

April 2, 2018

Andrew Sambrook, Owner
Annette's Preschool
Hinesburg, VT 05251

To: House Committee on General, Housing, and Military Affairs

My name is Andrew Sambrook. My wife Andrea and I own and operate a private early childhood program in Hinesburg. We have 23 staff and serve over 100 families with quality early care and education for children ages 6 weeks through 8 years of age.

I wanted to address the Minimum Wage proposal from the perspective of a small business employer in a critical sector for economic development – childcare services -- our teachers and our families. Some of our teachers are also our families so it's a double concern for them. We therefore have a unique perspective on this matter. And, given the economic peculiarities within our sector, the impact of the proposed minimum wage may have severe unintended consequences.

Here's the key points I want to address:

#1 – Early Education teachers (Childcare workers) will be uniquely impacted by an increase in minimum wage.

#2 – The lack of supply of teachers in the Childcare work sector will likely create an *accelerator* impact on childcare costs beyond the real \$ increase in the minimum wage. Because of its important value to families, childcare service providers will almost certainly pass on 100% of these additional costs to Vermont families in the form of higher tuition. We estimate that tuition costs will rise at a minimum of 5% for every \$1 increase in the minimum wage. This is generally not sustainable for families.

#3 – Any plan to increase the minimum wage should include a plan to help support childcare tuition costs for all Vermont families not just those subjected to the benefits cliff, potentially by providing economic incentives to childcare providers allowing them to respond to pay increased wages but not to pass on the resulting cost increase to families. Alternatively, the CCFAP (child care financial assistance program) should be supplemented to cover more of the middle income Vermont families.

Allow me to add some data to these points.

#1 – The Childcare work sector is a key economic sector that will be impacted uniquely by any increase in minimum wage.

According to the Occupational Employment Statistics, Vermont Labor Market Information, U.S. Bureau of Labor Statistics, released April 2017, there are 3200 childcare workers in Vermont. In 2016 the average hourly pay was \$12.81 or \$26645/year. [For reference, that is less than 50% of the salary level for the employees at the State of Vermont which is \$57162(FY 2016)] --- 75% of childcare workers earn less than \$14.60/hr. The vast majority of these workers are caught in a mid-zone proximity between the minimum wage and an average professional salary (public school teacher/office worker/medical professional/State worker). Few earn sufficient salaries to be unaffected by an increase in minimum wage. There will be a ripple effect on their salaries, and employers will need to compete by raising their salaries to keep their, albeit small, differential above the minimum wage. There is reason that this will also impact home providers or self employed childcare workers.

#2 – There are serious childcare worker supply constraints caused by increased professional requirements under new childcare regulations and additional requirements of licensing under revised Act 166, and consequently an accelerator impact on salaries unique to the childcare sector. There is a severe shortage of qualified childcare workers in Vermont with little prospect of an increase in supply in the near term. How are programs like us seeing this? First, we cannot fill our vacancies. We have had 2 vacancies open for 3 months – with few qualified applications. We are looking for teachers from Mass and New York . We are seeing existing teachers leave to pursue alternative career choices with better pay. When we do hire, we already have to pay a premium since candidates have perhaps 2-3 offers from other programs and consequently, our initial job offers have risen accordingly.

The demands on these workers from a professional development perspective have increased tremendously due to new childcare regulations. These create increased barriers to entry into the profession. The new regulations require considerably more formal education and experience in order to be a classroom teacher. It is increasingly difficult to hire teachers with these qualifications. There is also increased demand for the qualified teachers. While the State of Vermont has significantly supported the DEMAND for quality Preschool from parents (through Act 166), it has ignored supporting the SUPPLY side; that is, the programs and teachers. I've seen data which suggest that since Act166 was introduced, about 1000 additional preK students are now enrolled. At a 1:10 ratio that means Vermont needs 100 PreK teachers just to fulfill that demand. UVM and Champlain train perhaps less than 20 early educators per year. Many Early Childhood graduates look to public schools/Head Start (with higher benefits and school day/year hours) and decide that with college debts they need to look at significantly higher paid professions such as social work, speech language or special needs. **This lack of teachers is THE critical issue in early education. For too long existing childcare pricing has relied on those workers to be content with earning at or near the minimum wage.**

We should anticipate that any minimum wage increase will have a *levered* impact on the salaries in the childcare sector. That means that with such a constrained supply of labor, a \$1 minimum wage rise may result in a higher hourly rise in childcare workers salaries, perhaps as much as \$1.50/\$1.00 rise in minimum wage.¹ While we generally support the rise in sector salaries, this Committee needs to understand this potential impact. Economists all agree that the demand for Childcare services are highly inelastic to price increases – and it is likely the single largest cost for many families. For many families, childcare is as important as utilities. Without childcare a single parent has to rely on family or cannot go to work. A married couple may forgo a second career. I don't need to rehearse the arguments for the provision of adequate supply of high quality childcare.

¹ This can be understood as follows. As an example, a fully licensed teacher in early education with a 4 year degree is “willing” to accept a job for \$15/hour knowing that is approximately a 50% premium on minimum wage. Once the minimum wage rises to \$15/hour, then that teacher's expected salary rate for the job should rise to \$22.50 – thus maintaining a 50% differential over minimum wage and compensating the teacher for the 4 year degree and professional development. This would represent a \$7.50/\$5.00 accelerator or in our terms a 1.5 *leverage*.

Model of impact on childcare pricing and increase in minimum wage. (see schedule below)

I modeled some of the assumptions set up above. Based upon our program size and profile, every \$1 increase in the minimum wage will likely result in a \$12-18/child per week increase (about 5-7%) in child care tuition in order for our program to be sustainable – paying payroll and the other operating costs, building maintenance and the costs of capital. The minimum wage proposal to raise to \$15/hour means that child care costs for a family with 2 children in child care will increase family childcare costs by \$1200 per year to tuition. This is the best case and ignores any “leverage impact”. With the likely accelerator impact, by the time a \$15/hr minimum wage is in effect, **that family will be paying \$35k+ per year in childcare tuition.**

What do I ask that this committee consider? There is a lot of talk about the benefits cliff, usually in regard to minimum wage workers who gain in minimum wage but who then lose other support – so they are no better off. **Fixing the benefit cliff is necessary but not sufficient.**

There is a large segment of parents (perhaps making close to median HH earnings – or who work for the State of Vermont) that make too much for other financial supports and who will go to work simply to pay childcare. We have many in our program with that profile. If nothing changes, and the minimum wage impact is as I modeled, their choice will be either to stay at home for first 5 years of their child’s life or be employed for little net compensation after they have paid for childcare. **I’m not sure this is the Hobson’s choice that this Committee desires families to be forced to make.**

So when you are looking at the Minimum Wage, do not kick the childcare cost support can down the road any longer -- the Blue Ribbon commission reported in 2016 – Don’t simply address the Minimum Wage issue – please look at the supports for childcare costs at the same time. **It is clear that any increase in the Minimum Wage will impact childcare costs significantly. We do not think that the average Vermont family of 4 can support \$35000 per year tuition for quality childcare.** We absolutely support raising the minimum wage, but doing it in a vacuum is a recipe for even more young Vermont families to leave the state or for children to leave high quality early education or have none at all.

I would gladly provide verbal testimony to this Committee in this important matter.

Andrew Sambrook

Model Impact of Minimum Wage on Childcare Program			4/2/2018		
Andrew Sambrook, Annette's Preschool, Hinesburg					
	Unlevered	Levered at 20%	\$15/hr		
Number of employees impacted	20	20	20		
Increase in Minimum Wage	\$ 1.00	\$ 1.00	\$ 4.50		
Leverage impact	1	1.5	1.5	\$/every \$ minimum wage	
Number of hours	40	40	40		
Number of weeks	52	52	52		
Cost to Program	\$ 41,600.00	\$ 62,400.00	\$ 280,800.00		
Additional payroll costs	20%	20%	20%	WorkersComp/Payroll Tax/UI/Insurance	
Net add to payroll	\$ 49,920.00	\$ 74,880.00	\$ 336,960.00		
Number of children enrolled	80	80	80		
Tuition increase per family - annual	\$ 624.00	\$ 936.00	\$ 4,212.00		
Tuition increase per family - week	\$ 12.00	\$ 18.00	\$ 81.00		
Current Tuition - average	\$ 257.50	\$ 257.50	\$ 257.50		
Anticipated Tuition - week	\$ 269.50	\$ 275.50	\$ 338.50		
% Increase	5%	7%	31%		
Total Tuition - family with 2 kids - current	\$ 26,780.00	\$ 26,780.00	\$ 26,780.00		
Total Tuition - family with 2 kids - anticipated	\$ 28,028.00	\$ 28,652.00	\$ 35,204.00		