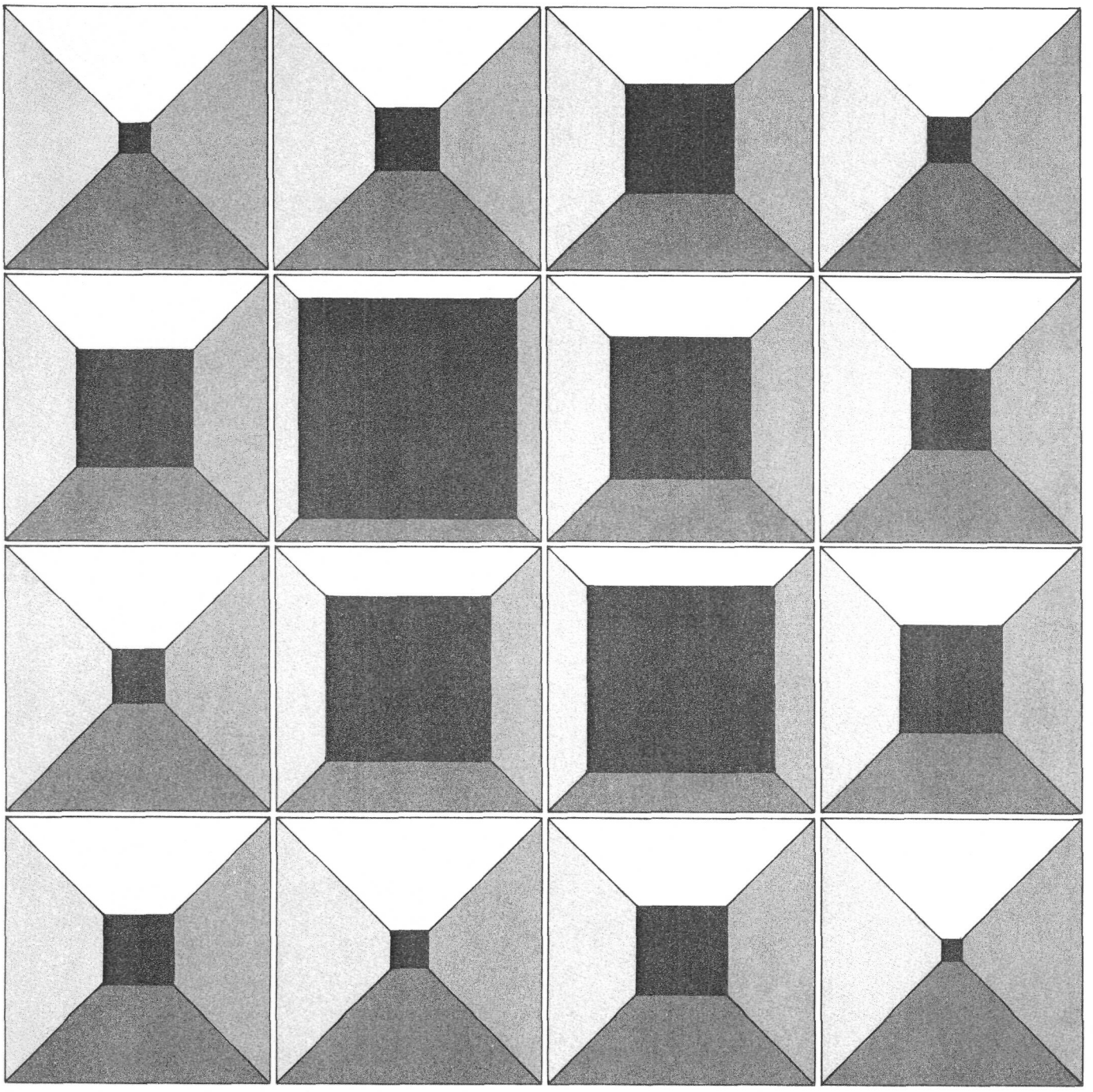
Low-Income Energy Assistance: Issues and Options

A CBO Study
June 1981

Congress of the United States
Congressional Budget Office



LOW-INCOME ENERGY ASSISTANCE: ISSUES AND OPTIONS

The Congress of the United States
Congressional Budget Office

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NOTES

Unless otherwise indicated, all years referred to in this report are fiscal years.

Details in the text and tables of this report may not add to totals because of rounding.

PREFACE

The rapid increases in energy prices that took place during the last decade greatly increased household expenditures on energy and led the Congress to establish a series of programs to help low-income households cope with high energy costs. This report, prepared at the request of the Senate Budget Committee, examines the current burden of high energy costs on low-income households and analyzes issues and options relating to the design of future energy assistance programs. In keeping with the Congressional Budget Office's mandate to provide objective and impartial analysis, this study offers no recommendations.

Lynn A. Paquette, of the Human Resources and Community Development Division of CBO, prepared the paper, under the supervision of Martin D. Levine and Nancy M. Gordon. The author wishes to acknowledge the invaluable contributions of many persons, including Ken Cahill, Alan Cohen, Everett Ehrlich, Steve Sheingold, and Reuben Snipper. Numerous people at the Community Services Administration, the U.S. Department of Energy, and the U.S. Department of Health and Human Services gave useful technical assistance. Francis Pierce edited the manuscript. Mary Braxton, Jill Bury, and Andy McDonald-Houck typed the many drafts. Mary Braxton, with Toni Wright, prepared the final paper for publication.

Alice M. Rivlin
Director

June 1981

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SUMMARY

Since 1977, the federal government has provided assistance to low-income households to help them deal with high energy prices. Funding for low-income energy assistance has risen from $200 million in that year to $1.85 billion in 1981. A number of proposals now before the Congress would authorize such aid for future years as well. These proposals, like the current program, would provide block grants to states to be used to offset low-income households' high costs for energy to heat (or cool) their homes, and some of them would also help households facing other types of emergency situations. While the proposals differ in several significant respects, all would continue earlier federal commitments to help protect low-income persons from the burden of high energy prices.

RISING ENERGY PRICES AND THEIR DISTRIBUTIVE EFFECTS

During the 1970s, energy prices increased significantly more rapidly than did prices in general. Prices for energy used in homes--principally fuel oil, natural gas, electricity, and bottled gas--rose twice as fast, on average, as the general inflation rate between 1972 and 1980, and gasoline prices rose 2.5 times as fast. Home energy and gasoline prices are generally expected to continue to rise at a faster rate than inflation during the 1980s, with natural gas prices increasing most rapidly due to their scheduled decontrol.

Since low-income households spend a larger proportion of their incomes on energy-related expenditures than do other households, they lose a larger proportion of their real incomes when energy prices rise. In fiscal year 1981, households with incomes below $7,400 are estimated to spend over 15 percent of their incomes on home energy and over 8 percent on gasoline, compared to less than 4 percent spent on home energy and less than 5 percent spent on gasoline by other households (see Summary Table 1). Some of this variation among income classes reflects the fact that low-income households often have total consumer expenditures that exceed income, while most middle- and upper-income households save a portion of their income. Low-income households also appear

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to spend a greater proportion of their income indirectly on energy--through the purchase of goods and services using energy as an input--than do middle- and upper-income households, although in this respect the differences among income classes appear to be much smaller.

SUMMARY TABLE 1. ESTIMATED AVERAGE HOUSEHOLD EXPENDITURES ON HOME ENERGY AND GASOLINE, BY INCOME CLASS AND REGION, FISCAL YEAR 1981

	Estimated Average Expenditures on Home Energy		Estimated Average Expenditures on Gasoline	
	In Dollars	As percent of Income	In Dollars	As percent of Income
Estimated Household Income				
Less than $7,400	740	15.2	400	8.2
$7,400 to $14,799	880	7.9	670	6.0
$14,800 to $22,099	910	4.9	1,100	6.0
$22,100 to $36,899	1,090	3.8	1,490	5.2
$36,900 or more	1,290	2.5	1,940	3.7
Region				
Northeast	1,290	5.2	1,030	4.1
North Central	1,080	4.4	1,220	4.9
South	900	4.0	1,210	5.4
West	700	2.9	1,160	4.8
Average, All Households	1,000	4.2	1,160	4.8

SOURCE: Congressional Budget Office estimates, based on the Department of Energy's National Interim Energy Consumption Survey, the Household Transportation Panel of the DOE's Residential Energy Consumption Survey, and the Census Bureau's March 1978 and March 1980 Current Population Surveys.

The burden of rising energy prices also varies among households in the same income class, in accordance with such factors as climate, the type of heating fuel used, and automobile driving patterns. Average home energy expenditures in fiscal year 1981 are estimated to range from $700 in the West to $1,290 in the Northeast. Household gasoline expenditures, on the other hand, average 14 percent lower in the Northeast than in the other regions.

Rising energy prices affect income as well as expenditures. Some types of income--most notably benefits paid by the federal government--are indexed for inflation and, therefore, rise along with increases in energy prices. Because low-income persons are more likely than others to receive such indexed benefits as Social Security, Supplemental Security Income, or food stamps, federal income support programs at least partially compensate some poor persons for rising energy costs.

Rising energy prices also lead to significant structural changes in the U.S. economy and thereby alter employment opportunities, wages, and corporate profits. The distributional impact of these changes is extremely complex, however, and is difficult to assess.

GOALS OF ENERGY ASSISTANCE PROGRAMS

Low-income energy assistance programs may address any number of specific goals, among them:

- Ensuring adequate levels of home energy consumption by low-income households;
- Offsetting the effects of rising energy prices on the real incomes of low-income households; and
- Promoting energy conservation.

Deciding which of these goals is to receive priority may have significant program-design implications.

Some programs may attempt to ensure that low-income households are able to consume adequate amounts of home energy by allocating benefits in relation to a household's actual home energy expenses. While such programs may closely target benefits on those households bearing the greatest burdens from rising costs, they may also lessen the incentives for conservation. An energy assistance program that is intended to offset the redistributive effects of rising energy prices by increasing the incomes of low-income households may tie benefits less closely to home heating needs, and may create less of a disincentive for conservation. By the same token, it may provide inadequate levels of aid to households with unusually high home energy expenses in relation to income.

A program promoting energy conservation, by contrast, would address one of the underlying causes of many low-income households' energy burdens--energy-inefficient housing--and would help reduce the nation's total energy consumption. In addition, such a program would help to ensure adequate home energy consumption levels by low-income households, and to raise their real incomes. However, some households--for instance, renters, and those for whom weatherization or other conservation-related home improvements would not be cost-effective--might not benefit from this approach. Also, some households with unusually high home energy expenditures might be unable to meet their home energy costs even after conservation-related home improvements were made.

POLICY ISSUES AND OPTIONS

Most energy assistance proposals for 1982--described in Summary Table 2--would continue to provide block grants to states for energy assistance. Other options for the future to offset the energy costs of low-income households include larger federal cash assistance benefits and increased funding for weatherizing homes.

Block Grants

If the Congress chooses to continue to provide low-income energy assistance through block grants to states, then it must determine what guidelines to establish for states' use of funds. Specific program-design issues include:

SUMMARY TABLE 2. PROVISIONS OF THE 1981 LOW-INCOME ENERGY ASSISTANCE PROGRAM AND OF SELECTED 1982 ENERGY AND EMERGENCY ASSISTANCE PROPOSALS

Proposal	Funding Level[a] (In billions of dollars)	Income Eligibility Guidelines	Allowable Use of Funds	Benefit Structure	Types of Benefits Provided
1981 Program	1.85	Lower Living Standard, or 125 percent of poverty line for a one-person household, or federal public assistance recipiency	Home heating or medically necessary cooling expenses	Highest benefits to those with lowest incomes, and with highest home energy expenses in relation to income	Cash, vendor payments, and vouchers; limit of 3 percent of funds for emergency assistance[b]
House Ways and Means Committee Proposal	1.40	150 percent of poverty line, or 60 percent of state median income, or federal public assistance recipiency	Home energy assistance	Similar to current program, but federal restrictions less strict	No federal restrictions
Senate Labor and Human Resources Committee Proposal	1.88	No federal restrictions but priority given to those with incomes below the Lower Living Standard or 125 percent of poverty line if a one-person household	Home energy assistance	Similar to current program, but federal restrictions less strict	Cash, vendor payments, and vouchers; limit of 10 percent of funds for weatherization; "reasonable" amount for emergency assistance[b]
H.R. 3469	1.40	No federal restrictions	Energy or other emergency assistance	No federal restrictions	No federal restrictions

SOURCE: Congressional Budget Office.

a. Actual funding level for 1981 program and proposed funding levels for 1982.

b. Emergency assistance may include goods such as blankets or space heaters, minor home repairs, or cash or vendor payments. In 1981, such assistance may also be provided through the Community Services Administration's crisis intervention program.

- Who should be eligible for benefits;
- How benefits should be allocated and what types of benefits and services should be provided; and
- What amounts of funds should be provided.

Eligibility Guidelines. Placing restrictions on who is to be eligible for energy assistance involves making decisions as to what income groups should receive aid, and whether or not any particular types of households should be afforded special treatment. Since very poor households tend to spend much higher proportions of their incomes on energy than do other households, setting relatively high income limits may reduce aid for the poorest households while providing aid to those less in need. Allowing states to impose categorical restrictions on eligibility--by, for example, serving only households with young children or elderly members--would allow states to target aid on those types of families assumed to be most in need but would prohibit some of the poorest households from receiving any aid.

Eligibility under the current program is restricted to households with incomes below the Bureau of Labor Statistics' Lower Living Standard or 125 percent of the Office of Management and Budget's poverty guideline if a one-person household, or receiving Aid to Families with Dependent Children, Supplemental Security Income, food stamp, or certain veterans' benefits. States are not allowed to place categorical restrictions on eligibility. The Ways and Means Committee's 1982 proposal[1] would provide benefits for households with incomes below 150 percent of the OMB poverty guideline or 60 percent of a state's median family income and,

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1. The House Ways and Means Committee and the Senate Labor and Human Resources Committee proposals referred to here are the recommendations made by those bodies in satisfying budget reconciliation instructions embodied in the First Concurrent Resolution on the Budget for 1982. The Administration's proposal referred to here is its initial proposal, as introduced on May 6, 1981, in H.R. 3469.

like the current program, would grant automatic eligibility to federal public assistance recipients. This proposal would also require states to serve those households with the lowest incomes to the extent consistent with the efficient and timely payment of benefits. The Labor and Human Resources Committee's proposal would not set income eligibility guidelines, but would require states to give priority to households meeting the current program's income eligibility guidelines. The Administration's original 1982 proposal--H.R. 3469--would not set any federal restrictions on eligibility.

Benefit Determinations. In providing block grants to states, the federal government may determine how benefits are allocated among eligible households and what types of benefits and services are to be provided.

Requiring states to provide benefits closely tied to households' actual home energy expenses and incomes ensures that the largest payments go to those households bearing the greatest burdens from high home energy expenses. However, tying benefits closely to actual energy expenditures may lessen incentives for conservation, and such benefits may be relatively costly to administer. Making assistance payments less directly related to actual home energy expenses, by contrast, would lead to smaller conservation disincentives and would be less costly to administer, but would also be less targeted on households with the most burdensome home energy costs.

Energy assistance benefits may consist of cash, vendor payments or vouchers, weatherization assistance, or in-kind goods such as blankets or space heaters. Cash payments are simplest to administer, but, unlike vendor payments or vouchers, do not ensure that benefits are used for home energy consumption. For many households, weatherization assistance may provide larger benefits in the long run than cash or vendor payments costing the same amount. But a program that uses a large portion of its funds for weatherization may serve fewer households in its first years, since the average cost of weatherizing a housing unit is relatively high compared to the average annual cash or vendor payments made under the current energy assistance program.

Under the current program, states are required to provide the highest levels of benefits to those households with the lowest

incomes and with the highest home energy expenses in relation to income. The Ways and Means Committee's 1982 proposal would continue to require that states allocate benefits in this manner, but only to the extent consistent with the efficient and timely payment of benefits. The Labor and Human Resources Committee's proposal also includes a requirement similar to that of the current program, but would allow states complete flexibility in deciding how to satisfy this requirement. H.R. 3469 would not set specific requirements as to how states should allocate benefits.

The current program requires states to provide nearly all benefits in such forms as cash, vendor payments, or vouchers. The Ways and Means Committee's proposal and H.R. 3469 would allow states to provide any amount of benefits in the form of weatherization or consumer goods as well. The Labor and Human Resources Committee's proposal would limit weatherization assistance to no more than 10 percent of total funds.

Funding Levels. The 1981 low-income energy assistance program is funded at a level of $1.85 billion. The Ways and Means Committee's proposal would provide $1.4 billion in 1982, and $1.6 billion in 1983. It would also distribute funds as matching grants in 1983, with the federal government providing 80 percent of the total funds. The Labor and Human Resources Committee would provide funding of roughly $1.88 billion annually for 1982 through 1986, while H.R. 3469 calls for annual funding of $1.4 billion in 1982 through 1985.

Other Policy Alternatives

The federal government could also reduce the energy burdens of low-income households by devoting more resources to the current low-income weatherization assistance program or to general cash assistance programs. These options would more directly address the underlying causes of high energy burdens--energy-inefficient housing and low incomes--but might leave many of the poorest households unserved.

Weatherization assistance allows low-income households to reduce their home energy consumption, thereby increasing their real incomes, reducing their need for other forms of energy assistance, and promoting one of the government's broad policy goals--

energy conservation. Weatherizing a large portion of the housing units of low-income households would increase federal expenditures in the near term but would reduce the need for such expenditures in the more distant future, by reducing the burden of high home energy prices on low-income households. Such an approach might, however, be less effective in helping renters and those whose homes are in need of major repairs.

Incorporating energy assistance into the Aid to Families with Dependent Children and the Supplemental Security Income programs would allow recipients complete flexibility in allocating their resources, while avoiding the possible conservation disincentives and administrative expenses of a separate energy assistance program. On the other hand, persons ineligible for federal cash assistance benefits would not receive any energy aid under this proposal, and those who would receive aid could use it for purposes other than home energy consumption. Moreover, benefits would probably not reflect the extent of variation in energy use among recipients of cash assistance.

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CHAPTER I. INTRODUCTION

This paper is intended to assist the Congress in addressing issues concerning the design and funding of future low-income energy assistance programs. Rapidly rising energy prices during the 1970s greatly increased household expenditures on energy, and led to the establishment of programs to assist low-income households in meeting high home energy costs. These programs--funded since 1977--have varied in their goals, and in their methods of reaching these goals. In general, the programs in effect prior to 1980 served as temporary measures to aid families facing emergencies. By contrast, the current program is intended to reduce the average energy-cost burden of low-income households, whether or not they are facing emergency hardships. All such programs have, however, been concerned with protecting low-income persons from the effects of rapid energy price increases.

CHANGING ENERGY PRICES

During the past decade, energy prices--particularly fuel oil prices--have risen at far greater rates than have prices in general. Between 1972 and 1980, the Consumer Price Index (CPI) for energy increased more than twice as fast as did the CPI for nonenergy goods, while the CPI for fuel oil, coal, and bottled gas rose four times as fast as did prices for nonenergy goods. Increases in fuel oil and gasoline prices were especially steep during the 1973 oil embargo and in the aftermath of the 1979 Iranian revolution. The decontrol of domestic oil prices, which took place between June 1979 and January 1981, also contributed to these price increases.

Energy prices are generally expected to continue to rise at a faster rate than inflation during the 1980s. Real prices for oil are generally projected to rise during this decade.[1] Natural gas

1. See, for example, Petroleum Industry Research Foundation, Oil in the U.S. Energy Perspective--A Forecast to 1990 (1980); Chase Manhattan Bank, "The Petroleum Situation," vol. 5, (Continued)

prices--which are currently subject to federal controls--are expected to rise still more rapidly since controls on most gas are scheduled to be completely phased out by January 1, 1985.

LEGISLATIVE BACKGROUND AND ISSUES FOR THE FUTURE

Congressional concern with protecting low-income persons from the hardships of rapidly rising energy costs began shortly after the oil embargo of 1973 and has been reflected in numerous legislative actions since then. In 1974, the Congress amended the Economic Opportunity Act of 1964 to authorize an Emergency Energy Conservation Services program. Annual appropriations of $200 million for energy assistance to low-income households were provided under the authority of this act in 1977, 1978, and 1979 (see Table 1).

The Congress increased funding for energy assistance to low-income households substantially in 1980 and 1981. Funding of $1.6 billion was provided in 1980 in response to the large increase in oil prices that occurred during 1979 and the Administration's decision to decontrol domestic oil prices. The Crude Oil Windfall Profit Tax Act of 1980 (P.L. 96-223) authorized an expanded low-income energy assistance program for 1981 at a funding level of up to $3.1 billion. Actual funding for 1981, however, was held to $1.85 billion--60 percent of the authorized ceiling. The Windfall Profit Tax Act also stated that, for accounting purposes, 25 percent of net revenues generated by the tax from 1982 through 1990 are to be allocated to a low-income energy assistance subaccount in the Treasury. The proposals currently being considered by the Congress for 1982 call for funding levels well below the approximately $5 billion that might be available if all the revenues in this subaccount were devoted to energy assistance.

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1. (continued)
nos. 1-2 (January/February 1981); Energy Information Administration of the Department of Energy, Annual Report to Congress, 1980; Data Resources, Inc., Energy Review (Spring 1981); CBO, The World Oil Market in the 1980s: Implications for the United States (May 1980).

TABLE 1. SUMMARY OF LOW-INCOME ENERGY ASSISTANCE PROGRAMS, FISCAL YEARS 1977-1981

Year	Program	Funds Appropriated (billions of dollars)	Households Served (millions)	Average Benefit Per Household (dollars)
1977	Special Crisis Intervention Program	0.20	1.2	140[a]
1978	Emergency Energy Assistance Program	0.20	0.9	165
1979	Crisis Intervention Program	0.20	b	b
1980	Energy Crisis Assistance Program	0.40	1.6[c]	188[d]
	Energy Allowance Program	0.80	4.4[c]	150[d]
	SSI-Energy Allowance Program	0.40	4.0[c]	97[d]
1981	Low-Income Energy Assistance Program	1.76	10.0[e]	161[f]
	Crisis Intervention Program	0.09	b	b

SOURCE: Congressional Budget Office estimates, based on published and unpublished documents.

a. CBO estimate, assuming the percent of funds spent on administration was the same as in 1978.

b. Data not available.

c. These figures represent preliminary estimates of the number of payments made to households rather than the number of households served. Some households received more than one benefit.

d. Since some households received more than one benefit, the average benefit per household is actually somewhat higher than the average listed here. Estimates are preliminary.

e. State estimates, as of January 1981.

f. CBO estimate, assuming all available funds are spent, and states spend the maximum of 7.5 percent of funds on administration.

As the Congress considers alternative energy assistance proposals for 1982 and the years ahead, numerous issues must be resolved. If the current structure of providing block grants to states is maintained, the Congress must determine whether to establish guidelines for states' use of federal funds and, if so, what type of guidelines to establish. Specific issues that either the federal or state governments must resolve include:

- Who should be eligible for benefits;
- What type of energy expenses (heating, cooling, other home energy, gasoline) should be considered in determining energy burden;
- How closely benefits should reflect a household's actual energy burden;
- What types of benefits or services should be offered;
- What amounts of federal and state funds should be provided; and
- How federal funds should be allocated among states.

Alternatively, the Congress could choose to alleviate the energy-cost burdens of low-income persons by relying on specific conservation tools such as weatherization assistance or by expanding existing income supplement programs.

PLAN OF THE PAPER

Chapter II describes how rising energy prices affect different types of households. Chapter III discusses the various goals that may be given priority in a program to help low-income households deal with high energy costs. Issues and options involved in planning future programs are examined in Chapter IV. A description of past and current federal energy assistance programs is presented in the appendix.

CHAPTER II. DISTRIBUTIONAL EFFECTS OF ENERGY PRICE INCREASES

Between 1972 and 1980, the price of fuel oil rose roughly four times as rapidly as the price of nonenergy consumer goods, and price increases for natural gas, electricity, and gasoline also outstripped inflation. As a result, direct household expenditures on energy rose from 4 percent of the nation's gross national product (GNP) in 1972 to 6 percent in 1980. The consumption of oil, natural gas, electricity, and coal by all sectors of the economy, valued at their cost to the first user, rose from roughly 5 percent of GNP in 1973 to 11 percent in 1980.[1] This chapter describes current energy expenditure patterns of different income groups and regions and examines the effects of energy price increases on different groups of households.

DISTRIBUTION OF ENERGY EXPENDITURES

Increases in energy prices affect household expenditures directly through increases in the costs of home fuel and gasoline, and indirectly through increases in the costs of products and services that use energy as an input. The impacts of these increases have been greatest, in relative terms, on the poorest households, since they spend larger portions of their incomes on energy than do other households.

Direct Energy Expenditures

Direct household energy expenditures include spending for both home energy and gasoline. Each comprises roughly half of total direct household energy expenditures in the United States,

1. Congressional Budget Office estimates, based on data from the Department of Energy's Monthly Energy Review (April 1981), and Data Resources, Inc.'s Energy Review (Winter 1980-81).

with home energy expenditures representing a greater share of total energy costs for households in the lowest income classes.[2]

It is estimated that households with incomes of less than $7,400 will spend an average of $1,140, or more than one-fifth of their incomes, directly on home energy and gasoline in fiscal year 1981, compared to $2,340 or less than 9 percent of income for all other households (see Table 2). Those with incomes exceeding $36,900 will spend $3,230, or roughly 6 percent of their incomes, directly on energy. Direct household energy expenses as a percent of income in 1981 are estimated to be fairly constant across the Northeast, North Central, and South regions--at roughly 9.3 percent--and substantially lower in the West at 7.7 percent.

Home Energy Expenditures. Expenditures on energy used in the home--i.e., excluding gasoline--consume a much greater proportion of income for low-income households than for middle- and upper-income households (see Table 3). During 1981, households with incomes below 125 percent of the federal poverty standards[3] will spend an estimated average of $790, or nearly 14 percent of their incomes, on home energy compared to $1,020, or less than 4 percent of income, for other households. Among those with incomes

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2. Estimates of household home energy expenditures presented in this chapter are based on the Department of Energy's National Interim Energy Consumption Survey (NIECS). This survey collected income, demographic, and housing data from approximately 4,000 households throughout the continental United States between September 1977 and January 1978. Data on the energy expenditures of these households during the year beginning April 1978 were obtained directly from fuel dealers and utility companies. The data were adjusted by CBO to represent expected expenditures in fiscal year 1981.

3. Unless otherwise specified, the poverty standards referred to throughout this paper are the federal poverty standards as published by the Bureau of the Census, or as estimated by CBO. In cases where reference is made to the Office of Management and Budget (OMB) poverty guidelines--the poverty guidelines generally used when administering federal programs--this reference is made explicitly.

TABLE 2. ESTIMATED AVERAGE ANNUAL HOUSEHOLD EXPENDITURES ON HOME ENERGY AND GASOLINE, BY INCOME CLASS AND REGION, FISCAL YEAR 1981

	Estimated Average Home Energy and Gasoline Expenditures in Dollars[a]	As Percent of Income[b]	Percent of all Households[c]
Estimated Household Income			
Less than $7,400	1,140	23.4	15
$7,400 to $14,799	1,550	13.9	21
$14,800 to $22,099	2,010	10.9	19
$22,100 to $36,899	2,580	9.0	28
$36,900 or More	3,230	6.2	18
Region[d]			
Northeast	2,320	9.3	23
North Central	2,300	9.3	27
South	2,110	9.4	32
West	1,860	7.7	19
Average, All Households	2,160	9.0	100

SOURCE: Congressional Budget Office estimates, based on the Department of Energy's National Interim Energy Consumption Survey, the Household Transportation Panel of the DOE's Residential Energy Consumption Survey, and the Census Bureau's March 1978 and March 1980 Current Population Surveys.

a. Energy expenditures are adjusted from the survey years to 1981 based on estimated energy price changes. The quantity of energy purchased is assumed to decrease by 0.15 percent for each one percent increase in the price of energy.

(Continued)

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TABLE 2. (Continued)

b. Average incomes are derived from the March 1978 Current Population Survey and adjusted to 1981 on the basis of CBO economic assumptions.

c. Estimate based on the March 1978 Current Population Survey, adjusted to represent 1981, and corrected for the underreporting and nonreporting of income.

d. Northeast: Maine, Vermont, New Hampshire, Massachusetts, Connecticut, Rhode Island, New York, Pennsylvania, New Jersey. North Central: Ohio, Michigan, Indiana, Illinois, Wisconsin, Minnesota, Iowa, Missouri, Kansas, Nebraska, South Dakota, North Dakota. South: Maryland, Delaware, District of Columbia, Virginia, West Virginia, North Carolina, South Carolina, Georgia, Florida, Kentucky, Tennessee, Alabama, Mississippi, Louisiana, Arkansas, Oklahoma, Texas. West: Montana, Wyoming, Colorado, New Mexico, Arizona, Utah, Idaho, Washington, Oregon, Nevada, California. Table excludes residents of Alaska and Hawaii.

exceeding $36,900, home energy expenditures are estimated to represent less than 3 percent of their incomes.

One reason that home energy expenditures account for such a high proportion of income for low-income households is that, in any one year, such households often have total consumer expenditures that exceed income. Since most middle- and upper-income households save a portion of their incomes, the ratio of home energy expenditures to total consumer expenditures varies considerably less across income classes than does the ratio of home energy expenditures to gross income.

TABLE 3. ESTIMATED AVERAGE ANNUAL HOUSEHOLD EXPENDITURES ON HOME ENERGY, BY INCOME CLASS AND REGION, FISCAL YEAR 1981

	Estimated Average Expenditures on Home Energy in Dollars[a]	As Percent of Income[b]
Estimated Household Income		
Less than $7,400	740	15.2
$7,400 to $14,799	880	7.9
$14,800 to $22,099	910	4.9
$22,100 to $36,899	1,090	3.8
$36,900 or More	1,290	2.5
Less than 125 Percent of Poverty[c]	790	13.5
Greater than 125 Percent of Poverty	1,020	3.7
Region[d]		
Northeast	1,290	5.2
North Central	1,080	4.4
South	900	4.0
West	700	2.9
Average, All Households[c]	1,000	4.2

SOURCES: Congressional Budget Office estimates, based on the Department of Energy's National Interim Energy Consumption Survey (NIECS) which covers the 12 month period from April 1978 to March 1979. Income data derived from the Census Bureau's March 1978 Current Population Survey, updated using CBO economic assumptions.

(Continued)

TABLE 3. (Continued)

a. Home energy expenditures include fuel oil, kerosene, electricity, natural gas, and liquid petroleum gas expenditures. These expenditures are adjusted from the survey year to 1981 on the basis of estimated energy price changes. The quantity of energy purchased is assumed to decrease by 0.15 percent for each one percent increase in the price of energy.

b. Incomes are adjusted to 1981 on the basis of CBO economic assumptions. Households with negative total incomes because of self-employment losses are excluded when calculating average incomes.

c. The NIECS only collected data on a household's income class, such as less than $3,000, or between $3,000 and $5,000. In order to determine a household's poverty status, each household was assumed to have income equal to the midpoint of its income class. For example, a household reporting income between $3,000 and $5,000 would be assumed to have income of $4,000 in order to calculate the ratio of household income to the poverty guideline.

d. See footnote to Table 2 for a list of the states in each region. Table excludes residents of Alaska and Hawaii.

Average home energy expenses also vary substantially among regions, ranging from an estimated $700 in the West to $1,290 in the Northeast in 1981. This variation reflects differences in climate, as well as differences in the type of fuel used for heating and in average energy prices. For instance, 43 percent of all households in the Northeast relied on costly fuel oil or kerosene for heating as of November 1979, compared to fewer than 12 percent of all households in other regions (see Table 4). Households in the North Central regions and in the West, on the other hand, benefit from the widespread use of natural gas, a fuel that is relatively inexpensive under federal price controls.

TABLE 4. ESTIMATED AVERAGE ANNUAL HOUSEHOLD HOME ENERGY EXPENDITURES, BY TYPE OF FUEL USED FOR HEATING AND REGION, FISCAL YEAR 1981 (In dollars)

	All Regions[a]	Northeast	North Central	South	West
Estimated Average Home Energy Expenditure for Households Heating with:[b]					
Natural Gas	890	1,080	970	840	680
Fuel Oil or Kerosene	1,560	1,690	1,690	1,240	1,160
Electricity	830	770	1,130	860	660
Liquid Petroleum Gas (LPG)	1,030	1,250	1,360	890	1,080
Other	570	560	710	580	440
Percent of Households Heating Principally with:[c]					
Natural Gas	55	41	77	38	68
Fuel Oil or Kerosene	19	43	13	15	5
Electricity	17	10	4	30	18
Liquid Petroleum Gas (LPG)	5	1	4	9	3
Other	5	5	2	7	5

SOURCE: Congressional Budget Office estimates, based on the Department of Energy's National Interim Energy Consumption Survey, and the DOE's 1979 Household Screener Survey.

NOTE: Details may not sum to totals because of rounding.

a. Table excludes residents of Alaska and Hawaii. See footnote to Table 2 for a list of state in each region.

b. These expenditures are adjusted from the survey year to 1981 on the basis of estimated energy price changes. The quantity of energy purchased is assumed to decrease by 0.15 percent for each one percent increase in the price of energy.

c. As of November 1979.

Households in the West also benefit from lower-than-average electricity prices, largely because of the availability of relatively inexpensive hydroelectric power.[4]

Some of the differences in average home energy expenses among households heating with different fuel types are likely to lessen during the 1980s. During the 1970s, fuel oil prices increased faster, on average, than natural gas prices. This process is likely to reverse itself in the 1980s--with natural gas prices rising at a far greater rate than fuel oil prices--since controls on the great majority of natural gas prices are scheduled to be lifted by January 1, 1985.

Gasoline Expenditures. Gasoline expenditures also consume a larger share of income for low-income households than for middle- and upper-income households, but the differences among income classes are much smaller. It is estimated that households with incomes below $7,400 will spend an average of $400, or over 8 percent of their income, on gasoline in fiscal year 1981, compared to $1,940 or less than 4 percent of income to be spent by households with incomes greater than $36,900 (see Table 5). Much of the difference among income classes in average gasoline expenditures is attributable to differences in the proportion of households owning motor vehicles.

Estimated average household gasoline expenditures vary little among the North Central, South, and West regions, but are 11 percent below the national norm in the Northeast--as of 1981--largely because a smaller proportion of households in that region own cars. The Northeast's lower-than-average gasoline expenditures serve to offset its higher-than-average home energy expenditures.

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4. See Harold Beebout, Gerald Peabody, and Pat Doyle, "The Distribution of Household Energy Expenditures and the Impact of High Prices," prepared for a conference on "High Energy Costs: Assessing the Burden," organized by Resources for the Future and The Brookings Institution, October 1980, for further discussion of the many factors affecting home energy consumption.

TABLE 5. ESTIMATED AVERAGE ANNUAL HOUSEHOLD GASOLINE EXPENDITURES BY INCOME CLASS AND REGION, FISCAL YEAR 1981

	Estimated Average Gasoline Expenditures in Dollars[a]	As Percent of Income[b]
Estimated Household Income		
Less than $7,400	400	8.2
$7,400 to $14,799	670	6.0
$14,800 to $22,099	1,110	6.0
$22,100 to $36,899	1,490	5.2
$36,900 or More	1,940	3.7
Region[c]		
Northeast	1,030	4.1
North Central	1,220	4.9
South	1,210	5.4
West	1,160	4.8
Average, All Households	1,160	4.8

SOURCE: Congressional Budget Office estimates, based on the Household Transportation Panel of the Department of Energy's Residential Energy Consumption Survey, which covers the 12-month period from June 1979 to May 1980, and on the Census Bureau's March 1978 and 1980 Current Population Surveys.

a. These expenditures are adjusted from the survey year to 1981 on the basis of estimated energy price changes. The quantity of energy purchased is assumed to decrease by 0.15 percent for each one percent increase in the price of energy.

b. Incomes are adjusted to 1981 on the basis of CBO economic assumptions. Households with negative total incomes due to self-employment losses are excluded when calculating average income.

c. See footnote to Table 2, for list of states in each region. Table excludes residents of Alaska and Hawaii.

Indirect Energy Expenditures

Indirect energy expenditures--that is, the cost of energy used in the production of goods and services--are estimated to comprise at least as great a share of average household income as direct energy expenditures. Industries that produce goods such as food, textiles, appliances, and automobiles are particularly large energy users, and the federal government also accounts for a significant portion of the nation's energy consumption. A study based on the 1960-1961 and 1972-1973 Consumer Expenditure Surveys indicates that, as of 1974, these indirect energy expenditures consumed a greater share of the income of low-income households than of higher-income households, but that the share varied less among income classes than did the share of income spent on energy directly.[5]

EFFECTS OF ENERGY PRICE INCREASES ON INCOME

Rising energy prices will affect households' real income positions in a number of ways other than through increased energy-related expenditures. The burden of energy price increases depends to a large extent on the degree to which a person's income rises in response to increasing price levels.[6] Wages and salaries, unearned income such as pensions and transfer benefits, and in-kind benefits such as food stamps and Medicaid, vary widely in the degree to which they increase along with increases in the cost of living. Higher energy prices have also led to significant

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5. James P. Stucker, "The Impact of Energy Price Increases on Households: An Illustration," the Rand Corporation (January 1976). See Robert A. Herendeen and Charlotte Ford, "Energy Cost of Living, 1972-73," Energy Research Group, University of Illinois at Urbana-Champaign (November 1980), for information on the relationship between indirect energy consumption and family expenditure levels. The Department of Energy is currently updating data from the 1972-1973 Consumer Expenditure Surveys to reflect a more current time period, but this work has yet to be completed.

6. The amount of protection against rising energy prices that a household receives when wages or benefits are indexed to the CPI depends on the degree to which the CPI reflects changes in the actual cost of living for that household. Evidence is mixed concerning the degree to which the CPI correctly mirrors changes in the cost of living for poor households.

structural shifts in the American economy and have changed the levels as well as the distributions of wages, profits, and employment opportunities. These latter effects are extremely complex, however, and their impact on households in different income groups is not known.

Earnings

The effect of energy price increases on wages varies widely among different groups of workers since those who receive cost-of-living pay increases are largely protected against rising prices. Workers covered by contracts that provide for automatic cost-of-living salary adjustments are estimated to comprise a relatively small proportion of the labor force, however, and between 1972 and 1980, average hourly earnings in the private nonagricultural sector declined 9 percent in real terms.[7] Although increases in the minimum wage have afforded persons with very low earnings some protection against rising prices, the minimum wage has not kept pace with inflation over the last decade.

Unearned Income

In general, low-income households have more of their unearned income directly indexed to the CPI than do middle- and upper-income households, and this unearned income constitutes a much larger proportion of their total income, on average. It is estimated that roughly two-thirds of the unearned income, or 40 percent of the total income, of families with incomes below $8,000 in 1979 was indexed directly to the CPI, compared to an estimated

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7. Information on the proportion of workers covered by contracts that provide for automatic cost-of-living salary adjustments is only available for workers covered by large union contracts. It is generally believed, however, that few nonunionized workers receive automatic cost-of-living salary adjustments, and nonunionized workers are estimated to account for roughly three-fourths of all workers in the private nonagricultural sector. An estimated 57 percent of workers participating in collective bargaining situations involving 1,000 workers or more are covered by contracts that provide for automatic cost-of-living salary adjustments.

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42 percent of unearned income, or 8 percent of total income, for the average household. Among families in all income classes, the elderly are especially likely to have unearned income that increases along with the cost of living. Families with incomes below $8,000 in 1979, and containing persons aged 65 or older, had 81 percent of their unearned income and 76 percent of their total income indexed to the CPI, compared to 38 percent of unearned income and 14 percent of total income for families in the same income class but not containing an elderly member.

These large variations in the indexation of income among different demographic groups reflect the fact that some types of unearned income are fully indexed to the CPI while other types are not indexed at all. Social Security benefits, federal retirement pensions, and the federal portion of Supplemental Security Income (SSI) benefits are fully indexed to the CPI. On the other hand, most states do not index Aid to Families with Dependent Children (AFDC), the state portion of SSI, or General Assistance (GA) benefits to any cost-of-living factor. Between 1972 and 1979, the average AFDC state payment standard declined 17 percent after adjusting for inflation.[8]

In-Kind Benefits

For many low-income households, the indexation of food stamp benefits to food price changes, and the complete medical-expense coverage available through Medicaid offset the indirect effects of energy price increases on the costs of food and medical care. In addition, roughly 40 percent of households participating in the food stamp program receive a 30 cent increase in the value of their food stamps for every dollar increase in their home energy expenditures, because of a shelter deduction used in determining food stamp benefits.[9] The Administration has proposed ending the

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8. Richard Kasten and John Todd, "Transfer Recipients and the Poor During the 1970s," Prepared for Second Research Conference of the Association of Public Policy Analysis and Management, October 1980. See also, Congressonal Budget Office, Indexing with the Consumer Price Index: Problems and Alternatives (June 1981), Appendix B, for a detailed description of the effects of indexation on AFDC, SSI, and Social Security recipients.

9. This estimate is as of August 1980.

indexation of the maximum allowed shelter deduction. If this change were enacted, the number of households partially protected in this way would decline in future years, all other things being equal.

CONCLUSION

Energy price rises may bring about complex and far-reaching changes in direct and indirect energy expenditures and in income flows. Available evidence concerning household consumption and income patterns indicates that the overall impact of the energy price rise has been greater, in relative terms, on low-income households than on middle- and upper-income households, largely because low-income households spend more of their incomes on energy, as they do on all necessities. The impact of higher energy prices varies widely among households in the same income class, however, in accordance with such factors as climate, the type of heating fuel used, and automobile driving patterns.

The burden of rising energy prices on low-income households may be at least partially offset by the indexation of major portions of their income to the cost of living. Many low-income households--especially those that are elderly--receive benefits such as Social Security, SSI, food stamps, or Medicaid, and these benefits increase to some extent along with increases in the cost of living. On the other hand, the minimum wage has not kept pace with inflation over the last decade. Higher energy prices have also changed the distribution of wages, profits, and employment opportunities among industries, and the impact of these changes on low-income households is not known.

CHAPTER III. GOALS OF ENERGY ASSISTANCE PROGRAMS

Rapid energy price rises over the last decade have led the federal government to institute a series of low-income energy assistance programs, and proposals currently before the Congress would authorize such programs in future years as well. Proponents of energy assistance programs have argued at various times that such programs are needed to:

- o Ensure an adequate consumption of home energy by low-income households;
- o Offset the effects of rising energy prices on the real incomes of poor persons; and
- o Promote energy conservation.

While the principal goal of any energy assistance program has significant implications for program design, some goals may be achieved by more than one type of program. Furthermore, certain types of programs may help to achieve more than one goal. This chapter discusses each of the possible program goals, and analyzes the implications of various mechanisms that may be used to achieve these goals.

ENSURING ADEQUATE HOME ENERGY CONSUMPTION LEVELS

Because high energy prices put a strain on many low-income family budgets, some policymakers argue that it is appropriate to subsidize such families' consumption of home energy to ensure that they are able to consume home energy at some minimum level. Similar arguments have been used to justify federal subsidies for food, housing, and medical care. It is argued that energy used for home heating or cooling qualifies as a "merit good" to the extent that a certain amount of this good is necessary to maintain healthy living conditions. Beyond this "necessary" level, however, one can contend that energy becomes a discretionary or luxury item, to which the "merit good" argument does not apply.

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If the government wishes to ensure an adequate consumption of energy by the poor, it can (1) tie benefits to actual energy use through some type of subsidy program, (2) increase the income of the poor, or (3) make their homes more energy-efficient. All other things being equal, a subsidy tied specifically to energy use may increase consumption more per federal dollar spent than would an unearmarked income transfer program. By the same token, it may provide households with an incentive to consume more energy than they otherwise would, even after their energy consumption has surpassed the "necessary" level, thereby leading to a level of energy consumption deemed too high in terms of economic efficiency. In view of the fact that energy conservation is one of the nation's highest priorities, this effect may be seen as particularly undesirable. Weatherization assistance--like a subsidy for home energy--would allow households to consume the "necessary" amount of home energy at a lower cost, but would tend to decrease total energy consumption.

Rather than attempting to subsidize home energy consumption for all low-income households, an energy assistance program might aim solely at helping them avert crises such as the disconnection of utilities or the inability to obtain fuel during winter months. Since low-income households generally operate on very tight budgets and do not have large savings, they often experience difficulty in paying large energy bills. The strain becomes especially acute during periods of unusually severe weather or rapidly rising energy prices. In addition, fuel companies, facing tight budget constraints of their own, are often unwilling to extend credit to poor persons, who have little access to credit in general.

Crisis assistance payments may be only a partial solution. They are generally designed as temporary, one-time-only measures to help households that are experiencing abnormally difficult circumstances such as large, sudden price rises and unusually severe weather conditions. These may constitute abnormally difficult circumstances, but they are not the only causes of difficulty. Long-term conditions such as high energy prices, low levels of income, and lack of access to credit contribute significantly to the emergency energy crises of the poor. Thus, emergency programs may lead to the use of temporary, stopgap measures to deal with long-term problems.

Current and past energy assistance programs have generally tied benefits, to some extent, to recipients' actual home energy expenses in order to help them acquire adequate amounts of home energy. Under the current program, all households meeting income eligibility criteria may receive benefits that are determined by their home heating needs and incomes. Earlier programs provided benefits only to those households actually experiencing emergency hardships.

OFFSETTING THE EFFECTS OF HIGHER ENERGY PRICES ON THE REAL INCOMES OF THE POOR

Proponents of low-income energy assistance programs also argue that such aid is needed to offset part of the effects of energy price increases on the real incomes of poor persons. According to this argument, energy price increases cause an "inequitable" redistribution of income because poor persons spend larger proportions of their income on energy than do other persons. Proponents also contend that the federal government has a particular obligation to protect low-income persons from the effects of energy price increases because the government's decontrol of domestic oil prices contributed to these increases. This rationale was reflected in the Crude Oil Windfall Profit Tax Act of 1980, which authorized a low-income energy assistance program for 1981, and specified that, for accounting purposes, 25 percent of the net revenues generated by the tax from 1982 to 1990 are to be allocated to a low-income energy assistance subaccount in the Treasury.

Here again, critics of an in-kind assistance or subsidy program argue that to redistribute income in this manner may distort the system of relative prices faced by the poor, and may lessen incentives for conservation. Such an effect is particularly troublesome since it counteracts the nation's energy conservation policy.

Opponents of this approach further argue that many other government policies may also tend to reduce the real incomes of the poor, and that rather than attempting to offset the effects of all these various policies in a piecemeal fashion, it would be better to provide low-income families with adequate financial resources through general cash assistance programs.

PROMOTING ENERGY CONSERVATION

A low-income energy assistance program could be designed primarily to promote energy conservation, rather than simply to ensure adequate levels of home energy consumption, or to offset the effects of energy price increases on the incomes of the poor. Some argue that because energy-inefficient housing constitutes a major cause of the burden of high home energy prices on low-income households, encouraging weatherization would be a preferable long-term approach to the problem. Furthermore, the federal government currently foregoes significant amounts of tax revenues in order to help taxpayers improve the energy-efficiency of their homes or make use of alternative energy sources, and some argue that the government should devote similar levels of resources to helping low-income households achieve these goals.[1]

Those who oppose gearing an energy assistance program toward promoting energy conservation argue that although home improvement measures may serve as a complement to other forms of energy assistance, they cannot be a substitute for them. Many households--renters and those whose homes are in need of major nonenergy-related repairs, in particular--may not be able to benefit from weatherization assistance or other types of conservation programs, and some low-income households may face unusually high home energy expenses even after conservation measures have been taken. Furthermore, the average cost of weatherizing housing units far exceeds the average annual benefits available under the current energy assistance program. As a result, far fewer households might be served in the short run under a program emphasizing weatherization than under a program providing home energy subsidies.

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1. In 1978 alone, an estimated 5.8 million tax filing units--most of whom were in middle-income or upper-income brackets--received residential energy tax credits totaling an estimated $573 million.

CHAPTER IV. ISSUES AND OPTIONS

Various proposals now before the Congress would extend current low-income energy assistance block grants into 1982 and beyond, with differing restrictions on states' use of funds. Such restrictions would determine, to a large extent, who would be aided by the programs, what the effects on energy consumption would be, and, in general, what trade-offs states would be able to make among possible program goals. The Congress also faces choices regarding how much and what type of aid to provide to low-income households to permit them to improve the energy-efficiency of their homes.

This chapter discusses the principal program-design issues involved in choosing among various block grant proposals and concludes with a discussion of increased funding for weatherization or increased cash assistance benefits as alternatives or supplements to a separate energy assistance program.

BLOCK GRANTS

The states and territories received block grants totaling nearly $1.76 billion in 1981, to be used to offset low-income households' high home heating and, in some cases, home cooling costs. The Congress placed a number of restrictions on how states could distribute benefits, requiring, for instance, that they ensure that households with the lowest incomes and the highest home heating or cooling expenses in relation to income receive the largest benefits. In addition to the block grants, the Community Services Administration (CSA) received nearly $90 million for an energy crisis intervention program.

Under several proposals currently before the Congress--summarized in Table 6--energy assistance would continue to be provided in 1982. The House Ways and Means Committee's proposal and the Senate Labor and Human Resources Committee's proposal

TABLE 6. PROVISIONS OF THE 1981 LOW-INCOME ENERGY ASSISTANCE PROGRAM AND OF SELECTED 1982 ENERGY AND EMERGENCY ASSISTANCE PROPOSALS

Proposal	Funding Level[a] (In billions of dollars)	Income Eligibility Guidelines	Allowable Use of Funds	Benefit Structure	Types of Benefits Provided
1981 Program	1.85	Lower Living Standard, or 125 percent of poverty line for a one-person household, or federal public assistance recipiency	Home heating or medically necessary cooling expenses	Highest benefits to those with lowest incomes, and with highest home energy expenses in relation to income	Cash, vendor payments, and vouchers; limit of 3 percent of funds for emergency assistance[b]
House Ways and Means Committee Proposal	1.40	150 percent of poverty line, or 60 percent of state median income, or federal public assistance recipiency	Home energy assistance	Similar to current program, but federal restrictions less strict	No federal restrictions
Senate Labor and Human Resources Committee Proposal	1.88	No federal restrictions but priority given to those with incomes below the Lower Living Standard or 125 percent of poverty line if a one-person household	Home energy assistance	Similar to current program, but federal restrictions less strict	Cash, vendor payments, and vouchers; limit of 10 percent of funds for weatherization; "reasonable" amount for emergency assistance[b]
H.R. 3469	1.40	No federal restrictions	Energy or other emergency assistance	No federal restrictions	No federal restrictions

SOURCE: Congressional Budget Office.

a. Actual funding level for 1981 program and proposed funding levels for 1982.

b. Emergency assistance may include goods such as blankets or space heaters, minor home repairs, or cash or vendor payments. In 1981, such assistance may also be provided through the Community Services Administration's crisis intervention program.

would authorize programs similar to the current one.[1] However these proposals would eliminate or make less stringent many of the current program's requirements concerning states' allocation of benefits, and would allow states much more flexibility in determining how to satisfy the remaining requirements. The Ways and Means Committee proposal would reduce funding for energy assistance to $1.4 billion in 1982 and $1.6 billion in 1983, while the Labor and Human Resources Committee's proposal would allow for funding of up to $1.88 billion in 1982 through 1986. Under the Ways and Means Committee's proposal, funds would be distributed as matching grants in 1983, with the federal government providing 80 percent of total funding.

The Administration initially proposed a sharply different type of block grant program to replace low-income energy assistance block grants, the CSA crisis intervention program, and the Emergency Assistance matching grant program (Title IV-A of the Social Security Act), which serves families with children and is expected to cost the federal government $54.6 million in 1981. Under this proposal--submitted as H.R. 3469--states would receive block grants that they could use to provide energy assistance or any emergency service. For example, states could use funds to provide temporary shelter, food, clothing, transportation, or home repairs to households experiencing such types of emergencies as civil disorders, natural disasters, destitution, eviction, or stolen checks. H.R. 3469 would set funding at $1.4 billion annually in 1982 through 1985, or roughly 73 percent of the amount appropriated for energy and emergency assistance in 1981, but states would have complete flexibility in designing programs to fit local needs and to help adjust to the decrease in funds.

In choosing among these and other block grant proposals, the central issue concerns the degree to which the federal government should restrict states' use of funds. Specific program-design issues include:

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1. The House Ways and Means Committee and Senate Labor and Human Resources Committee proposals referred to here are the recommendations made by those bodies in satisfying budget reconciliation instructions embodied in the First Concurrent Resolution on the Budget for 1982. The Administration's proposal referred to here is its original proposal for energy assistance, which was introduced as H.R. 3469 on May 6, 1981.

- Who should be eligible for benefits;
- What types of energy expenses should be included in determining a household's energy burden;
- How closely benefits should be tied to a household's actual energy burden;
- What types of benefits or services should be offered;
- What amount of federal and state funds should be provided; and
- How federal funds should be allocated among states.

The following sections discuss each of these issues, the ways in which the past and current programs have addressed them, and how they might be dealt with in future years.[2]

Eligibility

The restrictions placed on eligibility for energy assistance may reflect the relative energy burdens of poor and near-poor households, as well as the goals of an energy assistance program. Any income eligibility guideline, although necessarily somewhat arbitrary, reflects some judgment concerning the level at which energy-cost burdens become excessive. Placing categorical restrictions on eligibility--for instance, offering aid only to elderly households or only to those with children--implies that certain types of households are more vulnerable to crisis situations, or are more in need of energy as a merit good.

Eligibility decisions, combined with the level of total funding and participation rates, determine the amount of benefits that assisted households receive. Making energy assistance payments to households with incomes well above the poverty line without increasing program funding or closely tailoring benefits to actual

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2. A more detailed discussion of past and current energy assistance programs can be found in the appendix.

energy burdens may leave an inadequate amount of aid for the poorest households. For example, if $1.4 billion in funds were made available in 1982, if administrative costs are assumed to equal 7.5 percent of total funds, and if only those households with incomes below the Office of Management and Budget's poverty guideline--an estimated 8.5 million--participated in the program, then benefits would average $152 per household (see Table 7).[3] If households with incomes below the Bureau of Labor Statistics' Lower Living Standard also participated--an additional 6.5 million households--then the average benefit per household would drop to $86. Granting automatic eligibility to all recipients of AFDC, SSI, or food stamps, regardless of income, could increase the number of participating households by 2.6 million, further reducing the average benefit level to $74. (Under any of these eligibility criteria, the number of participants would likely be lower, and the average benefit higher, than the estimates given above indicate, since it is unlikely that all eligible households would participate in the program.)

Past and Current Programs. Before 1980, energy assistance programs generally served households with incomes below 125 percent of the OMB poverty guideline. States were required to extend priority to elderly and disabled households, and some states chose to serve only those households. Since these programs were intended to aid households facing emergency situations, households paying for energy indirectly--that is, through their rent--were not eligible for benefits.

In 1980, households with incomes below 125 percent of the OMB poverty guidelines continued to qualify for energy assistance under the Energy Crisis Assistance Program, and SSI recipients received automatic payments under the SSI Energy Allowance Program. In addition, states received energy assistance funds in the form of block grants, and many states distributed such funds as automatic payments to recipients of AFDC, food stamp, or General Assistance benefits.

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3. Households with incomes below the poverty line are estimated to spend more than 1.6 times as large a proportion of their incomes on home energy as those with incomes between the poverty line and the BLS Lower Living Standard.

TABLE 7. NUMBER OF HOUSEHOLDS ELIGIBLE FOR ENERGY ASSISTANCE AND AVERAGE BENEFIT PER ELIGIBLE HOUSEHOLD, UNDER VARIOUS INCOME ELIGIBILITY CRITERIA, IF FUNDING WERE $1.4 BILLION, FISCAL YEAR 1982

Household Income Eligibility Criteria	Number of Eligible Households (millions)	Average Benefit Per Eligible Household (dollars)[a]
Below Poverty Guideline[b]	8.5	152
Below 125 Percent of Poverty Guideline	12.0	108
Below 125 Percent of Poverty Guideline or the Lower Living Standard[c]	15.0	86
Below 125 Percent of Poverty Guideline or the Lower Living Standard, or Household Contains a Recipient of AFDC, SSI, or Food Stamp Benefits	17.6	74

SOURCE: Congressional Budget Office estimates, based on the Census Bureau's March 1978 Current Population Survey and corrected for the underreporting of income.

a. Assumes administrative costs of 7.5 percent.

b. As established by the Office of Management and Budget.

c. As established by the Bureau of Labor Statistics.

In 1981, households with incomes below the BLS Lower Living Standard, one-person households with incomes below 125 percent of the OMB poverty line, and households containing an AFDC, SSI, food stamp, or certain veterans' benefit recipient were eligible to receive energy assistance. States had the option of applying more restrictive income eligibility standards, however, and many chose to do so.[4] In some cases, households were required to have incomes below the poverty line in order to receive benefits. States estimated that roughly 10 million households would participate in the program, out of a potentially eligible population of 17.2 million, with benefits averaging roughly $160, or 19 percent of the average home energy expenditures of all potentially eligible households.

Although federal public assistance recipients were automatically eligible for benefits in 1981, states were not permitted to serve only public assistance recipients or to place other categorical restrictions on eligibility. Rather, they were required to serve the poorest households first, regardless of family composition or source of income, thereby ensuring that very poor households not receiving other types of public assistance would be able to receive energy aid. They were, however, required to give priority to the elderly and disabled through special outreach and intake activities, and some states were allowed to set more liberal benefit schedules for such households, as well.

Other Options. Rather than setting nationwide income eligibility standards, the federal government could allow each state to specify its own income eligibility standards. It is unlikely that the lack of federal income eligibility guidelines would lead most states to set high income limits, since most states chose to set eligibility guidelines in 1981 that were more restrictive than those set by the federal government. At least 19 states did,

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4. Information presented in this chapter and in the appendix with regard to state plans for 1981 is as of June 19, 1981, but is preliminary. Not all states have verified that the Department of Health and Human Services (HHS) has correctly recorded the provisions of their plans. Furthermore, states may change their plans as the year progresses.

however, set income eligibility guidelines at the federal maximum. If these or other states chose to raise their guidelines in the absence of a federal maximum, the result might be less targeting to those most in need than under the current program.

Conversely, the Congress could lower the current federal income eligibility standards--to the poverty guideline, for example. While this would ensure that all aid would be targeted on the very poorest households, it might force states to use their own funds to aid near-poor and lower-middle-income households with very high home energy expenses.

The Congress could also allow states to set categorical eligibility restrictions--that is, to serve only families with elderly or disabled members, or only families with children, or only families receiving another form of public assistance. If states were allowed to impose categorical restrictions, they could target assistance on certain types of households thought to be most in need of energy assistance as a merit good, or to use the funds to avert crisis situations. On the other hand, providing aid only to public assistance recipients (such as those receiving AFDC or SSI) would not ensure that benefits were paid to the poorest households, but would serve as a means of indirectly increasing welfare benefits. Among households with incomes below 125 percent of the OMB poverty guideline, an estimated 35 percent do not contain recipients of AFDC, SSI, or food stamps. Furthermore, an estimated 32 percent of households receiving AFDC, SSI, or food stamps have incomes above 125 percent of the OMB poverty guidelines.

The Ways and Means Committee proposal would set income eligibility guidelines at 150 percent of the OMB poverty guidelines or 60 percent of state median income, whichever was higher, and, like the current program, would grant automatic eligibility to federal public assistance recipients. Under the Ways and Means Committee's proposal, states would be required to provide assistance to the lowest income households, regardless of public assistance recipiency, only to the extent that such provision would be consistent with the efficient and timely payment of benefits. Each state could exercise the option of having the Department of Health and Human Services make automatic payments to SSI recipients, excluding those who do not bear a burden from rising home energy costs--for example, persons in institutions.

The Labor and Human Resources Committee's proposal would not establish any income eligibility guideline, but would require that states give priority to households with incomes below the Lower Living Standard or 125 percent of the poverty guideline for a one-person household. Like the Ways and Means Committee's proposal, it would require states to serve those households with the lowest incomes, but would not prohibit states from treating non-public assistance households differently from public assistance households.

H.R. 3469 would allow states complete flexibility in setting income as well as categorical eligibility criteria.

Types of Energy Expenses to be Covered

The goal of an energy assistance program may determine whether heating expenses, cooling expenses, all home energy expenses, or home energy as well as gasoline expenses will be used to determine a household's benefit. A program aimed at providing energy assistance as a merit good or averting crisis situations might cover only home heating or cooling expenses, while one aimed at offsetting the effects of energy price increases on the real income of poor persons might take all types of energy expenses into account.

Past and Current Programs. Until 1981, energy assistance was intended to serve households facing winter-related energy crises, and therefore was targeted on households with high home heating costs. Under the 1981 program, households with high home heating or medically necessary cooling expenses were eligible for aid. Only 12 states--including only 7 of 17 Southern states--chose to set aside funds for cooling assistance in 1981.[5] Other states, however, plan to use funds left over from their winter heating assistance programs to aid households with large summer cooling bills.

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5. Other states have plans under review by HHS that would establish cooling assistance programs.

Other Options. The Congress could require states to consider all types of energy expenses, not just home heating or cooling expenses, when allocating aid. Then households with low home energy costs but with high gasoline bills or high general household expenses would receive more aid, but those with exceptionally high heating (or cooling) expenses might receive less. If states were to take into account a wider range of energy expenses when distributing benefits, it would serve as less as a subsidy for home energy consumption, and more as a means of offsetting the effects of higher energy prices on poor persons' real incomes.

Under the Ways and Means Committee's proposal and the Labor and Human Resources Committee's proposal, benefits are intended to help offset only home heating and cooling expenses. States would be given considerable flexibility, however, in determining the degree to which such expenses were taken into account when determining benefits. Under H.R. 3469, states could take any type of household expenses--energy-related or otherwise--into account in determining benefits.

Relation of Benefits to Actual Energy Expenses

The targeting of an energy assistance program depends not only on eligibility standards but also on the distribution of benefits among eligible households. The degree to which energy assistance benefits are tied to actual energy expenses affects who the program assists as well as the incentives (or disincentives) for conservation and the ease and costs of administration.

Past and Current Programs. Until 1980, most states simply made energy assistance payments up to a certain maximum on behalf of households with large winter heating bills. This procedure tied benefits to some extent to a household's level of energy expenses, but not to its energy burden, as measured by the proportion of income spent on energy. Moreover, households paying for energy indirectly--that is, through their rent--generally were ineligible for benefits under these programs.

States continued to distribute some benefits in this manner in 1980 but also distributed some benefits as automatic payments to public assistance recipients. These automatic payments--while simple and relatively inexpensive to administer--were not closely tied to actual energy expenses.

During 1981, states are required to allocate energy assistance benefits in accordance with households' actual energy burden based on such factors as the type of fuel used for heating, intrastate region (a proxy for climate), household size, and household income. The largest benefits must be given to households that are estimated to have the largest heating or cooling expenses in relation to income. Renters paying for home energy indirectly are eligible for benefits comparable to those of similarly-situated homeowners.

Since this approach ties benefits to factors that relate to a household's home energy burden--such as intrastate region--but not to a household's actual home energy expenditures, it likely leads to fairly small conservation disincentives in the short run. In the long run, however, it might cause households to make decisions concerning location and heating fuel that are economically inefficient. Furthermore, this benefit structure requires a relatively large amount of information on household characteristics and, therefore, relatively high administrative costs.

Other Options. Rather than tying benefits closely to actual energy burden as in the 1981 program, the Congress could allow states to make payments less closely tied to actual indicators of energy need--for example, by making flat payments to all households eligible for the program. Making flat payments would minimize administrative difficulties and costs, as well as conservation disincentives, but would also decrease the share of aid going to households with high energy burdens.

Alternatively, the Congress could also restructure the energy assistance program around its original goal--that of aiding households that are in emergency energy-related situations. If emergency situations were determined by the size of a household's home energy bill, then benefits would be more closely tied to actual energy expenditures, which would probably decrease incentives for conservation. In addition, if only those households having large unmet energy bills were served--as often occurred under past programs--households that did not pay their bills would receive benefits, while those who paid their bills, but at great sacrifice, would not. Households paying for energy indirectly would probably not receive much energy aid under such an option since the home energy expenses of these households are paid evenly throughout the year.

The House Ways and Means Committee's proposal for 1982, like the current program, would require states to allocate the largest benefits to those households with the lowest incomes and the highest home energy expenses in relation to income. But states would be required to use such an allocation method only to the extent that it would be consistent with the efficient and timely payment of benefits. Consequently, benefits might not always be closely tied to actual household home energy burdens. More use might be made of automatic payments to public assistance recipients than under the current program, in order to administer benefits as quickly as possible, and at a minimum cost.

The Senate Labor and Human Resources Committee's 1982 proposal would also require states to allocate the largest benefits to those with the lowest incomes and the highest home energy expenses in relation to income, but, unlike the current program, it would allow states complete flexibility in determining methods to meet this requirement.

H.R. 3469 would place no restrictions on the relation between benefits and a household's actual energy expenses. In fact, program funds could be used for any emergency, whether or not it was energy-related. This proposal might result in a sharp decrease in the relative amount of aid going to households with high energy burdens.

Types of Benefits and Services

The form in which benefits are paid reflects the degree to which the government wishes to exercise control over the consumption patterns of recipients. Direct cash payments to households are, in general, the simplest type of benefit to administer and allow the maximum amount of consumer choice, but they do not guarantee that a household consumes a minimum level of home energy or that home energy bills are actually paid. Vendor payments and two-party checks, by contrast, ensure that benefits are actually used for home energy but may be more costly and more difficult to administer. Providing benefits in the form of goods such as blankets or space heaters limits the consumer choice of households even more severely. Weatherization assistance, like vendor payments, ties benefits directly to home energy expenditures but tends to decrease home energy consumption.

Past and Current Programs. Cash and vendor payments, two-party checks and other types of vouchers, and in-kind assistance in the form of consumer goods have been provided under past energy-assistance programs, with direct cash payments and vendor payments generally the most common. The current program prohibits states from distributing more than 3 percent of their block grant funds in the form of consumer goods or minor home repairs, and from using any such funds to weatherize homes. This ensures that most households receive benefits in cash, or in a form that serves nearly the same purpose as cash (such as vendor payments or two-party checks), and allows recipients a great amount of choice over how to allocate resources. But it also restricts states' flexibility in choosing the form of benefits most suitable, or most cost-effective, in a particular situation.

Other Options. One means of emphasizing the crisis assistance role of an energy assistance program would be to allow or require states to provide aid in the form of household goods such as blankets or space heaters. Providing aid in the form of household goods rather than in cash allows states to ensure, to some extent, that such aid is used for the purpose intended. In some cases, however, these goods may be of less value to recipients than their cash equivalent would be.

Alternatively, if the Congress wished to focus on energy conservation, it could allow states to provide assistance in the form of weatherization. If states did, in fact, use a large portion of their funds for cost-effective weatherization activities, then long-term gain from the program might increase, since less energy would be consumed in future years. On the other hand, the number of households receiving any form of energy assistance could decline significantly. Costs under the current low-income weatherization assistance program average an estimated $1,000 per household--the maximum allowable in most areas--while energy assistance benefits currently average an estimated $161. Serving the same number of households as under the current program and providing aid in the form of weatherization would require much higher levels of funding for energy assistance over the next few years, but much lower levels in the more distant future.[6]

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6. The benefits and limitations of low-income weatherization assistance are discussed in greater detail in the last section of this chapter.

Under the Ways and Means Committee's 1982 proposal--as under H.R. 3469--states would be free to provide benefits in any form they chose, including cash, vendor payments, consumer goods, and weatherization assistance.[7] The Labor and Human Resources Committee's proposal, on the other hand, would prohibit states from providing more than 10 percent of benefits in the form of weatherization assistance, and from providing more than a "reasonable amount" in the form of crisis assistance-related consumer goods.

Funding Levels

Setting funding levels for an energy assistance block grant program, although a somewhat arbitrary process, involves making judgments about the magnitude of low-income households' energy burdens, as well as about the federal government's obligation to help offset those burdens. Federal funding for low-income energy assistance has grown rapidly in recent years--from $200 million in 1977 to $1.85 billion in 1981--reflecting the rapid increases in prices that occurred during that period as well as the federal government's growing willingness to help protect low-income households from the effects of those increases. Providing the same level of benefits in 1982 as in 1981 would require an estimated funding level of $2.25 billion, taking into account expected energy price increases.

The Ways and Means Committee's proposal would authorize up to $1.4 billion for energy assistance in 1982, and $1.6 billion in 1983. The 1982 funding level represents a decrease of $.45 billion, or roughly 25 percent, from the current $1.85 billion for energy assistance, and a decrease of nearly 38 percent in funding, after accounting for expected energy cost increases in 1982.

The Ways and Means Committee also proposes that, in 1983, funds be distributed to states as matching grants, with the federal government providing 80 percent of all funds. If all states were to participate fully in a matching grant program, the amount of assistance provided to low-income households per federal dollar spent would increase. If some states were not to make use of all available federal funds, however, households in those states might receive less aid than under a block grant program funded at the same level.

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7. H.R. 3469 specifies that funds may be used only for "low-cost" weatherization.

The Labor and Human Resources Committee's proposal would authorize funding of up to $1.88 billion in 1982 through 1986. In 1982, this represents a 17 percent decrease in funding from the current level after accounting for expected energy price increases.

H.R. 3469 calls for funding of $1.4 billion for energy and emergency assistance annually in 1982 through 1985.

Allocation of Funds

The allocation of funds among states may reflect the goal or goals of a low-income energy assistance program. If the program is meant to offset the effects of higher energy prices on the real incomes of the poor, then the distribution of funds among states might mirror the distribution of recent increases in low-income households' total energy expenses. To the extent that the government wishes to target aid on households with high home heating costs or to subsidize the consumption of home heating as a merit good, then a factor related to climate--such as average heating degree days[8]--might be emphasized in distributing funds. If home cooling costs are to be subsidized as a merit good as well, then a factor such as cooling degree days[9] might also be included in the allocation formula. If funds are to be used for promoting energy conservation, then the government might want to target funds on areas in which home heating and cooling costs are highest, and in which conservation methods--such as weatherization--would be most cost-effective, and then require that such funds be used for weatherization.

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8. Heating degree days are the number of degrees the daily average temperature is below 65 degrees Fahrenheit. They are determined by subtracting the average daily temperature below 65 degrees from the base 65. A day with an average temperature of 65 degrees or more has no heating degree days.

9. Cooling degree days are the number of degrees the daily average temperature is above 65 degrees Fahrenheit. Cooling degree days are determined by subtracting the base of 65 from the daily average temperature. A day with an average temperature of 65 degrees or lower has no cooling degree days.

Past and Current Programs. The distribution of funds among regions under past programs has generally reflected their emphasis on meeting home heating needs. States in the Northeast and North Central regions received the largest allotments per eligible household in 1981, on average, while those in the South received the smallest. Allotments per eligible household currently differ more among regions than do average home energy expenses--as Table 8 indicates--reflecting the allocation formula's inclusion of factors relating to climate and to recent increases in home heating expenses, as well as to the current level of home energy expenses.

Other Options. The past and current energy assistance programs focused primarily on offsetting households' high home heating expenses and, therefore, the formulas used to allocate funds among states took into account such factors as average heating degree days and estimated increases in households' home heating expenses. Under a program that does not differentiate between home heating and home cooling expenses when determining how states should allocate benefits, however, a formula that takes into account cooling degree days as well as heating degree days might be used to allocate funds among states.

The Ways and Means Committee and the Senate Labor and Human Resources Committee proposals for 1982 would allocate energy assistance funds as they were allocated in 1981, reflecting those proposals' emphasis on meeting home heating needs. H.R. 3469 would allocate the combined energy and emergency assistance funds in 1982 as they are currently allocated.[10] Since energy assistance funds would account for roughly 97 percent of the combined energy and emergency assistance funds, the distribution of the combined funds would be nearly identical to the distribution of 1981 energy assistance funds. Thus, although states would not have to use their 1982 funds to serve households with high home heating expenses, the allocation formula would continue to provide the highest amount of funding, in relative terms, to states whose households have high home heating expenses.

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10. The allocation of funds would be based on the proportion of total energy assistance funds each state received in 1981, and the proportion of total federal emergency assistance funds each state received in 1980.

TABLE 8. ESTIMATED AVERAGE HOME ENERGY EXPENSES AND ENERGY ASSISTANCE ALLOTMENT FOR HOUSEHOLDS ELIGIBLE FOR LOW-INCOME ENERGY ASSISTANCE, BY REGION, FISCAL YEAR 1981 (in dollars)

Region[a]	Estimated Average Home Energy Expenses, Eligible Households[b]	Estimated Average Energy Assistance Allotment Per Eligible Household	Allotment as Percent of Home Energy Expenses
Northeast	1,190	155	13
North Central	920	145	16
South	670	55	8
West	700	65	9
Average, All Regions	860	100	12

SOURCES: Congressional Budget Office estimates, based on the Department of Energy's National Interim Energy Consumption Survey, the Census Bureau's March 1978 Current Population Survey, and unpublished data from the Department of Health and Human Services.

a. Table excludes Alaska and Hawaii. See footnote to Table 2 for a list of the states in each region.

b. Based on households with incomes above the BLS Lower Living Standard.

OTHER POLICY ALTERNATIVES

Increased weatherization assistance or higher general welfare benefits might serve as supplements to, or substitutes for, a separate energy assistance program. These options would more directly address the causes of low-income households' energy problems, such as energy-inefficient housing and low incomes, than have past energy assistance programs.

Increased Funding of the Weatherization Assistance Program

Weatherization assistance not only increases the real incomes of low-income households, but also, by decreasing energy consumption, helps promote one of the government's broad policy goals. This is especially true since low-income households currently occupy some of the most energy-inefficient housing units.

If the Congress increased funding of the current low-income weatherization assistance program, low-income households' needs for energy assistance would be reduced in future years. The Department of Energy estimates that approximately 820,000 households will have received weatherization assistance under the current program by the end of calendar year 1981.[11] These households represent less than 6 percent of all currently eligible households--that is, those with incomes below 125 percent of the OMB poverty guidelines, or receiving AFDC or SSI benefits. In 1981, $182 million is allocated for low-income weatherization assistance--one-tenth of the amount allocated for low-income energy assistance.

The current low-income weatherization assistance program is estimated to achieve substantial reductions in energy consumption. According to a report completed by the Consumer Energy Council of America for the National Council of Senior Citizens, the program has yielded, on average, an estimated 26.7 percent

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11. Estimate as of June 1981. See the appendix for a brief description of the current program.

reduction in recipients' consumption of energy for home heating.[12] The report estimated that, in 1981, this reduction in energy consumption would yield annual savings averaging roughly $182 per recipient household. While annual savings would rise in future years as prices increased, they would diminish if the weatherization materials deteriorated. Assuming--for illustrative purposes only--that dollar savings remained constant in future years, then the costs of the weatherization--which averaged $968 for the households studied--would be recouped in less than 6 years.

The cost-effectiveness of weatherization varies widely by region, reflecting the differences in average home heating and cooling expenditures among regions. The Consumer Energy Council estimates that, in 1981, the reduction in energy consumption achieved under the current program would yield annual savings ranging from roughly $78 per household with income below 125 percent of the poverty line in California to $384 for such households in Vermont. Under the simplified assumption of constant future dollar savings, the costs of weatherization would be recouped by recipient households in California in roughly 13 years, compared to less than 3 years for recipients in Vermont.

There is also evidence that weatherization may cause low-income households to increase the temperature at which they keep their homes. A 1979 study of Minnesota households participating in the Low-Income Weatherization Assistance program reported that approximately 35 percent of the households surveyed turned up their thermostats after their homes were weatherized, thereby reducing the energy savings achieved by weatherization.[13] This

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12. Consumer Energy Council of America Research Foundation, "A Comprehensive Analysis of the Costs and Benefits of Low Income Weatherization and its Potential Relationship to Low Income Energy Assistance" (1981). This report's estimates of dollar savings achieved by the weatherization program are not strictly comparable to the estimates of home energy expenditures presented in this paper, since the two series of estimates were obtained using different methodologies.

13. Raj Talwar, "Evaluation of the Federal Weatherization Assistance Program in Minnesota" (December 1979), Mid-American Solar Energy Center.

action reflects the fact that many low-income households may choose to spend the increases in their real incomes brought about by weatherization (or by other programs) on home heating.

Rather than funding federal low-income weatherization assistance programs, the Congress could allow utilities to weatherize the homes of low-income households. The cost of such weatherization could be paid for through increases in utility rates. In many areas of the country, weatherization would benefit all utility users, as well as the utility companies, since the decrease in demand for energy would reduce the need for utility companies to expand their energy-production capacity--an investment that is generally very costly.

Despite its advantages, the present weatherization assistance program is limited in several important ways. First, many of the poorest households inhabiting the least energy-efficient housing are unable to benefit from the current weatherization assistance program, because their homes would require costly basic repairs that cannot be financed under the current program. Second, the weatherization program leaves many renters unserved because of the unwillingness of their landlords to cooperate. In general, landlords are required to let the benefits of weatherization accrue to the tenants, and not raise rents as a result of weatherization. These agreements are often difficult to obtain. Third, approximately 13 percent of households with incomes below 125 percent of the poverty guidelines reside in multi-unit structures containing five or more dwellings. Since ineligible and eligible households often occupy units in the same large apartment buildings, the targeting of low-income weatherization assistance is more difficult than the targeting of other low-income assistance programs. As a result, while renters account for approximately half of all eligible households, they make up only slightly more than 10 percent of households receiving weatherization assistance.[14]

The Administration has proposed eliminating the low-income weatherization assistance program in 1982, and allowing states and localities to weatherize homes using Community Development Block Grant (CDBG) funds. Funding for this program would also be reduced from current levels under the Administration's proposal, however.

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14. As of August 1980.

Combining Energy Assistance with Welfare Benefits

Some policymakers argue that energy needs, like other household needs, should be met through existing cash assistance programs, but this would necessitate raising benefit levels and, perhaps, varying them depending on the season of the year. In most states, the payment standards for the principal federal cash assistance programs--AFDC and SSI--currently are set at levels well below the poverty guidelines. Furthermore, while federal SSI payments are indexed to the Consumer Price Index, most states do not increase the SSI state supplements or AFDC payment standards with increases in the cost of living. Thus, rapid increases in the price of energy have lowered the real incomes of many cash assistance recipients.

Incorporating energy assistance into welfare programs would have several advantages. First, this approach would allow consumers complete control over the allocation of their resources and would not create conservation disincentives since benefits would not be tied to the consumption of energy. Second, if a separate energy assistance program was not also administered, total administrative costs would decrease. Third, households would not need to apply for special benefits or wait for new programs to be instituted during the months of greatest need for home energy. Rather, benefits would be timely, and the administrative delays and problems encountered in past energy assistance programs would be avoided.

On the other hand, there are several disadvantages to this type of proposal. First, persons categorically ineligible for federal cash assistance payments (for example, single individuals and childless couples that are not aged or disabled) would also be ineligible for energy assistance. Second, the "energy assistance" portion of welfare benefits would be unlikely to vary with indicators of actual energy burden, such as fuel type. Third, current cash assistance programs are entitlements, while the energy assistance program is subject to the appropriations process. Thus, the Congress might find it more difficult to control federal expenditures on assistance to low-income persons if such assistance was incorporated into the current federal cash assistance programs, than if it was distributed through a separate assistance program.

APPENDIX. THE FEDERAL GOVERNMENT'S RESPONSE TO THE BURDEN OF HIGH ENERGY PRICES ON LOW-INCOME HOUSEHOLDS

The history of federal low-income energy assistance programs reflects a diversity of goals. While the Congress has appropriated money for low-income energy assistance programs in every year since 1977, the individual programs have differed greatly.

This appendix describes past and present low-income energy assistance efforts--summarized in Table 1 in Chapter I--examining the amounts and kinds of aid offered, the allocation of benefits, and the effects of the programs on the energy burdens of low-income households. It concludes with a description of the federal weatherization assistance program, which provides a possible alternative or supplement to energy assistance payments.

1977, 1978, AND 1979 PROGRAMS

The 1974 amendments to the Economic Opportunity Act of 1964 authorized the first large-scale low-income energy assistance program and serve as the authority for all such programs funded to date. The 1974 amendments authorized the Community Services Administration (CSA) to perform a wide variety of services aimed at lessening the burdensome effects of the energy crisis on low-income households. While focusing primarily on conservation and weatherization activities, the legislation also permitted emergency loans, grants, and revolving funds to deal with increased housing expenses relating to the energy crisis.

Special Crisis Intervention Program. In May 1977, the Congress appropriated $200 million for a nationwide Special Crisis Intervention Program (SCIP), intended as a one-time-only emergency measure. This program provided grants to states to aid households with incomes below 125 percent of the OMB poverty line in coping with high home energy bills. Between June and September of 1977, vendor payments and direct grants totaling up to $250 per household were made on behalf of households with unpaid utility or fuel bills or who had paid their winter energy bills at "great sacrifice." Renters who did not pay for home energy directly, but paid through their rent, were not eligible for benefits. Approximately

82 percent of the funds available were obligated under SCIP, and over one million households received benefits that averaged an estimated $140. States were allowed to reprogram the remaining SCIP funds into weatherization assistance programs.

Emergency Energy Allowance Program. In 1978, the Congress appropriated another $200 million for a somewhat different crisis intervention program--the Emergency Energy Assistance Program (EEAP). This program, unlike its predecessor, permitted payments only on behalf of households with large unmet home energy bills. It also provided assistance in the form of blankets, space heaters, emergency repairs, and temporary shelter. Between March and May of 1978, EEAP provided benefits averaging $165 to roughly 900,000 households. Less than three-fourths of EEAP funds had been obligated by the time the program was due to end in May 1978. Rather than being returned to the Treasury, the unobligated funds were spent during the first six months of 1979 under a court order extending the program beyond its original expiration date.

Crisis Intervention Program. Funding of $200 million for the 1979 Crisis Intervention Program was distributed among three sections: the Regular Crisis Intervention Program, the Special Crisis Intervention Program, and the Winter-Related Disaster Relief Program. While all but a few of the warmest states received funds under the first of these sections, only states in which there occurred winter-related energy emergencies received funds under the second or third. Like EEAP, the Crisis Intervention Program served households with incomes below 125 percent of the OMB poverty line who had unpaid energy bills, and provided assistance in the form of household supplies as well as through vendor payments. Approximately 91 percent of funds available in 1979 were spent on crisis assistance activities while the remainder were used to support other CSA activities.

1980 INTERIM ENERGY ASSISTANCE PROGRAMS

The 63 percent rise in home heating oil prices that occured during 1979, and the announcement of the decontrol of domestic oil prices, prompted the Congress to increase funding for low-income energy assistance to $1.6 billion in 1980. Funding was distributed among:

- An Energy Crisis Assistance Program (ECAP), funded at $400 million, and administered by the CSA. Under ECAP,

community action agencies provided vendor payments, cash, and consumer goods to households with incomes below 125 percent of the OMB poverty line or that were headed by an SSI recipient.

- An SSI-energy allowance program, also funded at $400 million, but administered by HHS. This program provided direct cash payments to all SSI recipients who were not in Medicaid institutions.

- An Energy Allowance Program (EAP) through which HHS provided $800 million in block grants to states. States distributed their EAP funds using one or more of four options. Under Option A, payments were made to participants in the AFDC program only. Under Option B, food stamp and/or General Assistance recipients also received aid. If Option C was chosen, block grant funds were combined with ECAP funds and distributed by CSA. Under Option D, states were free to devise their own plans for distributing assistance. Overall, states allocated approximately 31 percent of their block grant funds to Options A and B, 38 percent to Option C, and the remainder to Option D.

The Allocation of Funds

In 1980, low-income energy assistance funds were allocated among states by means of three different formulas, which took into account climate, change in home heating expenditures between 1978 and 1979, and each state's share of the eligible population. Overall, states in the Northeast and North Central regions received the largest allocations per family below 125 percent of the OMB poverty guideline, while states in the South received the smallest average allotment per low-income family, reflecting the formulas' emphasis on climate (see Appendix Table 1). Among cold-weather states, those with the heaviest use of fuel oil--which has undergone larger price increases than electricity and natural gas in recent years--received the largest per-family allocations.

APPENDIX TABLE 1. AVERAGE HEATING DEGREE DAYS, AVERAGE HOME ENERGY EXPENSES OF LOW-INCOME HOUSEHOLDS, AND AVERAGE ENERGY ASSISTANCE ALLOTMENT PER LOW-INCOME HOUSEHOLD, BY REGION, FISCAL YEAR 1980

Region[a]	Average Heating Degree Days[b]	Average Home Energy Expenses of Low-Income Households in Dollars[c]	Average Energy Assistance Allotment per Low-Income Household in Dollars	Allotment As Percent of Home Energy Expenses
Northeast	5,956	1,000	235	24
North Central	6,369	740	190	26
South	2,852	580	65	11
West	3,940	600	100	17
Average, All Regions	4,715	720	135	19

SOURCES: Congressional Budget Office estimates, based on the Department of Energy's National Interim Energy Consumption Survey, the Census Bureau's March 1978 Current Population Survey, and various published documents from the Community Services Administration and the Congressional Research Service.

a. See footnote to Table 2 for a list of states in each region. Table excludes Alaska and Hawaii.

b. Heating degree days listed in this table are averages of those used in allocating funds under the ECAP.

c. For the purpose of this table, low-income households are defined as those with incomes below 125 percent of the OMB poverty line.

Eligibility, Participation, and Benefit Levels

In contrast to earlier years' programs, in which all households had to apply for aid and attempts were made to relate benefits to households' actual energy needs, the 1980 programs also provided automatic payments to all recipients of certain types of public assistance, regardless of their actual energy expenses. Overall, roughly half of all the 1980 energy assistance funds were distributed as automatic payments to public assistance recipients, and therefore served as cash assistance supplements rather than as crisis assistance payments.

At most, 9.9 million households--roughly two-thirds of all households with incomes below 125 percent of the OMB poverty line or receiving public assistance--received energy assistance in 1980. Benefit amounts varied widely by state and program. Within the continental United States, SSI-energy allowance payments ranged from $39 in Florida to $250--the maximum allowable--in many of the colder states, while average benefits under ECAP ranged from $51 in Mississippi to $472 in North Dakota. The ECAP program and EAP option C served roughly 2.4 million households, with benefits averaging roughly $218, or 30 percent of the average home energy expenditures of eligible households (see Appendix Table 2). An estimated 3.6 million families were served under EAP options A, B, and D with benefits averaging $121, or 17 percent of the average home energy expenditures of households with incomes below 125 percent of the poverty guidelines. In addition, roughly 3.8 million persons in households received SSI energy allowance benefits, which averaged $97. Since households were eligible to receive benefits under more than one program, the number of households receiving any benefit was most likely considerably lower than 9.9 million.

Benefits to individual households were calculated in many different ways. Automatic payments to public assistance households varied only with household size, region, and type of public assistance received, but did not vary with actual energy expenditures or income. Application-based programs such as ECAP, on the other hand, attempted to tailor payments to energy need. While some states developed complex formulas, or relied on a household's income, intrastate region, and type of home fuel to determine energy need, most states simply paid a household's energy bills up to a certain maximum.

APPENDIX TABLE 2. HOUSEHOLDS SERVED AND THEIR AVERAGE BENEFITS UNDER THE 1980 LOW-INCOME ENERGY ASSISTANCE PROGRAMS

Program	Households Served[b] (Millions)	Average Benefit per Recipient[a] In Dollars	Average Benefit per Recipient[a] As a Percent of Average Home Energy Expenses of Low-Income Households[c]
Energy Allowance Program, Excluding Option C	3.6	121	17
Energy Crisis Assistance Program, including EAP Option C	2.4	218	30
SSI-Energy Allowance Program[d]	3.8	97	13

SOURCE: Congressional Budget Office estimates, based on the Department of Energy's National Interim Energy Consumption Survey, and published and unpublished documents from the Department of Health and Human Services and the Congressional Research Service.

a. A household could receive more than one benefit and, therefore, the average benefit per household was actually somewhat higher than the average benefits presented above. Estimates are preliminary.

b. Household figures represent the number of payments made to households. Thus, they represent a maximum estimate of the number of households served, since a household could receive more than one benefit.

c. For the purpose of this table, low-income households are defined as those with incomes below 125 percent of the poverty line.

d. Excludes roughly 200,000 payments made to persons in institutions.

Types of Benefits

Application-based programs and those making automatic payments differed in the forms in which benefits were provided. Automatic payment programs generally provided direct, one-time-only, cash payments to households. Under ECAP, on the other hand, states offered a variety of types of benefits, including cash payments of up to $50 per household, vendor payments or lines of credit, and goods such as blankets and space heaters. Vendor payments were by far the most common form of assistance.

Treatment of Indirect Home Energy Purchasers

Approximately 16 percent of low-income households do not pay for their principal home heating fuel directly, but, rather, pay such costs indirectly through their rent. These households--referred to as indirect energy purchasers--were treated the same as direct energy purchasers under most energy assistance programs making automatic payments to public assistance recipients. Indirect energy purchasers were treated very differently from direct purchasers under most application-based programs, however. Two such programs provided no benefits at all to indirect energy purchasers and four provided only in-kind aid such as blankets and space heaters.[1] Although most states did permit payments on behalf of indirect energy users, many required that such payments be made to the landlord in return for an agreement that the landlord would rebate part of the tenant's rent or would not raise the rent for a specified time. Many landlords were reluctant to enter into such agreements, leaving most indirect energy purchasers unaided.

Administrative Costs

Administrative costs varied widely by state and type of program, ranging from less than 1 percent to over 10 percent of total program funds. Since application-based programs provided assistance tailored to individual household energy needs, and often performed a good deal of outreach and intake services, they generally experienced fairly high administrative costs, averaging roughly 10 percent. Automatic payment programs, on the other

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1. Urban Systems Research and Engineering, Inc., "Short-Term Evaluation of the Low-Income Energy Assistance Program--Interim Report" (August 1980).

hand, required very little interaction with clients and, in most cases, led to administrative costs of less than 5 percent.

1981 LOW-INCOME ENERGY ASSISTANCE PROGRAM

The Crude Oil Windfall Profit Tax Act of 1980, enacted in March of that year, authorized $3.1 billion for a home energy assistance program in 1981. A continuing resolution, passed in October 1980, appropriated $1.85 billion for low-income energy assistance in 1981, but the funds were provided under the authority of the Economic Opportunity Act Amendments of 1974.

Allocation of Funds

The distribution of funds among states was a major concern in legislative debates leading to the 1981 Low Income Energy Assistance program. As passed, the Windfall Profit Tax Act specified a complex allocation formula employing such factors as heating degree days, aggregate residential energy expenditures, and the distribution of low-income and public assistance households. This formula would have allocated a substantially larger share of funds to the South and to the West than the share allocated in previous years. The House of Representatives rejected that formula during the appropriations process, however, and instead constructed one that would have placed more emphasis on climate and on recent increases in home heating expenditures, thereby increasing northern states' shares of funds. The legislation that eventually appropriated funds for the 1981 program used yet a different formula that, while similar to the House Appropriations formula, was somewhat more generous to the warmer states.

Of the block grant funds distributed under the compromise formula, states in the Northeast and North Central regions received the largest average allotments per eligible household while those in the South received the smallest (see Table 8 in Chapter 4). Average allotments per eligible household differ more among regions than do average household home energy expenses, reflecting the allocation formula's emphasis on heating needs and recent increases in home heating expenses, rather than the actual level of home energy expenses.

Eligibility, Participation, and Benefit Levels

Households with incomes less than the Bureau of Labor Statistics' Lower Living Standard (which averaged $12,600 for a family of four during the year beginning May 1980), households containing a recipient of AFDC, SSI, Food Stamps, or certain veterans' benefits, and one-person households with incomes below 125 percent of the OMB poverty line may receive aid under the 1981 Low Income Energy Assistance program. An estimated 17.2 million households, more than one-fifth of all U.S. households, meet these income eligibility criteria, which are considerably more lenient than those used in previous years. However, states were given the option of applying stricter income standards, and 32 states have chosen to do so.[2]

The states administering low-income energy assistance programs estimate that roughly 10 million households will participate, with benefits averaging roughly $160 per household. Maximum benefits per household are estimated to range from $100 in Arizona to $1,500 in Montana.

If households receiving energy assistance have the same average home energy expenses as those eligible for such aid, then this aid will reduce the average home energy expenses of recipient households from an estimated $860, or 13 percent of income, to $700, or 11 percent of income. These estimates may understate the proportions of income spent on home energy by program beneficiaries, both before and after receiving aid, however, since eligible households with high home energy expenses in relation to income may be more likely to participate than those with low home energy expenses in relation to income.

The 1981 program is intended to provide benefits that are closely related to each household's energy burden. States generally estimate a household's energy burden on the basis of factors such as household income level and size, intrastate region, and the type of home fuel used. As a result, the program is basically application-based in nature. Although states are allowed to make automatic payments to public assistance

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2. Based on states' plans as of June 1981.

recipients, and 12 states have chosen to do so, they are prohibited from offering larger benefits to such households than to similarly situated nonpublic assistance households, and may not make automatic payments to persons who do not bear a burden from rising home energy costs.

Under the Low Income Energy Assistance program, states have the option of providing cooling assistance in situations where cooling is medically necessary. Only 12 states, however, have set aside funds for cooling assistance, and only 7 of the 17 southern states have done so.[3] Other states, however, will use funds left over from their winter heating assistance programs to provide cooling assistance.

Types of Benefits

Under the 1981 program, states have the option of providing energy assistance benefits through direct cash payments, vendor payments, or certificates to be exchanged for energy supplies. They are prohibited, however, from using more than 3 percent of their block grant funds to provide such in-kind aid as food, warm clothing, or minor home repairs.[4] Cash and vendor payments will probably serve as the most common forms of assistance in 1981, since 47 states intend to provide at least some benefits in the form of cash, and 35 plan to provide at least some benefits in the form of vendor payments.

The Treatment of Indirect Energy Purchases

Unlike previous years' programs, the Low Income Energy Assistance program requires that indirect energy purchasers be treated the same as direct energy purchasers. When information on the actual energy costs of indirect purchases is not available from the landlord, these costs are to be estimated based on the energy expenses of similarly situated direct energy purchasers.

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3. Other states have plans to provide cooling assistance under review by HHS.

4. These types of aid could, however, be provided through CSA's crisis intervention program.

Administrative Costs

States are allowed to spend up to 7.5 percent of their federal funds on administration in 1981, with additional administrative expenses paid out of nonfederal funds. Virtually all the states are expected to have used the full 7.5 percent for administration, with many spending nonfederal funds as well. These relatively high administrative costs reflect the fact that the 1981 program is application-based, relates benefits closely to actual household energy burden, and performs a significant amount of outreach.

LOW-INCOME WEATHERIZATION ASSISTANCE PROGRAM

The Congress has attempted to alleviate the high energy cost burden of low-income households--and at the same time reduce energy consumption--by funding low-income weatherization assistance programs. Between 1975 and 1978, CSA provided low-income weatherization assistance, with the Department of Energy (DOE) also providing such aid in 1977 and 1978. By 1979, DOE was the sole administrator of the program, which was funded at roughly $200 million per year in 1979 through 1981.

Under the current low-income weatherization assistance program, DOE allocates funds to states, which in turn divide the money among local community action agencies. These agencies perform such activities as caulking, weatherstripping, patching, insulating attics, installing storm windows, and, in some of the colder areas, insulating walls. When possible, labor is provided through Comprehensive Employment and Training Act (CETA) programs. As of August 1980, expenditures averaged $600 per household, but DOE officials expect this average to rise to $1,000--the maximum allowable expenditure per household in most areas--during 1981. Households with incomes less than 125 percent of the OMB poverty line, or containing at least one AFDC or SSI recipient, qualify for weatherization assistance.

Weatherization activities proceeded at a very slow rate during the first several years of the program. Between 1975 and 1979, only 21 percent of the $480.5 million in available funds had been spent, and fewer than 250,000 homes had been weatherized.

By September 1980, however, the total number of homes weatherized had doubled, and homes were being weatherized at a rate of roughly 30,000 per month. DOE officials expect to have weatherized 820,000 homes by the end of calendar year 1981, representing approximately 6 percent of eligible households.

Despite the progress made to date in weatherizing the homes of low-income households, little information is available on the types of weatherization activities that are most efficient for low-income households. In particular, information is lacking on the amount of energy savings that result from different types of weatherization activities, and on the most appropriate methods of weatherizing large multi-unit structures. In the future, however, data from both private and public weatherization projects may provide this needed information.