

# FISCAL POLICY INSTITUTE

1 LEARN JET LANE / LATHAM, NEW YORK 12110

(518) 786-3156 - [www.fiscalpolicy.org](http://www.fiscalpolicy.org)

TESTIMONY

of

Trudi Renwick, PhD

Senior Economist

Fiscal Policy Institute

Submitted to the

**ASSEMBLY STANDING COMMITTEE ON ENERGY**

**ASSEMBLY STANDING COMMITTEE ON SOCIAL SERVICES**

**ASSEMBLY STANDING COMMITTEE ON AGING**

## **The Implementation and Effectiveness of New York's Low-Income Home Energy Assistance Program (HEAP).**

**February 1, 2006**

Thank you for this opportunity to discuss the implementation and effectiveness of the Low-Income Home Energy Assistance Program (HEAP) in New York. My name is Trudi Renwick and I work as a Senior Economist for the Fiscal Policy Institute (FPI). FPI is a nonpartisan research and education organization with offices in Latham and New York City. FPI's work focuses on a broad range of tax, budget, economic, and related public policy issues that affect the quality of life and the economic well-being of New York State residents.

First, I would like to thank the legislature for moving so quickly to provide an additional \$100 million for use in the program this winter. This testimony will provide an analysis of the amount of additional HEAP benefits that New York State would need to provide this winter to keep low-income families from paying more out their limited incomes for home heating this winter. If the current high prices for home heating fuels are in effect next winter, this is also the amount that would have to be provided next winter to maintain the same level of income protection.

The methodology that I used to make this estimate is borrowed from the work of the DC-based Center on Budget and Policy Priorities. For a more complete description of this approach, please see their October 2005 (revised January 18, 2006) paper, "Out in the Cold: How Much HEAP Funding Will be Needed to Protect Beneficiaries from Rising Energy Prices" which is available on their web site [www.cbpp.org](http://www.cbpp.org).

As you know, HEAP helps very poor households, including many elderly, pay their home heating bills. HEAP benefits are received by just a fraction of the poor households eligible for assistance and are distributed by local officials on the basis of greatest need. In almost all cases, HEAP pays only a part of the monthly energy bill of enrolled households.

On January 10, 2006, the United States Department of Energy's Energy Information Agency (EIA) issued a new Short-Term Energy Outlook with projections of winter energy prices by energy source and by geographic region. The estimates for winter 2005-2006 prices relative to winter 2004-2005 prices in the Northeast were as follows: 27.7% increase in the price of natural gas; 25.7% increase in heating oil prices; 13% increase in the price of propane and a 5.1% increase in electricity prices. (An excerpt from the EIA table covering prices for the Northeast is attached to this testimony.) Since most New York HEAP recipients heat with either natural gas or oil, a reasonable estimate of the average price increase facing HEAP beneficiary households is about 25%.

Almost every household that receives HEAP assistance pays a share of its monthly heating bill out of its own income: HEAP pays part of the monthly bill, and the household pays the rest. If the price of energy rises and HEAP 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 25% higher this winter than last, a 25% increase in HEAP funding would still require a 25% increase in out-of-pocket energy payments by low-income HEAP beneficiaries.

**Why protecting families from the adverse impact of this 25% increase in prices requires an increase in HEAP funding much greater than 25%.**

Let me use a hypothetical example to explain why increasing funding for HEAP benefits by the same percentage that energy prices increase does not shield poor HEAP beneficiaries from those price increases.

Figure 1 attached to this testimony illustrates this phenomenon. The first bar — the left-most bar — shows a hypothetical bill for home heating for the winter of 2004-2005. The bill was \$1,000, of which HEAP paid \$333 and the household paid \$667. Both last winter and the winter before, nationally HEAP paid slightly less than one-third of the cost of home heating for its beneficiaries on average, so this distribution of costs is typical.

The second bar shows what happens if the price of home heating rises by a 25% from January 2005 to January 2006 — the total heating bill rises by 25%, from \$1000 to \$1,250. Now suppose that there is no increase in HEAP benefits. As the second bar shows, HEAP will continue to be able to cover only \$333 of the winter heating bill. Therefore, the amount owed by the household will necessarily rise by \$250, from \$667 to \$917.

The third bar shows what happens if New York increases HEAP benefits by 25% to match the increase in home heating prices. As can be seen, the amount of the annual

heating bill covered by HEAP would grow from \$333 to \$416, a 25% increase. But the *remainder* of the bill must still be covered by the household. And the remainder of the bill would grow from \$667 to \$834, also a 25% increase. Together, HEAP and the household would cover the \$1,250 bill. In this case, HEAP 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 25% increase in HEAP benefit funding, the household would suffer a 25% 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 \$667 for heat in the winter of 2005-2006 that it did in January 2005. To accomplish this result, HEAP would have to pay the remaining portion of the \$1,250 bill, i.e., HEAP would have to pay \$583 rather than the \$333 it paid last year. In short, in this hypothetical example, HEAP funding would need to be almost twice as large in order to hold beneficiaries harmless for inflation in home heating prices.

**The \$100 million in new funding passed last month will provide critical additional assistance to many families but will still force most families to increase their out-of-pocket expenses for home heating.**

Figure 2 shows the impact of the \$100 million in additional NYS HEAP funding on the same hypothetical household. The analysis in the graph assumes that the \$100 million is distributed evenly over 800,000 beneficiaries with an average grant of \$125 per household. (In 2004-2005 there were 390,000 beneficiaries outside New York City and 431,809 within New York City for a grand total of 822,459 regular HEAP beneficiary households.) The \$125 additional HEAP benefit reduces the increase in the household's out of pocket expenditures for home heating by half, from \$250 to \$125 but still forces the household to find an additional \$125 per year to pay all bills in full.

**New York's HEAP program needs \$87 million more this year to protect low-income households from the energy price increases**

The following table applies the methodology used in our hypothetical example to the 2004-2005 total of statewide HEAP benefits. The state would need \$51 million to just increase all benefits by 25%. If the state wants to protect beneficiaries from the economic hardship of paying more of their limited incomes towards home heating expenses this winter, the program would need an additional \$101 million for a total increase of \$152 million.

But \$152 million in additional funding would take into account only the needs of current HEAP beneficiaries. Nationally, over the past several years, the number of HEAP beneficiaries has increased by an average of 6 percent per year. With energy prices expected to be one third 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 HEAP cutoff could apply for assistance this year. If these applicants were served, that would mean an increase in caseload of 20 percent to 40 percent.

A very conservative estimate of the number of additional households that will turn to the state for assistance with heating bills this winter would be 10%. In order to provide these funds, absent an increase in funding from the federal government, New York would have to increase funding by another \$35 million for a total funding of \$389 million --- a \$187 million increase from the 2004-2005 level of benefits.

	<b>Hypothetical Example</b>	<b>Total Benefits for New York</b>
<b>HEAP Benefits in SFY 2004-05</b>	\$333	\$201,990,378
Increase in fuel prices	25%	25%
Additional funding for 2006, adjusted only for expected price increases	\$83	\$50,497,595
<b>HEAP Benefits for 2006 adjusted only for expected price increases</b>	\$416	\$252,487,973
Additional funding need to hold HEAP beneficiaries harmless	\$226	\$100,995,189
<b>HEAP Benefits for 2006 adjusted to cover price increases and hold beneficiaries harmless</b>	\$643	\$353,483,162
<b>Change in HEAP Benefits without Assuming Increased Enrollment</b>	\$310	\$151,492,784
Additional funding to cover 10% increase in the number of beneficiaries	n/a	\$35,348,316
<b>HEAP Funding for 2006, adjusted for price increases and 10% increase in beneficiaries</b>	n/a	\$388,831,478
<b>CHANGE IN HEAP FUNDING REQUIRED:</b>		<b>\$186,841,100</b>

**What about next year?**

The United States Energy Information Administration forecasts a small decline in energy prices for the Winter of 2006-2007 but does not predict that prices will fall back to historical levels. Therefore some amount of additional HEAP funding will in all likelihood be necessary for next winter.

**Conclusion**

Hopefully the federal government will step up to its responsibility to provide sufficient funding to the states to confront the needs of New York’s low-income households this winter and next. If not, the legislature should be prepared to provide additional funding to protect the state’s most vulnerable families.

**Figure One**  
**Hypothetical Example:**  
**One NYS Household's Annual Heating Bill**

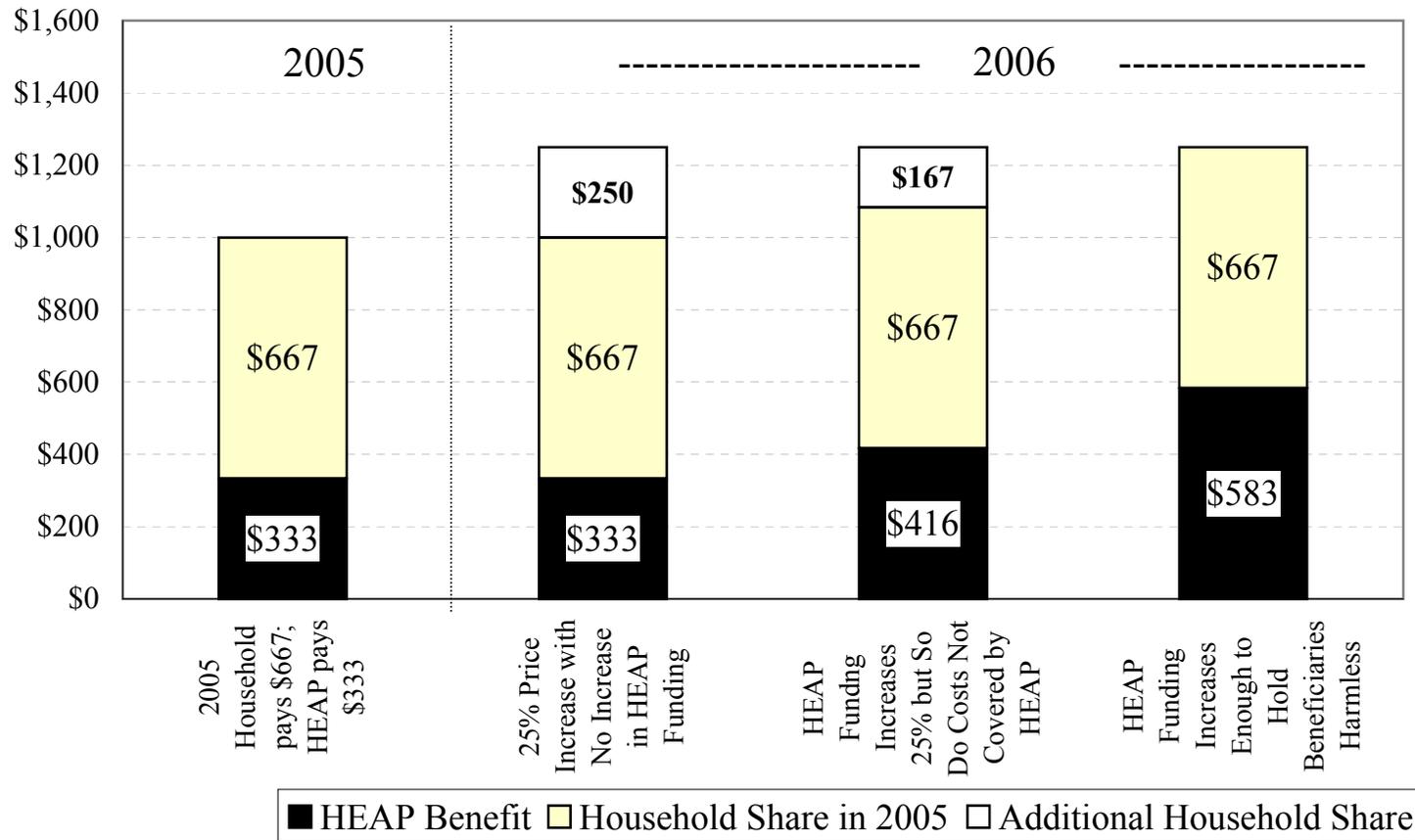
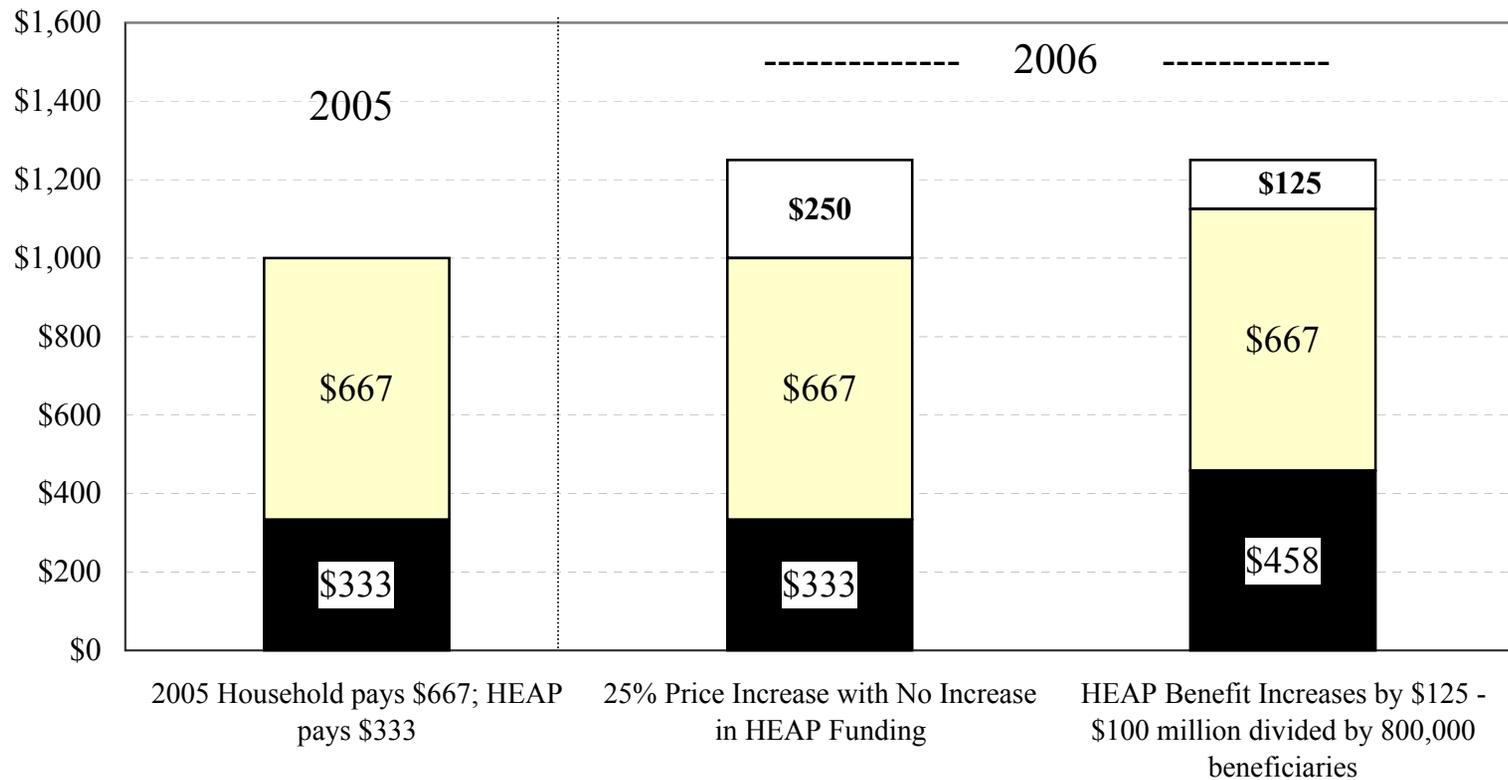


Figure Two  
**Hypothetical Example:  
 One Household's Annual Heating Bill  
 Impact of \$100 million in additional funding**



HEAP Benefit  
  Household Share in 2005  
  Additional Out of Pocket Expenses

**Table WF01. Selected U.S. Average Consumer Prices\* and Expenditures for Heating Fuels During the Winter**

(Energy Information Administration/Short-Term Energy Outlook -- January 2006)

Fuel / Region	Winter of							Forecast	
	99-00	00-01	01-02	02-03	03-04	Avg. 99-04	04-05	05-06	% Change
Northeast									
Natural Gas									
Price (\$/mcf)	8.39	10.01	9.41	9.74	11.47	9.81	12.91	16.48	27.7
Heating Oil									
Price (\$/gallon)	1.26	1.44	1.18	1.43	1.46	1.36	1.93	2.42	25.7
Propane									
Price (\$/gallon)	1.36	1.65	1.40	1.55	1.65	1.53	1.87	2.12	13.0
Electricity									
Price (\$/kwh)	0.11	0.11	0.11	0.11	0.11	0.11	0.12	0.12	5.1
* Prices include taxes									
** thousand cubic feet									
*** kilowatthour									
Note: Winter = October through March									