THE IMPACT OF MINIMUM WAGE REGULATIONS ON THE EARLY CARE AND EDUCATION INDUSTRY IN CALIFORNIA

A Study Conducted for the Alameda County Early Care and Education Planning Council, Oakland, California

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Executive Summary

In California there currently exists a dangerous disconnect between state education policy and local labor policy. California should address this problem before it endangers the development of vulnerable young children.

Several localities in California have recently increased their minimum wages with the most dramatic being Oakland's 36% increase this past March to $12.25. While centers throughout the state will be affected by minimum wage increase, Oakland's experience will serve as an important test case due to the rapidity of its increase. This minimum wage increase threatens state subsidized early care and education (ECE) provision in California, especially ECE centers funded by the California Department of Education (CDE) and regulated through Title 5 of the California Code of Regulations. Title 5 centers provide valuable support to needy, low-income families.

ECE is an important public service as it has been shown to increase female labor force participation and improve child development. Title 5 ECE centers provide children with intellectual stimulation they cannot find in other environments. Research shows that children enrolled in ECE centers with more highly trained staff and fewer staff per child are more prepared for school and demonstrate better socio-emotional behavior.

High quality ECE provision is labor intensive and Title 5 centers must meet strict staff to child ratios, meaning that labor costs are a substantial and inflexible portion of all costs. Title 5 centers are vulnerable because they currently pay low wages and they rely on the CDE for almost all of their funding. The average wage for ECE assistant teachers in Alameda County is approximately $11 and ECE centers in Oakland will see assistant teacher salaries increase almost 20% or $4,200 per year. Assistant teacher salaries make up a substantial portion of ECE center costs, 40%, with full teachers' salaries accounting for a further 20%.

Higher wages will bring important benefits to ECE centers, such as higher quality staff and reduced turnover, leading to more stable caregiver-child relationships. Unfortunately, higher wages will also increase total costs for centers by around 7%. This 7% increase is before factoring in increased teacher wages, which will need to increase to maintain current incentives for assistant teachers to further their education. This projection also holds all other costs constant.

ECE centers can take steps on their own to reduce other costs to compensate, such as expanding to find new efficiencies. Centers might also reduce the number of hours they are open per day or shift staff from full to part time to reduce healthcare costs. However, due to the large increase in costs it will be difficult for the most financially vulnerable Title 5 centers to remain open without changes in current state policy.

California could consider regulatory reform to reduce administrative burdens, such as reducing or streamlining reporting procedures. These efficiencies, however, are unlikely to reduce costs sufficiently to match increased teaching staff salaries. Consequently, California will have to increase state funding for Title 5 programs.

A funding increase could come in the form of targeted aid for high cost counties or a general increase. A targeted increase would be less expensive, however it would be politically unpopular in low cost areas and it would be short sighted as the state minimum wage will increase to $10 in 2016 and there are proposals to raise it further. California will see savings from local minimum wage increases through reduced costs from means tests programs, including Title 5.

Therefore, to help ECE centers adapt to an increased in minimum wages in Oakland, and throughout California, the state should increase Title 5 center's funding mechanism, the standard reimbursement rate, by 5% immediately. This increase should be politically palatable and with some efficiency gains allow ECE centers to stay open.