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PROJECT NO. 36131

RULEMAKING RELATING TO	§	**PUBLIC UTILITY COMMISSION**
DISCONNECTION OF ELECTRIC	§	
SERVICE AND DEFERRED	§	**OF TEXAS**
PAYMENT PLANS	§	

INITIAL COMMENTS OF
TEXAS LEGAL SERVICES CENTER
TEXAS RATEPAYERS' ORGANIZATION TO SAVE ENERGY, ET.AL.

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TO THE HONORABLE COMMISSION:

Texas Legal Services Center ("TLSC") and Texas Ratepayers' Organization to Save Energy ("Texas ROSE") file these comments relating to the Public Utility Commission's ("Commission" or "PUC") proposed rule amendments to P.U.C. SUBST. Rules 25.454, 25.480 and 25.483. Joining TLSC and Texas ROSE in support of these comments are One Voice, The Senior Source, Texas Organizing Project, Gray Panthers Texas, Smart UR Citizens, and Mr. Bert Walsh.

I. Introduction

According to the Center for Public Policy Priorities ("CPPP"), 36.5% Texans were at or below 200% of federal poverty guidelines in 2008.[1] CPPP also estimated the minimum budget Texas families would need to live on in various parts of Texas. Attached are samples of these budgets.[2] The sample pages show how a family of four's budget for its monthly necessities exceeds the federal poverty guideline of $20,650 in varying degrees depending on where the family resides. In Brownsville-Harlingen a family of four requires income of $29,981. In Fort Worth-Arlington a family of four requires $45,769. In both geographic areas the costs of meeting minimal needs far exceed the poverty guideline.

The budgets presented by CPPP are conservative. They assume that the employer provides health insurance. The budgets also are based on 2007 expenses which understate the expenses occurring today. These budgets show that many Texas families do not qualify for government assistance yet have little ability to fully absorb a financial emergency when it occurs. There are many families struggling to keep a roof over their heads and food on the table.

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[1] CPPP, Policy Point, "Poverty 101," p. 3, September 2009.
[2] The complete set is available at www.CPPP.org/fbe.

Paying utility bills is a growing challenge for low and moderate income families who make up more than a third of the total Texas population.

In Project 36131 the Commission proposes to amend its substantive rules involving consumer bill payment arrangements. Therefore the rule will have a far reaching impact on a large group of electricity consumers. The current and proposed P.U.C. SUBST. Rule 25.480 ("Rule 25.480") addresses bill payment arrangements that were envisioned by the Legislature when the retail electric market became competitive.[3]

The proposed changes to the bill payment structures involving the deferred payment plans ("DPP") portion of proposed Rule 25.480 increase the likelihood that low and moderate income families will be able to maintain electricity in their dwellings. The Commission should adopt these proposed amendments.

Proposed Rule 25.480 also broadens the categories of consumers who qualify for mandatory DPPs. The categories added represent consumers who are most in need of DPPs and should be adopted. Unfortunately, the Commission has also restricted the DPP in the proposed Rule 25.480 from the DPP set out in the current rule. First, the proposed rule limits the times of the year that retail electric providers ("REPs") will be required to offer DPPs to certain categories of customers. Second the Commission withdrew minimum DPP payment standards for those DPPs voluntarily offered by REPs. We believe these restrictions will decrease the ability of low and moderate income Texans to pay their electric bills in times of financial emergencies thereby increasing the bad debt risks of REPs.

The Commission is also proposing to adopt a switch-hold process in this proceeding. Switch-hold is a new term that has evolved to describe the blocking of a customer from

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[3]See, Public Utility Regulatory Act, TEX. GOVT. CODE §§ 11.001 – 58.302 (Vernon 2007 & Supp. 2008-2009)("PURA"), Chapters 17 and 39, for example.

switching REPs in a competitive market. A switch-hold is an anti-competitive practice that is opposed by consumers and should be opposed by the Commission. Under the proposed rule, a REP would be able to tie its "competitive" retail electric service with the monopoly transmission and distribution utility (TDU) on a consumer by consumer basis, thereby restricting other REPs access to these consumers. Not only does this proposal negatively strike at the heart of a competitive market—open access—but it is antithetical to a consumer's power to choose, a right established by the Legislature in PURA. Implicit within the power to choose a REP is the power to quit a REP. While the consumer's power to choose is stated in several sections of PURA, tying a competitive product with a monopoly product is mentioned not as a right but as a prohibition when market power is established.[4] Consumer Groups believe that this level of market interference is beyond the Commission's authority to implement. Further, the Commission has failed to consider other less competitively restrictive methods to mitigate REP bad debt levels. The Commission should not adopt this proposed set of amendments.

Consistent with the Proposed Rule published in Project No. 37622, this proposed rule amends P.U.C. SUBST. Rule 25.483 ("Rule 25.483") which addresses disconnection of service for critical care and chronically disabled customers by REPs. Our comments in Project No. 37622 are emphatic as we firmly oppose any rule by the Commission that would in any way condone the disconnection of service for critical care customers. We are equally opposed to the proposed rule 25.483(g) which sets standards for REPs and TDUs to follow when disconnecting electricity service for critical care and chronic condition customers. We do not support a policy which would allow customers with serious medical problems to be disconnected.

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[4] See PURA §39.157.

II. Preamble Questions

Question 1. Are the provisions relating to unauthorized switch-holds appropriate? Please suggest any modifications.

The provisions relating to unauthorized switch-holds are inappropriate because the switch-hold itself is inappropriate. Further problems arise because the rule provides no real consequences for REP actions that inhibit the competitive marketplace and no protections for customers who experience losses because of unauthorized use of the switch-hold.

In Project No. 37685 Rulemaking to Amend Subst. R. §25.107 Regarding Certification of Retail Electric Providers the proposed rule states that a REP certification can be revoked for erroneous use of a switch-hold. While this proposal demonstrates the gravity of the decision to even allow a switch-hold it provides no real protection for the consumer.

The proposed rule does not address consequences where a REP or TDU intentionally fail to timely remove a switch-hold. For example, there is no provision in the rule that assures that a REP's intentional failure to lift a switch-hold or unauthorized placement of a switch-hold is an automatic rule violation for the REP or TDU. Consequences for intentional conduct should be spelled out and there should be an increase in the seriousness of the violation and penalty for intentional misconduct.

Consumers affected by unauthorized switch-holds should be compensated for losses and missed opportunities because they were unable to switch REPs. Lastly, the Commission should include a notice provision to harmed consumers informing them about the REP's violation and their rights to civil recourse under Texas Deceptive Trade Practices Act.[5] In cases of intentional wrongdoing for this violation, the Commission should automatically refer this violation to the

[5] Deceptive Trade Practices Act, Tex. Bus. & Com. Code §§17.01-17.926 (Vernon 2002 & Supp. 2009) ("DTPA")

Attorney General for investigation and enforcement under the consumer protection laws of the state.

Question 2. If the disconnection of customers designated as critical care is allowed, what additional protections and procedures should be in place to ensure that the loss of electricity will not result in the loss of life?

The disconnection of critical care customers should never be permitted under PUC rules. PURA §39.101 (a) reads as follows:

> "Before customer choice begins on January 1, 2002, the Commission shall ensure that retail customer protections are established that entitle a customer:
>
> (1) to safe, reliable, and reasonably priced electricity, including protection against service disconnections in an extreme weather emergency as provided by Subsection (h) ***or in cases of medical emergency*** or nonpayment for unrelated services;" (emphasis added)

The Legislature intended that customers have safe, reliable and reasonably priced electricity and protection from disconnection in the event of medical emergency. A critical care customer is a customer that will experience a medical emergency without electricity. PURA directs the Commission to provide the same level of protection to customers with medical emergencies as it does to all customers during an extreme weather emergency. Therefore, the Commission lacks the authority to adopt a rule that would permit a REP to order a disconnection of a critical care customer.

Under the rules in place today and this proposed rule a customer qualified for critical care must be *certified by a physician* as being dependent on life support equipment or space heating and space cooling because of a serious medical condition. The rules should not permit a REP to disconnect a critical care customer. The only alternative for assuring that there is no loss of life when the disconnection occurs is to move the critical care customer to a facility with a permanent reliable source of power.

Question 3. Does the switch-hold provision in §25.480 (l) of the proposed rule contain sufficient protections to ensure that a customer's ESI ID is not subject to a switch-hold for a relatively small debt to the REP?

No. The proposed rule allows REPs to place a switch-hold on consumers who have a levelized or averaged payment plan. Not only may the consumer have no debt; but the consumer may have a credit on his or her acount. Yet the switch-hold has been placed on the consumer's account and the consumer can only get the hold removed if the customer stops using this type of payment program and shows that no money is due. A switch-hold for these customers seems extremely inequitable and may drive moderate income consumers away from this payment option because of its consequences.

As to the deferred payment plans, the current proposed rule does not set out any minimum level of amount of debt to be repaid as a condition for the placement of a switch-hold on that consumer's account. Overall, the switch-hold proposal offers no protection for the captive consumers.

a. *Should the rule include a minimum amount owed in order for a customer's ESI ID to be eligible for a switch-hold? If so, is $500 the appropriate threshold?*

If the Commission ultimately decides to adopt a switch-hold, then there should be a minimum amount of debt a consumer must incur before being subject to a switch-hold. With this proviso, the levelized payment programs would remain generally unimpeded allowing these programs to continue to be a source of cost stability for the consumer and revenue stability for the REP. The minimum level of debt that qualifies for a switch-hold should be at least $500.

b. *If a threshold is not adopted, what are the ramifications to the competitive market if a significant portion of the ESI IDs in the market are (sic) subject to a switch-hold at any given time?*

The switch-hold is nothing more than the Commission's authorization to REPS to provide electric service through the tying of a monopoly product (transmission and distribution service) with a competitive one. This raises antitrust and anticompetitive concerns. Obviously, the more the switch-hold can activate this tying arrangement, the greater the implication in the marketplace for antitrust and anticompetitive results.

c. *In §25.480(j)(1), the proposed rules require a REP to offer a deferred payment plan for bills that become due during an extreme weather emergency, and to customers in an area covered by a Governor's declaration of disaster. Should the rule also exempt such customers from the switch-hold? Should any other groups of customers—e.g., critical care, low-income, elderly—be exempt from the switch-hold?*

Yes, these groups should be exempt. Also other groups such as those identified in the question should be exempt from the switch-hold provisions.

Question 4. What are the costs and benefits of implementing the switch-hold as described in §25.480(l)? Are there alternative means for a REP to mitigate the business risk of a customer default, aside from imposing a switch-hold on the customer's ESI ID?

We have no have access to financial data that would allow comments on the economic costs incurred. We can, however, surmise the cost of the switch-hold to consumers.

For consumers the switch-hold can become like the nightmare from the old company town days. The company's workers could only shop at the company store. Prices became inflated and workers could never pay off the debt. Like the company store scenario, the proposed rule does not set any pricing safeguards.

Pricing safeguards are needed as the REPs, like the "company store," are already assessing extra fees on bills that have not been authorized by the Commission. For example, Reliant, and possibly others are charging a disconnect recovery charge regardless of whether a disconnection occurs. Reliant adds $25 to the bill of a customer who receives a disconnection notice and does not pay by the disconnection date stated on the notice. This fee is charged in addition to the 5 percent late fee.

While we note that the proposed rule does not allow fees related to the switch-hold we also ask that the ban be broadened to include all fees. There is no ban on fees relating to renegotiating a deferred payment plan, disconnection fees, collection fees, and other fees that the REP can create that would in theory be unrelated to the switch-hold, but would increase the costs of a captive customer. The rules should be structured to prevent additional fees from being charged and to establish cost based pricing for customers placed on the switch-hold..

In addition, if the consumer is on a month-to-month contract because his/her fixed contract expires during the deferred payment plan,[6] the Commission has provided no protection against price gouging. The only current protection is notice.[7] And since the notice requirement is essentially meaningless to a consumer who cannot pay off his/her deferred payment plan, there is no protection. We have reviewed copies of bills to a residential consumer whose monthly rate

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[6] There is currently no prohibition against terminating a fixed term contract for late payments and causing the contract to convert to a month-to-month contract. This could become a common practice if a switch-hold is set in place.
[7] See P.U.C. SUBST. R. 25.475(d)(3).

rose from 14.84 cents per kWh in May 2008 to 19.87 cents per kWh in October 2008, a 33.89% price increase.[8] For a 1000 kWh this would constitute another $50.00 a month the consumer would need to pay to meet his or her forced payment obligations. In a regulated monopoly environment, the retailer is guaranteed a customer base but consumers are guaranteed a regulated rate, one based on cost. The proposed rule results in setting up a one-sided monopolistic structure of creating captive ratepayers without the corollary price and fee or surcharge protection. Any attempt to restrict a buyer's access to a competitive market should also provide for commensurate price protections. The proposed rule restricts buyer access but fails to provide adequate price protections. As a result consumers can easily be forced to pay non-competitive prices and fees because they are locked out of the competitive marketplace.

Another cost that has not been discussed is in related retail markets. The rental housing market is affected by switch-holds. The provision of electricity is an essential part of tenancy. The absence of the service results in an unhabitable tenancy. One viable option for the tenant when disconnected and placed on switch-hold is to abandon the tenancy. The abandonment creates an economic loss for the landlord. A Public Information Request[9] to the Commission reveals that the relationship of REP bad debt to tenancy has not been explored in this rulemaking proceeding. However, we believe that there is a high correlation; and therefore, a switch-hold provision will have a significant cost impact on certain segments of the retail residential rental marketplace. Consequently, this impact should be thoroughly vetted to ensure that the Commission interference into the competitive electric retail marketplace will not negatively impact other retail sectors.

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[8] Copies of bills obtained from P.U.C. Interchange from a consumer complaint filing.
[9] Public Information Act, TEX. GOVT. CODE, §§552.001-552.353 (Vernon 2004 & Supp. 2009)("PIA").

Another concern is recognizing that a switch-hold is a two-sided coin. Not only are consumers whose electric services are placed on switch-holds denied access to other REPs, but other REPs are denied access to these consumers. The Commission has recognized that niche sellers will arise in a competitive marketplace to serve customers that are "low spenders with credit history problems."[10] These niche sellers could be driven out of the market. The Commission should explore this cost impact as well before it denies these sellers access to the customers the Commission has determined their respective REPS can place a switch-hold upon their accounts.

There are many alternatives to addressing bad debt. It is unnecessary for the Commission to restrict consumer and seller access to the marketplace. The total abolishment of bad debt, while an appealing goal, is not a reasonable one in any market. Bad debt existed in the regulated electric market. Bad debt will exist in the competitive electric market as it exists in essentially all other markets. There are steps the Commission can take to encourage the mitigation of debt in the market short of blocking consumers from changing REPs. These options are discussed further below.

1. <u>The Commission should acknowledge that REPs have a responsibility for being prudent in their underwriting and debt collection practices.</u>

In Project No. 37291 the staff's proposed order to the Commission relating to proposed new PUC SUBST. R. 25.125 argued that REPs were constrained in their underwriting practices because customer payment history was not "readily available."[11] This staff reasoning is contrary

[10] See Amendments to P.U.S. SUBST. Rules 25.471-25.477-25, 25.491, 25.492, Project No. 22255, 26 Tex. Reg. 125 (January 5, 2001)("Project No. 22255").

[11] "In addition, REP's ability to mitigate the risk of bad debt is limited by law. PURA §17.008(d) provides that a REP may not deny an applicant's request to become a residential electric service customer on the basis of the applicant's credit history, credit score, or utility payment data. Although this provision allows a REP to use an

to Legislative directive that REPs and electric utilities timely provide bill payment histories.[12] The Commission has also addressed this responsibility by rule.[13] Yet in public discussions chaired by Commissioner Nelson, the suggestion by consumer groups to amend the letter of authorization (LOA) given REPs[14] to include authorization to verify the consumer applicant's bill payment history was dropped because REP representatives argued there was no electronic process established to do this.

Instead of discussing the LOA revision option, the industry is focused on creating a process between the REPs and TDUs that would allow REPs to block consumers' access to the retail electric market. Blocking access is a more intrusive interference with the competitive marketplace than having REPs contact each other to establish the applicant's bill payment history.

Bill payment history is an essential part of prudent underwriting practices and an effective way to mitigate the business risk of customer default. The legislature recognized this by mandating REPs and TDUs timely provide this information consistent with the consumers' privacy rights.[15] Before the Commission adopts a switch-block provision, it should adopt a process that ensures timely provision of bill payment histories.[16] Not only does this promote a competitive market by ensuring the timely release of information needed to make prudent

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applicant's electric bill payment history, this information is not usually not readily available." Re: Rulemaking Relating to Meter Tampering and Disconnection and Reconnection of Service for Customers With Advanced Meters, Project No. 37291, "Staff Recommended Proposed Order Adopting The Repeal of §25.125 and §25.126; New §§25.125, 25.126, and 25.132; and Amendments to §25.214 As Approved At the April 1, 2010 Open Meeting, at PP. 28 & 29. (Texas PUC Staff March 4, 2010).

[12] See PURA §17.008(f)&(g).

[13] See P.U.C. SUBST. Rule 25.479.

[14] The letter of authorization is as the name implies an authorization provided to the REP by an applicant for service to obtain certain information.

[15] PURA §§17.004(a)(6), 39.101(2).

[16] In the past some REPs have asked the Commission to create a data base where all REPs would be required to report a customers' payment data and all REPs would have access. This type of data base is prohibited by PURA. We do not support the creation of the data base but we do support a system where REPs would cooperate with each other to provide customer payment information to each other when the customer authorizes access.

decisions, but it implements a statute that has been on the books since 1999. Debt collection activities can readily mitigate bad debt. The fact that some REPs report low bad debt levels and others report higher levels raises the inference that some REPs are more prudent in their underwriting practices and in their debt collection practices.

2. <u>The Commission should investigate the level of revenues REPs receive in fees that relate to payment defaults.</u>

REPs have initiated and charged consumers late fees and disconnect fees when the consumer pays late. In Project No. 22255, the Commission authorized REPs to charge late fees to reduce the costs of collection and the level of write-offs. The Commission has therefore initiated the late fee to mitigate a REP's bad debt risk. Yet the extent of the mitigation of REPs' bad debt was not available in this rulemaking proceeding. Under the Public Information Act, TLSC requested the Commission to provide information on late fees used to mitigate bad debt. None was provided. The Commission has no knowledge of the extent to which late fees have mitigated bad debt costs for REPs. Moreover, there has been no investigation into what other fees and or surcharges have been or are being implemented and charged relating to late or nonpayment of electric services by consumers. The extent of the REP fees and surcharges and their related amounts of revenues realized should be reviewed and compared to corresponding costs incurred by the REPs for late or nonpayment of electric service by consumers. Consequently, the Commission has placed a late payment penalty into practice to mitigate bad debt and has not determined how effective the fee has been in achieving its purpose. The Commission has also not acknowledged the emergence of other fees and surcharges that address late payments or when no payments are made. While REPs claim that bad debt levels cause them to increase their rates, they have failed to explain let alone show that the fees and surcharges they issue to consumers do not adequately limit bad debt risk to a reasonable level. The financial tool the Commission provided the REPs has yet to be examined for its effectiveness.

3. The Commission could increase the payment deadline from the current 16 days to 25 days to match the new federal standards for consumer payments on credit cards.

The current PUC rule on due dates for electric bills is not designed for timely payment. A customer's bill is due 16 days after the bill is mailed. Many working households are only paid once or twice a month. When these customers receive their electric bill, they will have already spent half of their monthly income on other expenses and must wait two weeks for the next paycheck. This problem is compounded for low-income households receiving government assistance or other customers on fixed incomes such as seniors.

Cash flow is an obstacle to timely payment for many Texans; its effects are not limited to the low-income population. Many Texans, including the majority of State employees, are paid on a monthly basis. Difficulties are created when short due dates are combined with such a payroll schedule. Currently, some utilities resolve these difficulties by voluntarily allowing their customers the opportunity to choose their monthly due date.

The current practice of allowing customers only 16 days from the date of issuance to pay their bill is not designed for timely payment. Having such a short time frame causes many hard working customers to be chronically late and/or behind on their utility bill due to cash flow problems. The preferred solution to this problem would be to allow customers to choose the date on which their payments are due, since customers will know their own financial situations best. Many banks and other lenders let customers choose the date on which loan payments are due as a matter of course. Otherwise, we believe customers should be allowed 25 days from the date of issuance in which to pay their bill.

4. <u>The Commission can amend P.U.C. SUBST. Rule 25.480 to provide for more realistic deferred payment plans as it has proposed in this proceeding.</u>

Current P.U.C. SUBST. Rule 25.480 sets standards for deferred payment plans that provided too short a time for repayment thereby making the installment payments quite high, thus increasing the risk of default. The proposed rule amendments improve the ability of consumers to repay outstanding balances under a deferred payment plan. First, it allows a larger down payment, thereby decreasing the amount to be recovered in the future. Second, it increases the number of installment payments which further decreases the additional monthly cost the consumer must repay in addition to his/her current electric bill. Most consumers who need a deferred payment plan generally have little disposable income.[17] Setting too high a repayment amount can easily result in default.

5. <u>The Commission should require that greater resources be committed to weatherization programs for low and moderate income consumers</u>.

Weatherization of low and moderate income dwellings will make the dwellings more energy efficient thereby using less electricity. Reduced consumption translates into lower bills and mitigates the risk of bad debt. The relationship between weatherization programs for low-income consumers and reduced utility bad debts and collection costs have been verified by several studies.[18] The Commission should take a more active role in the energy efficiency

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[17] See attached budgets and CPPP reports addressing low and moderate income Texas families monthly expenses. See also p. 1 of these comments.

[18] See, Martin Schweitzer and Bruce Tonn, Oak Ridge National Laboratory, "Nonenergy Benefits From the Weatherization Assistance Program: A Summary of Findings From the Recent Literature" a report prepared for the

programs provided by the transmission and distribution utilities. As TLSC and Texas ROSE pointed out in Project No.37623.[19], the transmission and distribution utilities did not spend their budgeted amounts on their targeted weatherization programs. Moreover, commenters believe that increasing the qualification criteria for the Hard-to-Reach program provided in the energy efficiency programs, on a sliding scale of financial assistance, to 400% of federal poverty guidelines will further mitigate REP risks of bad debt. Lastly, the Commission should increase the energy efficiency plan's budget allocation for the hard to reach and targeted weatherization programs.

Question 5. Subsection (j) of the proposed rule specifies the minimum down payment and number of installments for a deferred payment plan made available to eligible customers during the months of July, August, and September (as well as during January and February, subject to certain weather conditions). Should the rule specify the minimum down payment and number of installments for deferred payment plans to be made during the remaining months of the year?

Yes, the rule should specify the minimum terms and conditions the customer must meet in order to be eligible for any deferred payment plan. The usual practice of the collection agent is to get the customer to commit to the most favorable payment arrangement for the immediate benefit of the REP. This translates to higher down payments and less time to pay off the amount owed. Without parameters for the amount of the initial payment and the amount and number of subsequent payments in payment plans consumers could be pressured into accepting terms and conditions that are unrealistic and not in the best interests of themselves or their REPs. Because a customer's power can be disconnected for failure to meet the terms or conditions of a deferred

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U.S. Department of Energy (April 2002). This summary reports on the reduction of bad debt and disconnections estimated by the low income weatherization programs.

[19]See *Rulemaking Proceeding to Amend Energy Efficiency Rules*, Project No. 37623, Comments of Texas Legal Services Center and Texas Ratepayers' Organization to Save Energy. (Mar. 15,2010).

payment plan it is essential that customer taking a deferred payment plan have terms and conditions they can meet.

Question 6. If the switch-hold is invalidated by legislative or judicial action, should the rest of the rule remain in effect?

Yes. As mentioned earlier in our discussion on mitigating risk of bad debt, the proposed changes to the deferred payment plan requirements will mitigate bad debt which is a desirable outcome. We would also remind the Commission of its earlier commitment to adopt a rule that eliminates the need for the filing of emergency rule making petitions every summer. Without the expanded DPPs there will be no workable resolution for the problems consumers encounter in managing high bills during the summer. From our perspective the switch-hold is anti-competitive and is the least effective measure provided in the proposed rule for insuring consumers can pay their electric bills.

III. Rule Provisions

A. Proposed Rule 25.480(g)(2)(B)(v),(h)(1), (j)(ii), (j(5)(A),(l), (m)) Regarding Switch-Hold

Consumer Groups are adamantly opposed to the use of switch-hold as a means of reducing bad debt in the competitive electricity market. The switch-hold is a measure that the Commission lacks authority to implement. Furthermore, there has been no study and no evidence presented that the switch-hold will be effective in mitigating bad debt or that this level of Commission interference into the competitive market is the only alternative for controlling bad debt.

1. Lack of Legislative Authority

The Commission does not have statutory authority to allow the tying of a competitive retail electric service with a monopoly service. As a creature of the Legislature, the Commission has only those powers provided in PURA. There is no provision in PURA that provides the Commission the authority to restrict consumer and REP access to the retail electric market through the anti-competitive practice of tying. At best the Commission must find implied authority hidden within the crevices of PURA. But any implied authority the Commission may have must be consistent with PURA's legislative intent that is determined in the first instance from the plain language of the Act. The plain language of PURA speaks to a market where consumer and seller access to the market is open. PURA's language speaks of bill payment plans as part of a REP's services to be offered consumers. The Commission is tasked with the implementation of a retail electric market that provides for full and fair competition among all providers of electricity. PURA also ensures that consumers will have access to a provider of last resort.

By allowing a REP to place a switch-hold on a consumer's access to the competitive retail electric market, the Commission is placing a regulatory thumb upon the scales of the competitive market place. The switch-hold rewards REPs for imprudent underwriting and debt collection practices. And the switch-hold under the proposed Rule 25.480 allows the REP to exploit the consumer by charging fees and prices that are anti-competitive because the consumer is placed in a monopoly position without the benefit of price protection. The REP does not have to worry about competing with other REP price offers but can set any rate it wishes. The only regulatory constraint upon the REP is notice which is an essential element in a competitive marketplace. That regulatory constraint is effectively dissolved by the switch-hold the Commission is proposing in this proceeding. The REP will be allowed to exploit the most vulnerable consumers because they are financially fragile and are significantly hampered in their abilities to pay off a debt for which they needed a deferred payment plan. A switch-hold does not promote full and fair competition among providers of electricity. A switch-hold is contrary to the legislative intent of PURA and it is not an enumerated duty or power of the Commission under PURA. A switch-hold is not a regulatory tool the Commission was provided by the legislature. It is beyond the Commission's authority.

2. Lack of Study of the Problem

The Commission has failed to determine whether a switch-hold is the least restrictive intrusion into the competitive marketplace. There are less restrictive methods to mitigating bad debt risks for REPs as discussed in response to Question No. 4. The Commission has not done a study concerning REP debt collection and underwriting practices. Moreover, the Commission has not reviewed REP bill payment plan practices. The Commission has no knowledge of why current market mechanisms cause some REPs to have significant amounts of bad debt and others significantly less.[20] For instance, there has been no study to determine the exact nature of the bad debt: Was it a situation where consumers had been wrongly billed for several months, the corrected bill for the back billed amounts was extremely large, and the repayment installments were very large; was there a large bad debt level caused by theft of service; did a large bad debt level bring with it large profits for the REP; are bad debt levels on an industry-wide basis commensurate with bad debt levels of other retail markets affected by economic conditions? These types of questions are significant and reflect that answers to these questions could reveal that current bill payment plans are inadequate for large levels of debt. Or answers could reveal a REP market decision to take huge risks and be rewarded for them. Unfortunately this information is not known on an industry-wide basis. Consequently, the switch-hold decision is being made in a vacuum with little but anecdotal data. Bad debt is a reality of a competitive

[20] The commission states in the preamble, "The current requirement to offer deferred payment plans at any time to any qualified customer requests is *believed* to contribute to high levels of non-payment. . ."(emphasis mine).

market place. It is a cost of doing business. As such, access to the retail competitive market place should not be compromised. Consumer Groups urge the Commission to not adopt the switch-hold provisions of proposed Rule 25.480.

B. Proposed Rule 25.480(h)(1),(j)(B)(ii)(I) Relating to Levelized Payment Plans

The proposed Rule 25.480's language is not clear concerning when a REP may place a switch-hold on a consumer who utilizes a levelized payment plan. Proposed Rule 25.480(h)(1) appears to allow the placement of a switch-hold on any consumer who is eligible to receive a rate reduction under P.U.C. SUBST. Rule 25.454. These customers have incomes at or less than 125% federal poverty guidelines which as the introduction above points out, are the most financially fragile consumers. The current proposed language appears to unreasonably discriminate against these customers based on income. If the intent of the rule is to require REPs to offer a levelized payment plan to a sub category of these low income consumers who are delinquent, then the language should be amended to reflect that intent.

The discussion of consumers already on a level payment plan in proposed Rule 25.480(j)(2)(B)(ii) is a little confusing. If the proposed rule's intent is to except consumers already on a level or average payment plan, then the sentence should read, "A customer already on a level or average payment plan is not subject to the provisions of subsection (j)." If the intent is to include consumers already on a level or average payment plan as those the REP may apply a switch-hold to their accounts, then the intent should be clarified.

C. Proposed Rule 25.480(j)(1),(2),(3),(4)) Relating to Mandatory Deferred Payment Plans

Under the proposed rules REPs must provide a deferred payment plan (DPP) to LITE-Up Texas customers and critical care and chronic condition customers for bills that become due in July, August, and September and during January and February if the weather is exceptionally cold. Other customers may qualify if they have not been disconnected within the past 12 months, have not had more than two bounced checks or received service for less than three months and lack credit. The REP can require up to 50% of the amount due as an initial payment and the balance can be paid down in at least 5 installments. The REPs are required to offer a DPP only when the weather is extreme, not at all times of the year. As an alternative to the DPP the customer may choose to take a level or average billing plan from the REP. The REP must true-up the account at least every six months.

The requirement that the customer has not been disconnected in the past twelve months would replace the requirement that the customer has not received two disconnection notices in the past twelve months. We support this change. Many minimum wage workers and other moderate income people who are ineligible for energy assistance may have situations where they pay after receiving a disconnection notice especially given the short sixteen day payment due date. In this situation, the REP receives payment. It is unfair when customers are denied a deferred payment plan because they paid late. This is a serious problem for working poor households that the proposed rule corrects.

The technical feasibility of basing credit worthiness on the disconnection rather than the disconnection notice has been discussed and is workable. Under the current system, the REP sends a request for disconnect (650.01) to the TDU after the disconnection notice is sent to the customer. The TDU has 2 days to process the request for disconnect and 3 days to execute the disconnection. The disconnect order is issued by the REP shortly after the disconnect notice is sent. In the meantime, if the REP receives payment from the customer the REP sends a reconnect order which cancels a disconnect order. If the reconnect order is received before the disconnection is executed the transaction is purged from the system. When the TDU executes the disconnect order the REP receives a notice (650.02) that confirms whether or not the disconnection was completed. Therefore, REPs are able to identify disconnections through the standard 650.02.

As data filed with the Commission shows, the proposed rule will financially help many low-and moderate income Texas families. The most recent disconnection report filed by the PUC Staff in Project No. 29760 (Item No. 2349) provides monthly disconnection data from January 2006 to September 2008. Over this time period on a monthly average:

- REPs issued 909,347 disconnection notices
- REPs issued 140,000 disconnection orders
- TDUs completed 100,000 disconnections

Using the disconnection instead of the disconnection notice should help many people qualify for deferred payment plans. The fact remains that over 800,000 disconnection notices are issued every month where no disconnection occurs. Therefore 800,000 people per month could be denied a deferred payment plan under the current rule who could qualify during the summer under the proposed rule.

A disconnection as proposed by the consumers is also preferable because disconnection execution is more transparent than a disconnection order. A consumer would be unaware of a disconnect order but the consumer would not be unaware of a disconnection. The disconnection standard would be more readily understood.

Consumer Groups support the new customer categories the Commission has created that are subject to mandatory REP offering of a deferred payment plan (DPP). These new categories recognize that these customer groupings previously excluded from the mandatory DPPs are in need of payment assistance to meet their payment obligations. TLSC is concerned, however, that reducing the times of the year that customers are assured of payment assistance would seem to increase the risk of bad debt for REPs. A third of the state's population lives with next to no disposable income.[21] A financial emergency—a trip to the emergency room—can have a domino effect throughout a family's monthly budget. Also in parts of the state like Austin the hot summer usually continues through September making October a month that consumers could be faced with high electric bills. Bill payment assistance for these instances would be appropriate. We do not understand the public policy behind qualifying the winter months spelled out in subsection (j)(2) with a reference to peak demand—especially since energy efficiency program goals are to reduce peak demand. This qualifier does not seem to have a nexus to the purpose of the rule. We urge the Commission to adopt the increased categories of customers eligible for mandatory payment assistance but ask that the time constraints be removed in proposed Rule 25.480(j)(2).

D. Proposed Rule 25.480 (j)(4) Relating to Voluntary DPPs

We support having all REPs provide DPPS for customers who need them throughout the year. See our response to Question 5 above.

E. Proposed Rule 25.480(m) Relating to Unauthorized Switch-holds

See response to Question No. 1 above.

F. Proposed Amendments to P.U.C. SUBST. Rule 25.454

Consumer Groups have no comment on the proposed amendments at this time.

G. Proposed 25.483 (g) Relating to Disconnection of Service.

Proposed 25.483 (g) is a new provision of the rule which is unprecedented. Under the rule a REP would be able to legally disconnect a critical care customer while it provides a

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[21] See footnote 16.

financial incentive to the TDU to complete the disconnection. Allowing a REP to disconnect a critical care or chronic condition customer completely defeats the purpose of the rule that has been established to protect against loss of service for those whose lives are in danger without electricity.

In our comments filed in Project No. 37622 we oppose the addition of language referencing proposed 25.483 (g). We further comment on the disconnection rule proposed here because:

- The proposed rule is contrary to the protection provided by PURA §39.101 (a) for customers with a medical emergency.
- A rule that clearly allows for the disconnection of medically vulnerable customers is cruel, not in the public interest, and does not comport with practices in other jurisdictions.
- The deregulated electric industry must face responsibility for protecting people that are incapable of protecting themselves.

1. PURA Guarantees Protection for Critical Care Customers

Ensuring that medically vulnerable consumers remain safe and do not lose electric service is a mandatory requirement for an electricity market. PURA §39.101 (a) reads as follows:

> "Before customer choice begins on January 1, 2002, the Commission shall ensure that retail customer protections are established that entitle a customer:
>
> (1) to safe, reliable, and reasonably priced electricity, including protection against service disconnections in an extreme weather emergency as

provided by Subsection (h) ***or in cases of medical emergency*** or nonpayment for unrelated services;"

The legislative language is clear and it protects against service disconnections in cases of medical emergency. A person on life support or a person incapable of tolerating temperature changes and maintaining life functions is a case of medical emergency and a disconnection cannot be condoned under PURA.

2. Disconnection of medically vulnerable customers is not in the public interest.

Disconnection of a consumer whose life is in danger without power is inhumane. While we are sympathetic that some life support customers present a cost to the system we cannot justify or condone forcing an individual out of their home by shutting off the electrical supply. Critical care status is only afforded to those who are seriously ill with what is a permanent and terminal condition. Threatening them with disconnection is preying on helpless people.

During the development of the proposed rule we recommended that applicants be required to provide a contact outside of the critical care customer's household. The consumer groups believe this recommendation will be helpful to the customer who may be disoriented or too tired to cope with utility bills and help the REP by having someone outside of the household in the information loop that could monitor the account. We fully support the Commission's incorporation of this recommendation into proposed rule §25.497. However, it was never our intention to include a secondary contact on a critical care account to justify a disconnection process for critical care customers.

In the preamble, the staff concludes that this rule will provide benefits to the public and have no fiscal impact on state or local government. It would be helpful if the PUC could explain the benefits to the public of disconnecting critical care customers. Furthermore, in regard to the conclusion that there will be no fiscal impact on state or local governments we note that a critical care customer who is disconnected has to be moved to a facility with a power supply in order to ensure the individual's safety. A cost benefit analysis of this disconnection alternative should be undertaken to justify the determination of net benefits from the rule.

The disconnected individual will likely be moved from home to a public facility such as a hospital, nursing home, police station or other public facility. These temporary or possibly permanent accommodations represent a cost to either state or local governments. The fact that the actions taken by REPs to minimize their bad debt will place costs on other entities and the public-at-large should be recognized in this rule. It would also be appropriate for the Commission to study the costs of alternative accommodations for life support customers in comparison to the cost of the individual's utility bills.

3. <u>Disconnection of critical care customers does not comport with practices in other jurisdictions.</u>

According to the LIHEAP Clearing House, critical care customers are never disconnected in New York, Ohio, and Massachusetts. In Maine, the PUC must approve the disconnection of residential service for any residential consumer.

Other states are not so generous. Oklahoma allows a critical care disconnection to be delayed for sixty days. In Wyoming the customer can receive a 30 day delay and in Alaska there is a 15 day delay. Under the proposed rule, the customer and the secondary contact would receive notice at least 21 days before the disconnection occurred. The standard disconnection rule provides notice only to the customer at least ten days before the disconnection occurs. The proposed rule also requires that the TDU to visit the premise if the critical care customer or secondary contact cannot be reached by telephone and leave a door hanger with the pending disconnection information. If adopted, the proposed rule would place Texas among the states with the weakest protections for critical care customers. When this rulemaking began the consumer community was hoping for a Texas rule that could be held up as an example for other states to follow. Unfortunately, other states are already doing a better job of protecting critical care customers and if this rule is adopted there will be even more states doing a better job of protecting critical care customers than we are doing here in Texas.

4. <u>The rule provides a financial incentive for the TDU to disconnect a critical care customer.</u>

The most disturbing aspect of the proposed rule is §25.483(g)(4) which provides a perverse incentive to the TDU to encourage rather than discourage the disconnection of critical care consumers. "If the TDU refuses to disconnect a critical care residential customer pursuant to this subsection, it shall cease charging all transmission and distribution charges and surcharges for that premise to the REP." This provision of the rule demonstrates that the unbundled market structure is dysfunctional for critical care consumers. This is a provision that could force a TDU worker to decide between mistreating a sick person and job security. The Commission in this rule must make a decision to protect the welfare and dignity of the critical care customer. Instead of placing the decision in the hands of individuals the Commission must direct the industry to never disconnect critical care customers and to handle debt incurred as they do any other cost of doing business.

The TDU's are able to recover bad debt in rates. The REPS can more readily recover bad debt because they can charge any price that the market will bear. The REPs and the TDU's can also take steps to lower costs for critical care customers on the system and thereby reduce their uncollectable accounts. Utilities in California have special rates for critical care customers to lower costs. Both TDU's and REPs could establish rates for critical care customers.

In summary, consumer groups do not support having a rule that condones having a REP disconnect the electricity of a critical care consumer. We do believe that all consumers should be responsible for paying for the electricity that they use. However, this is not always possible. Instead of disconnecting critical care customers, efforts should be made to protect them from harm while making as much assistance available as possible. TDU's and REPs should establish reduced rate programs for critical care customers. Weatherization services should be made available to help with management of bills. Billing assistance programs should be targeted toward critical care customers.

We have tried to be creative in our recommendations in this rulemaking to protect critical care customers who are unable to protect themselves and give REPs better protection from risk without instituting a switch-hold. A disconnection procedure for critical care customers was never in our sights as an appropriate action for the Commission to take and we oppose any rule provision that suggests disconnection of a critical care customer is allowed. Therefore, we oppose the adoption of §25.483(g).

H. Proposed Rule 25.483(k)(2) Relating to E-mail Notice of Disconnection

Consumer Groups have no comment on the proposed amendments at this time.

IV. Summary And Conclusion

The proposed rule changes being considered in this rulemaking have been published by the PUC in the interests of providing payment flexibility for consumers during high bill months and reducing bad debt incurred by REPs because of DPPs. We fully support both objectives of providing payment flexibility and reducing bad debt for REPs. Throughout these comments we have questioned and oppose two major provisions of the rule and support others. Our positions and recommendations are summarized below as they relate to disconnection of critical care customers, switch-hold, and deferred payment plans (DPP).

<u>Disconnection of Critical Care Customers</u>

- We oppose the process and procedures established for disconnection of critical care customers consistent with comments filed in Project No. 37622 and recommend the language be deleted.
- We support replacing the disconnection language with language stating that REPs and TDUs will work with customers and their secondary contacts to maintain service.

<u>Switch-hold</u>

- We oppose the proposed switch-hold provisions and recommend the language be deleted from the rule. If switch-hold is adopted a consumer should have to owe $500 or more before being subjected to a switch-hold. The Commission must also put price controls on electricity rates and prohibit the charging of fees to the consumer subject to a switch-hold.
- We support having the Commission increase payment deadlines from 16 to 25 days to match new federal standards for consumer payments on credit cards.
- We support having the Commission thoroughly review and report on the credit and collection practices of REPs and their success in minimizing bad debt.

<u>Deferred Payment Plans (DPP)</u>

- We oppose limiting availability of DPPs to bills for July, August and September and recommend making the DPPs available year round.

- We support mandatory DPPs for Lite-Up Texas customers, critical care and chronic condition customers.
- We support changing credit requirement for DPPs from two disconnection notices in the past twelve months to an executed disconnection over the past 12 months.
- We support increasing the time frame for repayment of DPPs from 3 to 5 months.
- Support having minimum payment terms for all DPPs even those offered voluntarily by REPs.

Our comments are supported by a broad range of groups representing a broad base of Texas electric consumers. We ask the Commission to take this broad base of support into account in its review and final decision in this important rulemaking proceeding.

Respectfully submitted by:

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Center for Public Policy Priorities

FAMILY BUDGET ESTIMATOR

Family Type: Two Parents, Two Children
Budgets for Families **With** Employer Sponsored Health Insurance
Export results to Excel | Start Over

	Abilene	Amarillo	Brownsville - Harlingen	Bryan - College Station	Corpus Christi	Dallas - Fort Worth - Arlington	Dallas - Plano - Irving	El Paso	Fort Worth - Arlington
Expenses[1]									
Housing[2]	$549.00	$575.00	$513.00	$714.00	$695.00	$780.63	$798.00	$587.00	$745.00
Food[3]	$490.93	$490.93	$490.93	$490.93	$490.93	$490.93	$490.93	$490.93	$490.93
Child Care[4]	$584.44	$644.44	$662.22	$736.67	$733.33	$1,021.02	$927.24	$713.38	$1,034.06
Medical Insurance[5]	$335.00	$312.93	$206.26	$309.14	$343.98	$343.98	$343.98	$343.98	$343.98
Medical out-of-pocket[6]	$117.94	$117.94	$117.94	$117.94	$117.94	$117.94	$117.94	$117.94	$117.94
Transportation[7]	$395 00	$395.00	$322.00	$395.00	$322.00	$403.97	$403.97	$396.00	$482.00
Other Necessities[8]	$308.51	$308.51	$308.51	$359.57	$359.04	$359.57	$359.57	$359.04	$359.57
Total Monthly Expenses	$2,780.82	$2,844.75	$2,620.86	$3,123.25	$3,062.22	$3,518.04	$3,441.63	$3,008.27	$3,573.48
Federal Taxes[9,10]									
Payroll Tax	$208.30	$215.20	$191.14	$245.80	$238.61	$286.31	$278.73	$232.74	$291.78
Income Tax	$76 50	$85.67	$54.00	$125.67	$116.08	$204.92	$189.92	$108.58	$215.50
Earned Income Tax Credit	($99.58)	($80.25)	($146.92)	($0.00)	($16.17)	($0.00)	($0.00)	($32.00)	($0.00)
Child Tax Credit	($166.67)	($166.67)	($166.67)	($166.67)	($166.67)	($166.67)	($166.67)	($166.67)	($166.67)
Child and Dependent Care Credit	($76.50)	($85.67)	($54.00)	($115.00)	($115.00)	($100.00)	($100.00)	($108.58)	($100.00)
Monthly Tax Payments and Credits	$-57.95	$-31.72	$-122.45	$89 80	$56.85	$224.56	$201.98	$34.07	$240.61
Necessary Monthly Income	$2,723	$2,813	$2,498	$3,213	$3,119	$3,743	$3,644	$3,042	$3,814
Household Hourly Wage[11]	$16	$17	$15	$19	$19	$22	$22	$18	$23
Necessary Annual Income	**$32,674**	**$33,756**	**$29,981**	**$38,557**	**$37,429**	**$44,911**	**$43,723**	**$36,508**	**$45,769**
Poverty Guidelines[12]	$20,650	$20,650	$20,650	$20,650	$20,650	$20,650	$20,650	$20,650	$20,650
Income as percent of Poverty Guidelines	158%	163%	145%	187%	181%	217%	212%	177%	222%

1. Where appropriate, monthly expenses were adjusted to 2007 dollars
2. Source: 2007 Fair Market Rents, U.S Department of Housing and Urban Development
3. Source: June 2006 Thrifty Food Plan, U S Department of Agriculture
4. Source: 2005 Texas Child Care Market Rate Survey, Texas Workforce Commission
5. Source Amount paid by employee when employer pays 100% of employee's health insurance premium and 50% of spouse and/or children's premiums, 2007 Full-time Employees Premium Rates, Texas Employees Retirement System

6 Source 2004 Medical Expenditure Survey, Agency for Healthcare Research and Quality, U S. Department of Health and Human Services
7 Source 2001-2002 National Household Travel Survey, U S Bureau of Transportation Statistics, 2007 Internal Revenue Service Mileage Reimbursement
8 Source 2004-2005 Consumer Expenditure Survey, U S Bureau of Labor Statistics
9 Credits are represented in parentheses.
10. When eligible, tax credits are only received on an annual basis when filing a federal tax return. For illustrative purposes, we calculated tax credits as part of the monthly expenses
11 Represents the necessary combined hourly wages of all workers in household
12 2007 Poverty Guidelines U S. Department of Health and Human Services

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Center for Public Policy Priorities

FAMILY BUDGET ESTIMATOR

Family Type: Two Parents, Two Children
Budgets for Families **With** Employer Sponsored Health Insurance
Export results to Excel | Start Over

	Houston-Baytown-Sugar Land	Killeen-Temple-Fort Hood	Laredo	Longview	Lubbock	McAllen-Edinburg-Pharr	Midland	Odessa	San Angelo
Expenses[1]									
Housing[2]	$768 00	$628.00	$573.00	$557.00	$618.00	$635.00	$558.00	$506.00	$578.00
Food[3]	$490.93	$490.93	$490.93	$490.93	$490.93	$490.93	$490.93	$490.93	$490.93
Child Care[4]	$917.52	$721.99	$655.63	$673.80	$677.59	$687.95	$596.06	$596.06	$724.82
Medical Insurance[5]	$343.98	$301.11	$276 56	$343.98	$339.44	$260.26	$339.44	$339.44	$343.98
Medical out-of-pocket[6]	$117.94	$117.94	$117.94	$117.94	$117.94	$117.94	$117.94	$117.94	$117.94
Transportation[7]	$403.97	$322.00	$395.00	$395.00	$322.00	$396.00	$395.00	$395.00	$395.00
Other Necessities[8]	$359.57	$308.51	$308.51	$308.51	$308.51	$308.51	$308.51	$308.51	$359.04
Total Monthly Expenses	$3,401.91	$2,890.48	$2,817.57	$2,887.16	$2,874.41	$2,896.59	$2,805.88	$2,753.88	$3,009.71
Federal Taxes[9,10]									
Payroll Tax	$274.30	$220.08	$212.29	$219 72	$218.31	$220.73	$211.03	$205.42	$232.86
Income Tax	$181.17	$91.92	$81.92	$91.50	$89.42	$92.75	$80.25	$72.75	$108.58
Earned Income Tax Credit	($0.00)	($67.08)	($88.17)	($68.00)	($72.33)	($65.33)	($91.67)	($107.50)	($32.00)
Child Tax Credit	($166.67)	($166.67)	($166.67)	($166.67)	($166.67)	($166.67)	($166.67)	($166.67)	($166.67)
Child and Dependent Care Credit	($105.00)	($91.92)	($81.92)	($91.50)	($89.42)	($92.75)	($80.25)	($72.75)	($108.58)
Monthly Tax Payments and Credits	$183.80	$-13.67	$-42.55	$-14.95	$-20.69	$-11.27	$-47.31	$-68.75	$34.19
Necessary Monthly Income	$3,586	$2,877	$2,775	$2,872	$2,854	$2,885	$2,759	$2,685	$3,044
Household Hourly Wage[11]	$22	$17	$17	$17	$17	$17	$17	$16	$18
Necessary Annual Income	**$43,029**	**$34,522**	**$33,300**	**$34,467**	**$34,245**	**$34,624**	**$33,103**	**$32,222**	**$36,527**
Poverty Guidelines[12]	$20,650	$20,650	$20,650	$20,650	$20,650	$20,650	$20,650	$20,650	$20,650
Income as percent of Poverty Guidelines	208%	167%	161%	167%	166%	168%	160%	156%	177%

1. Where appropriate, monthly expenses were adjusted to 2007 dollars
2. Source 2007 Fair Market Rents, U S. Department of Housing and Urban Development
3. Source June 2006 Thrifty Food Plan, U S Department of Agriculture
4. Source 2005 Texas Child Care Market Rate Survey, Texas Workforce Commission

5 Source: Amount paid by employee when employer pays 100% of employee's health insurance premium and 50% of spouse and/or children's premiums, 2007 Full-time Employees Premium Rates, Texas Employees Retirement System
6 Source: 2004 Medical Expenditure Survey, Agency for Healthcare Research and Quality, U S. Department of Health and Human Services
7 Source 2001-2002 National Household Travel Survey, U.S Bureau of Transportation Statistics 2007 Internal Revenue Service Mileage Reimbursement
8 Source 2004-2005 Consumer Expenditure Survey, U S Bureau of Labor Statistics
9 Credits are represented in parentheses.
10 When eligible, tax credits are only received on an annual basis when filing a federal tax return. For illustrative purposes, we calculated tax credits as part of the monthly expenses.
11. Represents the necessary combined hourly wages of all workers in household
12 2007 Poverty Guidelines, U S. Department of Health and Human Services

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Center for Public Policy Priorities

FAMILY BUDGET ESTIMATOR

Family Type: Two Parents, Two Children
Budgets for Families **With** Employer Sponsored Health Insurance
Export results to Excel | Start Over

	Austin-Round Rock	Beaumont-Port Arthur	San Antonio	Sherman-Denison	Texarkana	Tyler	Victoria	Waco	Wichita Falls
Expenses[1]									
Housing[2]	$836.00	$593.00	$715.00	$630.00	$546.00	$614.00	$613.00	$629.00	$569.00
Food[3]	$490.93	$490.93	$490.93	$490.93	$490.93	$490.93	$490.93	$490 93	$490.93
Child Care[4]	$840.95	$594.44	$806.40	$795.59	$675.55	$673.80	$719.50	$635.37	$604.44
Medical Insurance[5]	$309.14	$343.98	$293.07	$343.98	$343.98	$343.98	$343.98	$301.11	$343.98
Medical out-of-pocket[6]	$117.94	$117.94	$117.94	$117.94	$117.94	$117.94	$117.94	$117.94	$117.94
Transportation[7]	$482.00	$322.00	$482.00	$395.00	$395.00	$395.00	$395.00	$395.00	$395.00
Other Necessities[8]	$359.57	$308.51	$359.57	$359.57	$308.51	$359.04	$359.04	$308.51	$308.51
Total Monthly Expenses	$3,436.53	$2,770.80	$3,264.91	$3,133.01	$2,877.91	$2,994.69	$3,039.39	$2,877.86	$2,829.80
Federal Taxes[9,10]									
Payroll Tax	$278.21	$207.18	$260.27	$246.69	$218 75	$231.25	$236.04	$218.74	$213.59
Income Tax	$188.67	$74.83	$153.67	$126.75	$90.25	$106.50	$112.75	$90.25	$83.58
Earned Income Tax Credit	($0.00)	($103.08)	($0.00)	($0.00)	($70.58)	($36 42)	($23.25)	($70.58)	($84 67)
Child Tax Credit	($166 67)	($166.67)	($166.67)	($166.67)	($166.67)	($166.67)	($166.67)	($166.67)	($166 67)
Child and Dependent Care Credit	($100.00)	($74.83)	($110.00)	($115.00)	($90.25)	($106.50)	($112.75)	($90.25)	($83.58)
Monthly Tax Payments and Credits	$200.21	$-62.57	$137.27	$91.77	$-18.50	$28.16	$46.12	$-18.51	$-37.75
Necessary Monthly Income	$3,637	$2,708	$3,402	$3,225	$2,859	$3,023	$3,086	$2,859	$2,792
Household Hourly Wage[11]	$22	$16	$20	$19	$17	$18	$19	$17	$17
Necessary Annual Income	**$43,641**	**$32,499**	**$40,826**	**$38,697**	**$34,313**	**$36,274**	**$37,026**	**$34,312**	**$33,505**
Poverty Guidelines[12]	$20,650	$20,650	$20,650	$20,650	$20,650	$20,650	$20,650	$20,650	$20,650
Income as percent of Poverty Guidelines	211%	157%	198%	187%	166%	176%	179%	166%	162%

1 Where appropriate, monthly expenses were adjusted to 2007 dollars.
2 Source: 2007 Fair Market Rents, U.S Department of Housing and Urban Development
3 Source: June 2006 Thrifty Food Plan, U.S Department of Agriculture
4 Source. 2005 Texas Child Care Market Rate Survey, Texas Workforce Commission
5 Source Amount paid by employee when employer pays 100% of employee's health insurance premium and 50% of spouse and/or children's premiums, 2007 Full-time Employees Premium Rates, Texas Employees Retirement System

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6. Source: 2004 Medical Expenditure Survey, Agency for Healthcare Research and Quality, U S Department of Health and Human Services
7. Source: 2001-2002 National Household Travel Survey U S Bureau of Transportation Statistics 2007 Internal Revenue Service Mileage Reimbursement
8. Source 2004-2005 Consumer Expenditure Survey U S Bureau of Labor Statistics
9. Credits are represented in parentheses
10. When eligible, tax credits are only received on an annual basis when filing a federal tax return. For illustrative purposes, we calculated tax credits as part of the monthly expenses
11. Represents the necessary combined hourly wages of all workers in household
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Austin-Round Rock Metropolitan Statistical Area

Budgets for Families **With** Employer Sponsored Health Insurance

Monthly Expenses[1]	One Adult, No children	Two Adults, No children	Single Parent, One Child	Single Parent, Two Children	Single Parent, Three Children	Two Parents, One Child	Two Parents, Two Children	Two Parents, Three Children
Housing[2]	$685	$685	$836	$836	$1,137	$836	$836	$1,137
Food[3]	$174	$318	$249	$356	$419	$397	$491	$543
Child Care[4]	$0	$0	$525	$841	$1,588	$525	$841	$1,588
Medical Insurance[5]	$0	$186	$124	$124	$124	$309	$309	$309
Medical Out-of-pocket[6]	$44	$89	$55	$74	$88	$100	$118	$132
Transportation[7]	$339	$482	$339	$339	$339	$482	$482	$482
Other Necessities[8]	$136	$230	$231	$288	$334	$356	$360	$384
Total Montly Expenses	$1,378	$1,990	$2,359	$2,857	$4,029	$3,006	$3,437	$4,574
Federal Taxes[9,10]								
Payroll Tax	$122.78	$171.79	$194.58	$227.03	$333.71	$252.39	$278.21	$378.45
Income Tax	$103.83	$83.58	$159.92	$182.42	$349.92	$179.25	$188.67	$344.25
Earned Income Tax Credit	$0.00	$0.00	$19.67	$12.67	$0.00	$0.00	$0.00	$0.00
Child Tax Credit	$0.00	$0.00	$83.33	$166.67	$250.00	$83.33	$166.67	$250.00
Child and Dependent Care Credit	$0.00	$0.00	$67.50	$120.00	$100.00	$55.00	$100.00	$100.00
Monthly Tax Payments and Credits	$226.61	$255.38	$183.99	$110.11	$333.63	$293.31	$200.21	$372.70
Necessary Monthly Income	$1,605	$2,246	$2,543	$2,968	$4,362	$3,299	$3,637	$4,947
Household Hourly Wage[11]	$10	$13	$15	$18	$26	$20	$22	$30
Necessary Annual Income	$19,258	$26,948	$30,522	$35,611	$52,347	$39,591	$43,641	$59,366
Poverty Guidelines[12]	$10,210	$13,690	$13,690	$17,170	$20,650	$17,170	$20,650	$24,130
Income as Percent of Poverty Guidelines	189%	197%	223%	207%	253%	231%	211%	246%

[1]Where appropriate, monthly expenses were adjusted to 2007 dollars.
[2]Source: 2007 Fair Market Rents, U.S. Department of Housing and Urban Development
[3]Source: June 2006 Thrifty Food Plan, U.S. Department of Agriculture
[4]Source: 2005 Texas Child Care Market Rate Survey, Texas Workforce Commission

[5]Source: Amount paid by employee when employer pays 100% of employee's health insurance premium and 50% of spouse and/or children's premiums, 2007 Full-time Employees Premium Rates, Texas Employees Retirement System

[6]Source: 2004 Medical Expenditure Survey, Agency for Healthcare Research and Quality, U.S. Department of Health and Human Services

[7]Source: 2001-2002 National Household Travel Survey, U.S. Bureau of Transportation Statistics; 2007 Internal Revenue Service Mileage Reimbursement

[8]Source: 2004-2005 Consumer Expenditure Survey, U.S. Bureau of Labor Statistics

[9]Credits/refunds are highlighted in yellow.

[10]When eligible, tax credits are only received on an annual basis when filing a federal tax return. For illustrative purposes, we calculated tax credits as part of the monthly expenses.

[11]Represents the necessary combined hourly wages of all workers in household

[12]2007 Poverty Guidelines, U.S. Department of Health and Human Services

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POVERTY 101

The term *poverty* is generally used to describe a condition of economic hardship, but it has a technical use as well: to define a specific low-income level for various family sizes. Many social services providers in Texas use this technical measure of poverty to determine eligibility for their programs. This brief report describes the official federal poverty measure, how it is used, and the extent of poverty in Texas. Shortcomings of this methodology and alternative measures of economic hardship are also discussed.

What Is Meant By "Poverty"?

Official measure

The U.S. Census Bureau establishes annual income **thresholds** to **measure poverty** and estimate the number of poor people. People in families with income below the federal poverty thresholds are considered poor. The U.S. Department of Health and Human Services uses these thresholds to set income **guidelines**, which vary by family size and are referred to as the "federal poverty level" (FPL). Federal poverty guidelines are used to **determine eligibility** for many government programs. Private organizations also use these guidelines to determine eligibility for their services to low-income families. The 2009 guidelines for the continental U.S. are shown in the table.

2009 Federal Poverty Guidelines

Family Size	Annual Income*	Monthly	Hourly**
1	$10,830	$ 902	$5.20
2	14,570	1,214	7.00
3	18,310	1,525	8.80
4	22,050	1,837	10.60
5	25,790	2,149	12.39
6	29,530	2,460	14.19

*For each additional person, add $3,740
**Calculation based on 52 weeks at 40 hours per week
Source: *Federal Register*, Vol. 74, No. 14, January 23, 2009

History of the poverty measure

The poverty guidelines were originally designed to reflect the minimum amount of income that American households need to subsist. This amount was derived by multiplying by three the cost of food for each family size. This method for determining household budget needs was established in the early 1960s based on the assumption that the cost of food accounted for one-third of household spending. Although the poverty guidelines are updated annually for inflation, they are still based on a food-cost-to-income ratio of 1 to 3, despite significant shifts in household expenses. For example, the cost of housing as a share of household income has increased significantly since the 1960s, and families today are more likely to have child care expenses and pay a much higher share of health care costs than was typical in the 1960s. Yet, food costs remain the only expense considered in determining how much income today's families need to make ends meet. In addition, except in the case of Alaska and Hawaii, the guidelines do not take into account geographical differences in the cost of living, or the effects of a rising standard of living. Because of these weaknesses, critics of the official poverty guidelines—including the Census Bureau itself—have called the measure an antiquated standard that is no longer capable of capturing true economic need.

Other ways to measure economic hardship

Researchers have been working to develop more accurate measures of economic need or hardship. The 2007 publication of *Making It: What It Really Takes to Get By in Texas*, describes CPPP's Family Budget Estimator, which calculates the cost of essential expenses in Texas' metropolitan areas for families of various size and composition, as well as the wages necessary to meet these costs. For example, the estimated cost of housing, food, child care, transportation, employer-subsidized health care, other necessities such as clothing, and federal taxes for two adults and one child in the Houston metro area is $3,253 per month ($20 per hour in combined household wages), or $39,032 per year. This is almost 2.3 times the official poverty line for a family of three. CPPP's research estimates living expenses in 2007 for eight family types in each of the state's metro areas. (See www.cppp.org/fbe/). Similar research by the Economic Policy Institute allows for the comparison of family budgets in metro and rural areas nationwide for 2004 (www.epi.org/content.cfm/datazone_fambud_budget). CPPP and EPI's approach is supported by poverty experts, including the National Research Council, which has recommended a similar approach to replace the official federal poverty measure.

How Many Texans Are Officially Poor?

Poverty in Texas is more pronounced than in the nation as a whole. The poor are concentrated in the state's largest cities and in the Texas-Mexico border region.

Poverty rates are also much higher for the state's large and growing Latino population and for African-American Texans.

Child poverty—particularly among young children—is significantly higher in Texas than in the nation as a whole.

Individuals in Poverty, 2008

	Texas	U.S.
Poverty rate	15.8%	13.2%
Total in poverty	3.760 million	39.1 million

Source: U.S. Census Bureau, American Community Survey, 2008. www.census.gov/acs/www/

How Many Texans Are Working But Remain Poor?

Most poor families with children in Texas are working families. Of the 606,400 families with children below poverty in 2007, 58 percent—353,485—were headed by a worker.

A family is considered "working" if all family members age 15 and over meet the following criteria: either they have a combined work effort of 39 weeks or more in the prior 12 months, or they have a combined work effort of 26 to 39 weeks in the prior 12 months and one currently unemployed parent looked for work in the prior 4 weeks. Approximately 1.65 million people in Texas, 908,165 of whom are children, live in these working-poor families.

In the larger universe of Texas families with incomes below 200 percent of the poverty line, work participation is even higher. Of 1.4 million poor and "near poor" Texas families with children, 77 percent—or 1 million—are working. These families include almost 4.8 million Texans, 2.4 million of whom are children. Low wages in many of the state economy's growth sectors contribute to Texas' large working but low-income population, as do limited public assistance benefits. Compared to the U.S. average, Texas workers are slightly more likely to have low-wage jobs. Furthermore, Texas workers rank near the bottom in terms of access to job-sponsored health insurance, pensions, workers' compensation coverage, or unemployment benefits.

Source: Tabulations of Census Bureau's 2007 American Community Survey by Population Reference Bureau.

Who is Poor in Texas?

By Ethnic Group, 2008

	Rate	Number
African-American	22.9%	605,883
Hispanic	24.0%	2,092,272
Non-Hispanic White	8.3%	927,261
Asian	11.5%	89,258

Source: U.S. Census Bureau, American Community Survey 2008.

Young Child Poverty, 2008

	Texas	U.S.
Poverty rate, children under age 5	26.1%	21.2%
Total children under 5 in poverty	519,600	4.4 million

Source: U.S. Census Bureau, American Community Survey 2008.

Child Poverty, 2008

	Texas	U.S.
Poverty rate, children under 18	22.5%	18.2%
Total number of children under 18 in poverty	1.5 million	13.2 million

Source: U.S. Census Bureau, American Community Survey 2008.

Elderly Poverty, 2008

	Texas	U.S.
Poverty rate, persons 65 and over	12.2%	9.9%
Total persons 65 and over in poverty	288,000	3.7 million

Source: U.S. Census Bureau, American Community Survey 2008.

How Are Poverty Guidelines Used To Determine Eligibility For Social Services?

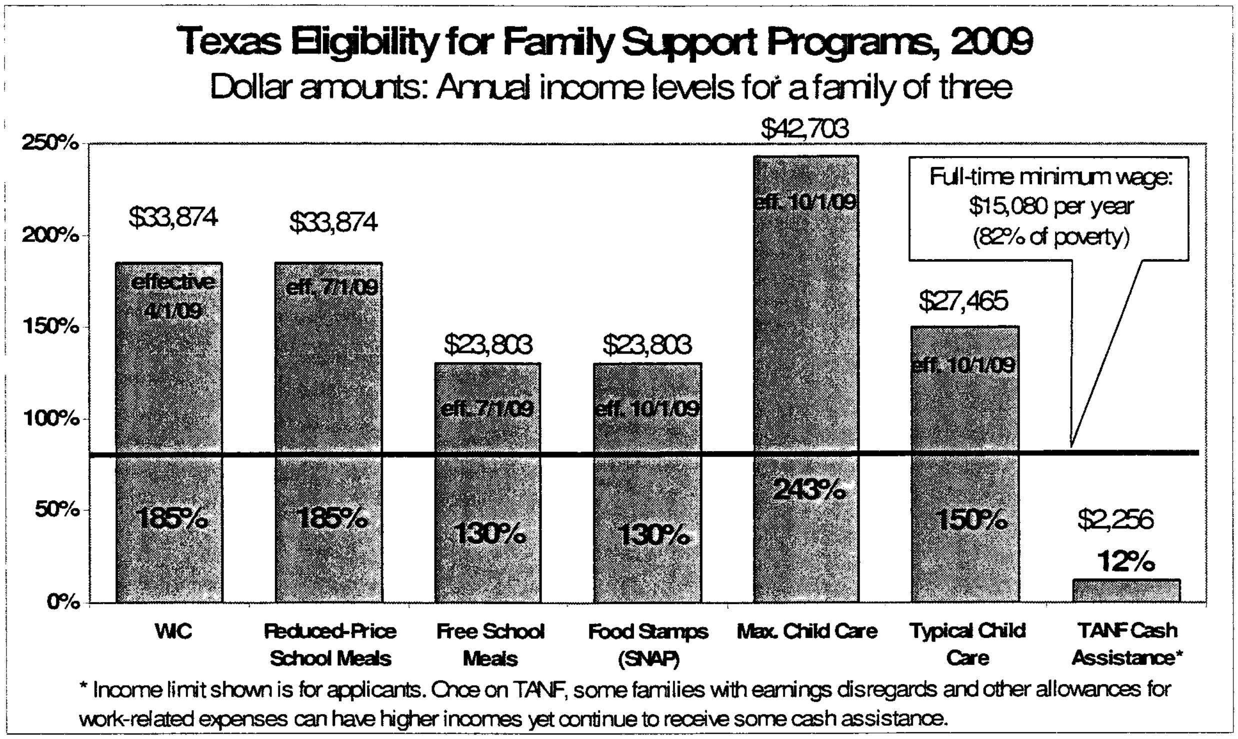
Texas uses the federal poverty guidelines to determine eligibility for most public benefits, including Food Stamps, Medicaid, the Children's Health Insurance Program (CHIP), child care subsidies, and cash assistance (TANF). Income limits vary greatly by program, ranging from 12.3 percent of the federal poverty level for cash assistance to 200 percent of poverty for CHIP. In addition, eligibility for most programs is limited by a family's "resources" or "assets," such as cash on hand, money in the bank, certain retirement savings, vehicles, and other property. The federal government establishes income limits for certain benefits, such as Supplemental Nutritional Assistance (Food Stamps) and other nutrition programs, while states have flexibility in setting eligibility limits for others, such as CHIP and TANF. In some programs, like Medicaid, the income limits vary according to the age of the recipient. Eligibility for public assistance programs in Texas is very restrictive compared to other states, the benefits are lower, and health benefits for poor adults are more limited. As a result, a smaller share of the poor in Texas receives any public assistance.

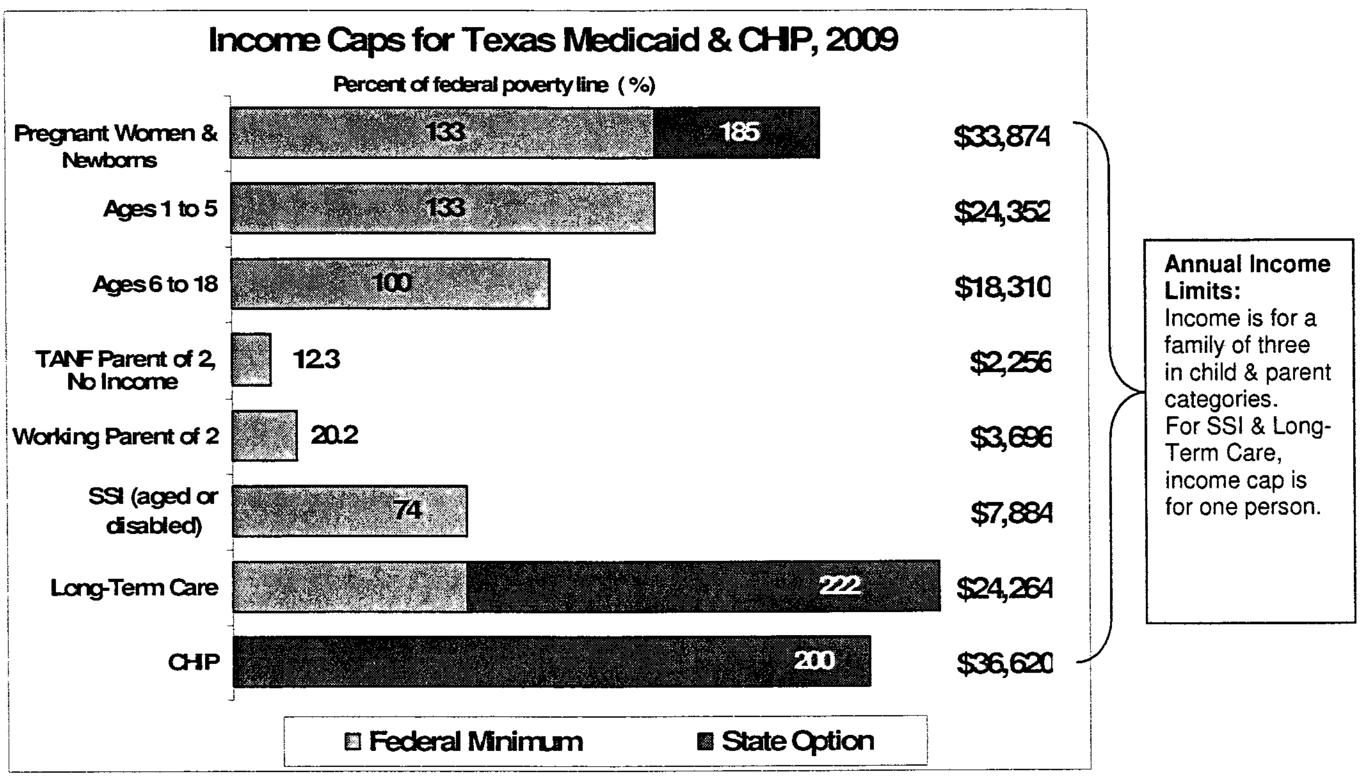
Number of Texans at Different Low-Income Levels, 2008

(Federal Poverty Level = FPL)

	100% of FPL	125% of FPL	150% of FPL	185% of FPL	200% of FPL
Annual Income, Family of Three	$17,600	$22,000	$26,400	$32,560	$35,200
Total Texans below this Income Level*	3.760 million	5.049 million	6.314 million	8.001 million	8.656 million
Share of Texans below this Income Level*	15.8%	21.3%	26.6%	33.7%	36.5%

*Source: U.S. Census Bureau, American Community Survey 2008.

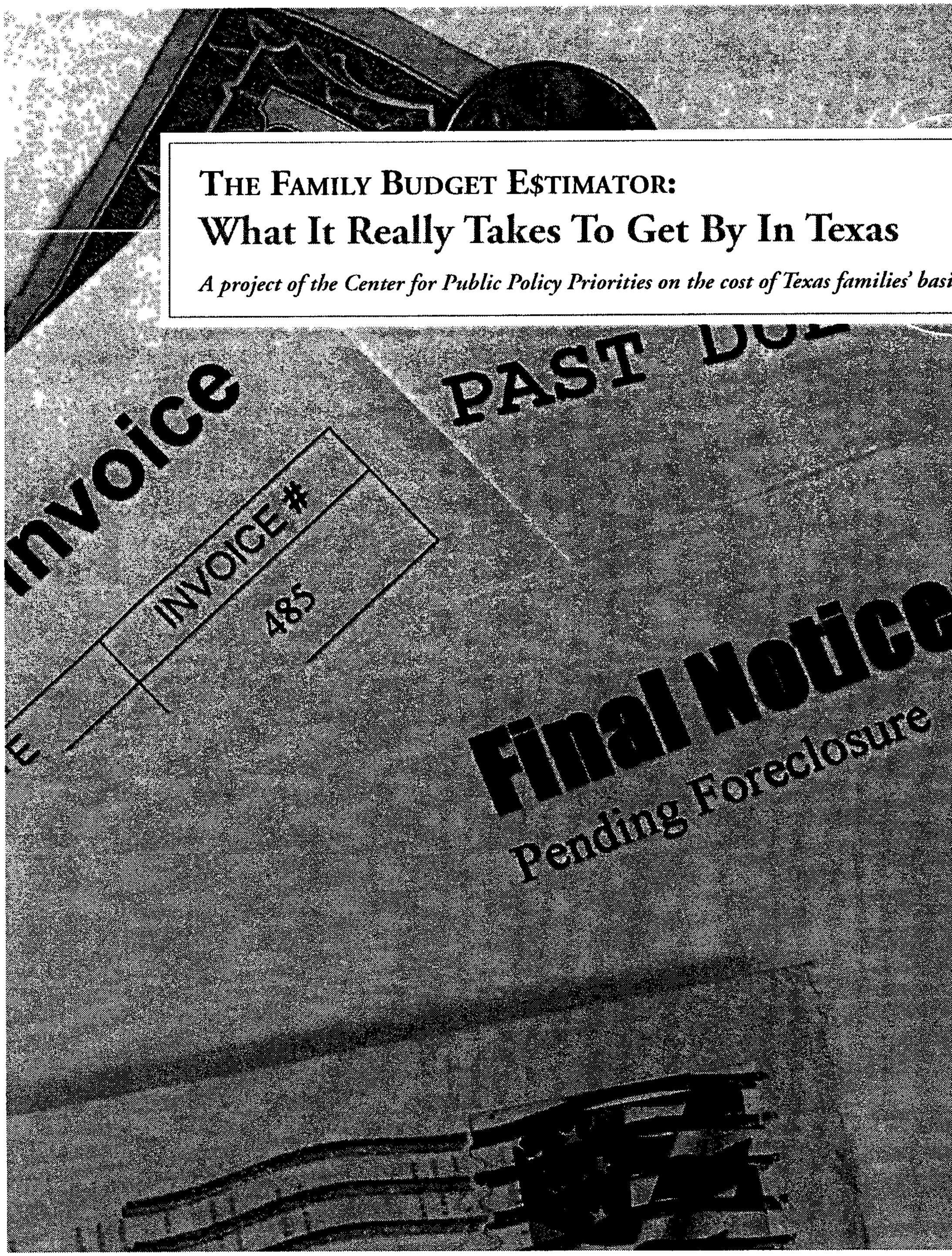


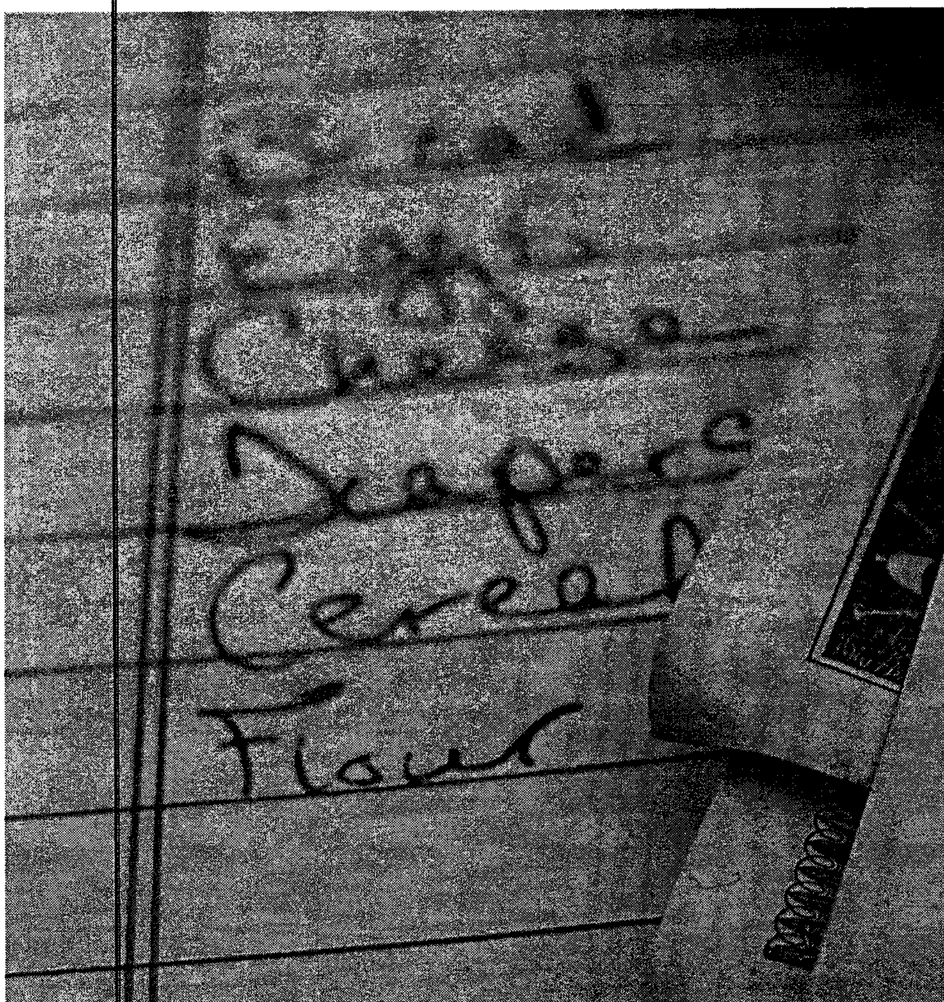


NOTE: Some children in foster care or adoption programs may be covered through age 21. Chart above does not include the income eligibility criteria for the Women's Health Program or the CHIP Perinatal program.

THE FAMILY BUDGET E$TIMATOR:
What It Really Takes To Get By In Texas

A project of the Center for Public Policy Priorities on the cost of Texas families' basic needs





The Family Budget E$timator: Online at www.cppp.org

The *Family Budget Estimator* provides a realistic picture of how much it costs Texas families in different areas of the state to meet their basic needs, such as housing, food, child care, and health care. Uses include:

Education—The *Family Budget Estimator* can raise public awareness of the hardships faced by families with limited income, in turn building public support and political will for policies that will increase economic security for all Texans.

Planning—The *Family Budget Estimator* can serve as a realistic benchmark for program planning and evaluation at the local and state level.

Advocacy—The *Family Budget Estimator* provides hard data to support advocacy for policy and budgetary changes needed to increase family economic security.

The Family Budget E$timator:

What It Really Takes To Get By In Texas

A project of the Center for Public Policy Priorities on the cost of Texas families' basic needs

Deanna Dumas, 30, lives with her three young children in Houston, where she works full time as an Administrative Specialist, earning $15.40 an hour ($30,000 a year). Her income is over two-and-a-half times higher than that of someone working full time at the federal minimum wage ($5.85 an hour) and almost one-and-a-half times more than the government's official poverty level of $20,650 for a family of four. Yet Deanna, a veteran and part-time student at the University of Houston, struggles to afford her family's basic needs.

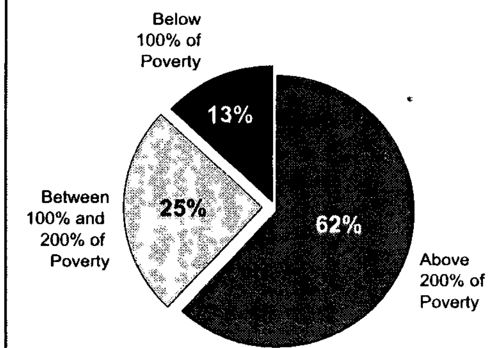
Deanna is not alone. Over the last several decades, low-wage workers in Texas and across the country have seen the earning power of their work decline. With living expenses rising faster than incomes, more and more working families in Texas are struggling to afford housing, food, child care, health care, transportation, and other basic needs. These families are not struggling because they do not work enough—they are struggling because they do not earn enough. Simply put, for too many Texas families, hard work alone does not pay enough to meet life's basic expenses.

Several factors beyond individual control have contributed to this phenomenon: the decline in the real value of wages, diminishing employer-sponsored benefits, corporate downsizing and a weak job market, and regressive state tax policies that hit lower-paid workers the hardest.

More than one-third (38%) of working families in Texas are low-income, with earnings below twice the federal poverty level (FPL). The majority of these families are not officially poor by government standards. In fact, for every low-income working family who falls under the official federal poverty line, there are almost two low-income families who are above it. Almost half (43% percent) of Texas children live in low-income working families.[1]

Most federal and state safety net or work support programs define the needy as those with incomes below the poverty line. As a result, many low-income workers do not qualify for government aid even though they may earn too little to support their families.

Working Families By Poverty Status



2007 Federal Poverty Level for a family of 3

100% of poverty = $17,170 a year
200% of poverty = $34,340 a year

Problems With The Federal Poverty Measure

For more than four decades, the federal government has annually set poverty levels to estimate the number of poor people and determine eligibility for government assistance. The poverty measure was originally designed to reflect the minimum amount of income that American households need to subsist. This amount was derived by multiplying by three the cost of food for each family size. This method for determining household budget needs was established in the early 1960s based on the assumption that the cost of food accounted for one-third of household spending.

"There's a huge gap between what it costs to live, and the wages are so behind being able to keep up with that. The gap is getting bigger and bigger. Soon there's only going to be poor and rich. There's going to be no middle class."

—***Bridget Feeney***

Bridget, 47, earns $30,000 a year as a full-time Account Manager for a small insurance company. She lives with her 17-year-old daughter Kelley in Austin, TX.

Although the poverty levels are updated annually for inflation, they are still based on a food-cost-to-income ratio of one to three, despite significant shifts in household expenses. For example, the cost of housing as a share of household income has increased significantly since the 1960s, and families today are more likely to have child care expenses and pay a much higher share of health care costs than was typical in the 1960s. Yet, food costs remain the ***only*** expense considered in determining how much income today's families need to make ends meet. In addition, except in the case of Alaska and Hawaii, the poverty guidelines do not take into account geographical differences in the cost of living, or the effects of a rising standard of living.

Many research organizations, including the U.S. Census Bureau, have concluded that the official poverty measure is an antiquated standard that is no longer capable of capturing true economic need or determining whether working families earn enough to get by. In 1995, a panel of the National Research Council of the National Academy of Science stated, "The current measure needs to be revised: it no longer provides an accurate picture of the differences in the extent of economic poverty among population groups or geographic areas of the country, nor an accurate picture of trends over time."[2]

The Family Budget Estimator

So, how much income is enough for a working family to cover the bare necessities? This is the question that the *Family Budget Estimator* (FBE) seeks to answer. The Center for Public Policy Priorities developed the *Family Budget Estimator* as an alternative to the federal poverty measure. Using data from the U.S. Census Bureau and other government sources, we have created family budgets that measure the cost of meeting basic needs, including housing and utilities, food, medical care, child care, transportation, and other necessities (such as clothing and local telephone service) for 27 metropolitan areas[3] and eight different family types.

The report also includes poverty, demographic, and labor market statistics for each metro area along with individual family profiles and fact sheets about the various programs and services available to help families bridge the gaps between their earnings and their expenses. We identify gaps in these services and recommend policy changes that would reward work and enable working Texans to provide for their families.

Methodology

The following is a brief description of each budget item with the data sources and conservative assumptions we used to calculate its cost. If data were from a year prior to 2007, those cost estimates were converted to 2007 dollars using the specialized Consumer Price Indices for all urban consumers for March 2007.

- ❑ **Housing:** We estimated housing costs using 2007 Fair Market Rent rates published by the U.S. Department of Housing and Urban Development.

- ❑ **Food:** We used the U.S. Department of Agriculture's Thrifty Food Plan for June 2006 as the basis for our food budget estimates.

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- ☐ **Child Care:** To calculate child care expenses, we relied on 2005 local market rate data for home and center-based care for infants, preschoolers, and school-age children collected for the Texas Workforce Commission by The University of Texas at Austin's School of Social Work and Ray Marshall Center.

- ☐ **Medical Care:** Estimates for the medical budget item incorporate two components, representing health insurance premiums and out-of-pocket costs.

  - **Health Insurance Premiums:** We used the Texas Employees Retirement System's (ERS) 2007 health insurance plan to model premium costs. The FBE includes budget estimates for families with and without employer-sponsored health insurance coverage. In the budget scenario for families <u>without</u> employer-sponsored health insurance, we estimated health insurance costs based upon the full premium costs—both the portion normally paid by the state and the worker's share—for ERS coverage for the given family type (i.e., employee only, employee plus spouse, employee plus children, or employee plus both spouse and children). In the budget scenario for families <u>with</u> employer-sponsored health insurance, we used the ERS's cost to their employee for coverage (using the same family compositions as described above). We recognize that this is a conservative estimate of the family's out-of-pocket cost of coverage as the ERS pays 100% of their employee's health insurance premium and 50% of the premium for the employee's dependents. This is in keeping, however, with our effort to use conservative measures of basic expenses.

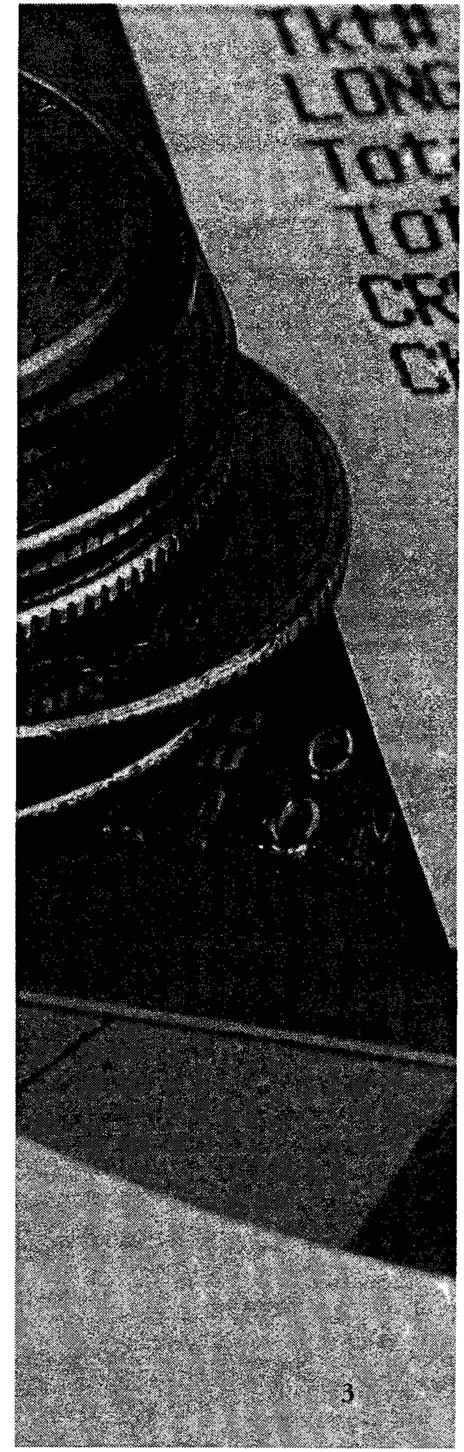
  - **Out-of-Pocket Medical Expenses:** We based out-of-pocket medical expenses on figures reported for the southern region of the United States by the 2004 Medical Expenditure Panel Survey.

- ☐ **Transportation:** We used the 2007 Internal Revenue Service's mileage deduction rate, multiplied by personal mileage data for work-related and non-social trips by metro area size from the 2001 National Household Travel Survey, to measure transportation expenses.

- ☐ **Other Necessary Expenses:** Other necessary expenses include local telephone service, clothing and shoes, personal care products, household items, and reading materials. We used 2004-2005 data from the Consumer Expenditure Survey to calculate this budget item.

- ☐ **Federal Tax Payments and Credits:**[4] We developed a tax calculator based on 2007 federal tax rules to calculate the payroll taxes, income tax, and tax credits for each family type to estimate the net income needed to cover basic estimated expenses. To check the accuracy of our calculations, we completed 2007 tax returns for approximately 20% of the family types and metro areas.

The *Family Budget Estimator* does not incorporate the cash-equivalent value of work support programs such as housing vouchers, Food Stamps, child care assistance, and Medicaid or CHIP. We chose to omit the value of these benefits because the FBE is intended to show how much earnings a family would need to meet its basic needs *without* relying on government assistance. We discuss below the role of work support programs in helping families bridge the gap between their earnings and their expenses.



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Being Uninsured Has Plunged the Everett Family Into Debt

Corrine Everett of Fort Worth, TX, has Multiple Sclerosis (MS), a debilitating disease that confines her to a wheelchair. Corrine's husband Clifford works in pest control and earns around $35,000 a year, but his income fluctuates seasonally and his employer offers no health insurance. They have two children, who are also uninsured because the family earns $50 a month too much to qualify for Medicaid or CHIP. Being uninsured has led the Everetts to incur exorbitant medical bills, which are hard to pay on a limited budget. The family often has to use credit cards just to buy food. Unable to pay their credit card bills on time, the Everetts have ruined their credit and are mired in debt.

The *Family Budget Estimator* offers a no-frills estimate of the cost of living in Texas. For instance, the housing budget is based on the cost of public housing subsidies. The food budget assumes that a family will buy bulk groceries, never eat out, and rarely purchase meat. We used the state's comparatively generous health insurance benefits (the state pays 100% of the employee's and 50% of the dependent's premium) to estimate the cost of health insurance. The *Family Budget Estimator* does not include the costs of many items that most people consider ordinary expenses, such as holiday and birthday gifts for children, school and extracurricular expenses, entertainment, or meals away from home (including fast food). The *Family Budget Estimator* also does not provide for any debt repayment. Notably, the *Family Budget Estimator* makes no provision for expenses that can help move poor families into the middle class, such as savings for a home or education. We took this approach because we wanted to focus on the most basic economic realities confronted by families.

The Importance of Savings and Assets to Building the Middle Class

The ability of Texas' working families to save for the future and accumulate assets such as a home, education, or retirement investments is critical to their long-term financial security. However, *asset* poverty is even more pronounced in Texas than *income* poverty—one-third (33.6%) of households are considered to be asset poor, while 16% of households live in poverty. Texas lags behind other states on most major asset measures:

- *The state ranks 43rd in the nation in asset poverty.*[5] *One-fifth of Texas households have zero net worth.*
- *Texas ranks 42nd in the percentage (50.7%) of residents without a savings account.*
- *Texans have the lowest average credit scores in the nation (TX average=666; US average=692).*
- *Texas ranks 44th in the rate of homeownership.*
- *Texas households have an average net worth of $34,500, ranking 48th nationally.*

SOURCES: CFED Asset Development Report Card, 2006; CFED Assets and Opportunities Scorecard, 2007; Experian National Score Index, July 2007

Findings

The core of this report is a set of profile pages for the 25 Metropolitan Statistical Areas (MSAs) and two Metropolitan Divisions in Texas that detail expenses and necessary income across eight family types.[6] While the individual profiles offer a specific *Family Budget Estimator* for each metro area, together they reveal a set of provocative findings relevant to the state as a whole. For illustrative purposes in this summary, we highlight data for a two-parent, two-child family where 100% of the employee's and 50% of the dependent's premiums are borne by the employer.[7]

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