



## **Economic Impact Analysis Virginia Department of Planning and Budget**

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**22 VAC 40-680 – Department of Social Services  
Virginia Energy Assistance Program  
May 22, 2002**

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The Department of Planning and Budget (DPB) has analyzed the economic impact of this proposed regulation in accordance with Section 9-6.14:7.1.G of the Administrative Process Act and Executive Order Number 25 (98). Section 9-6.14:7.1.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 rules for the cooling assistance component already administered by the Department of Social Services (the department) under the Virginia Energy Assistance Program, require statewide mandatory participation of local departments of social services in the cooling assistance program, and allow the maximum income limit eligibility for the Virginia Energy Assistance Program be adjusted upward, but not to exceed the maximum allowed by federal law.

### **Estimated Economic Impact**

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: weatherization, fuel assistance, crisis assistance, and cooling assistance. Weatherization component is funded by

15% of the LIHEA block grant, but administered by the Virginia Department of Housing and Community Development and is not subject to these regulations. Thus, this report does not discuss weatherization component.

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.

The program operates in the following manner. First, local departments accept applications for fuel, crisis, and cooling components until a seasonal deadline. Second, information is input into the computer system and the system determines eligibility. For the fuel component, the computer system assigns points to each application. Based on the available funds and the total points assigned, a dollar value is calculated for each point assigned to fuel assistance applications and benefits are distributed based on the number of points the applicant is awarded. For the crisis and cooling assistance components, benefits, within the maximum amounts pre-established, are distributed on a first come first serve basis statewide. Finally, vendors submit billing information to local departments for the crisis and cooling components and to the central office for the fuel assistance and are issued payments through the Department of Accounts. In federal fiscal year 2001, the portion of the program administered by the department provided help to 105,058 households out of 130,615 applicants in the amount of \$30.2 million. The average benefit per household served was \$287. The table on the next page provides detailed summary statistics.

One of the proposed changes will establish rules in the regulations for the cooling assistance component. The proposed rules will set out the eligibility criteria for cooling component, the benefit determination method, and the application period. For eligibility, income and citizenship criteria must be met and there must be cooling need and a vulnerable member in the household. Eligible households will be able to submit applications from June 15 through

*Table: Summary Statistics for Energy Assistance Program in 2001*

	Fuel Assistance	Crisis Assistance	Cooling Assistance	TOTAL
Expenditures	\$24,166,367	\$3,128,323	\$2,900,000	\$30,194,690
Applications Received	95,834	12,823	21,958	130,615
Households Served	84,051	9,890	11,117	105,058
Average Benefit	\$288	\$316	\$261	\$287

Source: Effectiveness of Low-Income Energy Assistance Programs, Report of the Virginia Department of Social Services, House Document No. 7, Commonwealth of Virginia, 2002.

August 15. The funds will be distributed on a first come first serve basis as explained above. These proposed rules are the same as the rules under which the cooling component is currently administered. Thus, the proposed language to establish the cooling assistance component in the regulations will not have any impact in practice and consequently is not expected to have any significant economic effects.

Another proposed change will require mandatory participation of local departments of social services in the cooling assistance component. All of the local departments will be required to accept applications for the cooling assistance. Unlike other components, the availability of the cooling assistance in an area is currently contingent upon the local implementation choice. The local departments of social services have discretion over whether to administer cooling component. With the proposed change, the cooling assistance will be offered statewide.

Statewide expansion will increase the number of applicants for the cooling assistance, but is unlikely to increase the total number of households served unless the Board of Social Services reduces the maximum benefit amount or there is an increase in available cooling funds. This is because the cooling funds are distributed on a first come first serve basis. The proposed expansion is estimated to increase the number of households served in expanded areas by roughly 2,311.<sup>1</sup> Since the average cooling benefit per household is \$261, the proposed change is estimated to increase funds distributed in expanded areas by about \$603,000 and reduce the benefits in areas where cooling assistance currently administered by about the same amount. Additionally, an increase in the number of applications for cooling assistance is likely to reduce

<sup>1</sup> The estimate is based on the number of served households as a fixed percentage of the population. The source for Virginia county and city population data is from U.S. Census Bureau, Census 2000 Summary File 1.

the chance of receiving benefits before the funds run out and may discourage some of the applicants from applying in following years. In short, the proposed change will make the cooling assistance available to a larger number of low-income households, but also reduce the likelihood of receiving assistance. Overall, the households living in localities where cooling assistance is not offered are likely to benefit from the proposed change while the households living in localities where the assistance offered are likely to lose from it.

The types of associated costs and benefits may take many different forms depending on the household's consumption pattern. Households make choices on the allocation of available income between the cooling needs and all other goods and services. While a household may prefer to spend the income on cooling needs at the expense of all other goods and services, another may prefer other goods or services at the expense of the cooling need. Thus, the benefits for those who will be qualified for the assistance may be in terms of newly available cooling or additional goods and services that can be purchased by the cooling assistance subsidy. Similarly, the costs to the households who will lose from the proposed requirement may be in terms of cooling or some other goods and services. While it is unfeasible to explore the effects associated with all other goods and services, the cooling assistance may reduce health related illnesses and deaths. For example, high indoor temperatures may cause hyperthermia, a condition described as heat stress or high body temperature. Other heat related disorders include heat cramps, heat exhaustion, heat rash, and heat stroke. The Department of Health statistics indicate that Virginia suffered seven and four heat related deaths in 1999 and 2000, respectively. In short, the proposed statewide expansion will likely reduce the heat related health and safety risks to households in expanded areas and will likely reduce the assistance afforded to current recipients against these risks.

Statewide expansion is likely to slightly change the distribution of administrative cost reimbursements among the local departments. Last year, the cooling component was administered in 67 counties and 22 cities. With the proposed change, this component will be administered in additional 28 counties and 6 cities. There is a federal cap on the administrative costs of this program. No more than 10% of the grant may be spent on administrative costs. Of the 10% cap, 7% is distributed to local departments administering the cooling component based on the number of applications received and 3% is used for the administrative costs at the central social services office. Last year, local departments were reimbursed \$14.88 per application.

Holding everything else constant, the proposed change is estimated to reduce the reimbursement rate to \$14.62. Thus, local offices currently administering the program are expected to lose about \$33,800 in reimbursements and local offices in expanded new areas are expected to receive about additional \$33,800 for cooling component administration.

Moreover, the proposed changes may impose additional costs on local departments in expanded areas and will likely increase the statewide total costs actually incurred by the local departments. The department believes that the local departments that do not administer the cooling component do so for several reasons including the cap on the administrative costs, lack of human resources, the belief that the climate is cool enough, and wanting to serve only the elderly and disabled population instead of serving young families who would be eligible for cooling assistance. The choice of not administering the cooling component may be indicative of administrative costs being higher than the reimbursement rates. If this is so, statewide expansion may introduce additional administrative costs to localities that are not currently offering this component. Most importantly, an increase in the number of applications will likely increase the total actual administrative costs in the Commonwealth.

Finally, the statewide expansion is likely to change the distribution of revenues to vendors participating in the cooling assistance component. The types of vendors include electric companies and cooling equipment and service companies. Based on the 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 air conditioner and fan installation, 24% of the funds for air conditioner and fan equipment, and 2% for equipment repair. The department indicates that since the utility and equipment companies already serve on statewide basis and repair vendors do not, most of the effect is likely to be on repair revenues. The proposed expansion is expected to reduce the revenues of the repair vendors in the areas where the cooling assistance is currently offered and increase revenues of the repair vendors in the areas where the program will be expanded. Because the funds are capped, the proposed change will not increase total vendor revenues in the Commonwealth.

The proposed changes will also allow the department to adjust the minimum income eligibility level for the Energy Assistance Program up to the maximum allowed by the federal government which is currently 150% of the poverty guidelines published by US Department of

Health and Human Resources or 60 percent of state median income, whichever is greater. The maximum income limit is currently set at 130% of the poverty guidelines and the present language allows downward adjustment. Although the department does not have any current plans to increase the maximum income level, the proposed change will provide discretion to do so. If the maximum income level is increased, more households are likely to be eligible for the energy assistance under all of the three program components and the number of applications is likely to increase. A higher number of applications would reduce the average fuel benefits per household served because the available funds are distributed based on the number of qualified applicants. Following table presents the estimated effect for two hypothetical cases where the income limit is set at 140% and 150% of the poverty guidelines. However, the small decrease in average fuel benefit would likely to discourage a number of applicants and may result in a slightly lower than expected number of applications in following years. If this occurs, average benefit after the proposed change would be slightly higher than the estimated amount in the table.

*Table: Estimated Effect on the Fuel Assistance Recipients<sup>2</sup>*

	130% Poverty	140% Poverty	150% Poverty
Eligible Households	347,044	388,381	427,871
Households Served	84,051	94,062	103,627
Average Benefit	\$359	\$321	\$291

On the other hand, the effect on crisis and cooling assistance applicants would be in terms of transfer of benefits from lower income groups to higher income groups because the funds are allocated on a first come first serve basis. With a higher maximum income limit, some households with incomes higher than 130% of the poverty level would likely to apply before

<sup>2</sup> To obtain these estimates for 140% poverty level, first, estimated number of eligible households for the 125% to 150% poverty cohort provided by LIHEA administration (FY 2000 State Level Estimates of the Number of Households Eligible for LIHEAP by using the federal poverty level, Revised, 02/08/02) is converted to 140% poverty cohort assuming a uniform distribution. Then, the number of households served is estimated based on the fixed ratio of total eligible households in Virginia. The number of eligible households for 130% and 150% poverty levels estimated by the LIHEAP administration are directly adopted.

other households with incomes lower than their poverty level and reduce available funds for applicants who would otherwise receive assistance.

The proposed change also has the potential to increase the administrative costs due to increase in the number of applications if and when the income limit is adjusted upward. When the limit is increased, this will likely create additional administrative costs due higher number of applications. The higher number of applications would reduce reimbursement rates per application and widen the gap between actual costs and reimbursements that would be absorbed by the local departments.

## **Businesses and Entities Affected**

The proposed changes for cooling assistance component are likely to affect local departments of social services, households receiving cooling assistance, and vendors providing services. Last year, 89 local departments administered cooling component, 11,117 households received cooling assistance, and 229 vendors in the areas provided services. Based on last year's data, it is estimated that about 32 local departments will start administering cooling assistance, about 2,311 additional households will likely receive cooling assistance in expanded areas, and about 32 additional repair vendors may participate in expanded program.

## **Localities Particularly Affected**

The cooling assistance is not offered statewide. The number of localities that offer cooling assistance changes every year. Last year, following localities did not offer cooling assistance: Counties of Appomattox, Arlington, Bath, Bland, Carroll, Chesterfield, Craig, Cumberland, Essex, Giles, Gloucester, Grayson, Greene, Greenville, Halifax, King George, Lunenburg, Mecklenburg, Middlesex, Nelson, Nottoway, Orange, Pittsylvania, Rappahannock, Richmond, Scott, Spotsylvania, Washington and cities of Colonial Heights, Emporia, Hopewell, Petersburg, Roanoke, and Williamsburg. Though the proposed regulations will apply throughout the Commonwealth, the counties and cities where the cooling assistance is not offered will be particularly affected.

## **Projected Impact on Employment**

Because the proposed changes are not expected to increase the total cooling assistance benefits provided but redistribute a small portion of repair revenues among the localities, no

significant impact on private sector employment is expected. On the other hand, the number of applications for cooling assistance is likely to increase which would increase the demand for human resources at the local departments in expanded areas. However, the additional workload is likely to be absorbed by the current staff because the department is not aware of any plans to hire any new employees. Thus, no significant impact on employment is expected.

### **Effects on the Use and Value of Private Property**

The proposed changes will not affect the total revenues reimbursed to vendors under the cooling component but only the distribution of repair revenues to a small degree. Normally, redistribution of revenues would affect the value of repair businesses, but the total repair revenues are slightly over \$50,000. Thus, no significant impact on the value of repair businesses is expected. However, funds for cooling equipment and services will likely be redistributed among localities as well. If used for permanent cooling equipment additions to homes and home cooling improvements, the funds are expected to affect the value of homes owned by recipients. Thus, there is likely to be a positive impact on value of houses owned by recipients in expanded areas while a negative impact is expected on value of houses owned by recipients in areas where the available assistance will decrease.