METHODOLOGY APPENDIX

The Self-Sufficiency Standard for California 2008

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The Insight Center for Community Economic Development, formerly NEDLC, located in Oakland, California, is a national research, consulting and legal organization dedicated to building economic health and opportunity in low-income communities. The Insight Center was one of four organizations that launched the Family Economic Self-Sufficiency Project, an innovative, nation-wide effort to gain support for proven strategies to help low-income families reach economic self-sufficiency. The Insight Center leads the California arm of this effort, Californians for Family Economic Self-Sufficiency (CFESS). The California Self-Sufficiency Standard is the primary organizing tool for the CFESS network of over 400 advocates, service providers, public agencies, and grassroots groups committed to building economic security for families, seniors, and the communities in which they live. For more information contact:

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CENTER FOR WOMEN'S WELFARE

The Center for Women's Welfare at the University of Washington is devoted to furthering the goal of economic justice for women and their families. Under the direction of Dr. Diana Pearce, the Center researches questions involving poverty measures, public policy, and programs that address income adequacy. The Center partners with a range of non-profit, women's, children's, and community-based groups to evaluate public policy, to devise tools for analyzing wage adequacy, and to help create programs to strengthen public investment in low-income women, children, and families. For more information contact:

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Methodology Appendix: Assumptions and Sources

I. INTRODUCTION

The Self-Sufficiency Standard measures how much income is needed for a family of a certain composition in a given county to adequately meet their basic needs—without public or private assistance.

The Self-Sufficiency Standard calculates a family-sustaining wage that does not require choosing between basic necessities such as child care, nutritional food, adequate housing, or health care. The Standard is a measurement of essentials and excludes longer-term needs such as savings for retirement or education, emergency expenses, purchases of major items such as a car or extras such as gifts, video rentals, or soccer fees.

Economic self-sufficiency cannot necessarily be achieved by wages alone. Public work supports (e.g., MediCal) are often necessary, even critical, for some families to meet the high costs of necessities in California, including housing, child care, and health care. True self-sufficiency requires access to education, training, and jobs that provide skill development and career advancement over the long-term, rather than a specific job with a certain wage and benefits at one point in time.

Being "self-sufficient", however, does not imply that any family at any income should be completely self-reliant and independent of one another or the community-at-large. Indeed, it is through interdependence among families and community institutions (such as schools or religious institutions), as well as informal networks of friends, extended family, and neighbors that many families are able to meet both their non-economic and economic needs.

II. FEDERAL POVERTY LEVEL AND THE SELF-SUFFICIENCY STANDARD

The Federal Poverty Level, or FPL, was developed over four decades ago and is based on the cost of a single item—food. According to the then-current expenditure patterns, families spent an average of one-third of their income on food. Thus, the basic U.S. Department of Agriculture "thrifty food budget" was multiplied by three to determine the Federal Poverty Level. Although the FPL does vary by family size and is updated annually for inflation, it does not account for the age of children, the costs of transportation, or the geographic location of the family. For instance, the annual 2008 FPL for a family of three (either two adults with one child, or one adult with two children) is $17,600 across the continental U.S.

The Self-Sufficiency Standard differs from the FPL in five important ways:

1. The Standard independently calculates the cost of each basic need (not just food) and does not assume that any single cost will account for a fixed percentage of the budget.
2. The Standard assumes that all adults in one- and two-adult households, aged 18-64, married or single, work full-time and includes all major costs (child care, transportation, and taxes) associated with employment.
3. The Standard varies costs not only by family size (as does the FPL), but also by family composition and the ages of children to create a total of 156 family types. Thus, the Standard reflects, for example, that infant care is more expensive than afterschool care.
4. Whenever possible and appropriate, the Standard varies costs geographically (by state, region, county, and in some cases, by city or locality).
5. The Standard includes federal, state, and local taxes (e.g., income, payroll, and sales taxes) and tax credits. Federal tax credits include the Earned Income Tax Credit (EITC), Child Care Tax Credit (CCTC), and Child Tax Credit (CTC). The California state Child and Dependent Care Credit is also included.

To the extent possible, data used in the Self-Sufficiency Standard are:

- collected or calculated using standardized or equivalent methodology nationwide;
- obtained from scholarly or credible sources such as the U.S. Census Bureau;
- updated annually (or as updates are available); and, as mentioned,
- as geographically- and age-specific wherever possible and appropriate.

In addition, as improved or standardized data sources become available, the methodology used by the Standard is refined accordingly.

III. MONTHLY COSTS

Housing

For housing costs, all Standards use the most recent Fiscal Year Fair Market Rents (FMRs), calculated annually by the U.S. Department of Housing and Urban Development (HUD) for each state's metropolitan and non-metropolitan areas. Annual FMRs are based on data from the 2000 decennial census, the biannual American Housing Survey, and random digit dialing telephone surveys. FMRs include utilities (except telephone and cable), and are intended to reflect the cost of housing that meets minimum standards of decency.[1] In most cases, FMRs are set at the 40th percentile, which means 40% of the housing in a given area is less expensive than the FMR, and 60% is more expensive.

For California, housing was calculated using the FY 2008 HUD Fair Market Rents. HUD calculates a set of FMRs for each non-metropolitan county and metropolitan area, with the latter sometimes consisting of multiple counties.[2] In California, each HUD area is made up of one county, with the exception of the following four metropolitan areas consisting of two or three counties each: Oakland-Fremont, Sacramento-Arden-Arcade-Roseville, San Francisco, and Riverside-San Bernardino-Ontario. In order to create county variation for the counties within these four metropolitan areas, ratios were created using data from the National Low Income Housing Coalition.

To determine the number of bedrooms required for a family, the Standard assumes that parents and children do not share the same bedroom and no more than two children share a bedroom.

Child Care

Since a basic assumption for calculation of the Standard is that it provides the costs of meeting needs without public or private subsidies, free or unpaid child care provided by relatives and friends or any other private subsidies are not considered when choosing appropriate child care settings.

The Family Support Act, in effect from 1988 until welfare reform in 1996, required states to provide child care assistance at market-rate for low-income families in employment and/or education and training. States were also required to conduct cost surveys biannually to determine the market-rate (defined as the 75th percentile) by setting, age, and geographical location, or set a statewide rate.[3] Many states, including California, have continued to conduct or commission the surveys as well as reimburse child care at the market-rate level. Data for the 2008 Self-Sufficiency Standard for California is from the California Department of Education.

The California Regional Market Rate (RMR) maximum reimbursement ceilings are calculated at the 85th percentile. For each county, RMRs are provided for three age groups and for center-based and licensed family child care facilities. Infant rates (0 through 24 months) are calculated as full-time at licensed family care facilities; preschool aged children (2 through 5 years) rates are calculated as full-time at center-based care facilities; and schoolage (6 years and over) rates are calculated as part-time at center-based care facilities.

Food Costs

Food costs for the Standard are based on the U.S. Department of Agriculture (USDA) Low-Cost Food

Plan. Because it is based on more realistic assumptions about food preparation time and consumption patterns, it is about 25% higher than the Thrifty Food Plan. While both of these USDA diets were designed to meet minimum nutritional standards, the Thrifty Food Plan is intended to be only a temporary safety net.[4] Nevertheless, the Low-Cost Food Plan is still a very conservative estimate of food costs, e.g., it does not allow for any takeout, fast-food, or restaurant meals.

The Standard varies food costs by the number and ages of children and the number and gender of adults. The Standard assumes that a single-person household consists of one adult male, while the single-parent household has one adult female. A two-parent household is assumed to include one adult male and one adult female.

Data on local variation in food costs was obtained from the Council for Community and Economic Research ACCRA Cost of Living Index. ACCRA data is provided as a ratio, which compares the cost of food in a specific locality to the national average cost of food. For example, the ACCRA ratio for Los Angeles County is 1.19. Therefore food costs in Los Angeles County are 19% higher than the national average cost of food. Data was available for 10 metropolitan areas in California: Los Angeles, Oakland, Palm Springs, Riverside City, San Diego, San Francisco, Fresno, San Jose, Orange County, and Bakersfield. Counties located in these metropolitan areas are assigned the respective ACCRA ratios.

To apply regional food costs to counties not included in this list, the rest of the counties in California are divided into two regions: the mountainous and coastal region, and the central valley and Southern California region. Counties in the mountainous and coastal region are applied an average of the ACCRA ratios for Bay Area counties (Oakland, San Francisco, and San Jose). Counties in the central valley and Southern California region are applied an average of the ACCRA ratios for counties located in that region (Los Angeles, Palm Springs, Riverside City, San Diego, Fresno, Orange County, and Bakersfield).

Transportation

Public: If there is an "adequate" public transportation system in a given area, the Standard assumes workers use public transportation to get to and from work within the same county in which they live. Public transportation use is generally assumed for an entire statistical area when more than 7% of the population in that area uses public transportation; private transportation (a car) is assumed where public transportation use is less than 7%.[5] For the California 2008 report, in five counties more than 7% of the working population over the age of 16 uses public transportation: Alameda (10.6%), Contra Costa (9%), Marin (10.1%), San Francisco (31.1%), and San Mateo (7.4%). In these counties, transportation costs are calculated as the cost of express and commuter monthly passes or ticket books available from local transit authorities. For San Francisco Bay area counties (excluding San Francisco itself), public transportation costs assume inter-bay travel for commuting to work and local intra-county travel for errands and shopping.[6]

Private: Private transportation costs are based on the costs of owning and operating an average car. One car is assumed for the single-parent family and two cars are assumed for a family with two adults. It is understood that the car(s) will be used to commute to and from work five days per week, plus one trip per week for shopping and errands. In addition, one parent in each household with young children is assumed to have a slightly longer weekday trip to allow for "linking" trips to a day care site. For per-mile costs, driving cost data from the American Automobile Association is used. The commuting distance is computed from the most recent national data available, the National Household Travel Survey 2001.

The auto insurance premium is the average premium cost for a given state from a survey conducted by the National Association of Insurance Commissioners (NAIC). To create within state variation (regional or county) in auto insurance premiums, ratios are usually created using sample premiums from up to five automobile insurance companies with the largest market shares in the state. However, in California, new legislation mandates that auto insurance companies may not vary insurance premium rates based on zip code or geographic area, but instead base rates on driving history and records. This policy change will become fully effective at the end of 2008. Some large market share insurance companies currently incorporate the new legislation into their rates. The new legislation has been incorporated into the methodology of the Standard to reflect more accurately the real costs of auto insurance in the near future. By not varying the auto insurance rates by county, the Standard will remain accurate when the new legislation takes full effect.

Health Care

The Standard assumes that an integral part of a Self-Sufficiency Wage is employer-sponsored health insurance for workers and their families. Nationally, 70% of non-elderly individuals in households with at least one full-time worker have employer-sponsored health insurance coverage.[7] In California, 62% of non-elderly individuals in households with at least one full-time worker have employer-sponsored health insurance coverage. Nationally, the employer pays 82% of the insurance premium for the employee and 76% of the insurance premium for the family. In California, the full-time worker's employer pays an average of 85% of the insurance premium for the employee and 77% of the insurance premium for the family.[8]

Health care premiums are obtained from The Henry J. Kaiser Foundation State Health Facts Online, Employment-Based Health Premium for a single adult and for a family. The Kaiser Foundation calculates the average cost of health insurance premiums paid by a state's residents, based on the national Medical Expenditure Panel Survey (MEPS) and adjusted for inflation using the Medical Care Services Consumer Price Index. In order to calculate intra-state regional variation in health insurance premiums, sample quotes are used from HealthNet's most commonly purchased PPO plan for nine regions in California. A ratio is created between each of the nine regions and the statewide premium to reflect intrastate variation in premium costs.

Health costs also include out-of-pocket costs calculated for adults, infants, preschoolers, schoolage children, and teenagers. Data for out-of-pocket health care costs (by age) are also obtained from the MEPS, adjusted for geographical region (West) using the MEPS Household Component Analytical Tool, and adjusted for inflation using the Medical Care Consumer Price Index.

Miscellaneous Costs

Miscellaneous items include all other essentials: clothing, shoes, paper products, diapers, nonprescription medicines, cleaning products, household items, personal hygiene items, and telephone. Miscellaneous costs do not include costs for recreation, entertainment, savings, or debt repayment. Miscellaneous expenses are calculated by taking 10% of all other costs. This percentage is a conservative estimate in comparison to estimates in other basic needs budgets, which commonly use 15%.[9]

IV. TAXES AND TAX CREDITS

Taxes

Taxes include federal and state income tax, payroll taxes, and state and municipal sales tax where applicable. Federal payroll taxes for Social Security and Medicare are calculated at 7.65% of each dollar earned. Although the federal income tax rate is higher than the payroll tax rate, federal exemptions and deductions are substantial. As a result, while payroll tax is paid on every dollar earned, most families will not owe federal income tax on the first $10,000 or more depending on family composition, thus lowering the effective federal tax rate to about 7% for some family types.

In 2008, California's State Sales and Use Tax is 7.25%. California has local and district level sales taxes that are imposed under the Transactions and Use Tax Law in some counties and localities. The total sales and use tax rate in a specific California location includes the sum of the state tax rate, the local tax rate, and any district tax rate that may be in effect. Total sales tax in California including state, local, and district taxes vary from 7.25% to 8.75% depending on the county.

State sales taxes are calculated only on "miscellaneous" items, as one does not ordinarily pay tax on rent, child care, and so forth. Indirect taxes (e.g., property taxes paid by the landlord on housing) are assumed to be included in the price of housing passed on by the landlord to the tenant. Additionally, taxes on gasoline and automobiles are included as a cost of owning and running a car.

California has a State Income Tax, with a varying rate dependent on income and a maximum rate of 9.3%.

Tax Credits

The tax credits disclosed here are deducted from the total amount of money a family needs to be self-sufficient and thus are shown as negative numbers in the calculation of the Standard. The Earned Income Tax Credit (EITC), or as it is also called, the Earned Income Credit, is a federal tax refund intended to offset the loss of income from payroll taxes paid by low-income workers. The EITC is a "refundable" tax credit, meaning working adults may receive the tax credit whether or not they owe any federal taxes.

Although by law an eligible worker can receive part of the federal EITC on a monthly basis (Advance EITC), many workers prefer to receive it annually, as it is difficult to estimate the amount of EITC eligibility due to fluctuating hours and wages. In addition, some workers prefer to use EITC as "forced savings" to meet important family needs, such as paying the security deposit for housing, buying a car, settling debts, paying tuition, or starting a savings account. Thus, nearly all families receive the federal EITC as a lump sum payment the following year when they file their tax returns, even though the Standard shows the EITC as income available monthly.[10]

California does not have a state or local EITC. The City of San Francisco does offer a $100 Working Families Credit (WFC) for qualified low-income families with working adults living in San Francisco. The WFC program is not a local EITC; however it attempts to raises awareness of benefits available through the federal EITC.[11]

The Child Care Tax Credit (CCTC), also called the Child and Dependent Care Tax Credit, is a federal tax credit that allows working parents to deduct a percentage of their child care costs from the federal income taxes they owe. Like the EITC, the CCTC is deducted from the total amount of money a family needs to be self-sufficient. Unlike the EITC, the federal CCTC is not a refundable federal tax credit; that is, a family may only receive the CCTC as a credit against federal income taxes owed. Therefore, families who owe very little or nothing in federal income taxes will receive little or no CCTC. In 2008, a portion of up to $3,000 in child care costs could be received as a credit for one qualifying child and up to $6,000 for two or more qualifying children.

California has a Child and Dependent Care Credit that is calculated as a percentage of the federal child and dependent care credit. The adjusted gross income limit is $100,000.

The Child Tax Credit (CTC) is like the EITC in that it is a refundable federal tax credit. In 2008, the CTC provides parents with a refundable credit of $1,000 for each child under 17 years old, or 15% of earned income over $12,050, whichever is less. For the Standard, the CTC is shown as received monthly and is deducted from the total amount the family needs to be self-sufficient. California does not have a state child tax credit.

V. ASSUMPTIONS FOR THE EXPANDED FAMILY TYPES

Typically, the Self-Sufficiency Standard is calculated for 70 different family types in each county, including combinations of up to two adults and three children. However, to account for additional family types, the Self-Sufficiency Standard for each county in California was expanded by an additional 86 family types for a total of 156 family types (from a one adult family with four children to families with four or more adults and three or more children).[12]

In order to remain consistent with the Standard's methodology, it is assumed that all adults in one- and two-adult households are working as in the original 70 family types. Other assumptions used in the creation of the extended family types include:

- For households with more than two adults, it is assumed that all adults beyond two are non-working dependents of the first two working adults, as household composition analysis has shown that a substantial proportion of third or more adults are under 25, often completing school and/or unemployed or underemployed.[13] The main effect of this assumption is that the costs for these adults do not include transportation (but do include all other costs such as food, housing, health care, miscellaneous).
- As in the original Standard calculations, it is assumed that adults and children do not share the same bedroom and that there are no more than two children per bedroom. When there are three or more adults in a household, it is assumed that there are no more than two adults per bedroom.
- Food costs for additional adults (greater than two) are calculated using the assumption that the third adult is a female and the fourth adult is a male, with the applicable food costs added for each.
- The first two adults are assumed to be a married couple and taxes are calculated for the whole household together (i.e., as a family), with additional adults counted as additional (adult) tax exemptions.
- For the additional children in the extended families, the added costs of food, health care, and child care are based on the ages of the "extra" children and added to the total expenses of the household (before taxes and tax credits are calculated). As applicable, additional tax credits (child care and child tax credits) are calculated when eligible.
- The Standard assumes that all non-teenage children are in paid child care. This is consistent with the methodology in the original 70 family types, and is also consistent with the principle that self-sufficiency means having enough to pay the full cost of each basic need without public or private subsidies. While some families in fact may choose to have older children or other nonemployed adults in the family care for younger children, that is a form of private subsidy, and thus would make these Standards inconsistent in methodology from those calculated for smaller size families.

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[11] City of San Francisco *Working Families Credit.* Retrieved from http://www.workingfamiliescredit.org/

[12] The Self-Sufficiency Standard was originally designed to provide calculations for 70 family configurations, which includes all one and two adult families with from zero to three children (with four different ages of children). In order to increase the number of family configurations to encompass larger families, Dr. Pearce examined Census data to determine the most common sizes of larger families, and calculated Standards for these families. Once the addition of a large family configuration added only 1% or less to the number of households covered, Dr. Pearce created "catch-all" Standards to cover any remaining larger families, e.g., one-adult families with six or more children, or families with four or more adults and three or more children.

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