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**Standard Utility Allowances Need to
Accurately Reflect Utility Costs**

NOTE TO READERS

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**SMALL DETAILS CAN MAKE SUBSTANTIAL
DIFFERENCE IN SETTING STANDARD UTILITY
ALLOWANCES (SUAS) FOR FOOD STAMP
EXCESS SHELTER DEDUCTIONS**

Persons concerned about the impacts of high energy costs on the food budgets of low-income households¹ should be aware of the Excess Shelter Deduction offered to households receiving Food Stamps.²

The Excess Shelter Deduction exists because Food Stamp Income eligibility is not based on gross household income (as LIHEAP eligibility is). Instead, Food Stamp eligibility, along with the allotment of Food Stamps on a per household basis, is based on "countable income." "Countable income" is comprised of gross household income minus certain

¹ See generally, Food Research and Action Center (March 2009). "Heat and Eat: Using Federal Nutrition Programs to Soften Low-Income Households' Food/Fuel Dilemma." FRAC provides an excellent resource for nutrition-related issues. See, www.frac.org.

Other research on the impact that unaffordable home energy has on nutrition, includes: Frank, DA, Neault, NB, Skalicky, A, et al. (2006). "Heat or Eat: The Low Income Home Energy Assistance Program and Nutritional and Health Risks Among Children Less than 3 Years of Age." *Pediatrics*. 118:1293-1302; Bhattacharya J, DeLeire T, and Currie J. (2003). "Heat or eat? Cold-weather shocks and nutrition in poor American families." *Am. J. Public Health*. 93:1149-1154; Mark Nord and Linda Kantor (2006). "Seasonal Variation in Food Insecurity is Associated with Heating and Cooling Costs Among Low-Income Elderly Americans." *Journal of Nutrition*. 136:2939-2944.

² The Food Stamp program is now known as the Supplemental Nutrition Assistance Program (SNAP). Because of the familiarity of the terminology, this discussion will refer to Food Stamps.

deductions (e.g., relating to child care, expenses associated with earned income, among others).

One of the deductions used in calculating countable income is the “excess shelter deduction.”³ Under the excess shelter deduction, to the extent that a household’s total shelter costs exceed 50% of the household’s income, the amount of the excess is deducted from household income for purposes of calculating Food Stamp eligibility and benefits. As income goes down, the amount of Food Stamps to which a household is entitled goes up. A ceiling on the amount of the excess shelter deduction exists unless the household is elderly or disabled. No ceiling on the excess shelter deduction exists for elderly and disabled.

The benefits of using the excess shelter deduction are considerable. In a presentation to the 2009 National Energy and Utility Affordability Conference (NEUAC) in Portland (OR), FSC examined the magnitude of the benefits. In Oregon, roughly 160,000 Food Stamp recipient households received the excess shelter deduction in 2007. (In contrast, LIHEAP distributed benefits to roughly 85,000 households in Program Year 2008.) Of those 160,000 Food Stamp recipient households receiving the excess shelter deduction, only 16.0% had reached the maximum deduction allowed.

As can be seen, therefore, considerable opportunity exists both to increase the number of household using the excess shelter deduction and to increase the amount of the deduction for those Food Stamp households that historically have claimed it.

In Oregon, the excess shelter deduction offsets a substantial portion of the shelter costs of Food Stamp recipient households using the deduction.

³ See generally, Dorothy Rosenbaum, Daniel Tenny, Sam Elkin (June 2002). “The Food Stamp Shelter Deduction: Helping Households with High Housing Burdens Meet their Food Needs,” Center on Budget and Policy Priorities. (www.cbpp.org).

According to the U.S. Department of Agriculture’s (USDA) *Characteristics of Food Stamp Recipients* (for 2007, released in September 2008), Food Stamp recipient households using the excess shelter deduction had average monthly shelter costs of \$607 and an average excess shelter deduction of \$334. As can be seen, more than 50% of the shelter costs for these households were being offset by the excess shelter deduction.

INCREASING THE STANDARD UTILITY ALLOWANCE

In calculating a household’s excess shelter deduction, “shelter costs” include the household’s total utility costs, including local telephone expenditures. One way to establish utility costs, instead of using actual utility expenditures, is to use a state’s Standard Utility Allowance (SUA). The SUA can be used to establish household utility expenditures irrespective of the household’s actual utility costs. It is, therefore, important to ensure that SUA’s accurately reflect all aspects of utility costs.

The discussion below examines certain issues in setting SUAs to ensure that SUAs accurately capture the utility costs associated with households with high shelter costs.

Home Energy Costs

Home energy costs used to calculate SUAs should not be set at average household expenditures. The purpose of the SUA is not to determine utility costs of an average household. Rather it is to determine the utility costs of high cost households. If utility costs are set at the median, by definition, the SUA is excluding half of the population. Median energy costs, by definition, are those costs where 50% of the population has more and 50% of the population has less.

A reasonable decision rule to use in setting utility costs for SUAs is to adopt the former rule promulgated by the U.S. Department of Housing

and Urban Development (HUD) (before deregulation) that utility costs are to be set at the 90th percentile.⁴ Under this approach, utility costs are to be set at a level sufficient to cover 90% of all accounts. To the extent that SUAs are based on an average, they should be increased by a sufficient multiplier to reach the 90th percentile.

In addition to setting energy SUAs using an accurate baseline, it is important that the escalation of SUAs is done using appropriate factors. Many states not only set the SUA at an average, but escalate the SUA as though it were at the average. The problem with applying an average escalation rate—the Consumer Price Index—would be such an average escalation rate—is that bills and prices for low-income consumers have tended to escalate in recent years by a faster rate than bills (and prices) for higher income (or even average income) households.

The Table below shows the increase in household expenditures by income quintile for the period 2004 through 2006. These figures present national data. As can be seen, the rate of bill increases for low-income households is noticeably higher than for either households in the middle quintile or for higher quintile households.

Percent Change in Energy Bills from Prior Year by Income Quintile				
	All	Low	Middle	High
2004 to 2005	8.6%	10.1%	8.5%	7.3%
2005 to 2006	9.6%	12.1%	9.2%	8.4%

One of the primary reasons for this disparity in bill increases lies with utility rate structures. Increasingly today, utilities are seeking to recover their fixed costs in the first tier of their rate structures. This rate structure movement often involves one or both of two decisions. On the one hand, utilities are proposing substantial

⁴ See, 24 CFR 965.477 (1984 and before), originally promulgated 45 FR 59505 (Sept. 9, 1980), redesignated 49 FR 6714.

increases in their fixed monthly customer charges. It is not uncommon today to see proposals to double or triple these fixed monthly customer charges. What used to be a charge to recover the costs of hooking a customer up to the utility system is now being used also to recover a certain proportion of total distribution costs.

Accordingly, customers who live in small housing units (e.g., mobile homes, multi-family dwellings) with correspondingly lower consumption are experiencing higher percentage bill increases as utilities spread higher fixed costs over lower consumption. Since low-income households tend to disproportionately live in these smaller housing units, they tend to disproportionately absorb these higher percentage price increases.

Using average percentage price increases to document increases in low-income energy bills for purposes of updating a state's SUA will likely understate actual bill increases to low-income households.

Taxes and Franchise Fees

Some states use Department of Energy (DOE) data to establish their Standard Utility Allowances. DOE publishes monthly data that sets out data such as average revenue per customer (by customer sector) or average revenue per unit of energy (*see e.g.*, publications such as DOE's *Electric Power Monthly* or DOE's *Natural Gas Monthly*).

One problem with using DOE data, however, is that this data reports only the *utility*-imposed charges. The DOE price and bill data does not, in other words, capture non-utility charges. These charges might, for example, involve state sales tax, gross receipts taxes, or local franchise fees. While sales taxes and gross receipts taxes are in the alternative to each other, franchise fees are locally-imposed and are in addition to the state taxes.

Failing to include state and local taxes and fees could make a substantial financial difference to low-income households claiming the excess shelter deduction. Consider a hypothetical customer who incurs a total annual energy bill of \$2,000. Even a combined fee/tax rate of 7% would increase that bill by \$140 ($\$2,000 \times 0.07 = \140). Given that each \$3 reduction of income could yield a \$2 increase in Food Stamp allotments, this consideration alone would increase the household's Food Stamps by nearly \$100 a year.

In Oregon, with 160,000 Food Stamp recipient households using the excess shelter deduction, a \$100 increase in Food Stamps due to sales taxes and franchise fees would yield an increase of \$16 million in food available to low-income dinner tables.

WATER AND SEWER BILLS

Water and sewer bills present particular problems for calculating state SUAs. No good source of data exists that provides statewide water and sewer bills on an annual basis. The best information that is available is the biannual survey of water and wastewater bills published by the American Water Works Association (AWWA). Performed by Raftellis Consulting, this biannual survey is published in even years.

The primary concern with water and wastewater rates is to ensure that *both* water and wastewater (i.e., sewer) bills are included in the SUA. Since water and sewer bills are frequently included on the same bills (from the water company), states have been known to include the water bill without recognizing that the wastewater bills involved a separate charge. Excluding the wastewater charge is a particular problem since wastewater bills generally are larger than the corresponding water charge.

Local governments (which often operate the local water utility) are also increasingly imposing new charges on residential bills. Stormwater runoff charges have historically been reserved for commercial and industrial

customers (having a high proportion of property with impermeable surfaces). Stormwater runoff goes through a municipal water treatment plant (as opposed to permeating through the ground into the groundwater).

Stormwater runoff charges, while not substantial in the grand scheme of things, can nonetheless have a significant impact on a state's SUA. Tacoma Public Utilities (TPU) (Washington) is illustrative. TPU imposes a residential storm water runoff fee of roughly \$110 a year. Given the rule of thumb that every \$3 of reduced income yields \$2 in increased Food Stamps, we find that adding the stormwater runoff charge to the water/sewer bill would generate roughly \$72 a year in additional Food Stamps. Given the 160,000 Food Stamp recipients receiving the excess shelter deduction in Oregon, a \$72 increase in the SUA would yield an increase in Food Stamps of more than \$11.5 million a year.

BASIC LOCAL TELEPHONE SERVICE

Standard Utility Allowances are to include all utility services, including basic local telephone service. The requirement to include local phone service, however, is not limited simply to the charge for the telephone service itself. It includes, also, all mandatory fees that must be paid in conjunction with that basic local service.

A recent review of local telephone charges in rural Pennsylvania documents the importance of including all mandatory fees along with the charge for basic local service. The charges for a sample of typical rural telephone companies (along with what those bills would be with mandatory fees added) is presented below:

- Armstrong: \$13.50 (\$23.32)
- Lackawanna: \$13.50 (\$23.32)
- Frontier: \$15.18 (\$23.89)
- Consolidated: \$15.90 (\$24.31)
- Buffalo Valley: \$15.90 (\$24.58)

As can be seen, on a monthly basis, rather than having a basic local telephone charge in the range of \$13 to \$16 a month, the local telephone

charge is in the range of \$24 to \$26 a month. Important mandatory fees that are included in these adjusted local telephone charges include:

- An E-911 charge (\$1.00 to \$1.50 per month);
- A federal Universal Service Charge (of \$0.75 per month);
- The federal Subscriber Line Charge (SLC) (\$6.50 per month).
- A “touchtone” charge (\$1.00 to \$1.50 per month).

These fees are not unique to Pennsylvania. They would be applied to basic local charges irrespective of the state. A failure to include these fees in the SUA would reduce the SUA by \$120 a year (costing low-income customers \$80 a year in Food Stamps).

The gain in Food Stamps to the entire Food Stamp population in Oregon using the excess shelter deduction generated simply by including these mandatory telephone fees would reach nearly \$13 million a year.

SUMMARY

Use of the excess shelter deduction generates millions of dollars of additional Food Stamps in any given state every year. The Standard Utility Allowance allows a Food Stamp recipient household to avoid the need to document actual utility costs in order to access the excess shelter deduction.

Because of its importance in offsetting the adverse impacts of high energy costs, it is critical that a state’s SUA appropriately reflect each component of utility costs. Seemingly minor or arcane factors (such as including local franchise fees or reflecting the Federal Communications Commission Subscriber Line Charge) in the SUA can mean hundreds of dollars of additional Food Stamps to individual low-income families, and millions of dollars of

additional Food Stamps on an aggregated statewide basis.

For help in assessing the adequacy of the SUA in a particular state, contact:

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Fisher, Sheehan and Colton, Public Finance and General Economics (FSC) provides economic, financial and regulatory consulting. The areas in which *FSC* has worked include energy law and economics, fair housing, affordable housing development, local planning and zoning, energy efficiency planning, community economic development, poverty and telecommunications policy, regulatory economics, and public welfare policy.