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METHODS TO STANDARDIZE STATE STANDARD UTILITY ALLOWANCES (SUMMARY)

Background

While most Supplemental Nutrition Assistance Program (SNAP) eligibility parameters are set at the Federal level, States are permitted to establish standard utility allowances (SUAs) which may be used in lieu of actual utility expenses when calculating a household's total shelter costs. States may establish multiple SUAs to reflect differences in households' circumstances.

The use of SUAs simplifies the application process from the perspective of both the State agency and the applicant. However, program simplification needs to be balanced with other SNAP goals, especially ensuring benefit adequacy and program integrity. Over time, the Food and Nutrition Service has found some variation between established SUA values and household utility expenses in some States.

The purpose of this project was to develop standard methodologies that could be used to (1) construct SUAs that accurately reflect typical utility costs for low-income households and (2) make annual adjustments to the State SUAs.

Methods

The project team identified and reviewed available data sources that could be used to develop standardized methodologies for constructing and updating SUAs and evaluated their completeness, accuracy, timeliness, and appropriateness for this purpose. The team then used the best of the identified data sources to develop and assess several alternative methodologies. The two most promising methodologies were further tested to evaluate their accuracy and ease of implementation.

Findings

Because utility expense types and household circumstances vary widely across States and the SNAP-eligible population, creating a single consistent method to calculate SUAs is challenging. Multiple data elements, many at the State and subpopulation level, are needed to compute a standardized SUA.

The American Community Survey (ACS) and the Residential Energy Consumption Survey (RECS) each contain many of the data elements needed to develop standardized SUAs but also have limitations:

- The **ACS** has a large sample size which allows for developing estimates at the State and subpopulation level. However, it relies on self-reported information on utility costs, which tends to be overstated. The ACS does not distinguish between end uses for utilities (i.e., electricity for heating versus cooking) – information that is needed in order to develop SUAs that reflect different household circumstances.

- The **RECS** is the most accurate source of information on utility expenses paid by low-income households and includes information on end use. However, State-level estimates are not available for all States. There is also a significant time lag between data collection and release – as long as 7 years.

- **Two methodologies for constructing SUAs were developed using these data sources**. Either methodology would allow States to create multiple SUAs that account for household circumstances – Heating and Cooling SUAs (HCSUAs) for households

that pay some heating and/or cooling expenses; Limited Utility Allowances for households that do not pay any heating or cooling expenses, and Single Utility Standards for single utility expenses. Adjustment parameters were also developed to adjust for household size.

- **One methodology relies on a combination of data from the ACS and RECS.** ACS data were adjusted using RECS to account for different utility end uses and to correct for upward bias in self-reported utility expenditures.

- **The other methodology uses RECS alone to develop different types of SUAs.** Because RECS does not contain information for each State, in some cases multi-State averages are used as part of the SUA calculation.

Because of the lag time between the collection of data in ACS and RECS and its availability for analysis, other data sources are needed to "age" the utility expense data to reflect recent changes in energy prices. The study examined two alternatives for aging the data – the Short Term Energy Outlook (STEO) and the Consumer Price Index (CPI). The study found that a 3-year average of the CPI performed better than the STEO.

The methods used to age the data elements in the SUA calculation can also be used to age the SUAs themselves. This is less resource-intensive than reconstructing the SUAs each year.

Any approach to standardizing SUAs requires establishing an appropriate threshold that minimizes benefit loss for households with very high shelter expenses. Many States' current HCSUAs meet or exceed the utility expenses of 85 percent of low-income households. (Only one State has an HCSUA lower than average utility expenses in the State.) Because some States have HCSUAs that are greater than the utility expenses of nearly all low-income households, imposing a standardized SUA methodology would result in most participants losing benefits in these States.

Each approach has an important limitation – neither can be used to develop SUAs at the sub-state level for areas with very small populations. While only two States currently have sub-state SUAs, adjustments to account for special local circumstances may be needed.

Recommendations

The report recommends using the ACS-RECS methodology as the more precise of the two.

Because of the complexity involved in developing base-year SUAs, any standardized approach is likely to be labor intensive, at least initially.

- Since ACS estimates are published annually, it would be possible, although resource-intensive, to reconstruct SUAs each year using newer ACS data.

- As noted above, annual adjustments to the base-year SUAs for interim years could be made, with full updates occurring every few years. **The report recommends using a 3-year average of the CPI to make these annual adjustments.**

For More Information

Holleyman, Chris, Timothy Beggs, and Alan Fox. *Methods to Standardize State Standard Utility Allowances*. Prepared by Econometrica, Inc. for the U.S. Department of Agriculture, Food and Nutrition Service, August 2017. Available online at www.fns.usda.gov/research-and-analysis.