

Revised January 18, 2006

## OUT IN THE COLD: How Much LIHEAP Funding Will Be Needed to Protect Beneficiaries from Rising Energy Prices?

By Richard Kogan and Aviva Aron-Dine

Last year, Congress provided nearly \$2.2 billion for the Low-Income Home Energy Assistance Program (LIHEAP). LIHEAP helps very poor households, including many elderly, pay their home heating (and cooling) bills. Most of the assistance prevents heat from being turned off in northern states in the dead of winter, but some also keeps air conditioning running during southern heat waves. LIHEAP funding covers just a fraction of the poor households eligible for assistance and is distributed by local officials on the basis of greatest need. In almost all cases, LIHEAP pays only part of the monthly energy bill of enrolled households. The \$2.2 billion appropriated for 2005 — which constitutes the starting point for our calculations — is itself unusually low by historical standards; taking into account the price of home heating, the 2005 level of funding was the lowest since 1998.

Recently enacted legislation appropriated funding for LIHEAP in 2006 that is 1 percent *below* last year's level, even though the prices of heating fuels used by LIHEAP beneficiaries (principally home natural gas, heating oil, and propane) have risen significantly over the last year. The disruption in energy supply caused by the Gulf Coast hurricanes worsened the situation, and prices are expected to remain high throughout the winter. On January 10, the Department of Energy issued new projections of winter heating costs and monthly energy prices by energy source and by geographic region.<sup>1</sup> If these projections prove accurate, the cost of heating the homes of LIHEAP beneficiaries will rise 31.1 percent between last winter and this winter. (See Appendix 2 for a description of this and our other calculations.) According to a Department of Energy economist, energy prices in recent months have been higher in real dollar terms than at any time

### KEY FINDINGS

- The Department of Energy projects that home heating prices will average **31.1 percent** more this winter than last winter.
- Because the spike in prices will substantially increase the number of low-income households in need of assistance, LIHEAP participation is likely to grow by at least **10 percent**.
- Suppose LIHEAP funding increases sufficiently to cover the projected price increases (and to cover the expected increase in program participation). Even so, poor LIHEAP beneficiaries would still see their *own share* of their heating bills rise by **31.1 percent**.
- To accommodate increased need and hold LIHEAP beneficiaries harmless for rising home heating prices would require LIHEAP funding of at least **\$4.4 billion**.

<sup>1</sup> We have updated our analysis to reflect these new projections.

since 1981.<sup>2</sup> Research indicates that, without funding increases to protect poor households from these price increases, many LIHEAP beneficiaries will reduce their food consumption this winter to pay for the rise in heating costs.

### **Funds Appropriated Are Far Below What Is Needed**

Because a portion of LIHEAP funding goes towards cooling rather than heating assistance, because cooling is fueled mainly by electricity, and because electricity prices, unlike winter fuel prices, are projected to rise only a small amount, we project that the costs of LIHEAP benefits as a whole will rise by 30.4 percent on average, rather than 31.1 percent. Simple arithmetic shows that adjusting LIHEAP funding for this increase (and for more normal increases in the cost of weatherization and administration) would require total fiscal year 2006 funding of \$2.7 billion, an increase of \$543 million over last year's level. This increase would allow LIHEAP to continue to cover the same portion of the bills of current LIHEAP beneficiaries as the program did last year. It would not allow LIHEAP to cover any additional low-income households. Nor would it hold current beneficiaries harmless from steep energy price increases, as the next section of this analysis explains.

The LIHEAP funds appropriated by Congress for 2006 fall far short of even this inadequate amount. This year's Labor-HHS appropriations bill, in conjunction with a 1 percent across-the-board cut enacted in separate legislation, actually *decreases* LIHEAP funding relative to that provided in last year's budget. LIHEAP funding for fiscal year 2005 was \$2.182 billion. LIHEAP funding for 2006 totals \$2.161 billion.<sup>3</sup>

The \$2.161 billion provided in the Labor-HHS appropriations bill is the only LIHEAP funding appropriated so far for 2006. While additional funding had initially been included in the defense appropriations bill, these funds were removed before the bill passed.<sup>4</sup> \$1.0 billion in funding for LIHEAP is included in the budget reconciliation bill passed by the Senate and pending in the House, but this funding will not be available until fiscal year 2007. It will be of no use in addressing this year's crisis, and it may not even increase 2007 LIHEAP funding, since Congress can always appropriate less money next year in recognition of the \$1 billion already provided.<sup>5</sup>

---

<sup>2</sup> Paul Vitello, "Middle Class Gets in Line for Help with Rising Heating Bills," *New York Times*, November 27, 2005.

<sup>3</sup> Last year, \$1.885 billion of the total appropriation was provided in the form of block grant funds and \$298 million as contingency funding. This year, \$1.980 billion of the total appropriation is block grant funding and \$181 million is contingency funding. Because more of this year's appropriation is provided in the form of block grant funds, states will see increases in their block grants relative to last year. But because less contingency funding is available, states will likely see reductions in their total LIHEAP funding.

<sup>4</sup> The LIHEAP funds were removed from the bill when the ANWR provision was stricken, but there was no necessary connection between the two; had Senate leadership allowed it, the Senate could have removed the ANWR provision and kept the LIHEAP funding. For further explanation, see James Horney, "Senate Cuts LIHEAP Funding: Despite Claims, There Is No Legitimate Connection between ANWR and LIHEAP," Center on Budget and Policy Priorities, December 22, 2005, <http://www.cbpp.org/12-22-05bud.pdf>.

<sup>5</sup> The House version of the budget reconciliation bill provided \$1.0 billion in 2006 funding, but the conference agreement on the bill delayed the availability of the funds until 2007.

### **How Low Is the 2006 LIHEAP Budget?**

The purchasing power of the 2006 LIHEAP appropriation is lower than in any year between 1982 and 2005. (The winter of 1981-1982 is the first for which winter fuel price data is available from the Department of Energy.)

We compare the purchasing power of the LIHEAP budget in different years by comparing how much natural gas or heating oil the average LIHEAP grant could buy in a given year.<sup>a</sup> The average 2006 grant buys less natural gas and heating oil than did the average LIHEAP grants from 1982 to 2005, and its purchasing power, in terms of each fuel, is about half the average of all prior years.

Moreover, the above comparison actually understates how low this year's funding is relative to historical norms. In its early years, the LIHEAP program provided assistance to nearly 30 percent of eligible households (eligible households are those with incomes below 150 percent of the poverty level). In 2006, LIHEAP is projected to assist only 16 percent of eligible households. This decrease in coverage has occurred despite the fact that energy costs have risen far more quickly than poor households' incomes since 1982, so that the need for energy assistance has almost certainly grown.

If LIHEAP were to serve even 20 percent of the eligible population this year, without an increase in overall LIHEAP funding, the average LIHEAP grant would fall further, and its purchasing power would drop to about 40 percent of the historical average.

<sup>a</sup> We take the average grant to be total LIHEAP funding, less 20 percent for weatherization and administrative costs, divided by the number of LIHEAP recipient households, as reported by the National Energy Assistance Directors' Association (NEADA) for 1982-2005 and as projected by NEADA for 2006.

Congress reduced funding for LIHEAP despite the intense pressure placed on the program by this year's fuel price increases. According to Mark Wolfe, executive director of the National Energy Assistance Directors' Association (NEADA — the organization of state LIHEAP officials), "What we're looking at is a potential crisis in the program... We have enough money to go through the next couple of weeks, but starting in January states will start to run out of money... I hate to be melodramatic, but what you start seeing when people can't afford energy is they take dangerous measures. They lose their electricity, so they buy a kerosene heater... You see people not buying medicine. You see people doing all kinds of things that in this case are avoidable, and that's what's so sad about this."<sup>6</sup>

### **What Level of LIHEAP Funding is Needed?**

#### **Just Increasing Funding to Reflect Price Inflation Will Not Hold Beneficiaries Harmless**

Almost every household that receives LIHEAP assistance pays a share of its monthly heating bill out of its own income: LIHEAP pays part of the monthly bill, and the household pays the rest. If the price of energy rises and LIHEAP funding rises proportionally, the amount that the household must pay to avoid having its heat or electricity turned off would also rise proportionally. Thus, if the price of home heating is 31.1 percent higher this winter than last, a 31.1 percent increase in LIHEAP funding for northern states would still require a 31.1 percent increase in out-of-pocket energy payments by poor LIHEAP beneficiaries. This phenomenon is explained more fully below. The

---

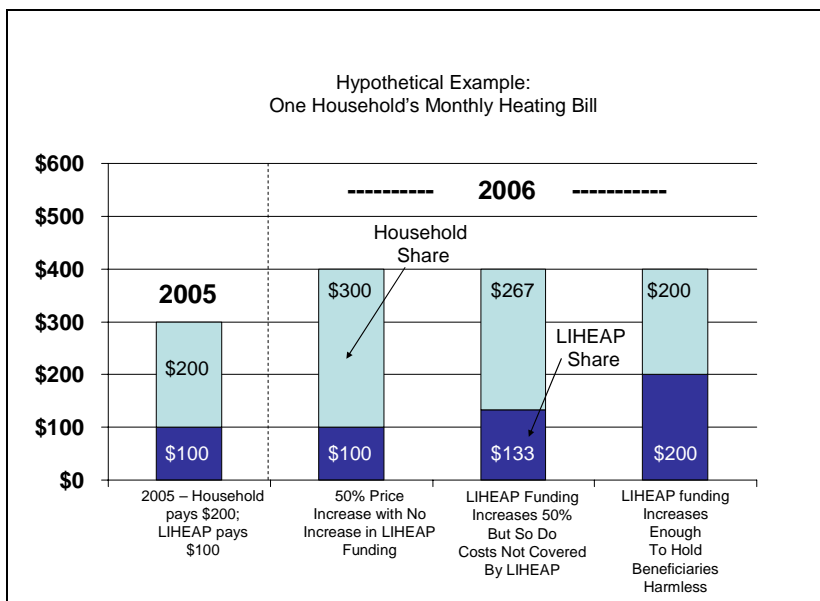
<sup>6</sup> Mark Wolfe, transcript of Center on Budget and Policy Priorities media call, December 22, 2005.

bottom line, though, is that to protect LIHEAP beneficiaries fully from the expected 31.1 percent increase in the cost of heating fuel for their homes — that is, to ensure that their monthly out-of-pocket heating bill is not higher than it was last winter — Congress will need to provide LIHEAP funding of \$4.0 billion, or \$4.4 billion if the LIHEAP caseload increases by 10 percent.

Table 1 on page 6 shows the needed funding increases discussed in the previous three paragraphs. Our estimate is that \$4.4 billion is needed to cover a caseload increase of 10 percent and to hold beneficiaries harmless for estimated increases in the price of natural gas, heating oil, propane, and electricity. The state-by-state distribution of LIHEAP funding for 2005 — and the approximate amount each state will need in 2006 to keep low-income LIHEAP beneficiaries from paying more out-of-pocket for their energy this year — is displayed in Appendix 3.

**Why does a “hold harmless” policy require a greater increase?** We use a hypothetical example to explain why increasing funding for LIHEAP benefits by the same percentage that energy prices increase does not shield poor LIHEAP beneficiaries from those price increases.<sup>7</sup>

The graph at right explains this phenomenon. The first bar — the left-most bar — shows a hypothetical bill for home heating for January 2005. The bill was \$300, of which LIHEAP paid \$100 and the household paid \$200. Both last winter and the winter before, LIHEAP paid slightly less than one-third of the cost of home heating for its beneficiaries on average, so this distribution of costs is typical.<sup>8</sup>



The second bar shows what happens if the price of home heating rises by a third from January 2005 to January 2006 — the total heating bill rises by a third, from \$300 to \$400. Now suppose that Congress freezes LIHEAP funding at 2005 levels (which is more or less what happened). As the second bar shows, LIHEAP will continue to be able to cover only \$100 of the January heating bill. Therefore, the amount owed by the household will necessarily rise by \$100, from \$200 to \$300, an increase of 50 percent.

The third bar shows what happens if, rather than freezing funding, Congress increases funding for LIHEAP benefits by a third to match the increase in home heating prices. As can be seen, the amount of the monthly heating bill covered by LIHEAP would grow from \$100 to \$133, a one third

<sup>7</sup> This hypothetical example assumes that there is no increase in the number of households served by LIHEAP; in reality, participation has been growing by an average of six percent per year since 2002 and is likely to grow by ten percent or more this year.

<sup>8</sup> Calculated from data in the National Energy Assistance survey of LIHEAP beneficiaries, National Energy Assistance Directors' Association, April 2005.

increase. But the *remainder* of the bill must still be covered by the household. And the remainder of the bill would grow from \$200 to \$267, also a one third increase. Together, LIHEAP and the household would cover the \$400 bill. In this case, LIHEAP would continue to cover one-third of the heating bill, and the beneficiary would continue to cover two-thirds. The key point is simple: even with a one third increase in LIHEAP benefit funding, the household would suffer a one third increase in its out-of-pocket costs for home heating. Yet the typical very poor household is unlikely to have significantly more income or resources this winter than it had last winter.

The final bar illustrates what it would take to hold the household harmless for the increase in fuel prices. To do so means that the household would pay the same \$200 for heat in January 2006 that it did in January 2005. To accomplish this result, LIHEAP would have to pay the remaining portion of the \$400 bill, i.e., LIHEAP would have to pay \$200 rather than the \$100 it paid last year. In short, in this hypothetical example, LIHEAP funding would need to be 2 times as large in order to hold beneficiaries harmless for inflation in home heating prices. (See Appendix 1 for the math that this example illustrates.)

### **Higher Prices Will Lead to Increased Need for LIHEAP Aid**

Our example above considers only the needs of current LIHEAP beneficiaries. Over the past several years, the number of LIHEAP beneficiaries has increased by an average of 6 percent per year. With energy prices expected to be 30.4 percent above last year's levels, a significantly larger increase is likely this year, since many more low-income households will have difficulty paying their heating bills this winter. According to Mark Wolfe, executive director of the National Energy Assistance Directors' Association, between one and two million additional households with incomes below the national LIHEAP cutoff could apply for assistance this year.<sup>9</sup> If these applicants were served, that would mean an increase in caseload of 20 percent to 40 percent.

A recent NEADA survey found that many local LIHEAP agencies are already experiencing overwhelming increases in applications for assistance. The survey showed that, even before families experienced the shock of their first winter heating bills, LIHEAP applications were up by about 10 percent nation-wide. In some states, applications were already up 25 percent. According to Wolfe, states "are all reporting much higher numbers, and they're saying the same things; that these numbers could go much, much higher, that we've never had a situation before where so many people won't be able to afford the price of energy."<sup>10</sup>

We make the conservative assumption that these very large increases in requests for LIHEAP assistance will translate into only a 10 percent increase in LIHEAP caseload. Since LIHEAP caseload rose by 9 percent in 2003, in response to a price increase of only 19 percent, the actual increase in the number of LIHEAP beneficiaries is likely to be considerably greater than 10 percent this year. Accommodating even a 10 percent increase, however, would require an additional \$396 million in funding, for a total of \$4.4 billion. (Accommodating a larger, but still realistic, 20 percent increase would require an additional \$792 million in funding, for a total of \$4.8 billion.)

---

<sup>9</sup> Mark Wolfe, transcript of Center on Budget and Policy Priorities media call, October 6, 2005.

<sup>10</sup> Mark Wolfe, transcript of Center on Budget and Policy Priorities media call, December 22, 2005. The results of NEADA's survey of state agencies are available at [http://www.neada.org/news/news051222\\_table.pdf](http://www.neada.org/news/news051222_table.pdf).

**Table 1:**  
**LIHEAP funding required due to increases in home energy prices,**  
**general inflation, and caseload**  
(dollars in billions)

	benefits	weather- ization *	total
LIHEAP funding, FY 2005.	1.746	.436	2.182
Additional funding needed because LIHEAP fuel prices are expected to increase by 32% and general inflation by 3.1%.	.530	.014	.542
LIHEAP funding for 2006, adjusted only for expected price increases.	2.276	.450	2.725
Additional funding needed to hold LIHEAP beneficiaries harmless	1.236	0	1.236
LIHEAP funding for 2006, adjusted to cover increased prices and hold beneficiaries harmless	3.512	.450	3.961
Additional funding to cover a 10% increase in the number of beneficiaries.	.351	.045	.396
LIHEAP funding for 2006, adjusted for price increases and 10% more beneficiaries.	3.863	.494	4.358

\* also includes amounts for program administration

**Conclusion.** LIHEAP beneficiaries are expected to face an increase in home energy costs of 30.4 percent this year — and 31.1 percent for heating bills this winter. LIHEAP’s caseload is likely to rise by at least 10 percent. These facts by themselves justify a significant increase in LIHEAP funding over its 2005 level (especially since, when the price of heating is accounted for, the 2005 level of LIHEAP funding is itself shown to be the lowest since 1998).

But a funding increase of, say, 30.4 percent because of energy prices and 10 percent because of caseload will not protect individual LIHEAP households from harsh price increases. Even with such a funding increase, individual households will need to increase their own out-of-pocket energy payments by an average of 30.4 percent as well. Poor households could find such increased costs difficult or impossible to meet unless they fail to pay the rent, cut back substantially on food purchases, or fail to secure other necessities.

The choice of whether to “heat or eat” is a real one for many poor households. A recent study by researchers from Stanford University, the University of Chicago, the RAND Corporation, and UCLA found that when poor families’ heating bills go up during cold winter months, they reduce their spending on food by roughly the same amount as the increase in fuel expenditures.<sup>11</sup> Another recent study found that children in families that receive LIHEAP assistance are less likely to be underweight than children in families that are eligible for LIHEAP but do not receive it because of program funding limitations.<sup>12</sup>

To protect those who rely on LIHEAP for heat in the dead of winter (or air conditioning during Southern summer heat waves), many of whom are elderly people living in poverty, would require a funding level of at least \$4.4 billion. It should also be noted that even at a funding level of \$4.4

<sup>11</sup> Jayanta Bhattacharya, Thomas DeLeire, Steven Haider, and Janet Currie, Heat or Eat? Cold-Weather Shocks and Nutrition in Poor American Families *American Journal of Public Health*, v. 93, no. 7, Jul. 2003, p. 1149–1154.

<sup>12</sup> Children’s Sentinel Nutrition Assessment Program, *The Safety Net In Action*, July 2004.

billion, LIHEAP would be able to serve less than one-sixth of the roughly 35 million households that have incomes low enough to qualify for assistance. The millions of eligible households that will receive no LIHEAP assistance could face serious difficulties this winter.

Congress' appropriation for LIHEAP falls \$2.2 billion short of the \$4.4 billion we find is needed. We recommend that Congress provide an additional \$2.2 billion in funding as soon as possible. We further recommend that Congress designate most of the additional funding as contingency funding for purposes of LIHEAP. Without such a designation, the additional funds would be distributed according to a statutory formula that would lead to disproportionately small funding increases for cold-weather states.<sup>13</sup>

---

<sup>13</sup> For explanation, see Aviva Aron-Dine and Martha Coven, "Funding for Home Heating in Reconciliation Bill: Right Idea, Wrong Vehicle," Center on Budget and Policy Priorities, revised December 14, 2005, <http://www.cbpp.org/12-9-05bud.pdf>.

**APPENDIX 1:  
Calculating the amount needed to hold beneficiaries harmless  
for increases in the price of heating their homes**

In 2005, LIHEAP paid an estimated \$1.746 billion or more in benefits to households in poverty to assist them with their heating (or cooling) bills. This appendix shows the math that explains how much Congress needs to increase that \$1.746 billion if it intends to hold LIHEAP beneficiaries harmless from the projected 30.4 percent increase in average costs for LIHEAP fuels including electricity. As shown in the hypothetical example on pages 4 and 5, holding beneficiaries harmless cannot be accomplished simply by increasing \$1.746 billion by 30.4 percent — substantially more is required. But how much more?

The math is straightforward. First, we need to calculate how much LIHEAP households paid out of pocket for heating and cooling expenses in 2005 — which is also the amount they would pay out of pocket in 2006 if they were held harmless for the recent increase in energy prices. Then we need to calculate the *total* cost of heating and cooling LIHEAP households in 2006. That total cost, minus the amount that LIHEAP households should pay out of pocket in 2006, will equal the amount of LIHEAP benefits that are needed for 2006. We proceed in three steps:

- The *total* cost of fuels for LIHEAP households in 2005 was \$5.820 billion. This is **the amount paid by LIHEAP divided by the share paid by LIHEAP**, or \$1.746 billion divided by 30 percent.<sup>14</sup> Thus, the amount paid by LIHEAP households in 2005 from their own resources is estimated to be \$4.074 billion. This is **the total cost just calculated minus the amount paid by LIHEAP**, or \$5.820 billion minus \$1.746 billion.
- Meanwhile, the total cost of fuels for LIHEAP households will increase from \$5.820 billion in 2005 to \$7.587 billion in 2006. This is **the 2005 total cost increased by the 30.4 percent projected increase in energy prices**, or \$5.820 billion times 130.4 percent.
- Finally, the amount of benefits needed for 2006 to hold LIHEAP households harmless is \$3.512 billion. This is the **2006 total cost just calculated minus the amount that LIHEAP households can pay from their own resources**, assumed to be the same in 2006 as in 2005, or \$7.587 billion minus \$4.074 billion.

**Weatherization and administrative costs are treated separately**

This appendix discusses the needed adjustment to the cost of LIHEAP *benefits*, that is, the grants to households to help them pay their heating bills. Of the \$2.182 billion in 2005 LIHEAP funding, we assume that 80 percent, or \$1.746 billion, was for these benefits. (The actual figure may be higher, in which case the \$4.4 billion total in our analysis should also be higher.)

The remaining 20 percent, or \$436 million, covered weatherization and state administrative costs. We assume that this \$436 million should increase from 2005 to 2006 by 3.1 percent to cover inflation as measured by the CPI and by another 10 percent to cover a conservative estimate of the increase in LIHEAP caseload. As a result, we estimate that at least \$494 million will be needed in 2006 for these purposes.

---

<sup>14</sup> We can calculate the average share of beneficiary heating costs paid by LIHEAP from data supplied by NEADA. The NEADA study gives data on the share of heating oil, natural gas, and propane costs covered by LIHEAP, which works out to 30 percent on average. Since the study does not give data on the share of electricity costs covered by LIHEAP, we assume that the share for electricity is also 30 percent.



Our conservative assumption that participation will rise 10 percent brings the required benefit level from \$3.512 billion to \$3.864 billion, the figure we show in Table 1. Combined with \$494 million for weatherization and administrative costs (see the box on the previous page), the needed total reaches \$4.358 billion.

**Holding beneficiaries almost harmless.** Suppose that instead of holding beneficiaries fully harmless for the rising cost of fuel prices, Congress assumes the amount that LIHEAP beneficiaries can pay out of their own pockets should rise with general inflation, as measured by the Consumer Price Index. (This assumption would itself rest on the assumption that the disposable incomes of LIHEAP beneficiaries are fully keeping pace with inflation, which may not be the case due to erosion in real wages and increases in health care costs.) CBO expects the consumer price index to increase by 3.1 percent from the first quarter of 2005 to the first quarter of 2006.

This approach would require only one new step. We make the initial calculations exactly as shown on the previous page, so that we estimate that LIHEAP households paid \$4.074 billion in 2005 and we estimate that the total costs of heating LIHEAP households in 2006 will be \$7.587 billion. We then add a new step.

- The amount that LIHEAP households are assumed to be able to pay from their own resources in 2006 is increased to \$4.200 billion. This is **the households' 2005 out-of-pocket payments increased by CPI inflation** (or \$4.074 billion times 103.1 percent).

The last step remains the same as shown on the previous page.

- The amount of LIHEAP benefits needed for 2006 to hold LIHEAP households harmless except for general inflation is \$3.386 billion. This is the **2006 total cost minus the amount that LIHEAP households are assumed to pay from their own resources** (which is assumed to be 3.1 percent higher in 2006 than in 2005), or \$7.587 billion minus \$4.200 billion.<sup>15</sup>

Our conservative assumption that participation will rise ten percent brings the required benefit funding level from \$3.386 billion to \$3.724 billion. Combined with \$494 million for administrative costs and weatherization, the needed total reaches \$4.219 billion. As can be seen, this figure is only slightly less than the \$4.358 billion total needed to fully protect LIHEAP beneficiaries from rising heating prices.

---

<sup>15</sup> Some analysts may be interested in the equations associated with the calculations in this appendix. They are as follows. Let **L** be the amount of 2005 LIHEAP funding for benefits, or \$1.746 billion in this case (administrative costs and weatherization are addressed separately). Let **P** be the percentage increase in energy prices, 32.0% in this case. Let **S** be the share of the energy bill paid by LIHEAP on average, 30.0% in this case. The three steps taken on the first page of the appendix are thus: First, T05 (total cost of heating in 2005) = L/S. And H05 (household heating costs in 2005) = T05 - L. Second, T06 (total cost of heating in 2006) = T05 \* (1+P). Finally, L06 (needed 2006 LIHEAP benefits) = T06 - H05. Substituting, we see that L06 = [T05\*(1+P)] - [T05-L]. Substituting again, we see that L06 = [L/S\*(1+P)] - [L/S - L]. Combining like terms, this equation becomes **L06 = L \* (P/S + 1)**.

If, on the other hand, beneficiaries could afford to increase their out-of-pocket payments by the percentage growth of the CPI, which we denote by **C**, we take an additional step, as described above on this page. The additional step is that H06 (household heating costs in 2006) = H05 \* (1+C). The new final step becomes L06 = T06 - H06. Substituting, we see that L06 = [T05\*(1+P)] - [H05\*(1+C)]. Substituting again, we see that L06 = [L/S\*(1+P)] - [(T05-L)\*(1+C)]. Substituting a final time, we see that L06 = [L/S\*(1+P)] - [(L/S - L)\*(1+C)]. Combining like terms, the equation becomes **L06 = L \* (P/S - C/S + C + 1)**.

In fact, we assume that poor beneficiaries cannot afford to pay more for their energy this year than last. This assumption is equivalent to setting C equal to zero. When C equals zero, the second equation is obviously identical to the first.

## APPENDIX 2: Calculating the price increase for heating homes

This analysis uses price projections issued by the Department of Energy on January 10, 2005, to calculate the average increase in home energy costs that LIHEAP beneficiaries can expect to face this winter.

The Energy Department issues month-by-month data that both go back historically and are projected into the future. The data are broken down by type of fuel and by region of the country. We used the following data: the retail price of natural gas in the Midwest, the retail price of home heating oil in the Northeast, the retail price of electricity in the South, and the price of propane in the Midwest.<sup>16</sup> We used the Department of Energy's winter price projections for natural gas, heating oil, and propane prices, and we averaged the June, July, and August price projections for electricity, which is used primarily for air conditioning rather than heating.

We then weighted the prices of the four fuels in proportion to their use by LIHEAP households to produce a "market basket" of heating fuel for LIHEAP households. To do so, we combined data on *which* fuels are used by LIHEAP households, and *how much* of each fuel per household is used by LIHEAP households. The year-to-year increase in these market-basket prices constitutes a price index for LIHEAP fuel. It is this price index that shows a 30.4 percent increase from last year to this year.<sup>17</sup>

---

<sup>16</sup> The prices of each fuel can differ from region to region. We used the prices in these particular regions because they represent the most typical areas and products used by LIHEAP beneficiaries.

<sup>17</sup> Data showing the distribution of the three heating fuels among LIHEAP households is available for 2005 from a survey conducted by NEADA; data showing the percentage of LIHEAP households receiving cooling assistance (and thus help with electricity payments) is available from the Department of Health and Human Services. However, while these studies tell us the percentage of LIHEAP households using natural gas, heating oil, propane, or electricity, they do not tell us how much of each fuel such a household typically uses. The latter data are available from the Residential Energy Consumption Survey of the Department of Energy. That survey was last conducted in 2001. We combined the two data sources to produce our market basket and our price index.

### Appendix 3: LIHEAP funding by state

The table on the next page shows an approximation of the state-by-state implications of increasing funding to the \$4.4 billion level needed to hold LIHEAP beneficiaries harmless for the increases in home energy prices that are projected for the coming year, based on the Department of Energy's most recent price forecast, and also to accommodate a 10-percent increase in caseload. In this table, we assume that all of the \$4.4 billion will be distributed. We also assume that funding will be distributed among states in the same proportions as it was in fiscal year 2005.

In fact, the distribution of additional LIHEAP funds is unlikely to mirror the distribution in 2005 and would depend on whether the additional funds are designated as block grant or contingency funding. Under the law, the distribution of "regular" LIHEAP funds is based on a complex formula that could result in a very unequal distribution of funding increases among states.<sup>18</sup> The distribution of "LIHEAP contingency" funds, in contrast, is determined by HHS based on its judgments about where the need for additional resources is greatest.

Changes in fuel prices might well warrant significant changes in the distribution of LIHEAP funds from 2005 to 2006. Specifically, natural gas prices are expected to rise even more than home heating oil or propane prices, and all three are expected to rise far faster than electricity prices. Therefore, states that are more reliant on natural gas than the typical state will suffer from price increases that are above the 30.4 percent average that we have calculated, while other states will be subject to smaller price increases. As a result, the distribution of LIHEAP funds should change from 2005 to 2006.

Our analysis does not allow us to estimate each state's needs, and so we base our state-by-state distribution of the recommended \$4.4 billion in funding (shown in the table below) entirely on the 2005 distribution. For this reason, the distribution does not constitute a precise set of recommendations, but it does illustrate the magnitude of the shortfalls states are likely to face relative to need.

The table also shows the distribution of LIHEAP funds in 2005 and the distribution of the 2006 LIHEAP appropriation, as given in tables provided by the Department of Health and Human Services, which administers LIHEAP at the federal level.<sup>19</sup>

State-by-state data are shown on the next page.

---

<sup>18</sup> See Julie Whittaker and Libby Perl, "Low-Income Home Energy Assistance Program (LIHEAP): Formula and Estimated Allocations," Congressional Research Service, November 8, 2005.

<sup>19</sup> HHS has provided information on the distribution of the 2006 LIHEAP block grants and on the distribution of the first \$100 million of contingency funding. In our table below, we distribute the remaining \$81 million of contingency funding as HHS distributed the first \$100 million.

**TABLE 3: ESTIMATED DISTRIBUTION OF LIHEAP FUNDS,  
2005 AND 2006  
(in millions of dollars)**

State	Funding for 2005	Funding for 2006		
		Funding for 2006*	Additional funding needed to hold LIHEAP beneficiaries harmless	Suggested Total
Alabama	\$18.0	\$18.0	\$18.8	\$36.7
Alaska	11.9	11.7	12.6	24.3
Arizona	8.4	8.6	8.5	17.1
Arkansas	13.5	13.8	13.8	27.6
California	92.4	98.0	90.6	188.6
Colorado	32.4	34.4	31.7	66.1
Connecticut	46.8	45.1	50.5	95.6
Delaware	6.2	5.9	6.8	12.8
Dist. of Col.	6.7	6.9	6.7	13.6
Florida	28.1	27.0	30.4	57.4
Georgia	22.5	22.5	23.4	45.9
Hawaii	2.2	2.1	2.3	4.4
Idaho	12.8	13.0	13.3	26.2
Illinois	117.2	125.1	114.2	239.3
Indiana	53.9	56.1	53.9	110.0
Iowa	38.9	40.0	39.3	79.4
Kansas	17.4	18.4	17.1	35.5
Kentucky	28.1	28.4	29.0	57.4
Louisiana	17.8	18.3	18.0	36.4
Maine	31.8	29.6	35.3	64.9
Maryland	34.2	34.1	35.8	69.9
Massachusetts	92.0	90.3	97.5	187.8
Michigan	113.2	119.7	111.5	231.2
Minnesota	84.0	85.2	86.4	171.6
Mississippi	15.6	15.5	16.3	31.8
Missouri	48.1	49.2	48.9	98.1
Montana	15.1	15.6	15.1	30.8
Nebraska	19.0	19.7	19.1	38.9
Nevada	4.0	4.1	4.1	8.1
New Hampshire	18.3	17.1	20.1	37.3
New Jersey	84.1	84.2	87.6	171.8
New Mexico	10.7	11.2	10.7	21.9
New York	278.4	275.3	293.1	568.4
North Carolina	41.3	39.3	45.1	84.4
North Dakota	17.2	16.8	18.3	35.1
Ohio	104.7	110.0	103.7	213.8
Oklahoma	16.2	16.8	16.2	33.0
Oregon	25.5	25.3	26.7	52.0
Pennsylvania	145.5	147.1	149.9	297.0
Rhode Island	15.2	15.0	16.0	31.0
South Carolina	14.6	14.1	15.8	29.8
South Dakota	14.2	13.8	15.1	28.9
Tennessee	28.3	28.4	29.3	57.7
Texas	46.2	47.0	47.2	94.3
Utah	15.0	16.1	14.5	30.6
Vermont	13.8	12.8	15.2	28.1
Virginia	41.7	40.6	44.6	85.2
Washington	41.6	41.4	43.5	84.9
West Virginia	18.5	19.0	18.8	37.7
Wisconsin	75.3	76.8	77.0	153.8
Wyoming	6.1	6.4	6.1	12.5
Outreach, etc.	30.0	30.0	31.3	61.3
Contingency funds distributed to Louisiana, Alabama, and Mississippi after Katrina	27.25			
<b>TOTAL</b>	<b>2,161.7**</b>	<b>2,161.0</b>	<b>2,197.0</b>	<b>4,358.0</b>

\* HHS has released information on the distribution of 2006 LIHEAP block grant funds and the distribution of about \$100 million of the \$181 million of contingency funding. For our estimates, we distribute the remaining \$81 million of contingency funding as HHS distributed the first \$100 million.

\*\* The Administration has not distributed about 1 percent of the 2005 funding; “emergency” funding in the LIHEAP program is distributed only to the extent that the Administration believes appropriate.