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Low-Income Home Energy Assistance Program (LIHEAP): Formula and Estimated Allocation Rates

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Summary

The Low-Income Home Energy Assistance Program (LIHEAP) is a block grant program under which the federal government gives annual grants to states, the District of Columbia, U.S. territories and commonwealths, and Indian tribal organizations to operate multi-component home energy assistance programs for needy households. This report reviews how allotments of regular LIHEAP funding are determined and how these calculations change at different funding levels. Included is a description of the components new LIHEAP formula rates. The data reflect new formula factors reported by the Department of Health and Human Services in late 2004. This report will be updated as events warrant.

Low-Income Home Energy Assistance Program

The Low-Income Home Energy Assistance Program (LIHEAP) is a block grant program under which the federal government gives annual grants to states, the District of Columbia, U.S. territories and commonwealths, and Indian tribal organizations to operate multi-component home energy assistance programs for needy households.[1] Established in 1981 by Title XXVI of P.L. 97-35, LIHEAP has been reauthorized and amended several times, most recently in 1998, when P.L. 105-185 reauthorized LIHEAP through FY2004. At this time, the funding authorization for LIHEAP is expired. However, for FY2005 Congress appropriated $2.182 billion for LIHEAP.

Federal standards have very broad guidelines, with almost all decisions regarding LIHEAP made by the states. Recipients may be helped with their regular heating and cooling costs, may receive crisis assistance, and may have weatherization expenses paid, or may receive other aid designed to reduce their home energy needs. The most current

[1] For additional information on LIHEAP, see CRS Report RL31865, *The Low-Income Home Energy Assistance Program (LIHEAP): Program and Funding Issues*, by Emilie Stoltzfus.

Department of Health and Human Services (HHS) data show an estimated 4.4 million households received winter heating/crisis assistance in FY2002.

Type of Grants Authorized Under LIHEAP

The LIHEAP statute provides for two types of program funding: regular and contingency grants. Regular funds are allotted to states according to methods prescribed by the LIHEAP statute as amended by the Human Services Reauthorization Act of 1984 (P.L. 98-558). The method of allotment may change based on the funding level. For FY2005 Congress made$1.885 billion in regular LIHEAP grants available.

Emergency funds may be released and allotted to one or more states at the discretion of the President and the Secretary of HHS. The funds may be released at any point in the fiscal year to meet additional home energy assistance needs created by a natural disaster or other emergency.[2] In FY2005 Congress provided $298 million in emergency funds for contingency purposes.

Current Law Distribution: How Allotments of Regular LIHEAP Funding Are Determined

Current law provides for three different methods to calculate each state's allotment of regular LIHEAP funds. The calculation method depends upon the size of the appropriation for that fiscal year. *For funding levels above $1.975 billion, no method will allocate a state less funds than the state would have received at a $1.975 billion funding level in FY1984. However, the* proportion *of total regular funds each state receives may differ substantially from the proportion that would have been received at $1.975 billion.*

Tier I: Below $1.975 Billion. Current law requires that for fiscal years in which the regular LIHEAP fund appropriation is $1.975 billion or less, as has been the case each fiscal year since FY1987, states receive the same percentage of funds that were received in FY1984 (Section 2604(a)(2)(A)).[3] The LIHEAP formula in FY1984 distributed funds by giving states the same share of funds that they received in FY1981 under the predecessor program to LIHEAP, the Low-Income Energy Assistance Program (LIEAP). *Column (a)* in **Table 1** reports the share of funds that each state receives when the regular appropriation is $1.975 billion or less.

Tier II: From $1.975 up to $2.25 Billion. If the regular LIHEAP appropriation exceeds $1.975 billion for the fiscal year (Section 2604(a)(2)(A)(ii)), *all* funds are to be distributed under a different methodology, including a new set of rates that are subject to a hold-harmless *level.* The set of factors used to determine this new set of rates is sometimes called the "new" formula. Under Tier II calculations, a state's allotment in the statute is required to reflect "the percentage which expenditures for home energy by

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[2] Depending on how Congress appropriates them, emergency funds may remain available for distribution in more than one fiscal year or they may expire with the fiscal year for which they were appropriated.

[3] All section citations refer to the Low Income Home Energy Assistance Act (Title XXVI of P.L. 97-35), as amended.

low-income households in that state bears to such expenditures in all states ..." (See "Components of the New Formula" below.) However, the statute provides that no state can be allocated *less* LIHEAP funds than the state would have received under the Tier I formula if the appropriation level in 1984 were equal to $1.975 billion.[4] This provision is known as the "hold-harmless" level.

Since this language was enacted, Congress further provided that HHS could use regular LIHEAP appropriations for Training and Technical Assistance (P.L. 99-425) as well as authorized both Leveraging Incentive Grants (P.L. 101-501) and the Residential Energy Assistance Challenge option (P.L. 103-252) — both are generally funded out of regular LIHEAP funds. These debits on the regular funds account were not in place for FY1984. Because they affect the level of regular funds available for state grant allotments by approximately $25 million it is possible that HHS would not implement the new formula before a regular funds appropriation level reaches $2.0028 billion. This estimated level is used in the calculations presented in **Table 1**.

Implementing the hold-harmless level greatly changes the proportion of the total allocation that most states receive. This is because the statute provides that the hold-harmless levels must be achieved by reducing the allocation of funds to those states with the greatest proportional gains. *Column (b)* in **Table 1** reports the share of funds that each state receives when the regular appropriation is at $2.01 billion while *Column (c)* reports the share when the regular appropriation is at $2.14 billion and *Column (d)* reports the share for $2.249 billion. Each of these allocations are calculated using the Tier II methodology previously described. Here, it is clear how the effect of the hold-harmless level produces significant differences in the state's shares at different levels. This becomes more pronounced as the federal funding level increases from $2.0028 billion up to $2.25 billion. For example, at $2.01 billion, Alabama receives 0.87% of the total appropriation. At $2.14 billion, Alabama receives 0.96%; at $2.249 billion, Alabama receives 1.06%. In comparison, Wisconsin receives 3.56% at $2.01 billion, 3.34% at $2.14 billion, and 3.18% at $2.49 billion.

Tier III: At or Above $2.25 Billion. The law stipulates additional requirements in the methods for distributing funds when the appropriation is at or above $2.25 billion (Section 2604(a)(2)(B)). At this level all of the provisions specified in the Tier II allocation methodology are in place, including the change in the formula factors and the hold-harmless level. In addition, a new hold-harmless *rate* is applied. For all appropriation levels at or above $2.25 billion, states that would have received less than 1% of a total $2.25 billion appropriation must be allocated the percentage they would have received at a $2.14 billion appropriation level (assuming the new percentage is greater than the percentage originally calculated at the actual, $2.25 billion or greater, appropriation). This hold-harmless *rate* ensures a state specific *share* of the total available funds. The allocations to the states with the greatest *proportional* funding share increases are then ratably reduced again, using the methodology described in the Tier II discussion, until there is no funding shortfall.

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[4] In fact, the appropriation in 1984 was not $1.975 billion but the law refers to this hypothetical amount in its hold-harmless provision. The actual FY1984 provision was $2.075 billion.

The application of the hold-harmless *rate* creates another layer of discontinuity in the allocation rates. *Column (d)* in the table reports the share of funds that each state receives when the regular appropriation is just under $2.25 billion while *Column (e)* reports the share of funds that each state receives when the regular appropriation is at $2.25 billion *after the hold-harmless rate* is applied. At this funding level, six states[5] receive their exact new formula rate. However, *Column (f)* reports the estimated share of funds that each state receives when the regular appropriation is at $3.4 billion. *Column (g)* reports the estimated share of funds that each state receives when the regular appropriation is at $5.1 billion, where 30 states[6] receive their exact new formula rate.

Components of the New Formula Rates (Used in Tiers II and III)

For funding levels above $1.975 billion, statute provides that HHS is to "determine the expenditure for home energy by low-income households on the basis of the most recent satisfactory data available." Developed by HHS, this formula accounts for variations in heating and cooling needs of the states, in types of energy used, variations in energy prices, and in the low-income population and their heating and cooling methods. Thus, the new formula is a complex aggregation of four major groups of state-level data.

- *Average Annual Heating and Cooling degree days by state.* A heating degree day measures the extent to which a day's average temperature falls below 65°F and a cooling degree day measures the extent to which a day's average temperature rises above 65°F. This information is collected by the National Oceanic and Atmospheric Administration. A state's heating and cooling degree data are weighted by population in the state. Averages over 30 years also are measured and are taken into account by the formula.
- *Residential sector energy price projections by fuel type in nominal dollars.* These projected prices for fuels include fuel oil, natural gas, electricity, kerosene and liquefied petroleum gas. Regional variation of energy prices can be significant and the formula takes expected expenditure differences into account. This information is collected by the Department of Energy's Energy Information Administration (EIA) and published in the State Energy Price and Expenditure Report.
- *Residential energy consumption by fuel source*, for heating and for cooling by BTUs. There is substantial variation by state and region on the distribution of types of energy used for home consumption. Fuel oil, natural gas, electricity, and kerosene consumption data are collected in the State Energy Data Report from the EIA. Data for coal, wood, and liquefied petroleum gas are collected in the Combined State Energy Data System by the EIA.

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[5] Illinois, Indiana, Missouri, New Mexico, Ohio, and West Virginia have their full new formula allocation rate.

[6] Arkansas, California, Colorado, Connecticut, Delaware, Florida, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Minnesota, Missouri, New Jersey, New Mexico, New York, North Carolina, Ohio, Oregon, Pennsylvania, Tennessee, Texas, Virginia, Washington, West Virginia and Wisconsin have their full new formula allocation rate.

- The *number of heating and cooling units by fuel source and the number of low-income households by fuel source* are calculated from Census data by the Bureau of the Census, Department of Commerce. The ratio of low-income heating and cooling use by region and fuel source for all income levels of heating and cooling is calculated by using the Residential Energy Consumption Survey from EIA.

New Formula Issues: Appropriate and Timely Measures. Several questions may face Congress about the new formula calculation and Tiers II and III methodologies.

The determination of appropriate funding levels to trigger the use of the new formula. The new formula rate is applied at levels above $1.975 billion . However, after all hold-harmless conditions are satisfied, few states actually receive the proportion of funds equivalent to their new formula rate.

The determination of appropriate measures of home energy consumption. The incorporation of cooling days (defined as temperatures above 65°F) may overstate warmer states' energy needs and understate colder states' energy needs.

Timely calculation of the new rates. Even the most current information is often several years old by the time it is available. The data used in this report's estimates are from multiple years, from as early as 1990 (low-income energy use) to as current as 2003 (energy use in the state). As a result, the raw data used in these calculations are generally not applicable to current home energy needs. Revised data are expected to be available in early fall of 2005.

Table 1. Low Income Home Energy Assistance Program (LIHEAP), Estimated Allocation Rates for Regular Block Grants

	Tier I	Tier II			Tier III		
	$1.975 billion and under (a)	**$2.01 billion (b)**	**$2.14 billion (c)**	**$2.249 billion (d)**	**$2.25 billion (e)**	**$3.4 billion (f)**	**$5.1 billion (g)**
Alabama	0.86%	0.87%	0.96%	1.06%	1.05%	1.49%	1.53%
Alaska	0.55%	0.55%	0.51%	0.49%	0.51%	0.51%	0.51%
Arizona	0.42%	0.42%	0.47%	0.51%	0.51%	0.72%	0.74%
Arkansas	0.66%	0.66%	0.74%	0.81%	0.80%	1.14%	1.18%
California	4.61%	4.64%	5.18%	5.70%	5.63%	6.10%	6.10%
Colorado	1.61%	1.60%	1.50%	1.43%	1.43%	1.32%	1.32%
Connecticut	2.10%	2.09%	1.96%	1.87%	1.87%	1.63%	1.63%
Delaware	0.28%	0.28%	0.31%	0.34%	0.34%	0.38%	0.38%
District of Columbia	0.33%	0.32%	0.30%	0.29%	0.30%	0.30%	0.30%
Florida	1.36%	1.36%	1.27%	1.21%	1.21%	1.21%	1.21%
Georgia	1.08%	1.08%	1.21%	1.33%	1.31%	1.87%	1.91%
Hawaii	0.11%	0.11%	0.10%	0.10%	0.10%	0.10%	0.10%
Idaho	0.63%	0.63%	0.59%	0.56%	0.59%	0.59%	0.59%
Illinois	5.81%	5.84%	6.52%	6.63%	6.63%	6.63%	6.63%

	Tier I	Tier II			Tier III		
	$1.975 billion and under (a)	**$2.01 billion (b)**	**$2.14 billion (c)**	**$2.249 billion (d)**	**$2.25 billion (e)**	**$3.4 billion (f)**	**$5.1 billion (g)**
Indiana	2.63%	2.62%	2.46%	2.38%	2.38%	2.38%	2.38%
Iowa	1.86%	1.86%	1.74%	1.66%	1.66%	1.39%	1.39%
Kansas	0.86%	0.86%	0.96%	1.06%	1.04%	1.21%	1.21%
Kentucky	1.37%	1.38%	1.54%	1.69%	1.67%	2.00%	2.00%
Louisiana	0.88%	0.88%	0.99%	1.09%	1.07%	1.12%	1.12%
Maine	1.36%	1.35%	1.27%	1.21%	1.21%	0.83%	0.83%
Maryland	1.61%	1.62%	1.80%	1.98%	1.96%	2.68%	2.68%
Massachusetts	4.20%	4.18%	3.93%	3.73%	3.73%	3.17%	3.17%
Michigan	5.51%	5.49%	5.16%	4.90%	4.90%	4.82%	4.82%
Minnesota	3.97%	3.96%	3.72%	3.53%	3.53%	2.33%	2.08%
Mississippi	0.74%	0.74%	0.83%	0.91%	0.90%	1.28%	1.31%
Missouri	2.32%	2.33%	2.60%	2.77%	2.77%	2.77%	2.77%
Montana	0.74%	0.73%	0.69%	0.65%	0.69%	0.69%	0.69%
Nebraska	0.92%	0.92%	0.86%	0.82%	0.86%	0.86%	0.86%
Nevada	0.20%	0.20%	0.22%	0.24%	0.24%	0.34%	0.35%
New Hampshire	0.79%	0.79%	0.74%	0.71%	0.74%	0.74%	0.74%
New Jersey	3.90%	3.88%	3.64%	3.47%	3.46%	3.11%	3.11%
New Mexico	0.52%	0.52%	0.55%	0.55%	0.55%	0.55%	0.55%
New York	12.72%	12.68%	11.90%	11.31%	11.31%	9.14%	9.14%
North Carolina	1.90%	1.91%	2.13%	2.34%	2.31%	3.35%	3.35%
North Dakota	0.80%	0.80%	0.75%	0.71%	0.75%	0.75%	0.75%
Ohio	5.14%	5.17%	5.36%	5.36%	5.36%	5.36%	5.36%
Oklahoma	0.79%	0.80%	0.89%	0.98%	0.96%	1.37%	1.40%
Oregon	1.25%	1.24%	1.17%	1.11%	1.11%	0.87%	0.87%
Pennsylvania	6.84%	6.81%	6.39%	6.08%	6.07%	5.17%	5.17%
Rhode Island	0.69%	0.69%	0.65%	0.61%	0.65%	0.65%	0.65%
South Carolina	0.68%	0.69%	0.77%	0.84%	0.83%	1.18%	1.21%
South Dakota	0.65%	0.65%	0.61%	0.58%	0.61%	0.61%	0.61%
Tennessee	1.39%	1.39%	1.56%	1.71%	1.69%	2.10%	2.10%
Texas	2.26%	2.28%	2.54%	2.80%	2.76%	3.81%	3.81%
Utah	0.75%	0.74%	0.70%	0.66%	0.70%	0.70%	0.70%
Vermont	0.60%	0.59%	0.56%	0.53%	0.56%	0.56%	0.56%
Virginia	1.96%	1.97%	2.20%	2.42%	2.39%	3.19%	3.19%
Washington	2.05%	2.04%	1.92%	1.82%	1.82%	1.36%	1.36%
West Virginia	0.91%	0.91%	1.01%	1.01%	1.01%	1.01%	1.01%
Wisconsin	3.58%	3.56%	3.34%	3.18%	3.18%	2.29%	2.29%
Wyoming	0.30%	0.30%	0.28%	0.27%	0.28%	0.28%	0.28%
Total	100%	100%	100%	100%	100%	100%	100%

Source: Congressional Research Service.