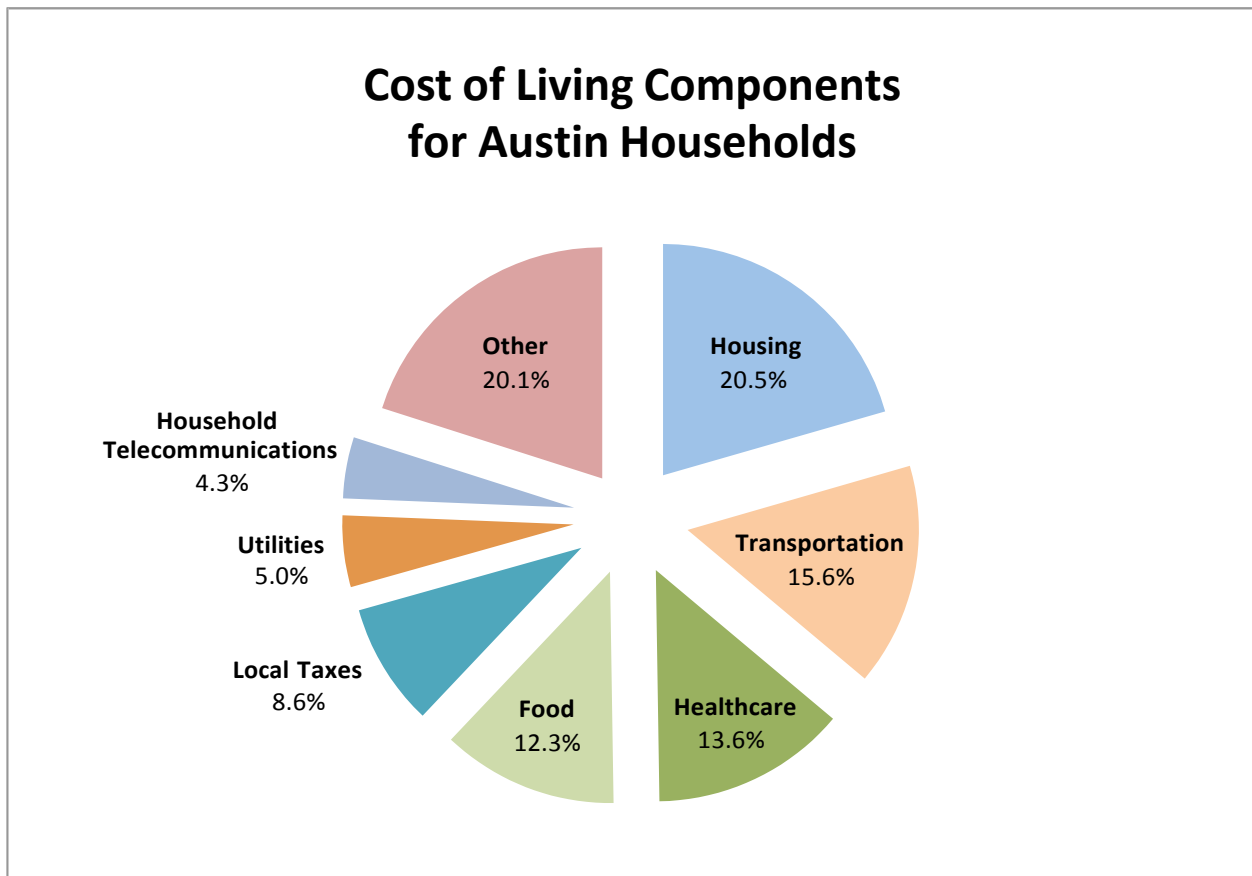


## What Does it Cost To Live In Austin?



Austin residents are feeling the increasing burden of rising household costs. Costs for many goods and services, public and private, are escalating even as incomes for most households remain relatively stagnant. Over the last two years housing costs have taken off again following the economic slump of 2008-2011. Health care, local taxes, food and utilities are becoming increasingly expensive. What can we do, especially at the local level, to restrain these cost pressures and maintain a City where people from all walks of life can live, work and play?

To get a better understanding of the costs of living in Austin we estimated the share of income that the typical Austin household spent on seven essential budget items. We focus on the average household (not just family households), because Austin has a higher than average number of residents that live alone or with roommates who are not relatives. We use *median* rather than *average* household income to reflect the typical Austin household, since averages are pulled upward by very high income households.

The household cost breakout gives us some understanding about the most important items in household budgets and their relative importance for the typical household. It is important to understand that for lower income households these living costs constitute a severe burden and force very difficult tradeoffs, especially between spending on items as essential as housing, transportation, health care and food. The escalating costs of living in Austin must also be considered in light of the growing income inequality in our nation and in our city. Cost increases for high income households can be more readily absorbed and these residents continue to have a range of choices about where to live and how to get around. For a growing number of middle and lower-income households, the rising costs of living in Austin severely limit their choices, forcing some to move out of the City. The City of Austin risks slowly evolving into a high income enclave surrounded by suburbs of low and moderate income households.

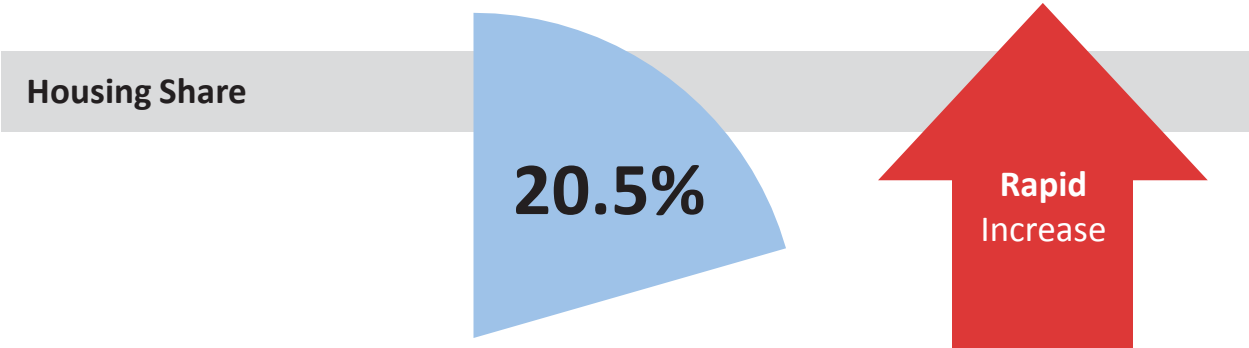
## Components of Household Costs, Austin

Median Household Income, Austin	\$51,600	
Average Household Size	2.4	
		<b>Share of Income</b>
Housing	\$10,600	20.5%
Transportation	\$ 8,036	15.6%
Healthcare	\$ 7,037	13.6%
Food	\$ 6,350	12.3%
Local Taxes	\$ 4,427	8.6%
Utilities	\$ 2,580	5.0%
Household Telecommunications	\$ 2,211	4.3%
Other	\$10,359	20.1%
<b>Total</b>	<b>\$51,600</b>	<b>100.0%</b>

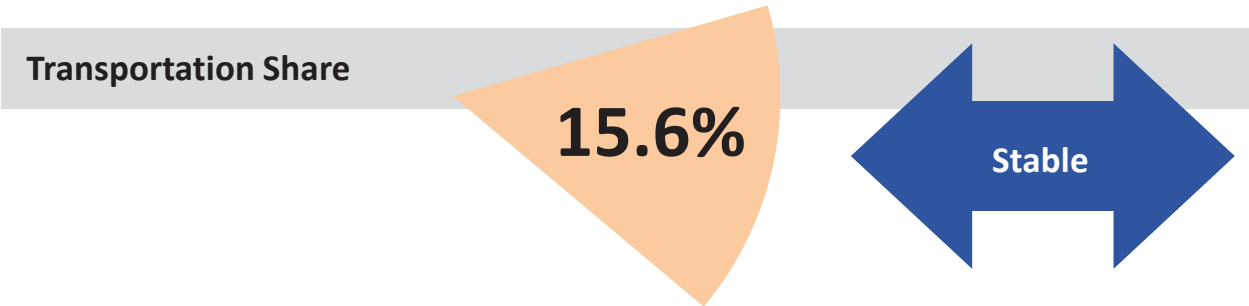
To maintain a vibrant and dynamic city, with a high degree of economic and cultural diversity, we must find new and innovative ways to limit increases in the local costs of living. We also need to find ways to consider these costs in a more holistic manner; looking for connections between different types of costs. For example, could higher housing costs in a more central location be offset by lower transportation and utility costs? Can better nutrition and more active life styles reduce our household healthcare bills?

Austin continues to have tremendous assets, including a creative, knowledgeable and engaged citizenry. People from all over the nation and the world continue to move here and enjoy our unique City. Our challenge is to find new ways to insure that people of all ages, cultures and walks of life can continue to make Austin their home.

# Household Costs



Housing is the largest budget item for Austin households. The median household spends roughly 20.5% of their income on housing, excluding local property taxes and utility costs. For low income citizens, the housing burden in Austin is severe. Over 50% of households that rent pay more than 30% of their income on housing. While housing and rental costs did not increase significantly over the 2008-2011 period, costs have been rising rapidly over the past two years. Strong demand for housing in the City of Austin will continue to put upward pressure on the cost of housing. More flexible zoning to allow for different sizes and mixes of housing, preservation and safety improvements of existing affordable rental units and City investments to expand the stock of affordable housing (such as local housing bonds) could help preserve affordable housing options for Austin residents.



The amount that households spend on private (auto) and public transportation is a significant expense for Austin residents. For low income residents transportation costs can represent a major burden, with households in the lower income strata spending 30% or more on transportation. While Austin has strong bus ridership, most Austinites depend on auto transit. Transportation costs vary from year to year based on costs of new or used cars, fuel costs, and car mileage. Increases in fuel and other costs have been, in part, offset by reductions in vehicle miles traveled by many households in recent years. The amount a household spends is also strongly influenced by location and access to alternative transit modes (public transit or non-motorized transit). Local policies can influence household transit costs by improving access to alternative transit modes, improved traffic management, and support for alternative fuel vehicles.

## Healthcare Share

13.6%

Rapid  
Increase

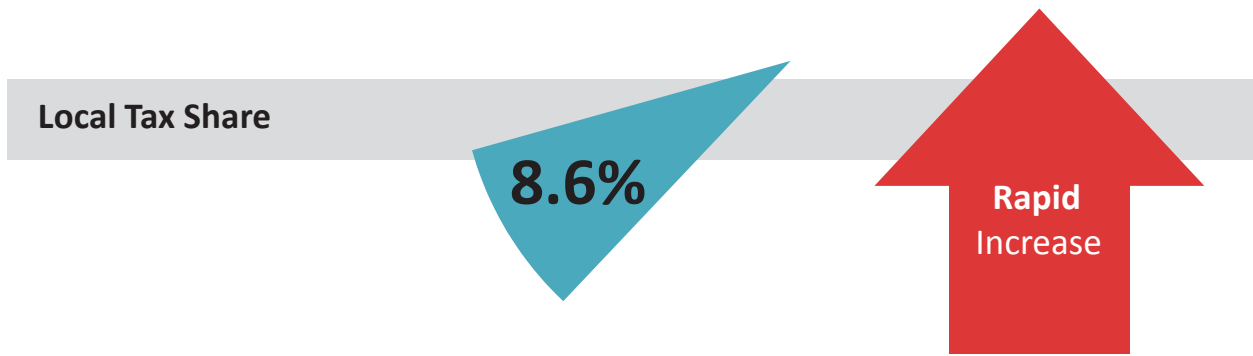
Healthcare costs place a major burden on Austin households. Employee contributions to health insurance and out-of-pocket health care expenses account for about 13.6% of household costs. Healthcare is a major burden for households and families that do not have health insurance through their employers. About 23% of Austin residents are uninsured. Health care costs have been rising faster than inflation for decades. Future trends in healthcare access and cost will be shaped by national policies such as the Affordable Care Act. However, federal programs will not address everyone's needs and state and local policies to improve access, better manage care, and provide options to prevent disease can play a role in limiting rising costs. In addition, local investments to encourage healthy diets and more active lifestyles (walking, biking, and recreation) can improve health, reduce healthcare costs and improve the quality of life for individuals.

## Food Share

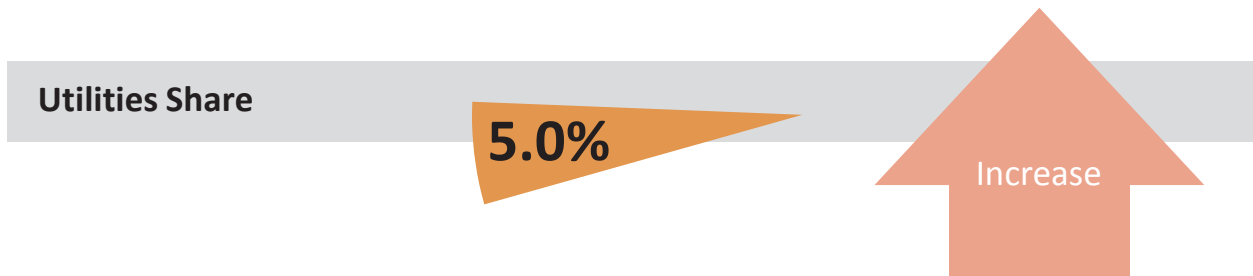
12.3%

Increase

Food purchases at groceries, markets and restaurants are a basic cost for Austin households. Food costs vary according to access to groceries and markets, factors affecting agricultural production, and transportation costs. Costs for food produced at home or in restaurants have been increasing moderately over the past several years. Food quality and access is also an important local issue. Improving access to high quality, reasonably priced food might be fostered by encouraging home and community gardening, diversifying food markets, and improving knowledge about nutritional choices.



The share of income that Austin households have been spending on local taxes has been increasing, especially over the past three years. Most of this increase is due to increasing property taxes. Property tax rates for Austin residents have increased modestly over the past three years, and the appraised value residential property has also increased in many areas of the City. Austin has the second highest overall property tax burden of major Texas cities, with only San Antonio having a higher combined burden. Compared to many cities in other states our local tax burden is not especially high. In addition, our combined local and state tax burden is low compared with cities in most states. But for low and middle-income Austin homeowners, increasing property tax bills are putting pressure on household budgets and forcing some current residents to consider moving out of their neighborhoods. Reforming the state tax code could reduce the burden of local taxes. At the local level we could raise the value of the homestead exemption, create some new exemptions to City property taxes, or reduce other taxes or fees. However, this would require identifying spending cuts for the City, School District or other government units.



Utility costs – electric, water, wastewater, solid waste - constitute about 5 percent of median household income in Austin. Utility costs have varied over the past decade based on changing fuel charges and fees. Utility rates did not increase over the past decade, but in the past year electric and water rates have gone up significantly. Utility costs vary according to fuel and water costs, rates and household consumption. Increasing utility costs have been offset to some extent by lower per- capita consumption of water and energy over the past several years. Local government can attack utility costs primarily through wise and efficient management of local utilities and by aggressively pursuing energy and water conservation measures.

## Household Telecom Share

4.3%

Stable

Internet access, cable television and telephone service have become necessities for most households. In addition the majority of households also pay for cell phone service. This “bundle” of telecommunications services cost roughly 4.3% of median household income for Austin residents. This share varies across households depending on the mix and quality of services that they purchase. Having access to these services connect households to their communities and to the world. These services are increasingly central to educational activities, access to government services and access to work and commercial activities. Low income households have difficulty affording these services and hence have poorer access to services and educational opportunities. Large private companies dominate the local telecom market. However local government can have a role in spurring completion and helping to provide access to those excluded by costs or location.

## Appendix: Methods and Sources

**Overview:** There are numerous ways that the costs of living can be estimated. Different categories of households (families, families of different sizes and income levels) are used in available studies. We chose to use the U.S. Census category of “households” as our basic category. Households include all families (people that are related living in a given residence) and also people living alone or with individuals that are not relatives. According to the U.S. Census, about 52% of Austin households are made up of families and 48% are non-family households (<http://factfinder2.census.gov/faces/tableservices/jsf/pages>). Because we wanted to capture the costs of living for all household types, we used the broader household category as our basic unit. Austin households contain 2.4 persons, on average.

We used median household income to calculate costs of living in Austin. This figure, \$51,600 (rounded), reflects the annual income that the typical Austin household makes. This value comes from the Census Department’s *American Community Survey (ACS)* (2007-2011 five year estimates - Table DP03, Selected Economic Characteristics). The median reflects the middle value for all Austin households. This is different from the average household income, which is simply the total income of all Austin households divided by the total number of households. The average value is strongly influenced by the very high incomes of a small group of households. As a result, the ACS average household income for Austin is over \$74,000, much higher than the median household income used in the charts above.

We estimated the total costs associated with each of the seven cost categories above, drawing upon national and local sources. We focused on these seven categories because these are critical costs that Austin residents must pay to live and work in our city. Because we could only cover so much at this event, we left out a number of additional cost elements that are also important. Critical cost areas such as child care costs, federal and state tax payments, savings, and more discretionary spending such as entertainment are included in the “Other” category (about 20 percent of median household income).

The sources used to estimate the seven individual cost components are outlined below. One could use other sources, methods and assumptions and arrive at different share estimates. We believe that these estimates are useful to better understand the relative magnitude and relationships of what it costs the typical household to live in Austin.

**Housing Costs:** Housing costs were estimated from the Census Department’s *American Community Survey (ACS)* (2007-2011 five year estimates - Table DP04, Selected Housing Characteristics). We used selected monthly owner costs for housing units with a mortgage and without a mortgage. We adjusted these costs of owner occupied housing by taking out an estimate of average property tax payments to all local taxing entities paid by owners with and without a mortgage (because we wanted to consider local tax burdens as a separate category). We then estimated housing cost for households that rented by taking median gross monthly rent and adjusted this by taking out an estimate of monthly utilities cost for households that rent (because we wanted to consider utility costs as a separate category). Our estimate that households spent 20.5% of median income on housing costs is lower than some estimates because we took out property tax payments and utility costs and created separate categories for these expenditures.

**Transportation Costs:** There are various ways to estimate household transportation costs, and these costs obviously vary depending on where you live in the City, your mode of travel, gas mileage etc. We wanted to get a basic estimate for an average Austin Household. We took an estimate of daily vehicle miles traveled in Travis County from the Texas Department of Transportation (9/1/2011 thru 8/31/2012) (<http://www.txdot.gov>). We divided this by the Travis County population to get a per capita VMT estimate, and then multiplied by the average household size in Austin (2.4) to get an estimate of average household VMT. We then used the \$0.55 cost per mile traveled estimate from the IRS (2012) and multiplied this by the average vehicle miles traveled per year by the average Austin household to estimate costs of Auto transit. We then added the .02 percent of personal income that the average US resident spent on public transit (U.S Bureau of Economic Analysis, 2012, Section 2 Personal Income and Outlays) to estimate total transportation spending for Austin households, \$8,037 per year.

**Healthcare Costs:** We could find no definitive source that estimated healthcare costs for Austin households. We hence used a national consumer spending estimate to derive a basic estimate for Austin households (and checked this estimate against other national sources). Our healthcare cost estimate includes employee contributions for medical insurance and out-of-pocket spending for healthcare (but does not include employer contributions, Medicare or Medicaid reimbursements and so on). It should be emphasized that different kinds of households (elderly, uninsured, those with chronic illnesses) have different healthcare cost burdens, and we are using a national average that may not capture different costs for the Austin region. To estimate the health care share of household budgets we used the average share of personal income US residents spent on health care plus insurance (US Bureau of Economic Analysis, 2012, Section 2 Personal Income and Outlays). According to this source US residents spent about 13.6% of their personal income on healthcare. We simply used this percentage to calculate the healthcare burden for Austin households.

**Food Costs:** To estimate the food cost share of median household income we again relied on national data from the US Bureau of Economic Analysis. According to this source, on average, US residents spent about 12.3% of their personal income on food and beverages purchased for off-premises consumption and on food services (restaurants and other non-household businesses). We simply used this national average to estimate the share of median household income that went to food purchases. Once again, food consumption patterns in Austin may differ from the nation and individual households would have significantly different food purchasing patterns.

**Local Tax Costs:** To estimate the share of median income that Austin households spent on local taxes, we used a variety of sources but relied heavily on the Real Estate Council of Austin's Combined Cost of Government Index (<http://www.recaonline.com>). This source estimates the cost of Travis County property taxes, Property Taxes for the Austin Independent School District (AISD), City of Austin property taxes, city share of sales taxes, some and charges and fees (related to utility transfers), sales taxes going to CapMetro, and property taxes going to Austin Community College and the Central Health Hospital District. This is a fairly comprehensive estimate of the local tax burden. We averaged their estimate of the share of family income that goes to pay these local taxes over the 2007-2011 period (equal to the estimating period for median household income from the ACS). This estimate may be somewhat high because RECA assumes that all City and CapMetro sales taxes are paid by Austin residents. Some share of these local sales taxes



are paid by non-resident commuters to Austin and tourists who make purchases from businesses located in the City of Austin.

**Utility Costs:** We used various sources to estimate the costs of electricity, gas, water and wastewater and solid waste. The primary source was Austin Energy's, "Residential Electricity Burden", November 2010, Table 3, p. 12 (<http://www.austinenergy.com>). These estimates were adjusted upward somewhat to account for the increased costs of solid waste bills. It is important to note that these estimates do not account for utility rate increases that are just now going into effect.

**Household Telecommunications Costs:** Like many of the other categories of household spending, telecommunications costs vary dramatically by household based on their preferences and use of phones, cable TV, and the internet. But increasingly, telecommunications access is becoming essential to connect households to educational activities, to provide access to government services and to work and commercial activities. We, therefore wanted to estimate the cost of having a "bundle" of telecommunications services that would provide quality access for households. To estimate this cost component, we averaged the published charges of three local telecom providers (Time Warner, Comcast and Grande) for cable TV, Internet Access and landline phone service). We then added an estimate of average household spending on cell phones and services from the Bureau of Labor Statistics, Beyond the Numbers, Vol. 1, No 15. Oct 2012 (<http://www.bls.gov/opub/btn/volume-1/pdf/a-comparison-of-25-years-of-consumer-expenditures-by-homeowners-and-renters.pdf>). In this estimate we calculate what share of median household income would be spent to acquire this set of telecom services. There are, of course, a number of households that do not purchase this full range of services.