

Poverty in California: Moving Beyond the Federal Measure

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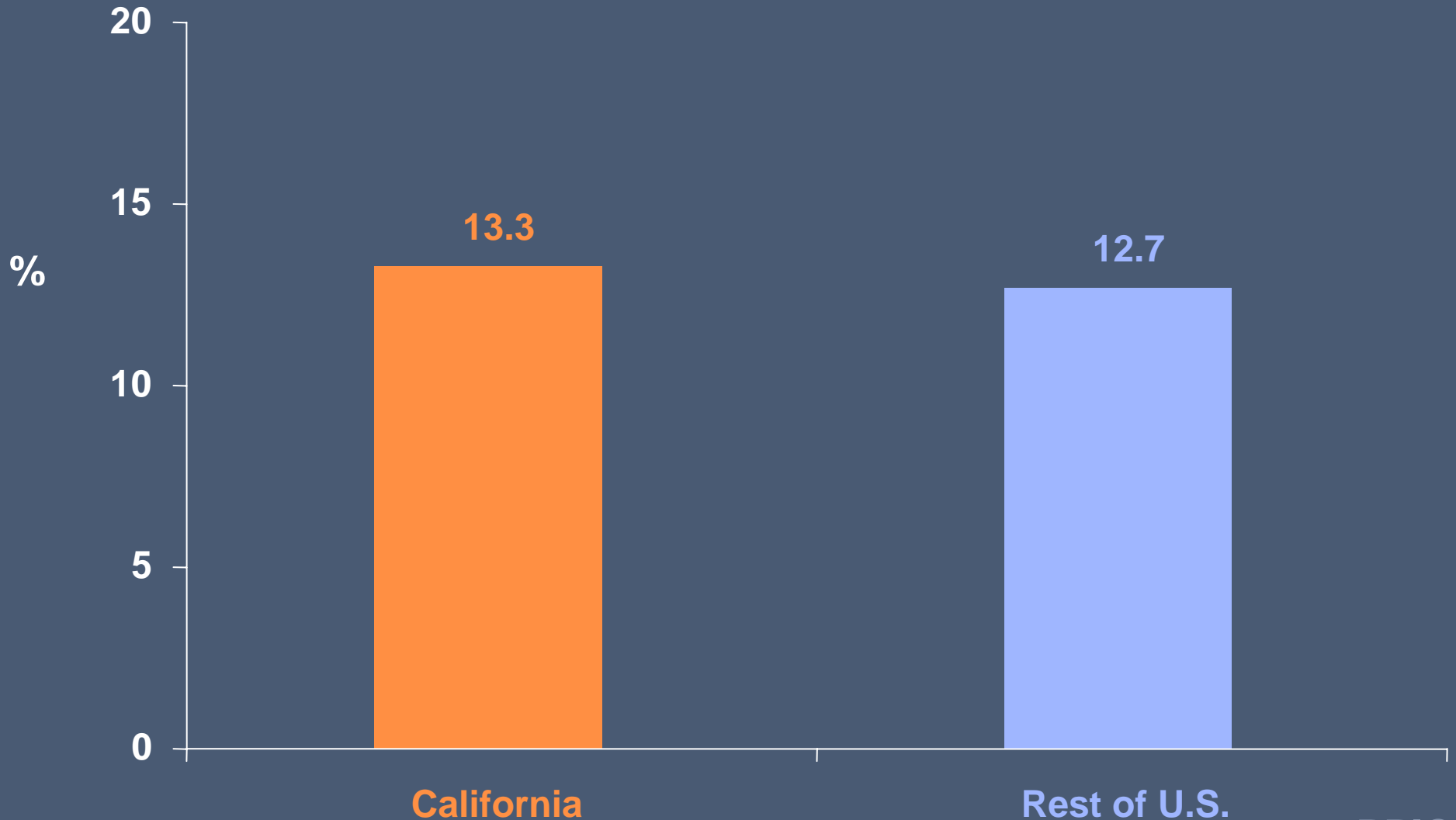
Presentation based on a PPIC study published
in the *California Counts* series, May 2006.
Available for free download at www.ppic.org.

Improving the Poverty Measure Is Critical for Low-Income Policy

- **Federal poverty thresholds are not realistic measures of family income needs**
- **If program eligibility thresholds do not adjust for regional cost of living, families in high-cost areas receive fewer services for the same level of need**

By Official Measures, CA Has Slightly Higher Poverty Rate than Rest of U.S.

Official Poverty Rate, 2004 (%)



What Is Official Poverty Measure?

A family is “poor” when pre-tax, money income is below a federal threshold

2004 Federal Thresholds

Single adult	\$ 9,827
Single adult with child	13,020
Two adults	12,649
Two adults with two children	19,157

History of Official Poverty Thresholds

- **Developed in 1960s**
- **Based on caloric needs and cost of food**
- **Food cost multiplied by 3**
- **Thresholds adjusted annually for inflation**

Concerns with Poverty Measure

- **Income should be adjusted for:**
 - Taxes and tax credits
 - Non-money benefits (e.g., Food Stamps)
 - Work-related expenses
 - In California, full-time center based childcare costs an average of \$7,485 for one child
- **Thresholds should**
 - Account for costs of basic needs
 - Adjust for family structure based on costs
 - Adjust for regional cost of living

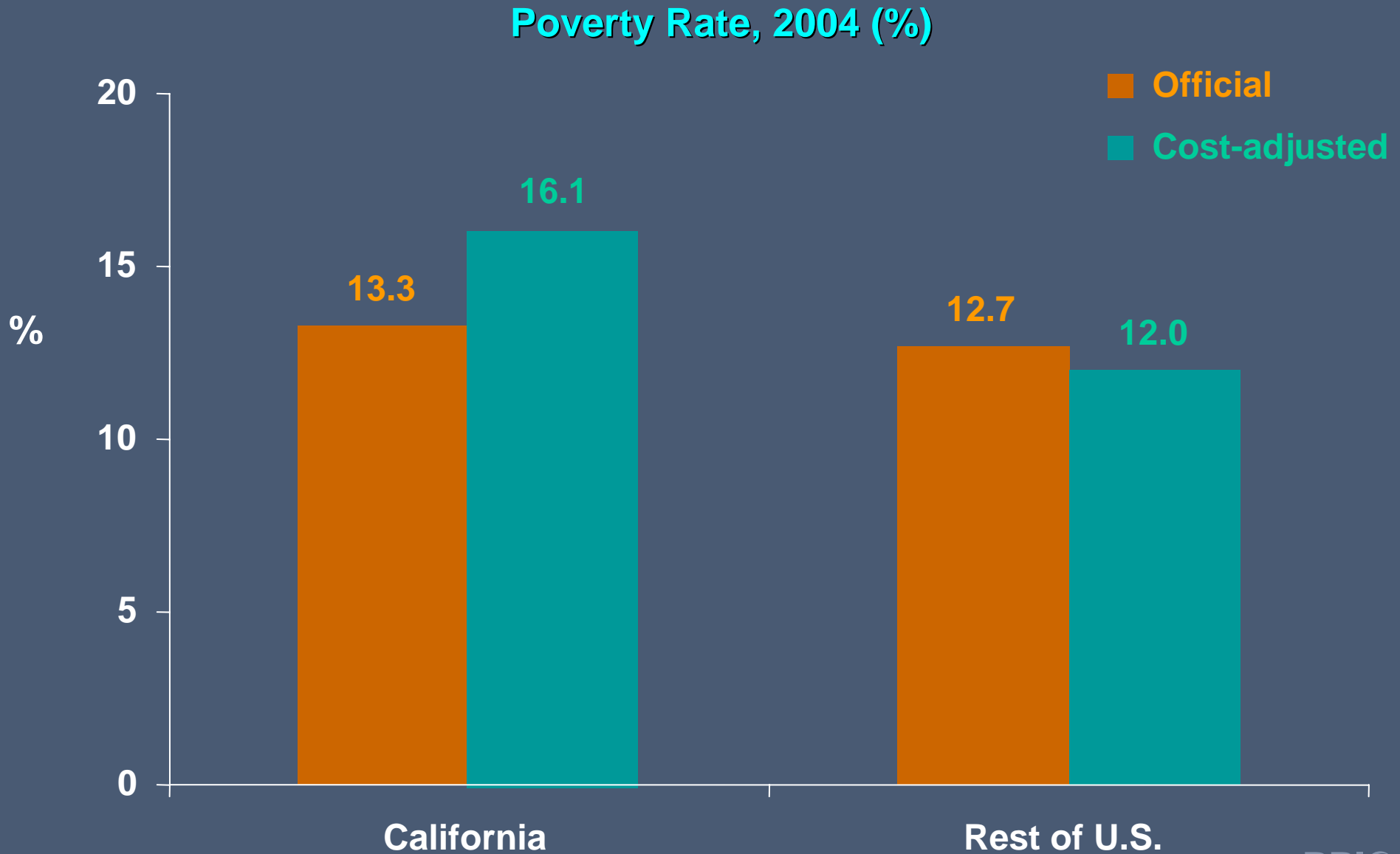
In California, Housing Costs Alone Make Up Large Share of Poverty Threshold

Poverty threshold for family of four: \$19,157

“Fair market rent” for two bedrooms

– Sacramento:	\$11,400	(60%)
– Los Angeles:	\$12,252	(64%)
– San Diego:	\$14,100	(74%)
– San Francisco:	\$21,300	(111%)

Adjusting for Housing Costs Substantially Increases Poverty Rate in California



Adjusting for Housing Costs Substantially Raises California's Poverty Rank

- **Official poverty (2002-2004)**

- California ranks 15th with a rate of 13%
- High poverty states have rates around 17%:
*Mississippi, Arkansas, New Mexico, Louisiana,
District of Columbia, Texas*

- **Cost-adjusted poverty (2002-2004)**

- Washington, D.C. 21.0%
- New York 16.3
- California 15.7
- Texas 15.0
- Louisiana 14.5

What Is Housing-Cost Adjustment?

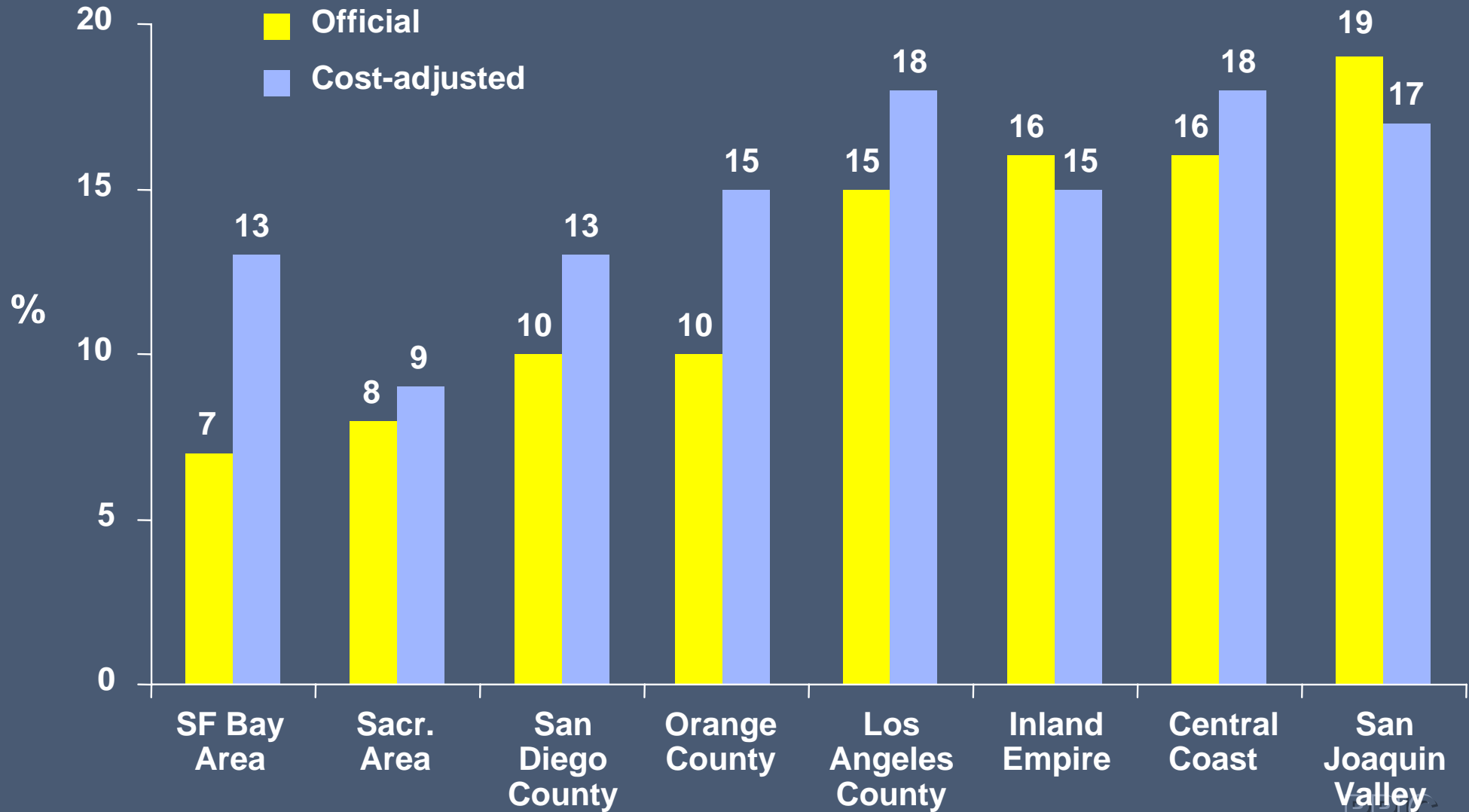
- **Method from National Academy of Sciences (1995)**
- **Assumes federal thresholds are correct for the U.S. (on average)**
- **Adjusts federal thresholds for regional cost of housing**
 - **Applies a relative “fair market rent” to 44% of the federal threshold**

Housing-Cost Adjustments Lead to a Conservative Measure of Poverty

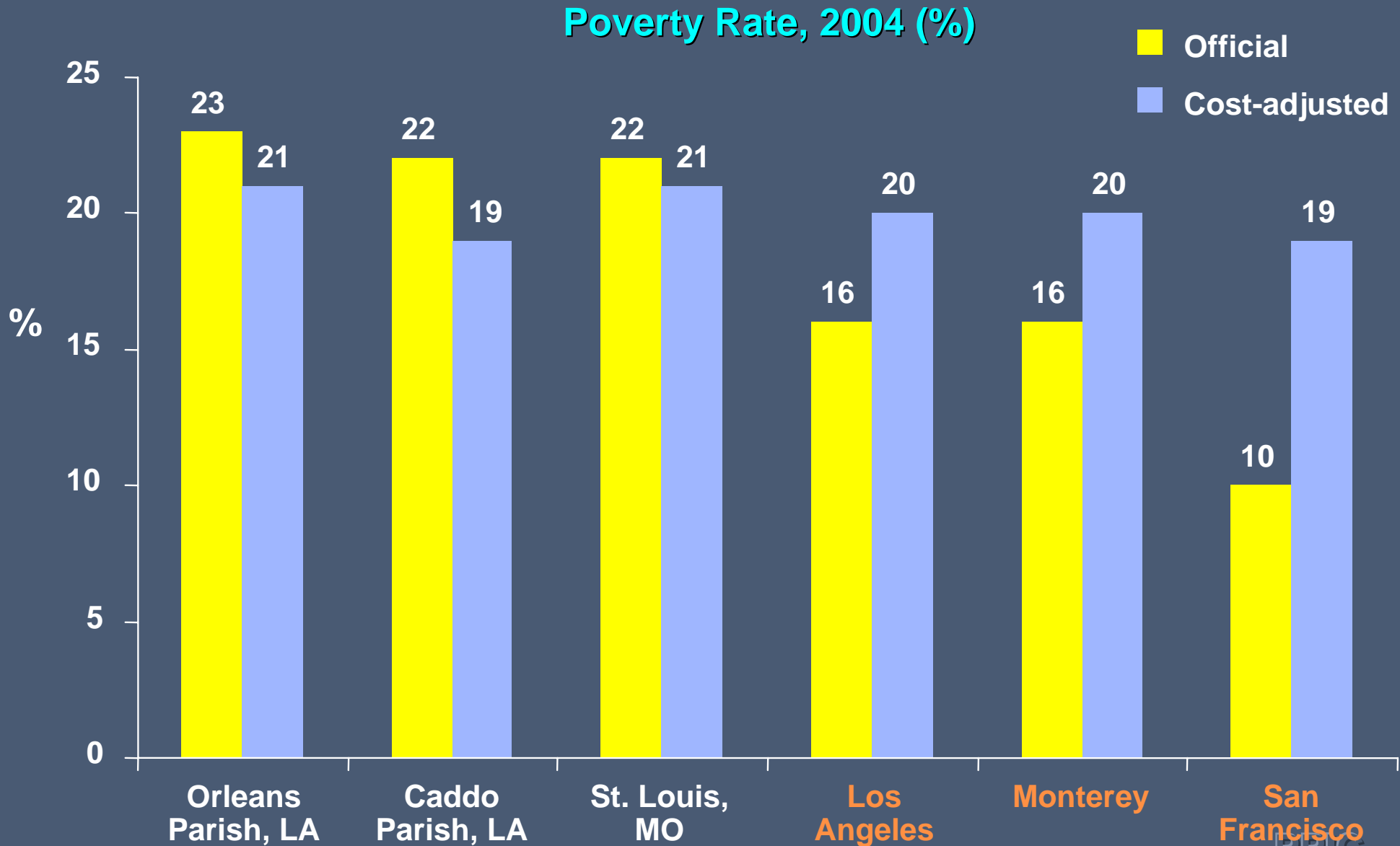
- Does not adjust for other concerns with the federal measure – perhaps about 0.7 points too low
- Implicit housing cost is below fair market rent and below observed housing expenditures of poor.
In Sacramento, housing costs were:
 - \$7,020 for adjusted poverty threshold
 - \$8,448 median housing expenditures of poor
 - \$11,400 fair market rent (\$9,108 for one bedroom)

Regional Differences in CA Reduced by Cost Adjustments, But Remain Substantial

Poverty Rate, 2001-2003 (%)



Three CA Counties Rank with Some of Nation's Highest Poverty Counties



Summary

- **When adjusted for regional housing costs, California's poverty is substantially higher than rest of U.S.**
- **In addition to regional housing costs, federal poverty measures should also take into account ...**
 - **Cost of meeting basic needs**
 - **Post-tax income and benefits, minus expenses for work**
- **Improving poverty measurement is critical for program eligibility criteria**