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Public Hearing 1/25/18 on Minimum Wage: Room 11

To: the Senate Committee on Economic Development Housing and General Affairs

Good Evening! 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.

Here's the key points I want to make:

#1 – 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 unique economic position 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.

#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.

Allow me to add some data to these contentions.

#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 no reason that this will not also impact home providers or self employed childcare workers.

#2 – But that is not the only story. Because of supply constraints, there be 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 finding teachers from Mass and New York – **we have had more applications from**

the Philippines this year than Vermont. We are seeing teachers leave to pursue alternative career choices with better pay. When we do hire, we 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. Then many Early Childhood graduates look to public schools/Head Start (with higher benefits and school day/year hours) or decide 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.**

So we can imagine that any minimum wage increase will have a leveraged impact on the salaries in the childcare sector. That means with the constrained supply a \$1 minimum wage rise may result in a \$1.20/hour or \$1.50 rise in childcare workers salaries. **We support this but it will COME AT A PRICE.** Childcare services are incredibly 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.

So here's the punch line and the main point I wish to make

I modeled some of the assumptions. Based upon our program size and profile, every \$1 increase in the minimum wage will likely result in a \$12-15/child per week increase (about 5%) in child care tuition in order for our program to be sustainable – paying payroll and the other operating costs and have some for 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 kids in child care could add up to \$7800 per year to tuition without the "leverage impact". **That means a family with two preK children might be paying \$35k+ per year in tuition without any additional help from Vermont. With the leverage impact then maybe it's a further 5-10% in 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. But 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 several in our program with that profile. If nothing changes, and the minimum wage impact is as I modeled, soon the choice will be either to stay at home for first 5 years of their child's life or go to work for little compensation. I'm not sure this is the Hobson's choice that this Committee wants to happen.

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. If you think that the average Vermont family of 4 can support \$35000 per year tuition for quality childcare then ignore this. 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.

Model Impact of Minimum Wage on Childcare Program

Andrew Sambrook, Annette's Preschool, Hinesburg

1/25/2018

Number of employees impacted		20
Increase in Minimum Wage	\$	1.00
Leverage impact		1.2 \$/every \$ minimum wage
Number of hours		40
Number of weeks		52
Cost to Program	\$	49,920.00
Additional payroll costs		20% WorkersComp/Payroll/UI/Insurance
Net add to payroll	\$	59,904.00
Number of children enrolled		80
Tuition increase per family - annual	\$	748.80
Tuition increase per family - week	\$	14.40
Current Tuition	\$	285.00
% Increase		5%