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FUNDING FOR HOME HEATING IN RECONCILIATION BILL? RIGHT IDEA, WRONG VEHICLE

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In its most recent energy price forecasts, issued December 6, the Department of Energy projected that natural gas prices would be 44 percent higher this winter than last winter and that the prices of other winter heating fuels would be significantly higher as well. These steep price increases will entail unaffordable increases in heating bills for many low-income households and thus will lead to increased need for federal heating assistance, which is provided by the Low-Income Home Energy Assistance Program (LIHEAP).

The need for increased LIHEAP funding is urgent. Local LIHEAP agencies are already reporting unprecedented increases in applications for assistance, and local officials have expressed concern about whether available funding will allow them to assist eligible applicants throughout the winter.¹ Research indicates that, without funding increases to protect poor households from price increases, many LIHEAP beneficiaries will reduce their consumption of food and other necessities this winter to pay for the rise in heating costs.

According to our calculations, meeting the needs of this year's new LIHEAP applicants while also providing sufficient assistance to last year's LIHEAP recipient households to keep their out-of-pocket heating costs stable will require increasing LIHEAP funding by \$2.281 billion over last year's appropriation, to a total of \$4.464 billion.² In contrast, the fiscal year 2006 Labor-HHS appropriations conference report (H.R. 3010) filed on November 16 provides only \$2.183 billion in funding for LIHEAP, the same dollar level as last year.

The budget-cut "reconciliation" bill that the House of Representatives passed on November 18 (H.R. 4241) includes \$1 billion in additional funding for LIHEAP. But while additional home heating assistance is desperately needed this winter, reconciliation legislation is not an appropriate vehicle for providing this help. The funding provided in the House reconciliation measure would not solve the problem of increased LIHEAP need, for several reasons.

¹ Campaign for Home Energy Assistance, "LIHEAP Newswire – November 30, 2005," and Paul Vitello, "Middle Class Gets in Line for Help with Rising Heating Bills," *New York Times*, November 27, 2005.

² For a detailed explanation of our calculations and further discussion of the need for increased LIHEAP funding, see Richard Kogan and Aviva Aron-Dine, "Out in the Cold: How Much LIHEAP Funding Will Be Needed to Protect Beneficiaries from Rising Energy Prices?" Center on Budget and Policy Priorities, revised December 7, 2005, <http://www.cbpp.org/10-6-05bud.pdf>.

- Even if combined with the \$2.183 billion provided in the Labor-HHS appropriations conference report, the \$1 billion is substantially less than is needed to cover new LIHEAP applicants and hold out-of-pocket costs constant for last year's recipients. That would require total funding of \$4.464 billion, not \$3.183 billion.
- The LIHEAP increase provided in the House reconciliation bill is part of a package that makes permanent cuts in entitlement programs, including low-income programs such as Medicaid, food stamps, and child support enforcement, reducing expenditures by approximately \$50 billion over the next five years. Since reconciliation bills are designed to meet a specific dollar target in total cuts, any LIHEAP increases provided through reconciliation entail deeper cuts in other programs. Moreover, the LIHEAP increase is part of a bill that, overall, harms low-income households far more than it helps them, because the negative impact of permanent cuts in other, equally needed forms of assistance would outweigh the gains from a modest, one-time increase in LIHEAP funding.
- Finally, statutory allocation formulas would prevent much of the LIHEAP funding provided in the House reconciliation bill from reaching the states whose residents have the greatest need for increased LIHEAP assistance. All of the \$1 billion funding in the reconciliation bill and \$2 billion of the \$2.183 billion in the Labor-HHS appropriations conference report would be distributed according to a statutory allocation formula; the remaining \$183 million is designated as contingency funding and is distributed by the Department of Health and Human Services (HHS) as it sees fit. We distribute the total \$3 billion in non-contingency funding according to the statutory allocation formula and then assume that the \$183 million contingency funding would be distributed in the same proportions as contingency funds were distributed in 2005. Under these assumptions, states such as Pennsylvania, Oregon, and New York would see funding increases of less than 30 percent relative to 2005, even though overall LIHEAP funding would be 50 percent higher. Three states — Maine, Minnesota, and Wisconsin — would receive funding increases of less than 3 percent. Meanwhile, some warm-weather states would see funding increases of more than 150 percent.

Rather than providing increased LIHEAP assistance through reconciliation legislation, Congress should provide increased funding for this winter through an emergency appropriation. This would prevent increased LIHEAP funds from coming at the expense of other low-income programs. Congress should also include provisions allowing HHS to distribute LIHEAP funding more flexibly than the statutory formula permits, so that the funding increase can be allocated based on the severity of the increases in heating prices.

The remainder of this paper discusses these issues in greater detail.

LIHEAP Increases Should Not Come at the Expense of Other Low-Income Programs

The \$2.281 billion increase in LIHEAP funding that is needed this year is best provided through the appropriations process and designated as an emergency for purposes of the Congressional Budget Act. An emergency designation for the additional LIHEAP funding is appropriate since the funding is needed due to this year's sudden spike in energy prices, which was caused in part by the recent hurricanes. Prices are expected to fall back at least part of the way to more normal levels

after this winter is over. Therefore, the need for extra LIHEAP funding is essentially an unexpected emergency, and the funding is appropriately designated as such, just as other hurricane-related expenditures have already been.

Without an emergency designation, additional LIHEAP funding would have to come at the expense of other programs funded in the Labor-HHS appropriations bill or at the expense of programs being cut in the reconciliation bill. In both cases, the cuts would disproportionately impact low-income programs. Cuts made in the appropriations bill would at least be temporary, confined to one year's budget. Cuts made in reconciliation, on the other hand, would likely last even beyond the five-year reconciliation time period, since there is no "sunset" feature in the House or Senate reconciliation bills, and they will therefore continue to result in a loss of benefits and services long after the initial required savings have been secured.

In addition, it would likely be harder to secure an emergency designation in reconciliation than in an appropriations bill. Emergency designations in reconciliation are rare, whereas they are more common in appropriations bills.³

Congress Should Provide for a Flexible Distribution of LIHEAP Funds

If additional LIHEAP funding is made available as the House reconciliation bill provides — that is, under the normal LIHEAP allocation formula — the funds will be distributed among states in a highly inequitable manner. As Table 1 shows, several states would see increases of less than 3 percent in their LIHEAP funding, even though the program's total funding would have increased by almost 50 percent. Many other states would receive modest funding increases, amounting to much less than 50 percent. Meanwhile, a third group of states would receive rather massive funding increases of 100 percent, 150 percent or even more.

In other words, the \$1 billion funding increase would not be apportioned in a way that would reflect the needs the additional money is supposed to address. In general, the states with the greatest need for increased LIHEAP funds this year are cold-weather states, especially those that are heavily reliant on natural gas, the fuel expected to experience the largest price increases. States that use LIHEAP funding primarily to provide cooling assistance will have less need for increased funding this year, since cooling is fueled mostly by electricity, and electricity prices are projected to increase only slightly.

But, as the table shows, the statutory allocation formula would provide relatively small increases to such cold-weather states as Pennsylvania, Oregon, and New York, while providing far larger increases to warm-weather states such as Florida, Arizona, and South Carolina. Maine, Minnesota, and Wisconsin, all cold-weather states, would receive funding increases of less than 3 percent. This would be particularly harmful in the case of Minnesota and Wisconsin, which not only experience very cold winters but are also heavily dependent on natural gas.

³ In fact, the Senate has already voted (on November 18) in support of an emergency designation for the \$2.183 billion in LIHEAP funds in its Labor-HHS appropriations bill. Although it designated its LIHEAP appropriation as emergency funding, the Senate provided no increase in LIHEAP funding over 2005, and so its LIHEAP appropriation does not address the problem of higher energy costs.

The reason for the inequity is that different formulas are used to distribute LIHEAP funding to states when total non-contingency LIHEAP funding is below than when it is above \$1.97 billion. In 2005, total non-contingency LIHEAP funding was \$1.9 billion, and so the funds were distributed according to the so-called 'old' formula. If non-contingency LIHEAP funding increased to \$3.0 billion, the funds would be distributed according to the so-called 'new' formula. This formula gives greater weight to 'cooling days' (defined as days with temperatures above 65° F) and other factors that tilt funding towards warm-weather states. The formula does not take into account this year's extraordinary price increases, since it is based on older fuel price data.⁴

Congress has the option of designating some or all LIHEAP funding as contingency funding, which would allow HHS to distribute the funding more flexibly according to HHS' determination of need. Last year, HHS used this flexibility to distribute LIHEAP contingency funding differently from the statutory formula that otherwise applies to LIHEAP funds, with a larger share of the contingency funds going to cold-weather states such as Maine, Minnesota, New York, Connecticut, and Pennsylvania. The Labor-HHS appropriations conference report provides \$183 million of its LIHEAP appropriation in the form of contingency funds, while none of the funding in the House reconciliation bill carries a contingency designation. A contingency designation could, however, be provided in either the reconciliation or an appropriations bill.

Conclusion

Congress needs to take action to protect low-income households from sharply rising energy prices this winter by temporarily increasing funding for LIHEAP. We estimate that last year's funding level of \$2.2 billion should be increased to almost \$4.5 billion. Reconciliation legislation, however, is an inappropriate vehicle for providing this additional funding. Providing funds in reconciliation would very likely entail a damaging trade off — additional permanent cuts in other types of assistance for low-income families and individuals. Finally, the LIHEAP provision in the House reconciliation bill would distribute the additional LIHEAP funding in that bill in an inequitable and inefficient manner that is not responsive to the increase in need.

⁴ The statutory formula also involves several complex "hold-harmless" provisions. For a more detailed explanation of the formula, see Julie Whittaker and Libby Perl, "Low-Income Home Energy Assistance Program (LIHEAP): Formula and Estimated Allocations," Congressional Research Service, December 6, 2005.

TABLE 1: DISTRIBUTION OF 2005 and ESTIMATED 2006 LIHEAP FUNDING BY STATE:
 Total 2006 Funding under the Labor-HHS Appropriations Bill plus the House "Reconciliation" Bill.
 States are ranked by the percentage by which 2006 funding level would exceed their 2005 funding level,
 from smallest to largest percentage increase.
 (dollars in millions)

	Actual 2005 funding	Estimated 2006 funding (Labor- HHS and "reconciliation" bills combined)*	Dollar Change from 2005 to 2006	Percent Change from 2005 to 2006
Maine	\$32	\$32	\$1	2%
Minnesota	84	86	2	2%
Wisconsin	75	77	2	2%
Iowa	39	40	1	3%
Washington	42	43	1	4%
Oregon	25	27	1	5%
Michigan	113	125	12	10%
New York	278	307	29	10%
Colorado	32	36	4	11%
Massachusetts	92	103	11	12%
Pennsylvania	145	173	28	19%
New Jersey	84	103	19	22%
Indiana	54	69	15	28%
Vermont	14	19	5	35%
New Hampshire	18	25	6	35%
Connecticut	47	64	17	36%
Rhode Island	15	21	6	38%
South Dakota	14	20	5	38%
Alaska	12	16	5	39%
North Dakota	17	24	7	39%
Nebraska	19	27	8	42%
New Mexico	11	15	5	42%
Idaho	13	18	5	42%
Montana	15	21	6	42%
Wyoming	6	9	3	43%
Utah	15	22	7	44%
Ohio	105	155	50	48%
Hawaii	2	3	1	48%
DC	7	10	3	50%
Illinois	117	184	67	57%
Missouri	48	76	28	58%
West Virginia	18	30	12	63%
Kansas	17	34	16	93%
Kentucky	28	56	28	98%
Tennessee	28	58	30	105%
California	92	191	98	106%
Arkansas	14	29	15	111%
Delaware	6	14	7	118%
Virginia	42	92	50	120%
Oklahoma	16	39	23	141%
Maryland	34	83	49	144%
North Carolina	41	101	60	144%
South Carolina	15	39	24	165%

Mississippi	16	42	26	168%
Alabama	18	49	31	170%
Georgia	23	61	38	170%
Florida	28	77	48	172%
Texas	46	127	81	175%
Nevada	4	11	7	175%
Louisiana	18	49	31	176%
Arizona	8	23	15	177%
Total Distributed to States	2,104	3,151	1,047	50%
<i>Outreach, etc.</i>	30	32	2	6%
<i>Contingency funds distributed to Louisiana, Alabama, and Mississippi after Katrina</i>	27.25			

* We distribute the \$3.0 billion non-contingency funding (the \$1 billion in the reconciliation bill plus the \$2 billion in the Labor-HHS appropriations conference report) as shown in Table 1 in the Congressional Research Service report, "Low-Income Home Energy Assistance Program (LIHEAP) Formula and Estimated Allocations," December 6, 2005. We then assume that the \$183 million contingency funding in the Labor-HHS conference report is distributed as contingency funding was distributed in 2005.