

**ACCOUNTING FOR UTILITY ALLOWANCES FOR HEATING COSTS  
IN SETTING LIHEAP BENEFITS  
IN WASHINGTON STATE**

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One of the more intractable problems facing LIHEAP agencies has been deciding how to take utility allowances provided to subsidized and public housing tenants into account when setting LIHEAP benefits.<sup>11</sup> Congress has revisited the issue several times and, as the "rule" stands now, has basically indicated that States may take into account the receipt of HUD utility allowances in some reasonable fashion, but has provided no guidance on how that process should occur.

CTED has proposed to subtract the utility allowance provided for *heating* to a subsidized housing tenant from the actual heating bill received by that tenant. CTED proposes to subject the remainder of the heating bill not paid by the heating allowance to the formula payment included in other parts of the Washington State LIHEAP State Plan. This process does not fulfill the reasonableness requirement.

There are two fundamental problems with this CTED proposal: (1) the proposal treats subsidized housing tenants unfairly in relation to other recipients of public assistance designed to help pay energy bills; and (2) the proposal inaccurately (and inadequately) defines what utility allowances are *available* to pay the heating costs of Washington State subsidized housing tenants. Each of these problems is examined in more detail below.

**TREATMENT OF SUBSIDIZED TENANTS *VIS A VIS* OTHER PUBLIC ASSISTANCE RECIPIENTS**

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<sup>11</sup> Henceforth in these comments, the term "subsidized housing tenant" is intended to reflect all tenants who pay for their own utility bill and receive some type of HUD utility allowance as assistance toward such payment.

The apparent philosophy behind CTED's subsidized housing utility allowance proposal is that LIHEAP should not pay for heating costs for which other public assistance benefits are provided. Since HUD provides funds to help pay for heating costs, the argument reasons, there is no reason for LIHEAP to provide *additional* funds to help pay for the same household expense.

That argument might have some facial appeal but for the fact that it is not advanced in any other circumstances where households receive public assistance designed to help pay their utility bills. The most obvious example involves state AFDC payments. While it is true that no specific component of AFDC is expressly *designated* to pay for home utility bills (let alone home *heating* bills), it does not follow that AFDC fails to *provide* public dollars for that purpose. Indeed, the Standard of Need study performed for Washington State<sup>12)</sup> makes clear that home utility costs are a major component in an AFDC household's budget.

Moreover, while it is true that Washington State does not provide an AFDC benefit that is equal to 100 percent of the standard of need,<sup>13)</sup> it is *not* true that specific components of the household budget (such as home heating) were excluded in deciding upon what the payment standard should be. Based on this observation, it is reasonable to conclude that state AFDC payments are designed to help pay all (or, at the least, some substantial part) of the home heating bills of AFDC recipients.

In the eyes of CTED, however, despite the fact that the AFDC benefit was explicitly set at a level to help pay home heating bills, the AFDC recipient is treated as being fully vulnerable for purposes of receiving LIHEAP benefits. As a result, the AFDC household can take all or part of the benefits provided with utility payments in mind and devote those benefits to non-utility uses.

The significance of this discussion is not to condemn (nor even to criticize) the AFDC recipient in this regard. That household is making hard-nosed financial decisions while living constantly at the brink of economic disaster. The point instead is to highlight the inequitable treatment of subsidized housing tenants within the CTED LIHEAP proposal. The CTED proposal singles out HUD utility benefits as a benefit that the agency will insist be devoted to home heating bills, while at the same time *not* insisting that other benefits also provided to help pay home heating bills be used in a similar fashion.

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<sup>12)</sup> Mayfield and Lowin, *Cost of Living in 1991 for Low-Income Families in Washington State*. Washington State Department of Social and Health Services (DSHS) (December 1991).

<sup>13)</sup> The Payment Standard in 1989 was only 57 percent of the Need Standard that the State calculates. Moreover, the ratio of payment standard to need standard has continued to decline since 1989, with the 1993 payment figure at only 48.5% of the need standard. Division of Income Assistance, *Annual Briefing Book, FY 1992*, at 92 (December 1992).

To illustrate the inequitable impacts of the CTED proposal in this regard, we will compare two households with identical incomes and home heating bills. Household A is a three-person AFDC recipient not living in public or subsidized housing in Pierce County. Household B is a non-AFDC recipient living in Section 8 housing. Both households have home heating consumption equal to the low-income county average as found in FSC's *Assessment of Low-Income Energy Needs in Washington State*. Both have identical incomes that place them at 60 percent of the federal Poverty Level.<sup>41</sup> Table 1 sets out the results.

As Table 1 shows, while the assisted housing recipients receive energy benefits only moderately more than the AFDC recipient receives, the application of the CTED formula would result in LIHEAP benefits to assisted housing recipients of only 15 to 27 percent of the AFDC household. Again, the reduction is *not* because the HUD recipient *receives* more for energy assistance, but instead only because HUD *identifies* the portion of its benefits intended to pay for energy, while AFDC does not.

The response of CTED should be to change its proposal for treating utility allowances for purposes of calculating LIHEAP benefits. Rather than using the utility allowances as an offset to heating costs, CTED should treat them as they do any other public assistance benefit: as an additional source of income. By including the amount of utility allowance as a source of income to subsidized housing tenants, CTED would reasonably take into account the receipt of such benefits for purposes of setting LIHEAP benefits while avoiding the inequities that inhere in the current CTED proposal. Moreover, given the discussion in the section below, this approach may be the only way for CTED to fairly (and lawfully) take heating allowances provided through a year round utility allowance into account in setting LIHEAP benefit levels.

#### **THE "AVAILABILITY" OF UTILITY ALLOWANCES TO PAY HOME HEATING BILLS**

The CTED proposal to use the annual heating allowances provided to tenants of assisted housing as an offset to the household's home heating bill, and to provide LIHEAP benefits based only on the annual bill not covered by HUD, ignores the important findings set forth in FSC's *Assessment of Low-Income Energy Needs in Washington State* regarding the *availability* of HUD utility allowances to pay for home heating bills.

Annual HUD utility allowances provided for home heating are seldom (if ever) completely available to pay for actual home heating bills. This

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<sup>41</sup> FSC's *Assessment of Low-Income Energy Needs in Washington State* found that Washington State AFDC payments place AFDC households at 59 percent of the federal Poverty Level. This has been rounded up to 60 percent to increase the ease of arithmetic computations.

observation was first made by a study performed through the U.S. General Accounting Office.<sup>151</sup> GAO found that even when *annual* subsidized utility allowances adequately covered *annual* utility expenses, "because allowances are typically the same each month while utility expenses vary, *month-to-month* rent burden fluctuations can create cash flow problems for lower-income households despite an overall 30 percent rent burden."<sup>161</sup> GAO found that within the population of Section 8 households with annual rent burdens equal to 30 percent of income, *monthly* rent burdens varied from 18 percent to 48 percent because of the uneven nature of utility usage throughout the year.

Finally, GAO noted that "month-to-month fluctuations in utility bills can also create payment problems for assisted households, particularly when utilities are individually metered."<sup>171</sup> According to GAO:

The difficulty arises because allowances remain the same each month, while utility bills vary. As a result, households have to budget so that they will have sufficient funds to pay utility bills in high consumption months when utility expenses exceed allowance amounts. This budgeting may be difficult for lower-income households because, by definition, they have less income to pay for living expenses than higher-income households.<sup>181</sup>

GAO reported that notwithstanding the federal law which limits Section 8 shelter costs --including utility bills-- to 30 percent of household income, "approximately 60 percent of these [Section 8] households *never* met the 30-percent amount for any 1 month during our 12-month review period, and fully 93 percent of the households had 3 or fewer months in which the burden equaled 30 percent."<sup>191</sup> Less than one percent of the Section 8 households had rent burdens of 30 percent for 10 or more months of the year.

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<sup>151</sup> U.S. General Accounting Office, *Assisted Housing: Utility Allowances Often Fall Short of Actual Utility Expenses (Vol. I)* (March 1991); *Assisted Housing: Utility Allowances Often Fall Short of Actual Utility Expenses (Vol. II)* (March 1991).

<sup>161</sup> *Id.*, at 18. (emphasis added). Reaching a 30 percent rent burden is the measure of whether subsidized utility allowances accurately cover utility bills. Contract rents (paid to landlords) are, by law, set equal to 30 percent of household income. Hence, if a subsidized utility allowance is accurately set, and thus covers the entire utility bill, the utility bill should add no further burden to the household. However, if the household bears a "rent burden" of 35 percent, that means that the excess utility bill over the subsidized utility allowance equals five percent of the household's income.

<sup>171</sup> *Id.*, at 28.

<sup>181</sup> *Id.*

<sup>191</sup> *Id.*, at 30.

The analysis set forth below considers the implications in Washington State of these GAO findings regarding the seasonality of bills. The analysis considers the situation where, even when annual allowances are adequate to cover annual bills, the mismatch between monthly subsidized utility allowances and monthly utility expenses results in unaffordable monthly utility bills to these households.

The analysis below examines winter natural gas bills and compares those bills to the respective natural gas heating subsidized utility allowance components from the local Public Housing Authorities providing data. For natural gas, each PHA was assigned to a local natural gas distribution utility company. The assignment was based on the counties and cities in which the PHA was located when compared against the counties and cities each utility lists as being within its service territory in its respective tariffs on file with the Washington Utilities and Transportation Commission. Winter 1990 - 1991 bills were obtained for Washington investor-owned utilities from the annual survey of winter residential natural gas bills prepared by the National Association of Regulatory Utility Commissioners (NARUC).

As can be seen, no PHA in Washington State offers a seasonally adjusted natural gas heating subsidized utility allowance. As a result, even if one assumes (for the sake of analysis) that annual gas allowances are adequate, *in every instance* in Washington, those allowances are grossly inadequate for purposes of providing heating assistance *during the heating months*. As a result, for purposes here, it cannot be found by CTED that the entire heating component of a utility allowance provided through HUD is available to pay for winter heating bills.

Indeed, to say that a heating component included in a July or August HUD utility allowance is "available" to subsidized housing tenants to help pay their winter heating bills is unreasonable. Even if low-income subsidized housing tenants had the financial flexibility to save some portion of their monthly cash income for future expenses --which they do not-- it is unlikely that they would have the mechanism to do so. The penetration of checking and savings accounts within the population of households living at 60 percent of the federal Poverty Level or lower has historically been quite limited. Moreover, to conclude that subsidized housing tenants should "pay ahead" on their utility bills, thus creating credits which would be drawn down during the winter heating season, while allowing other essential household expenses to go unpaid is an unreasonable assumption.

Based on these observations, should CTED insist on retaining its proposed mechanism for setting LIHEAP benefits for recipients of utility allowances in subsidized housing, the only utility allowance that should be used as an offset to the heating bill is the heating component of the utility allowances provided during the five winter heating months. Just as GAO found that utility allowances provided in months outside the month in which the bill is received are not available to pay for those bills, and just as FSC's *Assessment of Low-Income Energy Needs in Washington State* found that utility allowances provided outside the winter months are not available to help pay winter heating bills, so, too, should CTED make that similar finding and not impute to subsidized housing tenants funds which simply are not there.

## SUMMARY AND CONCLUSIONS

CTED's proposal to use the annual heating component as an offset to the annual heating bill for purposes of calculating LIHEAP benefits for subsidized housing tenants is unreasonable. The preferred methodology for taking into account utility allowances is to include those allowances as an increase to the incomes in setting Poverty Levels for purposes of applying a benefit formula. Through this mechanism, CTED would avoid problems with creating inequities between different recipients of different benefits. Moreover, CTED would avoid problems with taking into account annual utility allowances that are not seasonally available.

In the alternative, and simply as a second best solution, should CTED insist on retaining its proposal to use the heating component of utility allowances as an offset to actual heating bills, only the heating component of allowances received during the heating season should be counted.

Utility allowances received during months outside the winter heating season, even if they are designed to include a "heating" component, are not available to pay winter heating bills and thus cannot reasonably be used as an offset to those bills for LIHEAP purposes.

Table 1  
 Comparing LIHEAP Benefits to AFDC and Subsidized Housing Recipients  
 Under CTED Proposal to Offset Utility Allowances Against Home Heating Bills

PHA	AFDC Non-Section 8 Household						Non-AFDC Section 8 Household					
	HTG Bill	Actual AFDC Benefit for Htg	AFDC Htg Benefit Assumed for LIHEAP	Uncovered Bill	LIHEAP Pct (60% Pov)	LIHEAP Benefit	Htg Bill	Actual PHA Util Allow	PHA Htg Util. Allowance Assumed for LIHEAP	Uncovered Bill	LIHEAP Pct (60% Pov)	LIHEAP Benefit
Pierce County	\$479	\$273	\$0	\$479	.87	\$417	\$479	408	\$408	71	.87	\$62
City of Tacoma	\$479	\$273	\$0	\$479	.87	\$417	\$479	348	\$348	131	.87	\$114



**TABLE 2**  
**PHA Utility Allowances vs. Seasonal Variations in Home Natural Gas Heating Bills**

	<b>FEB. 1991 RES. HEATING BILL</b>	<b>1991 GAS HEATING UTILITY ALLOWANCE</b>
<b>Housing Authority of the City of Anacortes</b>	\$76.54	
<b>Housing Authority of Asotin County</b>	\$54.09	
<b>Bellingham/Whatcom Cnty Housing Auth.</b>	\$76.54	\$31
<b>Housing Authority of Bremerton</b>	\$76.54	\$33
<b>Housing Authority of the County of Clallam</b>		
<b>Everett Housing Authority</b>	\$70.18	\$32
<b>Ferry County Housing Authority</b>		
<b>Grant County Housing Authority</b>	\$76.54	\$35
<b>Housing Authority of Grays Harbor Cnty</b>	\$76.54	\$25
<b>Housing Authority of Island County</b>	\$76.54	\$35
<b>City of Kalama Housing Authority</b>	\$76.54	
<b>Kelso Housing Authority</b>	\$76.54	
<b>City of Kennewick Housing Authority</b>	\$76.54	\$30
<b>Housing Authority of the County of King</b>	\$70.18	
<b>Kitsap County Housing Authority</b>	\$76.54	\$36
<b>Housing Authority of Kittitas County</b>		

**TABLE 2**  
**PHA Utility Allowances vs. Seasonal Variations in Home Natural Gas Heating Bills**

	<b>FEB. 1991 RES. HEATING BILL</b>	<b>1991 GAS HEATING UTILITY ALLOWANCE</b>
<b>Housing Authority of Longview</b>	\$76.54	
<b>Mason County Housing Authority</b>	\$76.54	
<b>Housing Authority of Othello</b>	\$76.54	
<b>Pasco Housing Authority</b>	\$76.54	
<b>Pierce County Housing Authority</b>	\$70.18	\$34
<b>Puyallup Housing Authority</b>	\$70.18	\$34
<b>Housing Authority of Renton</b>	\$70.18	\$37
<b>Housing Authority of Richland</b>	\$70.18	\$29
<b>Housing Authority of Seattle</b>	\$70.18	\$32
<b>Housing Authority of Sedro-Wolley</b>	\$76.54	
<b>Skagit County Housing Authority</b>	\$76.54	\$35
<b>Snohomish County Housing Authority</b>	\$76.54	\$23
<b>Housing Authority of Spokane</b>	\$70.18	\$37
<b>Housing Authority of Sunnyside</b>	\$76.54	\$17
<b>Housing Authority of Tacoma</b>	\$70.18	\$29
<b>Thurston County Housing Authority</b>	\$70.18	\$32

**TABLE 2**  
**PHA Utility Allowances vs. Seasonal Variations in Home Natural Gas Heating Bills**

	<b>FEB. 1991 RES. HEATING BILL</b>	<b>1991 GAS HEATING UTILITY ALLOWANCE</b>
<b>Vancouver Housing Authority</b>	\$60.06	\$24
<b>Walla Walla Housing Authority</b>	\$76.54	
<b>Wenatchee Housing Authority</b>	\$76.54	\$31
<b>Housing Authority of Yakima</b>	\$76.54	\$29