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Statewide Fuel Funds Offer Fuel Assistance Advantages

NOTE TO READERS

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Formation of Statewide Fuel Funds Offer Administrative, Fundraising Benefits to States

As state and local policymakers, in addition to nonprofit and public utility staff, seek to find additional ways in which to offer energy assistance to low-income customers facing crisis situations with home heating bills, consideration of the benefits of creating a statewide fuel fund is in order. In research prepared for the Iowa Community Action Association (ICAA), Fisher, Sheehan & Colton (FSC) reviewed the operation of statewide fuel funds across the nation and provided answers to commonly asked questions.

The information presented below is taken from responses obtained from the executive directors of a number of statewide fuel funds now in operation throughout the nation. Information was obtained from statewide fuel funds in New Jersey (NJ SHARES), Pennsylvania (Dollar Energy Fund), Michigan (The Heat and Warmth [THAW] Fund), Colorado (Energy Outreach Colorado), and Oregon (Oregon HEAT).

Question #1

How does one allocate funds back to a specific utility when those funds are combined into a statewide fuel fund?

It is a general, but not universal, rule that all direct utility customer contributions are returned to customers of the company from which they came. NJ SHARES, for example, receives matched customer contributions from the seven regulated energy utilities in New Jersey. NJ SHARES reports that "if Whiteacre REC were a NJ SHARES [utility], our web-based application

system would assure that Whiteacre funds assisted only Whiteacre customers.” So, too, Michigan’s fuel fund –The Heat and Warmth (THAW) Fund—assures utility companies that funds received from a given company (or its customers) will be returned to customers of that company.¹

In contrast, Energy Outreach Colorado reports that it receives both restricted and unrestricted contributions. According to Energy Outreach: “For the most part. . .donations have been unrestricted, and are distributed state-wide without regard to the source of the donation.”

Two caveats need to be placed on any commitment to return utility customer contributions back to the customers of the same utility from which they came.

First, utility service territories can be quite large. Accordingly, returning contributions to the same company does *not* necessarily mean that those funds go back to the same geographic area of the state from which they were collected.

Second, significant non-utility money is not governed by the same “rules” as those that govern utility customer contributions (or utility matches of those customer contributions). NJ SHARES receives “undesignated contributions” that are distributed on a first-come, first-served basis. Similarly, Pennsylvania’s Dollar Energy Fund (DEF) reports that “donations are made to the Dollar Energy Fund, not to the utility or to a particular service territory. Dollars are granted on a first-come, first-served basis.” Oregon HEAT reports that “in addition to managing four fuel specific/utility specific funds (*restricted* funds), [it] has a “fuel blind/region blind” fund (*unrestricted* fund).”

¹ Funds received from a company’s customers refer, however, only to contributions received in response to a utility solicitation. Merely because a contributor lives in a particular utility service territory does not mean that his or her contribution will be spent in that service territory if the contribution is made in response to a solicitation to the general public.

Question #2

How, if at all, does a statewide fuel fund generate fundraising efficiencies and opportunities that would not exist with a series of smaller local fuel funds?

Existing statewide fuel funds believe that their statewide nature contributes to an ability to raise funds that would not exist through a network of smaller funds. The following advantages were cited:

One of the most important public figures to involve in fundraising is the state’s Governor. The presence of a statewide fund enhances the ability to attract the Governor’s time and attention to assist fundraising. (Michigan, Pennsylvania). In 2004, for example, Michigan’s THAW coordinated the Governor’s message in support of Community Action Agency (CAA) “Walk for Warmth” fundraisers throughout the state. According to THAW, “no one CAA would have been able to garner the governor’s attention alone.”

Funds generated through legislative action will only occur through a statewide fuel fund. Examples of legislative action include unclaimed utility deposits and rate refunds (Colorado, New Jersey). Similarly, Michigan’s THAW reports that the Michigan public service commission (PSC) created a low-income fund “which is directed only to agencies that serve a wide area, if not statewide.” According to THAW, while it (and two other statewide agencies: the CAA state association and the Salvation Army) received grants of roughly \$3.0 million each from the PSC’s low-income fund, regional funds received grants in much smaller amounts.

Name recognition throughout the state helps fundraising, Pennsylvania’s Dollar Energy Fund, in particular, notes that it has achieved statewide name recognition “thereby generating

more funds.” NJ SHARES reports name recognition as a primary benefit of its statewide operation as well. “Name recognition helps with fundraising throughout the state (NJ). Donors recognize that we assist households in crisis in all communities.” Energy Outreach Colorado believes that its statewide status helps it to build the internal capacity to promote its name recognition. Its increased capacity lies with the “ability to focus on external communications” as well as focusing on “branding.” Oregon HEAT agreed. More than specific funding opportunities, Oregon HEAT says, “more precisely, a state-wide fuel fund is better positioned to gain public relations benefits that translate into better fundraising opportunities.” (emphasis in original).

Maximizing the impact of outreach serving larger geographic areas. THAW, for example, notes that radio and television stations frequently reach beyond individual local utility service territories. Dollar Energy, too, reports that statewide operation allows it to “cross service territories of the participating utilities and have a far better outreach effort for the same amount of money.”

Statewide operation enhances access to charitable funds. Energy Outreach Colorado reports, for example, that it receives foundation grants that would not have been available if it had not served statewide. Oregon HEAT notes that “being a state-wide in scope is integral to participation in the Combined Federal Campaign (the federal United Way campaign), at least in Oregon.” Moreover, its statewide reach helped Oregon HEAT “to apply for and win over \$2 million in just the last three years alone,” with “at least another \$500,000 [expected] in just the next six months.”

Reaching areas that are not served, or at the least, not well-served by media is one advantage of being statewide in operation. According to Oregon HEAT, “rural media has a limited reach and impact during fundraising campaigns. A state-wide organization is better positioned to

get placement in print media with state-wide distribution and broadcast media.”

Question #3

How, if at all, does a statewide fuel fund generate operational efficiencies that would not exist with a series of smaller local fuel funds?

Existing statewide fuel funds believe that their statewide nature contributes to an ability to reduce costs through operating efficiencies that would not exist through a network of smaller funds. The following cost-savings advantages were cited:

Centralized grant processing was cited as a substantial advantage by the statewide fuel funds in Michigan, Pennsylvania and New Jersey. According to THAW, “we have an electronic application and payment process that increases our administrative efficiency (and therefore capacity) to process many more payment vouchers than with a paper process.” Pennsylvania’s Dollar Energy Fund notes that it was able to reduce its “keystroke time” substantially through its centralized system.

One aspect of the centralized grant processing, NJ SHARES reported, was its ability use a web-based application system for grants. Pennsylvania’s Dollar Energy Fund agreed, citing the increased use of technology made possible by its statewide nature. DEF said: “Our biggest efficiency gained has been the ability to grow our technology. This came as a result of funding by foundations. . .The technology we created allows all agencies and utilities to apply on line and be able to access the amount of funds available at any given time, along with the status of applications.”

Colorado reported an efficiency in technology as well. Its statewide nature allowed for greater efficiencies in capital costs, including system

costs for accounting software, donor record keeping, servers and office space.

Increased efficiencies lead to lower labor costs attributable to the statewide nature of the fuel funds. Energy Outreach Colorado notes that it operates a \$9 million budget with seven fulltime equivalent staff positions. So, too, does Dollar Energy report decreased staff expense. According to DEF: “Our processing time has gone from 6-8 weeks to 2-3 days and no paper. Our hardship staffing went from 2 full-time and 2 part-time employees to 1 full-time.”

Decreased per unit administrative costs can be expected through a statewide fuel fund. NJ SHARES reports that its operation as a single administrative entity generates lower costs. Energy Outreach Colorado agreed, reporting that its administrative, general and fundraising expenses average between five and seven percent (5% - 7%) of its total budget. Energy Outreach Colorado reported that its administrative efficiencies arise primarily in accounting and bookkeeping, including monthly close outs, payroll, annual third party audits, and income tax filings. Oregon HEAT noted that it was not only “vastly more efficient for one entity to prepare and submit reports required by the IRS and the state,” but that it achieved efficiencies through “economies of scale processing donations and sending acknowledgements/receipts to donors.”

Aside from operating efficiencies, statewide fuel funds generate increased capacity to deliver services. Unlike smaller local funds, Energy Outreach Colorado reports that it has “the ability to use state-of-the-art systems.” “We can afford good systems,” Energy Outreach says.

Similarly, Energy Outreach Colorado reports that being a statewide fuel fund allows it to reach the critical mass needed to provide sufficient resources to hire staff “by subject matter experts rather than generalists.” In addition to its Executive Director, in other words, Energy Outreach has a staffperson specifically trained in data base management, as

well as a specific communications director. In addition, in pursuit of its mission to provide long-term solutions to energy affordability problems (as well as short-term crisis intervention), Energy Outreach Colorado’s statewide scope and size provides it the ability to hire a technically-trained individual as its director of energy efficiency and energy conservation.

Oregon HEAT also cites this increase in expertise flowing from its statewide character. According to Oregon HEAT, one value-added generated by its statewide character involves “the marketing acumen of the larger utilities [that] greatly benefited the fundraising for the smaller utilities’ funds. The tiny municipal utilities had never had a real professional marketing PR department to design bill inserts or produce TV public service announcements. Real value accrued to the smaller utilities through the effort of the marketing staff of the larger utilities.”

Reputation and political influence is one of the primary advantages of being a statewide organization. According to Energy Outreach Colorado, “as a state-wide agency, we are looked at as the ‘voice of the low-income energy user.’ Because of this, we are consulted by the [public utility commission], legislature and press.” Michigan’s THAW agreed.

One of the chief reasons we sought statewide status was a greater influence over public policy. [Our] recent Affordability Gap study got lots of attention because I could say I represented most customers in the state. Influence over public policy is influence over funding. Most organizations (except CAAs) don’t have a presence in Lansing.

Oregon HEAT agreed. “Among the media, Oregon HEAT has risen – head and shoulders above all other utility operated programs in the state – as the “go to” guys for any information about low income energy issues. The Governor, the Legislature and other public entities turn to

Oregon HEAT first for representative views on these issues.”

Energy Outreach Colorado cited not only the results of greater influence flowing from its statewide status, but some of the reasons for its greater influence. As a statewide organization, Energy Outreach notes that it has the resources to “put significant time into advocacy and coalition building.” Moreover, Energy Outreach says, its statewide nature creates an “ability to tap into a wide variety of expertise outside of the organization.”

Question #4

What, if any, downsides does the creation of a statewide fuel fund generate?

The operation of a statewide fuel fund provides some challenges, although those challenges are not viewed as a substantial barrier to the creation and operation of such a fund. The primary challenges arise around effectively serving the entire geographic scope of the statewide fund. Issues that were cited by existing funds included:

The need to provide state training and support for the agencies that screen applicants. “This all takes time and money. You need to be able to support the foundation of the program financially and adequately staffed along with technology. All of which takes money.”

NJ SHARES acknowledges that there is a “commitment of time and resources necessary to create a statewide fund,” all of which are “far outweighed. . .by the ongoing benefits of a statewide program for clients, intake agencies and the utility companies.” The NJ SHARES executive director indicated that “having run several smaller local funds for a utility, I do not see a major downside to a statewide fund.”

Michigan’s THAW cites one funding source to which it does not have access, given THAW’s statewide scope: community foundations. “Community foundations concentrate on local areas. Despite the fact that we are applying those funds to families in their area, if the address is not local, they don’t want to deal with us.”

Energy Outreach Colorado cited the added complexity of a statewide organization, along with the need to manage a “state-wide network of agencies” that are “far flung,” as potential downsides to a statewide fuel fund. This observation was akin to Dollar Energy’s reference to working with 15 utility partners and 160 screening sites as adding to the complexity of its organization.

One particular issue identified by Energy Outreach Colorado arising from statewide operation was the increased strain on the organization presented by the diversity of substantive issues facing the organization. There is, Energy Outreach said, “a larger variety of issues that can come up simultaneously” facing it as a statewide organization. Michigan’s THAW also noted the diversity of circumstances facing a statewide fuel fund, with urban areas presenting issues that differ from rural areas, and the northern part of Michigan presenting issues that differ from the southern part of Michigan.

Conclusions

Based on the above discussion, the following findings were offered to the ICAA regarding the proposal to fold small individual “customer contribution funds” operated throughout the state by Rural Electric Cooperatives and small municipal utilities into a larger statewide fuel fund:

- 1. It is a general, but not universal, rule that all direct utility customer contributions are returned to customers of the company from which they came.**

Funds received from a company's customers refer, however, only to contributions received in response to a utility solicitation. Merely because a contributor lives in a particular utility service territory does not mean that his or her contribution will be spent in that service territory if the contribution is made in response to a solicitation to the general public.

Returning contributions to the same company does *not* necessarily mean that those funds go back to the same geographic area of the state from which they were collected.

While statewide fuel funds may not guarantee that funds go to specific areas, they can generally demonstrate that they provide more assistance to the area than they receive in customer contributions from the area.

While general funds go to support customers of deliverable fuels and nonparticipating companies, the general rule is that in order to participate in a statewide fuel fund, the company regardless of size and area must be a contributor to the fuel fund.

2. Existing statewide fuel funds believe that their statewide nature contributes to an ability to raise funds that would not exist through a network of smaller funds.

The presence of a statewide fund enhances the ability to attract the Governor's time and attention to assist fundraising.

Funds generated through legislative action will only occur through a statewide fuel fund.

Name recognition throughout the state helps fundraising. Statewide operations support the ability of the fuel fund to promote "branding" the fuel fund as an institution worthy of support.

Statewide operation enhances fundraising from both charitable sources and private, non-charitable, sources.

3. Existing statewide fuel funds believe that their statewide nature contributes to an ability to reduce costs through operating efficiencies that would not exist through a network of smaller funds.

Centralized grant processing is one of the substantial advantages enjoyed by the statewide fuel funds.

The increased use of technology is frequently made possible through statewide operations.

Increased efficiencies experienced through statewide operations lead to lower labor costs attributable.

Consistency in processes, standardized intake, and standardized training all lead to decreased costs and more efficient operations.

4. Reputation and political influence is one of the primary advantages of being a statewide organization.

This enhanced reputation leads to an ability to access the media.

This enhanced reputation leads to an ability to access public officials.

This enhanced reputation leads to increased funding.

5. The operation of a statewide fuel fund provides some challenges, although those challenges are not viewed as a substantial barrier to the creation and operation of such a fund.

Among the challenges facing a statewide fuel fund are: (1) the increased complexity of operating a statewide network requiring maintenance and training; (2) the preclusion of certain exclusively local funding sources such as community foundations; and (3) the possibility that multiple issues will arise simultaneously, thus presenting competing demands on staff time and resources.

Availability of Materials

FSC's complete statewide fuel fund report to the Iowa Community Action Association (ICAA) can be obtained by sending an e-mail request to:

roger@fsconline.com

Fisher, Sheehan and Colton, Public Finance and General Economics (FSC) is a research and consulting firm with offices in Belmont (MA), Scappoose (OR), and Iowa City (IA).

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