



Date: Thursday, January 18, 2018

Presented by: Sarah Kenney, Deputy Director, Let's Grow Kids

Re: S.40 anticipated impacts on Vermont's early care and learning system

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Good morning. Let's Grow Kids is a public awareness and engagement campaign committed to ensuring that all Vermont children, birth to five, have access to high-quality, affordable early care and learning programs. I greatly appreciate this committee's invitation to speak with you today about the minimum wage and its potential impacts on the early care and learning system, particularly potential benefit cliffs that could occur in Vermont's Child Care Financial Assistance Program (which I'll refer to as CCFAP for the remainder of my testimony). CCFAP is a program designed to help certain lower-income families afford child care and early learning programs.<sup>i</sup>

Let's Grow Kids believes that Vermont's early care and learning system sits at the nexus of the conversations our state is having regarding if and how to increase the minimum wage while balancing its potential to create benefit cliffs in social programs. At a fundamental level, Vermont's work force and employers depend on our early care and learning system. Early care and learning providers help to build the workforce of tomorrow and provide a vitally important resource to employees of today, many of whom would not be able to work without care for their children. In spite of their importance to our social fabric and our economy, early care and learning providers are among the lowest paid employees in the workforce. Few would dispute that Vermont's early care and learning providers need to be better compensated for their critically important work. The conversation must be rooted in the context of today's early care and learning system and the tenuous nature of this important social and economic scaffolding.

### **Current early care and learning challenges**

According to the US Census Bureau, more than 70% of Vermont's children age 5 and under have all available parents in the labor force.<sup>ii</sup> These children are likely to need some form of child care during work hours. Unfortunately, Vermont faces a shortage of regulated early care and learning options: almost half of infants and toddlers likely to need child care do not have access to a place in a regulated child care or early learning program.<sup>iii</sup>

Even if families can find a program that can take their child, the cost of child care can be a barrier. According to *How Are Vermont's Young Children and Families?*, a report issued by Building Bright Futures, Vermont families with two young children are spending more than 40% of their income on child care. This is after receiving assistance through CCFAP.

One of the main reasons why families are spending so much of their income on child care, even with assistance from CCFAP, is because CCFAP reimbursement rates paid to child care providers are up to 9 years out of date with how much providers are actually charging for their programs. To bring CCFAP's reimbursement rates in line with 2015 market rates, it would cost approximately \$9.2 million.<sup>iv</sup>

Given S. 40's proposal for increasing the minimum wage to \$15 per hour by 2022, it is projected to cost several million more to bring CCFAP's reimbursement rates in line with potential tuition rates under a higher minimum wage. If this funding gap is not addressed, it could have a substantial, negative impact on the state's early care and learning system. Providers will either have to absorb the ever-increasing difference between the reimbursement rates paid by CCFAP and their actual tuition or ask families who are already facing financial challenges to continue to cover the growing difference.

While some decision makers may consider prohibiting programs from passing on this cost and asking families to pay the difference, Colorado attempted to implement such a policy and the result was that providers either stopped accepting children receiving financial assistance through the state or were closing in areas with high numbers of children using the state's child care financial assistance program to the point that the state has had to launch a campaign to convince providers to add "just one more" slot to accept at least one child eligible for financial assistance.<sup>v vi</sup>

### **Potential impacts of increased minimum wage on early care and learning**

Increasing the state's minimum wage may provide many working families with higher wages to afford important basic needs such as child care, but such an increase also brings several significant challenges for the state's early care and learning system. These challenges include:

- 1. A Potential Benefit Cliff for Families:** As the minimum wage study committee discussed, families who receive child care assistance through CCFAP may face potential benefit cliffs if CCFAP's income eligibility and corresponding reimbursement scales are not adjusted accordingly. For some families, an increase in wages could potentially result in child care costs that are higher than the amount of their raise.
- 2. Disparity between wages for early care and learning workers and other comparable professions:** Early care and learning programs already struggle to pay their staff wages that adequately reflect the critically important work that they perform. Child care workers' wages are far below those paid to those with comparable skills and experience in the public education system. But families can't afford to pay any more for child care, so child care providers can't raise wages for their staff. Many child care programs operate on slim margins, and any increase in wages creates upward pressure on tuition rates.
- 3. Further economic challenges for early care and learning programs:** Chronic underfunding of CCFAP has led to reimbursement rates that are 9 years behind what programs currently charge. In order to increase wages for members of the early care and learning workforce, programs will have to increase their tuition significantly, further exacerbating the current gap that exists between CCFAP reimbursement rates and current market values for early care and learning tuition.

#### **1. Potential benefit cliff for families:**

Currently, families in Vermont who earn up to 300% of the 2017 federal poverty guidelines for their family size and meet certain work or education criteria qualify for some level of child care or early learning reimbursement through CCFAP. Reimbursement determination is based on a sliding scale, with families earning up to 100% of the 2017 federal poverty level for their given family size receiving 100% reimbursement and families earning between 200% and 300% of the 2017 federal poverty level receiving 10% reimbursement.

If Vermont were to increase the minimum wage, the state should consider whether CCFAP's income eligibility scale should remain pegged to federal poverty guidelines or whether it should be aligned with the state median income, which is allowed under the program's federal funding source, the Child Care and Development Block Grant. Because the state's minimum wage would theoretically increase the incomes of many families currently at or just above the current federal poverty level, moving to an eligibility and benefit scale tied to the state median income might better reflect the incomes of Vermont families in relation to expenses.

## **2. Early care and learning workforce wages:**

If the minimum wage were to increase to \$15.00 an hour, many child care providers in the state would likely have to increase their tuition rates in order to adjust their pay scales. In 2016, child care workers in Vermont earned a median annual salary of \$25,080, which equates to a median hourly wage of \$12.06 per hour.<sup>vii</sup> During this time, preschool teachers in Vermont earned a median annual salary of \$30,590, which equates to a median hourly wage of \$14.71 per hour. Given that these are median salaries, there are a number of child care workers currently making less than that amount. If the minimum wage increase were to be implemented, early care and learning programs would have to adjust their salaries accordingly, which could translate to increased tuition rates for families.

An additional consideration in early care and learning programs having to adjust tuition rates to account for the need to increase staff salaries is how our economy currently undervalues the critical work of our early care and learning providers. In contrast to the salaries earned by members of Vermont's early care and learning workforce, in 2016 Kindergarten teachers in Vermont earned a median annual salary of \$52,850.<sup>viii</sup> Updated federal and state guidelines and regulations for early care and learning providers are moving providers towards having the same credentials and academic experience as Kindergarten teachers. The fact that there is a \$20,000+ difference between median salaries for these positions highlights the challenge many programs face in keeping tuition rates affordable for families, while paying themselves or staff members wages that reflect their skills and experience.

## **3. Further economic challenges faced by Vermont's early care and learning system:**

Having to increase tuition rates also means that providers face continued economic undervaluation if they accept children who receive reimbursement through CCFAP. CCFAP has been chronically underfunded for years, and the program's current reimbursement sliding scale would need to be adjusted significantly to prevent families from facing sharp benefit cliffs. Additionally, the reimbursement rates paid by the program to providers would need to be addressed immediately.

Currently, CCFAP's reimbursement rates paid to providers reflect rates slightly higher (3%) than what Vermont providers charged families for their programs in 2008 and 2009; years behind current market rates.

## **Recommendations to help mitigate anticipated impacts**

- **Implement WAGE\$<sup>®</sup>**
  - WAGE\$<sup>®</sup> is a nationally-recognized program that supplements the salaries of early childhood professionals whose work is undervalued in the marketplace. This supplement is paid out on a regular basis (annually, biannually, or quarterly) to early childhood professionals who opt-in to the program and commit to certain quality and professional

development standards. The supplement is designed to cover the difference between current wages and a livable wage threshold or a wage level that is comparable to a similar salary in the public education section.

- For Vermont, the WAGE\$ program could be an important short-term strategy during any phase that scales up, over time, early care and learning salaries. This program could also be an important tool in attracting and retaining new early care and learning professionals to Vermont and solving some of the challenges presented by a minimum wage increase.
- **Strengthen CCFAP**
  - Due to chronic underfunding, CCFAP's reimbursement rates have not kept pace with market rates, leaving a gap between how much the state will reimburse and how much actual tuition costs. This gap means economic challenges for families and providers. Many providers cannot afford to lose the difference between CCFAP's reimbursement rate and the provider's standard tuition, so providers may ask families to cover the difference. This means that families enrolled in CCFAP who qualify for 100% reimbursement may still need to pay an additional co-pay to cover the gap. Or in other cases, providers may choose to take on the financial burden and not charge the difference, often meaning significant challenges within their personal or business budgets and providers not being paid for the true cost of caring for children.
  - Increasing funding to CCFAP could help mitigate the effects of a minimum wage increase. The Blue Ribbon Commission on Financing High-Quality, Affordable Child Care recently recommended that the state make immediate, incremental investments totaling \$43.5 million in CCFAP to address the gap between reimbursement rates and market rates, which detrimentally impacts providers, expand eligibility and increase the reimbursement for many families.
- **Loan Forgiveness for Early Care and Learning Providers**
  - The federal government currently offers full loan forgiveness to medical students who work in rural communities and teachers who work in target districts in the US. Some states have built on this model to develop state-specific programs.
  - If Vermont continues its important work focused on early childhood degree programs, an additional support to build professional capacity could be a state-managed loan forgiveness program for early care and education bachelor's or master's degree holders who stay in VT for at least a certain number of years after graduation and work in a regulated early care and learning program or who come to VT from out of state with a relevant degree and commit to being here for a certain number of years. This builds Vermont's own capacity, and supports and recognizes important work being done in other states to cultivate a professional early care and learning workforce. Additionally, it would help alleviate some of the financial burdens that providers face.
- **Vermont's T.E.A.C.H. Early Childhood<sup>®</sup> Program**
  - T.E.A.C.H. (Teacher Education And Compensation Helps) is a national, evidence-based program that increases access to higher education for early childhood teachers, program directors and family child care providers working with young children in regulated early

care and learning programs. T.E.A.C.H. provides comprehensive scholarships to enable these early educators to take coursework leading to credentials and degrees by making it possible for them to afford both the time and expense of going to school.

- With additional funding, Vermont's T.E.A.C.H. program would be able to provide full scholarships to 50 Associates Degree, 50 Bachelor, and 50 Master students each year who are pursuing degrees in early care and learning-related fields of study. With more credentials, early care and learning providers can comply with regulations and increase their recognition within the state's STARS program, which correlates to higher reimbursement rates from CCFAP.

## Summary

The conversation about increasing pay for early care and learning providers has been underway for decades and is a crucial part of solving Vermont's child care shortage. However, any effort to increase wages needs to also account for the benefits cliff, the pressures on child care businesses and the tenuous business model in which they operate, and the chronic underfunding of CCFAP. There are a number of proactive initiatives the Committee should consider to offset these impacts on early care and learning providers and the children and families they serve. By supporting or increasing funding for WAGE\$, CCFAP, a loan forgiveness program and T.E.A.C.H., Vermont could ensure the protection of the early care and learning system during the course of a minimum wage increase.

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<sup>i</sup> Hibbert, Seth F., Horwitz, Jen, Eaton Paterson, Kathleen. (December 2016). *How Are Vermont's Young Children and Families?*. Building Bright Futures: Williston, VT. p. 17.

<sup>ii</sup> US Census Bureau. Accessed via Vermont Insights: <http://vermontinsights.org/5-years-old-and-under-all-parents-in-labor-force>

<sup>iii</sup> Let's Grow Kids. (June 2016). *Stalled at the Start Vermont's Child Care Challenge*. Let's Grow Kids: Burlington, VT. [http://www.letsgrowkids.org/sites/default/files/Stalled%20at%20the%20Start%20Report%20Updated%20June%202016\\_0.pdf](http://www.letsgrowkids.org/sites/default/files/Stalled%20at%20the%20Start%20Report%20Updated%20June%202016_0.pdf)

<sup>iv</sup> Based on estimates from the Vermont Department for Children and Families, Child Development Division.

<sup>v</sup> <http://www.cpr.org/news/story/state-subsidy-causes-some-colorados-daycare-deserts-providers-say>

<sup>vi</sup> Schimke, Ann. (April 20, 2017). How Colorado is trying to boost access to quality child care for poor kids. <https://www.chalkbeat.org/posts/co/2017/04/20/how-colorado-is-trying-to-boost-access-to-quality-child-care-for-poor-kids/>

<sup>vii</sup> <http://www.vtlmi.info/oic3.cfm?occcode=39901100>

<sup>viii</sup> <http://www.vtlmi.info/oic3.cfm?occcode=25201200>