Center on Budget and Policy Priorities

820 First Street NE, Suite 510
Washington, DC 20002

Tel: 202-408-1080
Fax: 202-408-1056

center@cbpp.org
www.cbpp.org

December 14, 2005

# NEW BUSH ADMINISTRATION DECISION MAKES STATES BASE FOOD STAMP BENEFIT LEVELS FOR THIS WINTER ON LAST YEAR'S HEATING COSTS

## Increased Hardship Likely to Result

by Dottie Rosenbaum and Stacy Dean

The disruption in energy supply that the hurricanes caused has contributed heavily to the large spike in fuel bills expected this winter. The U.S. Department of Energy projects that the cost of heating homes with natural gas or heating oil will be 30 to 50 percent higher this winter than last. As a result, food stamp households are facing monthly fuel bills that, in some cases, are hundreds of dollars higher than last winter.

Utility increases of this magnitude could have harsh effects for low-income families, seniors, and people with disabilities. People on low and fixed incomes will face difficult choices between heating their homes and keeping up with their other expenses like buying groceries, putting gasoline in their cars, and affording prescription drugs and other medical costs.

The Bush Administration has the ability — and indeed the imperative — to authorize states to reflect higher heating fuel costs in food stamp benefit levels, so that low-income households can receive food stamp benefits this winter that take their increased heating bills into account. Such a step by the Administration is, in fact, necessary to be consistent with the intent of federal law. The food stamp benefit structure established under federal law requires that a household's heating and other utility costs be taken into account in determining the household's food stamp benefit level. Unfortunately, yesterday the Administration informed a number of states that it was denying their requests to make adjustments in their treatment of heating costs within the Food Stamp Program to reflect the recent price spikes. This decision will prevent hundreds of thousands of low-income families from receiving food stamp benefits that reflect the impact of sharp increases in heating costs in reducing the amounts these families have available to spend on food.

### Background

To ease administrative burdens and costs, nearly all state food stamp programs use a "Standard Utility Allowance" (SUA) — which each state sets based on utility costs in the state — in lieu of each household's *actual* utility cost. The Standard Utility Allowance that each state develops must be approved by USDA. Historically, households could opt to use either the SUA or could deduct their actual expenses if they were in excess of the standard and the household was able to provide proof of their actual expenses. The 1996 welfare law gave states the option to mandate that all households with utility expenses use the state's SUA. Today 38 states have adopted that option.

Typically, states set their SUAs for a given fiscal year based on recent state-level information on actual utility costs — that is, based on costs in an earlier period. This is a reasonable approach under normal circumstances. This year, however, that approach will result in SUAs for the coming winter being based on last winter's bills, and thus in poor households' receiving inappropriately low food stamp benefits that do not reflect the increases in heating bills these households will face, even though those increases will reduce the resources available to households to buy food.

Accordingly, at least five states have requested approval from USDA to make adjustments in their SUAs now to reflect increases in heating costs projected for this winter. [1] These states submitted these requests to USDA as much as two months ago. On December 13, the Administration informed states that it is denying their requests to use Energy Department projections for utility costs. The Administration justified its decision by saying that it did not anticipate the energy price increases when it set its food stamp budget projections for fiscal year 2006 last February. It also said that states could make future adjustments to their SUAs based on the actual utility costs they experience this year. Put another way, families with high energy costs who are struggling to meet their food needs *this* winter will get a boost in their food stamp benefits *next winter*, when SUAs are permitted to be adjusted upward based on actual prices experienced in the coming year.

USDA did indicate to states that they may request to increase their SUAs this winter, but only under two circumstances.

- States may request an increase based on Department of Energy projections of utility costs for their region, but only if they offset the increase by *cutting* food stamp benefits an equivalent amount for needy households in their states. For example, if a state's SUA increase would result in the provision of $2 million more in food stamp assistance for families experiencing energy cost increases, the state would have to find a way to cut $2 million in benefits from other food stamp households. For example, a state could propose to cut food benefits for the elderly by $2 million. No state is expected to take this option, a reality of which the Administration undoubtedly is aware.

- States may request an increase in their SUA based on actual price increases, and we expect that some states will do so. If a state is able to find out what average utility bills for every utility included in its standard utility allowance (electric, gas, oil, etc.) were in October, the state could ask for an adjustment to its SUA based on those actual costs. This approach may not be possible for many states, especially if their utility companies will not divulge cost data immediately. Moreover, USDA did not provide states with any guidance on what type of methodology the Administration would require for such a request. This approach also is likely to yield much smaller increases in the SUA than projections for the coming winter because October is not the coldest month of the winter. Heating costs in the winter months are likely to be much higher than in October. Finally, states submitting such a request could, once again, wait weeks for an Administration response.

[1] The states we are aware of are Kansas, Maine, New York, South Carolina, and Virginia.

It took USDA up to two months to respond to the state requests it denied yesterday. Under its decision, a state wishing to continue to pursue this matter must undertake significant new work to request an adjustment and then potentially wait a number of weeks for USDA to rule on it. For most states, the ruling and related guidance issued yesterday come too late for them to make an adjustment in time to affect benefits for the coldest winter months.

A month ago, many states were prepared to act if USDA had approved the concept of allowing states to adjust their SUAs now to reflect projected utility costs for this winter. The Administration's delay and complicated response will result in hundreds of thousands of low-income families, children, elderly and people with disabilities receiving food stamp benefits this winter that reflect outdated and erroneous assumptions about their heating costs, and consequently provide these people with too little food aid to heat their homes and secure an adequate diet at the same time.

Research confirms that families cut back on food expenditures in cold-weather months. One study published in 2003, based on data from the 1980s through the 1990s, finds that "poor American families face stark choices in cold weather. In particular, they increase their home fuel expenditures at the cost of expenditures on food and nutritional well-being."[2]

## The Food Stamp Shelter Deduction and SUAs

The Food Stamp Program's benefit rules include a "shelter deduction." This deduction is designed to provide somewhat larger food stamp benefits to households that have greater difficulty affording adequate food because their rent and utility costs consume much of their budgets. Specifically, in determining a households' benefit level, households may deduct from their income their shelter costs, including the costs of utilities, to the extent that their shelter costs exceed *half* of their income after other deductions have been taken into account.[3]

Federal food stamp law and regulations allow states to establish and use "Standard Utility Allowances" as a reasonable approximation of household utility costs, in lieu of having to use actual expenses, so that millions of households do not need to document all of their actual utility costs and states do not need to expend significant resources verifying and processing each household's utility bills. Many states no longer allow households to claim actual utility expenses, requiring instead that all households use the state's SUA.

States establish a methodology for setting their SUAs, subject to USDA approval. Under program rules, states must update their SUAs at least annually but may update them as often as they choose. Most states update their SUAs in the early fall using recent data from utility companies on actual prices or expenditures for utilities that are commonly used in the state (for example, for natural gas, heating oil, electricity, water and sewer, telephone, etc.).

[2] Bhattacharya, et. al, "Heat or Eat? Cold Weather Shocks and Nutrition in Poor American Families," *American Journal of Public Health*, Vol 94, No, 7, July 2003, p. 1149-54.

[3] The amount that may be deducted is capped for households with no elderly members or members with disabilities.

## USDA Should Have Approved States' Requests for Adjustments to Reflect This Year's Energy Spike

The current surge in home heating prices warrants a one-time departure from the normal practice of adjusting SUAs once a year based on past utility costs. At least five states requested increases to their state's SUAs to ensure that food stamp benefits this winter more accurately reflect the utility expenses that households will have to pay this winter. The first of these state requests was submitted in early October, two months ago.

USDA acted inappropriately in denying these state requests and in taking weeks to respond. States should be permitted to adjust their SUAs for this winter, using U.S. Energy Department projections. Because most states have separate components of their SUAs for different fuels, state SUAs could easily be adjusted using the Energy Department projections. This approach would have allowed many states to quickly and easily make the needed adjustments to ensure that families receive the benefits to which they are entitled.

The Administration's denial is difficult to explain. The Food Stamp Act clearly intends that food stamp benefit levels be set in a way that takes households' utility bills into account. Failure to act will produce a result that will both cause hardship and contravene the purpose and intent of federal law.

Moreover, 38 states have taken advantage of a change in food stamp law enacted in 2002, with the Administration's support, that caps the amount households may deduct as utility expenses, no matter how high a household's actual costs are. In these states, benefits must be based on the SUA regardless of whether a household's actual bills exceed it. Before this change in law, a household whose actual costs exceeded the USA could request that its actual costs be used in computing its food stamp benefits, and states were required to honor such requests.

This change in law makes the impact of the Administration's denial all the more painful to affected households, as well as making the denial more unjustifiable. Before 2002, low-income families that incurred sharp increases in heating costs could report the increases to their food stamp caseworker and receive an immediate upward adjustment in their food stamp benefits. Under the system now employed in 38 states, these families have no such option. They must rely upon their state — and USDA — to set the Standard Utility Allowance at a level that is consistent with energy prices in their state. With its denial of states' requests to increase their SUAs to reflect current prices, the Administration is preventing states from delivering food aid to families in need in violation of the spirit of the Food Stamp Act.

## Expected Impact of an SUA Increase

The Administration expressed some concern about the cost of the proposal. Ironically, the ruling USDA issued yesterday acknowledged that households will be able to receive benefit increases *next year* based on the energy cost increases they experience *this year*. (Next year, energy prices are expected to normalize.) The state requests were moderate, reasonable and reflected families' *current* needs. They were simply intended to capture more accurately the costs that poor households will incur in heating their homes this winter.

Of the states that have submitted requests, the largest increase would be in Maine, where those food stamp households that would be helped (not all households would be) would receive about $24 a month more in food stamps. In South Carolina and Kansas, those food stamp households that would be helped would have seen about $15 a month more in food stamps, while in Virginia, the additional amount would be $8 to $11 a month. Generally, about half of the food stamp households in a state would be helped by the change.[4]

Allowing states to raise their food stamp SUAs to reflect the heating costs that households will incur this winter is not going to solve the energy crisis or fully ameliorate the additional financial strain that many food stamp households will face this winter due to the spike in heating costs. It would, however, provide modestly more food stamps to many low-income households to enable them to purchase more food for their families this winter — and to make "heat or eat" squeezes less excruciating and less widespread.

---

## Appendix: This Year's Expected Energy Spike

According to the Energy Department's "Short Term Energy Outlook" (see http://www.eia.doe.gov/emeu/steo/pub/), energy prices are expected to spike at the onset of winter, with natural gas prices projected to peak in December and January. By this time next year The Energy Department expects that fuel prices will return to pre-hurricane levels.

The biggest increases will be for natural gas, but heating oil is also expected to be significantly higher this year than last year. The Energy Department produces national and regional projections of monthly energy prices for the major heating fuels.

- ***Natural Gas*** prices are projected to be *40 to 50 percent higher this winter than last winter*, with price increases highest in the Midwest.
- ***Heating Oil*** prices will be approximately *30 percent higher*, on average, this winter, according to the Energy Department's projections.
- ***Propane*** prices are expected to be approximately *20 percent* higher this winter.
- ***Electricity*** prices in most of the country are not expected to be significantly higher this year, but in the areas hit by hurricanes in the South and Southwest, electricity prices are projected to be up to approximately *10 percent higher* than last year.

---

[4] Not all households are helped, because some do not have shelter expenses or do not have high shelter expenses in relation to their income. Others who are not helped are already receiving the program's maximum (or minimum) benefit or already receive the maximum shelter deduction that program rules allow.