



So, how much income is enough for a working family to cover the bare necessities? The Center for Public Policy Priorities developed the *Family Budget Estimator* (FBE) as an alternative to the federal poverty measure and an answer to this question. Using data from the U.S. Census Bureau and other government sources, we have created family budgets that measure the cost of meeting basic needs, including housing and utilities, food, medical care, child care, transportation, and other necessities (such as clothing and local telephone service) across 27 metropolitan areas and eight different family types.

### **The Family Budget Estimator: A Market-Basket Approach**

The Family Budget Estimator (FBE) uses a “market-basket” approach to determine how much income working families require to meet their basic needs. The FBE adopts a methodology similar to the “self-sufficiency standard” and “basic family budget” approaches utilized by a growing number of researchers.<sup>1</sup> These approaches provide an alternative to the official poverty threshold, which many experts now believe substantially understates the level of income necessary to pay the real market costs of the basic budget items that all families need.

We began by identifying each of the major expenses that families face in order to secure a safe and basic standard of living while maintaining participation in the paid labor force. In the FBE, these items include housing, food, child care, health care, transportation, and other necessary costs such as local telephone, clothing, and personal care and household expenses. Then we documented the basic cost of each budget item. Combining these amounts, we were able to estimate the minimum families would need to bring home to cover their basic expenses. The reality of a family’s income, however, includes taxes. We developed a tax calculator based on 2007 federal tax rules to calculate the payroll taxes, income tax, and tax credits for each family type based upon the net income needed to cover basic estimated expenses.

### **A Realistic, Yet Conservative, Estimate of Minimum Necessary Income**

Some readers of this document will question whether a family really can rent a decent apartment or buy enough to eat on the budgets detailed here. In fact, we purposefully used rigorous methodological criteria to make the most conservative choices for each family budget item based on a set of that we could still defend. For instance, we estimated the housing budget using the U.S. Department of Housing and Urban Development’s “Fair Market Rents,” the amount allowed for public housing subsidies in local rental markets. We estimated the food budget using on the U.S. department of Agriculture’s “Thrifty Food Plan” which assumes that a family will buy bulk groceries, never eat out, and rarely purchase meat. These family budgets are notable for what they do not include: birthday and holiday presents, entertainment, cable television, furniture, appliances, consumer debt payments, child school activity fees and uniforms or school

<sup>1</sup> See the Economic Policy Institute’s Issue Guide on Poverty and Family Budgets for more information:  
[http://www.epinet.org/Issueguides/poverty/poverty\\_issueguide.pdf](http://www.epinet.org/Issueguides/poverty/poverty_issueguide.pdf)

photos. We took this approach because we wanted to focus on the most basic economic realities that families confront, not on whether these costs were inflated or whether families use their resources wisely.

### **Metropolitan Areas**

The 27 metropolitan areas represented in the Family Budget Estimator are the 25 Metropolitan Statistical Areas (MSAs) and two Metropolitan Divisions as defined for Texas by the U.S. Office of Management and Budget. For the purposes of this report, we will refer to both MSAs and MDs as metropolitan areas.

In 2005, the U.S. Office of Management and Budget reorganized the nation’s MSAs, resulting in Dallas, Fort Worth, and Arlington being combined as one large MSA. Due largely to its size, the Dallas-Fort Worth-Arlington MSA also is broken into two Metropolitan Divisions: Dallas-Plano-Irving and Fort Worth-Arlington. We have included budgets for the larger MSA as well as the “smaller” metropolitan divisions within this MSA due to distinct economic and cultural differences between the two areas. The metro areas included in the FBE are as follows:

- Abilene
- Amarillo
- Austin-Round Rock
- Beaumont-Port Arthur
- Brownsville-Harlingen
- Bryan-College Station
- Corpus Christi
- Dallas-Fort Worth-Arlington
  - Dallas-Plano-Irving MD
  - Fort Worth-Arlington MD
- El Paso
- Houston-Baytown-Sugar Land
- Killeen-Temple-Fort Hood
- Laredo
- Longview
- Lubbock
- McAllen-Edinburg-Pharr
- Midland
- Odessa
- San Angelo
- San Antonio
- Sherman-Denison
- Texarkana
- Tyler
- Victoria
- Waco
- Wichita Falls

### **Family Types**

In the FBE we present basic budget estimates for eight separate family types. Our criteria for selecting family types to use in the FBE was designed to represent the range of expenses faced by various household configurations, yet to avoid the presentation of an overwhelming set of data. A limited but representative number of family types makes the FBE broadly relevant as a benchmark while keeping it interpretable to its users.

In common use, the term “family” often refers specifically to households with children. We acknowledge, however, that a sizeable number of Texas households consist of one or two adults without children. Therefore, the FBE includes all of the following household types:

- One adult/No children
- Two adults/No children
- One parent/One child

- One parent/Two children
- One parent/Three children
- Two parents/One child
- Two parents/Two children
- Two parents/Three children

As children of different ages can represent significantly different costs (e.g., child care), we made the following assumptions regarding the child composition when calculating the budgets for each of our family types:

- 1 child families = preschooler
- 2 child families = 1 preschool + 1 school-age child
- 3 child families = 1 infant + 1 preschool + 1 school-age child

### **Data Selection Criteria**

To guide our selection of data sources for the budget items, we established a set of methodological criteria. The first of these criteria was that data used in the FBE be both valid and reliable. To meet these standards, we primarily relied on public data, generally gathered and analyzed by federal and state agencies, as the basis for our budget estimates. Much of this data was collected over time from large samples using rigorous measurement, data collection, and analysis procedures.

As a second standard, we chose data sources that would permit us to make specific estimates for each of the individual family types represented in the FBE. Where available, we also selected sources that provide data at the most specific geographic level possible, particularly for the housing, child care, and medical budget items which show the greatest amount of regional disparity. To precisely measure ongoing changes in the cost of individual budget items and in overall patterns of family spending, we use sources that revise data regularly and predictably, using the latest data available from each source.

Finally, we want our data selection to avoid any unwarranted inflation of costs for budget items in the FBE. We present only the very basic expenses households face so that the FBE would represent the income floor necessary to meet these needs. To satisfy this standard we generally use data sources that produce the most conservative estimates for each item.

Unfortunately, the most recent data available was not always for 2007. When necessary, we used the Consumer Price Index<sup>2</sup> for all urban consumers (CPI-U) to adjust the data from earlier years to 2007 dollars. The CPI provides a general estimate for cost escalation as well as several different indices to measure escalation in several specific cost areas. We chose the CPI that we felt best fit our cost category.

At the time the analysis was conducted, the 2007 annual CPI estimates had not been calculated. Given the time of year, we chose to use the most recent data available (i.e., March 2007) and

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<sup>2</sup> The CPI measures the average change in the prices paid for goods and services.

compared it to the relevant CPI Index for March for the year the data were collected. This allowed us to approximate annual change while making the data as current as possible.

We were able to use 2007 data for the housing, medical insurance, and transportation cost estimates (see below for additional details). The other cost estimates, however, were for prior years. Following the Bureau of Labor Statistics’ guide for using the CPI for estimating price escalation,<sup>3</sup> we adjusted the remaining data as follows:

FBE Cost Category	Original Data Year	CPI Measure	Index for March of the Base Year to March 2007
Food	2006	Food and Beverage	0.97
Child Care	2005	Child Care	0.9
Medical Out-of-Pocket	2004	Medical Care	0.89
Other Necessities	2004-2005	General CPI-U	0.94

To calculate the final inflation adjustments, we divided the original cost estimate for each data point by the relevant CPI index. Given that the “Other Necessities” data were from a two-year sample, we calculated the CPI index from 2005 rather than 2004 to obtain the more conservative inflation estimate.

## Housing

For many working families, housing represents one of the largest expenditures of family income. To estimate housing costs, we used Fair Market Rent (FMR) rates for 2007, published by the federal Department of Housing and Urban Development (HUD). Housing costs typically display marked regional variation and the FMR rates allowed us to incorporate MSA-specific figures into the FBE. Although a number of low-income families own their homes, these families more commonly live in rental housing, making the use of rental data appropriate. Section 8 occupancy standards requiring “safe and sanitary” living conditions provide non-arbitrary criteria of housing adequacy. Fair Market Rent figures incorporate utility expenses but exclude the cost of local or long distance phone service.

Although the FMR figures offer a reasonable method for estimating affordable housing costs, they do not address the problem of limited supply of low-cost housing in many parts of the state. While many low-income families in Texas may be able to afford the lowest cost housing options, finding available units at this cost may be an insurmountable challenge in many areas.

Used to establish the amount for Section 8 housing subsidies, FMR rates provide a conservative estimate of housing costs. Generally, they represent the 40th percentile of the distribution of monthly rent and utility costs (excluding telephone) for standard quality housing in each MSA and for rural counties in each state. In other words, 40 percent of rental housing in a given

<sup>3</sup> See <http://www.bls.gov/cpi/cpi1998d.htm> for additional information.

market costs less than the FMR rates, while 60 percent costs more. In some markets with unusually high housing costs, the FMR rates are set at the 50th percentile. For 2001, HUD established 50th percentile FMR rates for the Austin-Round Rock MSA and the Dallas, Fort Worth-Arlington, Houston-Baytown-Sugar Land HUD Metro FMR Areas.<sup>4</sup>

HUD provides FMR figures for housing that ranges in size up to four-bedroom units. Corresponding to the family types represented in the FBE, we used FMR amounts for one-, two-, and three-bedroom housing units. The housing units corresponded to the FBE family types as follows:

FBE Family Type	HUD Housing Unit Sizes
One Adult/No Children	One Bedroom
Two Adults/No Children	One Bedroom
One Parent/One Child	Two Bedrooms
One Parent/Two Children	Two Bedrooms
One Parent/Three Children	Three Bedrooms
Two Parents/One Child	Two Bedrooms
Two Parents/Two Children	Two Bedrooms
Two Parents/Three Children	Three Bedrooms

## Food

Underlying the family budget item for food was an assumption that families' expenditures for food not only should prevent hunger, but also should supply adults and children with a nutritionally adequate diet.

We calculated expenses for food using figures from the June 2006 Thrifty Food Plan<sup>5</sup> (the most current available at the time of data collection), published by the U.S. Department of Agriculture (USDA), Center for Nutrition Policy and Promotion. Each month, USDA estimates the cost of food for children, adults, and families based on food consumption patterns at four expenditure levels. Based on the spending patterns of families eligible for Food Stamps, the Thrifty Food Plan provides USDA's lowest estimate of food expenditures and so maintains consistency with our most-conservative criteria for calculating family budget items.

USDA's food plans do not give regionally specific figures for expenditures on food. The cost of food varies little across regions, however, making the absence of geographically specific

<sup>4</sup> To calculate the housing costs for the Dallas-Fort Worth-Arlington MSA, we used the U.S. Census Bureau's 2005 American Community Survey (Table C11003) to calculate weights based upon population percentages for each family type in each metropolitan division. These weights were then applied to the appropriate cost estimate for the size of unit necessary for that family type in that metro area and summed. For example, 66.5% of the total Dallas-Fort Worth-Arlington MSA single-parent population lived in Dallas, and 33.5% lived in Fort Worth. To calculate the cost of a two bedroom apartment, we multiplied the Dallas' two-bedroom FMR by 66.5% and Fort Worth's two-bedroom FMR by 33.5%. We then added these numbers together to create an estimate for the larger MSA area.

<sup>5</sup> We used June data because the USDA uses that month to represent the annual average.

information about this budget item less problematic than for other items where significant cost differences exist across regions of the state.

Two features of the Thrifty Food Plan make it a particularly conservative strategy for establishing the FBE's family food budget. Because the Thrifty Food Plan estimates the cost of food prepared and consumed at home, it assumes adequate time and facilities for food preparation, some basic nutritional knowledge, and available transportation to supermarkets or warehouse stores, which, in practice, may be a challenge for many low-income families. The Thrifty Food Plan does not include spending for fast food or restaurant meals, even though adults working full-time are likely to pay for at least some meals away from home. It also does not accommodate money spent to purchase school lunches.

To calculate the food budget for each of the FBE's family types, we first extracted the estimates of food costs for individual children and adults from the Thrifty Food Plan. For infants, we used the USDA cost estimate for one-year-olds. For preschoolers, we used the plan's food expenditures for three-to-five-year-olds. For school-age children, we used figures from USDA's six-to-eight-year-old category. For the FBE's single adult households, we applied the average of food costs for females and males between 20 and 50 years old. For two-adult households without children, we summed the USDA estimates for 20 to 50 year-old females and 20 to 50 year-old males. Because women head most single-parent families, we assigned food costs for females between 20 and 50 years-old to adults in single-parent families. For two-parent families, we added together the USDA figures for females between 20 and 50 and for males between 20 and 50. To obtain a total food budget for each family type, we summed the amounts assigned to individual children and adults it contained. Since USDA provides food costs for individuals assuming that they live in four-person families, it recommends an adjustment for other family sizes: add 20 percent for one-person households, 10 percent to food costs in two-person families, five percent to costs for three-person families, and subtracting five percent for five-person households. Our food estimates incorporated this family size adjustment.

### **Child Care**

Over recent decades the increased participation of women in the paid labor force and the growing number of single-parent families have made full- or part-time child care essential. Few low-income working families can rely on informal networks to consistently supply suitable child care services. Reliable, safe, and developmentally appropriate child care is expensive, representing for many families the second most costly budget item after housing.

The burden of paying for child care is especially pronounced for families with more than one child, and for those with younger children. For families with two or three children, the FBE estimates that monthly child care expenses exceed the cost of housing in all 27 of the state's metropolitan areas. Limited availability of acceptable child care options imposes an additional strain on working families, particularly those who work outside standard business hours and encounter an even more restricted supply of child care services on evenings and weekends.

To measure child care costs, we relied on 2005 local market rate data for home and center-based care for infants, preschoolers, and school-age children collected for the Texas Workforce Commission by The University of Texas at Austin's School of Social Work and Ray Marshall

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Center. The 2005 Texas Child Care Market Rate Survey (TCCMRS) reports on the cost of licensed child care centers, licensed child care homes, and registered child care homes for Texas' 28 Local Workforce Development Boards. From this report, we used the median daily rate of full- and part-time care for infants and toddlers (up to 17 months), preschoolers (three to five years) and school-age children (six years and older) from the TCCMRS.

We performed a series of calculations on this source data to generate child care expenses for children in each age group within each MSA. First, we assumed that families will do all they can to support themselves, requiring all adults to work. This assumption is supported by Census Bureau data which shows that 65% of Texas families with children have two parents who work.<sup>6</sup>

Cost pressure, particularly for child care, is most evident for parents of preschoolers who (unlike school-age children) need full-time child care but (unlike infants) are less likely to be cared for informally by extended families or friends. For this reason, we calculated basic expenses for a preschooler in one-child families. For families with two children, we calculated basic budgets associated with one preschooler and one school-age child. This approach reflects less expensive part-time child care for school-age children during the school year. To reflect, in a conservative way, more costly infant care, we based estimates for three-child families on the costs associated with one infant, one preschooler, and one school-age child.

We also assumed that parents' work schedules would equate to 250 work days per year, allowing for weekends and two weeks of vacation or other leave time where the children would not need outside care. We assumed that infants and preschoolers would each need full-time care for all 250 days the parents work. We estimated that school-aged children would need part-time care for the average 177 days in the school year<sup>7</sup>, and 73 days of full-time care during the summer. Total days of child care were multiplied by the appropriate daily rate (e.g., annual cost for school-aged children = (73 days \* full-time rate) + (177 days \* part-time rate). These annual costs were then divided by 12 to calculate the monthly expense.

Most MSAs fell within one Local Workforce Development Area (LWDA). When they did not<sup>8</sup>, we calculated a weighted median cost based on the 0-12 population<sup>9</sup> in each of the representative counties. We calculated weights by taking the percentage of the 0-12 population that LWDA represented over the total 0-12 population for all counties in the MSA combined. We did not use the total MSA 0-12 population as the denominator so that we could divide apples by apples. We took that percentage and multiplied it by the cost for each child type within the LWDA and summed across all LWDAs in that MSA.

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<sup>6</sup> U.S. Census Bureau's 2005 American Community Survey, Table B23010.

<sup>7</sup> The number of school days is based upon the median number of days scheduled across Texas 50 largest public school districts as obtained from a 2004 special report by the Texas Comptroller of Public Accounts: "Saving Summer: Lessons Learned": <http://www.cpa.state.tx.us/specialrpt/schoolstart2004/>.

<sup>8</sup> This more complex calculation was only necessary for the Austin-Round Rock MSA, the Dallas-Fort Worth-Arlington MSA, the Dallas-Plano-Irving MD, the Fort Worth-Arlington MD, and the Houston-Baytown-Sugar Land MSA.

<sup>9</sup> 2005 population data obtained from the Office of the State Demographer and the Texas State Data Center.

Once the cost for each child type was calculated, we derived a total child care estimate by summing across the cost for the children within each family type. Given that many child care providers give a small discount for multiple children from the same family, we then subtracted 10% from the cost of the second child's care for two- and three-children families.<sup>10</sup>

### **Health Insurance Premiums and Out-of-Pocket Medical Expenses**

We believe that health insurance is a critical component to ensuring positive outcomes for both children and adults. For this reason, the FBE incorporates two budget items to cover families' reasonable medical costs: direct costs to the family for health insurance coverage and out-of-pocket medical expenses.

Medical expenses are particularly difficult to measure accurately. Access to employer-sponsored health insurance is inconsistent, with workers in lower-paid jobs disproportionately unlikely to have this coverage. Out-of-pocket medical expenses vary significantly when, for example, families experiencing acute or chronic conditions may pay much higher out-of-pocket costs than families with few health problems.

*Health Insurance Premiums.* No reliable and ongoing public data source details the cost of health insurance premiums. We used the Texas Employees Retirement System's (ERS) 2007 health insurance plan to model premium costs. This measurement strategy yields a conservative estimate of families' health insurance premium costs, because it represents premium costs for a large-group plan rather than the more expensive insurance typically available to individuals and smaller employers. Our approach also satisfies two other of our methodological criteria for the FBE. The state employee insurance plan permits regional precision in the estimation of premium costs because the premium differs across the state. It is subject to predictable updates because the state annually revises the plan to reflect rate and coverage changes.

In 2004-05, 56% of Texans under 65 years of age had health insurance through their own or a family member's job, down from 60% in 2000.<sup>11</sup> This means that 44% of Texans in this age group either pay the entire health insurance premium out of pocket or that they are uninsured. We believe that having health insurance coverage is necessary to insure a safe and decent standard of living, but recognize that the costs differ dramatically depending upon employer-sponsored coverage options. Therefore, the FBE includes budget estimates for families with and without employer-sponsored health insurance coverage.

In the budget scenario for families without employer-sponsored health insurance, we estimated health insurance costs based upon the full premium costs—both the portion normally paid by the state and the worker's share—for ERS coverage for the given family type (i.e., employee only, employee plus spouse, employee plus children, or employee plus both spouse and children). In the budget scenario for families with employer-sponsored health insurance, we used the ERS's cost to their employee for coverage (using the same family compositions as described above).

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<sup>10</sup> To determine the appropriate amount to apply for the multiple-child discount, we randomly surveyed 51 child care providers across the MSAs regarding their discount policies. Twenty-five percent gave less than a 10% discount while 26% gave a 10% or greater discount.

<sup>11</sup> See CPPP's "Texas Health Care Primer" for more information on factors shaping Texans' access to health care at [www.cppp.org](http://www.cppp.org).

We recognize that this is a conservative estimate of the family’s out-of-pocket cost of coverage as the ERS pays 100% of their employee’s health insurance premium and 50% of the premium for the employee’s dependents. This is in keeping, however, with our effort to use conservative measures of basic expenses.

ERS provides seven health insurance plans for it’s full-time employees that correspond to different regions of the state. The HealthSelect Plan is available to all state employees in Texas, regardless of location. The remaining six plans (Community First Health Plans, Inc.; FirstCare/Amarillo; FirstCare/Abilene; FirstCare/Lubbock; FirstCare/Waco; Mercy Health Plans; Scott & White Health Plan; Valley Baptist Health Plans) are offered in some areas, but not all. Because the service areas do not exactly correspond to 27 metro areas used in this report, we identified plans that served every county within each metro area. Fifteen metro areas are served by only one insurance plan while in the rest, employees can choose one or more optional plans. Where several plans were available, we selected the lowest-priced option as our estimate of premium costs.

*Out-of-Pocket Medical Expenses.* We estimated out-of-pocket medical expenses using data from the 2004 Medical Expenditure Survey (MEPS), a large-scale survey of families and individuals, their medical providers (doctors, hospitals, pharmacies, etc.), and employers across the United States. MEPS collects data on the specific health services that Americans use, how frequently they use them, the cost of these services, and how they paid for them. We used the Household Component of the MEPS, which provides data from individual households and their members.<sup>12</sup> We used the “Total Amount Paid by Self/Family” item as our measure for out-of-pocket medical costs. This item does not include expenses for monthly insurance premiums.

The MEPS provides data at the regional level and by age group. We selected MEPS data specific to the Southern region and by age group. We divided the MEPS annual data by 12 to convert it to an average monthly amount. Once the individual categories averages were calculated, we summed across the different family compositions to estimate each family-type’s out-of-pocket medical expenses. The data used for each family type is as follows:

<b>FBE Family Type</b>	<b>MEPS Age-group Categories</b>
<b>One Adult/No Children</b>	One adult age 20-50
<b>Two Adults/No Children</b>	Two adults ages 20-50
<b>One Parent/One Child</b>	One adult age 20-50 + one child age 3-5
<b>One Parent/Two Children</b>	One adult age 20-50 + one child age 3-5 + one child age 6-8
<b>One Parent/Three Children</b>	One adult age 20-50 + one child age 3-5 + one child age 6-8 + one child age 0-1
<b>Two Parents/One Child</b>	Two adults age 20-50 + one child age 3-5
<b>Two Parents/Two Children</b>	Two adults age 20-50 + one child age 3-5 + one child age 6-8
<b>Two Parents/Three Children</b>	Two adults age 20-50 + one child age 3-5 + one child age 6-8 + one child age 0-1

<sup>12</sup> For more information on the MEPS, see: <http://meps.ahrq.gov/mepsweb/>

## **Transportation**

Transportation represents a significant expense for working families. Adults and children need dependable and reasonably convenient transportation to work and school. Families need transportation for essential personal and family business such as shopping, errands, medical appointments, and children's activities.

In some parts of the country, relatively abundant and accessible public transit can reduce the amount that families need to spend on transportation. In Texas, though, meager public transit resources, sprawling urban areas, and vast rural distances make auto travel a virtual necessity. Like other parts of the country, some regions in Texas also experience what researchers term a "spatial mismatch" when workers live long distances from their jobs and driving by private vehicle is their only realistic travel alternative. For these reasons, we estimated the cost of travel by private vehicle as the FBE's budget item for transportation.

We approximated transportation expenses by multiplying the Internal Revenue Service's 2007 per-mile deduction rate (\$0.485), which accommodates vehicle purchase, repairs and maintenance, gasoline, oil, insurance, and registration fees, by the number of miles families drive for work and other essential travel.

The 2001-2002 National Household Travel Survey (NHTS) from the U.S. Department of Transportation's Bureau of Transportation Statistics served as source data for measuring families' automobile travel. The NHTS provides data on the number of miles driven annually by individuals at national and state levels and by size of metropolitan area. We mapped the NHTS data onto each of Texas' metro areas using their population size categories, which ranged from populations of less than 250,000 to 3,000,000 or more. We first used the U.S. Census Bureau's 2005 American Community Survey to determine population size for each metro area.

Next, we extracted average monthly mile of work-related and non-social trips per person in Texas by metro size. Because the FBE budgets only for essential needs, we used a series of calculations to obtain adjusted mileage figures for work-related and non-social travel only. Using the NHTS data and transportation calculation tables created by the travel Economic Policy Institute, we found that around one-quarter of travel miles are for work-related trips and 40 percent are for non-social trips (e.g., traveling to the grocery store or to school). For family types with one adult, we totaled the average monthly miles for work-related and non-social trips and multiplied this sum by the 2007 IRS mileage reimbursement rate. In family types with two adults, we assumed that the second adult would not repeat the 40 percent of miles accounted for by non-work related but necessary travel. For those families, we took the total sum for one adult and added only the work-related miles for an additional adult, and then multiplied this sum by the 2007 IRS mileage reimbursement rate. These monthly transportation expenses were calculated within each metro area range of the NHTS. Once calculations were completed, we looked at the total population size of each metro area and applied the final transportation cost estimates to each family type depending upon whether they had one adult or two adults in the family.

## **Other Necessities**

Major budget items, such as housing and child care, account for the bulk of families' essential spending. Considered item-by-item, other necessities such as local telephone service, clothing, housekeeping supplies, and personal care products appear to make a smaller demand on families' financial resources. Together, though, these items represent a nontrivial necessary expense.

Because the FBE estimates family budgets conservatively, we have excluded from our measures many items that families with moderate and high incomes take for granted, such as entertainment, dining out, vacations, credit card debt, and savings. So although it accounts for the essential budget items that families cannot safely do without, the FBE represents a standard of living that many Texans would find uncomfortably austere. We include expenditures for reading as a component of the miscellaneous necessities budget because it supports the acquisition of information vital to effective workforce and civic participation.

We measured the cost of other necessities using two-year data from the U.S. Bureau of Labor Statistics' 2004-2005 Consumer Expenditure Survey (CE). To begin, we extracted CE data on annual household spending for local telephone service, housekeeping supplies, personal care products, apparel for men, women, infants, boys, and girls, footwear, and reading. Since women head most single-parent families, we used women's apparel expenditures for family types with one adult. We combined men's and women's apparel costs for two-adult families. Estimates of spending on school-age children's apparel are the average of boys' and girls' apparel costs.

The CE provides annual expenditure data by household size within income groupings that range from less than \$5,000 to more than \$70,000 in annual earnings. To approximate families' income, we totaled housing, food, child care, medical insurance, medical out-of-pocket, and transportation costs for each family type. We then selected expenditures from the CE based upon the family type and approximated income. We then divided the annual total by 12 to obtain estimate the monthly expense. The use of pooled two-year CE data helped to correct for the reduction in sample size resulting from the selection of expenditure data from these household sizes and income groups.

## **Taxes and Tax Credits**

The FBE aims to assess, as accurately and comprehensively as possible, the income families need to cover their expenses. For this reason, we have factored in the federal taxes that working families pay as a non-discretionary expense that reduces resources available to meet other essential needs. The FBE includes only federal payroll and federal income taxes as expense items.<sup>13</sup> Families who pay federal income taxes may also qualify for the Child Tax Credit and the Child and Dependent Care Credit. Some lower-income working families may also benefit from the refundable Earned Income Tax Credit (EITC), which they can receive even if they pay no income taxes at all.

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<sup>13</sup> At the time of publication, Texas was one of a few states with no state income tax. Therefore, our budgets do not include state income tax as an expense item.

We did not separately estimate property taxes or sales taxes. The Fair Market Rent rates used to measure housing costs incorporate property taxes. The Consumer Expenditure Survey absorbs sales taxes within its data on household expenditures for miscellaneous necessary items.

To estimate taxes for the FBE, we first totaled the cost of housing, food, child care, medical insurance, medical out-of-pocket, transportation, and other necessities and multiplied this sum by 12 to estimate the necessary annual net income for each family type within each metro area. This amount approximates the income families require to meet the cost of basic necessities. We then created a tax calculator using formulas from the 2007 tax code to determine payroll (i.e., Social Security and Medicare) and federal income taxes, as well as whether the families were eligible for the Child Tax Credit, the Child and Dependent Care Credit, or the EITC.

For single adult households, we followed tax rules for “single” filing status. For single parent families we used the “head of household” filing status. We used the “married filing jointly” filing status requirements for families with two adults. We entered the standard deductions for each filing status into our tax calculations for corresponding family types. Exemptions matched the number of adults and children in each family type.

The calculator was designed so that once the estimated adjusted gross income was adjusted for taxes and tax credits, we were left with an estimated net income. We then compared this number to the original net income estimate from the FBE. We continued to adjust the overall gross income until the difference between the FBE necessary net income and the tax calculator net income calculation were within one dollar of each other. We conducted these tax calculations for each family type within each metro area for budgets both with and without employer-sponsored health insurance—432 in total. To check the accuracy of our calculations, we used Turbo Tax Basic for tax year 2006 to complete tax returns for 76 family budgets (17.6% of all budgets calculated).

### **Wage Calculations**

The FBE not only compiles the cost of budget items described above but also translates those costs into the wages necessary to meet these household expenses. This wage calculation illustrates the amount of income necessary to pay for basic needs when households receive no subsidies or benefits (other than tax credits), such as housing assistance, Food Stamps, subsidized child care, employer-provided health insurance, Medicaid, or CHIP.

This is an important exercise for two reasons. First, it is essential to recognize the full cost of providing basic family needs. Many families face these costs alone. Despite our conservative methodology, these budget figures and the income necessary to meet them may surprise some readers. Second, these calculations make it clear that many working families do not earn wages adequate to provide basic household necessities. In these cases, it will take a portfolio of wages, benefits and other resources and services to provide economic security for many low-income households. Without such support, too many families in Texas often are forced into choices such as between affording health care or keeping food on the table.

The income calculations provided in the FBE present necessary annual and monthly gross income and a corresponding household hourly wage. We based these calculations on an

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assumption of full-time employment – forty hours per week for fifty weeks a year. The final wage numbers reflect the total amount that the family must bring home whether from a single worker or from two workers combined. If one worker from a two-parent family has a job that pays a wage that is high enough, the family's expenses may be reduced by the cost of child care if the other parent is able to stay home with the children. This, however, is not the case for most two-parent families, where both parents must work in order to make ends meet.

This approach reflects our conservative methodology and the assumption that families will do all they can to earn the income necessary to meet their needs. In actuality, though, many low-wage jobs do not offer consistent or full-time work. Low-income families frequently find themselves patching together two or three part-time jobs to make ends meet, adding additional stress and difficult logistics to their lives.

The final wage calculation provided in the FBE is a comparison of the annual income required for each family type to the 2007 Federal Poverty Guidelines for households of comparable size. To express this relationship, we present both the official Federal Poverty Guideline for that family size, and the FBE necessary annual income as a percentage of this measure.

### **Conclusion**

The FBE is a tool that helps us gauge economic reality for low- and moderate-income working families. The FBE provides a benchmark against which to examine wages, benefits and the network of services within each community. To the extent that working families are playing by the rules, working hard, and yet still not making it, we can use this data to help build a portfolio of resources that will fill in the gaps.

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