

State Notes

TOPICS OF LEGISLATIVE INTEREST

Fall 2011



State Faces Reduced Funding for Low-Income Energy Assistance Programs in Winter 2011-12 **By Frances Carley, Fiscal Analyst**

The Department of Human Services (DHS) operates a number of programs that provide energy and heating assistance for low-income individuals throughout the State. Federal and State restricted funding to operate these programs is expected to be reduced by as much as 40.0% in fiscal year (FY) 2011-12, leaving the State with considerably fewer resources than have been available in recent years. These cuts are due to the loss of both American Recovery and Reinvestment Act (ARRA) funding, and the Low-Income Energy and Efficiency Fund (LIEFF), a State restricted fund. It is unlikely that the costs of fuel and natural gas this winter will help to mitigate the loss in funding. At the time this article was written, the DHS was in the process of revising the annual energy assistance plan in order to account for the reduced revenue. In FY 2010-11, the State provided approximately 678,600 households with weatherization, crisis assistance, or the Home Heating Credit. It is not yet known how many households will be affected by the changes or by how much the benefit payments might be reduced in FY 2011-12.

Overview of Energy Assistance Programs

The DHS's primary energy assistance programs are weatherization and crisis assistance, the latter of which includes deliverable fuels, utility payments, and furnace repair. Additionally, the Department of Treasury manages the Home Heating Credit (HHC) program, in which credits are applied to the heating bills of eligible residents. Low-income residents may be eligible to receive the assistance based on income and other conditions, such as disability. An overview of each program area follows.

Weatherization

Low-income homeowners and renters can receive assistance to improve the energy efficiency of their homes, thereby reducing heating costs. National studies on the effectiveness of weatherization services estimate that these preventative measures can reduce heating costs by 20.0% to 25.0%, resulting in estimated savings of \$300 per household each year. During the 2010 program year, more than 16,300 households in Michigan received weatherization services; of these households, 13,875 received assistance through ARRA.

Weatherization services include:

- Wall insulation
- Attic insulation and ventilation
- Foundation insulation
- Air leakage reduction
- Smoke detectors
- Dryer venting

Crisis Assistance

The State Emergency Relief (SER) program provides assistance for heating and energy, as well as other types of emergency relief such as rental payments. Included in energy services are deliverable fuels, gas and electric heating assistance, and furnace repair. In FY 2010-11, the DHS provided 267,453 households with energy crisis assistance. Payments totaled nearly \$180.0 million.



There are maximum caps for payments depending on the type of assistance requested. In recent years, increased Federal funding made it possible for the State to increase the cap on these payments. With funding cuts projected at the Federal level in FY 2011-12, however, the State caps will return to the previous lower levels. The FY 2011-12 caps and previous funding levels in FY 2010-11 are as follows:

- \$450 for households that heat with natural gas or wood. This cap was previously set at \$850.
- \$850 for households that heat with deliverable fuel other than wood (fuel oil, propane, coal, etc.). This cap was previously set at \$1,500.
- \$450 for households that are all-electric (including heat). This cap was previously set at \$850.
- \$4,000 for furnace repair. This is a lifetime limit.

Home Heating Credit

The Department of Treasury manages the Home Heating Credit (HHC) program, which provides assistance with the payment of heating bills for low-income consumers. Eligible customers must have their homestead in Michigan and own or rent the home in which they live, and for the standard allowance, their income must fall within certain limits. The Department of Treasury determines the level of credit that a household is eligible to receive and then makes the utility payments directly to DTE Energy, Consumers Energy, and SEMCO Gas on behalf of the consumers. In FY 2010-11, 394,934 qualifying individuals received this credit for an average payment amount of \$169. Payments totaled \$66,870,368.

The Department of Treasury bases the standard calculation for the credit on income and the number of exemptions claimed by the household. Exemptions are granted for each person who is age 65 or over, blind, deaf, paraplegic, quadriplegic, or hemiplegic. The credit is calculated by subtracting 3.5% of household income from the maximum credit available for corresponding household exemptions. The maximum credits and allowable income levels are shown in Table 1.

Table 1

Home Heating Credit Exemptions and Maximum Income		
Number of Exemptions	Maximum Income	Maximum Credit
0-1	\$11,929	\$418
2	16,043	562
3	20,158	706
4	24,272	850
5	28,387	994
6	32,500	1,138
	+\$144 for each exemption over 6	+\$4,114 for each exemption over 6

Source: Department of Treasury

Projected FY 2011-12 Funding

The State's energy assistance programs (weatherization, crisis assistance, and HHC) are funded through a combination of Federal and State restricted revenue. Federal funding includes the Low-Income Home Energy Assistance Program (LIHEAP), the Weatherization Assistance Program (WAP), and the Community Services Block Grant (CSBG). In recent years, additional funding for LIHEAP and

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weatherization grants was made available through ARRA. Aside from some carryforward funding that will be available in FY 2011-12, this temporary source of revenue has expired. The State restricted fund source is the Low-Income and Energy Efficiency Fund (LIEEF), which receives funding collected by the Department of Licensing and Regulatory Affairs (LARA). Table 2 compares the year-to-date appropriations for FY 2010-11 to the amounts that have been appropriated in FY 2011-12.

Table 2

Comparison of FY 2010-11 Year-to-Date Appropriations with FY 2011-12 Projections					
Fund Source	Program(s) Funded	FY 2010-11 Y-T-D Appropriation	FY 2011-12 Appropriation	FY 2010-11 & FY 2011-12 Difference	% Change
LIHEAP	Crisis, HHC	\$236,838,200	\$116,451,600	(\$120,386,600)	(51.0)%
LIEEF	Weatherization, Crisis	47,000,000	0	(47,000,000)	(100.0)
WAP	Weatherization	27,400,000	28,340,000	940,000	3.0
ARRA Weatherization	Weatherization	6,962,100	0	(6,962,100)	(100.0)
ARRA Weatherization Carryforward	Weatherization	82,000,000	85,000,000	3,000,000	4.0
CSBG	Weatherization	25,400,000	25,840,000	440,000	2.0
Subtotal		\$425,600,300	\$255,631,600	(\$169,968,700)	(40.0)%

Source: Michigan Information Data Base and Senate Fiscal Agency

Additional carryforward funding: Table 2 does not include two additional sources of funding for energy assistance. There will be some carryforward funding available from the Federal sources listed above in FY 2011-12 comparable to the FY 2010-11 carryforward. The carryforward amount for FY 2011-12 is not yet finalized.

Additional contingency funding: Table 2 also does not account for potential contingency funding that might become available to the State later in the fiscal year. The FY 2010-11 year-to-date numbers for LIHEAP and WAP include additional contingency funding that had not been included in the original budget. It is possible, but not guaranteed, that some contingency funding will be made available again to the State in FY 2011-12 at a much lower level.

Low-Income Home Energy Assistance Program

The State has budgeted for a LIHEAP grant in the amount of \$116,451,600, a conservative estimate that accounts for reduced Federal funding. As stated above, it is possible that the State will receive additional contingency funding later this year. The State plan for the use of LIHEAP funds in FY 2011-12 will direct 28.0% of the funds to heating assistance through the Home Heating Credit, 61.62% to crisis assistance, and 0.38% to the \$1 LIHEAP Pilot Program¹. Due to limited funding for heating and crisis assistance, LIHEAP does not cover weatherization, a program that receives funding from other sources.

¹ The DHS describes the \$1 LIHEAP pilot program as a program that provides a small LIHEAP benefit for heat but results in a much larger benefit for households that receive food assistance by allowing a higher standard utility allowance and resulting in increased food benefits. Issuing this \$1 LIHEAP benefit allows the DHS to use the highest possible heat and utility deduction when determining the client's food assistance and may increase the person's benefit amount. The objective of the program is to generate additional resources for vulnerable households, increasing the likelihood that Michigianians will maintain affordable housing and sustain heat.



The Federal government is going to reduce the appropriation for the Low-Income Home Energy Assistance Program by as much as 50.0% in FY 2011-12. President Obama's request for the program was \$2.57 billion, or approximately half of the FY 2010-11 allocation, which totaled \$5.1 billion. This decrease would return funding to 2008 levels, and is based on forecasts from the U.S. Department of Energy predicting more moderate energy prices in winter 2011-2012. (For more information about the heating cost projections, please see " Winter 2011 Energy Cost Forecasts", page 5.) The U.S. Senate Appropriations Committee has included \$3.6 billion for LIHEAP, an increase that is \$1.0 billion higher than the administration's budget request. The U.S. House Appropriations Committee has recommended \$3.4 billion for the program, an increase of \$822.0 million above the administration's request. The budget bill has not yet been enacted.

Low-Income and Energy Efficiency Fund

In FY 2010-11, LIEEF provided a total of \$82.0 million to the DHS, nonprofit organizations, and others for energy and heating assistance. The DHS was slated to receive approximately \$47.0 million in LIEEF funding through an interdepartmental grant from LARA in FY 2011-12. This was the same amount that had been transferred to the DHS in FY 2010-11, with \$37.0 million planned for crisis assistance and \$10.0 million for weatherization. Due to a pending lawsuit to prohibit the State from collecting and distributing the funds from LIEEF, the DHS will lose \$47.0 million for low-income heating assistance in FY 2011-12 (as discussed below).

Public Act (PA) 141 of 2000 established LIEEF as a State restricted fund. The Act was designed to open the electricity market to competition so alternative suppliers could market to the customers of major suppliers. In order to soften the transition for the major energy suppliers, the Act allowed them to find savings by issuing bonds to pay off their assets, i.e., through securitization savings. Later, the savings were collected as a customer fee rather than through securitization. The excess savings from both methods went to LIEEF, which in turn funded projects serving low-income customers and energy conservation efforts.

When Michigan revamped the State energy plan in 2008 with the enactment of PA 286 and PA 295, the authorization that permitted the State to collect and distribute funds through LIEEF was inadvertently eliminated from statute. This oversight exposed the State to a lawsuit. Although the case is still pending, the State is not able to guarantee funding in FY 2011-12. The LARA budget had provided for up to \$95.0 million in spending authorization, but nothing will be paid. State contracts for the FY 2011-12 grants had not yet been signed, so the State will not owe anything in this fiscal year. The State is liable, however, for contracts that were in place in FY 2010-11; the maximum shortfall to cover these outstanding contracts could reach \$3.6 million. It is possible that LARA will negotiate a settlement that will allow the FY 2011-12 collections to continue, or that legislation (such as proposed House Bill 5008) will be enacted to fix the gap in the 2008 amendatory language. The Legislature also has the option of implementing a short-term fix to get through the upcoming season. None of these options is certain to occur, however.

Other Federal Weatherization Assistance Funding

The U.S. Department of Energy (DOE) provides Weatherization Assistance Program grants to states. The Federal FY 2011-12 budget request included \$320.0 million for WAP, a \$110.0 million increase over the FY 2010-11 appropriation. The DHS received \$27,400,000 in FY 2010-11 and projects a slight increase to \$28,340,000 in FY 2011-12. Previously, the DOE had offered additional weatherization funding through ARRA, but this temporary, emergency revenue is no longer available.



The State also allocates the full amount of the Community Service Block Grant for weatherization, which is expected to increase by \$440,000 in FY 2011-12 to \$25,840,000.

Winter 2011 Energy Cost Forecasts

National forecasts regarding energy costs in winter 2011-2012 have consistently reported increased costs for deliverable fuels (propane, heating oil, and gas) but have varied regarding natural gas. The President's budget recommendation for LIHEAP funding was based on Department of Energy reports that natural gas costs would be lower than last year's costs. In mid-October, however, the U.S. Energy Information Administration (EIA) released a report stating that natural gas costs would be higher.

The Michigan Public Service Commission (MPSC) compiles the semiannual Michigan Energy Appraisal, which projects an assessment of energy markets in the upcoming six months. According to the MPSC, the assessment assists in identifying potential supply problems, including adequacy of supply, weaknesses in the distribution system, and energy price changes.

Similar to early Department of Energy reports, the MPSC report projects that residential heating bills for natural gas will be lower this winter due to lower prices. The Michigan Energy Appraisal also assumes, however, that the costs of propane and other deliverable fuels will increase due to a rise in the price of crude oil. These estimates assume that this winter will be normal and that temperatures will not vary significantly from last year. Table 3 compares the actual fuel costs in FY 2010-11 to projected fuel costs in FY 2011-12.

Table 3

Michigan Household Winter Heating Fuel Summary FY 2010-11 and FY 2011-12			
	Actual	Projections	% Change
	FY 2010-11	FY 2011-12	FY '09-10/ FY '10-11 Actual
Natural Gas			
Consumption (Mcf).....	77	72	
Average Price (\$/Mcf).....	\$9.82	\$9.54	(3.0)%
Expenditures (\$).....	\$756	\$687	(9.0)
Heating Oil			
Consumption (gallons).....	563	546	
Avg. Price (\$/gallon).....	\$3.07	\$3.47	13.0
Expenditures (\$).....	\$1,728	\$1,895	10.0
Propane			
Consumption (gallons).....	714	693	
Avg. Price (\$/gallon).....	\$2.27	\$2.41	6.0
Expenditures (\$).....	\$1,622	\$1,670	3.0

Source: Michigan Public Service Commission

It is unlikely that the State's decreased resources for energy assistance will be mitigated by fuel costs and it is possible that even fewer resources will be available to households due to prices. Deliverable fuel accounted for more than half of the State's average spending on energy crisis assistance in FY 2010-11 (more than \$84.0 million). The rise in deliverable fuel costs could be offset by lower natural gas costs. Payments to utility companies through the Home Heating Credit accounted for \$65.7 million in spending, a program that is more likely to be affected by the price of



natural gas. With the recent U.S. EIA report predicting increased natural gas costs, however, the offset is less likely to occur.

Temporary Assistance for Needy Families (TANF) Maintenance of Effort (MOE)

As a recipient of funding for the Temporary Assistance for Needy Families (TANF) block grant, the State must direct a predetermined amount of General Fund/General Purpose funds to programs that serve low-income clients. This State spending match is referred to as the Maintenance of Effort (MOE). The State's MOE spending has been reduced to a narrow margin in recent years and must be closely monitored so the State can avoid penalties. In FY 2010-11, LIEEF contributed \$36.1 million to MOE. The LIEEF spending has been eliminated from the MOE calculations in FY 2011-12, which means that more State spending in other eligible programs will be required in order for the State to qualify for additional TANF contingency funds. Because LIHEAP and other Federal funding sources are not eligible to be counted toward the MOE, cuts to these energy assistance programs will not have an impact on the MOE.

Conclusion

The DHS stands to lose as much as \$170.0 million in Federal and State restricted funds in FY 2011-12 for energy assistance programs that help low-income residents, or 40.0% of the funding that was available in FY 2010-11. At the Federal level, funding for LIHEAP may face a reduction of 51.0% or more, which would return funding to 2008 levels. At the State level, the collection and distribution of funds from LIEEF has been halted indefinitely with a lawsuit, eliminating a \$47.0 million grant to the DHS and approximately \$35.0 million in grants to other organizations. If the costs of natural gas are indeed lower this winter, as some reports have predicted, it is unlikely that this change will mitigate the loss of funding, as the State assistance programs are heavily weighted toward the purchase of deliverable fuels, the costs of which will rise. The loss of funding will result in reductions in the energy assistance programs, whether through a reduction in the number of households receiving assistance, a reduction in the amount of available funds per individual, or a combination of both.