



STRUGGLING TO STAY AFLOAT

The Real Cost Measure in California 2018

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**Anyone who has ever
struggled with poverty
knows how extremely
expensive it is to be
poor.**

JAMES A. BALDWIN

"Fifth Avenue, Uptown: A Letter from Harlem"

July 1960

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Advisory Committee

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ABOUT UNITED WAYS OF CALIFORNIA

United Ways, across the U.S. and increasingly around the world, focus on improving health, education and financial stability—the building blocks of a good life—for vulnerable low-income families and children. In California, local United Ways collectively raise and invest over \$200 million and thousands of hours of volunteer efforts in these building blocks.

United Ways of California, a voluntary state network, improves health, education, and financial stability for low-income children by enhancing and coordinating the programmatic and advocacy work of California United Ways. For more information, please visit www.unitedwaysca.org.

**The test of our progress
is not whether we add
more to the abundance
of those who have
much; it is whether
we provide enough for
those who have little.**

FRANKLIN DELANO ROOSEVELT

Second Inaugural Address

January 20, 1937

TABLE OF CONTENTS

TABLE OF FIGURES	6
EXECUTIVE SUMMARY	8
STRUGGLING TO STAY AFLOAT	16
A Better Measure of Need	17
Rough Waters: One in Three Households Struggle	19
The Income Gap and the Insufficiency of Public Supports	21
Real Cost Measure Budgets Change as Families Grow	23
CALIFORNIA'S STRUGGLING HOUSEHOLDS: PEOPLE AND PLACE	26
The Four Californias	28
Struggling Families Work, but Work Is Not Enough	30
Struggling Households Through Different Lenses	32
Significant Disparities by Race and Ethnicity	33
Higher Education Levels are Closely Associated with Better Economic Outcomes	34
Single Adults—Especially Single Females—Struggle More	37
Families with Young Children are Much More Likely to Struggle	38
Housing Cost Burden is a Key Driver of Economic Instability	40
Immigrants and Non-English Speakers Struggle More	40
Health Coverage	45
TOWARD ECONOMIC MOBILITY	48
Preserve and Expand Subsidized Health Coverage	48
Maximize Current Income Supports	49
Level Up: Invest in Post-Secondary Education	50
Give Income Supports a Longer Tail	51
Increase Resilience Through Asset Building and Consumer Protection	51
Integrate and Naturalize Immigrants	53
Increase Housing Stock and Prioritize Help for Renters	53
Make Work Pay	54
Rethink Work, Jobs, and Links to Income	55
Next Steps	56

TABLE OF FIGURES

1	Share of California Households above/below Real Cost Measure	19
2	Staying Afloat in California	19
3	Income Gap after Wages, Credits and Public Assistance	21
4	Effects of EITC on Real Cost Measure	22
5	Annual Household Budget by Family Composition	23
6	Households below Real Cost Measure by Neighborhood Clusters	27
7	Orange County Neighborhood Comparison of Households below RCM	28
8	Four Californias – Real Cost Measure by Quartiles	29
9	Weeks Worked per Year	30
10	Average Number of Hours Worked by Employed Heads of Household	31
11	RCM by Race/Ethnicity, Education and Sex of Householder	32
12	Householders below RCM by Race/Ethnicity	33
13	Number of Households below/above RCM by Race/Ethnicity	33
14	Education Level of Householder and Real Cost Measure	34
15	Hourly Wage and Percent of Households below RCM by Education	34
16	Households below RCM by Education and Race/Ethnicity	36
17	Households below RCM by Marital Status	37
18	Median Hourly Wage of Householders by Sex and Education	37
19	Households above/below RCM by Householder and Spouse Work Experience	38
20	Presence of Children and Households above/below Real Cost Measure	39
22	Age of Children and Real Cost Measure	39
23	Housing Burden – Percent of Households Spending Over 30% of Income on Housing	40
24	Percent of Income Reported Spent on Housing	42
25	Citizenship Status and Real Cost Measure	43
26	Language, Citizenship, and Linguistic Isolation	44
27	Health Insurance Status by Head of Household	45



EXECUTIVE SUMMARY

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Struggling to Stay Afloat seeks to measure the real costs of living in California's communities and increase awareness and understanding of the hardships families face in meeting them. Among the questions this report seeks to answer are: What is the true rate of financially challenged households? How many are led by working adults? What do we know about these households? What do their family configurations look like? What regions and communities struggle more than others? What do income challenges look like across race, ethnicity, and gender boundaries?

We find that **one in three households in California, over 3.3 million families—including those with income well above the Federal Poverty Level—struggle every month to meet basic needs.**

The Real Cost Measure

The federal government's official poverty measure vastly understates poverty. Established over 45 years ago, the Federal Poverty Level (FPL) has two primary flaws: (1) its formula is primarily based on the cost of food, and in the decades since it was created, the costs of housing, transportation, child care, health care, and other family necessities have risen far more rapidly than food costs, and (2) It neglects regional variations in cost of living, and most Californians live in high-cost areas.

As a result, the true extent of families contending with deprivation is hidden. Many of these hidden poor find they earn too much to qualify for most income supports, yet still struggle to meet their most basic needs, especially as the costs of housing, health care, and other necessities continue to rise faster than wages.

Struggling to Stay Afloat uses the Real Cost Measure, a basic needs budget approach, to better understand the challenges families face. The Real Cost Measure approach has two primary components:

- Household budgets: estimates of the costs of meeting basic needs for different households in a given area, based on data that account for variation in local costs of living
- Neighborhood-level demographics: an estimate based on Census data of how many households have income below those local budgets

Such a basic needs budget approach is intuitive and easy for most people to understand as it is grounded in a household budget composed of costs all families must address such as food, housing, transportation, child care, out-of-pocket health expenses, and taxes. This approach takes into account different costs of living in different communities, and also conveys a better sense of the hardship for families because it invokes the notion of tradeoffs between competing needs—if you have an inadequate level of income, do you sacrifice on food, gas, or child care?

Struggling to Stay Afloat explores the Real Cost Measure through different lenses. At the geographic level, we conduct “apples to apples” comparisons among counties, regions, and neighborhoods through public use microdata areas (PUMAs), which are contiguous

clusters of 100,000 to 200,000 residents prepared by the Census Bureau. We also view the Real Cost Measure through race/ethnicity, gender, nativity, occupational type, marital status, educational attainment, employment status, housing type, and more. (We applied the Real Cost Measure to more than 1,200 household configurations alone). For more detail, interactive maps, an interactive dashboard on Real Cost Budgets, and a public data set to accompany this report are available at www.unitedwaysca.org/realcost.

Key Findings

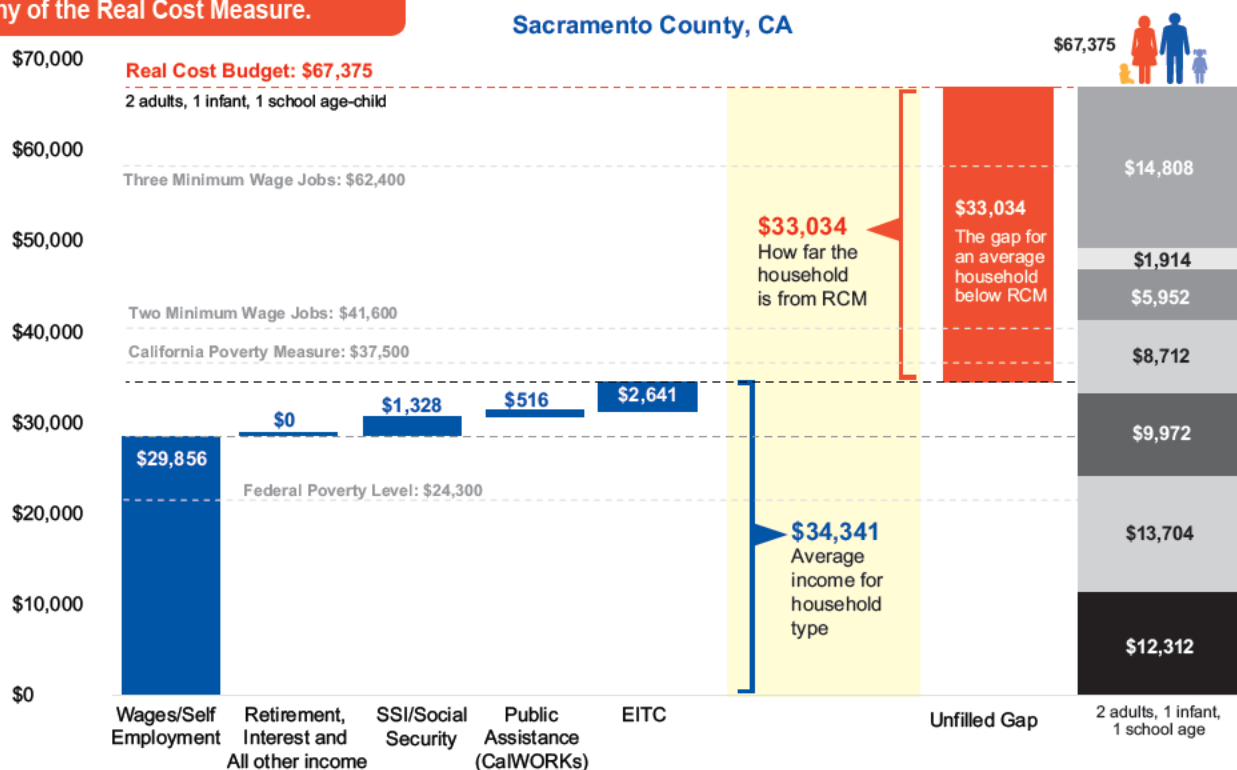
Among our key findings are:

One in Three California Families Lacks Income Adequate to Meet Their Basic Needs

One in three California households (33%)—nearly 3.3 million families—do not have sufficient income to meet their basic costs of living. This is roughly three times the proportion officially considered poor in California, according to the Federal Poverty Level. Families with inadequate incomes are found throughout California, but are the most concentrated in the northern coastal region, the Central Valley, and in the southern metropolitan areas.

INCOME GAP AFTER WAGES AND PUBLIC ASSISTANCE

Even with tax credits and other assistance, a household with two full-time workers earning minimum wage is far shy of the Real Cost Measure.



The costs for the same family composition in different geographic regions of California also vary widely. In expensive regions such as the San Francisco Bay Area and the Southern California coastal region, the Real Cost Budget, our monthly budget calculation to meet basic needs, can be up to 40% more (depending on family type) than in less expensive counties such as Kern, Tulare, and Kings. Nevertheless, incomes in the higher-cost regions are also higher, relatively and absolutely, so that the proportions below the Real Cost Measure are generally lower in high-cost than low-cost regions.

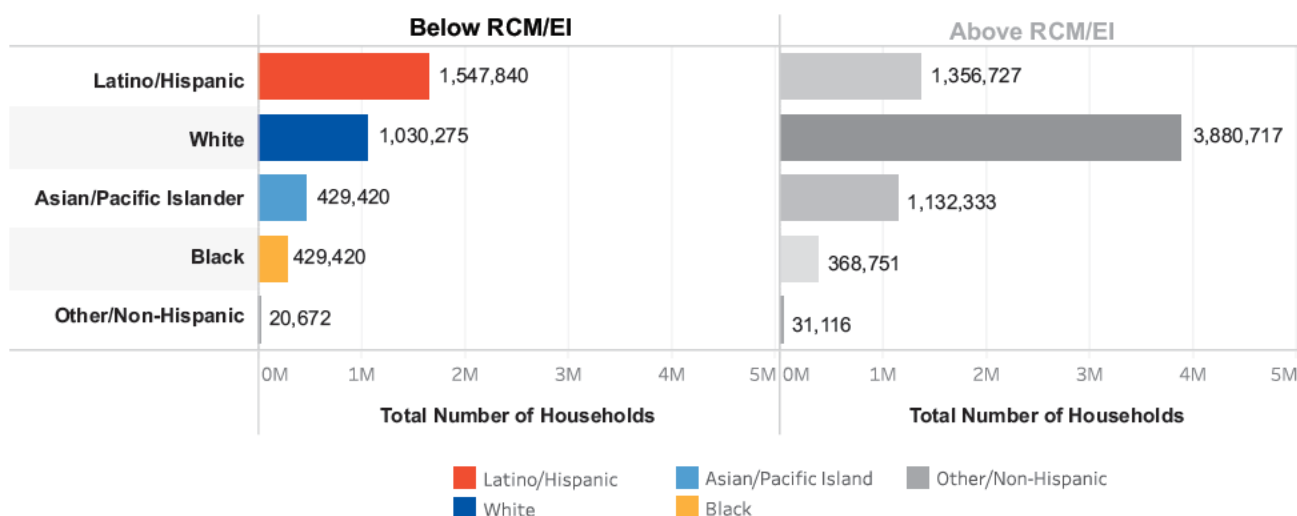
Low Incomes are a Challenge for Families of All Racial Groups

Families falling below the Real Cost Measure reflect California's diversity. While poverty is often portrayed in our media and culture as primarily a problem for minorities, the reality is that families of all ethnicities struggle. Most struggling households are Latino (1.5 million) or white (more than 1 million), with nearly 430,000 Asian households and 270,000 African-American households below the Real Cost Measure.

Nevertheless, households led by people of color disproportionately are likely to have inadequate incomes. While Latino households represent only 29% of the household population in California, 53% of Latino households have incomes below the Real Cost Measure, the highest among all racial groups. Two in five (42%) of African American households have insufficient incomes, followed by Asian Americans (28%), and white households at (21%).

LATINOS AND AFRICAN AMERICANS STRUGGLE AT HIGHEST RATES

Latino and White households are largest groups of struggling households.



The Rate of Struggling Households Drops Steeply as Education Rises, but the Benefits of Education Lag for Women and Householders of Color.

Householders with less education are much more likely to have incomes below the Real Cost Measure.

- Over two-thirds (71%) of householders with less than a high school education have incomes below the Real Cost Measure.
- The rate of struggling households drops quickly as education increases, falling to 17% for those with a college degree or more.
- At every level of education, female householders earn less than male householders.
- The rates of financial instability drop from 93% for single mothers with less than a high school degree to 46% for single mothers with a bachelor's degree or higher.
- The impact of increased education varies by race and gender. 78% of African American women without a high school degree are below the measure, but only 21% with at least a bachelor's are struggling. For white women, 57% with less than a high school degree, and 14% with a Bachelor's are below the Real Cost Measure.
- Women of color with a Bachelor's or advanced degree fall below the Real Cost Measure at rates roughly equal to white men with only some college education (25% vs 23%).

Half of All California Households with Young Children Live Below Real Cost Measure

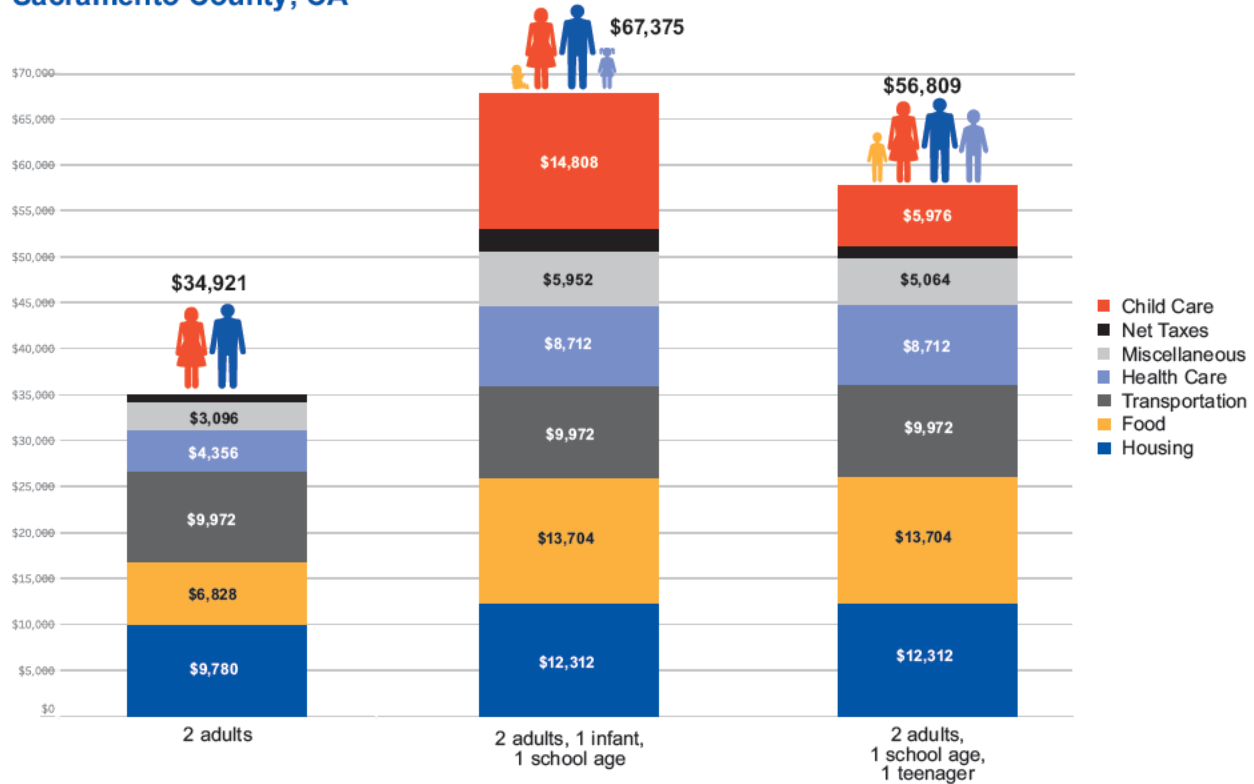
Households headed by single mothers are almost twice as likely to have inadequate income as married couples with children.

- 57% of households with children under six years of age fall below the Real Cost Measure, and that rate jumps to 82% for single mothers with children under six.
- 72% of households maintained by single mothers have incomes below the Real Cost Measure. In contrast, just 27% of married couples are below the Real Cost Measure.
- Even when employed, single mothers and their children struggle; 67% of households headed by employed single mothers—and 56% where the single mother works full-time—live below the Real Cost Measure.
- Households with children maintained alone by women of color are most likely to have income below the Real Cost Measure: 83% for Latina single mothers, 77% for African American single mothers, and 68% for Asian single mothers, compared to 53% for white single mothers. Furthermore, households headed by women of color are not only more likely to be below the Real Cost Measure, they are also more likely to be below the Federal Poverty Level.

HOUSEHOLD BUDGETS CHANGE AS FAMILIES GROW

The budget for a family changes over time—and the toughest time is the first years of its children's lives.

Sacramento County, CA

*High Housing Costs Are a Major Burden for Struggling Households*

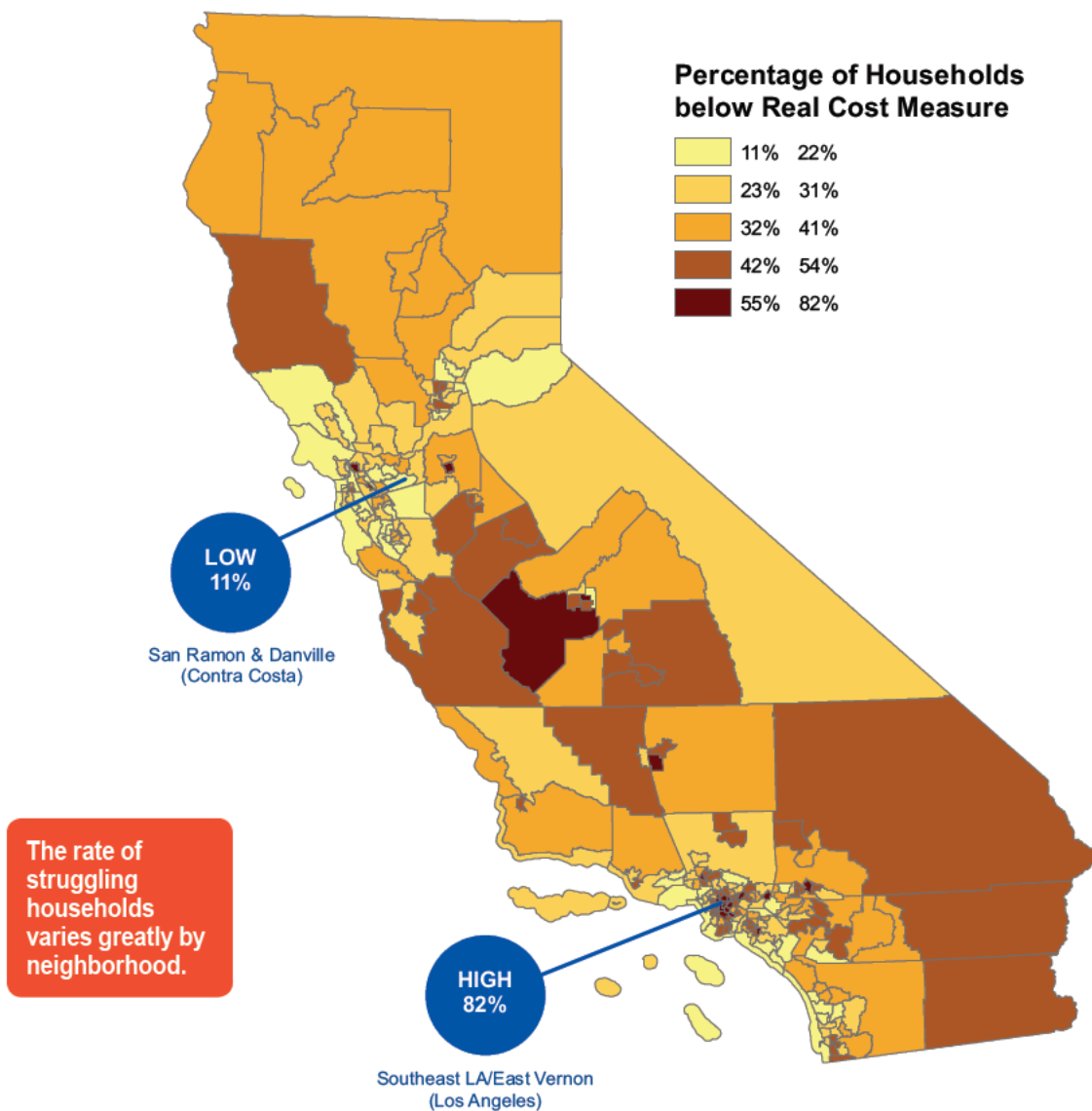
Housing costs occupy a disproportionate share of most family budgets in California, but that is particularly true for struggling families.

- Struggling households in California use over half of their income on housing, more than twice as high a share as households living above the Real Cost Measure.
- 71% of those above FPL but below Real Cost Measure, and 80% of those below both Real Cost Measure and FPL are housing—burdened (spending more than 30% of income on housing), compared to only 24% above Real Cost Measure.
- Households living below the Federal Poverty Level housing report spending a staggering 79% of their income on housing. While census methodology is imperfect for capturing the actual percentage of income spent on housing, this perception is telling.
- Average costs for a two-bedroom residence in California range from \$584 in Modoc County to \$1,905 in Marin, San Francisco, and San Mateo counties.

Foreign-Born Householders Have More Trouble Staying Afloat

One in four (26%) California households led by a person born in the United States has an income below the Real Cost Measure. By contrast, 35% of households led by a person born outside the U.S. are below the Real Cost Measure, and that number rises to 62% when the householder is not a citizen. Latino noncitizens are especially likely to struggle, with 77% below the Real Cost Measure.

HOUSEHOLDS BELOW REAL COST MEASURE BY NEIGHBORHOOD CLUSTERS



By necessities I understand not only the commodities which are indispensably necessary for the support of life, but what ever the customs of the country renders it indecent for creditable people, even of the lowest order, to be without.

ADAM SMITH
The Wealth of Nations

STRUGGLING TO STAY AFLOAT

In 2015, United Ways of California released *Struggling to Get By: The Real Cost Measure in California 2015*, which documented the struggle that many Californians face to meet basic needs. *Struggling to Get By* showed a California slowly emerging from the Great Recession, but one where obstacles to success still ran deep. That report introduced a new way of estimating poverty—The Real Cost Measure—that found that about one-third of Californians struggled economically, with certain populations facing much greater economic hurdles.

Three years later, we survey a California that—on the surface—appears to be in much better economic shape. The Great Recession is further in the past and California has surpassed the United Kingdom as the fifth largest economy in the world. But beneath the rosy economic news lies a California where one in three households continue to struggle, in part because wages have not kept pace with the increased costs of living.

Like its predecessor, Real Cost Measure 2018 seeks to measure the true costs of living in California's communities and the hardships households face in meeting them. In creating this measure, we asked what a family would need to be able to live a secure—but by no means extravagant—existence. A household living above the Real Cost Measure could meet basic living costs, but little else. Using an updated version of the Real Cost Measure, we develop actual budgets—more than 1,200 of them—representing households throughout the state, and demonstrating what people must earn in order to meet basic needs in the communities where they live.

In doing so, we can examine whether a single mother with two kids would have enough money after paying her rent in San Francisco to ensure that she can get to work and her children have access to child care. Or we can see how many weeks of employment a seasonal worker earning minimal wages in the Central Valley would need to support him/herself and their family.

Using the robust set of online tools that accompany this report, policymakers, academics, journalists, advocates, and members of the public can assess what it takes to live with a modicum of security in their communities. These tools will make this report a living document—and one that can be used as a basis for action to address societal inequities.

For over one in three households in California—representing 3.5 million families— even a modest level of security remains elusive. Each of these families has a story—ones that we will not be able to tell here—but their experiences lie at the heart of the numbers that we present, and this report should help illuminate the challenges they face in making ends meet.

A Better Measure of Need

What's the point of measuring poverty? Presumably, we measure it so that we can end it. The problem is that the poverty measures most commonly used by programs to aid the poor are blunt instruments.

The U.S. Federal Poverty Level (Federal Poverty Level, or FPL), for example, vastly understates poverty. The FPL is based primarily on the antiquated assumption that food costs make up about one-third of household budgets, but in the five decades since the FPL was developed, the costs of housing, transportation, child care, health care, and other family necessities have risen far more rapidly than food costs, leaving many expenses out of the equation. The FPL also neglects regional variations in cost of living, and while the federal government's unofficial supplemental poverty level (SPL) attempts to address many of the FPL's limitations, it does not go far enough in measuring the true cost of living for local states and communities.

These federal standards mask the true extent of families contending with deprivation. Worse, because public assistance programs use the FPL to set their eligibility requirements, many "hidden poor" find that they earn too much income to qualify for most supports, yet still struggle to meet their most basic needs. In fact, many public programs use different multiples of the FPL as a foundation for eligibility guidelines, often creating a confusing hash of program measurements. Perhaps most harmful of all to large-scale efforts to move people out of poverty, the FPL doesn't help us set the bar for families seeking to sustain themselves.

IN A NUTSHELL: THE REAL COST MEASURE

- **Focus on Households:** We measure income against basic living expenses for households, not individuals.
- **Keep it simple:** We focus on widely available, easy-to-access data that allows us to repeat the work easily across geographies. This includes data from sources such as U.S. Housing and Urban Development, the Consumer Expenditure Survey, and the American Community Survey.
- **Basic needs budgets:** We estimate the cost of meeting basic needs ("no frills") for a household, assuming expenses are shared:
 - Housing
 - Food
 - Transportation
 - Health care
 - Child care
 - Taxes
 - Miscellaneous
- **Household types:** The demographic analysis looks at over 1200 configurations of households led by a non-disabled adult, using the most appropriate budget based on the number and age of children, and whether or not the head of household is a senior.

For more detail, see Methodology at unitedwaysca.org/realcost.

If we're going to help struggling families gain agency, dignity, and mobility, we need poverty measure that point the way to a decent standard of living.

Fortunately, anti-poverty experts, practitioners, and advocates have developed a number of alternative tools that more accurately describe a decent standard of living in different parts of the country, and for families of different configurations and stages of life. (See *Measuring Up: Aspirations for Economic Security in the 21st Century* for a review of measures.)

Our Real Cost Measure uses a basic needs budget approach, which has two primary components:

- An estimate of the costs of meeting basic needs for a household in a given area, based on data that account for variation in local costs of living
- An estimate based on census data of how many households have income below those costs

Our Real Cost Measure approach puts a stake in the ground for what people need to live with some dignity. Our report makes the following critical assumptions:

- **Housing:** Families should be able to rent a family apartment, rather than doubling up with extended family or strangers; parents should be able to have separate rooms from their children, rather than crowding in together.
- **Child care:** Families with young children should be able to afford adequate, licensed child care so that adults can work for a living, and so that children can feel safe and nurtured, and ideally, develop their minds and bodies apace with wealthier peers.
- **Health care:** Both adults and children should have access to basic preventive health care and be able to afford the co-payments and incidentals that go along with it.
- **Food:** Households should be able to afford the USDA-defined Low-Cost food plan, which is the third most generous of the four food plans defined by the agency. In our prior report, we used the Thrifty Food Plan (the least generous), which offered just enough nutrition to avoid being malnourished and is used to determine SNAP benefits.
- **Transportation:** Adults should be able to get to work, to school, and back home by private or public transportation (though the budget doesn't include savings to purchase a car).

Basic needs budgets more clearly describe region-specific hardships for families and the tradeoffs they face on a regular basis, such as having to sacrifice food for heat or child care on a regular basis. Because it is grounded in a household budget containing costs that all families can relate to, we believe the Real Cost Measure supports better community and policy conversations about how to help low-income families move up, as well as better guidance for such families and those serving them.

If we're going to help struggling families gain agency, dignity, and mobility, we need poverty measures that point the way to a decent standard of living.

Rough Waters: One in Three Households Struggle to Stay Afloat

Our research reveals that 33% of Californians live below the Real Cost Measure, including 11% below the Federal Poverty Level. This means there are three times more financially stressed households than shown by the official poverty rate.

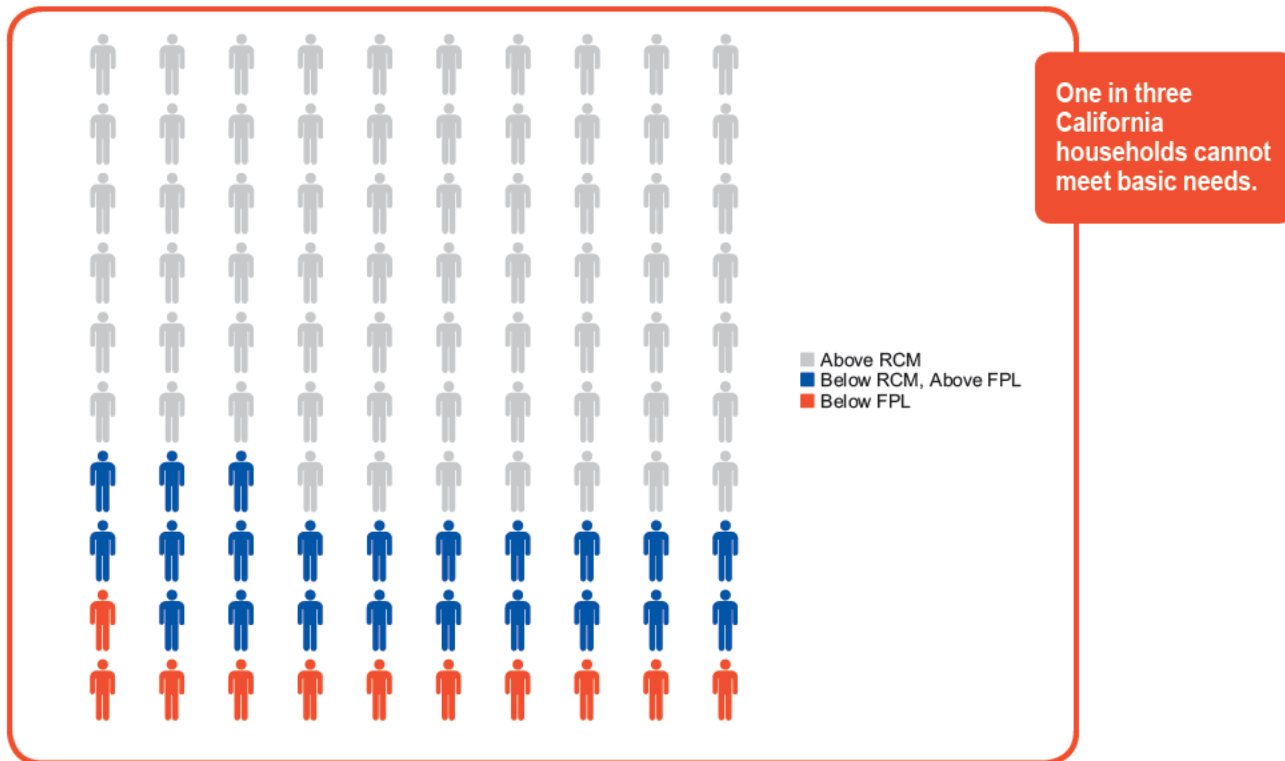


Figure 1. Share of Californian Household Above/Below Real Cost Measure.

To understand what those numbers mean, it is helpful to think about a person in the ocean, navigating the currents and trying to get to safety.

1.1 million California households that live in poverty (represented in red on the chart above) barely tread water. For a family of four (2 adults, 1 young child, 1 infant) residing in Sacramento, living below the Federal Poverty Level means trying to survive on just \$24,300 (or less) per year. Every day brings risks to their ability to survive—they may have inadequate housing or may not know where their next meal is coming from. Often drowning in debt, these families face a daily struggle to keep their heads above water.

A swimmer alone in the ocean represents the next group of Californians. They are not at immediate danger of drowning—and some are swimming with nice, easy strokes—but they still need help to get out of the water. According to the federal government, these swimmers do not live in poverty, but neither are they able to meet all of their basic needs. Most of their core needs can be met, though they may live in substandard housing, or perhaps forgo medicines to ensure they have enough money to get through the month.

According to our metaphor, something changes when these swimmers reach the midpoint between the Federal Poverty Level and the Real Cost Measure threshold. The warm boat is in sight now, offering hope for a better life. A better job or more income supports (like an

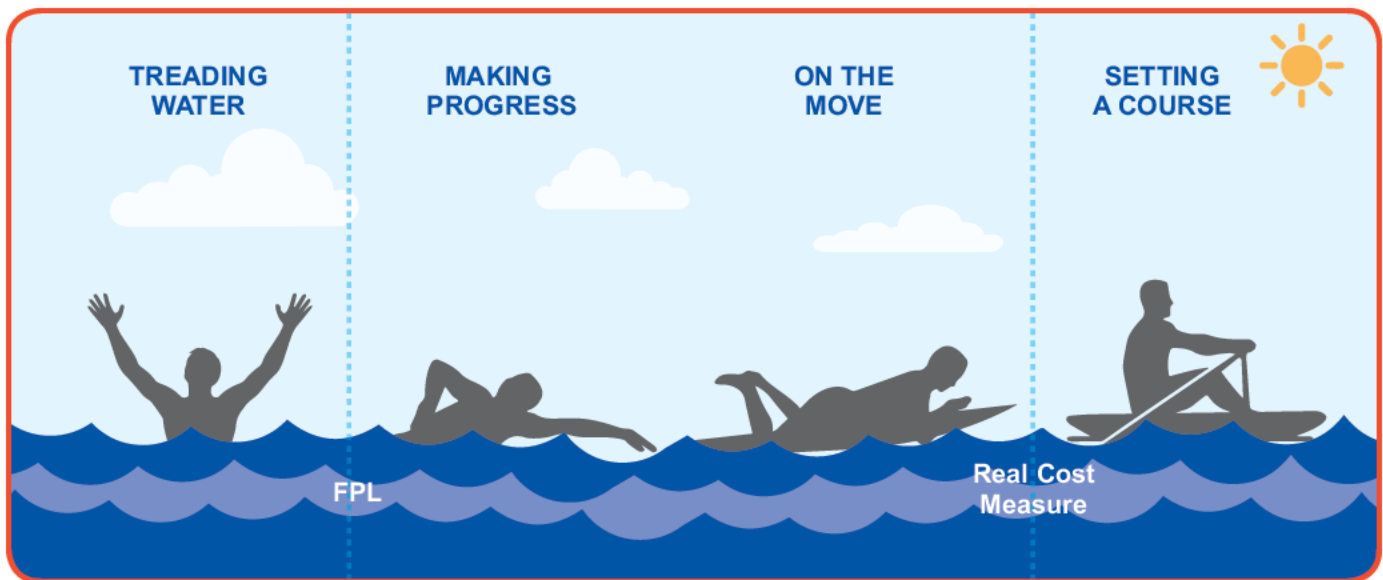


Figure 2. Staying Afloat in California.

expanded EITC program) might be enough to climb the ladder and reach the security of the boat, but they are not there yet.

Finally, we think of those who meet the Real Cost Measure standard (seen in the boat in Figure 2 above) as having achieved some security. Their existences may not be rich, but they can get by without the same level of fear that they may have had in the water. Two of three (67%) California households are in the boat, and out of immediate danger. But to continue the analogy, there still may be rocks under the water. For “getting by” means just that. Many people who are getting by don’t have money for luxuries like vacations and eating out—and one obstacle, be it a lost job, a sick child, or an eviction, can send that person into the water, where he will be hard-pressed to keep his head above it.

The traditional picture of poverty focuses on the first category of people—those who barely stay afloat. But the reality of economic insecurity is much broader. The swimmers in the second and third groups—representing 22% of all California households—also struggle to meet basic needs, even if they do not technically live in poverty. Many anti-poverty programs do not target them for assistance (because they make too much money), but they still have to make choices every day about which corners to cut. Economic security has to mean more than not drowning—it should mean that the fear of drowning should not be omnipresent.

The portrait of struggling families below the Real Cost Measure also can illustrate the uncertainty facing families earning above the Real Cost Measure, those in boats of varied size setting their course. While this and similar reports categorize households on the basis of specific measures of income, the reality is more complex. Financial situations change—particularly as a result of job loss—and many who appear to be above the Real Cost Measure (based on average annual income) may have spent months in which they did not have sufficient income to meet their daily needs. Poverty (or financial struggle) is not a fixed condition but rather a state brought on by ever-changing circumstances. Our estimates of

people below the Real Cost Measure cannot fully capture this dynamic, and readers and policymakers should recognize that the number of people at risk of financial difficulty at a given time exceeds the number who fall under the Real Cost Measure standard.

The Income Gap and the Insufficiency of Income Supports

Figure 3 below shows the difficulty one hypothetical family would face in achieving a basic level of security.

Lucas and Maria live in Sacramento County with their two children, six-year-old Sara, and Daniel, who just celebrated his first birthday. Maria works full time at a restaurant, while Lucas works in agriculture, but is not employed year-round. Together, they earn \$29,586 over the course of the year (the average for a family under the Real Cost Measure in the county).

Although their earnings are above the \$24,300 Federal Poverty Level (2016), they are far below what is needed to meet Real Cost Measure. They may be “getting by,” but they are much closer to poverty than they are to economic security.

Even after tax credits and other income support, a huge expense gap remains.

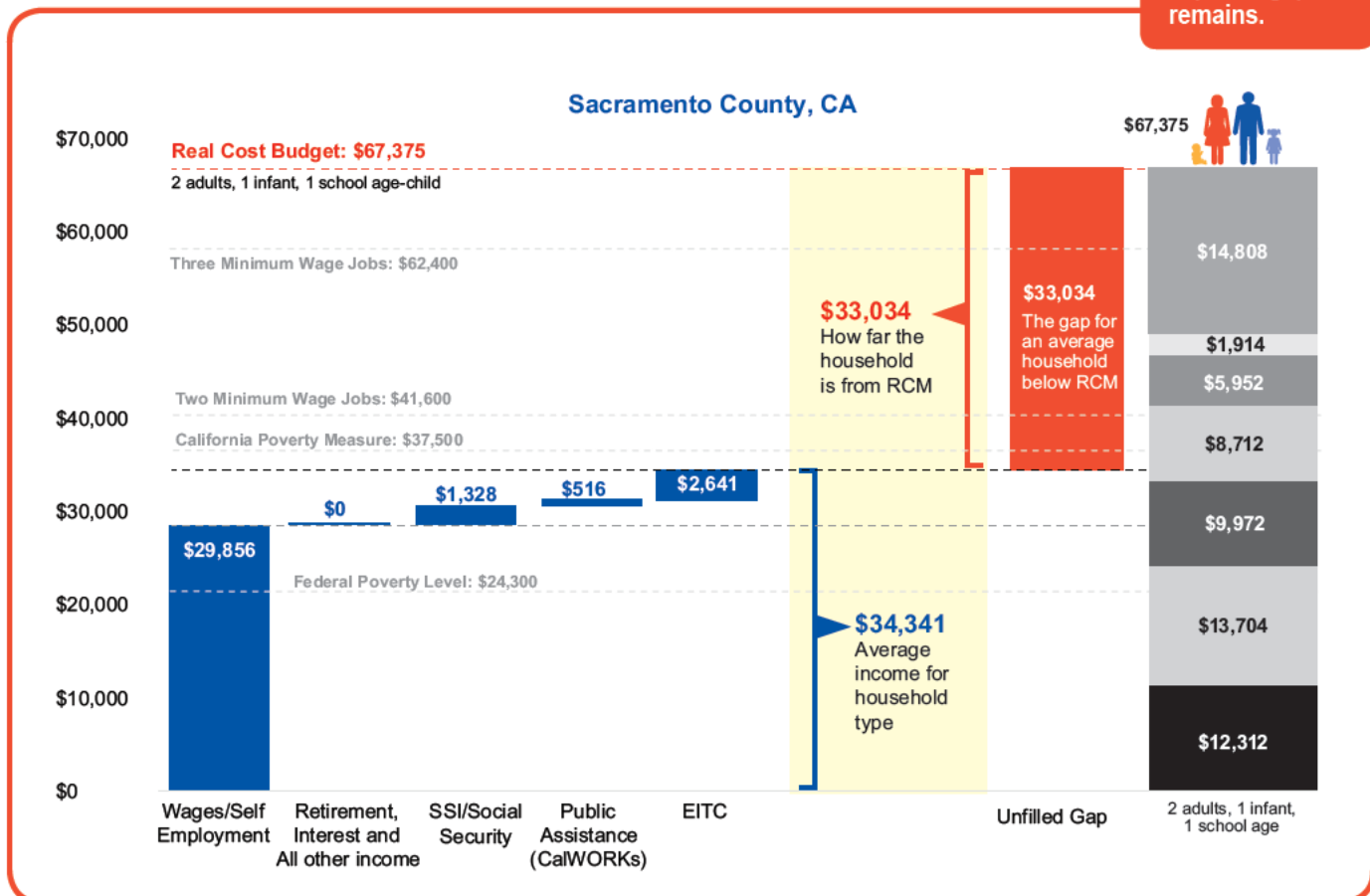


Figure 3. Income Gap after Wages, Credits and Public Assistance.

While public assistance programs such as CalWORKs (California's Temporary Assistance for Needy Families), CalFresh (California's Supplemental Nutrition Assistance Program), Medicaid, and Medicare exist to help families toward economic security, they simply do not provide anything close to the amount of support that families like Lucas's and Maria's need.

Lucas and Maria get the below-Real Cost Measure average of \$516 in annual cash benefits (mostly from CalWORKs). Programs like these enable families to climb out of poverty (or a bit further from it), but benefits dwindle as households make the leap to economic security, often removing key supports at key points when households need them. The almost \$3,500

THE EARNED INCOME TAX CREDIT IS OUR MOST EFFECTIVE ANTI-POVERTY PROGRAM, YET FALLS SHORT

The federal Earned Income Tax Credit (EITC) provides a case in point. One of the nation's most important poverty-fighting programs, EITC benefits assisted 3 million Californians in 2016. Almost 1 in 10 households eligible for the Earned Income Tax Credit were able to escape poverty by virtue of the assistance it brought (for those households, an average of over \$4,600). But while EITC was helpful in getting families out of poverty, it does not provide enough help to ensure that a family can be economically secure. EITC benefits taper out as families receive higher levels of income. As a result, only about 4 in 10,000 eligible households received enough from EITC to no longer struggle.

The advent of the California Earned Income Tax Credit (CalEITC)—in combination with the federal program—should be a powerful tool in helping California households. In 2017, the CalEITC program raised its income thresholds so that families with children could receive a benefit up to a maximum income of just over \$23,000, with benefits for a family with two children

just under \$2,500 (the maximum federal benefit for such families is \$5,616). Nevertheless, as with the federal program, the point at which credits phase out limits the ability of a program to bring recipients to a point at which they no longer struggle. Moreover, eligibility restrictions (such as family members needing the possession of Social Security numbers valid for employment) further restrict the ability of this valuable tool to reach everyone of need. Expansion of CalEITC to a broader population of needy Californians could help more households become financially stable.

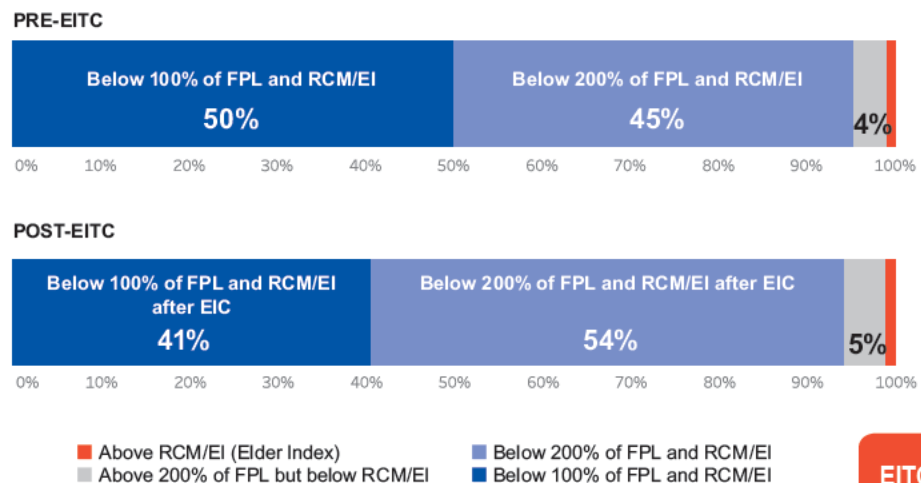


Figure 4. Effects of EITC on Real Cost Measure.

EITC brings families above FPL but not above Real Cost Measure.

of EITC Lucas and Maria earn goes the furthest, but it too drops off well before reaching the Real Cost Measure (see sidebar on page 22). Even after accounting for this assistance, then, Lucas and Maria have a gap of over \$33,000 between what they bring in and what they need for all of their family's needs to be met. We will propose some solutions for addressing this gap in the Policy Levers section at the end of this report.

Real Cost Measure Budgets Change as Families Grow

The figure below shows how the income a household requires to meet Real Cost Measure changes dramatically as a family ages and faces new challenges.

For a newly married couple in Sacramento County, meeting the Real Cost Measure would take \$34,921 in income. Their largest expenses are housing (\$9,780) and transportation (\$9,972), followed by food (\$6,828) and health care (\$4,356).

For a household like that of Lucas and Maria (one infant, one school-aged child), the challenges are greater. Both parents would need to work at over \$17/hour jobs to earn the more than \$67,000 they need, but having two young children results in child care expenses

Young children have dramatic effects on a family's budget.

Sacramento County, CA

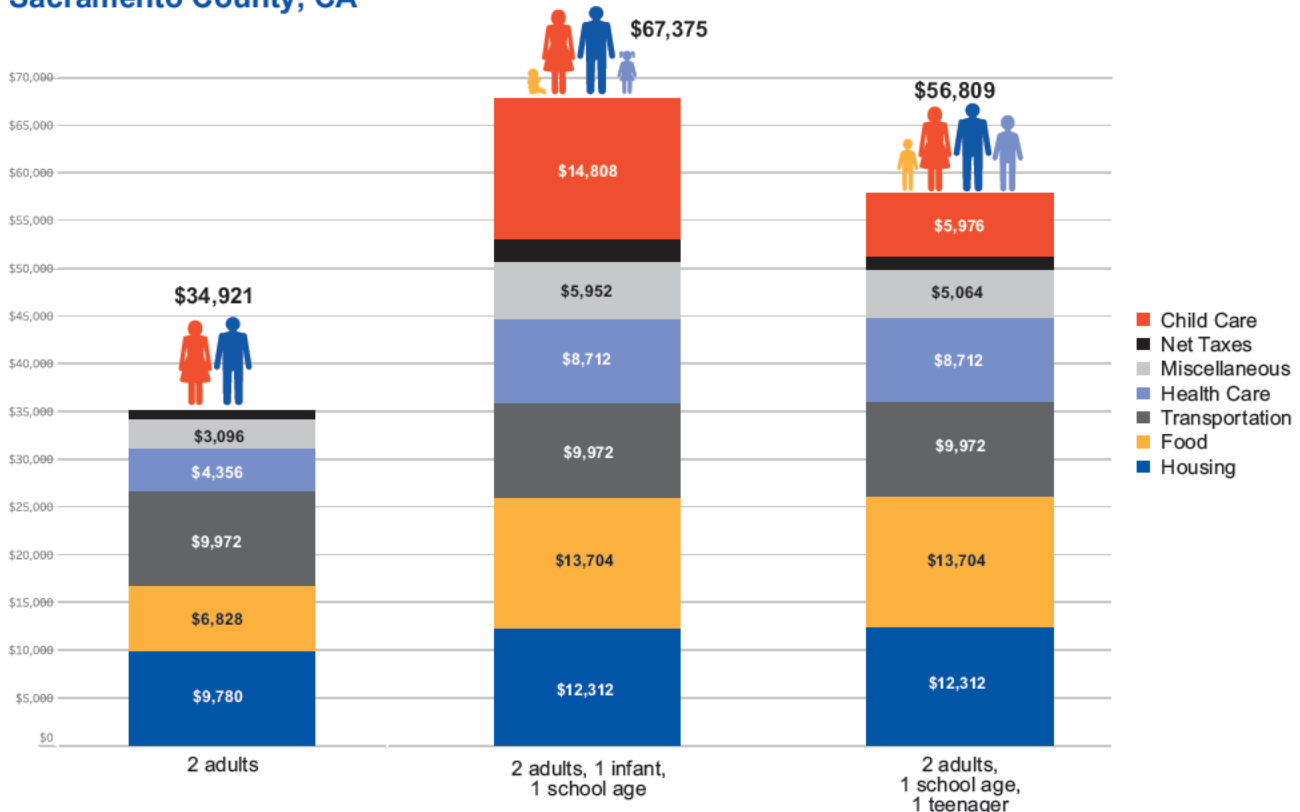


Figure 5. Annual Household Budget by Family Composition.

approaching \$15,000. They would spend twice as much on food and health care as their neighbors and pay about 25% more in housing in order to accommodate the larger family. The increased income also means that they have about \$2,500 in taxes to pay, three to five times that paid by their childless neighbors.

Expenses decrease somewhat for a family with older children. A family in Sacramento County with children ages 15 and 8 would need up to \$57,000 to meet the Real Cost Measure standard. Their anticipated costs for housing, food, transportation, and health care are the same as Lucas and Gloria face, but with children in public school during the year, their child care expenses (\$5,976) are substantially less than they had to pay when their children were younger.

Combined with lower taxes and slightly lower miscellaneous expenses, a \$57,000 budget would just be enough to get by. But they would still have to live from paycheck to paycheck, worrying that any sort of setback would have dramatic repercussions for their family.

Far less wealthy industrialized countries have committed to end child poverty, while the United States is sliding backwards. We can do better. We must demand that our leaders do better.

MARIAN WRIGHT EDELMAN

CALIFORNIA'S STRUGGLING HOUSEHOLDS: PEOPLE AND PLACE

The economic well-being of California's inhabitants varies greatly by where they live. Few Californians would be surprised to learn that a larger proportion of people struggle in the Central Valley (40% below Real Cost Measure) than in the Bay Area (25%), or that Imperial County (43% below Real Cost Measure) has a higher share of families that can't afford basic expenses than Napa County (26%). The Real Cost Measure 2018 uses information about counties to build budgets and determine what families need for stability.

Disparities by region or county, however, do not change a central fact about California: there are struggling people everywhere. The nature of that struggle may look different—a family of four bringing home \$80,000 would be secure in Modoc but would be well under Real Cost Measure in San Francisco—but the difficulty in making ends meet is the same for struggling families everywhere.

The map on the facing page shows the percentage of households below the Real Cost Measure analyzed by public use microdata areas (PUMAs), which are contiguous neighborhood clusters of 100,000 to 200,000 residents prepared by the Census Bureau. The rate of struggling households ranges from a low of 11% in the San Ramon & Danville cluster in Contra Costa County, to a high of 82% in the Southeast LA/East Vernon cluster in Los Angeles County. While we see many pockets of neighborhood clusters that struggle throughout the state, including many Central Valley and desert communities, the largest group of struggling neighborhoods can be found in Los Angeles County. Of the 44 neighborhood clusters throughout the state that experience 50% or more households living below the Real Cost Measure, 19 are in Los Angeles County.

Analyzing Real Cost Measure households by neighborhood cluster can reveal tremendous differences, even within individual counties. With 28% of families below Real Cost Measure, Orange County is somewhat better off than the state as a whole, but those overall numbers obscure the differences within the county. The affluent areas of Mission Viejo and Santa Margarita (west) have about 16% of families below Real Cost Measure, including only 3% living below the FPL. By contrast, 6 in 10 households in the eastern part of Santa Ana are struggling, including the 17% of households living below the Federal Poverty Level. Similar patterns exist throughout the state.

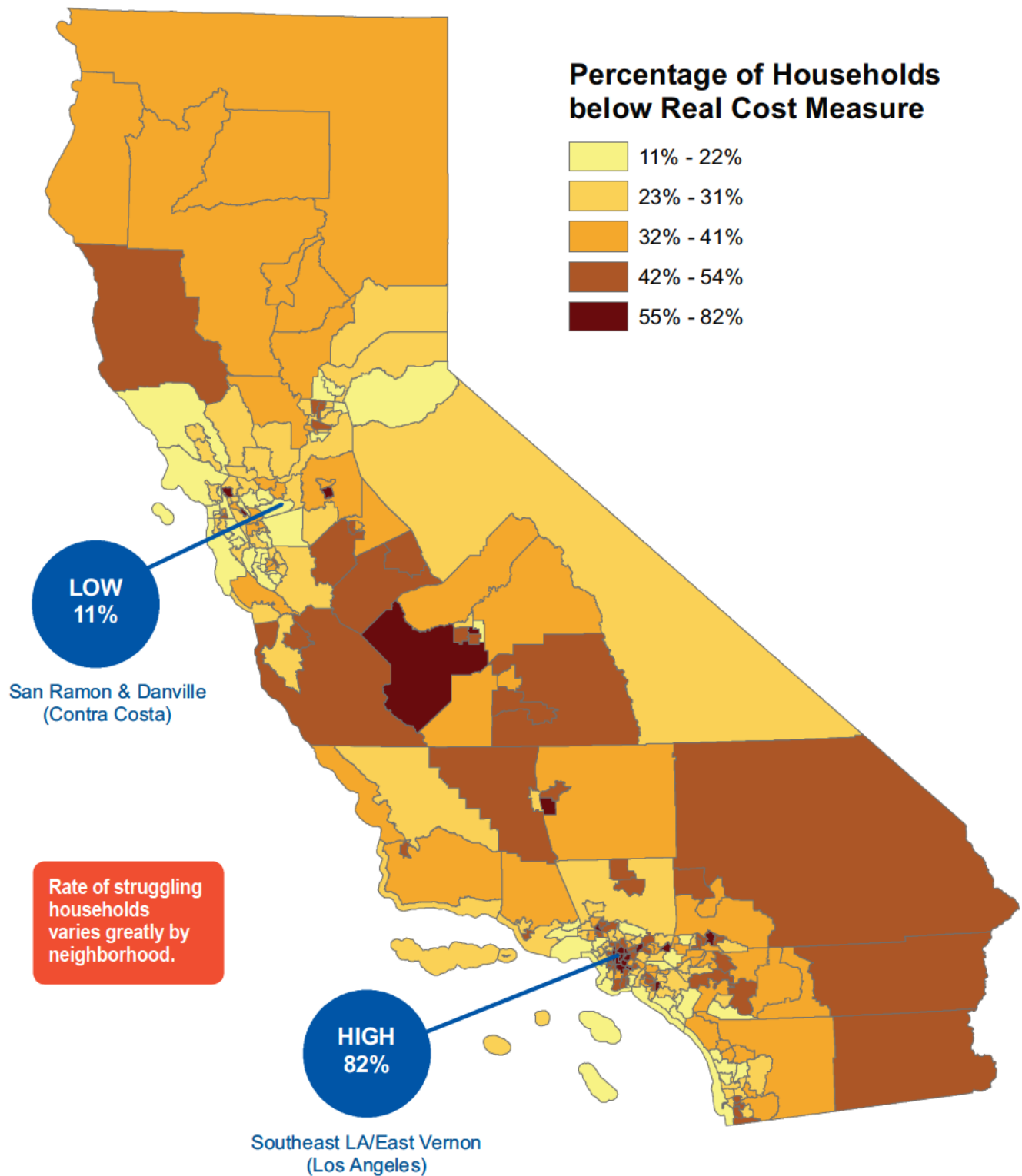
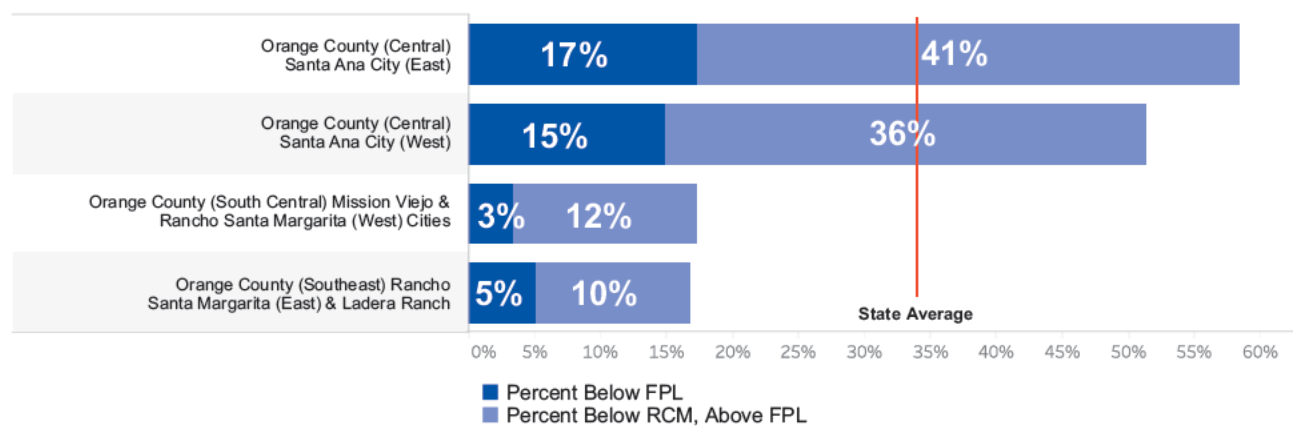


Figure 6. Households below Real Cost Measure by Neighborhood Clusters.



Even within one county, economic fortunes strongly diverge.

Figure 7. Orange County Neighborhood Comparison of Households Below RCM.

The Four Californias

Disparities within regions and counties can be as important as differences between them, as the above examples illustrate. Looking across the state through the lens of “Four Californias” help reveal these patterns. The four Californias segments the state not just by where people live, but by level of need according to Real Cost Measure, which correlates with economic and social conditions in these neighborhoods.

The maps on the facing page shows these four Californias and demonstrates that that these Californias can exist side by side in the same city or county.

As you can see, Quartile 1 residents are most likely to be white U.S. citizens and have a high rate of college graduates. This California is largely coastal and less than 24% of households are below Real Cost Measure. In Quartile 2, 24%-31.9% are below Real Cost Measure. As in the first California, about 90% of households are led by native-born citizens, of whom a majority are white. There is more geographical diversity in this group, however, and 45% are college graduates. The third California is everywhere. Many of California’s rural and inland areas belong, but also many urban locations. 32%-43.9% of households are below Real Cost Measure, and college graduates (31%) are much less prevalent. Finally, many households in the fourth California live not only below Real Cost Measure but below the Federal Poverty Line. More than a quarter of households are headed by someone without a high school diploma, and similarly, 29% of households are headed by a non-citizen. Fourteen percent of these households are headed by a single mother.

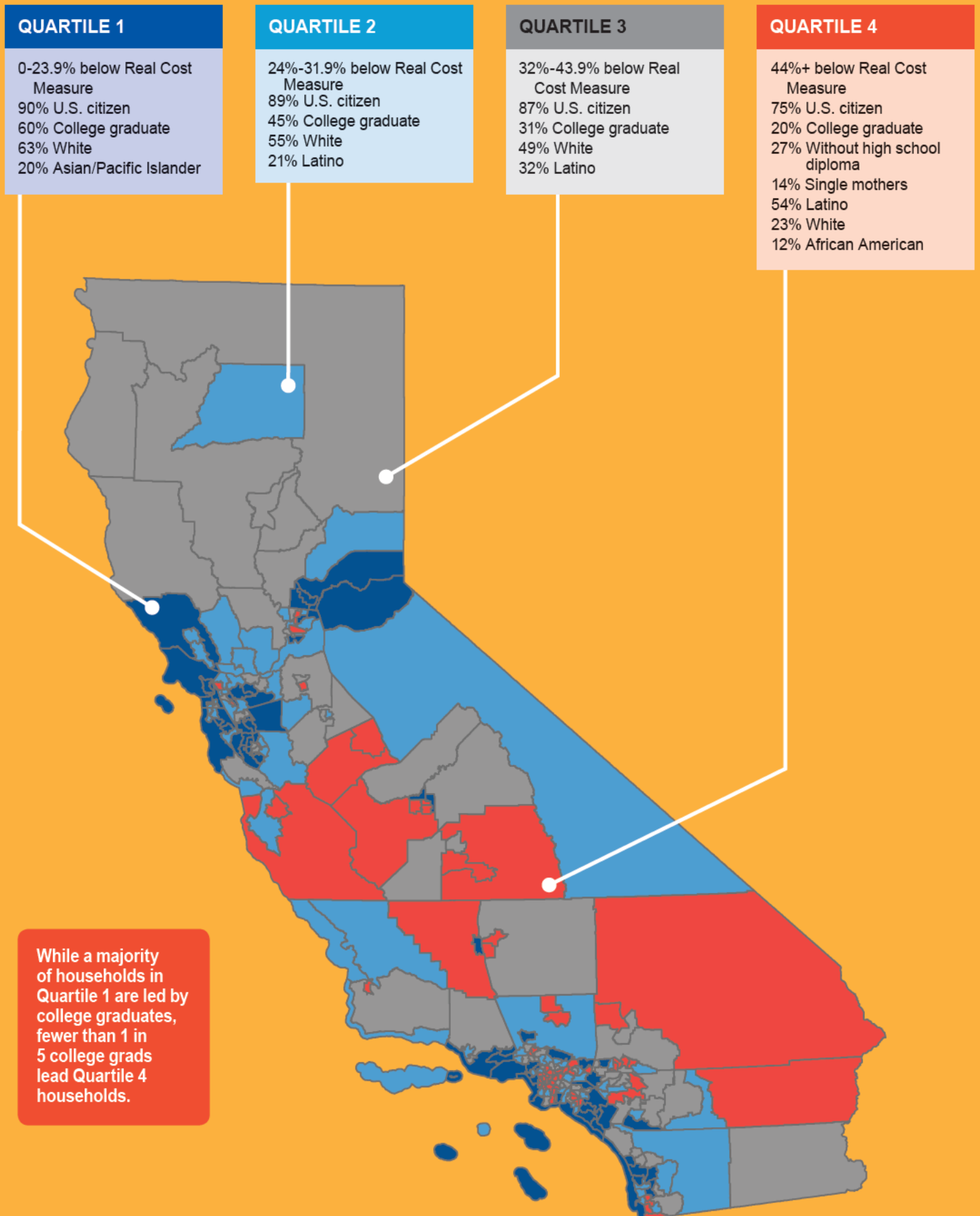


Figure 8. Four Californias - Real Cost Measure by Quartiles.

Struggling Families Work, but Work Is Not Enough

Of households living under the Real Cost Measure, 81% have a head of household who worked at least 50 weeks during the year. But having a job does not mean that one is economically secure. Many households in which one or multiple adults work still struggle to meet basic expenses.

Among non-senior-led households, almost 3 in 10 (28%) households led by a working person aged 64 or lower live below the Real Cost Measure. Furthermore, the work these people performed was significant. Among those living below the poverty level, working heads of household averaged 42 weeks of employment a year. Among those still struggling (living below Real Cost Measure) but not in poverty, the head of household averaged 48 weeks a year, about 8 fewer work days a year than those living above the Real Cost Measure. People living below Real Cost Measure work just as hard (and often harder) than those above it, but that work is not enough to enable them to meet the expenses that would ensure that their families live a comfortable life.

Over the past several years of recovery from the Great Recession, California's rates of unemployment and underemployment have improved. Unemployment has dropped by more than half, from 12.1% in January 2011 to 5.3% in December 2016, the end of the 2014-2016 period covered by this report, and down to 4.5% by the end of 2017. Similarly, those experiencing underemployment (people who wished to be working full-time, but only were able to find part-time employment) have declined slightly from a high of just over 1.5 million people in 2012 to 920,000 in 2016.

Heads of household just below the Real Cost Measure work about as much as those above threshold.

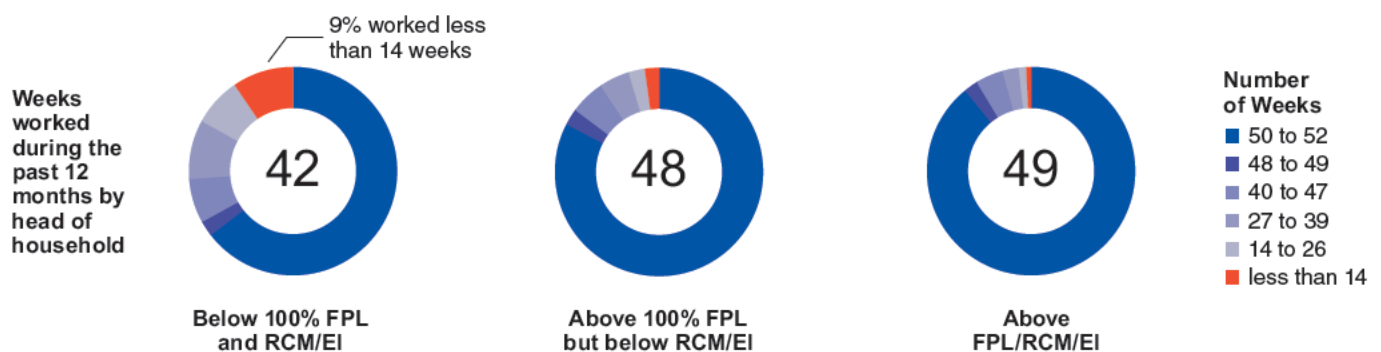


Figure 9. Weeks Worked Per Year.

Median income also increased in recent years. At the time of our last report, the statewide median income was \$74,817, while median income for those under Real Cost Measure was \$28,475. In 2016, statewide median household income had risen to \$84,708, with those below Real Cost Measure bringing in \$32,148. But despite those noticeable increases in income, the share of California households below Real Cost Measure remains virtually unchanged.

Our data show that while more people are working, and are working longer hours, they are not getting ahead. That is because expenses have increased while wages have failed to keep pace. As a result, lower-income Californians indeed are working more than they did a few years ago, but with wages stagnant and prices higher, the additional hours that they are able to work only are helping them to continue to tread water in a still treacherous economy. This is particularly the case in more expensive locations, like the San Francisco Bay Area.

With hours going up but little change in the numbers of families living in poverty or struggling, the obvious culprit is wages. Economic theory holds that decreasing unemployment will lead to less competition for jobs, causing employers to raise wages to attract good candidates. But theory is of little comfort to those who expect raises and do not find them forthcoming, or who cannot find jobs that provide enough income to raise their standard of living. For struggling families, stagnant wages have made it difficult to escape economic distress and surmount the Reach Cost Measure standard.

Declining unemployment and increased hours masks the fact that a household's conditions do not necessarily remain stable throughout the year. Struggling households often experience various income spikes and income dips over a calendar year compelling them to make difficult choices regularly such as cutting back on utilities, asking landlords and

Those below Real Cost Measure but above FPL work almost as many hours as those above.

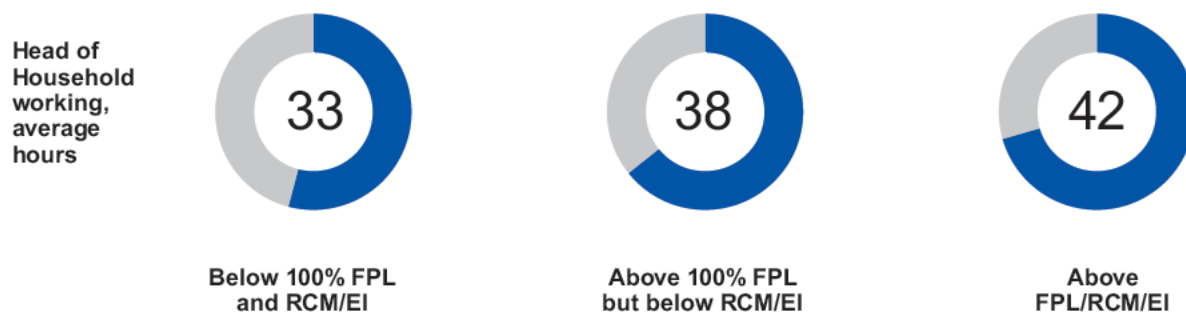


Figure 10. Average Number of Hours Worked by Employed Heads of Household.

banks to extend housing payment due dates, borrowing from family and friends, neglecting health care, sacrificing school supplies and more, as described by researchers Jonathan Murdoch and Rachel Schneider in *The Financial Diaries: How American Families Cope in a World of Uncertainty*. This is especially true for workers who are highly dependent on seasonal work to make ends meet, such as those in retail and manufacturing industries where supply and demand can fluctuate easily. Those in retail, for example, often earn additional work hours in November and December, ahead of the holiday season, but often experience reduced hours and pay once the demand for holiday shopping declines. In fact, in their survey of working households, researchers Jonathan Murdoch and Rachel Schneider found families can experience up to five months of income volatility during a calendar year in which spending was at least 25% above or below their monthly average.

When families receive income spikes, such as additional income from EITC during the tax season, they often use it to pay family members back, catch up on household expenses that were previously neglected, and for short-term needs. This income volatility makes it challenging for families to create savings accounts, invest in retirement, put money aside for their children's education and more.

Struggling Households through Different Lenses

Factors like race/ethnicity, education level, and family structure have a strong relationship to a household's financial well-being. (The patterns are similar to our 2015 report.) While the factors described below are instructive, however, no one piece of information (education level, race, etc.), in and of itself, can explain why a person or household lives above or below Real Cost Measure. By enabling analysis by a constellation of factors, the Real Cost Measure presents a more nuanced picture of who is struggling in California.

Households led by Latinas with less than high school education struggle the most, while households led by white male college graduates struggle the least.

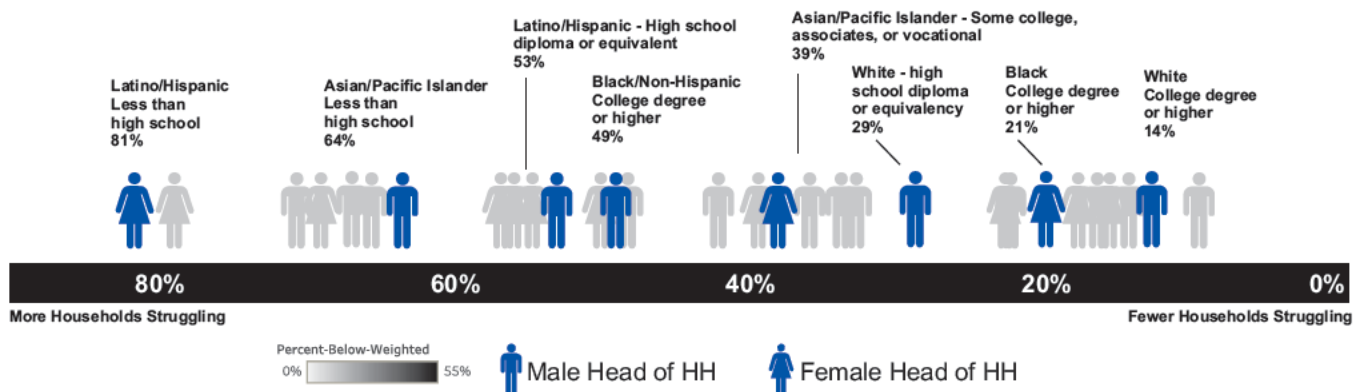


Figure 11. Households Below RCM by Race/Ethnicity, Education and Sex of Householder.

Latino and African American households struggle at higher rates.

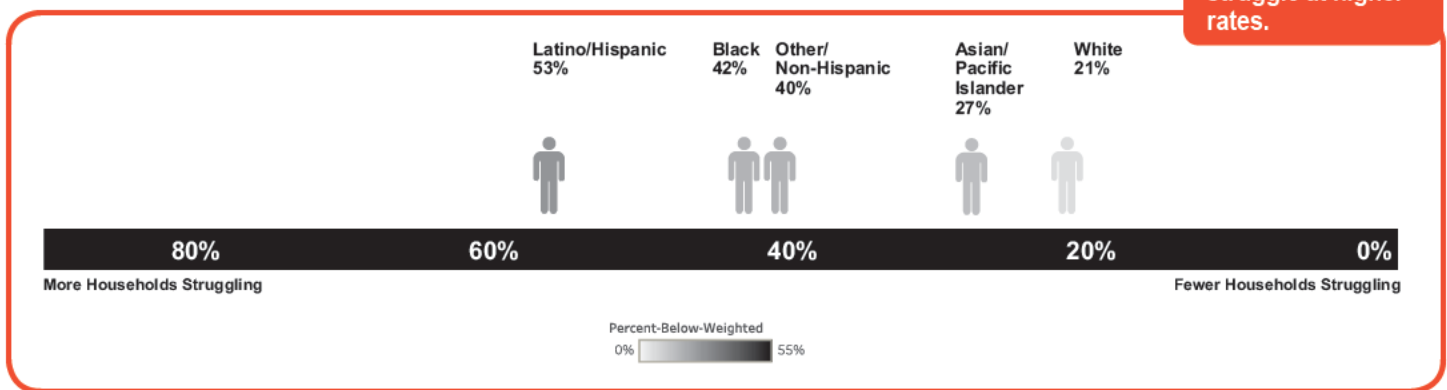


Figure 12. Householders below RCM by Race/Ethnicity.

Significant Disparities by Race and Ethnicity

Californians take pride in the state's diversity. A plurality of the state identifies as Hispanic or Latino, and less than 38% of the population is classified as white, non-Hispanic by the U.S. Census Bureau. California has a higher percentage of Asian Americans than any state but Hawaii, and over 220 languages are spoken by the residents of the state. In many ways, "California is America on fast-forward," as USC sociologist Manuel Pastor has observed. But underlying that diversity are some deep inequities, and the Real Cost Measure helps illustrate that those who are struggling are disproportionately members of certain groups.

Of the almost 3.3 million families living below the Real Cost Measure measure, more than 1.5 million have Latino heads of household, with more than one million white heads of households, 430,000 Asian heads of household, and almost 270,000 African American heads of household.

While Latinos and whites are by far the two largest groups of struggling households, Figure 13 illustrates sharp racial disparities in the rate of economic security within different groups.

Latino and White households are largest groups of struggling households.

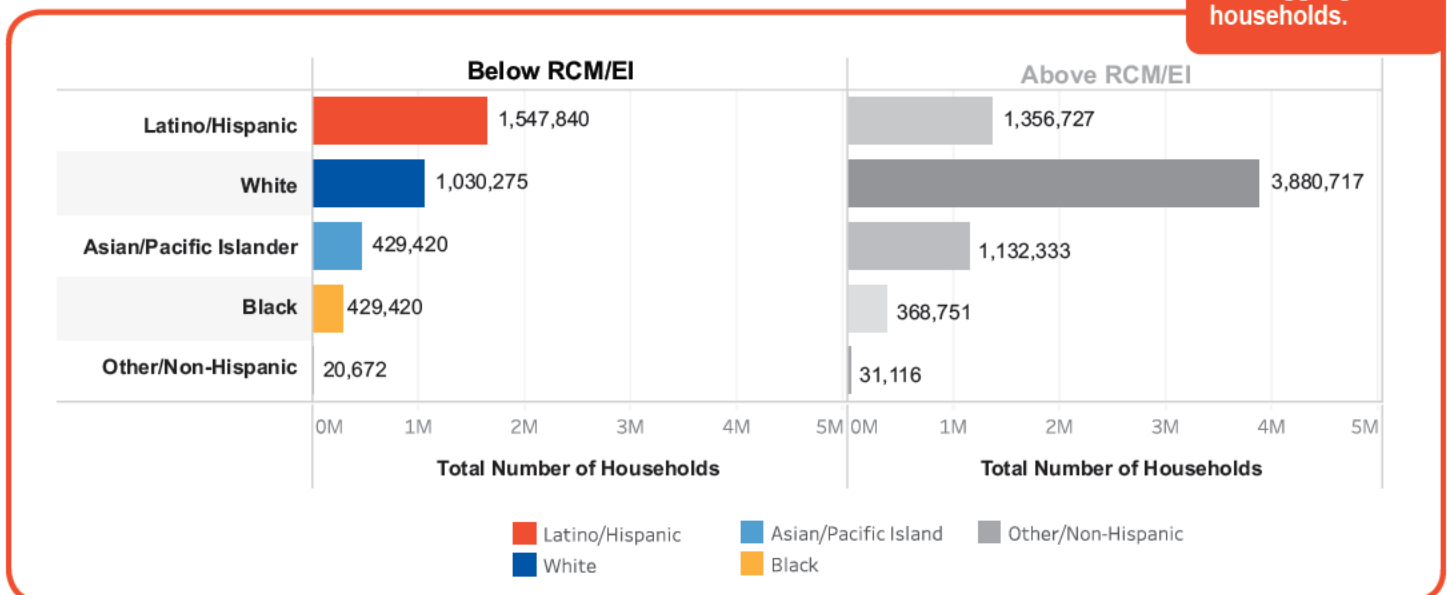


Figure 13. Number of Households Below/Above RCM by Race/Ethnicity

Overall, 21% of white households live below the Real Cost Measure, compared to 28% of Asian/Pacific Islander households, 42% of African-American households, and 53% of Latino households. Nevertheless, the face of economic struggle in California is strikingly diverse.

Higher Education Closely Associated with Better Economic Outcomes

There is a powerful relationship between education and meeting the Real Cost Measure. While only 17% of households headed by a college graduate were below the Real Cost Measure, 71% of households headed by a person without a high school diploma were struggling. Families headed by a high school graduate (48% below) and by a person with some college (33% below) were in between.

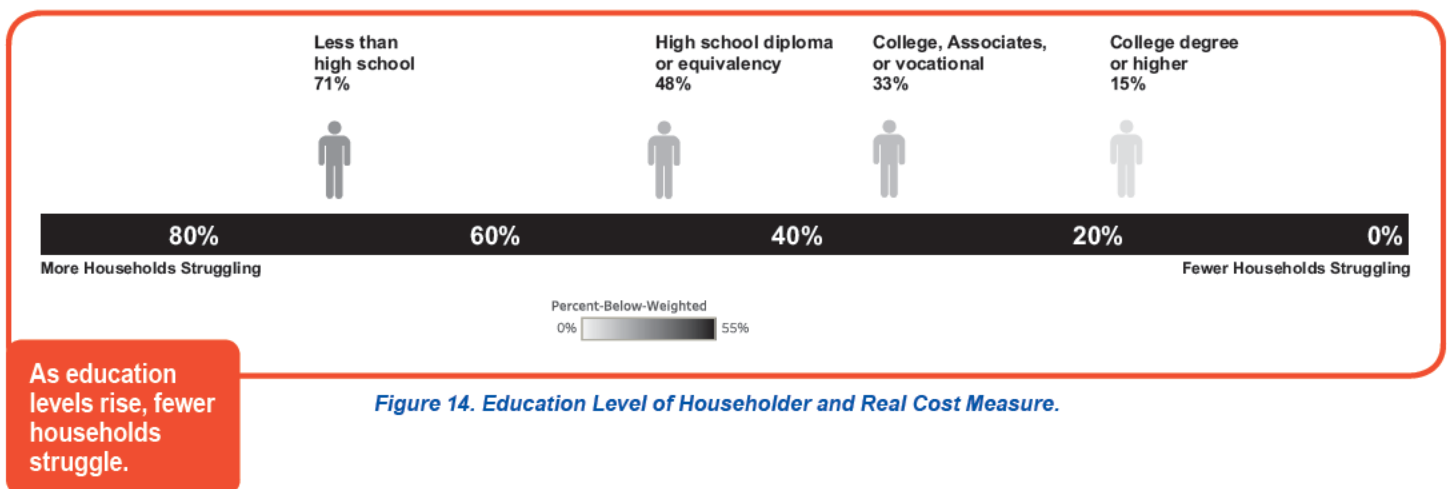


Figure 14. Education Level of Householder and Real Cost Measure.

One clear reason for this disparity is the role that education plays in earnings potential—a term social scientists refer to as “returns to education.” The median hourly wage for a head of household who earned a college degree is \$33, twice the earning potential of those with a high school diploma but no college (\$16). Those with some college (\$20 per hour) improved somewhat on those who stopped after high school, and those without a high school diploma typically earn \$12 an hour, helping to explain why so many are struggling.

To illustrate the interaction of race and education, consider the example of a household led by African American male who has not graduated from high school. Two-thirds of such

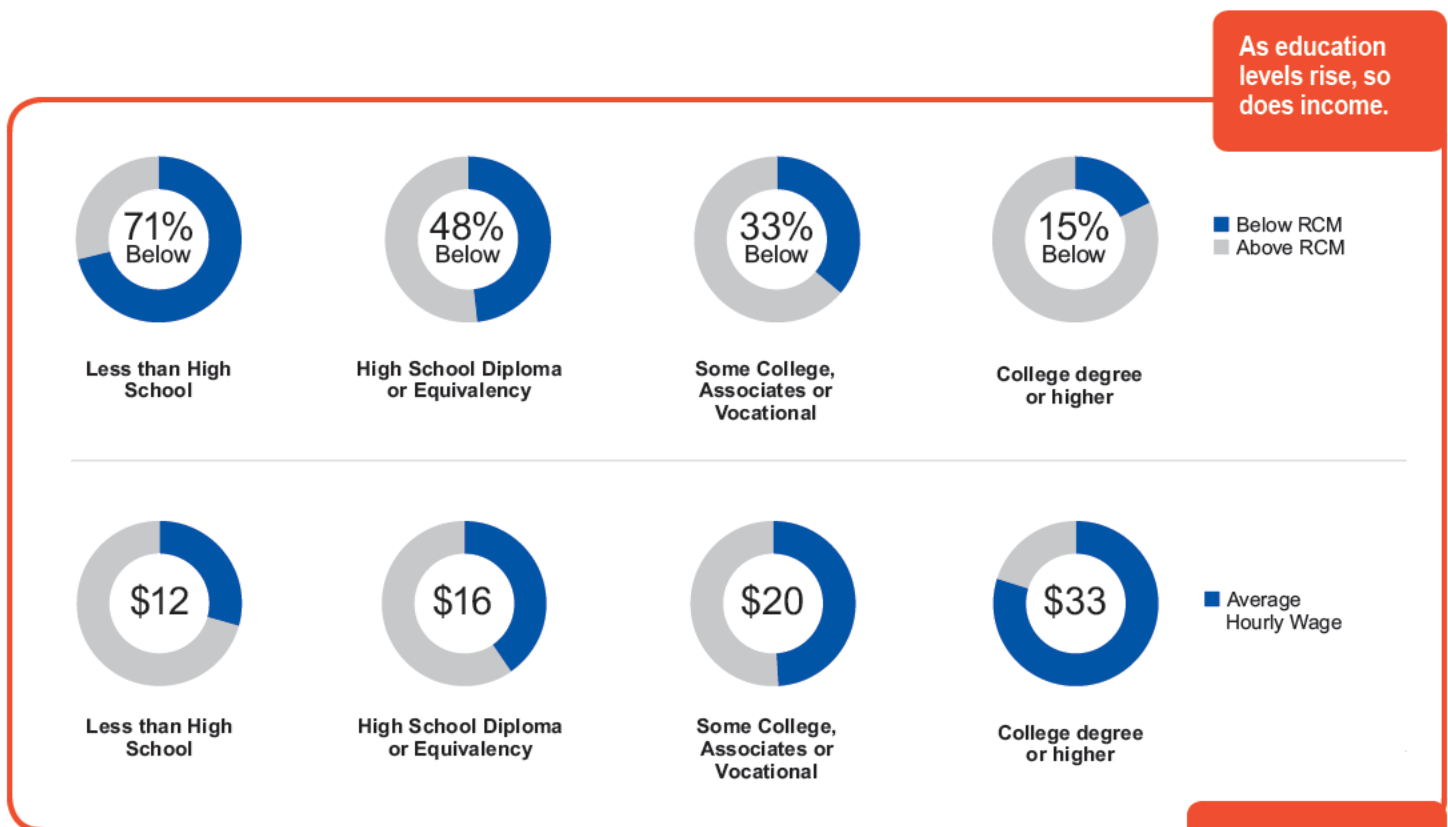


Figure 15. Education Percent of Households Below the Real Cost Measure.

households are struggling (73% below the Real Cost Measure) and 36% live below the Federal Poverty Level.

As discussed above, both race and education levels are closely related to economic security, facts that are underscored by Figure 17.

Figure 17 demonstrates that the greater the education level of the head of household, the more likely that that family is going to be financially secure. Among all African American-headed households, 25% are below the Real Cost Measure when headed by a college graduate, 49% when the household is led by someone with some college, 58% for high school graduates, and 73% are below when the head of household has not graduated from high school.

But this figure also illustrates the importance of race in economic security. The persistence of these challenges faced by households of color are clear when looking at families with similar backgrounds. At all levels of education, families with white heads of households are least likely to struggle and least likely to live below the Federal Poverty Level. Conversely, Latino families are likeliest to struggle at most educational levels, with African Americans close behind. African American families also are most likely to live below the poverty line at all levels of education.

Households led by people of color need some college or more to fare as well as white high school graduates.

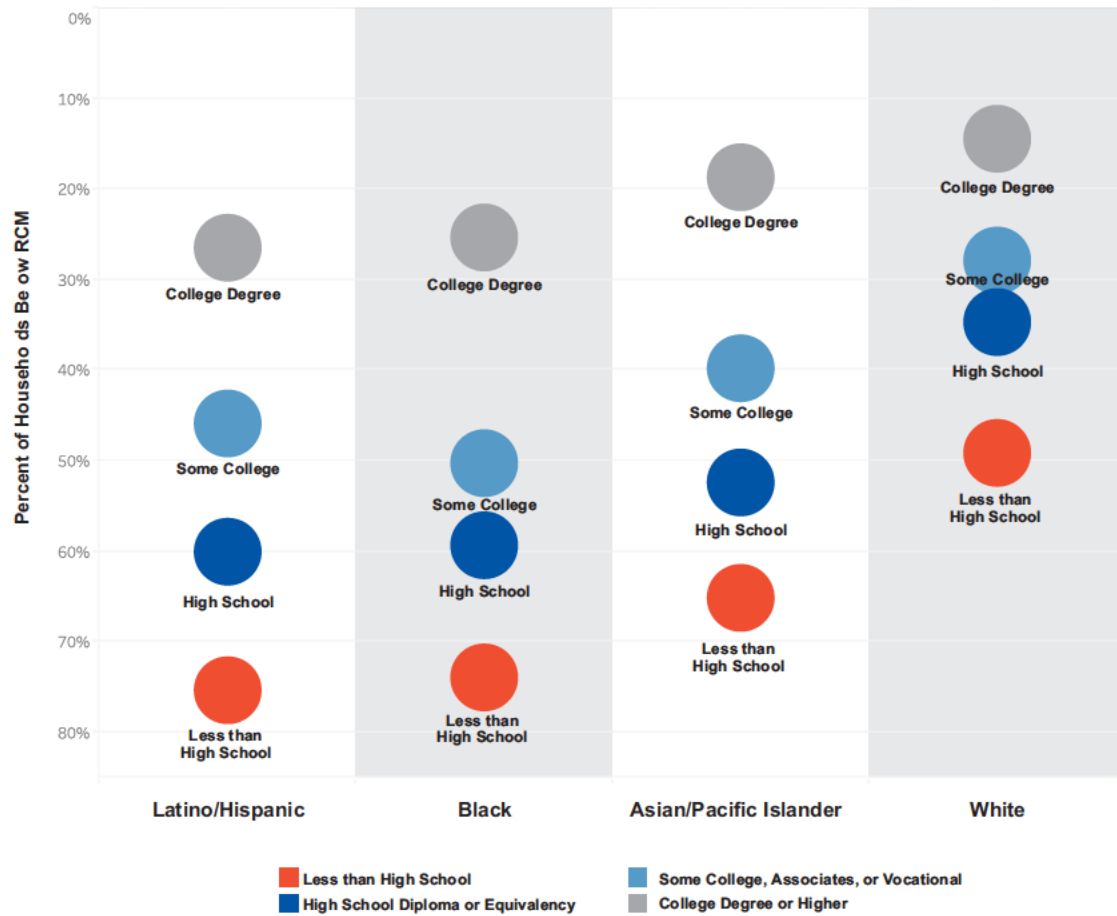


Figure 16. Households below RCM by Race/Ethnicity and Education.

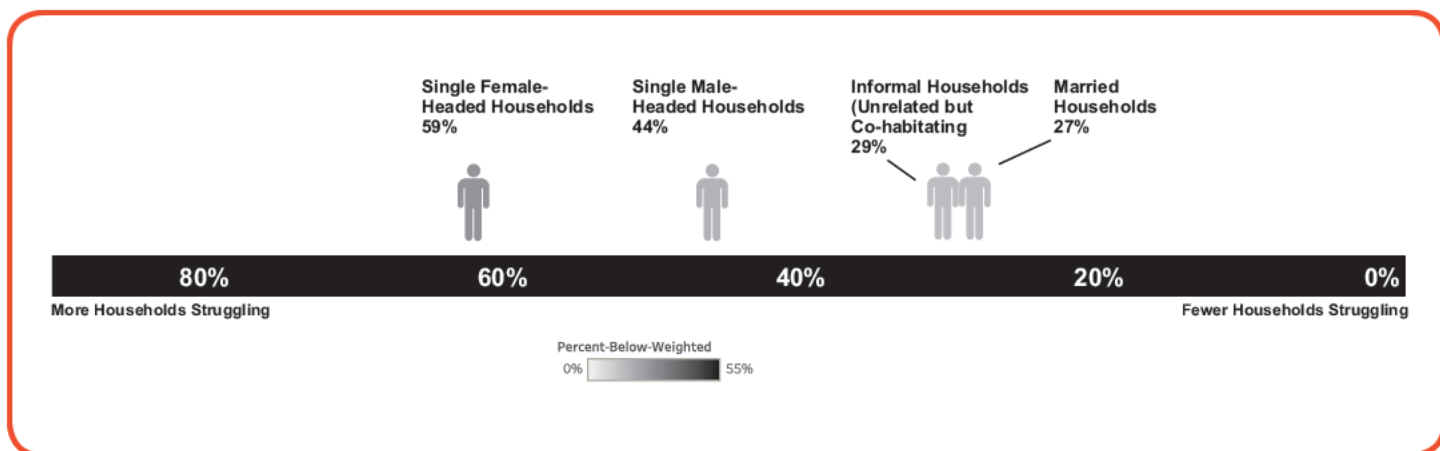


Figure 17. Households Below Real Cost Measure by Marital Status.

Single Adults—Especially Single Females—Struggle More

Family structure and gender also are related strongly to whether a household struggles. Married households are the most secure. With both the possibility of two incomes and the ability to share resources, few of these households (only 6%) live below the Federal Poverty Level, with 27% below the Real Cost Measure. Among households headed by a single adult, female-headed households are much more likely to face financial challenges. 44% of households headed by an unmarried male live below Real Cost Measure, including 12% below poverty. By contrast, 59% of households headed by unmarried women are struggling, with 24% (almost four times the share of married households) living in poverty.

Female householder have lower income than males with similar education.

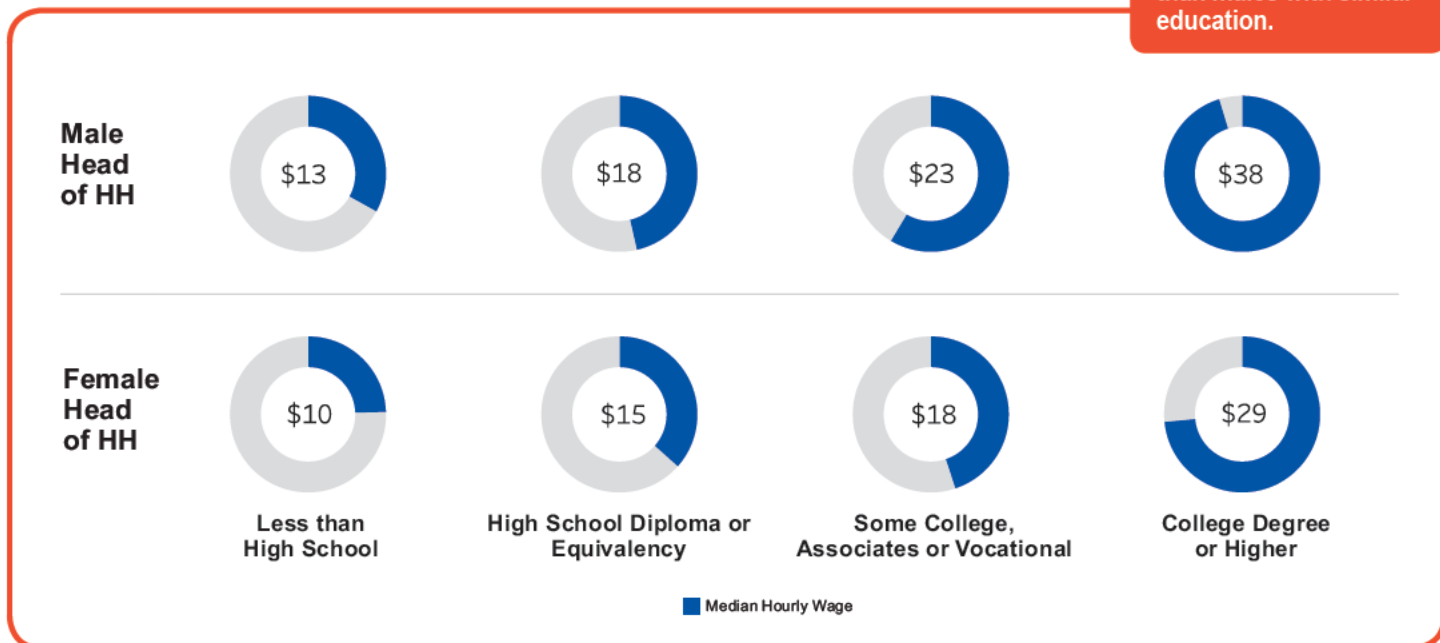
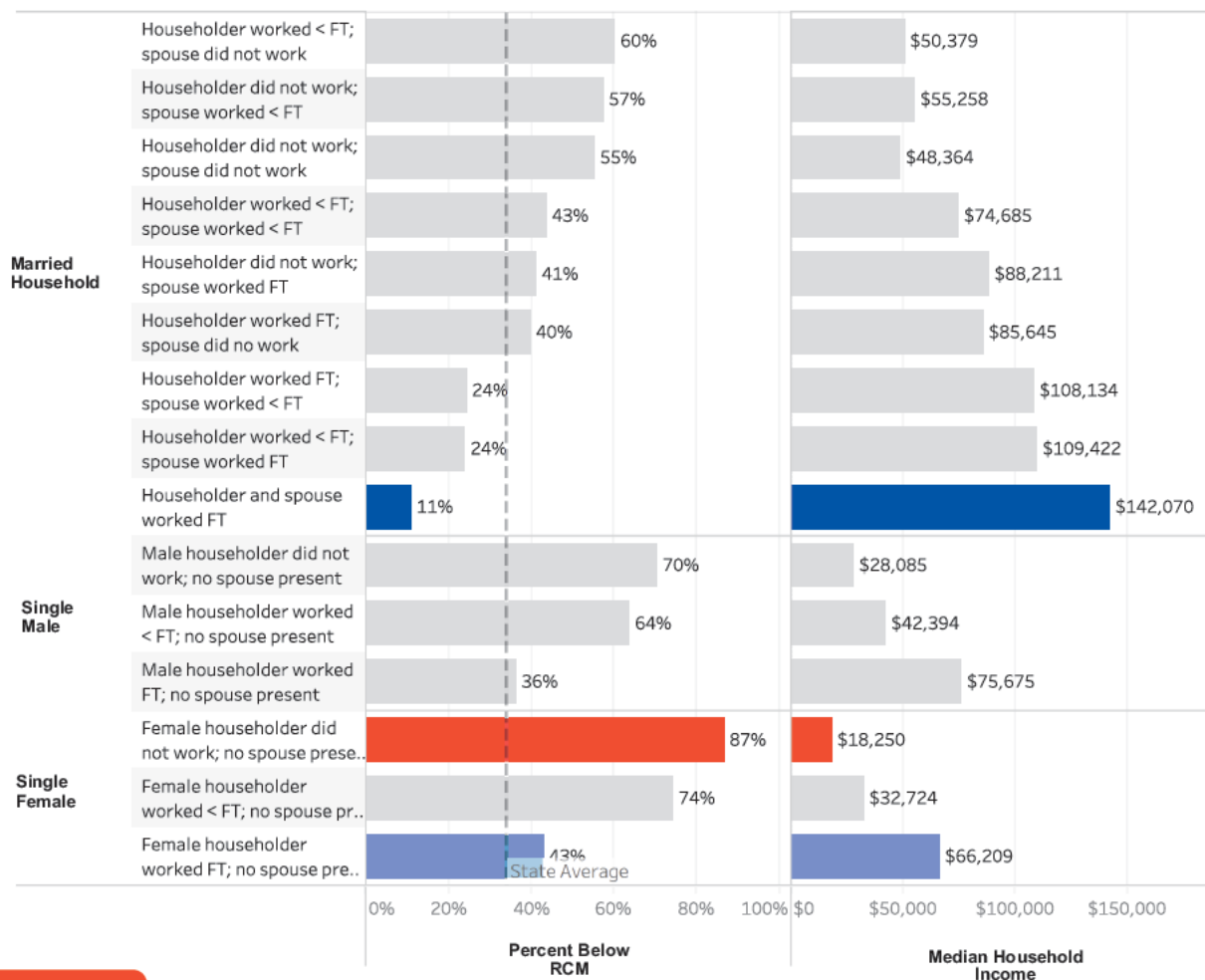


Figure 18. Median Hourly Wage of Head of Household by Sex.



Households headed by single women who do not work are most at risk.

Figure 19. Householders Above/Below RCM by Experience of Householder and Spouse.

These patterns grow starker when combining family structure with the work experience of the adults in the household. When the household is headed by a married couple where both partners worked full time, the household median income was more than \$140,000, with only 11% below Real Cost Measure. When neither partner worked, 54% were below Real Cost Measure. Households led by an unmarried male had worse outcomes, ranging from 36% to 70%, depending on employment level. Whether full time, part time, or not at all, though, unmarried women who head households were worse off than their male counterparts.

Families with Young Children Are Much More Likely to Struggle

While children are a blessing, they are also expensive, as any parent can attest. Children increase family costs for food, housing, health care, child care, and other expenses. Child care costs make up a large chunk of living expenses for families living below the Real Cost Measure. Moreover, having a child to care for can make it more difficult to hold a job or

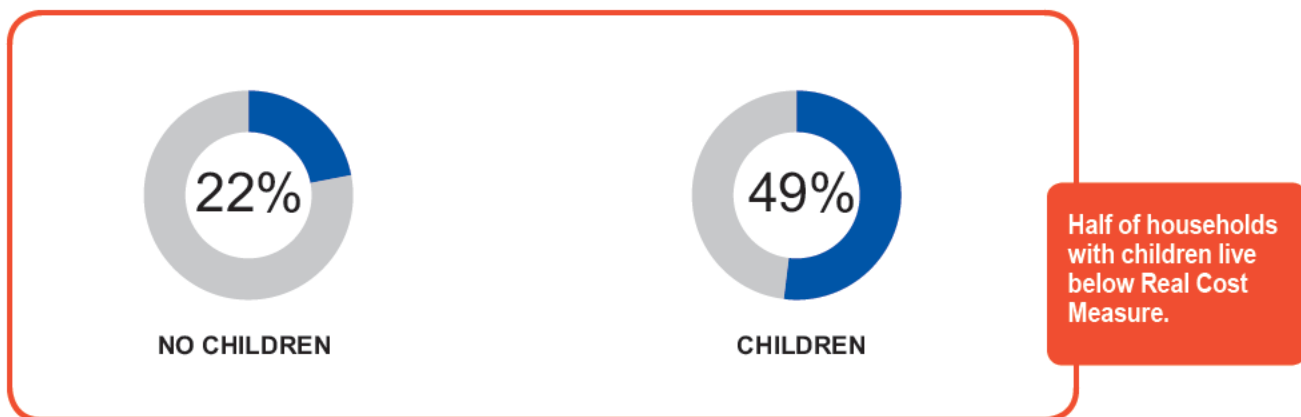


Figure 20. Presence of Children and Households Above/Below Real Cost Measure

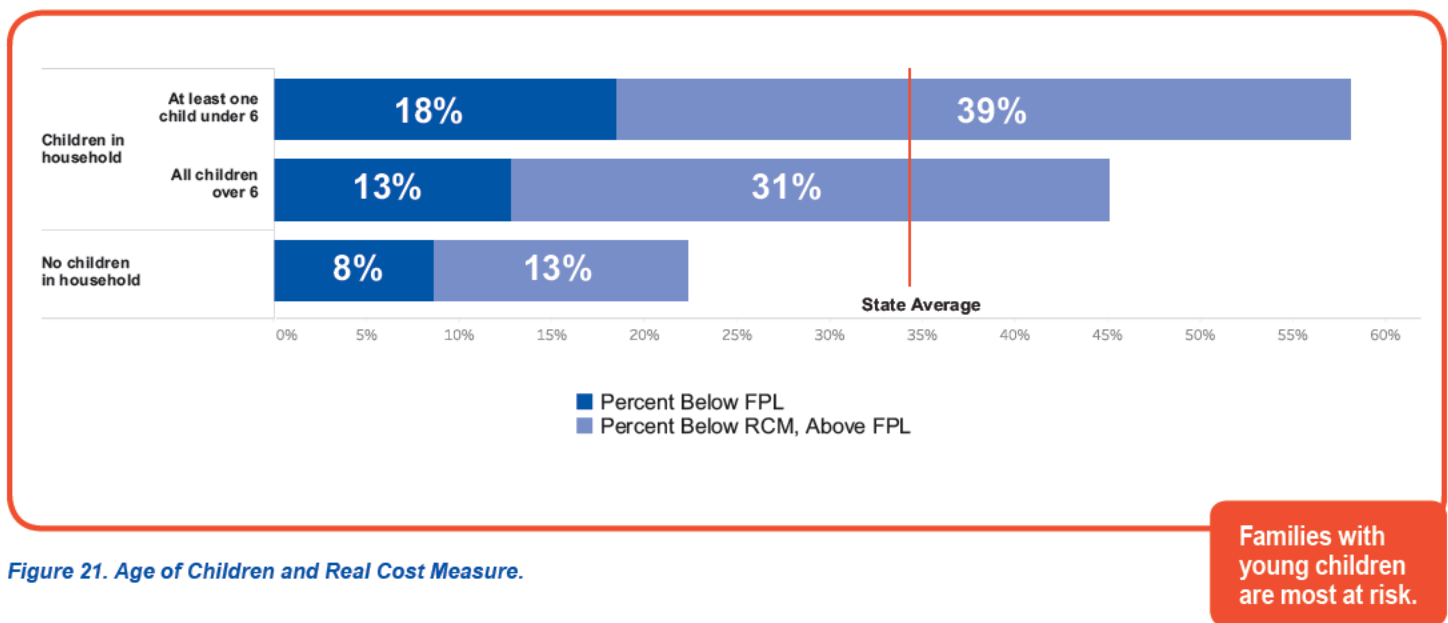


Figure 21. Age of Children and Real Cost Measure.

work more hours, especially for jobs without paid family leave and sick days, and so caring for children also exerts downward pressure on a family's earning potential.

The Real Cost Measure analysis reveals this challenge. Almost half (49%) of families with one or more children struggle, compared to 22% of households with no children. Households with children are also about twice as likely to live in poverty (15% to 8%).

One crucial factor is the age of the children in the home. The Real Cost Measure budgets account for this by recognizing the additional child care burdens on families with children who are below grade school age. Nearly six in ten households (57%) with a child under six years old struggle, and 18% live below the Federal Poverty Level.

For single mothers, this financial pressure is magnified further. Of the 870,000 households in California headed by a single mother, close to three in four of them (72%) fall below the Real Cost Measure, and about three in ten (31%) live below the Federal Poverty Level.

In the 300,000 of these homes with a young child present, 82% live below the Real Cost Measure, and 38% live below the Federal Poverty Level.

Not only do single mothers have many indicators associated with economic struggle (women, unmarried people, parents generally, and those with young children in the home are all at risk), but many of the people facing these challenges are also people of color.

A single mother with young children—particularly if she is a person of color—faces multiple interrelated obstacles that make it difficult for her to keep her family above water. Facing high child care costs and often lacking a second income source or caregiver, single mothers must directly confront choices between working and caring for a sick child, and they must do so often with little backup or margin for error.

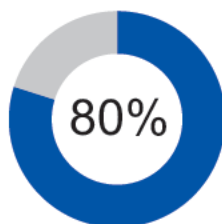
While most white single mothers with young children (68%) struggle, the odds are even worse for those of other races/ethnicities. 87% of African Americans, 89% of Latinos and 68% of Asian American households are struggling.

Housing Cost Burden Is a Key Driver of Economic Instability

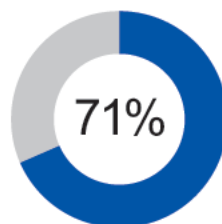
Housing continues to be a primary source of costs for California families, particularly those living below the Real Cost Measure. In locations throughout the state, increases in rent (and home purchase prices) have had profound effects on the ability of families to have a secure living space.

The Real Cost Measure household budgets use the Fair Market Rent schedules published by U.S. Department of Housing and Urban Development (“HUD FMR”) in each county to generate sample budgets for families, and uses housing expenses reported by households in the American Community Survey to calculate housing burden, the share of income a household spends on housing.

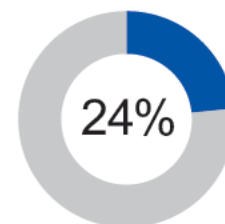
Most below Real Cost Measure are housing burdened.



Below 100% FPL
and RCM/EI



Above 100% FPL
but below RCM/EI



Above
FPL/RCM/EI

Figure 22. Percent of households spending more than 30% of income on housing.

For a family of four (2 adults, 1 school-age child, 1 pre-school-aged child) living in Alameda County, HUD FMR housing costs shot up nearly 45%, from \$17,369 in 2012 to \$25,236 in 2015, an increase of more than \$8,000. In contrast, food costs increased only about \$300 and health care increased about \$1,000.

Only 24% of families living above the Real Cost Measure standard are “housing burdened,” defined as spending more than 30% of their income on housing. In contrast, 72% of families living below Real Cost Measure but above the Federal Poverty Level and 94% of families living below Federal Poverty Level spent over 30% of their income on housing.

The comparison between what families report spending on housing and their overall incomes can be sobering. Families below the poverty line report spending 79% of their income on housing. Families over the poverty line but below Real Cost Measure spend a high but more manageable 46%, and those living above Real Cost Measure spend about 22% of their income, though that can vary widely based on location.

Households below RCM spend 2-4 times as much of their income on housing.

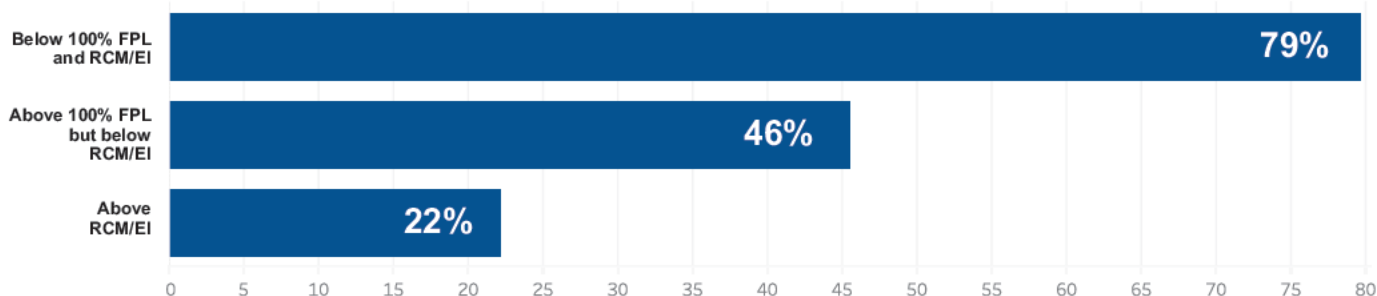


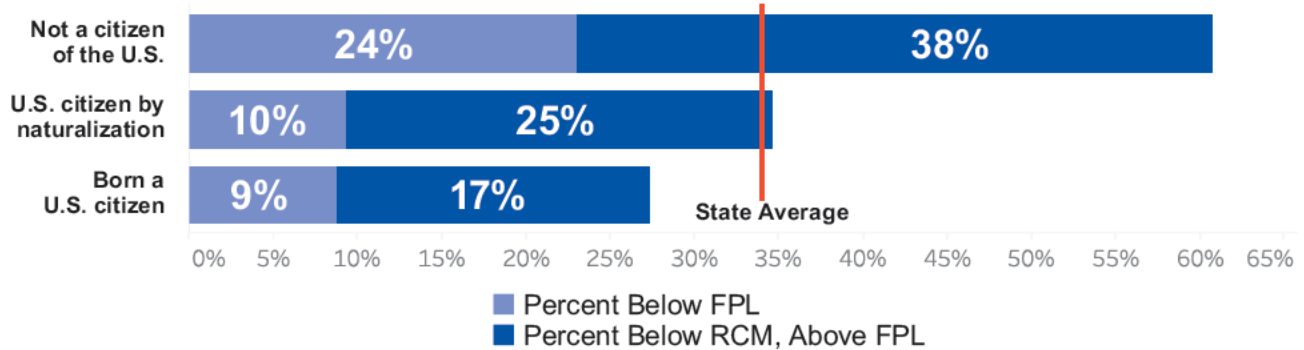
Figure 23. Percent of Income Reported Spent on Housing.

The housing shortage is a huge problem for California, and as this report makes plain, the cost of housing can be overwhelming for families living below the Real Cost Measure. Families with children particularly suffer, as do seniors who rent and live alone. How we solve it is a conundrum, given the expense and opposition to building affordable housing units, as well as the underlying economic pressures that make California real estate so valuable.

Immigrants and Non-English Speakers Struggle More

Native-born U.S. citizens are least likely to struggle, with 9% living in poverty and another 17% below the Real Cost Measure standard. Interestingly, while naturalized citizens are somewhat more likely to struggle than native-born citizens (35% to 26%), they are no more likely to live in poverty. By contrast, households led by non-citizens, whether born in the United States or not, are most at risk, with 62% struggling, including 24% who live below the Federal Poverty Level.

Of the nearly 3 million families with a Latino head of household, just under one million of them are headed by a non-citizen. (Asian Americans—with over 340,000 households—are the second-largest non-citizen group.)



Most non-citizens struggle to meet basic needs.

Figure 24. Citizenship Status and Real Cost Measure.

The discussion of Latinos in California often is tied into issues of citizenship and language. Latinos constitute the greatest share of the California population, and within that large designation lies a great diversity of Californians with different national backgrounds, citizenship statuses, levels of education, and income. Latinos head over 3 million households in California, with over half (53%) living below the Real Cost Measure. That means that Latinos represent a plurality of those below the Real Cost Measure (47%), followed by whites and Asian Americans. They also constitute the second-largest group living above the Real Cost Measure, after whites, with over 1.5 million Latino-led households above the Real Cost Measure.

Language, Citizenship, and Linguistic Isolation

Whatever the citizenship status, though, the presence of an English speaker in the home is an indicator of economic stability. About two-thirds (66%) of households that lack a strong English speaker aged 14 or over are likely to struggle financially, more than double the rate (30%) of those who have a person in the household who speaks English well.

People who live in homes where Spanish is the primary language are especially at risk of struggling. Even in households where someone speaks English well, households whose primary language is Spanish are more likely to struggle (55% below Real Cost Measure) than not. In contrast, about 24% of other households with an English speaker struggle, with little difference between households that primarily speak English or an Asian language.

When these factors are combined, it reveals that in homes where a Latino non-citizen is the head of household with Spanish the primary language and no one over 14 in the home who speaks English well, the chances are very high (82%) that that household will struggle. Close to one-half million such households are in California, with many existing below the Federal Poverty Level.

Latino households led by non-citizens struggle more, especially in absence of an English speaker.

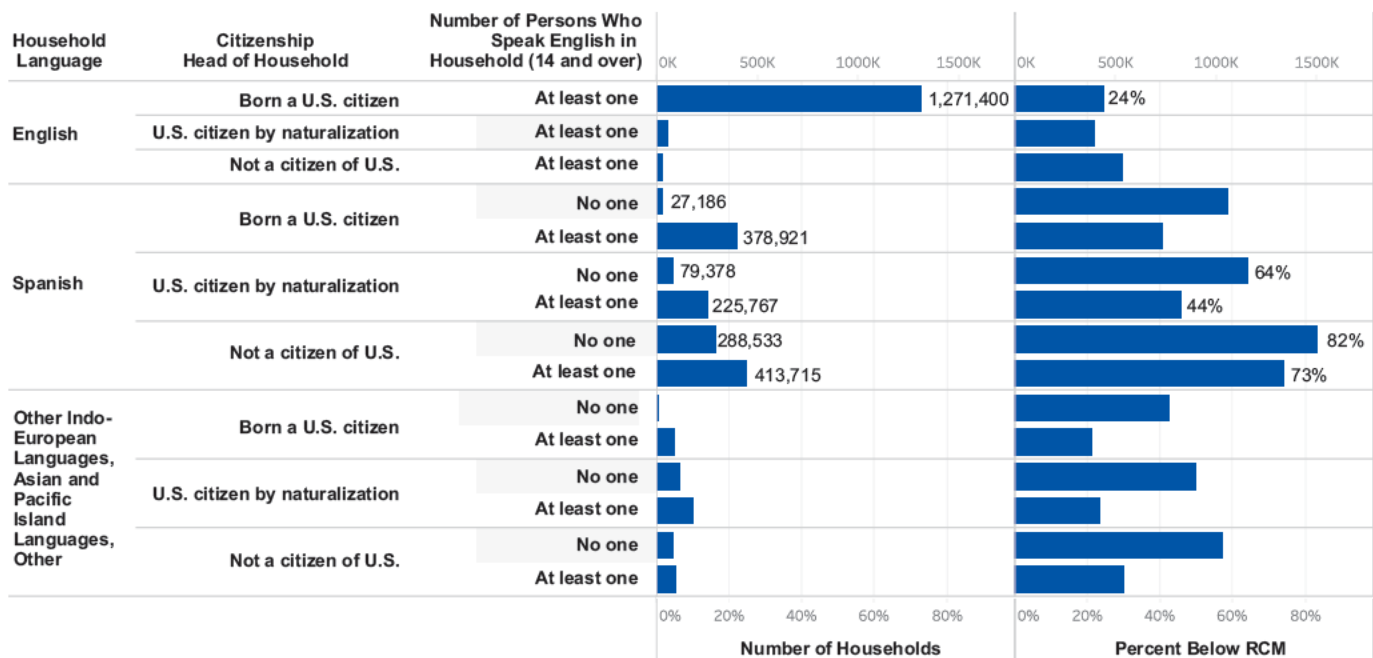


Figure 25. Language, Citizenship, and Linguistic Isolation.

Health Coverage

The Patient Protection and Affordable Care Act of 2010 (Affordable Care Act or ACA) has produced significant economic changes, particularly in states (like California) that expanded Medicare eligibility under the provisions of the law. California's experience shows a greater reliance on public sources of health insurance, fewer people relying on employer-based coverage, and evidence that a greater number of Californians are piecing coverage together during the year.

Health Insurance Status by Head of Household	Above/Below Real Cost Measure		
	Below 100	Above 100	Above FPL/
Insurance through current or former employer or union	17%	41%	67%
Insurance purchased directly from an insurance company	10%	10%	9%
Medicare, Medicaid, Medical Assistance, or government health care for low-income and disabilities	56%	31%	7%
All other sources, including Veterans Assistance	1	2	1
Multiple forms of coverage	16%	16%	15%
Grand Total	100%	100%	100%

Figure 26. Health Insurance by Head of Household.

As in the past, employers (or unions) sponsored the primary form of insurance for people living above the Real Cost Measure. About two-thirds (67%) solely relied on employer-based coverage from 2014 to 2016, though that was down from 77% of those insured in our last report. Employer-based coverage also dropped as the sole form of coverage for those above FPL but below Real Cost Measure (41%, down 11 points) and for those below the Federal Poverty Level (17%, down from 24%).

Part of this change reflects California's expansion of Medi-Cal (Medicaid), with increased numbers of people moving toward public sources of coverage, with growth of 3-5 percentage points in each income category.

The most interesting change, however, may be the huge growth in the number of people reporting "multiple forms of coverage" during the prior year. Fifteen to sixteen percent of heads of household—in each category—reported having more than one type of coverage during the year, more than doubling the numbers in the previous report. Most of these households had some form of public insurance during the year, and the many were households led by seniors.

This is a relatively large shift to occur over so short a span of time, and future studies will reveal whether this shift continues.

BROADBAND

Access to the Internet is crucial in everyday life, like electricity or running water. It's required to apply for a job, to participate in school (checking a child's grades or completing homework assignments), to find and access health care and more. Virtually everyone has a smartphone these days, but a smartphone is no way to apply for a job or do schoolwork, and so it is no substitute for broadband serving an entire household.

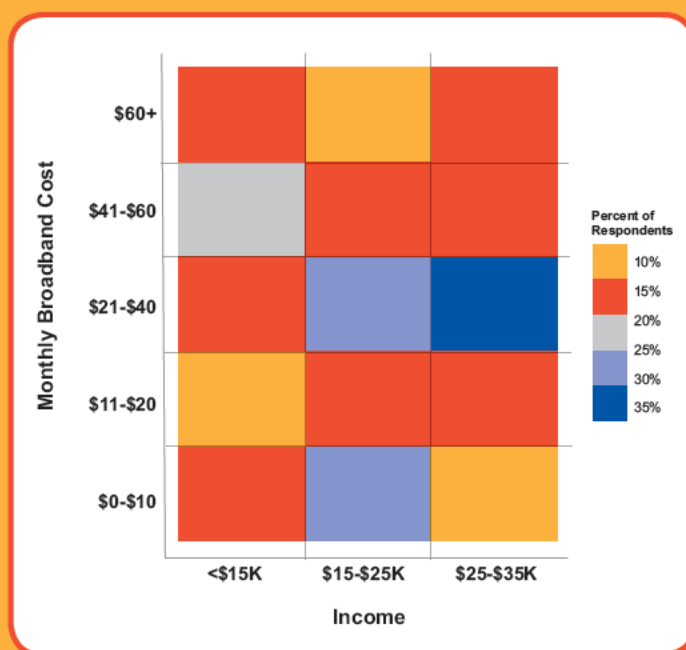
According to a 2017 Survey of Broadband Adoption in California from UC Berkeley, 31% of Californians are unconnected or underconnected, with the result that 12 million people are shut out from our increasingly online society, and from the digital economy. In sparsely populated rural areas, as well as metropolitan areas in Los Angeles where residents are very low income, the cost of building broadband infrastructure may seem unjustified by the potential revenue from potential subscribers, so the market hesitates to provide this vital service. A California Public Utilities Commission report issued in April 2017 documented that 43% of rural households cannot get reliable broadband.

Our analysis of Census data shows over one million households with incomes below the Real Cost Measure are not connected to broadband.

Perhaps just as importantly, even when low-income households obtain broadband service, they pay far too much for it. The figure on this page shows the distribution of monthly costs for broadband from a survey of low-income

families that sought help from United Way in connecting to broadband (survey conducted May 2017 by United Ways of California in partnership with Community Connect Labs, a project of GreatNonprofits.org).

Our Real Cost Measure household budgets assume that families will pay for mobile phone, electricity, and gas, power, water, and other costs like broadband out of a miscellaneous category of about 10% of their total income. Thankfully, there are now several affordable broadband options for low-income families, ranging from \$10 to \$15 a month, but they are not available everywhere and also come with varying eligibility requirements and restrictions.



Broadband Cost by income.

Overcoming poverty is not a task of charity, it is an act of justice. Like slavery and apartheid, poverty is not natural. It is man-made and it can be overcome and eradicated by the actions of human beings. Sometimes it falls on a generation to be great. YOU can be that great generation. Let your greatness blossom.

NELSON MANDELA
Speech at Trafalgar Square
February 3, 2005

TOWARD ECONOMIC MOBILITY

The findings of the Real Cost Measure 2018 make plain that—even in the midst of plenty—many Californians are struggling to stay afloat.

Our work also shows that there are many interrelated factors that are connected with such struggle. We know, for example, that education is crucial in reaching economic stability—but also that education is not a panacea. Women and people of color (especially African Americans and Latinos) are more likely to struggle, even with advanced education, and families without strong English speakers in the home face a myriad of challenges.

Family structure also has dramatic effects on a household's economic well-being. Whether a household has one or two adult earners is important, as is the presence of seniors or children in the household. Families' needs change dramatically when a child comes into the house and evolve as the child gets older, and child care costs give way to other expenses.

The purpose of the Real Cost Measure is to support efforts to help struggling families gain agency, dignity, and mobility. Families living below the Real Cost Measure are doing their part, as we have seen, they are overwhelmingly working families. But as our data make clear, hard work alone is not enough to get ahead. The environment in which people live can have a stronger impact on health and other outcomes than genetics, as extensive research on the social determinants of health has shown.¹ Compelling recent research on economic mobility likewise has shown that community conditions affect education and employment results; all other things being equal, children who move to a better neighborhood do better than children in the neighborhood they left behind, and the earlier a child moves to a better neighborhood, the greater the improvement.² While it's reasonable to expect families to do what they can to move up, it is both hard-hearted and unscientific to expect them to overcome the odds through heroic effort alone.

We all stand to benefit if more struggling families and individuals move up so they can meet a basic standard of living. Though a full discussion would be much longer than this report, below we offer some suggestions we hope will be helpful for community, business, civic, nonprofit and philanthropic leaders and policy makers to consider. These are presented in order from more technical challenges (we know what to do, we just need more will to do it) to adaptive challenges (we need to discover what needs to be done and how to do it).

Preserve and Expand Subsidized Health Coverage

California has made great strides in reducing the number of uninsured people, sharply reducing a primary cause of bankruptcy and destitution, due largely to the Affordable Care Act. Since our prior report, California has enrolled over 5 million people in health coverage, including over 3.7 million people in Medi-Cal. By enabling people to access primary and preventive care, health coverage can help households avoid or sharply reduce costs for serious illness or injury, a leading cause of bankruptcy and financial instability. Backsliding here would sharply increase insecurity for Real Cost Measure households.

Provide Childcare and Preschool for Struggling Families

Households with children, especially young children 5 and under, and in particular households led by single women, are much more likely to struggle below the Real Cost Measure. Quality care and early education for children from birth to age 5 is one of the most effective approaches we can take to address these issues comprehensively, not just for children's development, but for the economic well-being of struggling families across the state. More affordable, quality early childhood enrichment, child care and preschool could better prepare children for lifelong learning while also reducing household expenses during a critical yet temporary phase of family life, enabling parents to devote more time to progressing in their careers or boosting their earning power through education and training.

- A large and powerful body of research shows early education increases cognitive, language, social, and emotional development and provides a strong foundation for success in school and life, leading to increased high school graduation rates, greater college attendance, decreased crime, and other beneficial results.³
- Investments in early childhood enrichment also help families build earning power. Dual-generation or “2Gen” strategies, such as pairing child care and early childhood enrichment with educational opportunities for parents, especially single mothers, can enable parents to boost their education (a parent’s educational attainment is the best indicator of financial stability for children), work more hours or find a better job.⁴
- Economists estimate that for every \$1 invested in quality preschool returns approximately \$7 in benefits to families and society.

Maximize Current Income Supports

California each year leaves an estimated \$5 billion in federal tax credits and food assistance unclaimed.^{5,6,7} Investing a fraction of those lost dollars—perhaps 10% - to help families access these funds would greatly increase financial security for families and lead to a significant net gain for the state.

To get a sense of what a big difference this could make to families, a family of four earning under \$31,000 could receive up to \$649 a month in food assistance (roughly equivalent to raising their wages 20%), and \$2450 or more in EITC, both of which would go a long way to helping them meet other basic needs.

California already has taken a big step in this direction since our last report by launching a refundable state EITC. Initially tapping out \$13,870 for a single adult and three dependents, the CalEITC income threshold has increased to \$22,300 and eligibility has expanded to self-employed. (As of this writing, United Way and coalition partners are working to allow eligibility for people aged 18-24, over 64 and ITIN filers.) The CalEITC is helpful in itself and also appears to be connecting more families to the federal EITC.

Making it easy, almost automatic, for families to access all benefits for which they qualify would have enormous returns to households and local economies. For example, EITC

refunds could be sent automatically to filers who have income reported on W-2 forms, rather than requiring those households instead to file a tax return first.

Breaking silos across different income support programs—horizontal integration - also would be hugely beneficial. Whenever a low-income family or individual interacts with a resource—a school, clinic, or social services agency—they should connect with every relevant resource for which they are eligible; if a mother comes in looking for job training, she could enroll in health coverage, CalFresh food assistance, and subsidized child care, and receive follow up information about EITC. For one example, California successfully experimented with “Express Lane” eligibility for CalFresh for people enrolled in Medi-Cal.

Level Up: Invest in Post-Secondary Education

The share of households below the Real Cost Measure drops significantly among householders who have some college or a college degree. From the glass half-full perspective, 36% of struggling householders have some college credits already, and the 24% of struggling households with high school diplomas conceivably could seek college degrees, with reasonable assistance. Many of the 29% of struggling households without a high school diploma also could move toward some higher education, with perhaps more assistance.

California recently promised to make community college free, which will be a big step forward. Making four-year college tuition free is a realistic possibility, as shown by the Australian model: student loans have capped fees up front, students are not required to repay until their income exceeds approximately US \$40,000, and graduates whose income does require them to pay have the security of a capped percentage of income.⁸ As a result, college is much more accessible to lower-income students. (Other states such as Oregon, Tennessee, Rhode Island, New York, Arkansas and Louisiana have initiatives to make college free.)⁹

While California has had considerable success increasing the high school graduation rate, to approximately 80%, those who do not graduate are at high risk for living in poverty, and African-American and Latino youth make up an overwhelming majority of that population.

Examples of initiatives that could increase the odds that students’ stay in school and graduate ready for employment or higher education, or help those seeking a second chance include: increasing access to career and technical education (CTE), such as: The Linked Learning initiative, which emphasizes connections between classroom learning and exposure to workplace settings, using a mix of public and foundation funding; alternative pathways for disconnected youth offered by reengagement programs, such as YearUP; and employment training programs or charter schools focused on disconnected youth, such as those run by organizations like YouthBuild or Conservation Corps.¹⁰

Give Income Supports a Longer Tail

Income supports such as child care assistance, CalFresh, or CalWORKs can help households below the Real Cost Measure cover basic needs, yet these benefits drop away too soon, well before households get close to meeting the Real Cost Measure. For example, as noted earlier, CalFresh food assistance is capped for a family of 4 (2 adults, 2 children over 6) at gross income of \$49,200, and EITC credits taper to \$0 when gross income exceeds \$50,597; in both cases, well before they reach the Real Cost Measure.

To help families reach financial stability, rather than merely avoid destitution, income limits and the amount of income and assets that is disregarded could be increased for programs like CalFresh, CalWORKs and others.

Increase Resilience through Asset Building and Consumer Protection

Many more American households are financially fragile than the just the households below the Real Cost Measure profiled in our report. 44% of all American households lack enough savings to pay an unexpected \$400 expense;¹¹ 61% of Americans report that in order to cover a \$1000 emergency expense, such as an emergency room visit or replacing a transmission to keep a car running, they would need to cut spending on food or other items, borrow from family and friends, increase credit card debt, or use an ominous “other” route.¹²

To compound matters, struggling households often experience various income spikes and income dips over a calendar year compelling them to make difficult choices regularly such as cutting back on utilities, asking landlords and banks to extend housing payment due dates, borrowing from family and friends, neglecting health care, sacrificing school supplies and more. This is especially true for workers who are highly dependent on seasonal work to make ends meet such as those in retail and manufacturing industries where supply and demand can fluctuate easily. Those in retail, for example, often earn additional work hours in November and December, ahead of the holiday season, but often experience reduced hours and pay once the demand for holiday shopping declines. In fact, in their survey of working households, described in their book *The Financial Diaries*, researchers Jonathan Morduch and Rachel Schneiber found families can experience up to five months of income volatility during a calendar year where spending was at least 25% above or below their monthly average.¹³ This income volatility makes it challenging for families to create savings accounts, invest in retirement, put money aside for their children’s education and more.

Build Assets: There are a number of innovative strategies for helping low income households begin to build assets. Notably, since our last report, California has established CalSavers, a state-sponsored retirement plan for those without access to an employer-sponsored plan that will launch in 2019. (7.5 million Californians work for employers who do not offer a retirement plan, and nearly half of California workers are on track to retire with incomes below \$22,000 a year.¹⁴ Another promising example is San Francisco's Kindergarten to College program, which creates savings accounts for all kindergartners, seeds them with \$50, matches parent contributions up to \$100 and provides \$100 bonuses for consistent savings deposits.¹⁵ Other approaches include individual development accounts (IDAs), income-based repayment of student loans or stipends for students seeking training or postsecondary education, as previously mentioned; direct mortgages and first-time homebuyer programs.

Encourage Savings: Unfortunately, many federal and state policies discourage savings, by asset tests for benefits like CalWORKs or CalFresh. Such benefit limiting asset tests hurt working families coming and going, either putting them into a deeper hole as they respond to changing fortunes, such as a temporary job loss, or imposing more burdens right as they are beginning to make progress moving out of poverty. Note also that asset limits also are expensive for state and local government to apply and enforce, and this expense is often wasted, given that only a small share of families seeking aid have assets over the limit.

Build credit: A good credit score can be viewed as an asset that can help a family qualify to rent an apartment, purchase a car or more, yet it can be difficult for low income households to build a good credit history. Programs and policies that use the payment history of struggling households on things like utilities, rent, cable, online services and more to establish a credit history would be helpful here, along the lines of alternatives such as the Payment Reporting Builds Credit (PBRC) free alternative credit score.

Displace Financial Predators: Not least, protecting what little assets and credit struggling households have is a pressing need. Struggling households are least able to afford the high costs of fringe financial services and predatory practices such as check cashing and payday lending, which drain low-income households of resources they could otherwise use to meet basic needs or to build assets. Accounts at mainstream banks or credit unions provide a critical foothold on the economic ladder, helping families build credit, and alternative sources of emergency credit can help households avoid a crushing debt cycle. In a number of regions in California, municipalities have taken steps to increase access to mainstream banking, such as through the Bank On program, and/or have sought to stop the proliferation of predatory financial services. Employers, nonprofits and local government could partner to explore ways to offer emergency loans on reasonable terms to employees and residents.¹⁶ The state government could explore other options, such as imposing a cap on the Annual Percentage Rate (APR) of payday or small dollar loans, or limit the size and number of such loans.

Integrate and Naturalize Immigrants

Households led by naturalized immigrants struggle at a much lower rate than those led by non-naturalized immigrants, and also, as our analysis shows, households that lack a fluent English speaker over the age of 14 also struggle at a higher rate. Of course, these and other factors may interact. Pursuing citizenship and improving English language fluency are two possible strategies to consider that may improve prospects for a sizable share of struggling immigrant households. Adult public education is an important route for many people to build their English language skills and prepare for citizenship, but it is underfunded and often shortchanged by school districts because it does not produce Average Daily Attendance (ADA) income.

Increase Housing Stock and Prioritize Help for Renters

Housing plays a central role in the fate of struggling households—not just for their financial stability, but also for their educational prospects (which school district and catchment area can they afford to live in) and health outcomes. The quality and location of housing for struggling households affects virtually every aspect of their lives, so improvements here can have impact well beyond reducing financial stress.

A severe shortage of affordable housing is a brute fact in most California communities; low income housing tax-credit and other subsidies for construction of affordable housing have not met the scale of the need (and in many places, the units they produce, targeted for people earning 80% or 60% of median income, still seem out of reach for many). As important as production of new units is, it should be clear that we cannot build our way out of the affordability problem. Federal rent vouchers (Section 8), which have not been fully funded and reach only one quarter of eligible households, and public housing projects also have not come close to meeting the scale of need.

California ranks 49th among states in the number of housing units per capita availability of rental units to very low-income households and needs an estimated 3.5 million additional housing units to meet existing demand. Closing this gap would require 7-10 years of unprecedented growth in housing—beyond levels that California has seen in its history for even one year. But the cost of doing nothing is staggering, too, both in human suffering (homelessness and fear of it, stress and anxiety), and financially—an estimated \$50 billion annually goes to housing costs that would be spent otherwise, and the total loss to GDP is as much as 6% from foregone construction, investment and other output.¹⁷

While it is not easy to see how to reduce the housing burden for struggling households, a good start may be to acknowledge a few key points:

- Struggling households are overwhelmingly renters, as are 1/3 of all U.S. households;
- American taxpayers subsidize home ownership at nearly \$3 for every \$1 spent to support renters and;

- Over 60% of subsidies for homeownership, which is increasingly out of reach for most families, goes to households with incomes over \$100,000; homeowners with income over \$200,000 receive four times as much subsidy as renters with income under \$20,000.¹⁸

This suggests targeting support for rent costs for struggling households. An increased, refundable federal renters' credit, for example, would be an effective way to improve prospects for struggling households at scale, as well as to rebalance some of the tilt in federal housing subsidies that have grown to increasingly favor upper income households.¹⁹ Fully funding housing vouchers to reach all eligible struggling families also would make a big difference.

Make Work Pay

The overwhelming majority of struggling households—9 out of 10—are already working. This suggests the challenge is raising pay rather than finding a job.

California's phased increase in the minimum wage will certainly help increase pay for many workers, marking a huge improvement from when we issued our previous report in 2015. The minimum wage has increased from \$8 in 2014 to \$11 as of this writing. When fully phased in at \$15 an hour in 2023, it should help many households move above the federal poverty level, though they likely will still be earning well below the Real Cost Measure.

Providing opportunities for all struggling workers to move up the pay scale further may be even harder than increasing the minimum wage, as difficult as that was. Workforce development and philanthropic programs aimed at moving workers from \$15/ hour to \$30/ hour jobs, through training programs and improved alignment of worker skills with employer demands, swim against a tide that is moving more workers in the other direction, from \$30/ hour toward \$15/hour, even for those with college degrees.

To confront the brutal facts, though, we need to acknowledge we have done a very poor job of sharing productivity gains with low-and middle-income workers since the 1980s. Despite the relative income gains since the Great Recession, median household earnings over the last several decades have changed little for most Californians. California's gross domestic product has increased 143% from 1997-2016, while median household earnings have only grown 13% during the same time frame, as shown in Figure 27 on the following page.

Rethink Work, Jobs and Links to Income

While building skills and aligning with what employers seek is vital to every individual, as a society we all may need to radically rethink our approach to work. Looking ahead, there are some strong indicators that there may not be enough jobs for people who want them:

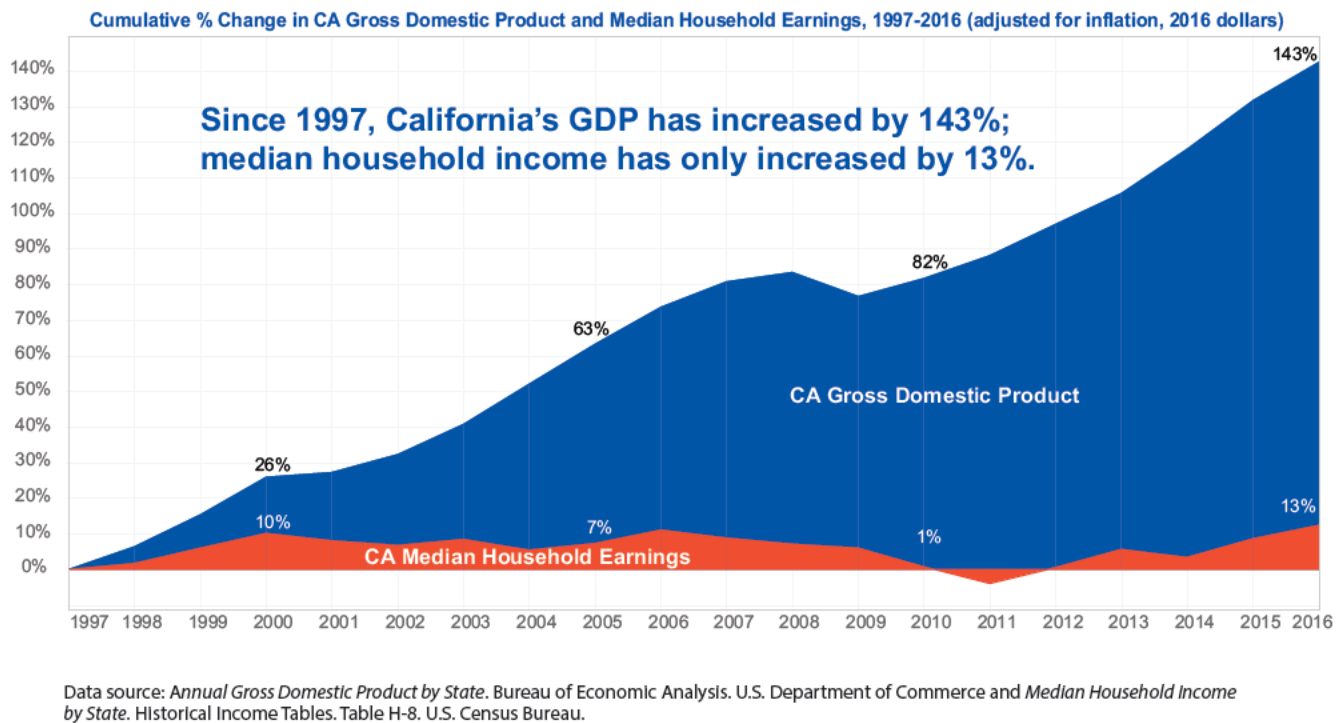


Figure 27. California Gross Domestic Product and Median Household Earnings, 1997-2016

While California's economy has boomed, median household income has been largely stagnant.

- Global competition and also automation have already decimated good paying manufacturing jobs—the auto industry has been using robots for decades, and companies like Apple that we hear about onshoring production in the US again are doing so in part because they can automate production here more easily.
- A growing share of people who do find work, as much as 30% of those in the workforce, are in “contingent work,” defined by the U.S. Government Accountability Office as work that “takes place in a work arrangement that is not long-term, year-round, full-time employment with a single employer.”²⁰ This “gig economy” is not just Uber and Lyft drivers, but independent contractors, consultants, temporary and seasonal work, outsourced service providers, agency temp workers, domestic workers, day laborers and more.
- Our labor force participation rate already is in the low-to-mid 60%,²¹ much lower than a generation or two ago, which means as many as 35-40% of people 18-64 are disabled, caring for family members or “discouraged” workers who have stopped looking for employment. Though the unemployment rate has declined considerably from the start of the Great Recession, and some economists will say we’re nearing full employment, what that statistic doesn’t tell us is how many people aren’t included because they’re so discouraged, they’re no longer looking for work.

- Artificial intelligence is progressing rapidly and threatens many professional jobs—for accountants, lawyers, perhaps even primary care physicians—while also impacting or eliminating lower paying service jobs - for example, McDonald's is testing robots at point of sale.²²

Our social systems—access to health coverage, retirement benefits, and more, even unemployment benefits while out of work, not to mention pride and social standing—were all based around work, the notion of a stable job working for a company, perhaps for an entire working life.²³ Virtually no one today expects to work for one company their entire life, as people often move jobs and have extended periods where they are without a job.

With the way work is changing, even middle and upper income families may also find, as many low-income families already do, that work is not enough. Those seeking to help families gain stability should strongly consider advocating for policies that recognize this new reality by allowing portability of benefits regardless of employer sponsorship, such as health and retirement, and more effective access to income supports, including perhaps a universal basic income.

Next Steps

We hope the portrait of need in *Struggling to Stay Afloat* helps all of us:

- Set a bar for a decent standard of living we want to help families reach and provide a more accurate view of the share of struggling households in every California county and neighborhood
- Enable communities to engage in a rich and accessible conversation about the needs of struggling families, and the tradeoffs they make
- Promote a better understanding of how families in different situations have different needs, even if they have similar total income
- Identify possible policy levers for helping families in different situations move up

There are many steps we can take at every level—local, regional, state and national—to increase economic mobility for struggling families. The suggested levers outlined above are meant to suggest some fruitful areas to explore, not to be prescriptive or exhaustive.

The key elements are simple, however:

- Focus on actual families and their particular situations—are we talking about families with toddlers, householders with unpredictable hours and large swings in income, or something else?

- Policies and programs may be siloed, but household budgets are not. Assisting with any one factor can provide relief in other areas (for example, providing housing assistance can allow greater resources for food or continuing education, or providing quality child care and preschool can likewise allow families to earn more, spend more on food or housing)
- Get in the fight—take some action to help, from volunteering with a nonprofit health or social services organization, to engaging fellow citizens to vote and keep economic mobility in mind when doing so.

**Start where you are. Use what you
have. Do what you can.**

ARTHUR ASHE

NOTES

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