Four states (NV, NH, NJ, and OH) integrate LIHEAP into a utility rate structure that requires only a reasonable percent of monthly income to be paid by the customer, with the balance of the bill picked up by the rate-payers and LIHEAP. We see these experiments as the beginning of a policy solution that engages all sectors in reducing energy insecurity and the high lifetime costs of the risks from unaffordable energy bills.

III NCAF's Recommendations re: LIHEAP Authorization 2008-2010 and Beyond

Mr. Chairman, NCAF recognizes the fiscal constraints and the time constraints that confront the 110th Congress and we realize the former may persist well into the 11th. We believe that some changes in LIHEAP requirements that can be judged without a massive program review or evaluation would be very helpful immediately, and that other important changes deserve some study to provide a basis on which the authorizing committees can decide on changes in the near future.

Programmatic changes:

A. Preparing Formula Options for the Future: One of the important changes that we believe urgently needs to be addressed after adequate preparation is a change in the distribution formula. Clearly all states' programs need far more resources. As the analysis above shows, warm states' consumers are disproportionately affected by increases in their energy bills, because the LIHEAP resource shortfall compared to the need is so great. CAAS in the south and southwest especially face extraordinary and growing demands for energy help and they exhaust their resources within days or weeks, not a few months. We believe that the formula now creates a major barrier to added funding because the coldest states reap so little additional reward from new appropriations. We suggest that, rather than committing to the current formula indefinitely or to trying to re-allocate a too-scarce resource on the basis of untested criteria, legislation should require the Secretary of HHS or the Congressional Research Service to work with the Census Bureau and deliver at least three options for a formula that is fair to every state and ensures that, if the funding increases, every state is a winner.

B. Other Evaluations to Guide Future LIHEAP: Another study NCAF would like to see undertaken during a short authorization through 2010 is a compilation of the evaluation studies funded through REACH demonstration projects. Reach grantees tested more effective or cost effective

ways to deliver LIHEAP to specific groups or to all The Department has never reported on these nor suggested what best practices might be helpful to many.

C. Program Changes that Support Family Stabilization: we believe some changes are warranted now, including some that were in the 2003 Committee bills. All of NCAF's suggestions are outlined in an appendix we would like to submit for the hearing record. The two changes would greatly improve CAAs' ability to use LIHEAP as part of stabilization and self-sufficiency strategies now are:

1. States should provide assurance that no consumer who pays bills timely will receive fewer benefits than another with the same characteristics like energy burden, family size, income and other criteria on which benefits are based. LIHEAP 'crisis' policies that provide more benefits for those threatened with a disconnection or those without fuel undermine all the other programs' incentives for participants to manage budgets wisely and build credit and assets. States' benefit regulations that require a shut-off warning as a condition for a an additional benefit mean that this public policy rewards non-payment; their CAAs see participants torn between making their small contributions to suppliers timely or risking their credit and raising their bills with penalty charges in return for hundreds more dollars to help meet family needs. This problem persists in many, but a minority, of the states.
2. Further, so-called Assurance 16 funding for working with participants over time with an integrated set of supports has been essential to many states' LIHEAP-related financial literacy and security initiatives. LIHEAP administration funds are very restricted, a limitation that works against careful targeting of benefits to energy burden and providing integrated and sustained support to participants. We believe the states should be allowed to choose the amount to use for this purpose.

FUNDING

In the two-year authorization bill, we would prefer to see, we believe that a \$ 6 billion authorization will give appropriators scope to meet more needs, but not set an unrealistically high benchmark. We have every faith in the Chairman's willingness to fight for emergency funding in the of even more catastrophic energy market events.

However, we believe that the conditions for emergency contingency funding must be changed so that the factors that trigger a release are predictable, fair and based on the reality of energy bills. We have provided some proposed language in our attachment.

Thank you for your consideration of Community Action's suggestions; we intend them as useful additions to the Subcommittee's historic record of leadership for the nation's most vulnerable energy consumers, and NCAF stands ready to work on improving and refining these ideas.

Eisenberg, Joel F., *Short and Long-Term Perspectives: The Impact on Low-Income Consumers of Forecasted Energy Price Increases in 2008 and a Cap-and-Trade Carbon Policy in 2030* [ORNL/CON-503](#), Oak Ridge National Laboratory, Oak Ridge, Tennessee, December - 2007, and [January MIDWINTER UPDATE](#). <http://weatherization.ornl.gov/>

ⁱⁱ Details of the model and methodology are in the report: Power, Meg, 'The FY 2008 Energy Burdens of Low-Income Consumers', Economic Opportunity Studies, and Washington, DC. www.opportunitystudies.org.

ⁱⁱⁱ Roger Colton has developed two tools for state and local-level applied calculations of the impacts of energy costs on household budgets and the difference between a livable income that includes true energy costs and real household incomes.

The difference between affordable energy bills and actual bills is calculated for low-income households state by state and posted at <http://www.homeenergyaffordabilitygap.com/>

His Home Energy Insecurity Scale parallels the measurements of food insecurity. It was disseminated by HHS LIHEAP office in 2003: <http://www.fsconline.com/downloads/Papers/2003%2005%20insecurity-scale.pdf>

^{iv} See 'Supplemental Measures of Material Well-Being: Basic needs, Consumer Durables, Energy and Poverty, 1981-2002.' U S Census Bureau, Washington, DC P23-202 December 2005 also a summary of energy specific clusters of hardships in "Making Ends Meet when Energy Costs Soar" Meg Power, Economic Opportunity Studies, Washington, DC www.opportunitystudies.org



LIHEAP Reauthorization: Program Changes for Discussion

Change the Purposes

NCAAF Proposal

(1) in subsection (a), by striking “primarily” and all that follows and inserting the following: “in meeting their immediate home energy needs, making home energy costs more affordable, and preventing household energy crises, such as reducing home energy costs through payment to, or on behalf of, participants, obtaining lower costs for the home energy purchased by participants, and providing services and resources that reduce the energy burdens of low-income home energy consumers.”

Rationale

These purposes were added to the Committee’s reauthorization bill which passed the Senate in 2003. They encourage the use of LIHEAP funds for services, investments, and, of course, payments, that reduce the “burden” of energy bills. Examples would be services that enrolled applicants in EITC or other appropriate programs, state discount programs that advocate for protections that regulations provide, secure other donations or support to correct energy-guzzling defects, etc.

The text also subsumes the original purposes; to keep both is unnecessary.

Manage Emergency Funds

NCAAF Proposal Requires Secretary to release Emergency Contingency Funds when HDD or CDD exceed 10-year norm by 15% or more and/or in a month when residential fuel prices rise to 20% higher than the 5-year norm

Rationale

This removes uncertainty about the release of contingency funds in the event of extreme weather or dramatic price increases. It corrects the present process which can appear capricious in the selection of the variable that determines what state is funded.

Encourage New Leveraging

NCAF Proposal Add an instruction to the criteria for disbursing leveraging incentive funds to provide additional funds to newly-won leveraged resources as determined by the Secretary

Rationale

The leveraging “incentive” fund is a very small percentage of LIHEAP, and states that add new leveraged resources reap miniscule rewards. Its value as an incentive is somewhat restored by rewarding recent initiatives more heavily than long-ago victories.

State Application

NCAF Proposal Authorize States to submit 2-year plans

Rationale

This would remove any federal barrier to year-round activities to enroll new participants, purchase fuel with advance contracts, etc.

Change Assurance 16 to allow state to set amount used for the purposes

NCAF Proposal

Add: “The State may use funds authorized under this title, at its option, to provide services that encourage and enable households to reduce their home energy need, to make their energy costs more affordable and prevent energy crisis, including needs assessments, energy conservation education, counseling, and assistance with energy vendors, and other benefits such as financial literacy and asset-building services, support for ameliorating housing conditions and costs, provided that such services or resources have been demonstrated by a REACH pilot program or through other formal evaluations to be as effective as payments in making energy affordable for eligible households.

Rationale

States need both more flexibility and incentives to move in the direction of affordability programs. Demonstrated and evaluated approaches that make energy bills or energy burden lower with persistent results should be allowable.

Benefit rules must not reward non-payment with higher assistance

NCAF Proposal

In section 2605 (B) after “intervene in energy crisis situations;” add “provided that no household shall receive higher benefits as a result of non-payment of energy bills than another household with the same needs energy burden and home energy type that has paid energy bills more timely and thereby prevented energy crisis”

Payments by states

NCAF Proposal

Provides the states will make payments to subgrantees according to OMB’s generic categorical federal grant rules, i.e. will make systematic advances for local agencies in good standing, not provide reimbursement only.

Rationale

Block Grants are not governed by the same rules on timing of state payments from federal funds, and some states force local agencies to advance LIHEAP vendor payments and management costs using their other funds or even borrowing. This affects all their credit availability as well as other services and investments for low-wage workers and their families. The provision means all states will start up LIHEAP with an advance of funds for a short period of operations. Then local grantees will apply for reimbursement or advances, as needed, per the OMB rules governing all federal grants except Block Grants.

Studies

NCAF Proposal Secretary works with expert regulatory organizations to adapt their survey tools to state vendor agreement format

Rationale

The National Regulatory Research Institute has recommended Commissions adopt reporting requirements and formats for tracking utility disconnections and residential bad debt information. States could use an appropriately designed report as one element of their LIHEAP vendor agreement.

NCAF Proposal Secretary prepares report to Congress on options for funding allocation factors that are fair to consumers in all states

Rationale

The distribution formula stymies LIHEAP expansion because all states would not benefit from growth. The Congress needs an objective study presenting viable alternatives. This language sets out one alternative for the criteria to use in suggesting formulae. An alternative could be a CRS study options paper.

Technical Assistance

NCAF Proposal

Authorizes up to ½ of one percent of LIHEAP for studies, for publishing REACH results, and for training/technical assistance. Prohibits the use of these funds for federal salaries or federal monitoring.

Rationale

Minimal LIHEAP data or analysis is performed. A decade of REACH project evaluations remains uncollected and un-reviewed. This change provides a bare minimum to allow timely review of data, reports, sharing best practices, and study of potential improvements to the program, including those set out in the "Studies" section.