



**Brief Introduction to the Impact of Minimum Wage Increases on Child Care in California**

**The Issue:**

Hard work is worthy of pay of at least \$15 per hour. While SB3 and local minimum wage initiatives recognize this moral imperative, they are not sufficient to implement it in the realm of child care, because of key features of the economics of care, and of our child care system. If nothing is done, many lower-income families will lose their child care, and child care programs will close their doors, triggering further job losses and major disruptions to families. We can prevent these unanticipated outcomes, if we act promptly and creatively.

**Background:**

- **Costs are primarily due to workers who earn less than \$15/hour.** 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. Nearly half (47%) of California child care workers participate in one or more public income support programs to supplement their families’ meager earnings.
- **Health and safety requirements prevent economies of scale and automation.** Traditional mechanisms for spreading and reducing the cost of rising wages are unavailable in child care. State staff ratio laws rooted in basic safety concerns constrain “output.” They prevent a family child care provider from choosing to accept fifty, instead of twelve, two-olds into her home, and prevent a licensed child care center from adding children, without also adding staff, which in turn incurs further labor costs. Current law and technology do not support automation (no robot care providers), another general response to wage increases.
- **Increased costs cannot be passed onto families, who often cannot even afford the current cost.** At a median price of \$11,817, one year of infant care in California costs nearly one-



## CHILD CARE LAW CENTER®

[www.childcarelaw.org](http://www.childcarelaw.org)

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.

- **Small increases in wages threaten families with high child care costs because of low income eligibility thresholds.** 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 rises to \$10.50 per hour for workers at firms with 26 or more employees, families with one child and two parents working full time will lose income eligibility for state child development programs, while earning a pre-tax monthly income of only \$3,640. Their child care expenses will jump by hundreds of dollars per month, even though their monthly pre-tax income will have risen by less than \$200.
- **Child Development programs reach only a small fraction of eligible families.** About 355,000 subsidized childcare spaces are currently available through the California's state child development system, but there are no spaces for **close to 1 million eligible children**. Current, non-refundable child care tax credits do not help working families who are too poor to owe additional taxes.
- **Most family child care home providers earn less than \$15 per hour, but they are not considered employees.** While minimum wage increases raise the wages of any assistants these providers employ, they do not raise the family child care providers' incomes to \$15 per hour. Such family child care home providers must either charge families more, reduce the scope of the care they offer, or reduce their own earnings even farther below \$15 per hour to accommodate minimum wage increases.
- **Payment rules create inequities in voucher-programs when labor costs increase.** Voucher-based child development programs may reimburse child care providers up to a maximum, regionalized reimbursement rate ceiling, but can pay no more than what the child care provider charges unsubsidized families. Most family child care home and center providers that choose to accept vouchers serve a mix of subsidized and unsubsidized families. When the state raises voucher reimbursement rates to help child care providers cover increasing



## CHILD CARE LAW CENTER®

www.childcarelaw.org

labor costs, programs in poorer neighborhoods must either forgo the benefit of increased rate ceilings, or raise fees for private paying families who cannot afford even current fees. Thus, public payment mechanisms exacerbate inequities among low income families.

- **Minimum wages will 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, particularly in “Title 5” programs that contract with the State Department of Education. For teachers with a Bachelor’s or higher degree working with children age birth to three, the mean annual salary is \$27,248. 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.

### Seeking Solutions:

In October, the State Advisory Council on Early Learning and Care (SAC) held an initial meeting to investigate and make recommendations regarding implementation of minimum wage increases in child care and early education. A number of recommendations were raised at the meeting. The SAC unanimously supported a motion to have the Minimum Wage Task Force bring a report and recommendations to the January 2017 SAC meeting.

Co-chairs of the Minimum Wage Task Force are Anna Levine, Child Care Law Center Senior Staff Attorney, and Rich Winefield, retired Executive director, BANANAS Child Care Resource & Referral.

---