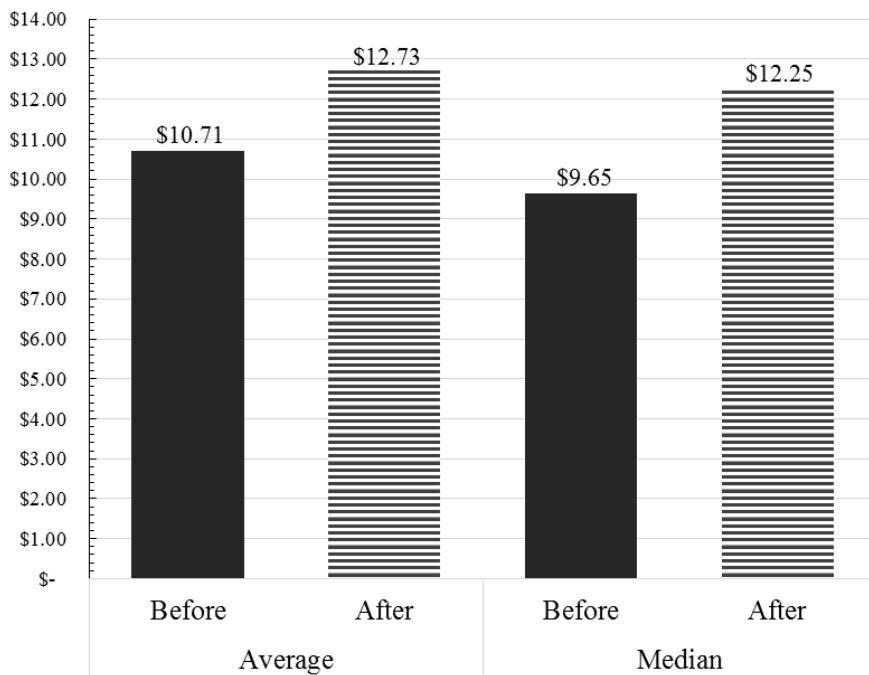


The Impact of Local Minimum Wage Increases on Early Care and Education

April 27, 2015

- Early care and education (ECE) is labor intensive and labor costs are increasing due to local minimum wage (MW) regulations. While increased wages will have many beneficial impacts they will place severe strain on ECE provision. Unless state policy reacts to these changes in local labor policy, many children's learning and development could be jeopardized.
- The problem will be most acute for centers that provide General Child Care (CTTR) and Preschool (CSPP) on contracts with the California Department of Education (CDE), through Title 5. The majority of these centers' resources are CDE contracts and their cost structures are rigid due to staffing rules. For example, Title 5 centers can have no more than 4 toddlers (18-36 months) per adult (assistant teacher) and 16 per teacher. These centers often pay lower wages as their funding is constrained by a low standard reimbursement rate (SRR).
- Title 5 centers derive a substantial amount of their costs, 65-75%, from personnel; 40-50% of total costs are from assistant teachers alone.¹

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



- In Alameda County in 2014, 75% of childcare workers (assistant teachers) made \$12.28 or less per hour, meaning 75% of assistant teachers were affected by Oakland's new minimum wage. Rough projections show that the new minimum wage will increase average wages for assistant teachers by 19%, or \$4,200 annually.²
- Oakland centers could see costs increase 6-8%, before including pay raises for those earning above \$12.25. While centers will struggle to raise their entire pay scale, failing to do so will mean that staff are not rewarded for furthering their education.

- In response, centers could shift classrooms to older ages, shorten hours per day or days per year, or move staff to part time to reduce benefits. These changes would reduce service and inject instability into teacher-child relationships.
- Centers which serve younger age groups will be especially vulnerable due to lower staffing ratios. For example, a center which serves 18 infants, 16 toddlers and 24 preschool students would see their total costs increase \$51,000 to \$720,000, a rise of 8%.³
- Higher wages will also bring benefits, such as reduced turnover which will lower costs and provide more stable care.
- The state can help centers lower costs by reducing administrative burdens, however, this is unlikely to help significantly.

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Locality	Current Minimum Wage	Future (proposed) Minimum Wage increases
Oakland	\$12.25	Increase with inflation
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 (living wage \$13.71)	\$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 (Proposal to increase to \$11 on 1/16, \$13 on 1/17)
Los Angeles	Use state MW	(Mayor's proposal to increase to \$10.25, then \$11.75 on 1/16, \$13.25 on 1/17)
Emeryville	Use state MW	(City Council draft ordinance increase to \$14.42)

- While this problem is most acute in Oakland, future minimum wage increases are planned and proposed throughout California. Many of these increases will rise above the current state median wage for ECE workers, \$11.14.
- The state has underfunded CCTR and CSPP. For example, there was no cost of living adjustment for the SRR between 2007 and 2015, meaning it is 13% less today than it would have been.⁴

Impact of Oakland's Minimum Wage on Family's Eligibility for Subsidized ECE

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	N/A
1	1	\$18,720	\$25,480	\$39,396	0	\$1,140
2	2	\$37,440	\$50,960	\$46,896	\$2,340	N/A
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

- The state will see savings from various means tested programs as localities raise their minimum wage and should consider redirecting some of these savings to increasing the SRR. For example, a family with one fulltime minimum wage earner and one child will have to pay an additional \$1,140 in fees annually if their child is enrolled in a Title 5 center.
- Further, some families with two minimum wage earners will become ineligible for Title 5 programs, such as those with one or two children.

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¹ Based on examinations of public available Tax Form 990s and interviews with center directors. Personnel costs exclude officers.

² Using American Community Survey data for Alameda County between 2008 and 2013. Annual increase for a full-time worker.

³ Assuming the center paid the average Alameda County assistant teacher wages, paid \$15 per hour to teachers and for whom teaching costs made up 65% of total costs.

⁴ <http://abgt.assembly.ca.gov/sites/abgt.assembly.ca.gov/files/Joint%20Subcommittee%201%20and%202%20Early%20Childhood%20April%2014%20Agenda.pdf>