CALIFORNIA BUDGET PROJECT

SPECIAL REPORT

HARD WORK AND A FAIR SHOT

HELPING CALIFORNIA'S LOW-INCOME WORKING FAMILIES MAKE ENDS MEET

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California Budget Project

The CBP was founded in 1994 to provide Californians with a source of timely, objective, and accessible expertise on state fiscal and economic policy issues. The CBP engages in independent fiscal and policy analysis and public education with the goal of improving public policies affecting the economic and social well-being of low- and middle-income Californians. Support for the CBP comes from foundation grants, publications, and individual contributions. Please visit the CBP's website at www.cbp.org.

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EXECUTIVE SUMMARY

A large number of Californians have jobs that do not pay sufficient wages to support a family. Moreover, forecasts suggest that low-wage jobs will continue to account for a significant share of California's economy. Thus, millions of Californians will continue to work in jobs that fail to provide income sufficient to raise a family, let alone achieve economic self-sufficiency. The strategies described in this report can help California's working families make ends meet despite low earnings from work.

A Profile of California's Low-Income Working Families

Many California families have low incomes even though they have earnings from work. Approximately 2 million of California's 9.3 million working families (21.1 percent) had incomes below 200 percent of the federal poverty line in 2005 – a level of income that falls short of providing an adequate standard of living. These low-income working families included 2.7 million children and 3.7 million adults. In addition:

- **A majority of low-income working families include children.** Nearly six out of 10 low-income working families (58.5 percent) included one or more children in 2005.

- **Most low-income working families with children are headed by married couples.** Seven out of 10 low-income working families with children (69.6 percent) were headed by married couples in 2005.

- **Low-income working families receive nearly all of their income from work.** On average, low-income working families received nearly 95.0 percent of their income from work in 2005.

- **A majority of low-income working families are headed by a Latino.** Two-thirds (66.3 percent) of families with incomes below the poverty line and more than half (52.6 percent) of families with incomes between 100 percent and 199 percent of the poverty line were headed by a Latino in 2005.

- **Many low-income working families are headed by an adult who lacks a high school degree.** More than four out of 10 families with incomes below the poverty line (45.9 percent) and more than one-third (36.8 percent) of families with incomes between 100 percent and 199 percent of the poverty line were headed by an adult who lacked a high school degree in 2005.

The impact of inadequate incomes on working families can be severe, particularly for children. Children in low-income families are more likely to experience social and emotional problems and poor health, which are associated with dropping out of school and poor employment outcomes. Moreover, research suggests that poverty can impede economic growth. For example, childhood poverty can hinder the development of skills, abilities, and knowledge that individuals need to succeed in the workplace, resulting in lower productivity. This reduced productive activity results in a loss of goods and services to the US economy.

Helping California's Low-Income Working Families Make Ends Meet

Low-wage workers help create and sustain California's prosperity. Public policies, in turn, can help families who work hard and play by the rules – but who still lack adequate incomes – to make ends meet. Strategies that can improve the living standards of California's low-income working families include increasing families' incomes; helping families make ends meet by increasing their access to child care, food stamps, health coverage, and affordable housing; and helping families build and protect assets.

Policies That Can Increase Families' Incomes

Many jobs fail to provide workers with sufficient incomes for families to make ends meet. As a result, many families live from paycheck to paycheck, juggling rent or a mortgage payment with groceries, clothing, and other necessities. Public policies that are designed to boost families' incomes can increase the well-being of California's low-income working families. For example, California could take the following steps:

- **Create a state Earned Income Tax Credit (EITC).** The federal EITC is one of the most powerful tools available to boost the incomes of working families. In 2005, 2.5 million California households – nearly one out of every six tax returns filed – claimed $4.6 billion in federal EITC benefits. The federal EITC uses the tax code to supplement the earnings of low-wage workers by offsetting federal income taxes and some or all of the federal payroll taxes paid by these workers. However, earnings combined with the federal credit do not guarantee an escape from poverty for all families. Nineteen states and the District of Columbia have state EITCs that complement the federal EITC. A state EITC works in tandem with the federal credit to boost the earnings that families receive from work. For example, a single parent with two children who works full-time at the minimum wage in 2007 would qualify for a federal EITC of $4,672. A California EITC equal to 15 percent of the federal credit would further increase this family's income by $701.

- **Index the state's minimum wage to inflation.** In 2006, California took an important step toward making work pay by raising the state's minimum wage to $7.50 per hour on January 1, 2007 and to $8.00 per hour on January 1, 2008. However, because California's minimum wage does not increase to reflect inflation, the purchasing power of the minimum wage will erode unless the state subsequently acts to increase it. California could take the next step and "index" – or automatically adjust – the minimum wage each year to keep pace with the cost of living. Indexing likely would result in modest annual increases to the minimum wage because inflation has increased by an average of 3.0 percent per year in California since 2001. A 3.0 percent increase would raise the state's minimum wage from $8.00 per hour in 2008 to $8.24 per hour in 2009.

- **Increase the amount of child support paid to families.** Child support provides a crucial source of income for families and lifts hundreds of thousands of US children out of poverty. California's Child Support Program tends to serve lower-income families, who generally are unable to enforce their child support orders privately. The state's Child Support Program assisted nearly 2 million children and collected $2.2 billion from absent parents during federal fiscal year (FFY) 2006. However, California fails to collect about half of the child support owed to families who participate in the program. In addition, the state and federal governments retain – and treat as revenue – a portion of child support collected on behalf of families who receive, or formerly received, cash assistance through the California Work Opportunity and Responsibility to Kids (CalWORKs) Program. In order to boost the amount of child support paid to families, California could increase its collection efforts, establish child support payments that reflect the absent parent's ability to pay, and provide more child support to current and former CalWORKs families.

- **Strengthen unemployment insurance for low-wage workers.** The two central goals of the Unemployment Insurance (UI) Program are to ensure the financial security of workers who lose their jobs through no fault of their own and to maintain consumer demand during economic downturns. However, the UI Program disadvantages low-wage workers, who are less likely to receive UI benefits than are their higher-paid counterparts when they lose their jobs through no fault of their own. Many low-wage workers do not qualify for UI benefits because their earnings were not high enough in the period used to establish UI eligibility. Eligibility is based, in part, on a minimum amount of earnings in the "base period." California's base period includes the first four of the last five completed calendar quarters, disregarding earnings in the current quarter and the most recently completed quarter. Excluding recent earnings can prevent low-wage workers with substantial recent work history from qualifying for UI benefits. In order to increase the number of low-wage workers who receive UI benefits, California could adopt an "alternative base period" – which considers earnings during the four most recently completed quarters – as 19 states and the District of Columbia have done.

Policies That Can Help Families Make Ends Meet

Many workers have jobs that fail to provide sufficient incomes to make ends meet. Public policies can help fill the gap by providing access to or reducing the cost of necessities such as child care, food, health care, and housing, all of which are fundamental to Californians' participation in the workforce and the development of healthy families. For example, California could take the following steps:

- **Increase access to child care.** Quality child care can be prohibitively expensive for low-income working families. Some families are able to obtain assistance through California's child care programs, which provide low-cost child care to eligible families. However, state and federal funding for child care programs has failed to keep pace with need. Eligible families may wait for months or longer on local lists until funded slots become available, and some families may never receive child care due to limited funding. Moreover, California has frozen the income eligibility limit for child care assistance several times since 2000-01, which caused many working families whose incomes increased modestly to prematurely lose eligibility for affordable child care. In order to increase access to affordable child care, California could expand funding for the state's child care programs; adjust the income eligibility limit for child care assistance each year; and maintain adequate reimbursement rates for "license-exempt" providers – relatives or friends who can provide child care that accommodates the schedules of low-wage workers, who often work nights or rotating shifts.

- **Increase access to food stamps.** The Food Stamp Program helps 2 million low-income Californians purchase food. The federal government pays the full cost of food stamps, which provided a modest benefit of $1.09 per person per meal in California at a cost of $2.4 billion in FFY 2006. The program primarily provides benefits to families with children. In FFY 2005, for example, two-thirds (66.3 percent) of California's food stamp recipients were children. However, fewer than half (46 percent) of the state's estimated 4 million eligible individuals received food stamp benefits in FFY 2004, the lowest rate in the nation. In order to increase enrollment in the Food Stamp Program, California could boost outreach efforts, further simplify the program, and eliminate the requirement for applicants to be fingerprinted. In addition, Congress could increase the adequacy of food stamp benefits, expand the number of low-income Californians who qualify for food stamps, and eliminate or modify the program's restrictive "asset limit."

- **Increase access to health coverage.** One out of five nonelderly Californians – 6.5 million – lacked health coverage during all or part of 2005. While the uninsured include a broad range of Californians, individuals in low-income working families are substantially more likely than are others to lack health coverage. Rising health care costs, eroding job-based health benefits, and the large number of uninsured Californians are clear signs that the state, along with the rest of the nation, faces a health care crisis. Absent a national solution, California's policymakers – including Governor Schwarzenegger and legislative leaders – are considering multiple and far-reaching proposals to extend health coverage to more Californians. In order to increase the number of individuals in low-income working families with health coverage, California could expand efforts to increase enrollment in the Medi-Cal and Healthy Families Programs, seek federal support to expand Medi-Cal coverage to low-income adults without children, eliminate the Medi-Cal "asset limit" for low-income families with children, expand access to job-based health coverage, cover all Californians under a single health plan administered by the state, and expand Healthy Families coverage to low-income working parents.

- **Increase access to affordable housing.** Housing constitutes the single largest expenditure for most California families, and the state suffers from an acute shortage of affordable housing. The problem is particularly severe for low-income working families, who face significant cost burdens and are much more likely to rent than to own their home. Construction of rental housing has not kept pace with need, and California has the second most expensive rental housing in the nation. Although two recent statewide bonds have provided funding for California's housing programs, the state could enact additional measures that would encourage local governments to increase the supply of affordable housing. For example, California could penalize communities that violate – and reward communities that comply with – the state's fair-share housing law and require local governments to adopt "inclusionary zoning" policies that require or encourage developers to include affordable housing units in new residential developments.

Policies That Can Help Families Build and Protect Assets

Many strategies to help low-income working families make ends meet focus on increasing families' income and access to services or assistance, such as child care and food stamps. However, research suggests that public policies should also help families build and protect "assets," such as savings or a home. Assets are critical to the well-being of low-income families because they can be used to make ends meet during a period of unemployment; to cope with unanticipated expenses, such as car repairs; or to finance an investment, such as a business, a home, or education and training. Most low-income families lack substantial assets. In 2004, the median – or midpoint – value of financial assets of families with annual incomes of less than $18,900 was just $1,300. In order to help low-income working families acquire and maintain assets, California could eliminate asset limits in programs that assist low-income families, support universal children's savings accounts, require state-chartered banks to offer basic checking accounts, expand lending and investment in low-income communities, promote consumer financial education, and curb abusive "payday" lending and tax preparation practices.

Conclusion

Approximately 2 million working Californians have incomes below twice the poverty line. Moreover, forecasts suggest that low-wage jobs will continue to account for a significant share of California's economy. Thus, millions of Californians will continue to work in jobs that fail to provide wages sufficient to raise a family, let alone achieve economic self-sufficiency, even as these workers contribute to the state's prosperity. Strategies described in this report include increasing families' incomes; increasing families' access to child care, food stamps, health care, and affordable housing; and helping families build and protect assets.

Some of these policies will be costly. The cost of doing nothing, however, will be far greater over the long term to the extent that poverty and inequality worsen. The state's economic strength will continue to depend on the hard work of Californians, including low-wage workers. Policymakers can help ensure that those who work to support themselves and their families can build a better future for themselves and their children.

INTRODUCTION

A large number of Californians have jobs that do not pay sufficient wages to support a family. Moreover, forecasts suggest that low-wage jobs will continue to account for a significant share of California's economy.[1] Thus, millions of Californians will continue to work in jobs that fail to provide income sufficient to raise a family, let alone achieve economic self-sufficiency. The strategies described in this report can help California's working families make ends meet despite low earnings from work.

Approximately 2 million working families in California had incomes below twice the federal poverty line in 2005.[2] More than 500,000 of these families, including 1.8 million children and adults, were "officially" poor; that is, they had incomes below the poverty line.[3] Another 1.5 million working families, including 4.6 million children and adults, had incomes between 100 percent and 199 percent of the poverty line, a level of income that falls short of providing an adequate standard of living.[4] In total, more than one out of five of California's 9.3 million working families (21.1 percent) lived on incomes below 200 percent of the poverty line in 2005, despite the presence of one or more working adults in their households.

The impact of inadequate incomes on working families can be severe, particularly for children. Children in low-income families are more likely than are other children "to experience learning difficulties, social and emotional problems, and poor health – problems that are associated with difficulties later in life, such as teenage child bearing, dropping out of school, and poor employment outcomes."[5] Moreover, research suggests that poverty can impede economic growth.[6] For example, childhood poverty can hinder the development of skills, abilities, and knowledge that individuals need to succeed in the workplace, resulting in lower productivity.[7] This reduced productive activity "generates a direct loss of goods and services" to the US economy.[8]

Low-wage workers help create and sustain California's prosperity. Public policies, in turn, can help families who work hard and play by the rules – but who still lack adequate incomes – to make ends meet.[9] Strategies that can improve the living standards of California's low-income working families include:

- **Increasing families' incomes.** California could create a state Earned Income Tax Credit, protect the purchasing power of the state's minimum wage by indexing it to inflation, increase the amount of child support that custodial parents and their children receive, and strengthen the state's Unemployment Insurance Program.

- **Helping families make ends meet.** California could increase child care assistance, expand access to food stamps and health coverage, and provide incentives for communities to build affordable housing, all of which are fundamental to Californians' participation in the workforce and the development of healthy families.

- **Helping families build and protect assets.** California could eliminate asset limits in programs that assist low-income working families, support universal children's savings accounts, require banks to offer basic checking accounts, expand lending and investment in low-income communities, promote consumer financial education, and curb abusive lending and tax preparation practices.

Some of these policies will be costly. The cost of doing nothing, however, will be far greater over the long term to the extent that poverty and inequality worsen. The state's economic strength will continue to depend on the hard work of Californians, including low-wage workers. Policymakers can help ensure that those who work to support themselves and their families can build a better future for themselves and their children.

HOW MUCH DO FAMILIES NEED TO EARN TO MAKE ENDS MEET?

Researchers and policymakers traditionally use the poverty line as the benchmark to gauge economic well-being (Table 1). The poverty line – which varies by family size – was developed in

Table 1: The Federal Poverty Line

Year	Single Adult	Family of Two	Family of Three	Family of Four
2006	$10,488	$13,896	$16,242	$20,516
2005	$10,160	$13,461	$15,735	$19,874
2004	$9,827	$13,020	$15,219	$19,223

Note: Assumes families of two and larger are composed of a single parent and his or her related children under age 18. In addition, assumes single adults and heads of household in familes of two are under age 65.
Source: US Census Bureau

the 1960s based on the estimated cost of an adequate diet and is adjusted annually for inflation. For most purposes, however, the poverty line is an obsolete measure that fails to take into account the current realities of families' lives. For example, the poverty line does not include the cost of child care in determining a family's basic needs. Moreover, as a national standard, the poverty line does not reflect California's relatively high cost of living.

Some experts argue that twice the poverty line – for example, an estimated $33,118 for a family of three with two children in 2007 – is a more accurate measure of economic well-being.[10] The California Budget Project (CBP) has estimated the income that California families of various sizes would need to afford a modest standard of living in 2007 without assistance from public programs (Table 2). This estimate is based on calculations of the actual cost of living, including housing, child care, transportation, food, and taxes. For example, the CBP estimates that one working parent with two children needs an income of nearly $60,000 in 2007 to achieve a modest standard of living without assistance from public programs. This amount far exceeds twice the projected poverty line for a family of three with two children in 2007 of $33,118.

A PROFILE OF CALIFORNIA'S LOW-INCOME WORKING FAMILIES

California's low-income working families have incomes that are less than twice the poverty line (Table 3).[11] More than half a million working families are "officially" poor; that is, they had incomes below the poverty line in 2005. Many more – nearly 1.5 million – had incomes between the poverty line and twice the poverty line in 2005, a level of income that falls short of providing an adequate standard of living. These families have at least one working adult with significant work effort, but struggle to make ends meet and build a secure future.[12] Specifically:

- **More than one-fifth of California's working families have incomes below twice the poverty line.** Approximately 2 million (21.1 percent) of California's 9.3 million working families had incomes below 200 percent of the poverty line in 2005 (Figure 1). These low-income working families included 2.7 million children and 3.7 million adults.
- **A majority of low-income working families include children.** Nearly six out of 10 low-income working families (58.5 percent) included one or more children in 2005, while approximately four out of 10 (41.5 percent) did not include children (Figure 2).
- **Most low-income working families with children are headed by married couples.** Seven out of 10 low-income working families with children (69.6 percent) were headed by married couples in 2005, while three out of 10 (30.4 percent) were headed by single adults (Figure 3).
- **Low-income working families receive nearly all of their income from work.** On average, low-income working families received nearly 95.0 percent of their income from work in 2005. Working families as a whole received an average of 92.9 percent of their income from work.[13]
- **A majority of low-income families are headed by a Latino.** Two-thirds (66.3 percent) of families with incomes below the poverty line and more than half (52.6 percent) of families with incomes between 100 percent and 199 percent of the poverty line were headed by a Latino in 2005. In contrast, three out of 10 working families of all incomes (29.7 percent) were headed by a Latino.
- **Many low-income working families are headed by an adult who lacks a high school degree.** More than four out of 10 families with incomes below the poverty line (45.9

Table 2: The California Budget Project's Basic Family Budget for Families of Various Sizes, 2007

Single Adult	Single Parent, Two Children	Two Parents (One Working), Two Children	Two Working Parents, Two Children
$28,336	$59,732	$50,383	$72,343

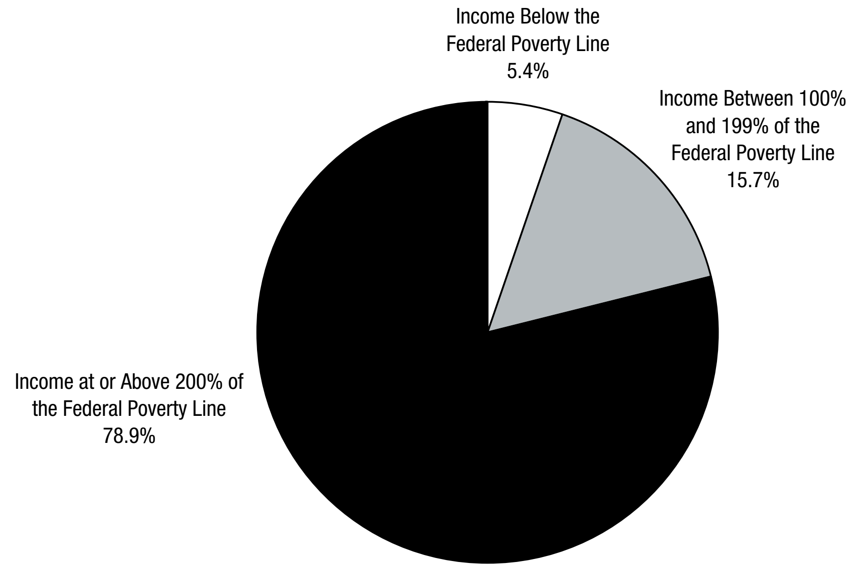
Source: California Budget Project, *Making Ends Meet: How Much Does It Cost to Raise a Family in California?* (forthcoming)

Table 3: Examples of Low-Income Working Families

Income Below the Poverty Line	Income Between 100 Percent and 199 Percent of the Poverty Line
Family income is less than $16,559 for a family of three with two children in 2007.	Family income is at least $16,559, but less than $33,118, for a family of three with two children in 2007.

Note: The 2007 federal poverty line is a CBP estimate based on the projected increase in the Consumer Price Index for All Urban Consumers (CPI-U).
Source: CBP analysis of US Census Bureau data

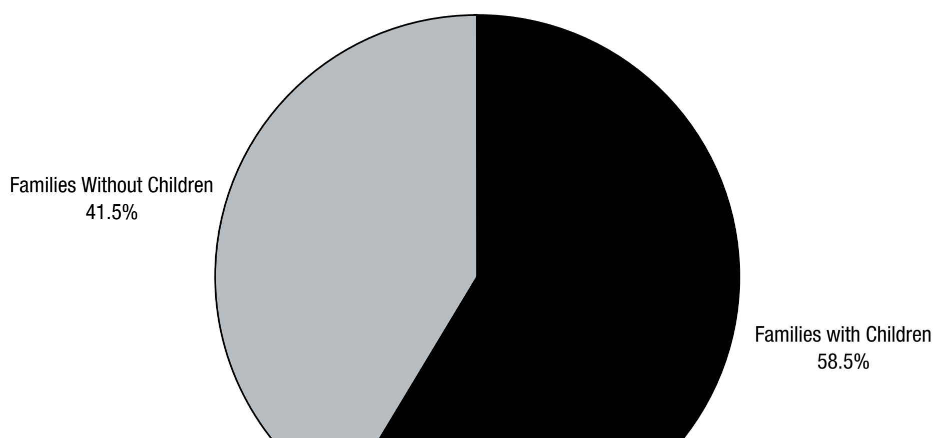
Figure 1: More Than One-Fifth of California's Working Families Have Incomes Below 200 Percent of the Federal Poverty Line



Total Number of Working Families in California in 2005 = 9.3 Million

Source: CBP analysis of Current Population Survey data

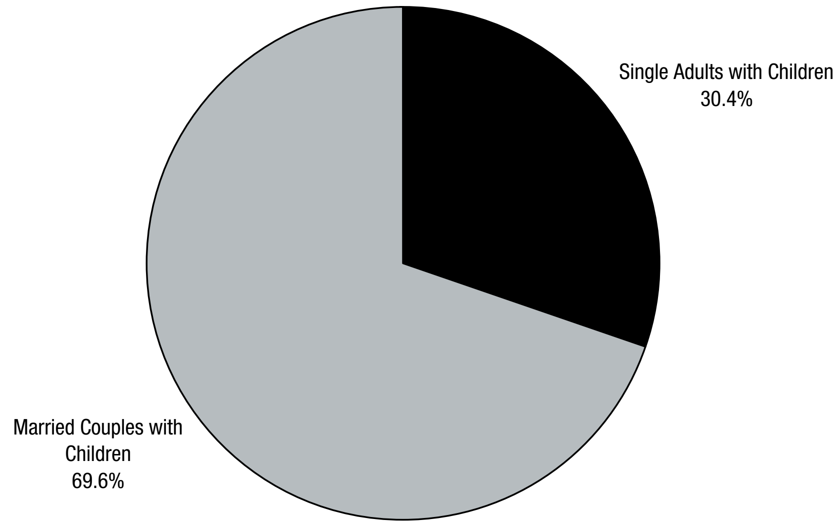
Figure 2: Nearly Six Out of 10 Low-Income Working Families Include Children



Total Number of California Working Families with Incomes Below 200 Percent of the Poverty Line in 2005 = 2.0 Million

Note: Families without children include single adults and married couples.
Source: CBP analysis of Current Population Survey data

Figure 3: Seven Out of 10 Low-Income Working Families with Children Are Headed by Married Couples



Total Number of California Working Families with Incomes Below 200 Percent of the Poverty Line Who Had Children in 2005 = 1.2 Million

Source: CBP analysis of Current Population Survey data

percent) and more than one-third (36.8 percent) of families with incomes between 100 percent and 199 percent of the poverty line were headed by an adult who lacked a high school degree in 2005. In contrast, 14.9 percent of all working families – more than one out of seven – were headed by an adult who lacked a high school degree.

HELPING CALIFORNIA'S LOW-INCOME WORKING FAMILIES MAKE ENDS MEET

Public policies can help working families make ends meet despite low earnings from work. This section outlines a policy agenda to help ensure that work provides not only a job, but also the means to raise a family. Strategies that can improve the living standards of California's low-income working families include:

- **Increasing families' incomes.** California could create a state Earned Income Tax Credit, protect the purchasing power of the state's minimum wage by indexing it to inflation, increase the amount of child support that custodial parents and their children receive, and strengthen the state's Unemployment Insurance Program.
- **Helping families make ends meet.** California could increase child care assistance, expand access to food stamps and health coverage, and provide incentives for communities to build affordable housing, all of which are fundamental to Californians' participation in the workforce and the development of healthy families.
- **Helping families build and protect assets.** California could eliminate asset limits in programs that assist low-income working families, support universal children's savings accounts, require banks to offer basic checking accounts, expand lending and investment in low-income communities, promote consumer financial education, and curb abusive lending and tax preparation practices.

Policies That Can Increase Families' Incomes

Many jobs fail to provide workers with sufficient incomes for families to make ends meet. As a result, many families live from paycheck to paycheck, juggling rent or a mortgage payment with groceries, clothing, and other necessities. Public policies that are designed to boost families' incomes can increase the well-being of California's low-income working families.

Create a State Earned Income Tax Credit

The federal Earned Income Tax Credit (EITC) is one of the most powerful tools available to boost the incomes of working families. In 2005, 2.5 million California households – nearly one out of every six tax returns filed – claimed $4.6 billion in federal EITC benefits.[14] The federal EITC uses the tax code to supplement the earnings of low-wage workers by offsetting federal income taxes and some or all of the federal payroll taxes paid by these workers. Eligibility is limited to low-income families and individuals with earnings from work. The amount of the credit depends on family size and income. For example, the maximum EITC for a single parent raising two or more children is $4,716 in 2007.[15] The credit declines as income rises above $15,390, and such families remain eligible for the credit until their income reaches $37,783.[16]

Research shows that the federal EITC encourages work among low-income parents and "has been especially effective in encouraging single parents, particularly women, to obtain employment."[17] However, earnings combined with the federal credit do not guarantee an escape from poverty for all families. A state EITC would help to offset state payroll, sales, and excise taxes paid by California's low-income working families, thereby working in tandem with the federal credit to boost the earnings that families receive from work.[18] For example, a single parent with two children who works full-time at the minimum wage in 2007 would qualify for a federal EITC of $4,672 (Table 4). A state EITC equal to 15 percent of the federal credit would further increase this family's income by $701 (3.6 percent).

Nineteen states and the District of Columbia have state EITCs that complement the federal EITC to further boost the incomes of working families. The state credit is refundable in 15 states, including Illinois, Michigan, New Jersey, and New York, as well as the District of Columbia.[19] Refundability is a key feature of an EITC, since families receive a refundable credit whether or not they owe income tax. The credit is first used to reduce a family's tax liability, with any remainder returned to the family as a refund. Refundability would be a crucial component of a California EITC, since most low-income families do not owe state income tax due to the state's high income tax thresholds (Table 5).[20]

A state EITC, patterned on the federal credit and targeted to families eligible for the federal credit, would be relatively easy to implement. Administrative costs for the federal credit are less than 1 percent of the total cost. The cost of administering a state EITC would likely be even lower since "the Internal Revenue Service does much of the work."[21] In addition, outreach efforts can be coordinated with the federal government to make sure that families who are eligible for the credit actually claim it.

Table 4: How Would a State EITC Help a Family of Three Earning the Minimum Wage of $7.50 Per Hour?

	No State EITC	Add State EITC
Annual Earnings for Full-Time Work*	$15,600	$15,600
Federal and State Payroll Taxes	($1,287)	($1,287)
Take-Home Pay	$14,313	$14,313
Federal "Additional Child Tax Credit"	$578	$578
Federal EITC	$4,672	$4,672
State EITC (15 Percent of Federal EITC)	$0	$701
Total Income Including Credits	$19,563	$20,264

* Assumes 40 hours of work per week, 52 weeks per year.
Note: Reflects earnings and credits for tax year 2007. Family of three assumes one adult and two children.
Source: CBP analysis of Department of Finance, Employment Development Department, Internal Revenue Service, and US Census Bureau data

Table 5: California's Personal Income Tax Thresholds Are High

	2006 Tax Threshold	2006 Federal Poverty Line	Tax Threshold as a Percentage of the Federal Poverty Line
Single, no children	$14,261	$10,488	136%
Married, no children	$28,571	$13,500	212%
Head of household, one child	$38,271	$13,896	275%
Married, one child	$40,471	$16,227	249%
Head of household, two children	$45,371	$16,242	279%
Married, two children	$47,671	$20,444	233%

Note: Assumes families claim the standard deduction and the renters' tax credit. In addition, assumes single adults and heads of household in families of two are under age 65.
Source: Franchise Tax Board and US Census Bureau

Index the State's Minimum Wage to Inflation

In 2006, California took an important step toward making work pay by boosting the state's minimum wage by $1.25 per hour over two years, the first increase since the minimum wage was set at $6.75 per hour in January 2002. The state's minimum wage increased to $7.50 per hour on January 1, 2007 and will rise to $8.00 per hour on January 1, 2008. This increase will benefit nearly 1.4 million California workers who earned less than $8.00 per hour in 2006, a majority of whom were adults.[22] However, because California's minimum wage does not increase to reflect inflation, the purchasing power of the minimum wage will erode unless the state subsequently acts to increase it.

California could take the next step and "index" the state's minimum wage so that its purchasing power is not eroded by inflation. Indexing would automatically adjust the minimum wage to keep pace with the cost of living, thereby ensuring that the purchasing power of the minimum wage remains the same over time. Indexing likely would result in modest annual increases to the minimum wage because inflation has increased by an average of 3.0 percent per year in California since 2001. A 3.0 percent increase would raise the state's minimum wage from $8.00 per hour in 2008 to $8.24 per hour in 2009. Five states – Florida, Nevada, Oregon, Vermont, and Washington – annually adjust their states' minimum wage based on changes in inflation.[23]

Indexing would also help to maintain California's minimum wage above the federal minimum wage, thus reflecting the state's high cost of living relative to that of the rest of the US. President Bush recently signed a law increasing the federal minimum wage from $5.15 per hour to $5.85 per hour in July 2007, to $6.55 per hour in July 2008, and to $7.25 per hour in July 2009. California's minimum wage will exceed the federal minimum wage by $2.15 per hour in January 2008, when the state's minimum wage increases to $8.00 per hour – an annual difference of $4,472 for full-time, year-round work. However, California's wage advantage compared to the US would drop to just 75 cents per hour in July 2009 – an annual difference of $1,560 for full-time, year-round work – if California's minimum wage remains frozen at $8.00 per hour in 2009.

Although conventional wisdom holds that increasing the minimum wage reduces employment, empirical evidence suggests otherwise. According to the 1999 Economic Report of the President, "the weight of the evidence suggests that modest increases in the minimum wage have had very little or no effect on employment."[24] Since indexing likely would result in modest increases to the state's minimum wage, employment effects almost certainly would be minimal.

Despite the recent increase, the state's minimum wage continues to fall short of providing sufficient income to lift low-income families out of poverty. For example, an individual who works full-time at the minimum wage in 2007 will earn $15,600 before federal and state payroll-tax deductions – $959 less than the projected 2007 poverty line for a family of three (Table 6).[25] By protecting the purchasing power of the state's minimum wage, indexing would help ensure that California's low-wage workers and their families do not fall deeper into poverty.

How Does Indexing Work?

Indexing would adjust the minimum wage by the same percentage that inflation rises each year. For example, if inflation increased by 2 percent, then the minimum wage would rise by 2 percent. One common measure of inflation is the Consumer Price Index for All Urban Consumers (CPI-U). The CPI-U measures the average change over time in the prices paid by urban consumers for commonly purchased goods and services.

Table 6: California's Minimum Wage Will Continue to Fall Short of Lifting a Family of Three with a Full-Time Worker Out of Poverty

	2007	2008
Hourly Minimum Wage	$7.50	$8.00
Annual Earnings for Full-Time Work*	$15,600	$16,640
Projected Federal Poverty Line	$16,559	$16,893
Amount Below the Projected Poverty Line	$959	$253
Earnings as a Percentage of Projected Poverty Line	94.2%	98.5%

* Assumes 40 hours of work per week, 52 weeks per year.
Note: The projected federal poverty line is based on the projected increase in the Consumer Price Index for All Urban Consumers (CPI-U). Family of three assumes one adult and two children.
Source: CBP analysis of Department of Finance and US Census Bureau data

Increase the Amount of Child Support Paid to Families

Child support provides a crucial source of income for parents and their children. Nationally, child support is the second-largest source of income for families who receive such payments – after the mother's earnings – and lifts hundreds of thousands of children out of poverty.[26] Research shows that child support comprises, on average, approximately one-sixth (16.8 percent) of the incomes of the families who receive it. These payments make up a larger share (30.0 percent) of the incomes of families with incomes below the poverty line.[27]

However, many absent parents do not meet their child support obligations, in part because they have low incomes and thus have limited ability to pay the amounts they owe.[28]

California's Child Support Program uses state and federal dollars to collect payments owed to parents and their children.[29] Families are eligible for services regardless of income, although the program tends to serve lower-income families, who generally are unable to enforce their child support orders privately.[30] The Child Support Program serves families who currently receive, or formerly received, cash assistance through the California Work Opportunity and Responsibility to Kids (CalWORKs) Program, as well as families who have never received cash assistance.[31] In California, the program assisted nearly 2 million children and collected $2.2 billion from absent parents during federal fiscal year (FFY) 2006.

California's Child Support Program collected just half (50.4 percent) of the child support owed to families who participated in the program in FFY 2006.[32] Overall, California collected $2.03 in child support for every dollar spent on the program in FFY 2006, the lowest level in the US and less than half of the $4.58 in child support collected for every dollar spent nationally.[33] In order to boost the amount of child support that the state's low-income working families receive, California could:

- **Increase efforts to collect more of the child support owed to families.** A majority of child support collected by California's Child Support Program is automatically deducted from the paychecks of absent parents. For example, the state collected $1.4 billion in child support through automatic deductions in 2005-06 – 61.8 percent of the total amount collected that year. An Urban Institute study of California's Child Support Program found that absent parents who are subject to automatic deductions are more likely to pay child support than parents who are not subject to such deductions. However, the authors concluded that the state's use of this enforcement tool is "incomplete" and that automatic deductions "should be even more aggressively pursued."[34]

- **Establish child support payments that reflect the absent parent's ability to pay.** Payments are often set too high relative to absent parents' ability to pay, which can discourage individuals from paying. For example, The Urban Institute found that absent parents in California with annual incomes between $10,001 and $15,000 owed more than $3,400 per year in child support.[35] This disparity between a parent's income and the amount of child support owed can occur when a child support payment is set by "default," such as when a parent fails to respond to a court summons.[36] In FFY 2006, more than half (55.1 percent) of the child support payments established under California's Child Support Program were set without the participation of the absent parent.[37] The Urban Institute concluded that imposing large payments on low-income parents is "one of the primary factors" contributing to the state's large amount of unpaid child support, which increased from $15.8 billion in FFY 2000 to $20.0 billion in FFY 2006.[38]

- **Provide more child support to families who receive, or formerly received, CalWORKs cash assistance.** Families who receive, or formerly received, cash assistance through the CalWORKs Program do not receive all of the child support that the state collects on their behalf. The state and federal governments retain – and treat as revenue – a portion of these payments in order to recoup the cost of cash benefits provided to these families. However, California can use changes included in the federal Deficit Reduction Act of 2005 to increase the amount of child support paid to these families – with the federal government sharing the cost.[39]

Strengthen Unemployment Insurance for Low-Wage Workers

The nation's Unemployment Insurance (UI) Program, established as part of the 1935 Social Security Act, is a federal-state partnership that gives states the flexibility to set their own policy priorities.[40] The two central goals of the UI Program are to ensure the financial security of workers who lose their jobs through no fault of their own and to maintain consumer demand during economic downturns. Federal law requires virtually all wage and salary employees to be covered by the UI Program.[41] However, although most workers are covered by UI, fewer than half of California's unemployed workers – 40 percent in 2006 – receive benefits due to the requirement that workers must have lost their job through no fault of their own and meet monetary and other eligibility criteria.[42]

The UI Program disadvantages low-wage workers, who are less likely to receive UI benefits than are their higher-paid counterparts when they lose their jobs through no fault of their own. Nationally, researchers estimate that 17.8 percent of unemployed low-wage workers received benefits in 1995, compared to 40.0 percent of unemployed individuals who had earned higher wages.[43] UI receipt was lower among unemployed low-wage workers even when compared to higher-wage workers who had worked for similar periods before losing their jobs.[44] Women and part-time workers are also less likely to receive UI benefits when they lose their jobs.[45] In order to increase the number of low-wage workers who receive UI benefits, California could:

- **Adopt an "alternative base period" that counts recent earnings when determining eligibility for UI benefits.** Many low-wage workers do not qualify for UI benefits because their earnings were not high enough in the period used to establish UI eligibility. Eligibility for UI benefits is based, in part, on a minimum amount of earnings in the "base period." California's base period includes the first four of the last five completed calendar quarters, disregarding earnings in the current quarter and the most recently completed quarter (Table 7).[46] Excluding recent earnings can prevent low-wage workers with substantial recent work history from qualifying for UI benefits. In order to increase the number of low-wage workers who receive UI benefits, California could adopt an "alternative base period," which considers earnings during the four most recently completed quarters.

Nineteen states and the District of Columbia use alternative base periods to calculate eligibility for UI benefits for workers who do not meet regular base-period earnings requirements.[47] Research shows that an alternative base period can help low-wage, part-time, and intermittent workers.[48] An alternative base period also can reduce the number of families who seek CalWORKs cash assistance. The state's Employment Development Department has estimated that two-thirds of new UI benefits associated with an alternative base period would be paid to individuals who otherwise would have qualified for the CalWORKs Program.[49]

Table 7: California's Base Period for Unemployment Insurance Ignores Recent Work History	
For Claims Beginning in:	Base Period Ends the Previous:
January, February, or March	September 30
April, May, or June	December 31
July, August, or September	March 31
October, November, or December	June 30

Source: Employment Development Department

Policies That Can Help Families Make Ends Meet

Many workers have jobs that fail to provide sufficient incomes to make ends meet. Public policies can help fill the gap by providing access to or reducing the cost of necessities such as child care, food, health care, and housing, all of which are fundamental to Californians' participation in the workforce and the development of healthy families.

Increase Access to Child Care

Quality child care can be prohibitively expensive for low-income working families. The cost of child care may rival, and even exceed, that of housing for families with young children. In 2007, full-time infant care, together with part-time care for a school-aged child, averages a total of more than $1,000 per month in California.[50] Some families are able to obtain assistance through California's child care programs, which provide low-cost child care to eligible families.[51] Eligibility is generally limited to families with incomes at or below 75 percent of the state median income, adjusted for family size.[52] The income eligibility limit for a family of three is $3,628 per month – 253.6 percent of the federal poverty guideline for a family of three in 2007.[53] Licensed child care centers and family child care homes, along with "license-exempt" (unlicensed) individuals, provide child care. Licensed centers and homes often are not able to accommodate the schedules of low-wage workers, who often work nights or rotating shifts. Therefore, many families turn to relatives or friends who can provide license-exempt care.

State and federal funding for child care programs has failed to keep pace with need.[54] Eligible families may wait for months or longer on local lists until funded slots become available, and some families may never receive child care due to limited funding. Lack of adequate child care assistance means that more families must pay the full cost of care or seek less costly and potentially less stable arrangements for their children. Moreover, the state has frozen the income eligibility limit for child care assistance several times since 2000-01, which caused many working families whose incomes increased modestly to prematurely lose eligibility for affordable child care.

In light of these considerations, California could:

- **Expand funding for California's child care programs.** Since 1997, California has made a substantial commitment to provide child care to families who leave the CalWORKs Program. It is critical that the state maintain this commitment in order to help families successfully transition off cash assistance. However, additional state funding is needed to meet the child care needs of other low-income families, who often spend lengthy periods on waiting lists. While the state continues to face difficult budgetary constraints, tens of thousands of California children could benefit from child care assistance if policymakers provided adequate funding.[55]

- **Annually adjust the income eligibility limit for child care assistance as required by state law.** California law requires the state to adjust the income eligibility limit for child care assistance annually to reflect changes in the state's median income.[56] However, the state froze the income limit between 2001-02 and 2005-06.[57] Failure to raise the income limit causes many working families whose incomes are near the limit to lose child care assistance when their incomes increase modestly. Moreover, freezing the income limit means that families pay fees for child care starting at a lower income level than if the limit were raised.[58] Updating the income limit annually would allow working families to retain child care assistance for a longer period and help ensure that fees reflect families' ability to pay.

- **Maintain adequate reimbursement rates for license-exempt care.** Low-wage workers sometimes work unconventional schedules. Access to child care during nontraditional hours is essential for these parents to be able to enter and remain in the labor market. The state should recognize that license-exempt care provided by relatives and others is a crucial resource for low-income working parents and ensure that reimbursement rates for such care are maintained at an adequate level.

Increase Access to Food Stamps

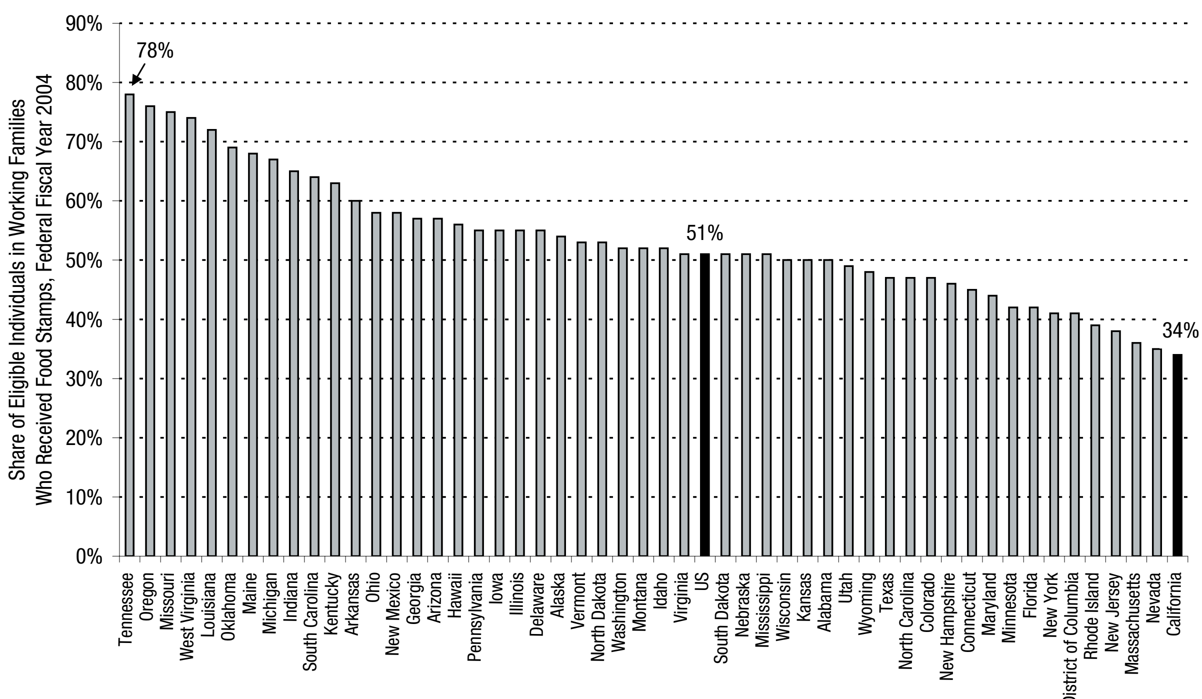
The Food Stamp Program helps 2 million low-income Californians purchase food. The federal government pays the full cost of food stamps, which provided a modest benefit of $1.09 per person per meal in California at a cost of $2.4 billion in FFY 2006.[59] More than nine out of 10 California households (94.1 percent) that receive food stamps have incomes at or below the federal poverty guideline.[60] In addition, the program primarily provides benefits to families with children. In FFY 2005, two-thirds (66.3 percent) of California's 2 million food stamp recipients were children, and households with children received 87.8 percent of food stamp benefits in California.[61]

California has modified its food stamp rules in recent years to enroll more low-income Californians. In 2004, for example, the state began automatically providing five months of food stamps to families who leave CalWORKs cash assistance. Nonetheless, the Food Stamp Program fails to reach approximately 2 million eligible Californians. Fewer than half (46 percent) of the state's estimated 4 million eligible individuals received food stamps in FFY 2004, the lowest rate in the nation.[62] California also ranked last in the share of eligible individuals in working families (34 percent) who received food stamps in FFY 2004 (Figure 4).[63] In contrast, three-quarters or more of eligible individuals in working families in Missouri, Oregon, and Tennessee received food stamp benefits in FFY 2004.

In order to increase enrollment in the Food Stamp Program, California could:

- **Improve public outreach and education efforts.** Many poor families may believe that they are not eligible for benefits if they have earnings from employment. Outreach and education could make families aware of their potential eligibility for food stamps.

Figure 4: California Ranks Last in the Receipt of Food Stamps by Individuals in Working Families



Source: Mathematica Policy Research, Inc.

- **Expand efforts to simplify the Food Stamp Program.** California also could adopt federal options that allow individuals to turn in paperwork every six months to maintain food stamp benefits – rather than the current three-month requirement – and to renew their eligibility by telephone, rather than requiring a visit to the county human services office, which can be burdensome for working families.

- **Eliminate the requirement that food stamp applicants be fingerprinted.** California is one of only three states that require individuals applying for food stamp benefits to be fingerprinted.[64] This policy aims to detect "duplicate aid" fraud, which occurs when an individual seeks to receive benefits in more than one county. However, fingerprinting can discourage participation in the Food Stamp Program. The California State Auditor has concluded that fingerprinting "may add an element of fear" to the application process and "thus may keep some eligible people from applying for needed benefits."[65] In fact, a recent analysis of national data found strong evidence that fingerprinting reduces the number of eligible individuals who receive food stamps.[66] Federal regulations do not require states to use fingerprinting to detect fraud. Most states "use computer matching against existing databases to verify applicants' information."[67]

In addition, Congress can improve the Food Stamp Program.[68] Congress should consider changes that would increase the adequacy of food stamp benefits, as well as boost the number of low-income families who receive them.[69] Specifically, Congress could:

- **Increase the adequacy of food stamp benefits.** The average food stamp benefit of $1.09 per person per meal in California is not adequate to meet a family's basic nutritional needs. In fact, the purchasing power of food stamps has eroded during the past decade due to changes included in the 1996 federal welfare law.[70] Increasing food stamp benefits would not only allow families to buy more food, it would also be an important step toward helping families purchase healthier food, which tends to be more costly than other food options.[71]

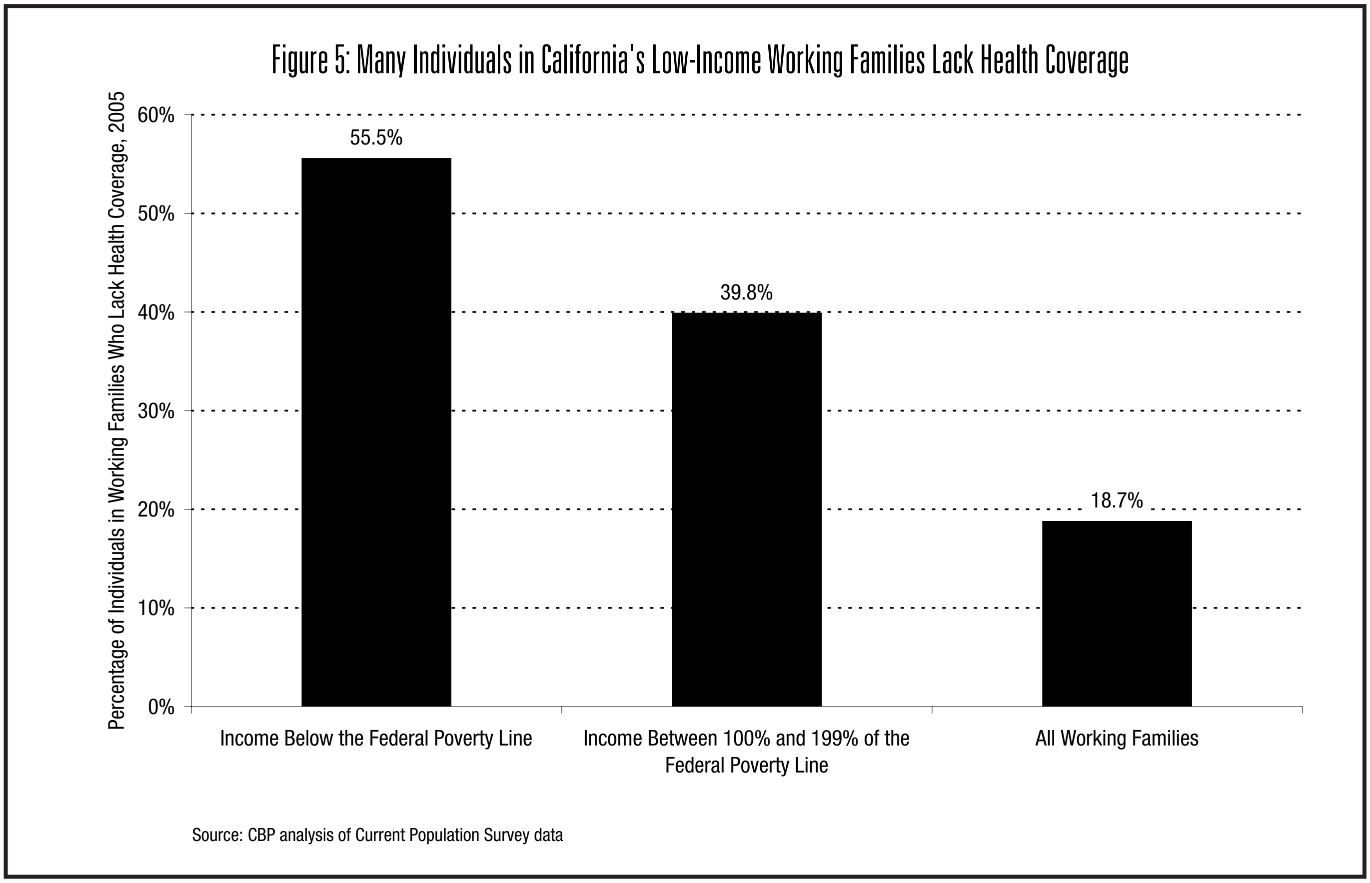
- **Expand the number of low-income Californians who qualify for food stamps.** Federal law generally prohibits unemployed adults without dependent children from receiving food stamps for more than three months in a three-year period, even if no work is available to them.[72] This time limit prevents some of the state's poorest residents who are unemployed for long periods from receiving federal food assistance. Federal law also generally prohibits legal non-citizen adults from receiving federally funded food stamp benefits for their first five years in the US.[73] Congress could lift these exclusions and thereby expand access to federally funded food assistance.

- **Eliminate or modify the Food Stamp Program's restrictive "asset limit."** Most households are ineligible for food stamps if they have more than $2,000 in assets, a threshold that has been frozen for more than 20 years.[74] This restrictive asset limit can prevent low-income working families, who may have saved modest amounts for emergencies or retirement, from qualifying for food stamps during a period of unemployment. These families either must forego food assistance or spend their savings in order to receive food stamp benefits. Congress could eliminate the asset limit, increase the limit to allow families to have more savings, or exclude all retirement savings accounts from the limit.

Increase Access to Health Coverage

One out of five nonelderly Californians – 6.5 million – lacked health coverage during all or part of 2005.[75] The uninsured include a broad range of Californians, although individuals in low-income working families are substantially more likely than are others to lack health coverage (Figure 5). Lower-wage employers – those who pay at least 35 percent of their workers $20,000 or less per year – are least likely to offer such benefits. Just 38 percent of the state's lower-wage employers offered health benefits in 2006, compared to 76 percent of higher-wage employers.[76] In addition, the rising cost of health insurance has led employers to drop coverage or increase workers' share of premiums, putting health coverage out of reach for many low-income individuals.[77] Consequently, the share of Californians under age 65 with job-based health coverage declined from 60.2 percent in 2000 to 55.5 percent in 2005.[78] Workers without access to affordable, job-based health coverage often find that privately purchased health coverage is not an option because it is unaffordable or impossible to obtain.[79]

Rising health care costs, eroding job-based health benefits, and the large number of Californians without health coverage are clear signs that the state, along with the rest of the nation, faces a health care crisis. National health care reform that expands coverage to the uninsured by pooling individuals to spread risk, rather than shifting health care risks and costs to individuals, could be the most effective means to increase access to and the affordability of health care in California. Absent a national solution, California's policymakers – including Governor Schwarzenegger and legislative leaders – are considering multiple and far-reaching proposals to extend health coverage to more Californians. Proposals under consideration include expanding enrollment in publicly funded programs, requiring employers to offer coverage to their workers, requiring all Californians to purchase health coverage,



and subsidizing coverage for individuals who lack access to affordable health insurance. In order to increase the number of individuals in low-income working families with health coverage, California could:

- **Expand efforts to increase enrollment in the Medi-Cal and Healthy Families Programs.** Many uninsured individuals are eligible for, but not enrolled in, these publicly funded programs.[80] For example, more than half (58.6 percent) of the state's 763,000 uninsured children in 2005 were eligible for Medi-Cal or Healthy Families, but were not enrolled.[81] While the state has reduced barriers to enrollment and retention, more could be done. The state could reduce the paperwork that families are required to complete to the minimum required by federal law; allow individuals who are enrolled in other publicly funded programs to receive Healthy Families or Medi-Cal coverage without having to provide duplicate information; streamline the process for children who move from Healthy Families to Medi-Cal coverage; and provide temporary Medi-Cal coverage for children who appear to be eligible for the program, but who lack all of the required documents at the time they apply.[82]

- **Seek federal support to expand Medi-Cal coverage to low-income adults without children.** Low-income adults without children are not eligible for Medi-Cal. Several states, including New York, Oregon, and Arizona, have received permission from the federal government to use federal dollars to expand Medicaid coverage to these adults. California could pursue federal support to help expand coverage to these adults – the poorest of the state's working uninsured.

- **Eliminate the Medi-Cal "asset limit" for low-income families with children.** California restricts the amount of assets that families can have in the Medi-Cal Program, even though the federal government does not require the state to establish an asset limit.[83] For example, Medi-Cal limits a low-income family of three to $3,150 in savings and other assets.[84] Twenty states have eliminated asset limits for low-income families in their Medicaid programs.[85] Low-income families would continue to be subject to income limits and other eligibility requirements if the state disregarded assets. For example, the income of a family applying for Medi-Cal may not exceed the federal poverty guideline.[86] Eliminating the asset limit, however, would remove a significant barrier to health coverage for California's low-income working families.

- **Expand access to job-based health coverage.** The state could expand the number of Californians with access to job-based health coverage by requiring employers to offer – or to spend a specific share of their payroll on – health benefits, or else pay into a state-administered pool that would purchase health coverage.

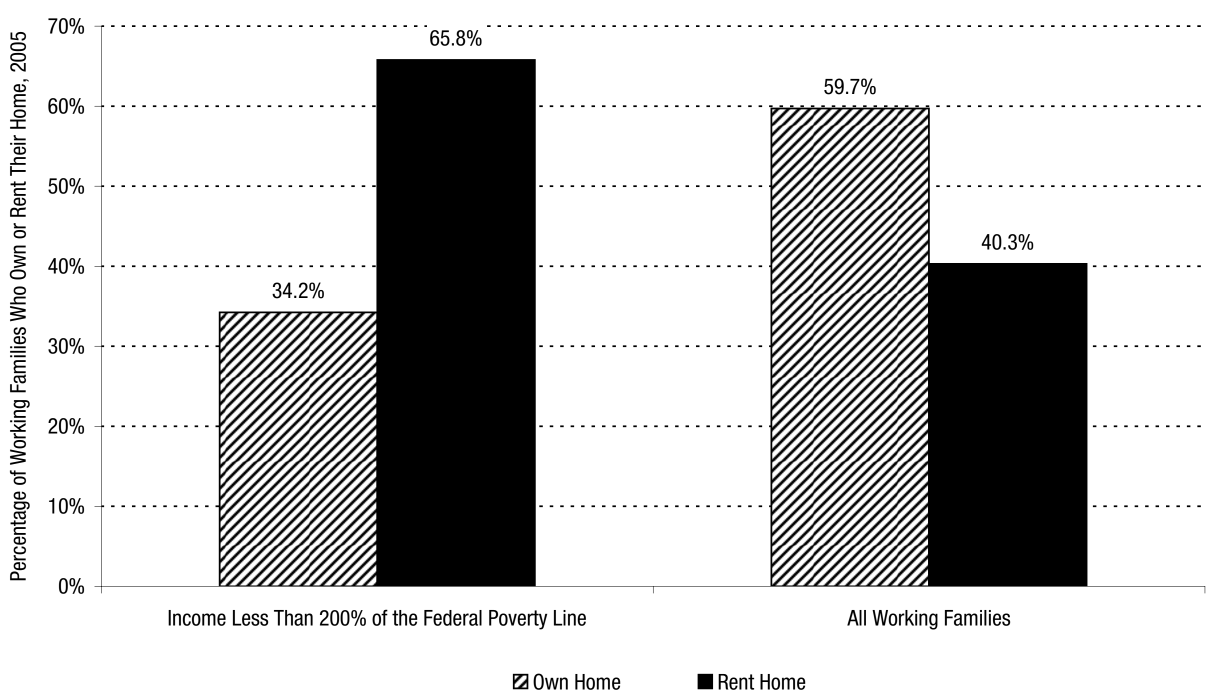
- **Cover all Californians under a single health plan administered by the state.** California could enact a single health plan administered by the state that provides coverage to all Californians. Funding for such a plan could come from current public funds for health coverage programs, such as Medi-Cal, as well as from payroll and other taxes to replace the premiums currently paid by employers and individuals. This approach could lower health spending in California by reducing administrative overhead and using bulk purchasing to lower the cost of prescription drugs and medical equipment.[87] Private doctors and hospitals could continue to provide care, but would be reimbursed by the state health plan, similar to the coverage provided by the federal Medicare Program to seniors.

- **Expand Healthy Families coverage to working parents.** California could seek federal permission to use State Children's Health Insurance Program (SCHIP) funds to extend Healthy Families coverage to parents in families with incomes up to twice the poverty line.[88] SCHIP funds pay 65 percent of the cost of Healthy Families, with state funds making up the remaining 35 percent. Although federal SCHIP funds are currently scarce, Congressional leaders have vowed to increase funding for SCHIP substantially in FFY 2008 and beyond. The availability of a two-to-one federal match could make this a cost-effective strategy for increasing health coverage among low-income parents, assuming that sufficient federal funds are available to allow the state to cover both children and parents.

Increase Access to Affordable Housing

Housing constitutes the single largest expenditure for most California families, and the state suffers from an acute shortage of affordable housing. The problem is particularly severe for low-income working families, who face significant cost burdens and are much more likely to rent than to own their home (Figure 6). Construction of rental housing has not kept pace with need, and California has the second most expensive rental housing in the nation, after Hawaii.[89] Many low-income families spend more than the recommended 30 percent of their income on housing (Table 8).[90] In 2005, for example, more than nine out of 10 California households with annual incomes under $20,000 (91.2 percent) spent 30 percent or more of their incomes on rent, compared to just over half (54.5 percent) of all renter households. The disparity between rent and incomes is illustrated by the fact that a Californian earning the state's minimum wage of $7.50 per hour in 2007 would need to

Figure 6: Nearly Two-Thirds of California's Low-Income Working Families Rent Their Homes



Source: CBP analysis of Current Population Survey data

Table 8: Most Low-Income Renters and Owners Spend More Than the Recommended Share of Income on Housing		
	Share of Households with Incomes Under $20,000 Spending 30 Percent or More of Their Income on Housing, 2005	
County	Renter Households	Owner Households
San Francisco	83.8%	76.2%
Santa Cruz	84.2%	74.2%
US	86.2%	68.0%
Sacramento	87.5%	69.2%
Santa Clara	89.0%	81.3%
Ventura	89.5%	70.9%
Alameda	91.0%	78.6%
San Joaquin	91.1%	68.8%
Riverside	91.2%	69.0%
California	91.2%	73.0%
Contra Costa	91.4%	72.4%
Fresno	91.6%	71.1%
Orange	92.3%	76.6%
Los Angeles	92.4%	76.6%
San Mateo	92.6%	68.0%
San Bernardino	92.9%	71.9%
Kern	93.3%	69.0%
San Diego	93.5%	74.9%
San Luis Obispo	95.9%	69.2%

Source: CBP analysis of American Community Survey data

work 100 hours per week, year-round, in order to afford the statewide Fair Market Rent (FMR) of $972 per month for a one-bedroom unit.[91] Moreover, despite the recent slowdown in housing prices, homeownership remains out of reach for many Californians, even middle- and upper-middle-income families. In the first quarter of 2007, eight of the nation's 10 least-affordable housing markets in large metropolitan areas were in California.[92]

California's housing crisis is rooted in a fundamental mismatch between supply and demand, particularly the supply of housing that is affordable to lower-income families. Although two recent statewide bonds have provided funding for California's housing programs, the state could enact additional measures that would encourage local governments to increase the supply of affordable housing.[93] Specifically, California could:

- **Penalize communities that violate – and reward communities that comply with – the state's fair-share housing law.** California requires local governments to adequately plan for existing and projected housing needs by periodically updating the "housing element" of their general plans.[94] This requirement aims to ensure that local governments accommodate their "fair share" of a region's housing needs, including housing affordable to low- and moderate-income families. The housing element is subject to detailed statutory requirements and mandatory review by the state Department of Housing and Community Development (HCD). However, the state does not have the authority to penalize localities that fail to comply.

  Many local governments do not comply with the fair-share housing law.[95] For example, one-tenth (10 percent) of the state's 478 cities and 58 counties were out of compliance with their housing elements as of July 2007.[96] Research indicates that compliance with the law affects the mix of housing in a community.[97] Specifically, cities that do not comply with housing elements build more single-family housing and fewer rental units, which tend to be more affordable to low-income families.[98] This finding suggests that "thorough housing planning diversifies the mix of new residential development in the community" by encouraging the construction of rental housing.[99]

  The state could penalize communities that violate the fair-share housing law by, for example, withholding funds for infrastructure. California also could reward communities that meet specified performance standards, such as complying with the fair-share housing law and meeting their affordable housing production goals. For example, the state could exempt such communities from the HCD review process, allowing them to "self-certify" their housing elements during a subsequent update.[100]

- **Require local governments to adopt "inclusionary zoning" policies.** Inclusionary zoning policies aim to increase the supply of affordable housing by requiring or encouraging developers to include a certain percentage of housing units – usually 10 to 20 percent – that are affordable to lower- and moderate-income households in new residential developments.[101] California does not require local governments to adopt inclusionary zoning policies.[102] Fewer than one-third (31.7 percent) of the state's cities and counties – an estimated 170 – used these policies as a tool to develop affordable housing 2006.[103] One study estimates more than 34,000 affordable houses and apartments have been built in California due to inclusionary zoning policies since the 1970s.[104] In order to boost the supply of affordable housing, the state could require local governments to adopt mandatory inclusionary zoning policies within a broad state framework that allows for a degree of local flexibility.

Policies That Can Help Families Build and Protect Assets

Many strategies to help low-income working families make ends meet focus on increasing families' income and access to services or assistance, such as child care and food stamps. However, research suggests that public policies should also help families build and protect "assets," such as savings or a home.[105] Assets are critical to the well-being of low-income families because they can be used to make ends meet during a period of unemployment; cope with unanticipated expenses, such as car repairs; or finance an investment, such as a business, a home, or education and training. Most low-income families lack substantial assets. In 2004, the median – or midpoint – value of financial assets of families with annual incomes of less than $18,900 was just $1,300.[106] California could take a number of steps to help low-income working families acquire and maintain assets.

Eliminate Asset Limits in Programs That Assist Low-Income Families

California restricts the amount of assets that families can have and qualify for assistance in the CalWORKs and Medi-Cal Programs, even though the federal government does not require asset limits in those programs.[107] For example, the Medi-Cal Program limits a low-income family of three to $3,150 in savings and other assets.[108] Such stringent limits can discourage low-income families from saving. California could remove a disincentive to save by eliminating asset limits in CalWORKs and Medi-Cal. In addition, the state could exempt certain households from the $2,000 asset limit in the Food Stamp Program, which the federal government has not increased for more than two decades.[109]

Support Universal Children's Savings Accounts

The state could create an investment account for every child born in California and make an initial deposit into every account. Additional contributions could come from family and friends and, eventually, from the child. Funds could be withdrawn starting at age 18 and could be used to pay for education or job training, to purchase a home, or to fund a retirement account.[110]

Require State-Chartered Banks to Offer Basic Checking Accounts

Families without access to a bank often use check cashers or other financial service providers that typically charge high fees, which reduces the amount of income available to families. In order to expand access to low-cost checking accounts, California could require state-chartered banks to offer basic checking accounts that include a low minimum-balance requirement, have no or limited monthly fees, and waive overdraft fees for a limited period, such as one year.

Expand Lending and Investment in Low-Income Communities

The federal Community Reinvestment Act (CRA) encourages certain financial institutions to invest in the communities in which they operate, including low- and moderate-income neighborhoods.[111] The CRA has expanded access to mortgages for low-income homebuyers by increasing the availability of credit in underserved communities.[112] California could enact a state CRA that covers state-chartered banks and other financial institutions – such as credit unions – in order to further increase mortgage lending in low-income neighborhoods.[113] Moreover, the state could require insurance companies to invest in the communities where their customers live in order to provide additional investment in underserved areas.

Promote Consumer Financial Education

Financial education can increase individuals' understanding of saving and the use of credit. Many individuals who obtain short-term "payday" loans, for example, become locked into costly debt cycles.[114] Moreover, many families with low incomes or poor credit have purchased homes or refinanced their mortgages using "subprime" loans that include higher interest rates and fees than standard "prime" loans. Subprime loans may "carry unreasonable and unjustifiable fees, penalties, or loan terms."[115] In some cases, lenders provided these high-cost loans to families who could have qualified for more affordable, less risky financing.[116] California could require lenders to provide clear, concise, and understandable information on the total cost of loans; launch a public awareness campaign to increase consumers' knowledge of the risks of high-cost financing; and include information regarding money management and the benefits of saving in the high school curriculum.

Curb Abusive "Payday" Lending Practices

Payday lenders provide short-term cash loans with annual interest rates that can exceed 400 percent. Many borrowers become locked into costly debt cycles, paying fees that far exceed the amount of the original loan.[117] California could regulate payday lending more strictly, including capping annual interest rates at 36 percent, setting longer minimum loan terms, and requiring that borrowers repay principal and interest in regular installments.

Curb Abusive Tax Preparation Practices

Some tax preparers offer high-cost, short-term loans that allow tax filers to borrow against a tax refund – including the federal EITC – in order to receive it more quickly. Nationally, tax filers took out 9.6 million "refund anticipation loans" (RALs) in 2005 and paid nearly $1 billion in fees, which can range from 85 percent to 170 percent on an annualized basis for a typical refund of $2,500.[118] California requires tax preparers to post RAL fees and disclose loan terms in writing. The state could go further by capping fees, regulating tax preparers more strictly, and prohibiting state tax refunds from being disbursed in this manner.

CONCLUSION

Approximately 2 million working Californians have incomes below twice the poverty line. Moreover, forecasts suggest that low-wage jobs will continue to account for a significant share of California's economy. Thus, millions of Californians will continue to work in jobs that fail to provide wages sufficient to raise a family, let alone achieve economic self-sufficiency, even as these workers contribute to the state's prosperity. Strategies described in this report include increasing families' incomes; increasing families' access to child care, food stamps, health care, and affordable housing; and helping families build and protect assets.

Some of these policies will be costly. The cost of doing nothing, however, will be far greater over the long term to the extent that poverty and inequality worsen. The state's economic strength will continue to depend on the hard work of Californians, including low-wage workers. Policymakers can help ensure that those who work to support themselves and their families can build a better future for themselves and their children.

ENDNOTES

[1] Nearly one out of five jobs (19.3 percent) projected to be added to the state's economy between 2004 and 2014 typically paid $10 per hour or less in 2006. CBP analysis of Employment Development Department data.
[2] CBP analysis of Current Population Survey data. The most recent year for which income data are available is 2005. This report defines working families as those with a half-time worker or the equivalent. A "family" can consist of single adults, married couples, and parents with children. A "working family" is defined as one in which the head of the family and the spouse, if present, work a total of at least 1,040 hours per year – 20 hours per week times 52 weeks. In addition, families are included in the analysis only if they have an adult between the ages of 25 and 64 who is not prevented from working by illness or disability. These definitions allow the analysis to focus on families with adults who are in their prime working years and do not have significant impediments to work.
[3] In this report, the "federal poverty line" refers to the US Census Bureau's poverty thresholds, which are the federal government's official statistical definition of poverty, vary by family size, and are adjusted annually for inflation. The poverty line for a family of three with two children was $15,735 in 2005 and increased to $16,242 in 2006. The CBP estimates that the poverty line will rise to $16,559 in 2007 based on the projected increase in the Consumer Price Index for All Urban Consumers (CPI-U). The US Census Bureau will not publish official poverty thresholds for 2007 until 2008.
[4] Twice the poverty line is used by some experts as a more accurate measure of economic well-being than the poverty line. However, even this amount is too low to allow California's working families to make ends meet, as discussed below.
[5] Nancy K. Cauthen and Hsien-Hen Lu, *Employment Alone Is Not Enough for America's Low-Income Children and Families* (National Center for Children in Poverty, Columbia University: August 2003), p. 8.
[6] For a review of the literature, see US Government Accountability Office, *Poverty in America: Economic Research Shows Adverse Impacts on Health Status and Other Social Conditions as well as the Economic Growth Rate* (January 2007).
[7] US Government Accountability Office, *Poverty in America: Economic Research Shows Adverse Impacts on Health Status and Other Social Conditions as well as the Economic Growth Rate* (January 2007), pp. 19-20.
[8] Harry J. Holzer, et al., *The Economic Costs of Poverty in the United States: Subsequent Effects Of Children Growing Up Poor* (Center for American Progress: January 24, 2007), p. 1. This study estimates that the costs associated with childhood poverty total approximately $500 billion per year, or nearly 4 percent of US gross domestic product.
[9] Policy recommendations related to education and training for low-wage workers are included in California Budget Project, *Working Hard, Falling Short: Investing in California's Working Families* (January 2005).
[10] The 2007 poverty line is estimated based on the projected increase in the Consumer Price Index for All Urban Consumers (CPI-U).
[11] The data in this section are derived from the 2006 Current Population Survey. The income data reported in the 2006 survey are from 2005, while the demographic data are from 2006.
[12] See Endnote 2 for the definition of working families used in this report.
[13] Other sources of income include child support, cash assistance, interest, and dividends.
[14] Internal Revenue Service, *Table 2. – Individual Income and Tax Data, by State and Size of Adjusted Gross Income, Tax Year 2005*, downloaded from http://www.irs.gov/pub/irs-soi/05in05ca.xls on July 9, 2007.
[15] Qualifying children include sons and daughters, stepchildren, and certain foster children who live with the worker for more than half the year.
[16] In addition, single workers who are not raising children in their homes and who earn less than $12,590 in 2007 are eligible for a credit of up to $428.
[17] National Bureau of Economic Research, "The Earned Income Tax Credit Raises Employment," *The NBER Digest* (August 2006), p. 4.
[18] For additional information about the benefits and implementation of a state EITC, see California Budget Project, *How Can a State Earned Income Tax Credit Help California's Working Poor Make Ends Meet?* (March 2001).
[19] Michigan's EITC was created in 2006 and takes effect in 2008.
[20] A tax threshold is the income level at which an individual or family begins to pay income taxes.
[21] Nicholas Johnson, *Testimony Before the Pennsylvania House of Representatives Finance Committee on State Earned Income Tax Credits* (Center on Budget and Policy Priorities: March 22, 2006), p. 4. According to the author, "the federal government uses mechanisms such as large databases of social security numbers to screen for ineligible EITC applicants and reject their claims. States, in effect, piggyback on these federal enforcement mechanisms."
[22] CBP analysis of Current Population Survey data. This analysis includes individuals who earned between $6.75 per hour and $7.99 per hour in 2006. An increase in the minimum wage also affects the hourly wages of workers earning just above the minimum wage, since employers tend to increase the wages of those employees to maintain pay differentials based on experience or other factors.
[23] Nevada will index its minimum wage to inflation starting in July 2007. In addition, Arizona, Colorado, Missouri, Montana, and Ohio will index their states' minimum wage to inflation starting in 2008.
[24] Council of Economic Advisors, *Economic Report of the President* (Washington, DC: February 1999), p. 112.
[25] Annual earnings at the minimum wage assumes 40 hours of work per week, 52 weeks per year. The projected 2007 poverty line is based on the projected increase in the Consumer Price Index for All Urban Consumers (CPI-U).
[26] Elaine Sorensen and Chava Zibman, *Child Support Offers Some Protection against Poverty* (The Urban Institute: March 2000), pp. 1 and 3.
[27] Elaine Sorensen, *Child Support Gains Some Ground* (The Urban Institute: October 2003). Data are from the 2002 National Survey of America's Families. The poverty line for a family of three with two children in 2005 was $15,735.
[28] Elaine Sorensen and Helen Oliver, *Policy Reforms Are Needed to Increase Child Support from Poor Fathers* (The Urban Institute: April 2002), pp. 1 and 4.
[29] The program is administered by the Department of Child Support Services through county child support agencies. In addition to collecting child support payments, the program locates non-custodial parents, establishes paternity, and enforces child support and medical support orders. At the federal level, the Child Support Program is overseen by the Office of Child Support Enforcement in the US Department of Health and Human Services. In 2001, 60.0 percent of single-parent families in the US participated in their state's Child Support Program. Linda Mellgren et al., *Characteristics of Families Using Title IV-D Services in 1999 and 2001* (US Department of Health and Human Services: October 2004), downloaded from http://aspe.hhs.gov/hsp/CSE-Char04/index.htm on November 28, 2006.
[30] Elaine Sorensen, *Child Support Gains Some Ground* (The Urban Institute: October 2003), p. 1.
[31] The CalWORKs Program provides services and cash assistance to eligible low-income families with children.
[32] This figure excludes past-due child support collections.
[33] US Department of Health and Human Services, Office of Child Support Enforcement data.
[34] Dr. Elaine Sorensen, et al., *Examining Child Support Arrears in California: The Collectibility Study* (The Urban Institute: March 2003), p. ES-18.
[35] Dr. Elaine Sorensen, et al., *Examining Child Support Arrears in California: The Collectibility Study* (The Urban Institute: March 2003), p. ES-9. The median monthly child support payment for individuals with incomes between $10,001 and $15,000 was $285, which is equivalent to $3,420 per year. These data refer to absent parents with a child support debt, rather than all parents who are obligated to pay child support.
[36] Parents may fail to appear because "they are not aware of the legal proceeding being brought against them or they do not understand that they are required to make a legal appearance." Dr. Elaine Sorensen, et al., *Examining Child Support Arrears in California: The Collectibility Study* (The Urban Institute: March 2003), p. ES-16.
[37] Department of Child Support Services, *Comparative Data for Managing Program Performance Federal Fiscal Year 2006* (February 2007), Table 3.12.
[38] Dr. Elaine Sorensen, et al., *Examining Child Support Arrears in California: The Collectibility Study* (The Urban Institute: March 2003), p. ES-20 and US Department of

Health and Human Services, Office of Child Support Enforcement data.

39 See California Budget Project, *Back Where It Belongs: California Can Use New Flexibility to Increase Child Support Paid to Families* (February 2007).

40 For an overview and analysis of California's UI system, see California Budget Project, *Building a Sound Foundation for California's Unemployment Insurance System* (April 2004).

41 In California, excluded wage and salary employees include ministers and other individuals employed for religious purposes, certain household workers, elected officials, and family members employed by partnerships or sole proprietorships.

42 Recipiency data for 2006 are from US Department of Labor, Employment & Training Administration, *Unemployment Insurance Chartbook*, downloaded from http://www.doleta.gov/unemploy/chartbook.cfm on February 23, 2007.

43 US General Accounting Office, *Unemployment Insurance: Role as Safety Net for Low-Wage Workers Is Limited* (December 2000), p. 15. Low-wage workers are defined as those who earned $8.00 per hour or less in 1999 dollars.

44 US General Accounting Office, *Unemployment Insurance: Role as Safety Net for Low-Wage Workers Is Limited* (December 2000), p. 15. For example, "nearly 35 percent of unemployed low-wage workers who had worked at least 35 weeks during the year collected UI. In contrast, about 62 percent of unemployed higher-wage workers who had worked at least the same number of weeks collected UI."

45 As cited in Young-Hee Yoon, Roberta Spalter-Roth, and Mark Baldwin, *Unemployment Insurance: Barriers to Access for Women and Part-Time Workers* (National Commission for Employment Policy: July 1995), p. 1.

46 Employment Development Department, *Unemployment Insurance Miscellaneous – MI 15*, downloaded from http://www.edd.ca.gov/uibdg/umi15.htm on November 22, 2006.

47 Personal communication with National Employment Law Project (February 23, 2007). The 19 states are Connecticut, Georgia, Hawaii, Illinois, Maine, Massachusetts, Michigan, New Hampshire, New Jersey, New Mexico, New York, North Carolina, Ohio, Oklahoma, Rhode Island, Vermont, Virginia, Washington, and Wisconsin. See Andrew Stettner, Heather Boushey, and Jeffrey Wenger, *Clearing the Path to Unemployment Insurance for Low-Wage Workers: An Analysis of Alternative Base Period Implementation* (National Employment Law Project and Center for Economic and Policy Research: August 2005), p. 6.

48 Andrew Stettner, Heather Boushey, and Jeffrey Wenger, *Clearing the Path to Unemployment Insurance for Low-Wage Workers: An Analysis of Alternative Base Period Implementation* (National Employment Law Project and Center for Economic and Policy Research: August 2005), p. 34, and Wayne Vroman, *The Alternative Base Period in Unemployment Insurance: Final Report* (US Department of Labor: 1995), p. 21.

49 Senate Floor analysis of AB 3010 (July 1, 2002).

50 CBP analysis of data from ORC Macro, *2004-2005 Regional Market Rate (RMR) Survey of California Child Care Providers* (no date). Data were adjusted for inflation using the Consumer Price Index for child care.

51 See California Budget Project, *California's Child Care and Development System* (April 2005) for an overview of the state's child care programs.

52 Children generally must be younger than age 13 to receive child care assistance, although certain older children are eligible for services.

53 This income eligibility limit took effect on January 1, 2007. The federal poverty guideline for a family of three is $17,170 in 2007. The poverty guidelines are a simplified version of the US Census Bureau's poverty thresholds and are used to help determine eligibility for certain programs. The US Department of Health and Human Services updates the poverty guidelines each year.

54 See California Budget Project, *California's Child Care and Development System* (April 2005), pp. 7-8 and Danielle Ewen and Hannah Matthews, *Families Forgotten: Administration's Priorities Put Child Care Low on the List* (Center for Law and Social Policy: February 5, 2007).

55 The California Budget Project previously estimated that more than 250,000 California children needed child care assistance in 2000-01, but were not able to receive it due to limited funding. See California Budget Project, *How Many Children Need Subsidized Child Care in California?* (Updated March 28, 2001).

56 See California Budget Project, *Updating California's Income Limit for Subsidized Child Care* (May 2006).

57 The state increased the income eligibility limit in 2006-07. In addition, the Legislature's budget committees rejected the Governor's proposal to freeze the limit in 2007-08. However, this difference remained unresolved at the time this report went to press because the state had not yet enacted the 2007 Budget Act. The CBP estimates that the income limit would increase by 3.9 percent in 2007-08 if the state adjusts it.

58 Families begin to pay graduated fees for child care assistance when their incomes reach approximately 40 percent of the median income for their family size.

59 CBP analysis of US Department of Agriculture data. FFY 2006 data are preliminary. The federal, state, and county governments share the cost of administering the Food Stamp Program.

60 US Department of Agriculture, Food and Nutrition Service, *Characteristics of Food Stamps Households: Fiscal Year 2005* (September 2006), p. 67. FFY 2005 is the most recent year for which characteristics data are available. The federal poverty guideline for a family of three is $17,170 in 2007.

61 US Department of Agriculture, Food and Nutrition Service, *Characteristics of Food Stamp Households: Fiscal Year 2005* (September 2006), pp. 65 and 75 and Center on Budget and Policy Priorities analysis of FFY 2005 Food Stamp Program Quality Control data.

62 Karen E. Cunnyngham, Laura A. Castner, and Allen L. Schirm, *Reaching Those in Need: State Food Stamp Participation Rates in 2004* (Mathematica Policy Research, Inc.: October 2006). FFY 2004 is the most recent year for which these data are available. The Department of Social Services maintains that the methodology used in this study understates California's food stamp participation rate relative to that of other states by as much as 10.5 percentage points because it does not include recipients of assistance through the state's Supplemental Security Income/State Supplementary Payment (SSI/SSP) Program. SSI/SSP recipients in California do not receive food stamps, but instead receive a modestly higher level of cash assistance. California is the only state that "cashes out" food stamp benefits for SSI/SSP recipients. Modifying the methodology to include the state's SSI/SSP recipients would improve California's ranking relative to that of other states, but would not reduce the approximately 2 million eligible Californians who fail to receive food stamps.

63 Eligible individuals in working families are those who are eligible for the Food Stamp Program and live in households in which someone earns income from a job.

64 The other states are Arizona and Texas. California also requires applicants for the CalWORKs Program to be fingerprinted.

65 California State Auditor, *Statewide Fingerprint Imaging System: The State Must Weigh Factors Other Than Need and Cost-Effectiveness When Determining Future Funding for the System* (January 2003), p. 32.

66 Caroline Ratcliffe, Signe-Mary McKernan, and Kenneth Finegold, *The Effect of State Food Stamp and TANF Policies on Food Stamp Program Participation* (The Urban Institute: March 2007). This study found that requiring applicants to be fingerprinted can reduce food stamp receipt by as much as 4.3 percentage points. The study uses data from the 1996 and 2001 panels of the Survey of Income and Program Participation.

67 California State Auditor, *Statewide Fingerprint Imaging System: The State Must Weigh Factors Other Than Need and Cost-Effectiveness When Determining Future Funding for the System* (January 2003), p. 1.

68 Congress must reauthorize the Food Stamp Program by September 30, 2007. The Food Stamp Program is one of several programs authorized in the 2002 "Farm Bill," which is officially titled the Farm Security and Rural Investment Act of 2002 (Public Law 107-171).

69 See California Budget Project, *Congress Can Strengthen the Food Stamp Program* (May 2007) for a comprehensive list of options that Congress could adopt to improve the Food Stamp Program.

70 The 1996 federal welfare law is officially titled the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (Public Law 104-193).

71 "[H]igh-fat, energy-dense diets…are more affordable than are prudent diets based on lean meats, fish, fresh vegetables, and fruit." Adam Drewnowski and S.E. Specter, "Poverty and obesity: the role of energy density and energy costs," *The American Journal of Clinical Nutrition* 79 (January 2004).

72 This provision applies to adults under age 50. Individuals are exempt from the work requirement if they meet one of several exemption criteria, including having a disability or being pregnant. Counties with high unemployment rates can qualify for a federal waiver of the work requirement for all such adults residing in the county. Many primarily small and rural counties in California currently have such a waiver.

73 The California Food Assistance Program (CFAP) provides state-funded food assistance to legal non-citizens who are ineligible for the Food Stamp Program solely due to their immigration status. The state is projected to spend $22.7 million on CFAP benefits in 2007-08.

74 The asset limit is $3,000 for households in which at least one member has a disability or is age 60 or older. Federal law excludes certain assets, such as a home and

certain retirement accounts, from the asset limit. For an overview of how assets are treated in the Food Stamp Program, see Zoë Neuberger, Robert Greenstein, and Eileen P. Sweeney, *Protecting Low-Income Families' Savings: How Retirement Accounts Are Treated in Means-Tested Programs And Steps to Remove Barriers to Retirement Saving* (The Retirement Security Project: June 2005). See the assets section of this report for strategies that can help low-income working families build and protect assets.

75 E. Richard Brown, PhD, et al., *The State of Health Insurance in California: Findings from the 2005 California Health Interview Survey* (July 2007), p. 8.

76 California HealthCare Foundation and Center for Studying Health System Change, *California Employer Health Benefits Survey* (November 2006), p. 5.

77 California workers' health premium costs more than doubled between 2000 and 2006, while inflation increased by 20.4 percent during the same period. CBP analysis of California Employer Health Benefits Survey and Department of Finance data.

78 US Census Bureau. These figures are the most recent estimates of job-based health insurance coverage. In March 2007, the Census Bureau identified an error in how it has tabulated health insurance coverage estimates for several years, but will not release revised state estimates on job-based coverage until August 2007.

79 Sara R. Collins, et al., *Squeezed: Why Rising Exposure to Health Care Costs Threatens the Health and Financial Well-Being of American Families* (The Commonwealth Fund: September 2006), p. ix.

80 Medi-Cal – California's version of the federal Medicaid Program – covers low-income families and children, seniors, and people with disabilities. Healthy Families covers children with somewhat higher income levels than allowed under Medi-Cal.

81 E. Richard Brown, PhD, et al., *The State of Health Insurance in California: Findings from the 2005 California Health Interview Survey* (July 2007), p. 65.

82 For example, the Deficit Reduction Act of 2005 requires individuals to provide proof of citizenship when they apply for Medi-Cal. Many low-income US citizens do not have immediate access to birth certificates and may never have owned a passport. Therefore, some parents may not be able to immediately provide proof of their children's citizenship and may need additional time to acquire the required documents. See California Budget Project, *New Medicaid Documentation Requirement Could Create a Barrier to Health Care* (May 2006).

83 See the assets section of this report for strategies that can help low-income working families build and protect assets.

84 Certain assets, including a home, are exempt from this limit.

85 Donna Cohen Ross, Laura Cox, and Caryn Marks, *Resuming the Path to Health Coverage for Children and Parents: A 50 State Update on Eligibility Rules, Enrollment and Renewal Procedures, and Cost-Sharing Practices in Medicaid and SCHIP in 2006* (The Henry J. Kaiser Family Foundation: January 2007), pp. 47-51. In addition, nearly all states – including California – have eliminated asset limits for Medicaid coverage that is provided exclusively to low-income children.

86 The federal poverty guideline for a family of three is $17,170 in 2007.

87 John F. Sheils and Randall A. Haught, *The Health Care For All Californians Act: Cost and Economic Impacts Analysis* (The Lewin Group: January 19, 2005), p. iii.

88 California received federal permission to use SCHIP funds to cover parents in 2002. However, state lawmakers delayed expanding coverage to parents, citing ongoing budget pressures, and the federal SCHIP "waiver" expired in January 2007.

89 See 2005 American Community Survey, *Table R2514. Median Monthly Housing Costs for Renter-Occupied Housing Units (Dollars): 2005*, downloaded from http://factfinder.census.gov/ on October 31, 2006.

90 This threshold is recommended by the US Department of Housing and Urban Development (HUD), which notes that "spending more than 30 percent of income on shelter may require families to sacrifice other necessities of life." See 70 Federal Register 13588 (2005).

91 CBP analysis of HUD data, based on a methodology developed by the National Low Income Housing Coalition. This example assumes that an individual spends 30 percent of his or her income on housing. Fair Market Rents (FMRs) for 2007 took effect on October 1, 2006. HUD determines FMRs for federal housing assistance purposes. The FMR estimates the dollar amount at or below which 40 percent of standard quality rental housing units are rented; in recent years, FMRs for some higher-cost counties have been set at the 50th percentile.

92 The eight large metropolitan areas in California were Los Angeles-Long Beach-Glendale, Santa Ana-Anaheim-Irvine, San Francisco-San Mateo-Redwood City, Modesto, San Diego-Carlsbad-San Marcos, Riverside-San Bernardino-Ontario, Stockton, and Oxnard-Thousand Oaks-Ventura. Large metropolitan areas are those with populations of 500,000 or more. In addition, nine of the nation's 10 least-affordable housing markets in smaller metropolitan areas were in California. National Association of Home Builders, *The NAHB/Wells Fargo Housing Opportunity Index: Least and Most Affordable Areas by Population* (June 28, 2007), downloaded from http://www.nahb.org/page.aspx/category/sectionID=135 on July 5, 2007.

93 Proposition 46 of 2002 and Proposition 1C of 2006 provided funding for California's housing programs.

94 State law requires every local government to adopt a general plan that consists of seven "elements," one of which addresses housing needs. The housing element must be updated every five years.

95 A jurisdiction is regarded as out of compliance with the fair-share housing law if it fails to update its housing element or adopts a housing element that does not meet statutory requirements.

96 Department of Housing and Community Development, *Housing Element Compliance Report* (July 2, 2007), downloaded from http://www.hcd.ca.gov/hpd/hrc/plan/he/status.pdf on July 11, 2007.

97 Paul G. Lewis, *California's Housing Element Law: The Issue of Local Noncompliance* (Public Policy Institute of California: 2003), p. 67.

98 Paul G. Lewis, *California's Housing Element Law: The Issue of Local Noncompliance* (Public Policy Institute of California: 2003), p. 68.

99 Paul G. Lewis, *California's Housing Element Law: The Issue of Local Noncompliance* (Public Policy Institute of California: 2003), p. 68. According to the author, "units that developers might have preferred to build as detached homes…are constructed as apartments or condos instead, quite possibly because of an emphasis in the housing element on finding sufficient sites for multifamily development."

100 See Housing Element Working Group, *Final Report to the Assembly and Senate Housing Committees* (April 2004), p. 11.

101 Home Builders Association of Northern California and Non-Profit Housing Association of Northern California, *On Common Ground: Joint Principles on Inclusionary Housing Policies* (July 2005), p. 3.

102 However, state law establishes inclusionary zoning requirements for residential projects built in redevelopment zones (California Health and Safety Code, Section 33413). In addition, the state's "density bonus" law requires local governments to provide incentives to developers who voluntarily build a specified percentage of housing units affordable to low- and moderate-income households. See California Government Code, Section 65915 and California Coalition for Rural Housing and Non-Profit Housing Association of Northern California, *Inclusionary Housing in California: 30 Years of Innovation* (2003), pp. 17-18.

103 California Coalition for Rural Housing, *California Inclusionary Housing Policy Database*, downloaded from http://calruralhousing.org/housing-toolbox/inclusionary-housing-policy-search on June 28, 2007.

104 California Coalition for Rural Housing and Non-Profit Housing Association of Northern California, *Inclusionary Housing in California: 30 Years of Innovation* (2003), p. ii.

105 See, for example, Thomas M. Shapiro and Edward N. Wolff, eds., *Assets for the poor: The benefits of spreading asset ownership* (New York, NY: Russell Sage Foundation), as cited in Corporation for Enterprise Development, *State asset development report card: Benchmarking asset development in fighting poverty* (2002), p. 15.

106 Brian K. Bucks, Arthur B. Kennickell, and Kevin B. Moore, "Recent Changes in U.S. Family Finances: Evidence from the 2001 and 2004 Survey of Consumer Finances," *Federal Reserve Bulletin*, Vol. 92 (February 2006), p. A14. Financial assets include stocks, bonds, and savings and retirement accounts. Families with incomes of less than $18,900 in 2004 were in the lowest fifth of the income distribution. 2004 is the most recent year for which data are available.

107 The federal government allows states to establish their own asset policies in many programs that receive federal funding. California uses this flexibility to disregard assets in several programs, including child care assistance and the Healthy Families Program for certain low-income children.

108 Certain assets, including a home, are exempt from this limit. Medi-Cal for low-income families provides health coverage for parents and their children. In contrast, California does not count assets in certain Medi-Cal programs for low-income *children*, which exclude coverage for parents.

109 The limit is $3,000 for households in which at least one member has a disability or is age 60 or older. Federal regulations allow states to simplify their Food Stamp Program eligibility rules for households that receive child care or another non-cash service funded with federal Temporary Assistance for Needy Families (TANF) blockgrant or state "maintenance-of-effort" (MOE) dollars. States must provide automatic or "categorical" eligibility to individuals who are receiving or authorized

to receive non-cash services that are funded with more than 50 percent TANF or MOE dollars. In addition, states may provide categorical eligibility to individuals who are receiving or authorized to receive non-cash services funded with less than 50 percent TANF or MOE dollars. These households automatically qualify for the Food Stamp Program and thus are exempt from the food stamp asset limit, although states must review households' income to determine the amount of food stamp benefits for which they qualify. Twenty-nine states have used this option to simplify their Food Stamp Programs, although California has not. Government Accountability Office, *Food Stamp Program: FNS Could Improve Guidance and Monitoring to Help Ensure Appropriate Use of Noncash Categorical Eligibility* (March 2007), pp. 1-2.

[110] Funds that are not used for one of these purposes could be subject to state income tax and a penalty, and the account holder could be required to pay back the state's initial deposit.

[111] The CRA applies to a number of federally insured depository institutions, including national banks. Federal law and regulations require regulators to assess an institution's record in expanding access to credit and financial services when "evaluating applications for charters or for approval of bank mergers, acquisitions, and branch openings." Comptroller of the Currency, Administrator of National Banks, *Community Reinvestment Act Information*, downloaded from http://www.occ.treas.gov/crainfo.htm on April 5, 2007.

[112] William C. Apgar and Mark Duda, "The Twenty-Fifth Anniversary of the Community Reinvestment Act: Past Accomplishments and Future Regulatory Challenges," *FRBNY Economic Policy Review* (June 2003), p. 175.

[113] Although certain state-chartered depository institutions are covered by the federal CRA, enacting a state CRA would allow California to provide such institutions with additional incentives to expand access to credit and financial services. For example, Connecticut's CRA prohibits state-chartered financial institutions that receive a less-than-satisfactory CRA rating "from accepting state government or municipal deposits." Connecticut Department of Banking, *Financial Institutions Division Specialty Examinations*, downloaded from http://www.ct.gov/dob/cwp/view.asp?a=2238&q=298062 on July 20, 2007.

[114] Payday lending is discussed in more detail below.

[115] Peter A. Tatian, testimony presented to the Council of the District of Columbia, Committee on Public Services and Consumer Affairs (The Urban Institute: March 14, 2007), p. 1.

[116] Center for Responsible Lending, *Predatory Mortgage Lending Robs Homeowners & Devastates Communities* (2006).

[117] See, for example, Uriah King, Leslie Parrish, and Ozlem Tanik, *Financial Quicksand: Payday lending sinks borrowers in debt with $4.2 billion in predatory fees every year* (Center for Responsible Lending: November 30, 2006), p. 7.

[118] Chi Chi Wu and Jean Ann Fox, *One Step Forward, One Step Back: Progress Seen in Efforts Against High-Priced Refund Anticipation Loans, but Even More Abusive Products Introduced* (National Consumer Law Center and Consumer Federation of America: January 2007), pp. 1-2.