BRINGING CHILD CARE POLICY IN LINE WITH THE NEW MINIMUM WAGE

SUCCESSFULLY IMPLEMENTING MINIMUM WAGE LAWS FOR CHILD CARE PROVIDERS AND FAMILIES

January 2017

Increasing the minimum wage is the right thing to do, but we must understand and address its very real consequences for parents, child care businesses, and the economy that relies on the current and future workforce that child care supports.

When Governor Brown signed Senate Bill 3 in April of 2016, he took a historic step on behalf of California's low-wage workers. By raising the minimum wage, incrementally, to $15 an hour by 2022, SB 3, together with more aggressive local wage initiatives, will accord greater dignity and support to millions of California's working families.

Broad-based Input for Implementing Minimum Wage Increases In Child Care:

On October 24, 2016, the California State Advisory Council on Early Learning and Care (CSAC) held a meeting to investigate and make recommendations regarding implementation of minimum wage increases in child care and early education. Thereafter, the CSAC unanimously supported a motion to have a Task Force bring a report and recommendations to the January 2017 SAC meeting. The Minimum Wage Increase Task Force thereafter held three further public input sessions, on November 16, 2016 in Sacramento, December 1, 2016 in Oakland, and December 15, 2016 in Los Angeles as well as soliciting and receiving relevant information throughout a three month period. More than ninety organizations and individuals, including parents, family child care providers, centers, after school programs, state administrators, local planning council leaders, union leaders, advocates, and others, provided invaluable testimony and materials on specific challenges faced, and concrete solutions the state might pursue. This report is the result of that input.

Report Prepared for the California State Advisory Council for Early Learning and Care by the Minimum Wage Increase Task Force

THE CHALLENGE

Parents lose child care that they can't afford. Child care is unusual in the degree to which its cost stems from low-wage labor, and child care is already unaffordable for many families. Many low-income families have no stable child care, in part because they are among the eighty-percent of those eligible whom our state child care programs do not reach. Hundreds of thousands more would not, if they could not participate in California's child care programs. Without changes to radically outdated income thresholds in these programs, an act to support working families' finances could have the reverse effect. A small increase in hourly wage can eliminate child care of much greater value:

"I tried to refuse the raise, but it was take the promotion or leave the job. We're now faced with thousands of dollars of child care costs, more than half my new take home pay, so my wife will need to drop school to take care of our two kids."

—J.M., security officer, Los Angeles

"Wages have becomes a disincentive for teachers to continue or aspire to complete higher education because their salary is so close to that of the teacher assistants – with a lot less work. Career progression is halted."

—S.S., executive director,
child development center, Long Beach

Experienced child care providers leave the field. State reimbursement rates constrain pay in publically-funded child care, whether infant-toddler, state preschool, or after-school education and safety programs. Currently, rates are divorced from increases in minimum wage law, trapping child care programs in a fiscal vise. When minimum wage laws increase the pay for new staff, frozen rates force an unfairly minimal pay differential on experienced staff. This wage compression forces providers out of the field. Large programs that raise staff qualifications report that they lose highly trained staff to Costco and other retail employers because of pay and benefits.

Child care businesses can't make a profit and may close. Child care providers, a majority of them women of color, work very hard, often for far less than $15 per hour. Child care centers and family child care homes consistently express a desire to pay $15 or more per hour, but know that many families paying out of pocket could not cover the costs of their doing so. That leaves providers in big trouble.

"My profit margin is already so thin. I'll have to let two of my assistants go, which means I have to cut my number of kids. I love those kids and they love me, but after thirty years, I'm looking for another job, out of the child care field."

—N.M., large family child care provider, Oakland

THE SOLUTION: PROPOSALS FOR BUDGET YEAR 2017 - 2018

1 Reform Eligibility Standards To Address the Impact of Minimum Wage Increases

- Use current income data for eligibility standards, with opportunity for families to avoid child care affordability cliff.
- Protect public child care eligibility for at least 12 month periods, so child care businesses can better budget for wage increases, and parents can better plan for child care needs and expenses.
- Address ability of state preschool programs to earn contracts and budget for wage increases by allowing greater flexibility about serving children turning three and children who are four when three-year-olds are not available.

2 Align Child Care Reimbursement and Minimum Wage Increases

- Set a minimum wage increase triggered adjustment for contracted program rates for title 5, state preschool, and after school education and safety programs.
- Maintain use of current survey data for regional market rate, to better align with rising costs of minimum wage increases.

3 Make Child Care Funding More Flexible and Predictable To Allow Contracted Programs To Budget for Wage Increases

- Allow grants or other earned-contract alternatives as method to reduce reversion and allow more flexible and predictable budgeting.

4 Utilize Existing and Projected Resources to Pay for These Proposals

- Re-allocate unspent ("reversion") funds appropriated for child care (roughly $132 million in 2014-15) to cover costs.
- Set aside a portion of reversion dollars to establish a locally matched innovation pool for programs that guarantee that money will be spent to increase child care worker pay.
- Utilize a portion of the future marijuana tax revenue, with mechanism to ensure that funding addresses impact of minimum wage increases.

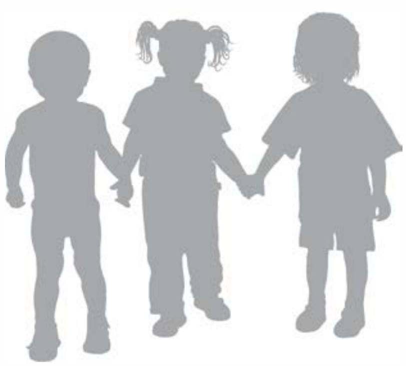
5 Produce Cost Estimates To Support Implementation of These Proposals

- Ask Department of Finance to work with Education, Social Services and others with relevant information to create cost estimates necessary to implement these proposals.

APPENDIX A: CHART OF MINIMUM WAGE CHALLENGES BY CHILD CARE PARTICIPANT

PARTICIPANT	FUNDING SOURCE	CHALLENGE
PARENTS	**Private paying**	• Rising cost
	Voucher program (AP)	• Rising income threatens continued eligibility • Rising costs affect affordability of family fee schedule • Rising costs increase co-payments
	California Department of Education (CDE) contract program (Title 5/CSPP)	• Rising income threatens continued eligibility • Rising costs affect affordability of family fee schedule (except part day CSPP, where no fee)
CHILD CARE CENTERS	**Private paying**	• Increased costs, but do not receive state reimbursement, so cannot address through RMR/SRR
	Some families pay through Voucher program (AP)	• Impact of rising family income on continued family enrollment • Lag to fill vacancies when families exceed income limits results in un-earned contract funds/reversion for APs • No defined connection between RMR and minimum wage, or cost of providing care • Must charge private paying families at least rate amount to benefit from rate increases; penalizes rural and lower income communities
	CDE (Title 5/CSPP) contract	• Impact of rising family income on continued family enrollment • Lag to fill vacancies when families exceed income limits results in un-earned contract funds/reversion • Staff vacancies due to wage competition → un-earned contract funds/reversion • Additional staff qualifications → exacerbates wage compression, turnover • SRR insufficient/no connection with minimum wage, other costs • Must charge private paying families at least rate amount to benefit from rate increases; penalizes rural and lower income communities
	Head Start	• Impact of rising family income on continued family enrollment (federal, but modification poss.) • In HS/Title 5 programs, 12-months of HS but not of Title 5 means absorb costs if lose Title 5 eligibility • Compensation via federal grant • Wage compression

APPENDIX A: CONTINUED

PARTICIPANT	FUNDING SOURCE	CHALLENGE
AFTER SCHOOL/ EXPANDED LEARNING PROGRAMS	**Private paying**	• Increased costs, but do not receive public reimbursement, so cannot address through increased rates
	After School Education and Safety(ASES)/ 21st Century Community Learning Centers (CCLC)	• Rate, frozen since 2006, is insufficient/no connection to minimum wage or cost of care • Lump sum of $550 million to set up programs in 2006 hasn't changed, but population and costs have gone up • Wage compression is a big issue
FAMILY CHILD CARE HOMES	**Private paying**	• Licensees not recognized as employees under minimum wage laws • High cost to parents/low take-home pay → can't absorb or raise fees → reduced hours and/or capacity
	Some families pay through Voucher program (AP)	• Licensees not recognized as employees under minimum wage laws • Impact of rising family income on continued family enrollment • Lag to fill vacancies when families income out results in un-earned contract funds/reversion (APs) • No defined connection between RMR and minimum wage, or cost of providing care • Must charge private paying families at least rate amount to benefit from rate increases; penalizes rural and lower income communities
	CDE (Title 5/CSPP/FCCHEN) contract 	• Licensees are not recognized as employees under minimum wage laws • Impact of rising family income on continued family enrollment • Lag to fill vacancies when families income out results in un-earned contract funds/reversion • Staff vacancies due to wage competition → un-earned contract funds/reversion • SRR insufficient/no connection with minimum wage, other costs • Must charge private paying families at least rate amount to benefit from rate increases; penalizes rural and lower income communities. Additional staff qualifications → turnover
FAMILY FRIEND NEIGHBOR	**Private paying**	• Low parent-employer reporting limits utility of wage increase
	Family pays through voucher program	• Not recognized as state employees • Radically sub-minimum wage reimbursement under RMR ceilings; subsidized families unable to meet employer minimum wage requirements • Exacerbates wage competition

APPENDIX B: TOP 10 CHALLENGES OF IMPLEMENTING MINIMUM WAGE INCREASES IN THE CALIFORNIA CHILD CARE ECONOMY

1 Costs stem from workers who earn less than $15/hour, so increasing the minimum wage to $15 significantly increases costs.

Child care businesses derive most of their costs from pay for employees, who care for the children. Labor costs account for at least 64% of total function costs—nearly double the 35% of operating costs attributable to labor in fast-food restaurants. In 2015, the median wage for California's child care workers was $11.61 per hour, a one percent decrease since 2010. The median wage for preschool teachers, $15.25 per hour, had not changed since 2010.

2 Traditional responses to wage increases are not available in the child care economy.

State staff ratio laws rooted in basic safety concerns constrain "output." They prevent, for example, a family child care provider from choosing to accept fifty, instead of twelve, two-olds into her home, or a licensed child care center from serving fifty instead of twelve children, without also adding staff. Automation cannot substitute for basic child care work (no robot infant care). Increased money for wages requires increased fees.

3 Increased costs cannot be passed onto families, who often cannot afford even the current cost.

One year of infant care in California costs nearly one-third more than a year of full-time, in-state public college tuition. Even for families who earn above the State Median Income (SMI), child care costs exceed the child care affordability threshold of 10% of family income established by the federal Department of Health and Human Services.

4 Families in public child care programs who receive small wage increases face a child care affordability cliff.

Families can participate in California's child development programs only if they earn less than 70% of the SMI in use for the 2007-08 fiscal year. On January 1, 2017, when the minimum wage rose to $10.50 per hour for workers at businesses with 26 or more employees, families with one child and two parents working full time lost income eligibility for state child care programs, while earning a pre-tax monthly income of only $3,640. Their child care expenses jumped by hundreds of dollars per month, even though their monthly pre-tax income rose by less than $200. These low-income working families, which include many child care employees, also face rising housing, food, medical and other costs, when eligibility for public programs is not adjusted to rising wages.

5 Public child care programs reach only a small fraction of eligible families.

About 355,000 subsidized childcare spaces are currently filled through the California's state child development system, but there are no spaces for more than one million eligible children.

6 Most family child care home providers earn less than $15 per hour, but the minimum wage law covers only their assistants.

Minimum wage increases raise the incomes of any assistants, but do not raise the family child care providers' incomes. Such family child care home providers must either charge families more, reduce the scope (schedule, ages served) of the care they offer, or reduce their own earnings even farther below $15 per hour to accommodate minimum wage increases for their employees.

7 Funding rules make it more difficult for child care programs to budget for minimum wage increases.

Subsidized child care agencies "earn" the funds that the Legislature allocates for child care, and "revert" any "unearned" funds. More than $131 million of funds appropriated for child care in 2014-2015 reverted to the state general fund, to be used for unrelated purposes. Minimum wage increases and inadequate rates exacerbate reversion by making it difficult to keep classrooms staffed and fully enrolled, and by increasing the incentive for under-use. In state preschool programs, strict rules about what ages of children to serve, combined with the overlapping ages eligible for transitional kindergarten, exacerbate reversion.

8 Minimum wages increases create significant wage compression, sapping the industry of its most competent providers.

There has been an enormous push in child care and early education policy to raise qualifications, with no comparable rise in compensation. The reimbursement rate in after school programs has been frozen for many years, and the Standard Reimbursement Rate for direct service child care programs, was arbitrarily set and then frozen for many years before a series of small, recent increases, not gauged to market costs. Teachers with a Bachelor's or higher degree working with children age birth to three earned a mean salary in 2012 of $27,248, less than half that in the labor force, overall. The difference in salary between an early education teacher with 15 years of teaching experience and a higher degree, and an entering child care provider with no higher education, is often only a few dollars per hour. Wage compression undermines recruitment and retention of highly skilled staff.

9 Child care faces competition from other minimum wage fields

As the minimum wage rises, child care programs, which are typically small businesses, face competition from big businesses in other fields, which offer work at the higher minimum wage that applies to large employers. Increased outside costs for janitorial services, food, etc. from rising wages also impose significant difficulties for child care programs as very low-margin businesses with high labor costs.

10 Diffuse public funding results in piecemeal relief from rising minimum wages.

All child care programs face similar challenges from rising minimum wages, whether they are CalWORKs or non-CalWORKs; direct service, voucher, or private pay; part or full day state preschool; Head Start; After School Education and Safety or other after school programs. Yet different legal provisions, administrative agencies, and funding mechanisms support these programs. Implementing minimum wages increases requires a comprehensive approach to all of these important child care and early learning options for families and children.