

TABLE 3. ESTIMATED AVERAGE ANNUAL HOUSEHOLD EXPENDITURES ON HOME ENERGY, BY INCOME CLASS AND REGION, FISCAL YEAR 1981

	Estimated Average Expenditures on Home Energy in Dollars ^a	As Percent of Income ^b
Estimated Household Income		
Less than \$7,400	740	15.2
\$7,400 to \$14,799	880	7.9
\$14,800 to \$22,099	910	4.9
\$22,100 to \$36,899	1,090	3.8
\$36,900 or More	1,290	2.5
Less than 125 Percent of Poverty ^c	790	13.5
Greater than 125 Percent of Poverty	1,020	3.7
Region ^d		
Northeast	1,290	5.2
North Central	1,080	4.4
South	900	4.0
West	700	2.9
Average, All Households ^c	1,000	4.2

SOURCES: Congressional Budget Office estimates, based on the Department of Energy's National Interim Energy Consumption Survey (NIECS) which covers the 12 month period from April 1978 to March 1979. Income data derived from the Census Bureau's March 1978 Current Population Survey, updated using CBO economic assumptions.

(Continued)

TABLE 3. (Continued)

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- a. Home energy expenditures include fuel oil, kerosene, electricity, natural gas, and liquid petroleum gas expenditures. These expenditures are adjusted from the survey year to 1981 on the basis of estimated energy price changes. The quantity of energy purchased is assumed to decrease by 0.15 percent for each one percent increase in the price of energy.
 - b. Incomes are adjusted to 1981 on the basis of CBO economic assumptions. Households with negative total incomes because of self-employment losses are excluded when calculating average incomes.
 - c. The NIECS only collected data on a household's income class, such as less than \$3,000, or between \$3,000 and \$5,000. In order to determine a household's poverty status, each household was assumed to have income equal to the midpoint of its income class. For example, a household reporting income between \$3,000 and \$5,000 would be assumed to have income of \$4,000 in order to calculate the ratio of household income to the poverty guideline.
 - d. See footnote to Table 2 for a list of the states in each region. Table excludes residents of Alaska and Hawaii.

Average home energy expenses also vary substantially among regions, ranging from an estimated \$700 in the West to \$1,290 in the Northeast in 1981. This variation reflects differences in climate, as well as differences in the type of fuel used for heating and in average energy prices. For instance, 43 percent of all households in the Northeast relied on costly fuel oil or kerosene for heating as of November 1979, compared to fewer than 12 percent of all households in other regions (see Table 4). Households in the North Central regions and in the West, on the other hand, benefit from the widespread use of natural gas, a fuel that is relatively inexpensive under federal price controls.

TABLE 4. ESTIMATED AVERAGE ANNUAL HOUSEHOLD HOME ENERGY EXPENDITURES, BY TYPE OF FUEL USED FOR HEATING AND REGION, FISCAL YEAR 1981 (In dollars)

	All Regions ^a	Northeast	North Central	South	West
Estimated Average Home Energy Expenditure for Households Heating with: ^b					
Natural Gas	890	1,080	970	840	680
Fuel Oil or Kerosene	1,560	1,690	1,690	1,240	1,160
Electricity	830	770	1,130	860	660
Liquid Petroleum Gas (LPG)	1,030	1,250	1,360	890	1,080
Other	570	560	710	580	440
Percent of Households Heating Principally with: ^c					
Natural Gas	55	41	77	38	68
Fuel Oil or Kerosene	19	43	13	15	5
Electricity	17	10	4	30	18
Liquid Petroleum Gas (LPG)	5	1	4	9	3
Other	5	5	2	7	5

SOURCE: Congressional Budget Office estimates, based on the Department of Energy's National Interim Energy Consumption Survey, and the DOE's 1979 Household Screener Survey.

NOTE: Details may not sum to totals because of rounding.

- a. Table excludes residents of Alaska and Hawaii. See footnote to Table 2 for a list of state in each region.
- b. These expenditures are adjusted from the survey year to 1981 on the basis of estimated energy price changes. The quantity of energy purchased is assumed to decrease by 0.15 percent for each one percent increase in the price of energy.
- c. As of November 1979.

Households in the West also benefit from lower-than-average electricity prices, largely because of the availability of relatively inexpensive hydroelectric power.⁴

Some of the differences in average home energy expenses among households heating with different fuel types are likely to lessen during the 1980s. During the 1970s, fuel oil prices increased faster, on average, than natural gas prices. This process is likely to reverse itself in the 1980s--with natural gas prices rising at a far greater rate than fuel oil prices--since controls on the great majority of natural gas prices are scheduled to be lifted by January 1, 1985.

Gasoline Expenditures. Gasoline expenditures also consume a larger share of income for low-income households than for middle- and upper-income households, but the differences among income classes are much smaller. It is estimated that households with incomes below \$7,400 will spend an average of \$400, or over 8 percent of their income, on gasoline in fiscal year 1981, compared to \$1,940 or less than 4 percent of income to be spent by households with incomes greater than \$36,900 (see Table 5). Much of the difference among income classes in average gasoline expenditures is attributable to differences in the proportion of households owning motor vehicles.

Estimated average household gasoline expenditures vary little among the North Central, South, and West regions, but are 11 percent below the national norm in the Northeast--as of 1981--largely because a smaller proportion of households in that region own cars. The Northeast's lower-than-average gasoline expenditures serve to offset its higher-than-average home energy expenditures.

4. See Harold Beebout, Gerald Peabody, and Pat Doyle, "The Distribution of Household Energy Expenditures and the Impact of High Prices," prepared for a conference on "High Energy Costs: Assessing the Burden," organized by Resources for the Future and The Brookings Institution, October 1980, for further discussion of the many factors affecting home energy consumption.

TABLE 5. ESTIMATED AVERAGE ANNUAL HOUSEHOLD GASOLINE EXPENDITURES BY INCOME CLASS AND REGION, FISCAL YEAR 1981

	Estimated Average Gasoline Expendi- tures in Dollars ^a	As Percent of Income ^b
Estimated Household Income		
Less than \$7,400	400	8.2
\$7,400 to \$14,799	670	6.0
\$14,800 to \$22,099	1,110	6.0
\$22,100 to \$36,899	1,490	5.2
\$36,900 or More	1,940	3.7
Region ^c		
Northeast	1,030	4.1
North Central	1,220	4.9
South	1,210	5.4
West	1,160	4.8
Average, All Households	1,160	4.8

SOURCE: Congressional Budget Office estimates, based on the Household Transportation Panel of the Department of Energy's Residential Energy Consumption Survey, which covers the 12-month period from June 1979 to May 1980, and on the Census Bureau's March 1978 and 1980 Current Population Surveys.

- a. These expenditures are adjusted from the survey year to 1981 on the basis of estimated energy price changes. The quantity of energy purchased is assumed to decrease by 0.15 percent for each one percent increase in the price of energy.
- b. Incomes are adjusted to 1981 on the basis of CBO economic assumptions. Households with negative total incomes due to self-employment losses are excluded when calculating average income.
- c. See footnote to Table 2, for list of states in each region. Table excludes residents of Alaska and Hawaii.

Indirect Energy Expenditures

Indirect energy expenditures--that is, the cost of energy used in the production of goods and services--are estimated to comprise at least as great a share of average household income as direct energy expenditures. Industries that produce goods such as food, textiles, appliances, and automobiles are particularly large energy users, and the federal government also accounts for a significant portion of the nation's energy consumption. A study based on the 1960-1961 and 1972-1973 Consumer Expenditure Surveys indicates that, as of 1974, these indirect energy expenditures consumed a greater share of the income of low-income households than of higher-income households, but that the share varied less among income classes than did the share of income spent on energy directly.⁵

EFFECTS OF ENERGY PRICE INCREASES ON INCOME

Rising energy prices will affect households' real income positions in a number of ways other than through increased energy-related expenditures. The burden of energy price increases depends to a large extent on the degree to which a person's income rises in response to increasing price levels.⁶ Wages and salaries, unearned income such as pensions and transfer benefits, and in-kind benefits such as food stamps and Medicaid, vary widely in the degree to which they increase along with increases in the cost of living. Higher energy prices have also led to significant

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5. James P. Stucker, "The Impact of Energy Price Increases on Households: An Illustration," the Rand Corporation (January 1976). See Robert A. Herendeen and Charlotte Ford, "Energy Cost of Living, 1972-73," Energy Research Group, University of Illinois at Urbana-Champaign (November 1980), for information on the relationship between indirect energy consumption and family expenditure levels. The Department of Energy is currently updating data from the 1972-1973 Consumer Expenditure Surveys to reflect a more current time period, but this work has yet to be completed.
 6. The amount of protection against rising energy prices that a household receives when wages or benefits are indexed to the CPI depends on the degree to which the CPI reflects changes in the actual cost of living for that household. Evidence is mixed concerning the degree to which the CPI correctly mirrors changes in the cost of living for poor households.

structural shifts in the American economy and have changed the levels as well as the distributions of wages, profits, and employment opportunities. These latter effects are extremely complex, however, and their impact on households in different income groups is not known.

Earnings

The effect of energy price increases on wages varies widely among different groups of workers since those who receive cost-of-living pay increases are largely protected against rising prices. Workers covered by contracts that provide for automatic cost-of-living salary adjustments are estimated to comprise a relatively small proportion of the labor force, however, and between 1972 and 1980, average hourly earnings in the private nonagricultural sector declined 9 percent in real terms.⁷ Although increases in the minimum wage have afforded persons with very low earnings some protection against rising prices, the minimum wage has not kept pace with inflation over the last decade.

Unearned Income

In general, low-income households have more of their unearned income directly indexed to the CPI than do middle- and upper-income households, and this unearned income constitutes a much larger proportion of their total income, on average. It is estimated that roughly two-thirds of the unearned income, or 40 percent of the total income, of families with incomes below \$8,000 in 1979 was indexed directly to the CPI, compared to an estimated

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7. Information on the proportion of workers covered by contracts that provide for automatic cost-of-living salary adjustments is only available for workers covered by large union contracts. It is generally believed, however, that few non-unionized workers receive automatic cost-of-living salary adjustments, and nonunionized workers are estimated to account for roughly three-fourths of all workers in the private nonagricultural sector. An estimated 57 percent of workers participating in collective bargaining situations involving 1,000 workers or more are covered by contracts that provide for automatic cost-of-living salary adjustments.

42 percent of unearned income, or 8 percent of total income, for the average household. Among families in all income classes, the elderly are especially likely to have unearned income that increases along with the cost of living. Families with incomes below \$8,000 in 1979, and containing persons aged 65 or older, had 81 percent of their unearned income and 76 percent of their total income indexed to the CPI, compared to 38 percent of unearned income and 14 percent of total income for families in the same income class but not containing an elderly member.

These large variations in the indexation of income among different demographic groups reflect the fact that some types of unearned income are fully indexed to the CPI while other types are not indexed at all. Social Security benefits, federal retirement pensions, and the federal portion of Supplemental Security Income (SSI) benefits are fully indexed to the CPI. On the other hand, most states do not index Aid to Families with Dependent Children (AFDC), the state portion of SSI, or General Assistance (GA) benefits to any cost-of-living factor. Between 1972 and 1979, the average AFDC state payment standard declined 17 percent after adjusting for inflation.⁸

In-Kind Benefits

For many low-income households, the indexation of food stamp benefits to food price changes, and the complete medical-expense coverage available through Medicaid offset the indirect effects of energy price increases on the costs of food and medical care. In addition, roughly 40 percent of households participating in the food stamp program receive a 30 cent increase in the value of their food stamps for every dollar increase in their home energy expenditures, because of a shelter deduction used in determining food stamp benefits.⁹ The Administration has proposed ending the

8. Richard Kasten and John Todd, "Transfer Recipients and the Poor During the 1970s," Prepared for Second Research Conference of the Association of Public Policy Analysis and Management, October 1980. See also, Congressional Budget Office, Indexing with the Consumer Price Index: Problems and Alternatives (June 1981), Appendix B, for a detailed description of the effects of indexation on AFDC, SSI, and Social Security recipients.

9. This estimate is as of August 1980.

indexation of the maximum allowed shelter deduction. If this change were enacted, the number of households partially protected in this way would decline in future years, all other things being equal.

CONCLUSION

Energy price rises may bring about complex and far-reaching changes in direct and indirect energy expenditures and in income flows. Available evidence concerning household consumption and income patterns indicates that the overall impact of the energy price rise has been greater, in relative terms, on low-income households than on middle- and upper-income households, largely because low-income households spend more of their incomes on energy, as they do on all necessities. The impact of higher energy prices varies widely among households in the same income class, however, in accordance with such factors as climate, the type of heating fuel used, and automobile driving patterns.

The burden of rising energy prices on low-income households may be at least partially offset by the indexation of major portions of their income to the cost of living. Many low-income households--especially those that are elderly--receive benefits such as Social Security, SSI, food stamps, or Medicaid, and these benefits increase to some extent along with increases in the cost of living. On the other hand, the minimum wage has not kept pace with inflation over the last decade. Higher energy prices have also changed the distribution of wages, profits, and employment opportunities among industries, and the impact of these changes on low-income households is not known.

CHAPTER III. GOALS OF ENERGY ASSISTANCE PROGRAMS

Rapid energy price rises over the last decade have led the federal government to institute a series of low-income energy assistance programs, and proposals currently before the Congress would authorize such programs in future years as well. Proponents of energy assistance programs have argued at various times that such programs are needed to:

- o Ensure an adequate consumption of home energy by low-income households;
- o Offset the effects of rising energy prices on the real incomes of poor persons; and
- o Promote energy conservation.

While the principal goal of any energy assistance program has significant implications for program design, some goals may be achieved by more than one type of program. Furthermore, certain types of programs may help to achieve more than one goal. This chapter discusses each of the possible program goals, and analyzes the implications of various mechanisms that may be used to achieve these goals.

ENSURING ADEQUATE HOME ENERGY CONSUMPTION LEVELS

Because high energy prices put a strain on many low-income family budgets, some policymakers argue that it is appropriate to subsidize such families' consumption of home energy to ensure that they are able to consume home energy at some minimum level. Similar arguments have been used to justify federal subsidies for food, housing, and medical care. It is argued that energy used for home heating or cooling qualifies as a "merit good" to the extent that a certain amount of this good is necessary to maintain healthy living conditions. Beyond this "necessary" level, however, one can contend that energy becomes a discretionary or luxury item, to which the "merit good" argument does not apply.

If the government wishes to ensure an adequate consumption of energy by the poor, it can (1) tie benefits to actual energy use through some type of subsidy program, (2) increase the income of the poor, or (3) make their homes more energy-efficient. All other things being equal, a subsidy tied specifically to energy use may increase consumption more per federal dollar spent than would an un earmarked income transfer program. By the same token, it may provide households with an incentive to consume more energy than they otherwise would, even after their energy consumption has surpassed the "necessary" level, thereby leading to a level of energy consumption deemed too high in terms of economic efficiency. In view of the fact that energy conservation is one of the nation's highest priorities, this effect may be seen as particularly undesirable. Weatherization assistance--like a subsidy for home energy--would allow households to consume the "necessary" amount of home energy at a lower cost, but would tend to decrease total energy consumption.

Rather than attempting to subsidize home energy consumption for all low-income households, an energy assistance program might aim solely at helping them avert crises such as the disconnection of utilities or the inability to obtain fuel during winter months. Since low-income households generally operate on very tight budgets and do not have large savings, they often experience difficulty in paying large energy bills. The strain becomes especially acute during periods of unusually severe weather or rapidly rising energy prices. In addition, fuel companies, facing tight budget constraints of their own, are often unwilling to extend credit to poor persons, who have little access to credit in general.

Crisis assistance payments may be only a partial solution. They are generally designed as temporary, one-time-only measures to help households that are experiencing abnormally difficult circumstances such as large, sudden price rises and unusually severe weather conditions. These may constitute abnormally difficult circumstances, but they are not the only causes of difficulty. Long-term conditions such as high energy prices, low levels of income, and lack of access to credit contribute significantly to the emergency energy crises of the poor. Thus, emergency programs may lead to the use of temporary, stopgap measures to deal with long-term problems.

Current and past energy assistance programs have generally tied benefits, to some extent, to recipients' actual home energy expenses in order to help them acquire adequate amounts of home energy. Under the current program, all households meeting income eligibility criteria may receive benefits that are determined by their home heating needs and incomes. Earlier programs provided benefits only to those households actually experiencing emergency hardships.

OFFSETTING THE EFFECTS OF HIGHER ENERGY PRICES
ON THE REAL INCOMES OF THE POOR

Proponents of low-income energy assistance programs also argue that such aid is needed to offset part of the effects of energy price increases on the real incomes of poor persons. According to this argument, energy price increases cause an "inequitable" redistribution of income because poor persons spend larger proportions of their income on energy than do other persons. Proponents also contend that the federal government has a particular obligation to protect low-income persons from the effects of energy price increases because the government's decontrol of domestic oil prices contributed to these increases. This rationale was reflected in the Crude Oil Windfall Profit Tax Act of 1980, which authorized a low-income energy assistance program for 1981, and specified that, for accounting purposes, 25 percent of the net revenues generated by the tax from 1982 to 1990 are to be allocated to a low-income energy assistance subaccount in the Treasury.

Here again, critics of an in-kind assistance or subsidy program argue that to redistribute income in this manner may distort the system of relative prices faced by the poor, and may lessen incentives for conservation. Such an effect is particularly troublesome since it counteracts the nation's energy conservation policy.

Opponents of this approach further argue that many other government policies may also tend to reduce the real incomes of the poor, and that rather than attempting to offset the effects of all these various policies in a piecemeal fashion, it would be better to provide low-income families with adequate financial resources through general cash assistance programs.

PROMOTING ENERGY CONSERVATION

A low-income energy assistance program could be designed primarily to promote energy conservation, rather than simply to ensure adequate levels of home energy consumption, or to offset the effects of energy price increases on the incomes of the poor. Some argue that because energy-inefficient housing constitutes a major cause of the burden of high home energy prices on low-income households, encouraging weatherization would be a preferable long-term approach to the problem. Furthermore, the federal government currently foregoes significant amounts of tax revenues in order to help taxpayers improve the energy-efficiency of their homes or make use of alternative energy sources, and some argue that the government should devote similar levels of resources to helping low-income households achieve these goals.¹

Those who oppose gearing an energy assistance program toward promoting energy conservation argue that although home improvement measures may serve as a complement to other forms of energy assistance, they cannot be a substitute for them. Many households--renters and those whose homes are in need of major nonenergy-related repairs, in particular--may not be able to benefit from weatherization assistance or other types of conservation programs, and some low-income households may face unusually high home energy expenses even after conservation measures have been taken. Furthermore, the average cost of weatherizing housing units far exceeds the average annual benefits available under the current energy assistance program. As a result, far fewer households might be served in the short run under a program emphasizing weatherization than under a program providing home energy subsidies.

1. In 1978 alone, an estimated 5.8 million tax filing units--most of whom were in middle-income or upper-income brackets--received residential energy tax credits totaling an estimated \$573 million.

CHAPTER IV. ISSUES AND OPTIONS

Various proposals now before the Congress would extend current low-income energy assistance block grants into 1982 and beyond, with differing restrictions on states' use of funds. Such restrictions would determine, to a large extent, who would be aided by the programs, what the effects on energy consumption would be, and, in general, what trade-offs states would be able to make among possible program goals. The Congress also faces choices regarding how much and what type of aid to provide to low-income households to permit them to improve the energy-efficiency of their homes.

This chapter discusses the principal program-design issues involved in choosing among various block grant proposals and concludes with a discussion of increased funding for weatherization or increased cash assistance benefits as alternatives or supplements to a separate energy assistance program.

BLOCK GRANTS

The states and territories received block grants totaling nearly \$1.76 billion in 1981, to be used to offset low-income households' high home heating and, in some cases, home cooling costs. The Congress placed a number of restrictions on how states could distribute benefits, requiring, for instance, that they ensure that households with the lowest incomes and the highest home heating or cooling expenses in relation to income receive the largest benefits. In addition to the block grants, the Community Services Administration (CSA) received nearly \$90 million for an energy crisis intervention program.

Under several proposals currently before the Congress--summarized in Table 6--energy assistance would continue to be provided in 1982. The House Ways and Means Committee's proposal and the Senate Labor and Human Resources Committee's proposal

TABLE 6. PROVISIONS OF THE 1981 LOW-INCOME ENERGY ASSISTANCE PROGRAM AND OF SELECTED 1982 ENERGY AND EMERGENCY ASSISTANCE PROPOSALS

Proposal	Funding Level ^a (In billions of dollars)	Income Eligibility Guidelines	Allowable Use of Funds	Benefit Structure	Types of Benefits Provided
1981 Program	1.85	Lower Living Standard, or 125 percent of poverty line for a one-person household, or federal public assistance reciprocity	Home heating or medically necessary cooling expenses	Highest benefits to those with lowest incomes, and with highest home energy expenses in relation to income	Cash, vendor payments, and vouchers; limit of 3 percent of funds for emergency assistance ^b
House Ways and Means Committee Proposal	1.40	150 percent of poverty line, or 60 percent of state median income, or federal public assistance reciprocity	Home energy assistance	Similar to current program, but federal restrictions less strict	No federal restrictions
Senate Labor and Human Resources Committee Proposal	1.88	No federal restrictions but priority given to those with incomes below the Lower Living Standard or 125 percent of poverty line if a one-person household	Home energy assistance	Similar to current program, but federal restrictions less strict	Cash, vendor payments, and vouchers; limit of 10 percent of funds for weatherization; "reasonable" amount for emergency assistance ^b
H.R. 3469	1.40	No federal restrictions	Energy or other emergency assistance	No federal restrictions	No federal restrictions

SOURCE: Congressional Budget Office.

a. Actual funding level for 1981 program and proposed funding levels for 1982.

b. Emergency assistance may include goods such as blankets or space heaters, minor home repairs, or cash or vendor payments. In 1981, such assistance may also be provided through the Community Services Administration's crisis intervention program.

would authorize programs similar to the current one.¹ However these proposals would eliminate or make less stringent many of the current program's requirements concerning states' allocation of benefits, and would allow states much more flexibility in determining how to satisfy the remaining requirements. The Ways and Means Committee proposal would reduce funding for energy assistance to \$1.4 billion in 1982 and \$1.6 billion in 1983, while the Labor and Human Resources Committee's proposal would allow for funding of up to \$1.88 billion in 1982 through 1986. Under the Ways and Means Committee's proposal, funds would be distributed as matching grants in 1983, with the federal government providing 80 percent of total funding.

The Administration initially proposed a sharply different type of block grant program to replace low-income energy assistance block grants, the CSA crisis intervention program, and the Emergency Assistance matching grant program (Title IV-A of the Social Security Act), which serves families with children and is expected to cost the federal government \$54.6 million in 1981. Under this proposal--submitted as H.R. 3469--states would receive block grants that they could use to provide energy assistance or any emergency service. For example, states could use funds to provide temporary shelter, food, clothing, transportation, or home repairs to households experiencing such types of emergencies as civil disorders, natural disasters, destitution, eviction, or stolen checks. H.R. 3469 would set funding at \$1.4 billion annually in 1982 through 1985, or roughly 73 percent of the amount appropriated for energy and emergency assistance in 1981, but states would have complete flexibility in designing programs to fit local needs and to help adjust to the decrease in funds.

In choosing among these and other block grant proposals, the central issue concerns the degree to which the federal government should restrict states' use of funds. Specific program-design issues include:

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1. The House Ways and Means Committee and Senate Labor and Human Resources Committee proposals referred to here are the recommendations made by those bodies in satisfying budget reconciliation instructions embodied in the First Concurrent Resolution on the Budget for 1982. The Administration's proposal referred to here is its original proposal for energy assistance, which was introduced as H.R. 3469 on May 6, 1981.

- o Who should be eligible for benefits;
- o What types of energy expenses should be included in determining a household's energy burden;
- o How closely benefits should be tied to a household's actual energy burden;
- o What types of benefits or services should be offered;
- o What amount of federal and state funds should be provided; and
- o How federal funds should be allocated among states.

The following sections discuss each of these issues, the ways in which the past and current programs have addressed them, and how they might be dealt with in future years.²

Eligibility

The restrictions placed on eligibility for energy assistance may reflect the relative energy burdens of poor and near-poor households, as well as the goals of an energy assistance program. Any income eligibility guideline, although necessarily somewhat arbitrary, reflects some judgment concerning the level at which energy-cost burdens become excessive. Placing categorical restrictions on eligibility--for instance, offering aid only to elderly households or only to those with children--implies that certain types of households are more vulnerable to crisis situations, or are more in need of energy as a merit good.

Eligibility decisions, combined with the level of total funding and participation rates, determine the amount of benefits that assisted households receive. Making energy assistance payments to households with incomes well above the poverty line without increasing program funding or closely tailoring benefits to actual

2. A more detailed discussion of past and current energy assistance programs can be found in the appendix.

energy burdens may leave an inadequate amount of aid for the poorest households. For example, if \$1.4 billion in funds were made available in 1982, if administrative costs are assumed to equal 7.5 percent of total funds, and if only those households with incomes below the Office of Management and Budget's poverty guideline--an estimated 8.5 million--participated in the program, then benefits would average \$152 per household (see Table 7).³ If households with incomes below the Bureau of Labor Statistics' Lower Living Standard also participated--an additional 6.5 million households--then the average benefit per household would drop to \$86. Granting automatic eligibility to all recipients of AFDC, SSI, or food stamps, regardless of income, could increase the number of participating households by 2.6 million, further reducing the average benefit level to \$74. (Under any of these eligibility criteria, the number of participants would likely be lower, and the average benefit higher, than the estimates given above indicate, since it is unlikely that all eligible households would participate in the program.)

Past and Current Programs. Before 1980, energy assistance programs generally served households with incomes below 125 percent of the OMB poverty guideline. States were required to extend priority to elderly and disabled households, and some states chose to serve only those households. Since these programs were intended to aid households facing emergency situations, households paying for energy indirectly--that is, through their rent--were not eligible for benefits.

In 1980, households with incomes below 125 percent of the OMB poverty guidelines continued to qualify for energy assistance under the Energy Crisis Assistance Program, and SSI recipients received automatic payments under the SSI Energy Allowance Program. In addition, states received energy assistance funds in the form of block grants, and many states distributed such funds as automatic payments to recipients of AFDC, food stamp, or General Assistance benefits.

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3. Households with incomes below the poverty line are estimated to spend more than 1.6 times as large a proportion of their incomes on home energy as those with incomes between the poverty line and the BLS Lower Living Standard.

TABLE 7. NUMBER OF HOUSEHOLDS ELIGIBLE FOR ENERGY ASSISTANCE AND AVERAGE BENEFIT PER ELIGIBLE HOUSEHOLD, UNDER VARIOUS INCOME ELIGIBILITY CRITERIA, IF FUNDING WERE \$1.4 BILLION, FISCAL YEAR 1982

Household Income Eligibility Criteria	Number of Eligible Households (millions)	Average Benefit Per Eligible Household (dollars) ^a
Below Poverty Guideline ^b	8.5	152
Below 125 Percent of Poverty Guideline	12.0	108
Below 125 Percent of Poverty Guideline or the Lower Living Standard ^c	15.0	86
Below 125 Percent of Poverty Guideline or the Lower Living Standard, or Household Contains a Recipient of AFDC, SSI, or Food Stamp Benefits	17.6	74

SOURCE: Congressional Budget Office estimates, based on the Census Bureau's March 1978 Current Population Survey and corrected for the underreporting of income.

- a. Assumes administrative costs of 7.5 percent.
- b. As established by the Office of Management and Budget.
- c. As established by the Bureau of Labor Statistics.

In 1981, households with incomes below the BLS Lower Living Standard, one-person households with incomes below 125 percent of the OMB poverty line, and households containing an AFDC, SSI, food stamp, or certain veterans' benefit recipient were eligible to receive energy assistance. States had the option of applying more restrictive income eligibility standards, however, and many chose to do so.⁴ In some cases, households were required to have incomes below the poverty line in order to receive benefits. States estimated that roughly 10 million households would participate in the program, out of a potentially eligible population of 17.2 million, with benefits averaging roughly \$160, or 19 percent of the average home energy expenditures of all potentially eligible households.

Although federal public assistance recipients were automatically eligible for benefits in 1981, states were not permitted to serve only public assistance recipients or to place other categorical restrictions on eligibility. Rather, they were required to serve the poorest households first, regardless of family composition or source of income, thereby ensuring that very poor households not receiving other types of public assistance would be able to receive energy aid. They were, however, required to give priority to the elderly and disabled through special outreach and intake activities, and some states were allowed to set more liberal benefit schedules for such households, as well.

Other Options. Rather than setting nationwide income eligibility standards, the federal government could allow each state to specify its own income eligibility standards. It is unlikely that the lack of federal income eligibility guidelines would lead most states to set high income limits, since most states chose to set eligibility guidelines in 1981 that were more restrictive than those set by the federal government. At least 19 states did,

4. Information presented in this chapter and in the appendix with regard to state plans for 1981 is as of June 19, 1981, but is preliminary. Not all states have verified that the Department of Health and Human Services (HHS) has correctly recorded the provisions of their plans. Furthermore, states may change their plans as the year progresses.

however, set income eligibility guidelines at the federal maximum. If these or other states chose to raise their guidelines in the absence of a federal maximum, the result might be less targeting to those most in need than under the current program.

Conversely, the Congress could lower the current federal income eligibility standards--to the poverty guideline, for example. While this would ensure that all aid would be targeted on the very poorest households, it might force states to use their own funds to aid near-poor and lower-middle-income households with very high home energy expenses.

The Congress could also allow states to set categorical eligibility restrictions--that is, to serve only families with elderly or disabled members, or only families with children, or only families receiving another form of public assistance. If states were allowed to impose categorical restrictions, they could target assistance on certain types of households thought to be most in need of energy assistance as a merit good, or to use the funds to avert crisis situations. On the other hand, providing aid only to public assistance recipients (such as those receiving AFDC or SSI) would not ensure that benefits were paid to the poorest households, but would serve as a means of indirectly increasing welfare benefits. Among households with incomes below 125 percent of the OMB poverty guideline, an estimated 35 percent do not contain recipients of AFDC, SSI, or food stamps. Furthermore, an estimated 32 percent of households receiving AFDC, SSI, or food stamps have incomes above 125 percent of the OMB poverty guidelines.

The Ways and Means Committee proposal would set income eligibility guidelines at 150 percent of the OMB poverty guidelines or 60 percent of state median income, whichever was higher, and, like the current program, would grant automatic eligibility to federal public assistance recipients. Under the Ways and Means Committee's proposal, states would be required to provide assistance to the lowest income households, regardless of public assistance reciprocity, only to the extent that such provision would be consistent with the efficient and timely payment of benefits. Each state could exercise the option of having the Department of Health and Human Services make automatic payments to SSI recipients, excluding those who do not bear a burden from rising home energy costs--for example, persons in institutions.

The Labor and Human Resources Committee's proposal would not establish any income eligibility guideline, but would require that states give priority to households with incomes below the Lower Living Standard or 125 percent of the poverty guideline for a one-person household. Like the Ways and Means Committee's proposal, it would require states to serve those households with the lowest incomes, but would not prohibit states from treating non-public assistance households differently from public assistance households.

H.R. 3469 would allow states complete flexibility in setting income as well as categorical eligibility criteria.

Types of Energy Expenses to be Covered

The goal of an energy assistance program may determine whether heating expenses, cooling expenses, all home energy expenses, or home energy as well as gasoline expenses will be used to determine a household's benefit. A program aimed at providing energy assistance as a merit good or averting crisis situations might cover only home heating or cooling expenses, while one aimed at offsetting the effects of energy price increases on the real income of poor persons might take all types of energy expenses into account.

Past and Current Programs. Until 1981, energy assistance was intended to serve households facing winter-related energy crises, and therefore was targeted on households with high home heating costs. Under the 1981 program, households with high home heating or medically necessary cooling expenses were eligible for aid. Only 12 states--including only 7 of 17 Southern states--chose to set aside funds for cooling assistance in 1981.⁵ Other states, however, plan to use funds left over from their winter heating assistance programs to aid households with large summer cooling bills.

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5. Other states have plans under review by HHS that would establish cooling assistance programs.

Other Options. The Congress could require states to consider all types of energy expenses, not just home heating or cooling expenses, when allocating aid. Then households with low home energy costs but with high gasoline bills or high general household expenses would receive more aid, but those with exceptionally high heating (or cooling) expenses might receive less. If states were to take into account a wider range of energy expenses when distributing benefits, it would serve as less as a subsidy for home energy consumption, and more as a means of offsetting the effects of higher energy prices on poor persons' real incomes.

Under the Ways and Means Committee's proposal and the Labor and Human Resources Committee's proposal, benefits are intended to help offset only home heating and cooling expenses. States would be given considerable flexibility, however, in determining the degree to which such expenses were taken into account when determining benefits. Under H.R. 3469, states could take any type of household expenses--energy-related or otherwise--into account in determining benefits.

Relation of Benefits to Actual Energy Expenses

The targeting of an energy assistance program depends not only on eligibility standards but also on the distribution of benefits among eligible households. The degree to which energy assistance benefits are tied to actual energy expenses affects who the program assists as well as the incentives (or disincentives) for conservation and the ease and costs of administration.

Past and Current Programs. Until 1980, most states simply made energy assistance payments up to a certain maximum on behalf of households with large winter heating bills. This procedure tied benefits to some extent to a household's level of energy expenses, but not to its energy burden, as measured by the proportion of income spent on energy. Moreover, households paying for energy indirectly--that is, through their rent--generally were ineligible for benefits under these programs.

States continued to distribute some benefits in this manner in 1980 but also distributed some benefits as automatic payments to public assistance recipients. These automatic payments--while simple and relatively inexpensive to administer--were not closely tied to actual energy expenses.

During 1981, states are required to allocate energy assistance benefits in accordance with households' actual energy burden based on such factors as the type of fuel used for heating, intrastate region (a proxy for climate), household size, and household income. The largest benefits must be given to households that are estimated to have the largest heating or cooling expenses in relation to income. Renters paying for home energy indirectly are eligible for benefits comparable to those of similarly-situated homeowners.

Since this approach ties benefits to factors that relate to a household's home energy burden--such as intrastate region--but not to a household's actual home energy expenditures, it likely leads to fairly small conservation disincentives in the short run. In the long run, however, it might cause households to make decisions concerning location and heating fuel that are economically inefficient. Furthermore, this benefit structure requires a relatively large amount of information on household characteristics and, therefore, relatively high administrative costs.

Other Options. Rather than tying benefits closely to actual energy burden as in the 1981 program, the Congress could allow states to make payments less closely tied to actual indicators of energy need--for example, by making flat payments to all households eligible for the program. Making flat payments would minimize administrative difficulties and costs, as well as conservation disincentives, but would also decrease the share of aid going to households with high energy burdens.

Alternatively, the Congress could also restructure the energy assistance program around its original goal--that of aiding households that are in emergency energy-related situations. If emergency situations were determined by the size of a household's home energy bill, then benefits would be more closely tied to actual energy expenditures, which would probably decrease incentives for conservation. In addition, if only those households having large unmet energy bills were served--as often occurred under past programs--households that did not pay their bills would receive benefits, while those who paid their bills, but at great sacrifice, would not. Households paying for energy indirectly would probably not receive much energy aid under such an option since the home energy expenses of these households are paid evenly throughout the year.

The House Ways and Means Committee's proposal for 1982, like the current program, would require states to allocate the largest benefits to those households with the lowest incomes and the highest home energy expenses in relation to income. But states would be required to use such an allocation method only to the extent that it would be consistent with the efficient and timely payment of benefits. Consequently, benefits might not always be closely tied to actual household home energy burdens. More use might be made of automatic payments to public assistance recipients than under the current program, in order to administer benefits as quickly as possible, and at a minimum cost.

The Senate Labor and Human Resources Committee's 1982 proposal would also require states to allocate the largest benefits to those with the lowest incomes and the highest home energy expenses in relation to income, but, unlike the current program, it would allow states complete flexibility in determining methods to meet this requirement.

H.R. 3469 would place no restrictions on the relation between benefits and a household's actual energy expenses. In fact, program funds could be used for any emergency, whether or not it was energy-related. This proposal might result in a sharp decrease in the relative amount of aid going to households with high energy burdens.

Types of Benefits and Services

The form in which benefits are paid reflects the degree to which the government wishes to exercise control over the consumption patterns of recipients. Direct cash payments to households are, in general, the simplest type of benefit to administer and allow the maximum amount of consumer choice, but they do not guarantee that a household consumes a minimum level of home energy or that home energy bills are actually paid. Vendor payments and two-party checks, by contrast, ensure that benefits are actually used for home energy but may be more costly and more difficult to administer. Providing benefits in the form of goods such as blankets or space heaters limits the consumer choice of households even more severely. Weatherization assistance, like vendor payments, ties benefits directly to home energy expenditures but tends to decrease home energy consumption.