LIHEAP CLEARINGHOUSE

Report

Leveraging and LIHEAP:

Providing Non-Federal Funds for Energy Assistance

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Report #6

There is a clear need for low-income energy assistance. At the federal level, during Fiscal Year 2013, LIHEAP received a total allocation of about $3.255 billion. With that funding, the program served about 5.9 million low-income households with heating assistance and over 800,000 households with cooling assistance, according to preliminary numbers.

However, history shows that those 6.7 million households were likely less than 20 percent of the households eligible to receive LIHEAP assistance. When LIHEAP first began, it provided assistance to 36 percent of eligible households. By 1997, that number had fallen to 15 percent. In recent years, the total has hovered between 15 percent and 19 percent (see line graph on page 2).

With the need for energy assistance consistently outpacing federal funding, low-income households have benefitted from non-federal supplemental funding from other sources. In the LIHEAP world, the use of these non-federal sources is generally referred to as leveraging. Primarily, these non-federal funds for energy assistance come from energy vendors, state or tribal governments, and charitable non-profits. Some years, LIHEAP grantees are able to capitalize on these sources by receiving additional federal funding due to the leveraging incentive provision included in the 1990 LIHEAP reauthorization bill.

Briefly, this is how the leveraging incentive provision works. When Congress appropriates funding for LIHEAP, it can authorize the U.S. Department of Health and Human Services (HHS) to set aside funds for the leveraging incentive program. If HHS does so, LIHEAP grantees can report the amount of non-federal leveraged resources they obtained to supplement their LIHEAP services. Grantees then receive leveraging incentive awards based on a formula. The formula rewards grantees based on how their leveraging success compares to other grantees and also compares how much they leveraged as a percentage of their LIHEAP grant.

Congress allocated money for the leverage incentive provision for the fiscal years between 1991 and 2007, along with 2009, 2010 and 2012. In 2012, the leveraging awards were based on FY 2010 data, during which leveraged resources from state grantees totaled about $3.03 billion, while the total from tribes and territories was about $6.1 million.

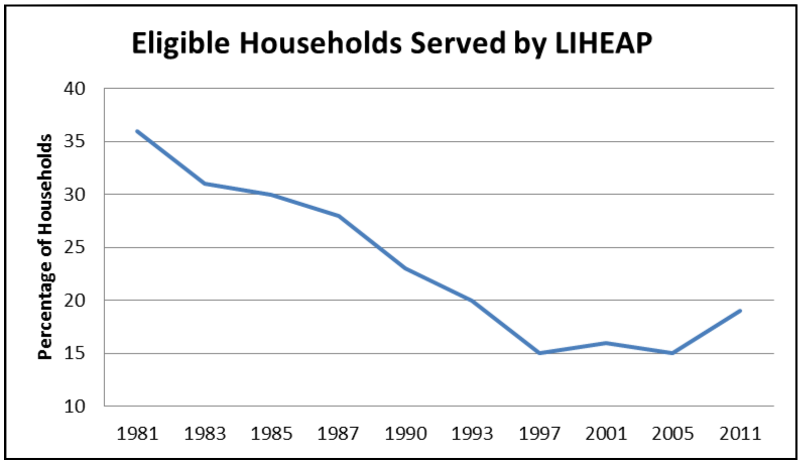
More than 30 states received leveraging incentive awards, ranging from under $15,000 to over $1 million. Over 20 tribes received awards, ranging from under $35,000 to over $400,000. The pie chart on page 3 shows the sources of 2010 state leveraging reported in 2012. The LIHEAP Clearinghouse's website contains more information about the federal leveraging incentive provision for states

Leveraging Resources

- LIHEAP IM-2013-3, Use of LIHEAP Funds Coordinated with Vendor Assistance Programs, U.S. Department of Health and Human Services' Division of Energy Assistance, July 21, 2010
- LIHEAP Leveraging Incentive Program: Statute and Regulations
- LIHEAP Leveraging Incentive Program: State Reports, 2006-2010
- LIHEAP Leveraging Incentive Program: Tribal Summaries and Reports, 2006-2010
- Profiles of Ratepayer-Funded Programs, LIHEAP Clearinghouse
- *Leveraging Non-Federal Resources for LIHEAP*, LIHEAP Clearinghouse, November 2013
- *Fuel Funds and LIHEAP*, LIHEAP Clearinghouse, April 2009

and tribes.

While the federal incentive program has not awarded leveraging grants in the past couple years, many of these non-federal sources have continued to provide important supplemental funding for energy assistance. A compilation by the Clearinghouse for 2013 found that ratepayer-funded programs by utilities contributed over $3.29 billion in rate assistance and over $778 million in energy efficiency for low-income households.



Source: LIHEAP Home Energy Notebook for Fiscal Year 2011

For LIHEAPs that are interested in trying to identify non-federal sources of energy assistance, either for participation in the federal incentive program or as a way to provide more coverage to low-income households, there are numerous places to look. This report will examine the most common forms of non-federal resources for energy assistance, especially those programs focused on providing bill assistance. The report will examine:

- Ratepayer-funded programs
- State and tribal government funds
- Community funds
- Miscellaneous sources of funds
- Impact on LIHEAP

Ratepayer-Funded Programs

Utility ratepayer-funded programs that provide bill payment assistance and/or energy efficiency services to low-income customers have been around at least since the 1980s. Many of the existing ratepayer programs were either created or expanded during the 1990s, when over half of the states passed or considered some form of restructuring or deregulation of their electric and natural gas utilities.

As a result of state restructuring activity, more than 20 states were able to either expand their existing utility ratepayer-funded programs for low-income households or to create new funding sources and new programs. This included two states (Wisconsin and Vermont) that did not restructure or deregulate; however, they did pass comprehensive energy legislation that included low-income energy funding.

During the same period, other states (Arizona, Minnesota, Oklahoma, and Washington) that did not pursue restructuring continued to operate, and sometimes expand, the low-income energy programs they had negotiated with utilities through rate cases and other proceedings.

In the states that went through the restructuring process, the low-income energy programs, as well as energy programs for other customer classes, are funded through charges assessed on electric and/or natural gas consumers. States variously refer to these charges as public goods surcharges, system benefits charges, societal benefits charges, public benefits fees, universal service fees, universal energy charges, meter charges, etc.

Some states impose the charge or fee only on electric bills, and, thus, provide only electric assistance programs. Some impose the charges on electric and gas customers and provide programs for both types of customers. Most states provide both rate assistance and energy efficiency programs for low-income households, with rate assistance generally receiving the larger amount. The charges may be assessed on all customers; a mix of residential, commercial and industrial; or only residential.

In some states, utilities administer the programs with regulatory commission oversight. In most of the non-restructured states, the utilities administer their own programs; negotiate changes from time to time with their regulatory agencies; and partner with LIHEAP and local administering agencies to ensure the programs reach eligible households.

In recent years, several states have created new low-income energy programs, including Indiana, Colorado, and Vermont.

The one consistent trend throughout the history of these ratepayer-funded programs is the intersection between state legislatures, laws, and the agencies that regulate public utilities. Vermont and Colorado are recent examples of how, in some cases, state legislatures must amend current law to facilitate regulatory agencies' ability to create low-income programs.

In both cases, state laws had to be amended before the regulatory bodies could even consider creating low-income rate assistance programs. Also, following a common historical pattern, low-income advocates in each state quickly capitalized on the changed laws and filed paperwork with the respective regulatory bodies in their states as an impetus to get new low-income programs created.

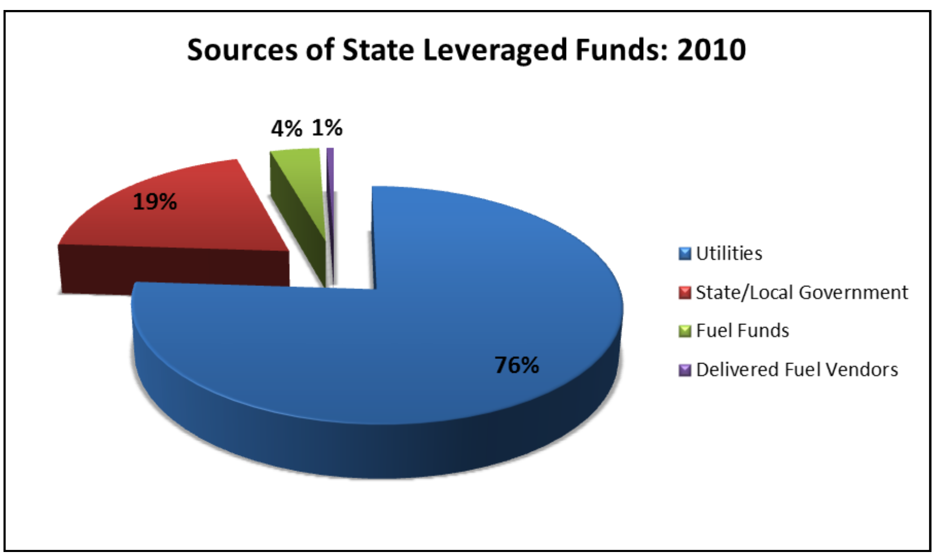
The delicate relationship between state laws and regulatory commissions is also illustrated in Michigan. Between 2002 and 2010, the Michigan Public Service Commission (MPSC) administered the Low-Income Energy Efficiency Fund (LIEEF), which provided over $450 million for low-income payment assistance and $113 million for energy efficiency during its operation.

In July 2011, the Michigan Court of Appeals struck down the fund, saying the MPSC no longer had authority to maintain it and disburse money from it. The court said the legislature implicitly intended to halt authorization for the LIEEF, because it had omitted references to the fund while amending Michigan's "Customer Choice Act" in 2008. The court was not persuaded by the argument that the legislature didn't intend to terminate the fund, as witnessed by its yearly allocations to the LIEEF after 2008.

The Michigan Legislature responded to the court ruling by creating the "Vulnerable Household Warmth Fund" to help low-income households pay their energy bills. The act gave one-time appropriations to both the MPSC and the Michigan Department of Human Services for emergency energy assistance during the 2011-2012 heating season. The legislature then revisited the issue for the 2012-2013 heating season.

In January 2013, it passed the bill creating Michigan Energy Assistance Program (MEAP); however, the companion bill that created a funding mechanism that generated up to $60 million annually for MEAP failed to pass. Finally, with passage of Public Act 95 of 2013, electric utilities received the option to administer the Low Income Energy Assistance Fund surcharge to ratepayers with the MPSC's oversight. Up to $50 million from this ratepayer charge goes to fund MEAP's programs to help low-income customers.

When a state's laws allow for the creation of such ratepayer-funded programs, generally the next step is for an entity (a utility, advocacy organization, or other interested party) to file a proposal with the agency that regulates utilities. In some instances, the regulatory body will go through an official rule-making process, whereby it solicits information and opinions from numerous stakeholders and develops official rules for ratepayer programs. In other instances, the regulating agency takes a more case-by-case

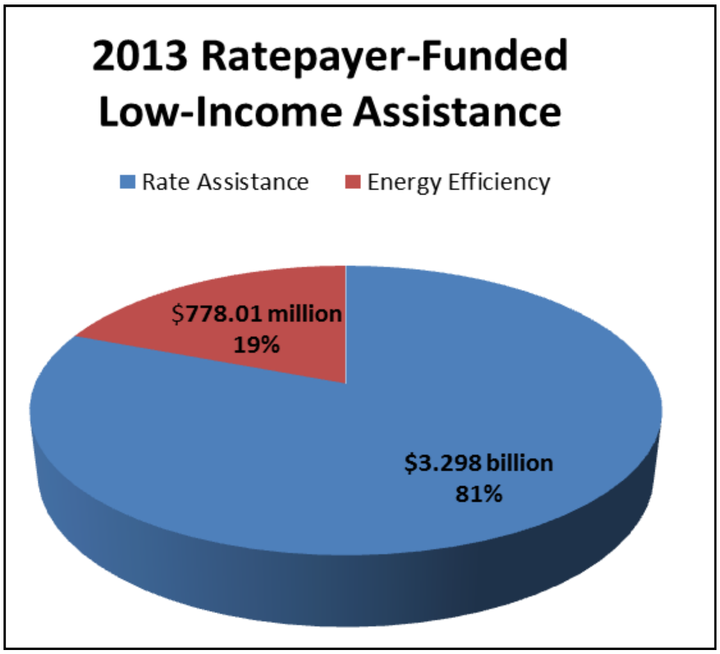


Compiled by the LIHEAP Clearinghouse

approach and examines such proposals in the context of utility rate cases or other such dockets.

The type of low-income programs funded by ratepayers varies. States including Ohio and New Jersey offer Percentage of Income Payment Plans, or PIPPs. These programs guarantee that low-income households spend only up to a certain percentage of their income on their energy needs. For a look at the various PIPPs around the country, please see this compilation by the Clearinghouse. Other states find utilities providing rate discounts, arrearage management programs, energy efficiency offerings, exemptions from fees/charges, or other offerings for low-income households funded by ratepayer surcharges.

For a table outlining the amount spent on ratepayer-funded low income programs during 2013 in 38 states and the District of Columbia, please see the LIHEAP Clearinghouse website. This type of supplemental energy assistance and energy efficiency provided over $4 billion of aid to low-income households in 2013. Profiles of the programs offered in 30 states and the District Columbia can also be found on the Clearinghouse website.



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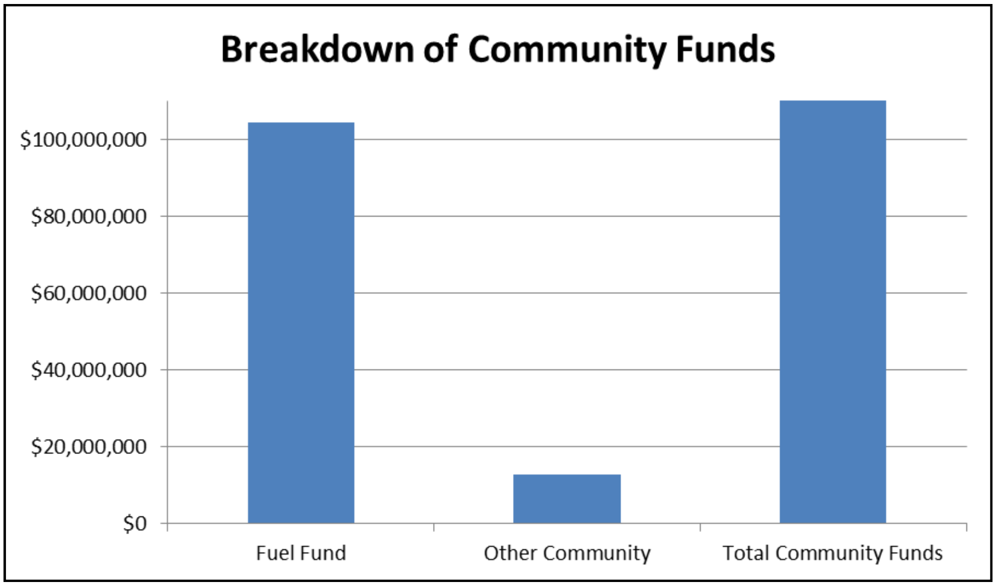
State, Tribal, and Local Government Funds

As mentioned above, state legislative bodies are able to change or create new laws allowing regulatory commissions to enact low-income energy assistance programs. Additionally, state legislatures, along with local and tribal governments, can also appropriate public monies to supplement federal energy assistance funding. In 2006, low-income energy programs received an unprecedented $447 million in supplemental state funding from governors and legislatures in 26 states and the District of Columbia.

Some state legislatures routinely provide funding for supplemental energy assistance programs. Between 2006 and 2010, New York's LIHEAP office reported on a near annual basis that somewhere between $70 million and $110 million in state monies went toward supplemental energy assistance, with an additional $20 million to $30 million of state and local funds going toward emergency utility assistance. In some cases, state legislatures appropriate funding for specific programs. New Jersey appropriates funding for Lifeline, an energy assistance program benefiting households with seniors or disabled members, which provided over $87 million in benefits during 2013. Since state grantees haven't reported leveraged sources for the federal incentive program since FY 2012 (and then it was based on FY 2010), the Clearinghouse doesn't have a cumulative number to report for the past few years. However, the practice has continued. While the Michigan Legislature was trying to both establish an energy assistance program and implement a ratepayer-funded design, it allocated $60 million in public money in FY 2013 for energy assistance. Also in 2013, the Vermont General Assembly approved $6 million to supplement the state's LIHEAP, and, later in the year, the Vermont Emergency Board added an additional $2.7 million to that amount.

A few examples of local governments supplementing energy assistance have happened more recently. In November 2014, the county commission in North Carolina's Avery County repurposed part of the county's economic development budget to supplement fuel oil assistance. The state had cut the



Source: FY 2012 State Leveraging Incentive Program Reports

county's LIHEAP funds by about $100,000, which forced the county to turn away about 100 residents that had stood in line hoping to receive assistance. The commissioners transferred about $63,600 to provide assistance specifically to seniors over 60 years old.

Similarly, the Barre City Council in Vermont approved $4,000 in emergency fuel assistance during a meeting in December 2014. One council member said that, in recent years, the city council had supplemented the heating program since federal funding had been reduced.

Tribal governments also have the ability to allocate supplemental funding for energy assistance. The source of this additional revenue varies, sometimes coming from a general fund; income generated by tribal casinos; monies from tribal-imposed taxes; or other areas. Supplemental assistance also can come from tribal propane and/or wood vendors, which sometimes offer discounted prices or provide in-kind services. During the propane crisis of 2014, the Shakopee Mdewakanton Sioux Community (SMSC) of Minnesota provided funds to three tribes to help them deal with the surging price of propane. It gave $500,000 to the Standing Rock Sioux in the Dakotas; $300,000 to South Dakota's Yankton Sioux Tribe; and $70,000 to Nebraska's Santee Sioux Tribe.

For FY 2010, the last year for which state grantees reported supplemental funds from state or local entities as part of the federal leveraging incentive program, the total amount of supplemental funding from state and local governments was over $591 million, which represented about 19 percent of all the leveraged sources reported. The total for expenditures from tribal government sources came to over $2.6 million, which represented almost half of the total leveraged funds reported.

Community Funds

This category of supplemental funding encompasses quite a few different sources, including fuel funds, churches, and various non-profit organizations. The additional assistance provided by fuel funds tends to be the largest contributor to this category of non-federal funds (see the bar graph on this page for these resources as reported for the FY 2012 leveraging incentive program).

A fuel fund is a program that raises private and/or corporate dollars to help low-income households meet their energy needs. While all fuel funds meet this definition, there is tremendous variety among them in organizational structure, sponsorship, operations, and fundraising activities.

Most fuel funds involve a working relationship between one or more utilities and one or more social service or charitable organizations. The utility partner is responsible for raising private donations for the fund through customer, shareholder, corporate or other contributions. The social services partner administers the funds to provide energy assistance to low-income households. In many cases, utilities match customer contributions at least dollar for dollar, and it's very common that the non-utility organization also engages in fundraising activities.

Fuel funds can provide a flexible response to families in crisis who have exhausted all public sources of help; whose needs are extraordinary; or who do not quite meet their state's requirements for LIHEAP assistance. Fuel funds develop their own eligibility and income guidelines based on community experiences and needs.

Virtually all fuel funds provide some form of assistance to low-income households in helping them afford household energy costs. This assistance includes helping eligible households pay their energy bills or purchasing large quantities of fuel oil, wood, and coal and making it available to eligible clients. Some fuel funds have broadened their missions to include furnace retrofits and repairs; weatherization, energy education and counseling; and development and implementation of innovative budgeting and bill payment programs. Fuel funds may also coordinate some of their offerings with LIHEAP grantees and subgrantees. For a more historical look at fuel funds, please see this report on the Clearinghouse website.

Other community resources sometimes include churches, which may have small amounts of funding reserved for helping local families in crisis, which could include utility-bill emergencies. Local non-profit service organizations, such as the Salvation Army and other charities, may also provide such services.

Miscellaneous Sources

Non-federal supplemental funds for energy assistance can come from sources other than the three categories already discussed. These can include revenue generated by gross tax receipts, fines against utilities, settlements, carbon taxes, and the like.

In some states, higher energy prices have generated excess tax revenue, and, as a result, surplus general funds were available. In Colorado, a mineral and natural gas severance tax allowed the legislature to provide LIHEAP with multi-year funding between 2006 and 2011. In Pennsylvania, a 2006 legislative decision approved a $1 million diversion from the

Examples of Fuel Funds

Name	Geographic Area	Services Provided	Assistance Provided
Dollar Energy	AR, CA, KY, LA, MD, PA, TN, TX, VA, WV	Bill assistance, energy efficiency	$11.73 million (2013)
Energy Outreach Colorado	CO	Bill assistance, energy efficiency, runs Colorado LIHEAP's furnace replacement program	$16.2 million (2014)
Energy Share Montana	MT	Bill assistance, energy efficiency	$1.2 million (2014)
HEAT Oregon	OR	Bill assistance, energy efficiency, oil recycling fund that generates funds for energy assistance.	$1.1 million (2014)
New Jersey Shares	NJ	Bill assistance, water assistance, phone assistance	$3.4 million (2013)
Operation Fuel	CT	Bill assistance	$3 million (2014)
THAW	MI	Bill assistance, energy efficiency	$17.6 million (2013)

Sources: Fuel Fund websites and annual reports; Presentation at 2014 NEUAC state's Gross Receipts Tax that is a levy on businesses. Funds to supplement LIHEAP in Kentucky have originated from natural gas severance tax receipts.

Oregon LIHEAP has received funds from a settlement with energy companies. Washington's governor signed a bill in 2006 that allocated $7.6 million in emergency aid to low-income families that came from a fine paid by Qwest Communications to the Washington Utilities and Transportation Commission. During the summer of 2014, the Massachusetts Department of Public Utilities approved a settlement between National Grid and the Massachusetts Attorney General that provided $1 million in energy assistance that went to local community action agencies. In March 2014, the Connecticut Attorney General reached a deal with Connecticut Light and Power. In exchange for the state not pursuing financial penalties against the utility for the slow restoration of service following a snowstorm, Light and Power agreed to donate $2.5 million to Operation Fuel, a statewide fuel fund.

Delaware LIHEAP receives funds from the Regional Greenhouse Gas Initiative (RGGI), a coalition working to limit carbon dioxide pollution through a cap and trade system. Funds are derived from the auction of CO_2 emission allowances. Legislation requires that 15 percent of the CO_2 allowance proceeds are directed to low-income consumers — 10 percent to the Weatherization Assistance Program and 5 percent to LIHEAP.

Impact on LIHEAP

Once LIHEAP grantees have identified non-federal sources of energy assistance, they need to be mindful about how to treat different kinds of supplemental funds. When thinking about the types of non-federal supplemental funding for energy assistance, it's important to differentiate between funds given directly to a LIHEAP and those funds and programs that exist outside of LIHEAP. There are rules and regulations for supplemental funding that is given to LIHEAP. HHS has provided guidance (LIHEAP IM 2010-13) on how to treat funds from various ratepayer programs.

Although additional funding is always needed and welcomed, the timing of receiving funds can be an issue. If a grantee's LIHEAP has already ended for the program year, there may not be staff or other resources available for intake and processing benefits. Sometimes a grantee may have a short turnaround time to disburse the supplemental funds and to comply with the LIHEAP carryover rule. For a look at how these funds can impact LIHEAP's carryover and other LIHEAP rules, along with how grantees have managed these issues, please see *Supplemental LIHEAP Funds: Source and Spending* by the Clearinghouse.

However, other leveraged sources that aren't given directly to LIHEAPs do not face the same type of regulation. These supplemental funds toward energy assistance are harder to track and account for because of their decentralized nature. As mentioned earlier, many LIHEAP grantees take the time to research and report these sources when there are funds available through the federal leveraging incentive program. The more leveraged resources that are reported the higher the additional award will be.

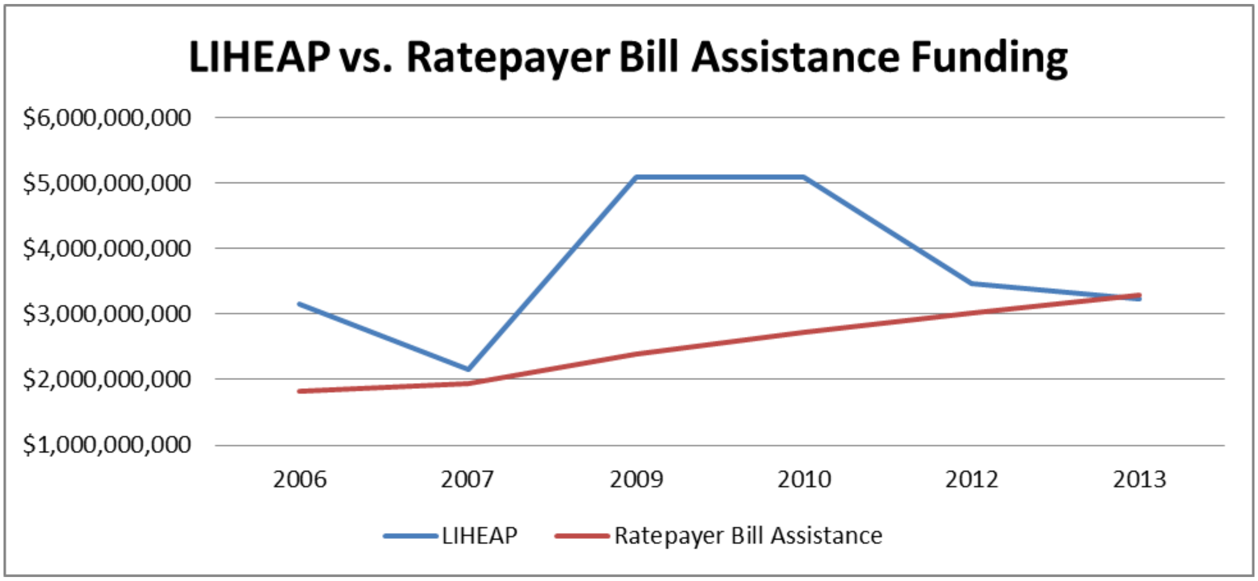
For the past couple of years, the federal leveraging program has not been available, meaning that some grantees have not been compiling information about those funds. In the meantime, the Clearinghouse has continued to compile information about ratepayer-funded programs, since those are always the largest non-federal source of supplemental funding available.

Conclusion

As mentioned earlier, non-federal funding for energy assistance is definitely needed., since historically, less than 20 percent of the households eligible for LIHEAP receive assistance. The need continues to grow as federal funding has largely flattened in recent years. Supplemental funding from non-federal sources helps fill an important gap.

Over time, ratepayer-funded bill assistance has steadily increased its funding level, while LIHEAP's funding has been more erratic. Similarly, funding for ratepayer-funded energy efficiency has outpaced that of the federal Weatherization Assistance Program, with the gap increasing rapidly in recent years (see line graphs on the following page).

Even if a LIHEAP grantee doesn't participate in the federal leveraging program when it's available, there are still good reasons to be aware of these supplemental funds. It is common that LIHEAP subgrantees also receive and distribute funds from these non-federal programs. Together, LIHEAP and these non-federal sources help provide more assistance that is needed in states and communities across the country.



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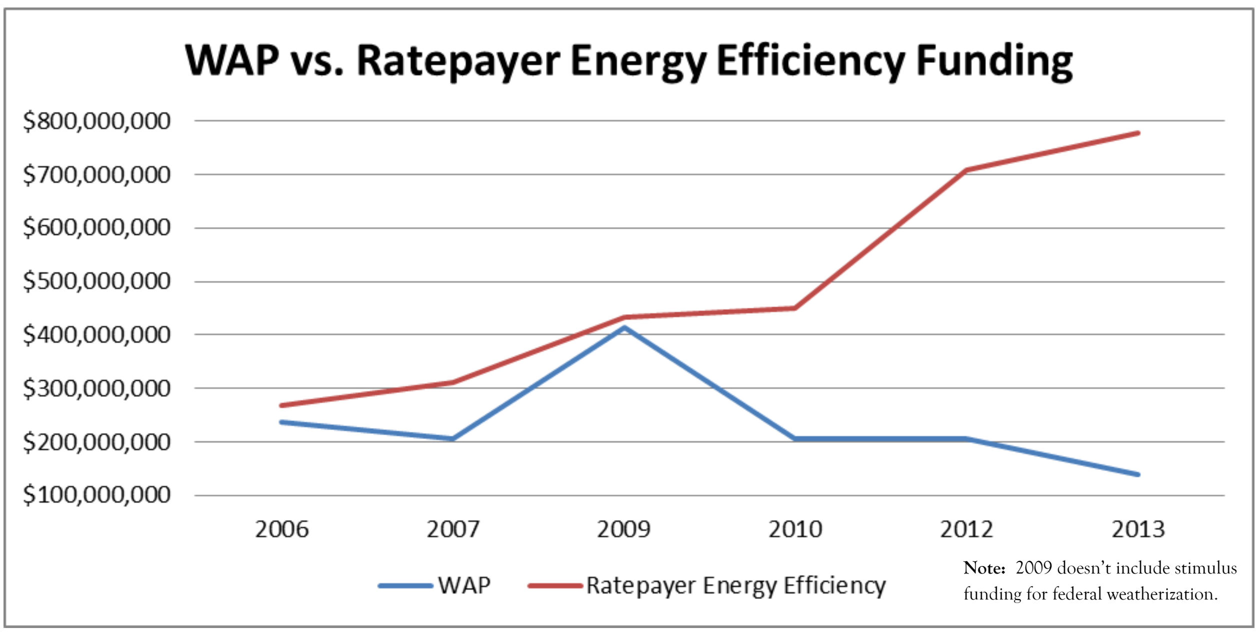

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