



Economic Impact Analysis Virginia Department of Planning and Budget

22 VAC 40-685 – Virginia Department of Social Services Virginia Energy Assistance Program-Home Energy Assistance Program December 17, 2002

The Department of Planning and Budget (DPB) has analyzed the economic impact of this proposed regulation in accordance with Section 2.2-4007.G of the Administrative Process Act and Executive Order Number 21 (02). Section 2.2-4007.G requires that such economic impact analyses include, but need not be limited to, the projected number of businesses or other entities to whom the regulation would apply, the identity of any localities and types of businesses or other entities particularly affected, the projected number of persons and employment positions to be affected, the projected costs to affected businesses or entities to implement or comply with the regulation, and the impact on the use and value of private property. The analysis presented below represents DPB's best estimate of these economic impacts.

Summary of the Proposed Regulation

The proposed regulations will establish the Home Energy Assistance Program to help low-income Virginians to meet their residential energy needs.

Estimated Economic Impact

Pursuant to Chapter 676, 2001 Acts of Assembly, the Board of Social Services (the board) promulgated emergency regulations to establish the Home Energy Assistance program to help meet the residential energy needs of low-income Virginians effective September 2002. The board also created the Home Energy Assistance Fund to facilitate the operation of the program. The proposed action will replace the emergency regulations with the permanent regulations.

The proposed rules will allow the Department of Social Services to receive and disburse monies from the fund. The sources of the fund include donations and contributions from private and public sources and monies appropriated by the General Assembly. Corporations, public agencies, private citizens, and other entities such as charitable and community groups and private

utility service providers may contribute to the fund. Pursuant to the Code of Virginia, State Income Tax Refund check-off monies from 2003 earned income may also be contributed to the fund. Finally, the department may arrange special programs or fund raising projects to receive contributions.

The proposed energy assistance program is the state/local-funded counterpart to an existing federal energy assistance program called Virginia Energy Assistance Program. The Virginia Energy Assistance program is a seasonal program that assists low-income households in meeting their energy needs. The program is fully funded by the federal Low Income Home Energy Assistance (LIHEA) block grant, which provides flexibility to the states in program administration. There are four components of the program: fuel assistance, crisis assistance, cooling assistance, and weatherization.

The purpose of the fuel assistance component is to partially offset the home heating costs of eligible households during the heating season. The crisis assistance component provides help to households in energy related emergencies that may include lack of heat, imminent utility cut-offs, and failing heating equipment. Households in these cases may be eligible for payment of utility security deposit or the bill, purchase or repair of heating equipment, and purchase of fuel. Cooling assistance component provides help with cooling needs, which may include purchase, installment, and repair of cooling equipment, payment of electric security deposit or the bill. Weatherization component provides assistance for home energy efficiency measures such as insulating and sealing air leaks, installing ventilation fans, repairing and replacing inefficient or unsafe heating and cooling systems. In federal fiscal year 2002, the federal energy assistance program provided help to 116,149 households in the amount of \$30.7 million. The average benefit per household served was \$264. The average benefits for fuel, crisis, cooling, and weatherization, assistance were \$214, \$361, \$213, \$3,552, respectively.¹

The purpose of the proposed Home Energy Assistance program is two fold. First, the monies in the fund may be directly used to supplement assistance provided through the federal energy assistance program (e.g. add the monies in the fund to federal grants). Second, the

¹ Source: Report on the Effectiveness of Low Energy Assistance Programs, Report of the Virginia Department of Social Services, House Document No. 6, Commonwealth of Virginia, 2003.

monies in the fund may be used to increase funds from the federal energy assistance program through leveraging.

Currently, the fund is yet to receive contributions. The department believes that any significant appropriations from the General Assembly are unlikely in the near future. The amount of funds that may be received from private and public donors is unknown. Similarly, the amount of contributions from income tax refund check-off is uncertain.² The fund did not receive any contributions from corporations, public agencies, individuals, or other sources. Due to lack of funds, the department is also unable to arrange any fund raising events. The economic impact of the proposed energy assistance program will greatly depend on the amount of funds received. Thus, significance of the proposed regulations cannot be predicted accurately at this time. Only the direction of potential economic effects may be discussed.

The proposed residential energy assistance program has the potential to affect donors, recipients, service providers, and the department. By contributing to the program, donors give up valuable resources that may be used to meet their other needs. The contributions are tax deductible from state and federal income taxes³ and may strengthen the incentives to contribute to this program rather than some other non-tax deductible alternatives. On the other hand these contributions may make them feel better about themselves. Since they have complete discretion on whether to contribute or not, by donating, they reveal that the benefits to them exceeds the costs.

The recipients of the program will likely realize net benefits also. The additional funds may increase the average benefit amount provided or may make the assistance available to more individuals. In any event, additional funds will benefit the recipient low-income families. The types of benefits may take many different forms depending on the household's consumption pattern. Households make choices on the allocation of available income between the energy needs and all other goods and services. While a household may prefer to spend the income on energy needs at the expense of all other goods and services, another may prefer other goods and

² Contributions from 1999 taxable income to 18 income check-off programs/funds varied from \$0 to \$151,902. The average of these contributions was \$36,823. (Source: Annual Report, Virginia Department of Taxation, Fiscal Year 2001, p. 30)

³ Source: The Department of Social Services.

services at the expense of the energy need.⁴ Thus, the benefits for those who will be qualified for the assistance may be in terms of newly available energy or additional goods and services that can be purchased by the assistance subsidy. While it is unfeasible to explore the effects associated with all other goods and services, the energy assistance may reduce health related illnesses and deaths. For example, high indoor temperatures may cause hyperthermia, heat cramps, heat exhaustion, heat rash, heat stroke, and deaths. Similarly, low indoor temperatures may cause health problems such as hypothermia, respiratory problems, and deaths. The Department of Health statistics indicate that Virginia suffered seven and four heat related deaths in 1999 and 2000, respectively and 27 and 17 cold related deaths in 1999 and 2000, respectively. In short, additional contributions to the energy assistance program may reduce the heat related health and safety risks to recipient households.

Finally, additional funds donated for energy assistance are likely to increase the revenues received by the vendors participating in the program. The types of vendors include electric, heating, and cooling equipment and service companies. Based on the cooling assistance historical data, it is estimated that vendors receive approximately 44% of the funds for electric security deposits and electric bills, 31% of the funds for equipment installation, 24% of the funds for equipment, and 2% for equipment repair.

The proposed change also has the potential to increase the administrative costs due to potential increase in the number of individuals receiving energy assistance or additional activities that may be undertaken such as fund raising events to encourage donations. Since the department has more flexibility in administration of this state program relative to the federal program, the administrative costs are likely to be higher than the costs of administering the federal program. While no more than 10% of the federal grants may be spent on administrative costs, the proposed rules establish that up to 12% of the contributions may be spent on administrative expenses.

⁴ The demand for heating and cooling is probably more income inelastic than many other goods and services. In other words, the money spent on heating and cooling is unlikely to increase with increases in income. Thus, low-income households allocate relatively large share of their income on heating and cooling needs while high-income households allocate relatively small share of their income on other goods and services. For indication of this, see page 7 of the Report on the Effectiveness of Low Energy Assistance Programs, Report of the Virginia Department of Social Services, House Document No. 6, Commonwealth of Virginia, 2003.

Businesses and Entities Affected

The proposed energy assistance program has the potential to affect the Department of Social Services, local departments of social services, households eligible for energy assistance, and vendors providing services. The number of affected households and vendors will depend on the amount of donations received, which is not known at this time.

Localities Particularly Affected

The proposed regulations will apply throughout the Commonwealth.

Projected Impact on Employment

The proposed program has the potential to increase the total energy assistance provided and increase repair, installment, and new equipment revenues of energy related businesses, which may positively affect demand for labor. However, there is no information to estimate the significance of these potential effects on private sector employment. Also, if the number of individuals served increases, the demand for human resources at the Department of Social Services and local departments will likely increase. Similarly, the significance of the potential impact on the staffing needs to administer the state component of energy assistance program is not known at this time.

Effects on the Use and Value of Private Property

The proposed program creates the chance for an increase in the vendor revenues. If significant, the increase in revenues will likely positively affect the values of vendor businesses. Additionally, if used for permanent energy equipment additions to homes and home energy improvements, the additional funds will likely positively affect the value of houses owned by the recipients served.