

Effects of Minimum Wage on ECE Centers

FOR THE ALAMEDA COUNTY EARLY CARE AND EDUCATION PLANNING COUNCIL

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Overview

Disconnect

- Labor policy determined at local level
 - Localities are raising minimum wages significantly
- ECE policy determined at state level

Why is this a challenge?

- ECE is a valuable public service with net positive impacts
- Many ECE centers pay low wages
- ECE provision is labor intensive
- ECE provision structure in some areas is highly regulated

Questions to Guide Project



How many ECE workers have sub MW wages?

How much will average wages for these workers increase?

What % of total costs comes from these workers?

How much will total costs increase with wage costs?

How can centers adapt?

What policy options does the state have to maintain service?

Why is ECE important?

A strong body of evidence indicates that children's experiences early in life have large, lasting consequences

- The fact that costs are immediate while benefits are far in the future, in addition to credit constraints, mean that ECE services will be underprovided in private market.

The consequences of stress and instability early in life are especially dangerous

Many evaluations of preschool programs have shown significant and sometimes lasting effects.

- Evaluations of the Perry Preschool program showed long term effects worth \$8 for every \$1 of cost

Childcare is also necessary for all parents to work, which is increasingly necessary due to rise of single parent families and stagnation of wages

- Research shows positive impacts of subsidized child care on female labor force participation

Future and Proposed MW Increases in CA and 2014 CA Childcare Worker Median Wage

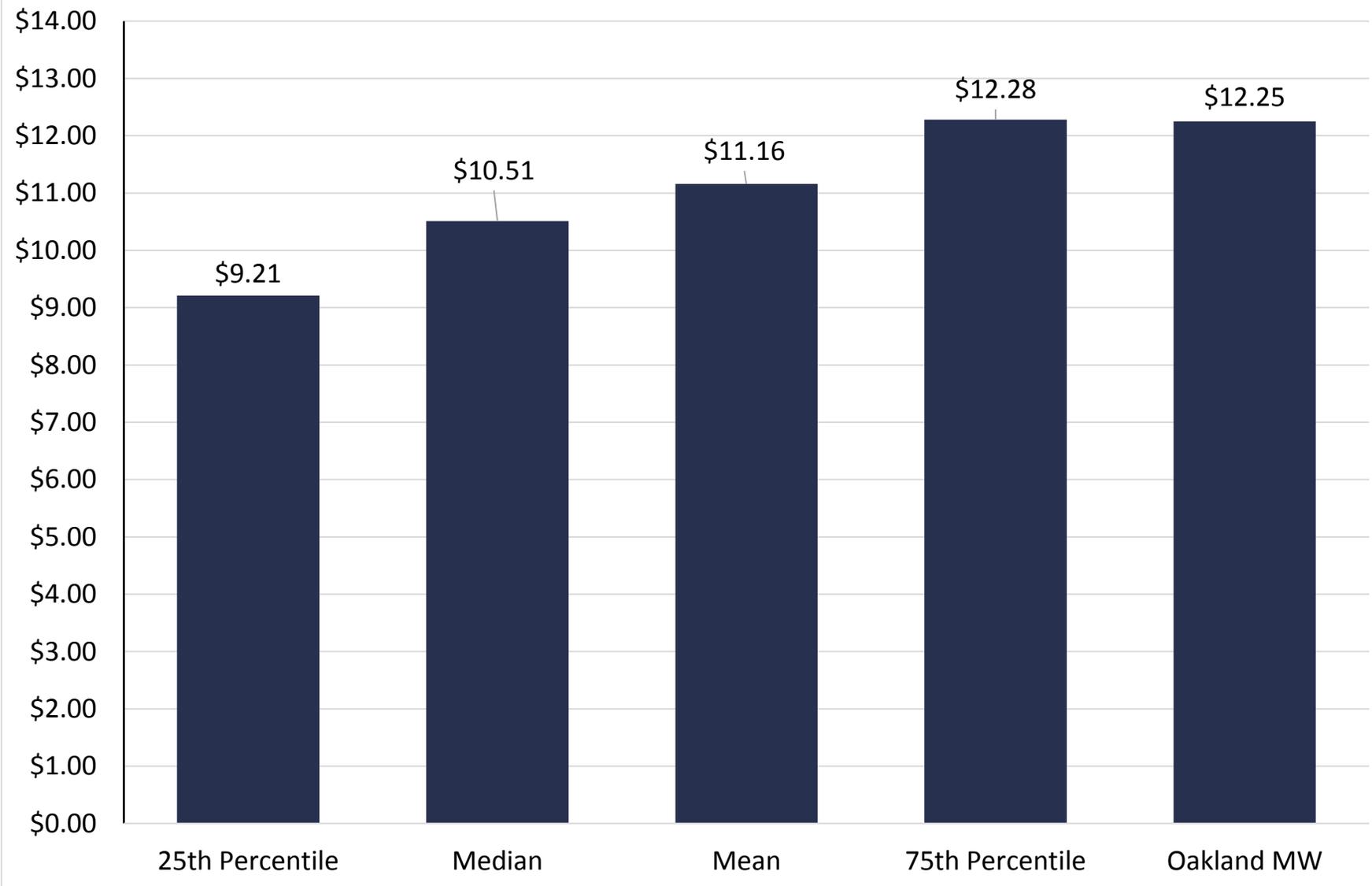


Childcare workers defined as those who “Attend to children at schools, businesses, private households, and child care institutions. Perform a variety of tasks, such as dressing, feeding, bathing, and overseeing play”, excluded preschool teachers

Current CA Minimum Wage Landscape

Locality	Current MW	Future (proposed) MW increases
Oakland	\$12.25	Increase with inflation
Emeryville	\$12.25 (<small>\$14.44 for large orgs</small>)	\$13 on 7/16, \$14 on 7/17, \$15 on 7/18, \$16 on 7/19
San Francisco	\$11.00	\$12.25 on 5/15, \$13 on 7/16, \$14 on 7/17, \$15 on 7/18
San Jose	\$10.30	
Berkeley	\$10.00 (<small>living wage \$13.71</small>)	\$11 on 10/15, \$12.53 in 10/16
San Diego	\$9.75	\$10.50 on 1/16, \$11.50 on 1/17
California	\$9.00	\$10 on 1/16 (Sen Leno proposal to increase to \$11 on 1/16, \$13 on 1/17)
Los Angeles	Use state MW	\$10.15 on 7/16, \$12.00 on 7/17, \$13.25 on 7/18, \$14.25 on 7/19, \$15 on 7/20

Wages of Childcare workers in Alameda County, 2014

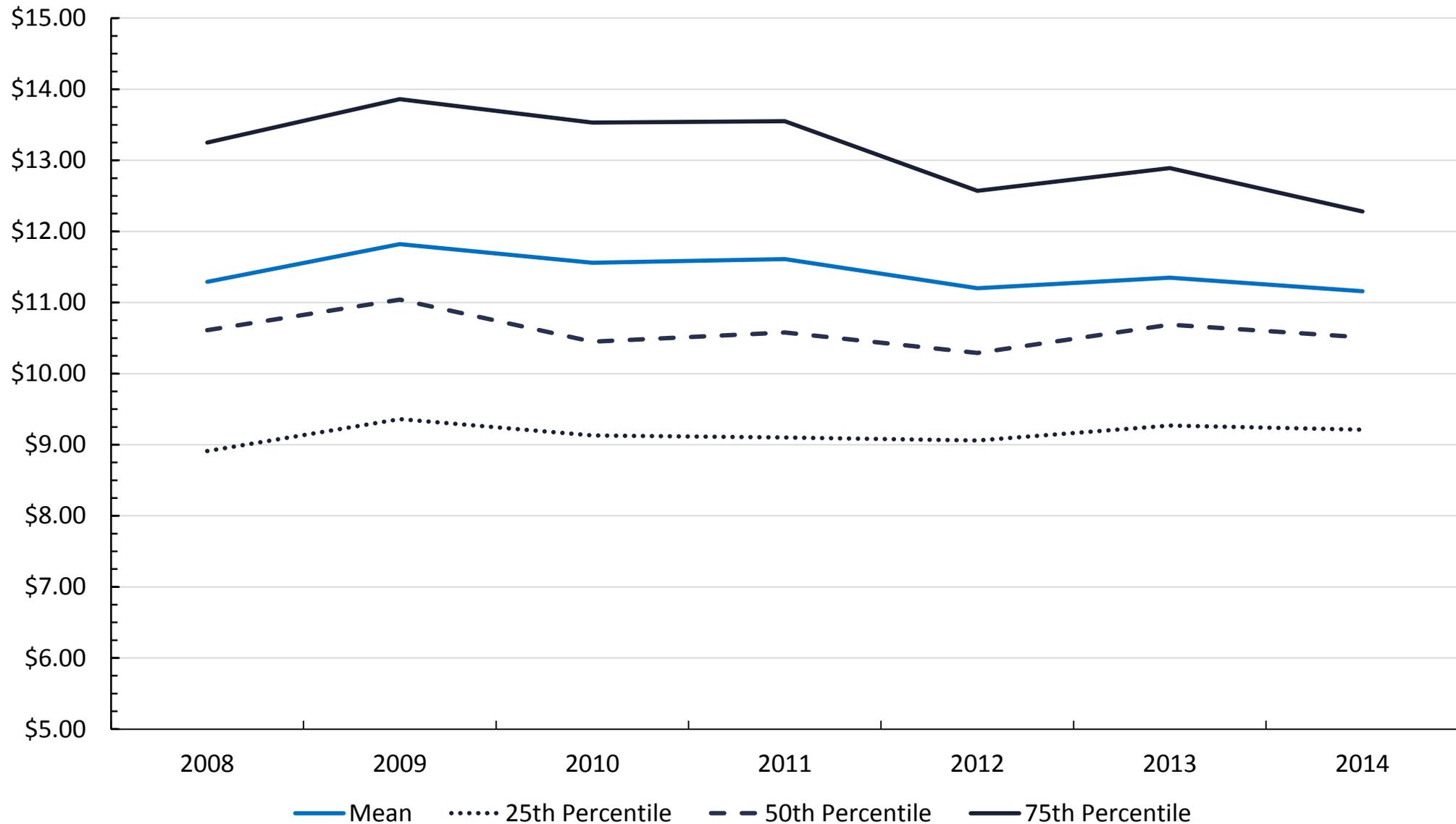


Information on wages difficult to find. Job classifications do not always align

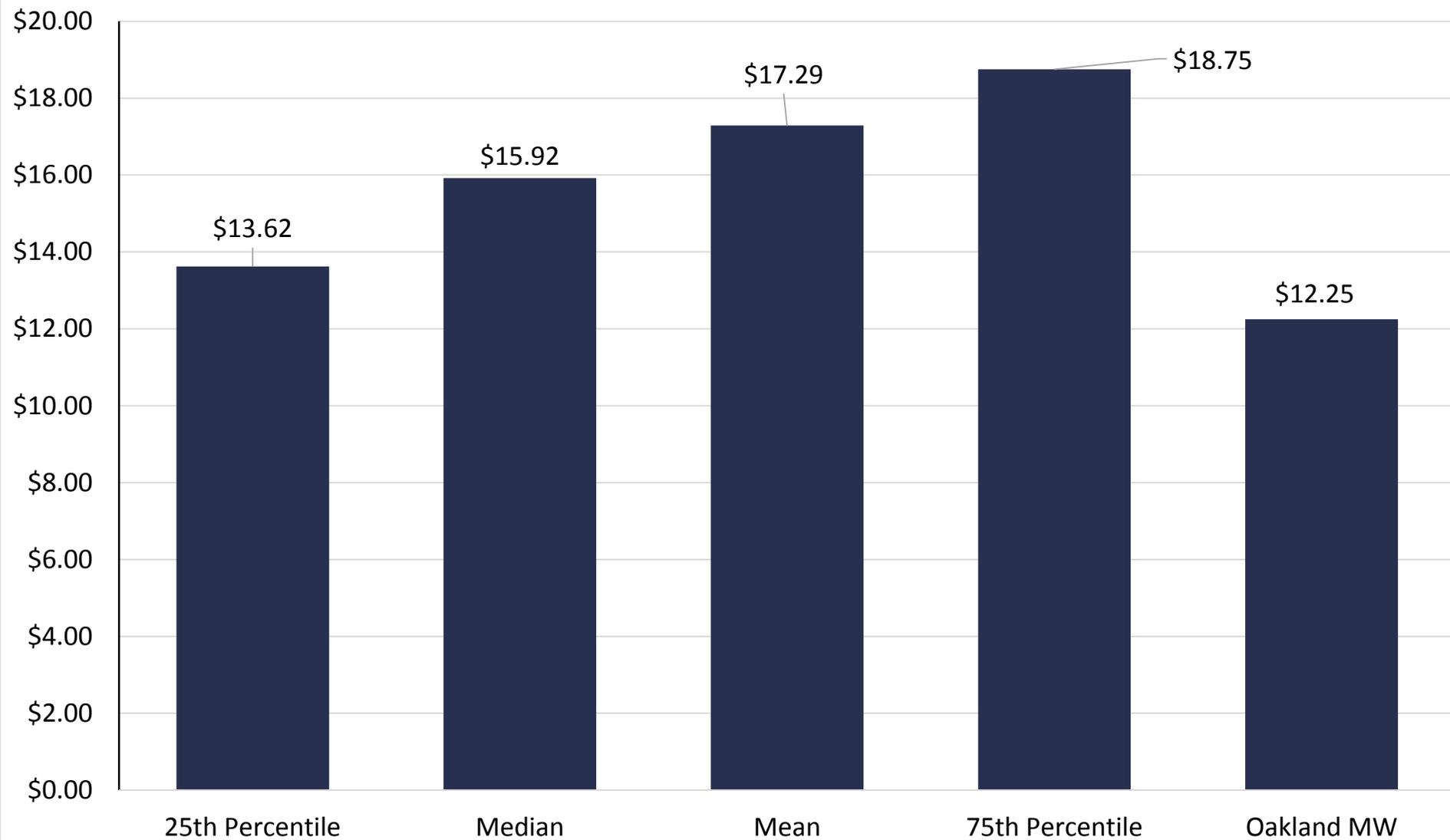
In California the mean wage for “childcare workers” was **\$11.95** and median **\$11.14** in 2014

Nationally, Teaching Assistants in Child Day Care Services made \$21,700 annually, or **\$10.43** per hour

Hourly Wage of Childcare Workers in Alameda County, 2008-14



Wages of Preschool Teachers in Alameda County, 2014



ECE Wages in Alameda County

Interviews with individual ECE center directors found similar wages

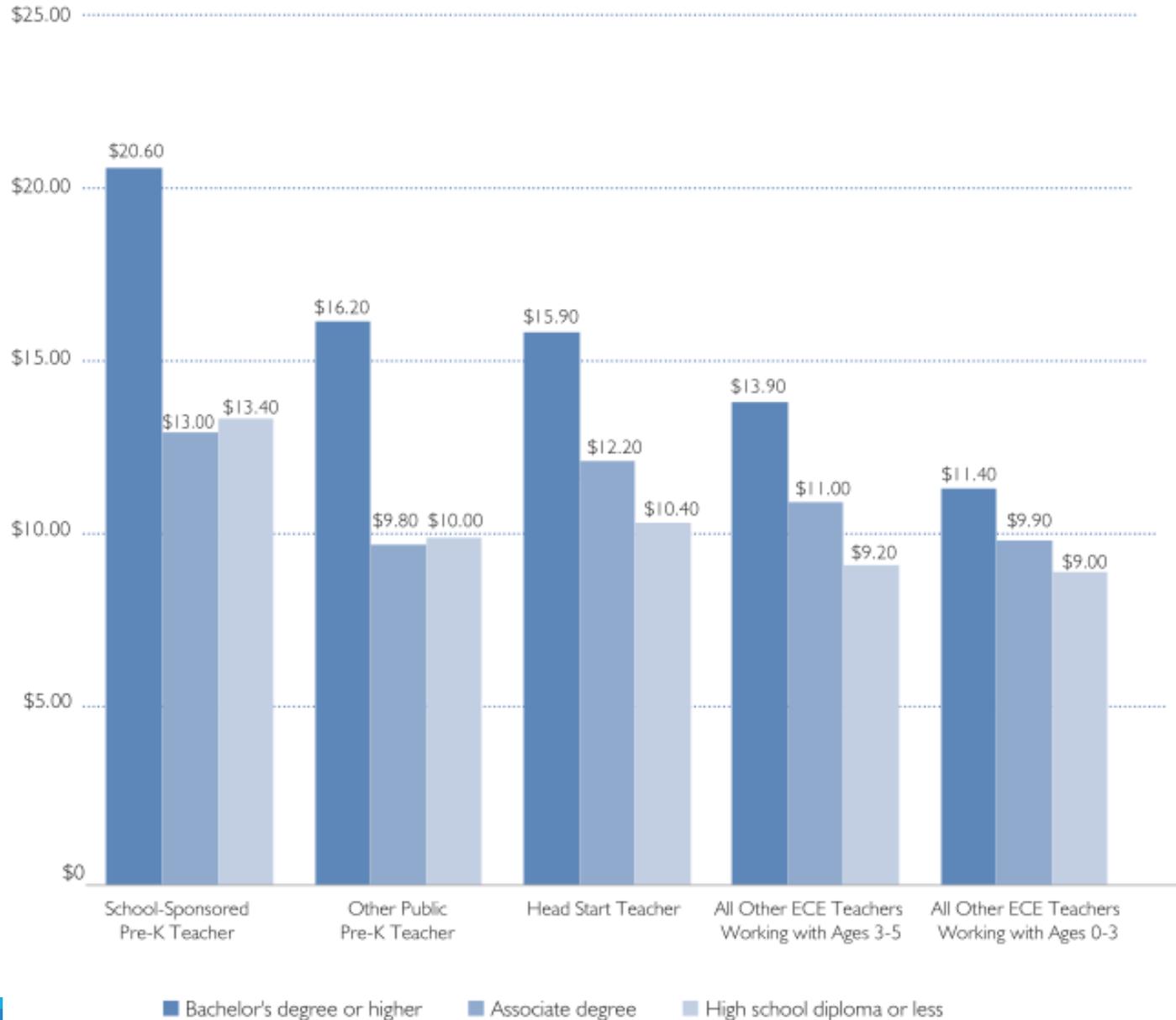
- Title 5 contractors paid lower wages than unsubsidized providers
- Average wage for Title 5 contractors
 - Assistant teachers ~ **\$11.50**
 - Teachers ~ **\$13.50**
- Average for other providers ~ **\$16.50**

Range of benefit costs, mostly around \$4,000 per year

- Vast majority of benefits are healthcare

Caveat : Averages for a very small number of centers. Only centers interviewed

Median Hourly Wages of Center-Based Childhood Teachers, by Degree Level, 2012



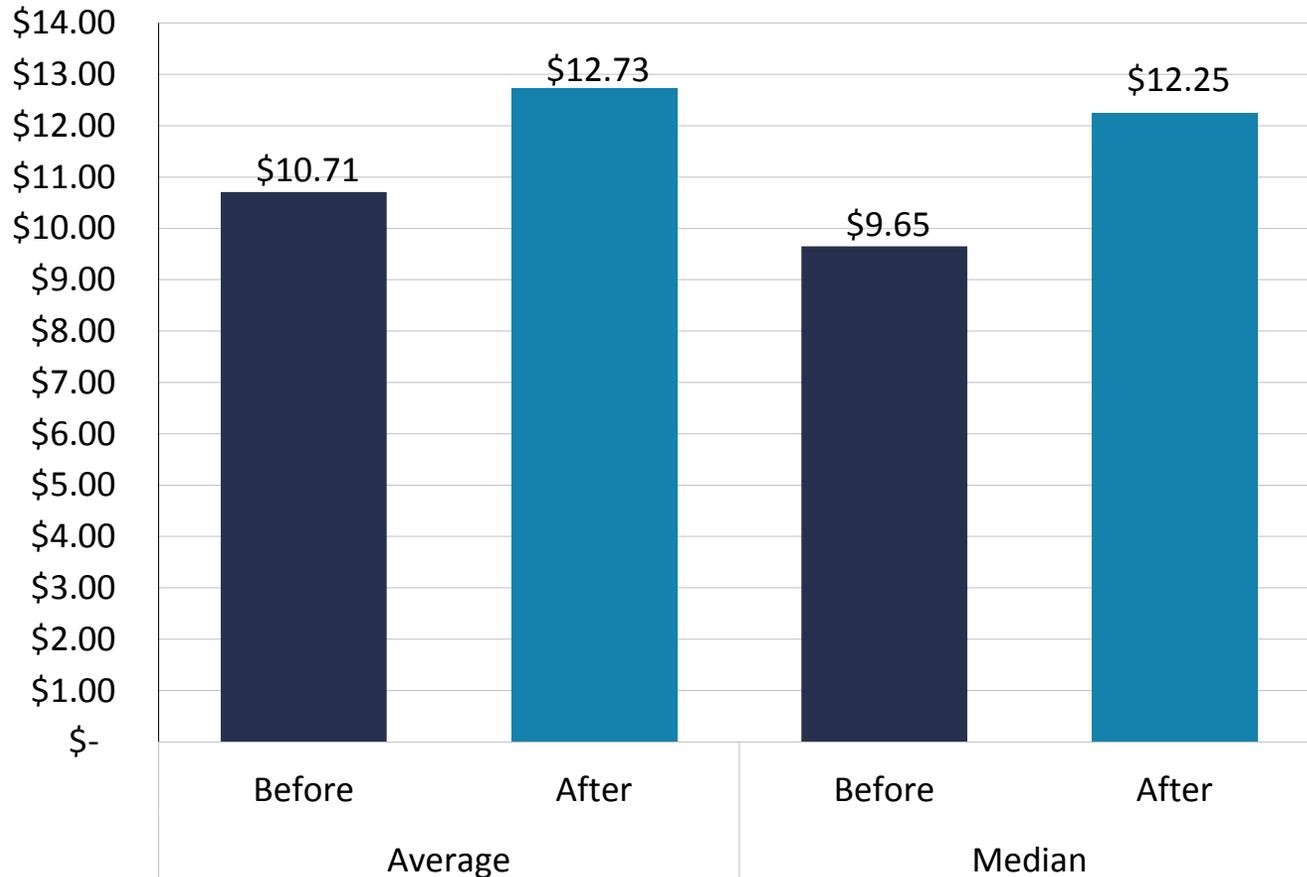
Median Wage for Teachers Working with Ages 0-3, Nationally

- Bachelors : **\$11.40**
- Associate : **\$9.90**
- High School : **\$9.00**

Source: Whitebook, M., Phillips, D., & Howes, C. (2014). Worthy work, STILL unlivable wages: The early childhood workforce 25 years after the National Child Care Staffing Study. Berkeley, CA: Center for the Study of Child Care Employment, University of California, Berkeley.

Impact of MW on ECE Wages

Projected Childcare Worker Wages Before and After Oakland
3/15 \$12.25 Min Wage Increase



Mean childcare workers wages increase **19%**

Full-time, full-year increases in annual salary of ~ **\$4,200**

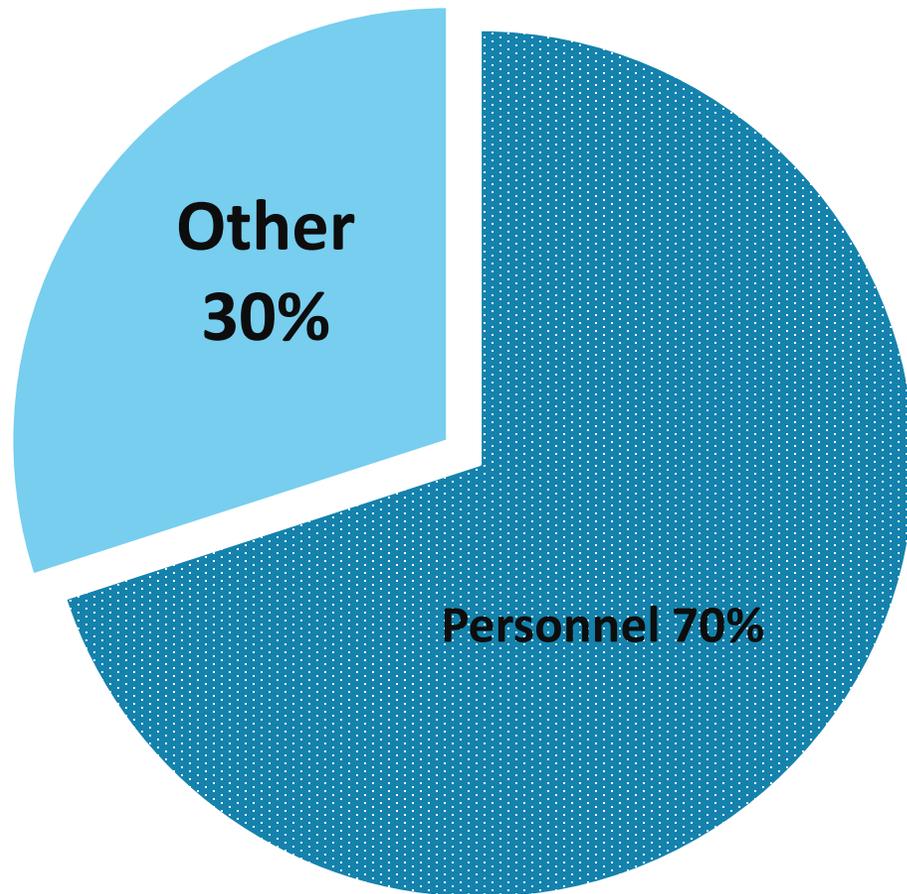
Increase in teacher wages difficult to project

- Depends on how centers adjust pay scale
- Current uncertainty amongst center directors

Other staff salaries (cook, admin, custodian) could increase as well, though harder to model, lacking accurate wage data

- Around 1 cook per 60 children

Cost Structure of ECE Centers



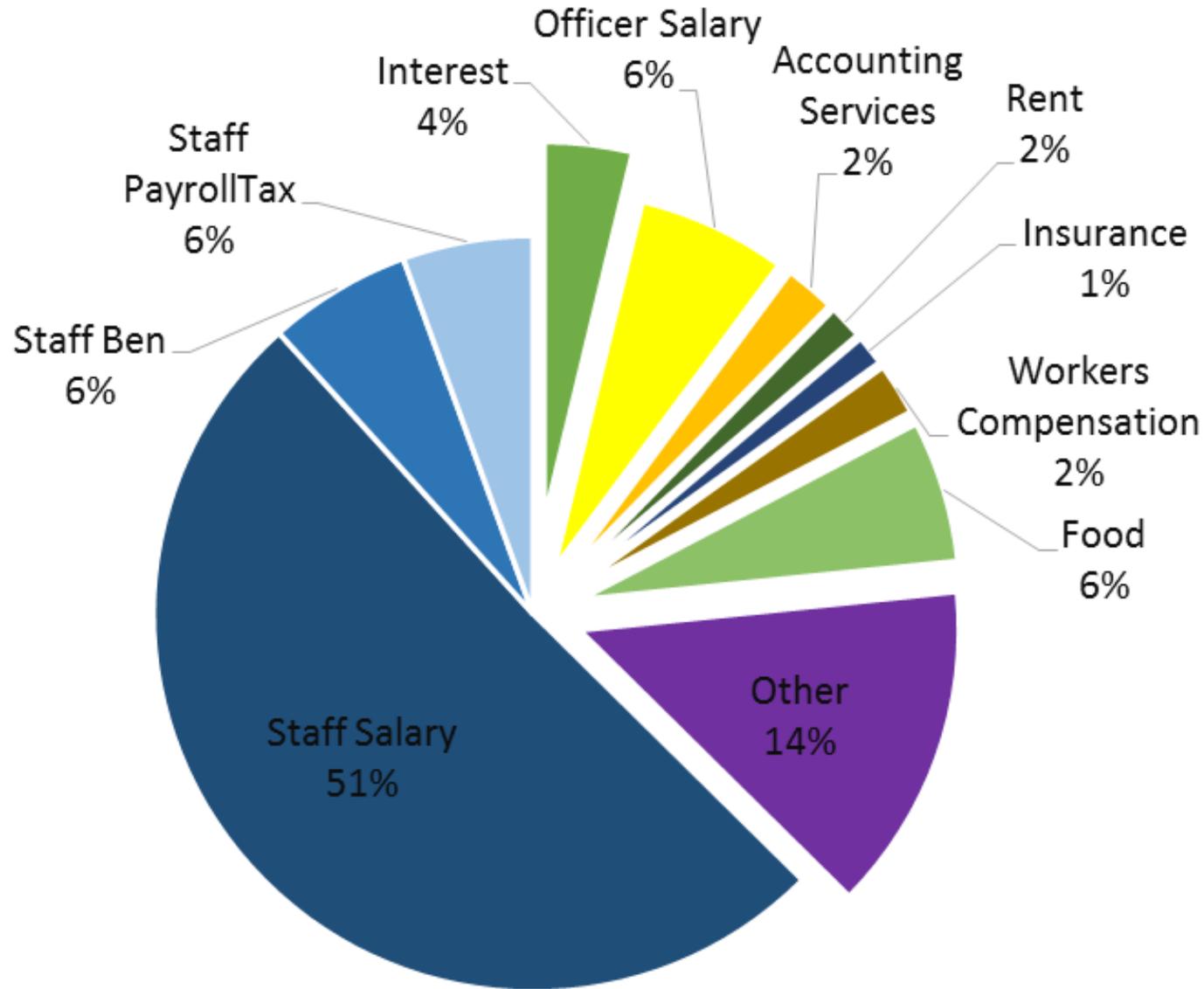
- Non-officer personnel costs are ~ **65-75%** of total costs
- Most of which is teaching staff costs, but also support staff (cooks, custodian, administrative)
 - Assistant teachers account for ~ 40-50% of total costs

Variation and uncertainty in estimate.

- One estimate as low as 50%

Substantial non-personnel costs include:

- Rent/maintenance
- Food
- Workers compensation
- General liability
- Utilities
- Contract services (ex: accounting)



Example ECE Center Costs

This center serves:

- 18 Toddlers
- 50 PreK

This center has lower wages and is low cost, with a low % taken up by personnel cost

Effects of MW on ECE Centers

A hypothetical center example

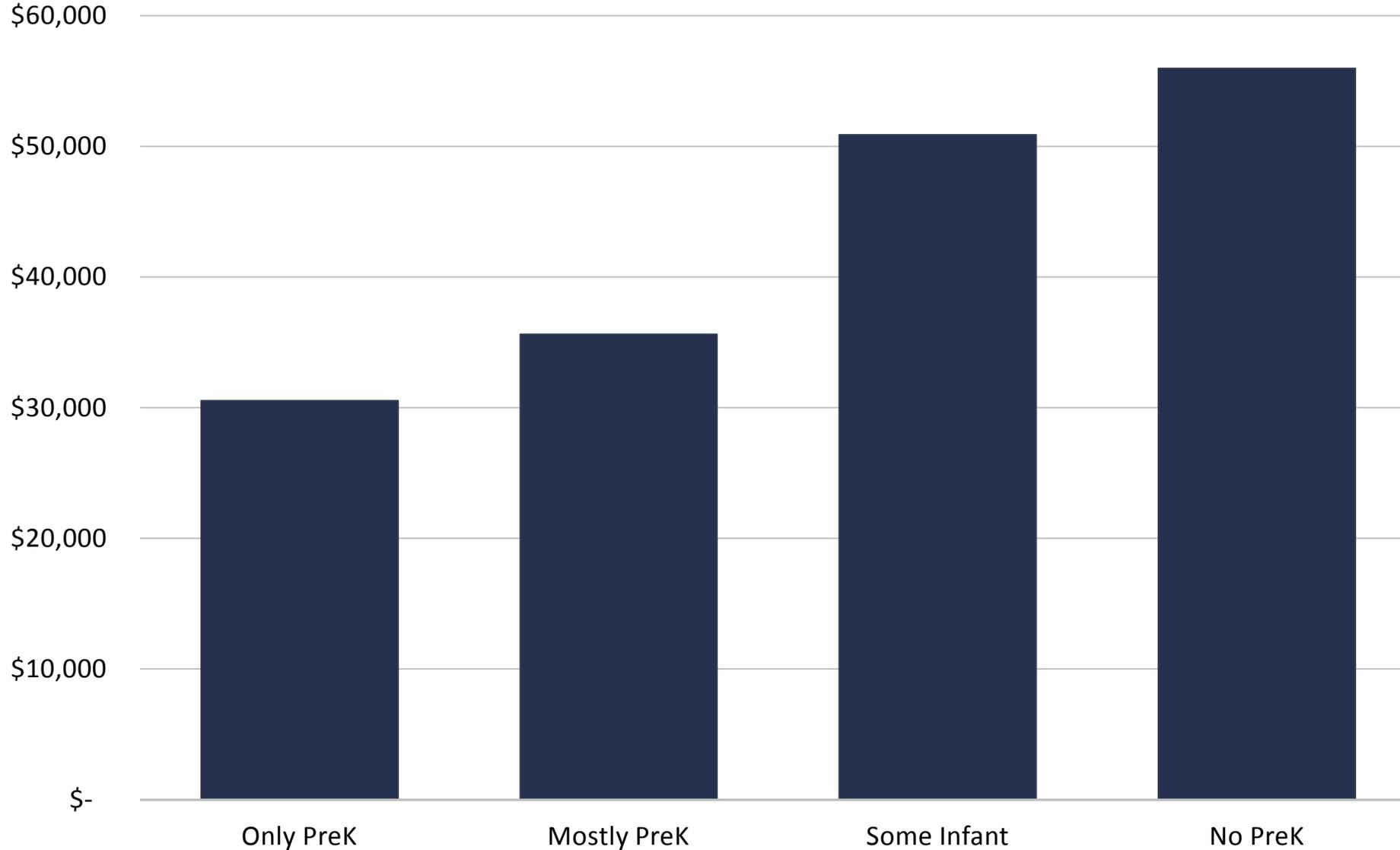
- Open 9 hours per day, 250 days per year
- 10 days of substitute per teacher per year
- Serves 16 Toddlers and 48 PreK
- Mean Teacher wage stays at \$15
- Mean Assistant Teacher wage increase from \$10.71 to \$12.73
- Benefits of \$4000 per year for teaching staff
- Assume teaching costs are 65% of total costs

Total costs will increase ~7% from \$530,00 to \$562,000. SRR funding is \$661,000

Switch one classroom to Infant, so 18 Infant, 16 Toddlers, 24 PreK

- Total costs increase ~8% from \$669,000 to \$720,000. SRR funding is **\$723,000**

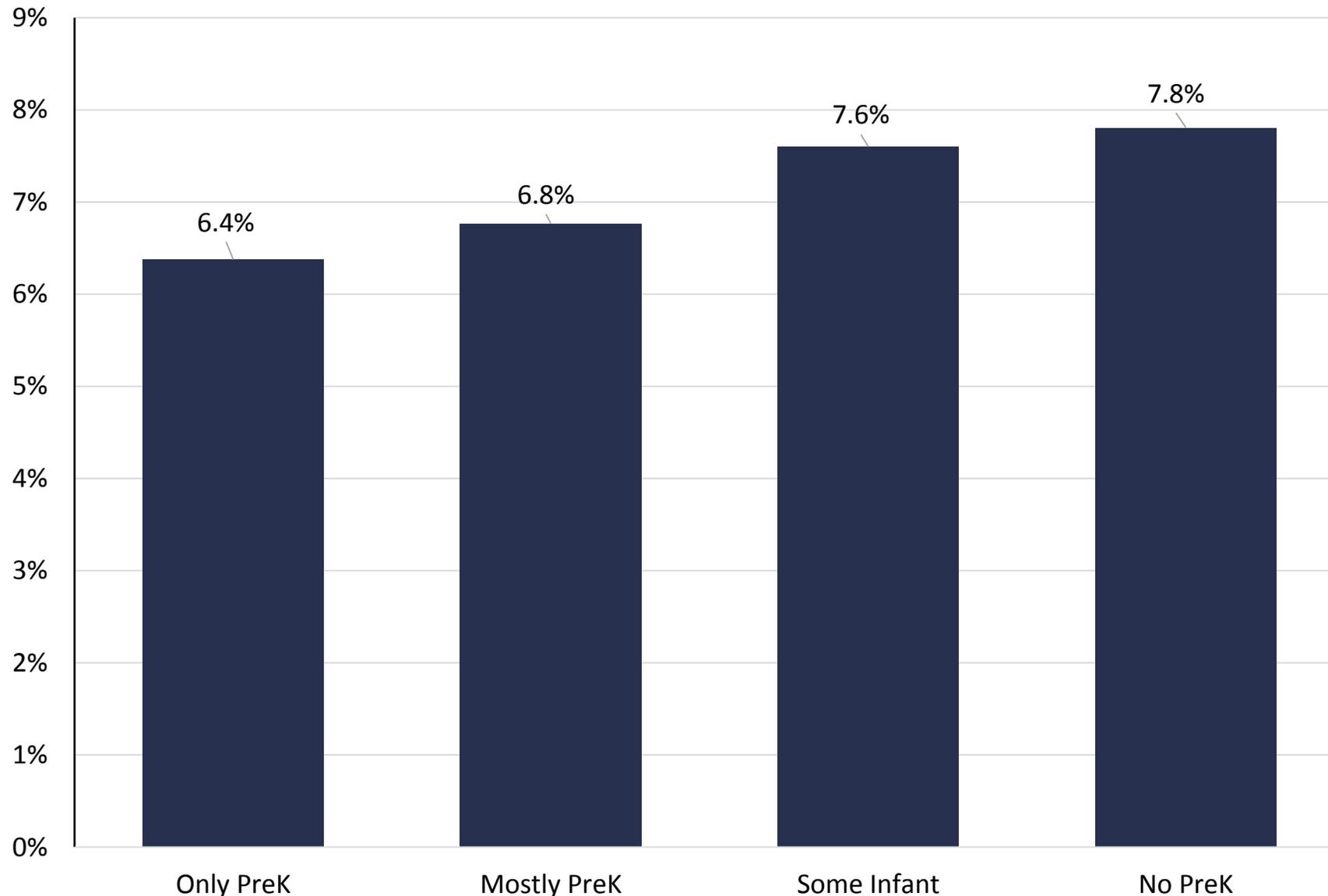
Cost Increase Projections if Teaching Costs are 65% of Total, by Center Type



Child age makeup scenarios

- **Only Prek**
 - 72 PreK
- **Mostly Prek**
 - 48 PreK
 - 16 Toddler
- **Some Infant**
 - 18 Infant
 - 16 Toddler
 - 24 PreK
- **No preK**
 - 18 Infant
 - 32 Toddler

Projections of Percentage Cost Increases, Teaching Staff Costs 65% of Total



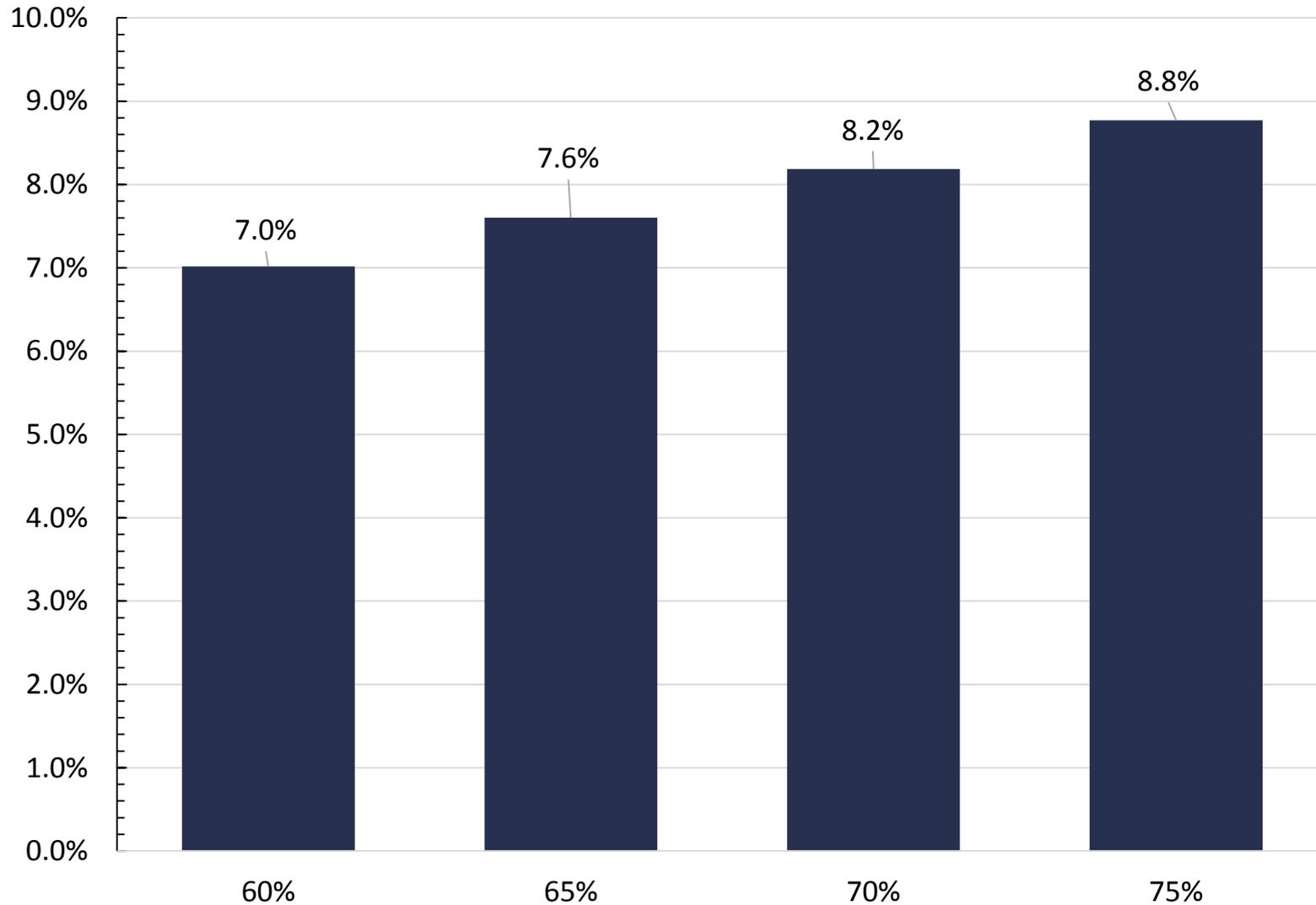
ECE centers which serve infants will be hardest hit

ECE centers should enroll a higher percentage of PreK children to spread costs

If we assume assistant teacher salaries are currently \$11.16

- Center costs increase ~ 5-6%

Increase in costs for centers in Some Infant Scenario, by percentage of costs from teaching staff



Assumptions about what percent of total costs are made up of teaching staffing costs is very important to determining operating margin

The higher the percentage of costs which come from teaching staff the larger the impact of minimum wage increase

Effects of Minimum Wage on ECE Centers

Impact on those whose wages are currently above new MW, “ripple effect”, though uncertain as Oakland’s one step **36%** increase unprecedented

- A large “ripple effect” will boost 6-8% effect to 10%

Less wage differential between Assistant Teachers and Teachers reduces incentive to increase education

Shift classroom space from toddlers and infants to PreK

Shift staff from full to part-time to reduce benefits costs

Reduce hours per day or days per year

Paths forward for ECE Policy

Increase Standard Reimbursement Rate

- No COLA between 2007-08 and 2014-15 means SRR is **\$4.69** less today
- Beyond **1.54%** COLA increase in Governor’s 2015-16 Budget
- 5% increase = \$58.7 million, build on 5% in increase in 2014-15.
- Potentially only in high cost counties
- Shift from SRR to RRR (RRR is a ceiling)

Specific aide to counties with high MW targeted to wage augmentation

Tie SRR to function of difference in MW and state median wage

Rates, full-time per day			
	0-18 months	18-36 months	3-5 years
Standard Reimbursement Rate	61.37	50.54	36.1
	0-24 months	2-5 years	
Regional Reimbursement rate for Alameda	82.91	63.04	

Paths forward for ECE Policy

Number of Children	Number of Fulltime MW Earners	Family Income under Old MW	Family Income under New MW	Income Ceiling	Fulltime Fees Under Old MW	Fulltime Fees Under New MW
1	2	\$37,440	\$50,960	\$42,216	\$3,156	<i>Ineligible</i>
1	1	\$18,720	\$25,480	\$39,396	0	\$1,140
2	2	\$37,440	\$50,960	\$46,896	\$2,340	<i>Ineligible</i>
2	1	\$18,720	\$25,480	\$42,216	0	\$888
3	2	\$37,440	\$50,960	\$54,408	\$1,332	\$4,056
3	1	\$18,720	\$25,480	\$46,896	0	0

Increased funding paid for by government savings due to increased wages

- Higher wages will mean more fees and fewer families eligible
- Less spent on public assistance for child care workers
- Nationally **46%** of child care works on public assistance

Paths forward for ECE Policy

Focus on efforts to reduce cost

- Reduce reporting burdens
 - Move to annual family eligibility and fee determination
 - Create a centralized intake option, central waitlist
- Pooling of back office resources
- Caveat: Difficult to reduce costs significantly as teaching costs are large %

Stability in service provision and service quality are important for wellbeing of children and should be the focus of policy makers

- Turmoil in ECE industry would be a dangerous outcome

Policy Recommendation

Policy Recommendation

- Increase SRR by 5% immediately and increase annually with inflation
 - More broad based support than targeted increase
 - Will still require centers to find efficiencies to accommodate MW
 - Will make ECE throughout CA ready for further MW increases
 - Provide stability for children
- The state should reduce administrative burden, but administrative efficiencies cannot close budget gap