IMPACT OF A $15 PER HOUR WAGE ON CHILD CARE

Quality Care for Children

INTRODUCTION

The purpose of this research is to examine the impact of a potential minimum wage increase to $15 per hour on the sustainability of child care programs and the cost of care in Fulton County Georgia, which includes a large portion of the Atlanta metropolitan area. While this increase seemed imminent earlier in the year when it was included in legislation before Congress, the increase was ultimately excluded from the bill, and a federally mandated increase to $15 per hour is not likely in the near future. However, given that 29 states, including Florida and Washington, D.C., and many municipalities, have minimum wages above the federal minimum wage, and many major employers, including Walmart, Target and Amazon, now offer a $15 starting wage, the issue of child care worker compensation, which according to the Federal Bureau of Labor Statistics had a mean hourly wage in May 2020 of $12.88, remains of urgent concern. In the Atlanta metropolitan area, the hourly mean wage for child care workers in May 2020 was $10.23. Providers are increasingly challenged to hire and retain staff, and must find ways to increase wages in this historically low-paying industry, regardless of the federal minimum wage.

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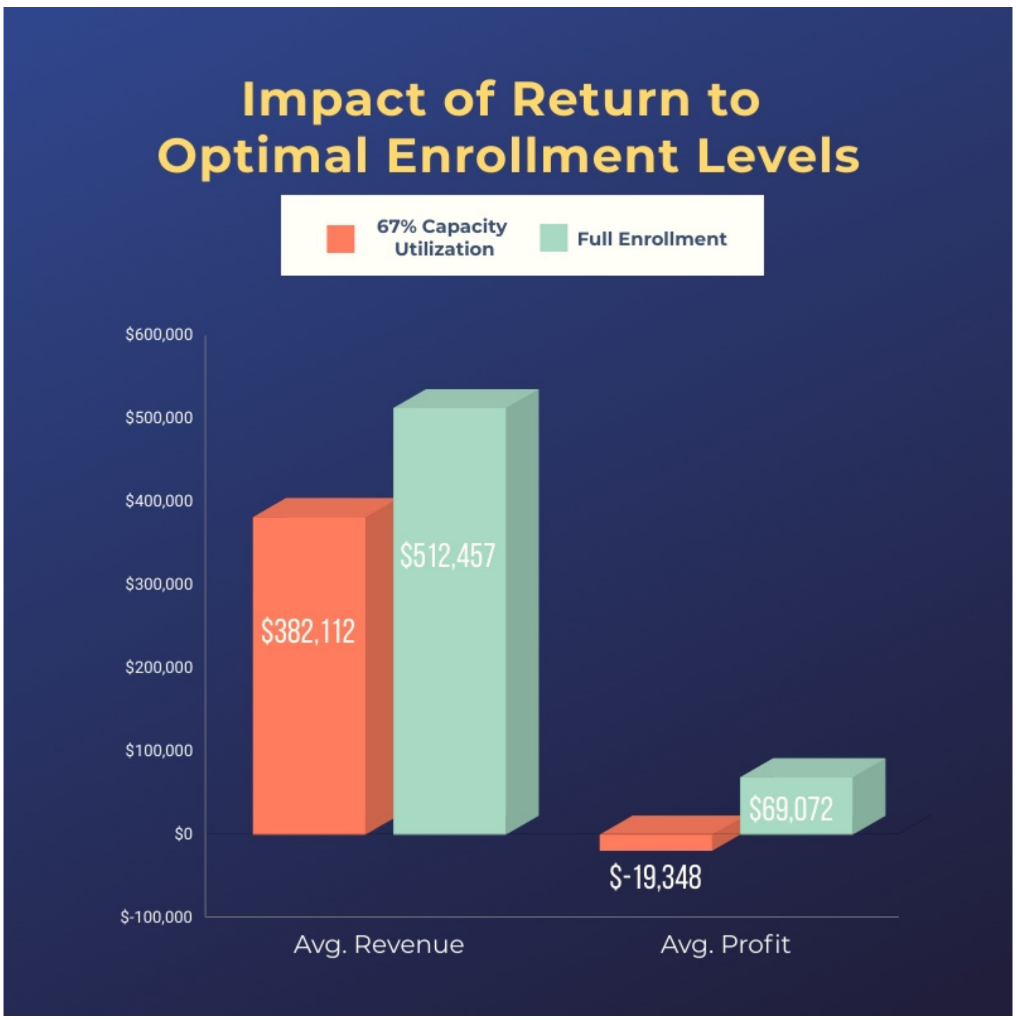
In an effort to understand the current state of the local child care industry in the midst of the COVID-19 pandemic, Quality Care for Children (QCC) gathered detailed enrollment and budget data from 42 child care centers in Fulton County. This data set is a snapshot of operations and has provided us the opportunity to model the impact of an increase in the minimum wage to $15 per hour on a sample of providers. Results from cost modeling, and implications on operational costs and long-term sustainability, are presented here with the goal of informing stakeholders and policy leaders. Although not necessarily a representative sample with results generalizable to all Georgia child care programs, this analysis illustrates the challenge ahead in increasing teacher wages.

As of January of 2021, COVID-19 vaccinations were just beginning to roll out, and providers were continuing to experience low enrollment rates as families kept their children home due to unemployment, the ability to work from home, and fear of infection. With providers experiencing an estimated average annual net loss of $19,348, many were struggling to survive. Since January, families have gradually started returning to work and enrollments have been improving, although the Delta variant has made recovery far from smooth or consistent. While we do not have current data regarding capacity utilization, we have modeled as the "Base Case" for our minimum wage increase analysis a return to more normal or optimal capacity utilization of 85%. The impact of an increase in enrollment to 85% capacity utilization – accounting for both increased revenue and increased staffing and other variable costs – increases center average revenue to $513,457 and shifts net revenue from negative to positive with an average profit of $69,072.



The question arises as to how realistic it is to expect that programs can return to optimal enrollment levels in the current challenging labor market. Programs trying to hire staff are competing with higher-paying low skill jobs (Walmart, Target, Amazon, e.g.). Child care programs cannot expand their enrollments and get back to full capacity if they cannot pay competitive wages to attract staff.

METHODOLOGY

The center-based program data collected through the QCC research included detailed enrollment, revenue, expense, staffing and wage rate information that was entered into a dynamic budget model, allowing for scenario analysis based on wage rate assumptions.

To model the impact of an increase in the minimum wage to $15 per hour, for each provider, we increased the wage of the lowest paid hourly staff member to $15. We then assumed that the other hourly wages would increase by an equal increment. For example, if we increased the wage of a $9 per hour staff member to $15 per hour (a $6 per hour increment), a $12 per hour wage was increased by $6 to $18, and a $14 wage was increased to $20.

The wages of salaried staff, usually the Director and Assistant Director, were not increased in this scenario in an effort to be conservative in the assumptions. In addition, wages of Georgia Pre-K teachers were not increased in this analysis. The Georgia Department of Early Care and Learning funds the Pre-K program and sets teachers' wages based on their qualifications and credentials.

Georgia Pre-K Wages Compared to Child Care Wages

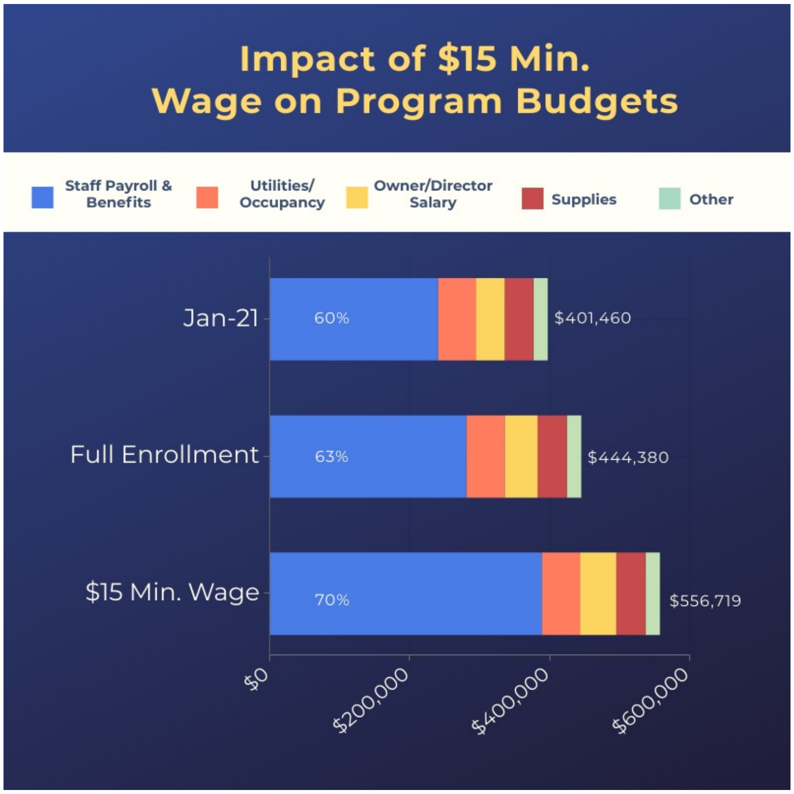
Prior to conducting the wage increase analysis, we compared the average wages of child care teachers (non Georgia Pre-K) in the study to the statewide average wages in Georgia Pre-K. According to the Georgia Department of Early Care and Learning, the statewide average wage for Georgia Pre-K lead teachers is $26.29 an hour, exceeding the non Georgia Pre-K teacher wages for programs in this analysis by $15.44 an hour. For Georgia Pre-K assistant teachers, the statewide average is $10.65 an hour, slightly less than the $10.85 average teacher wage for programs in this study.

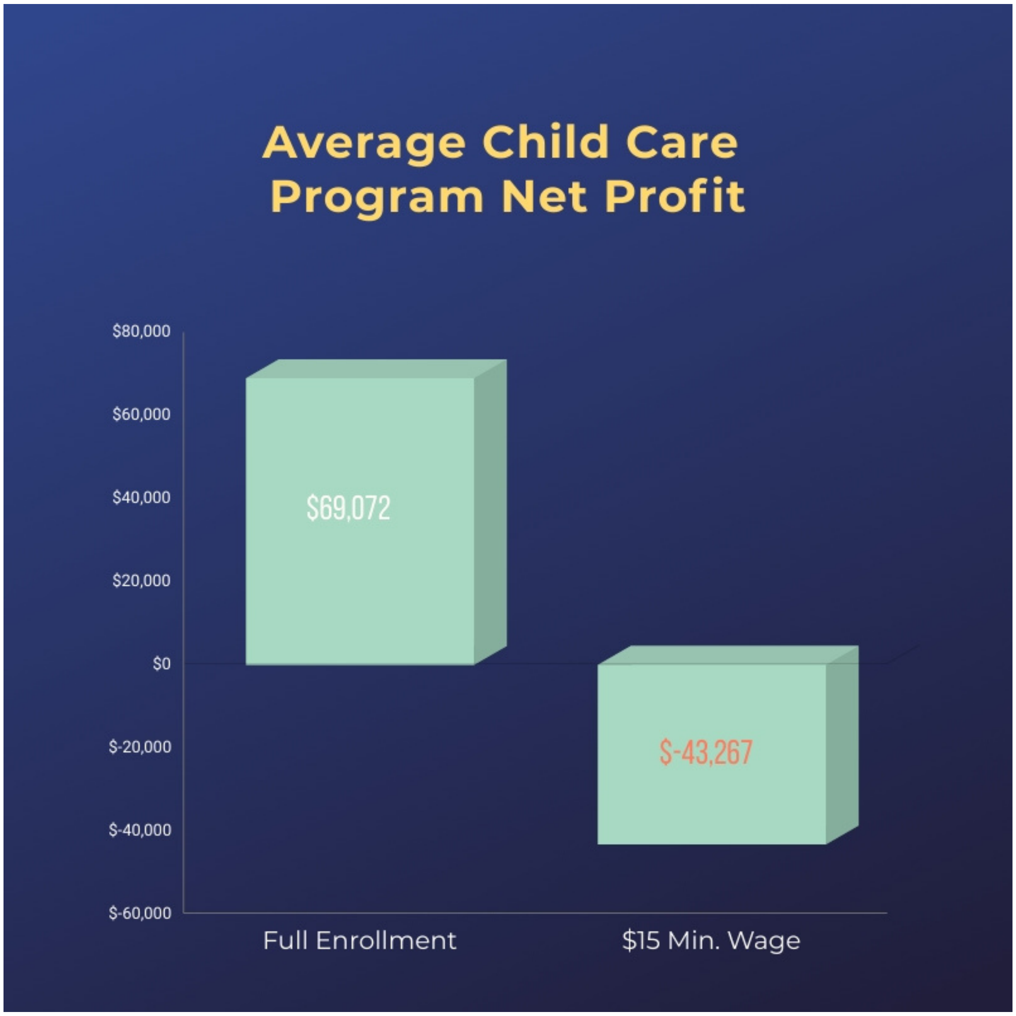
THE IMPACT

Results of Minimum Wage Increase to $15 per Hour

Using the assumptions described above, the average hourly wage for non Georgia Pre-K teachers increased 51%, from $10.85 to $16.40.

Total average annual expenses for the programs increased 26%, from $444,385 at full enrollment to $556,719 and staff payroll and benefits increased from 63% of total program expense to 70% of total expense. Average annual operating profit decreased from $69,072, or 13%, in the full enrollment scenario to a loss of $43,267, or -8%.

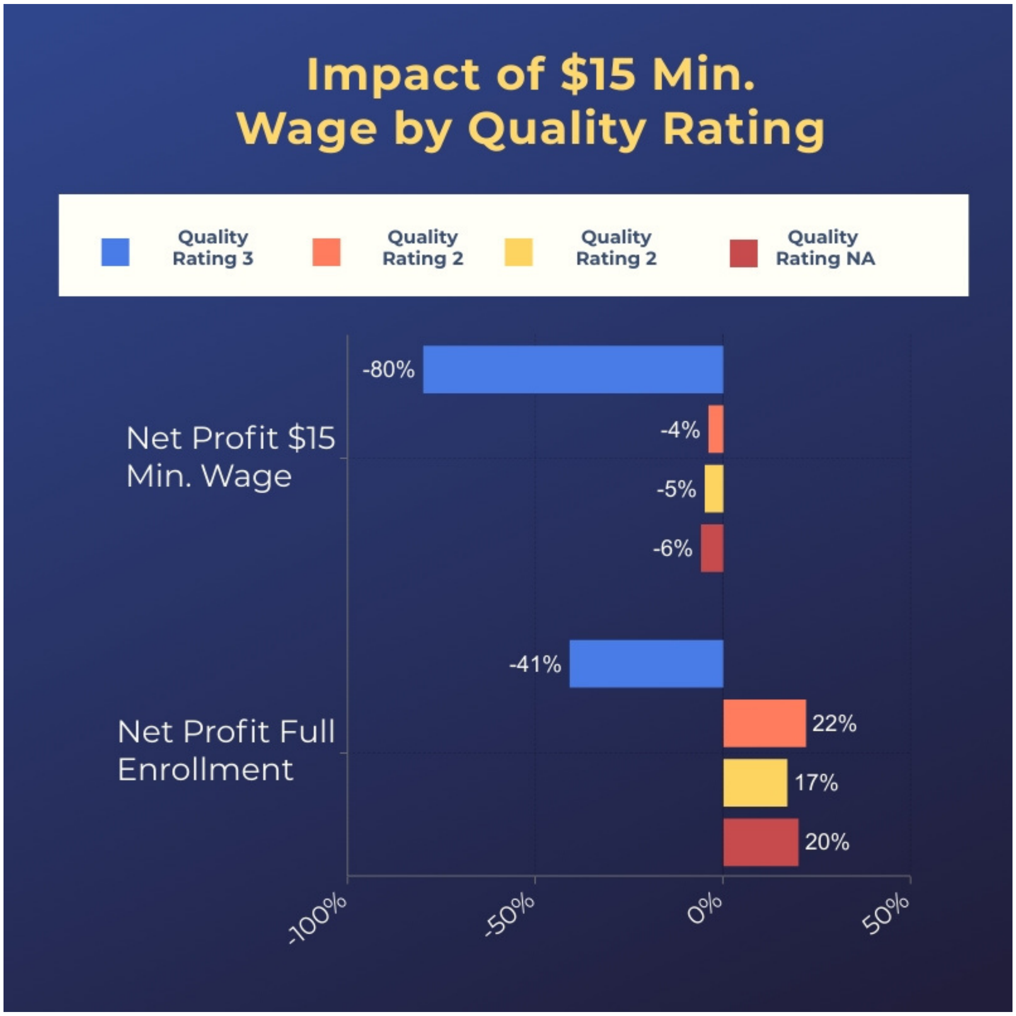




While many programs have been able to survive the last year with federal CARES Act grant funding and Payroll Protection Program (PPP) loans, without that support, the prospect of annual losses in a $15 minimum wage scenario of $43,267 per year is unsustainable. The impact of a $15 minimum wage is even more devastating when we segment the providers into key groups based on factors such as quality level and ages of children served.

Quality Rating

When we look at the impact of the $15 minimum wage on programs segmented by quality rating, we see that programs with the highest quality ratings are impacted the most. These providers are already incurring a loss when operating at full enrollment (note: the data sample included three programs with a Quality Rating of 3 Stars). The loss more than doubles based on the impact of a $15 minimum wage.



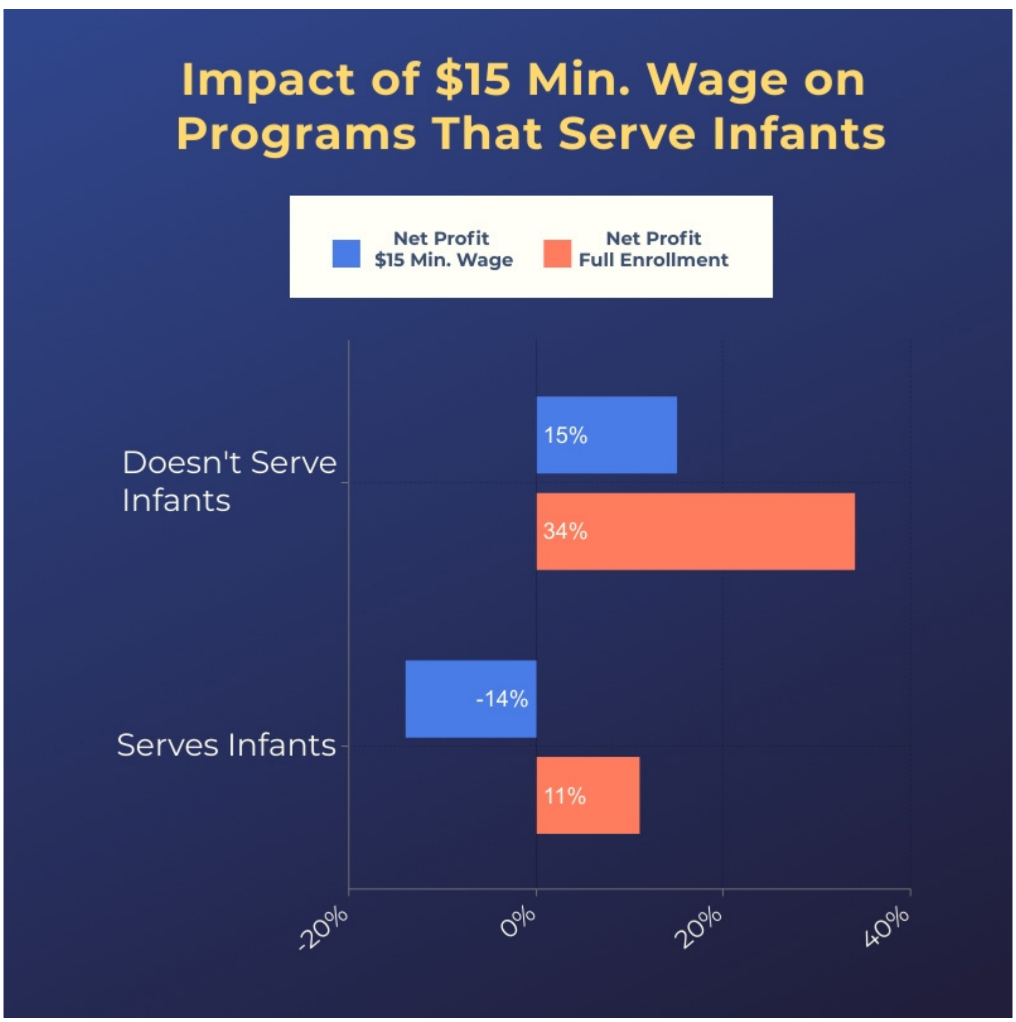
Higher quality programs are consistently more expensive to operate than lower quality programs, based on factors such as staff qualifications and credentials which drive higher wages, paid vacation and other leave time which requires paying both the staff on leave and the substitute staff that keep the program in ratio, and paid planning time for teaching staff which again requires "double pay" for ratio purposes. While Georgia's Quality Rated standards do not require that programs make these investments, many programs committed to high quality choose to do so. Because wages are a higher percent of total expenses in higher quality programs, it is not surprising that the minimum wage increase impacts higher quality programs the most. That being said, policy makers need to understand that high quality programs, those with the greatest impact on the most vulnerable children and families, are the most susceptible to destabilization due to increased staffing costs.

Programs that Serve Infants

While only a small percent of the sample (7%) does not serve infants, it is interesting to compare the impact of the minimum wage increase on the programs that serve infants with those that do not.

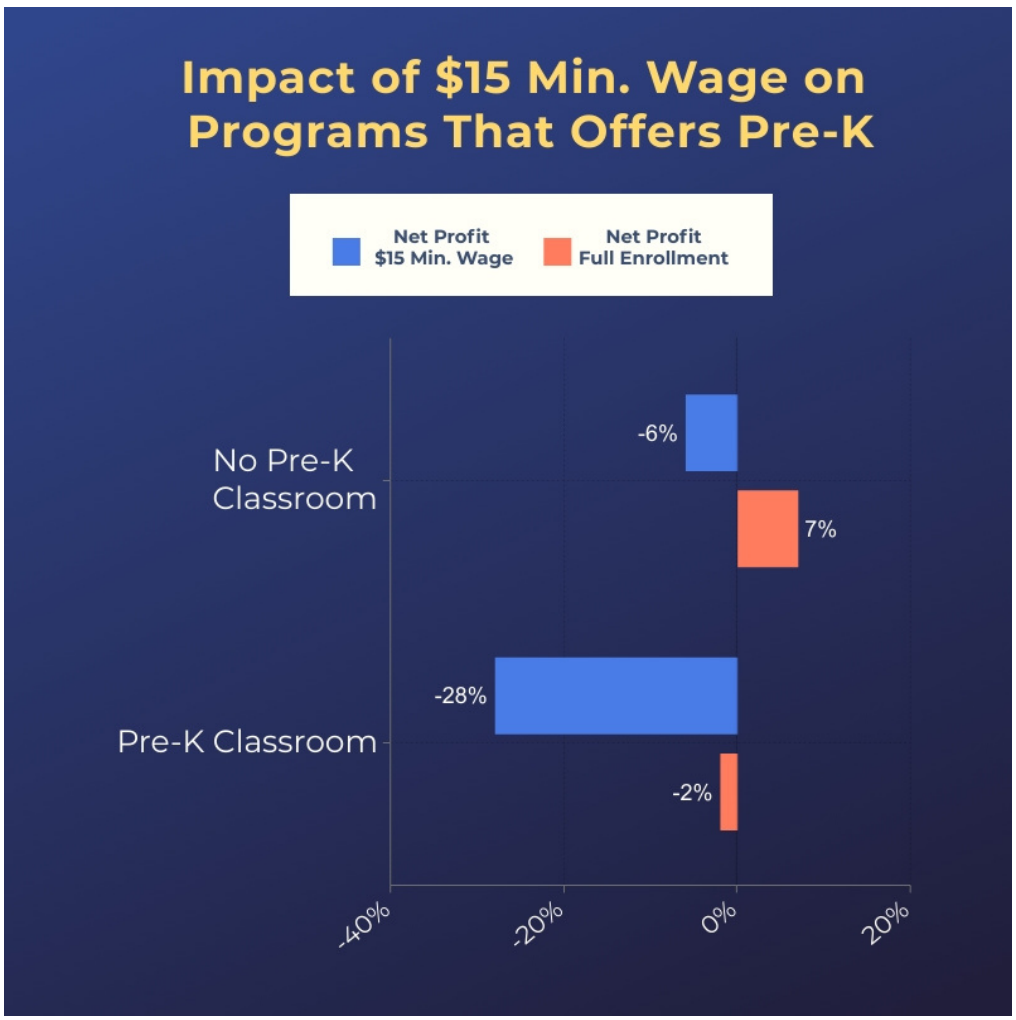
Due to the staffing ratios required for infants, programs that serve infants are already significantly less profitable than the ones that do not. Just as is the case with the quality segment of providers, the minimum wage increase has more of an impact on those providers serving infants, causing them to shift from 11% average profitability in the full enrollment scenario to net losses of 14%. Infant child care is already the most expensive type of care, with prices in high income areas that can exceed college tuition. It is also the least available type of care due to the disparity between cost and revenue.

We are already seeing the current staffing shortages impact infant care. The infant room is typically the first classroom that programs close (along with school age programs) when they do not have enough staff to open all of their classrooms. Increases in wages will likely further reduce the number of infant care slots available in child care programs.



Programs with GA Pre-K Classrooms

Approximately 24% of the sample offered the Georgia Pre-K program, a state-funded program for four-year old children that includes a 6.5-hour instructional day for 180 days per year at no cost to families. Program compliance includes adherence to teacher credential, certification, degree, and experience requirements and payment of minimum base salary for the lead teacher in compliance with a program-specific salary scale.



As mentioned earlier, Georgia Pre-K teacher wages were not increased in this analysis. Nevertheless, the programs with Georgia Pre-K classrooms are still more affected by a minimum wage increase than the programs that do not offer Georgia Pre-K.

Potential Response of Providers

To offset the increase in wages, we would expect providers to look for cost savings elsewhere in their budgets. As shown earlier, staff payroll and benefits currently represent at least 60% of program budgets, so there are not many opportunities for cost savings that would have a meaningful impact on the bottom line. Of the 42 programs, 14, or 33%, employ “Other Part-Time or Full-Time Staff”, non-teaching staff in addition to a Director, Assistant Director, Cook or Driver. There may be some opportunity to reduce the administrative expense associated with this “Other Staff” through the utilization of child care management software to automate manual processes and record-keeping. QCCworks, an initiative of Quality Care for Children, is helping programs do just that. In addition, providers can look to maximize time and money savings through utilization of Quality Care for Children’s Provider Resource Hub.

It is likely that providers will seek to raise tuition rates to cover the increased wages. As mentioned earlier, an increase in minimum wages to $15 per hour increases average total program costs by 26%. Programs will need to increase their tuition rates by at least 25% to maintain their margins in this scenario.

Impact of Tuition Increases on Families

The Economic Policy Institute provides a Family Budget Calculator that measures the income a family needs in order to attain a modest yet adequate standard of living. Utilizing this calculator, a single parent household with two children (one pre-school age and one elementary school age) in Fulton County, Georgia, would require $5,645 per month to cover their basic needs.

In this sample budget, child care represents 17% of the family’s monthly budget. (Relative to the tuition rates of the programs in our sample, this estimate appears low.)

Estimated Budget to Cover Basic Needs
Single Parent with 2 Children, Fulton County, GA

	Current	%	25% Tuition Increase	%
Housing	$1,049	19%	$1,049	19%
Food	$626	11%	$626	11%
Child Care	$975	17%	$1,219	22%
Transportation	$887	16%	$887	16%
Healthcare	$645	11%	$645	11%
Other Necessities	$676	12%	$432	8%
Taxes	$787	14%	$787	14%
Total	$5,645	100%	$5,645	100%

Source: Economic Policy Institute

To absorb a 25% increase in child care tuition, child care expense increases to 22% of the monthly budget, drawing funds away from other necessities, which include items like clothing, furnishings, cleaning supplies and phone service. In this scenario, child care expense exceeds housing and becomes the largest line item in the family budget – accounting for nearly a quarter of all expenses. For families with more than one child requiring full-time care, the impact of a 25% tuition increase is even greater.

Impact of Wage Increase on Teachers' Financial Well-Being

At their current income levels, many child care teachers are eligible for public benefits, including the Supplemental Nutritional Assistance Program (SNAP), Medicaid/Children's Health Insurance Program (CHIP), and child care subsidies. The Urban Institute provides a Net Income Change Calculator that estimates the impact on Monthly Net Income for increases in Earnings Levels. The analysis below measures the impact of an increase in hourly wage from $10 per hour to $15 per hour for a single parent household in Georgia with two children, one elementary school age, receiving school-age care, and a three-year-old receiving full-time care.

A single parent child care teacher earning $10 per hour is eligible for the Earned Income Tax Credit, SNAP benefits, a housing subsidy, child care subsidy, and government funded health care for her children, resulting in Monthly Net Income of $2,682. An increase in wages to $15 per hour results in a reduction of the Federal Earned Income Tax Credit, a loss of SNAP benefits, and reduction in housing and child care subsidies.

Impact of Minimum Wage Increase on Monthly Net Income

	Hourly Wage Rate	
Type Of Income & Expense	**$10.00**	**$15.00**
Earnings	$1,733	$2,600
Taxes		
Federal Income Tax (excluding EITC)	$167	$147
Federal EITC	$419	$236
Payroll Tax	($133)	($199)
State Income Tax & Credits	($28)	($61)
Total Taxes	$425	$123
TANF	$0	$0
SNAP	$195	$0
WIC	$0	$0
Housing Subsidy	$506	$264
Child care Expenses (after subsidy)	($177)	($236)
Total Net Income	**$2,682**	**$2,751**
Number of Family Members Enrolled in Medicaid or CHIP	2	2

Source: Urban Institute Net Income Change Calculator

The net impact of a 50% increase in wages is only a 2.6% increase in monthly household income. Although many teachers are not able to take advantage of the housing subsidy due to a lack of supply, if the housing subsidy is removed from the above analysis, monthly household income increases from the 2.6% to 14%, from $2,176 to $2,487, with a 50% increase in minimum wage. This "cliff effect", in which small changes in income push low-income workers off eligibility for needed public safety net programs, is significant. While the bottom line for child care programs would be unaffected, it is important to remember that relatively large percentage changes in hourly wages typically do not result in similarly large changes in the net income of low-wage workers.

VOICES FROM THE FIELD

In August 2021, QCC hosted an online discussion and posted questions to QCC's Provider Business Exchange Facebook Page to hear from child care providers about the everyday challenges they face. Staffing shortages in the child care industry have reached crisis proportions as programs try to build back their staffs to
pre-pandemic levels.

Real-life experiences from child care providers across Georgia shared during the discussion:

- A provider from Claxton (Evans County) said she scheduled 10 interviews this summer. Eight applicants never showed up. For the two who did show, she interviewed them, sent them for fingerprinting, and although cleared, they never reported to work. A provider from Sumter County had the same problem. She asked, "why on earth would someone go through fingerprint background checks and then just not show up?"

- One provider said she lost three staff recently to other fields where they were earning almost twice as much as what she can afford to pay. Another provider from Troup County said she had the same experience. In her case, she said McDonald's pays more, and she just can't compete. This director is currently working in the infant room because she has no infant teacher. A provider in a rural area said she raised her rates so she could pay her teachers more but doesn't feel she can go any higher because parents are struggling. "They make just enough to not be eligible for CAPS."

- Infant and toddler care is the most expensive to operate. With the staffing shortage and enrollment declines, many providers shared that they had to close their infant rooms. They just couldn't keep them open and stay in business.

- Several providers said that they have a long waiting list of children but can't open classrooms in order to serve those children due to a lack of staff. "Classrooms are sitting empty because we do not have teachers to cover them. We increased our tuition to be able to increase staff wages, but still cannot match what the big corporations are offering."

CONCLUSION & NEXT STEPS

The child care program budget data collected earlier in the year by QCC has provided a unique opportunity to fully understand the impact that raising teacher wages to attract quality staff will likely have on program profitability. Major findings suggested by the data include that while all programs are negatively impacted by the increase in minimum wage to $15 per hour, several key segments of the provider population are significantly more likely to be negatively impacted: the highest quality programs, programs serving infants, and programs participating in the state's Pre-K program.

While national initiatives to raise the minimum wage have stalled for the time being, as evidenced through the provider voices quoted in the section above, child care programs are already facing the reality of competing with other industries offering starting wages of $15 per hour. For example, ZipRecruiter.com reports that Amazon delivery associates in Smyrna (Cobb County), Duluth (Gwinnett County) and Atlanta (Fulton County) are paying $16.50 an hour plus health insurance and paid time off. At Six Flags amusement parks, wages start at $15 an hour plus bonus pay.

The child care workforce are the workers who support all other workforces and, is therefore, essential to economic recovery. No one can argue that child care teachers aren't deserving of higher wages and good benefits. Their work requires special training and credentials. And during this pandemic, it entails risks associated with caring for young children who are not eligible for vaccination and from whom teachers cannot socially distance. Well-trained, qualified, and consistent teachers are a major determinant of the child care quality children need to be prepared for success in school. Child care teachers deserve to earn a livable wage that does not need subsidizing through public benefits, that rewards them for the important work they do, and that keeps them in the child care field. The question is, how do we achieve that?

The current child care system is funded by tuition paid largely by parents. Many parents already struggle to afford child care and cannot afford to pay more. Yet, unless parents have access to child care, they simply cannot go back to work. Currently, throughout the country, there are 7 million individuals who indicated in the most recent Census Bureau Household Pulse survey (between July 21 and August 2, 2021) that they are not working because they are caring for children not in school or child care. In Georgia, nearly 250,000 individuals said they were home because they were caring for children.

This data analysis clearly indicates that, given the current child care business model, providers are unable to compete for workers in the current labor market, and therefore unable to meet the demand for child care. Further, the solution cannot come from higher child care fees charged to parents. Policy makers are urged to take action. Several suggestions are offered below.

- A significant portion of child care workers have young children themselves. Designate child care workers as essential workers, giving them access to child care subsidies. The domino effect of child care workers not being able to afford child care contributes to labor shortages everywhere. If the child care workers can't go back to work, no one can.

- Offer child care workers an income disregard with respect to qualification for state and federal low-income benefit programs. While we would prefer a well-paid workforce that did not need or qualify for public benefits, these benefits can play a role in increasing current compensation. Policy makers need to get ahead of the inevitable "cliff effect" associated with increasing wages and reducing access to income-related benefits.

- Increase CAPS reimbursement rates to support higher teacher wages in child care programs. The current upward pressure on wages across industries is not going away. To keep the doors of child care programs open, CAPS reimbursement rates must be increased to absorb the permanent increase in the cost to provide quality child care.

- Create a publicly funded wage supplement program for child care teachers. Georgia already has models for such a program.

    - Expand and make the state's POWER (Providing Our Workforce Essential Recognition) wage supplement program permanent. The state used one-time federal funding to make a $1,000 payment to the child care workforce earlier this year, with plans to provide two additional POWER payments next calendar year. This is a step in the right direction. Wage supplements need to be ongoing for trained early childhood teachers so that we do not lose them to higher paying alternatives.

- Expand the wage supports offered to Georgia Pre-K teachers to infant and toddler teachers. The only way to keep infant and toddler classrooms open is to pay teachers a competitive wage. The Georgia Pre-K program's focus on credentials, quality and competitive wages is a model that needs to be expanded to younger age groups in order to attract and retain teachers and increase the capacity of quality care.

As mentioned in the introduction, the programs included in this report are not necessarily representative of all programs in Georgia. However, the results do show that this set of programs located in Fulton County, Georgia cannot sustain $15 an hour wages based on the tuition they charge to parents. The only way to adequately compensate child care teachers without increasing parent tuition is through a public investment – either an investment in child care programs which allows them to pay higher wages, or direct payments to child care teachers themselves. Moreover, this analysis points to the need for more extensive cost modeling to better understand the true cost of quality child care for children at each age group and to inform child care policy.



About Quality Care for Children

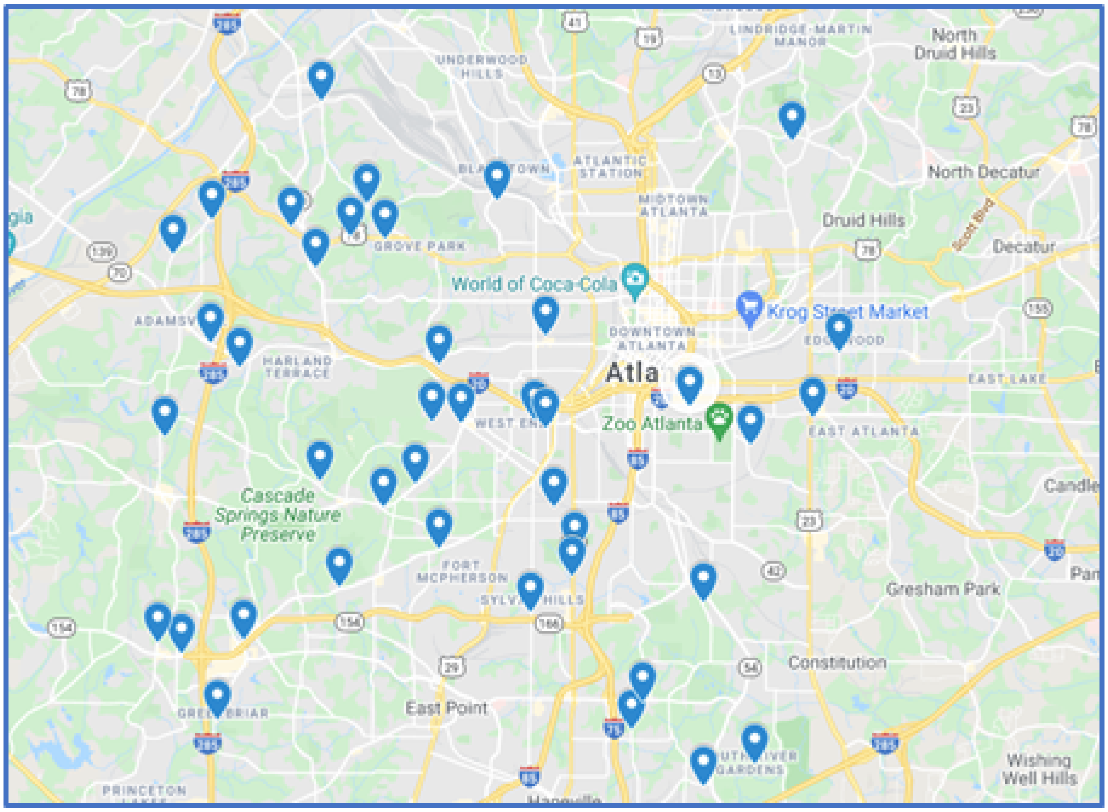
Quality Care for Children (QCC) is Georgia's leader in equipping parents and child care providers with the resources they need to receive and provide high quality, affordable child. The organization provides on-site consulting, training, business resources, and nutrition programs to child care programs and supports parents with a free referral service and tuition assistance for low-income families. For more than 40 years, our mission has been to ensure that Georgia's infants and young children are nurtured and educated so that every child can reach their full potential. Please visit www.QualityCareforChildren.org or call (404) 479-4181 for more information.

Budget analysis and cost modeling for this report was provided by Opportunities Exchange.
To learn more about their work, visit www.oppex.com.

APPENDIX

Locations of Centers in QCC Research

The centers that participated in the research were from 11 zip codes in the metro Atlanta area.



The data sample represents a reasonable cross section of household incomes for an urban population:

Zip Code	Median Household Income	Number of Centers in Sample
30314	$28,148	2
30315	$29,287	3
30311	$31,512	7
30310	$34,398	7
30354	$41,299	3
30331	$48,347	7
30318	$52,245	8
30312	$57,740	2
30316	$72,143	1
30317	$83,815	1
30306	$108,973	1

The table below provides a summary of enrollment and financial status as of January 2021 for the 42 child care centers in the sample.

Average Enrollment	57
Average Capacity Utilization	67%
Average Annual Revenues	$382,112
Average Annual Net Loss	($19,348)
Average Wage for Non GA Pre-K Teachers	$10.85