Understanding the cost of quality child care in New Mexico:

A cost estimation model to inform subsidy rate setting

Jeanna Capito

Jessica Rodriguez-Duggan

Simon Workman

June 2021

P▸5 Fiscal Strategies

About Prenatal to Five Fiscal Strategies

Prenatal to Five Fiscal Strategies seeks to address the broken fiscal and governance structures within the prenatal to five system, with a comprehensive, cross-agency, cross-service approach. The initiative is founded in a set of shared principles that center the needs of children, families, providers, and the workforce and fundamentally re-thinks the current system in order to better tackle issues of equity of funding and access.

For more information about P5 Fiscal Strategies please visit:
www.prenatal5fiscal.org

Acknowledgments

The authors wish to thank the child care providers of New Mexico who graciously gave their time and expertise to inform this study, sharing data on program operations and financials through surveys and interviews. The study was supported by Growing Up New Mexico through the New Mexico Prenatal-to-Three Initiative, funded by the Pritzker Children's Initiative. Growing Up New Mexico was instrumental in facilitating connections with child care providers across the state and coordinating stakeholder engagement, without which this study would not have been possible. Finally, the authors thank the New Mexico Early Childhood Education and Care Department for their support of the study and their willingness to embrace the need to better understand the true cost of providing high-quality child care.

Suggested Citation: Jeanna Capito, Jessica Rodriguez-Duggan, Simon Workman, "Understanding the cost of quality child care in New Mexico: A cost estimation model to inform subsidy rate setting," (Prenatal to Five Fiscal Strategies, 2021)

Report design by Barbara Dufford

Contents



Introduction and Background

Recent significant positive changes in early care and education in New Mexico encouraged state leaders to seek federal approval to pursue alternative methodology for setting child care subsidy rates under the Child Care Development Block Grant (CCDBG). System improvements, including launching a state department focused on early care and education in 2020, are focused on aligning programming and funding, meeting the needs of children and families, and increasing the capacity of providers to deliver quality services. Additionally, in March 2020, the governor and legislature enacted the Early Childhood Trust Fund, which will fund the work of the new department. At this moment in time, more than any other in New Mexico's history of early care and education, the need to ensure that child care subsidy rates reflect the cost of quality services is critical.

New Mexico, along with every other state, currently relies on the market-rate survey approach to set rates paid by public funding for child care subsidies under the federal Child Care and Development Fund (CCDF), which is the source of the CCDBG funding. In this current approach, the market is driven by the families who use child care. The market survey gathers data on what they pay for child care. After analysis of that data, the state CCDBG administrator establishes child care subsidy rates; states are encouraged to set their subsidy payment rates at the 75th percentile of the market rates found in the survey process. Under a market survey approach, child care rates paid by public funding are based on what parents can afford to pay for child care. This amount is not necessarily related to the actual cost of delivering child care (salaries and expenses to meet state regulations and quality standards) and unfairly disadvantages lower-income communities, as they typically see lower payments for child care though the actual cost of the service is the same.

CCDF rate setting occurs every three years, as part of the state's CCDF plan. States may use either a child care market-rate survey or alternative methodology, to set rates. Alternative methodology could include a cost-estimation model that incorporates data on child care operating costs. Due to the broken nature of the child care market, where the consumers—parents—are not able to pay for the actual cost of the service they are purchasing, using a market rate-setting approach that relies on the tuition these consumers can pay presents an inherently inaccurate relationship between rates and cost of the service. The alternative methodology approach involves setting rates based on the actual costs experienced by child care providers in their delivery of services, based on the type of care, age of the child, and state licensing and quality regulations.

With all this cost data informing an alternative methodology, states have an accurate picture of the cost of child care services and can use this approach to set rates. As of 2021, only one CCDF lead agency uses this approach, the District of Columbia. In the District, the implementation of alternative methodology for rate setting, instead of the market rate, has resulted in higher payment rates for all providers, in all types of care settings, compared to setting rates at even the highest percentile of the market-rate survey. The alternative methodology approach encourages quality by basing child care rates on the actual costs of delivering quality.[i]

To comply with federal law and to support providers in maintaining financial sustainability amid a changing market, the State of New Mexico and the Early Childhood Education and Care Department (ECECD) engaged external early care and education fiscal consultants, Prenatal to Five Fiscal Strategies, to conduct a robust alternative methodology approach, with both a cost study and the development of a cost-estimation model for New Mexico. The cost study and cost-estimation model variables include the level of quality, age of child, type of care setting, and geographic location. The external consultants, in partnership with ECECD, conducted deep stakeholder and provider engagement to guide the study, inform assumptions, vet cost data, and review initial results from the cost-study process. More detail on the study approach, including results of the cost-estimation model, stakeholder engagement and input, and the estimated cost of care necessary to support implementation of the health, safety, quality, and staffing requirements, including variations by geographic location, category of provider, and age of child, is found in the Study Methodology and Results sections of this report.

The cost-estimation model, informed by cost study data, allows New Mexico's ECECD and early childhood leaders to better understand the actual cost of providing early care and education services in New Mexico, including how several material variables and program characteristics impact that cost (e.g., program type, program size, quality level, age range of children, the wide variety of child populations served, and geographic location). With cost-estimation models, the alternative methodology approach is more robust than a cost study or narrow cost analysis alone. The data from New Mexico's cost study are built into the cost-estimation tool, allowing the state to understand the cost of services for different ages of children, across provider types, and at different levels of quality, compared to current and proposed subsidy rates, and to better understand the fiscal impact of policy decisions.

The cost-estimation model also integrates a revenue analysis, allowing the state to compare current or proposed subsidy rates against the cost of care, and to model the impact of other revenue streams, such as state PreK funding, or the federal Child and Adult Care Food Program. This integration of revenue and cost data into the cost-estimation model allows ECECD to run scenarios with increased rates, different quality measures, and other metrics, to understand the impact of these factors on providers and inform subsidy decisions.

The Child Care Landscape in New Mexico

Under the leadership of Governor Michelle Lujan Grisham and her Children's Cabinet, the Early Childhood Education and Care Act, which created the Early Childhood Education and Care Department (ECECD), was signed into law in 2019. The creation of ECECD brought together programs that previously resided within other state agencies. As of July 1, 2020, the NM ECECD administers child care assistance and regulatory oversight, the Child and Adult Care Food Program, Families FIRST, a perinatal case management program, Part C of the Individuals with Disabilities Education Act, Head Start State Collaboration, federal and state home visiting, NM PreK (public and private), quality initiatives, and early childhood workforce development. The ECECD strategic plan outlines its commitment to New Mexicans to create a cohesive, equitable, and effective prenatal to five early childhood system that supports families, strengthens communities, and enhances child health, development, education, and well-being.

Governor Lujan Grisham officially launched the statewide early childhood strategic plan with the Children's Cabinet Director, five Cabinet Secretaries and 500 New Mexicans in January 2020.[ii] The Plan has six goals with corresponding objectives, actions and measures:

1. Recognize all **families** in New Mexico as key decision makers and ensure they have access to the resources they need to thrive.
2. Create a cohesive **governance** system that supports an aligned, efficient, and responsive system of high-quality early childhood programs and services.
3. Ensure that New Mexico's **early childhood workforce** is supported to meet the needs of all families and young children through an aligned professional development system and through compensation that reflects the level of experience and training.
4. Provide sustainable and secure **funding** to support New Mexico's youngest children and their families.
5. Develop a statewide, integrated **data** system to better inform planning and decision-making for all stakeholders.
6. Strengthen ongoing **government-to-government** relationships with tribal communities to foster mutual trust, understanding, and partnerships that respect tribal sovereignty.

As New Mexico works to build a more cohesive, equitable, and effective prenatal to five early childhood system, improving the rate-setting approach to ensure that rates available to child care providers reflect the true cost of care and support stability in child care services is critical.

New Mexico
Early Childhood
Education & Care Department

New Mexico has several types of child care providers, including centers, large and small family child care homes, and license-exempt family child care homes. The reach of alternative methodology to ensure the voices of these providers informed the cost data and cost model development is demonstrated in the Study Methodology section of this report. The landscape of licensed child care programs in New Mexico at the beginning of data collection, September 2020, was: 549 licensed child care centers, 74 licensed homes, 129 licensed group homes, and 446 registered homes. Due to the COVID-19 pandemic, several licensed programs were temporarily closed. As of September 2020, the number of open programs was: 382 centers, 72 licensed homes, and 120 licensed group homes. Data on temporarily closed registered homes were not available. In recent months, New Mexico has seen providers reopening and reaching licensed capacity; using alternative methodology to set subsidy payment rates based on cost of care will help providers reach financial stability.

Study Methodology

New Mexico worked with external fiscal consultants to model the cost of delivering child care services at each level of FOCUS On Young Children's Learning, the state's Tiered Quality Rating and Improvement System (QRIS) at both center- and home-based settings for infants, toddlers, preschool, and school-age children. New Mexico employed an interactive cost-modeling approach based on the methodology used in the Provider Cost of Quality Calculator (PCQC), an online cost-modeling tool from the U.S. Office of Child Care. The PCQC was developed and tested by national experts including Simon Workman, who is part of the Prenatal to Five Fiscal Strategies team, and has been promoted by the Administration for Children and Families as a resource to support cost modeling. The PCQC is a dynamic, web-based tool that calculates the cost of quality care based on site-level provider data. Due to the multiple levels and funding variations in NM's early care and education system, a set of interactive Excel spreadsheets that embed the principles of the PCQC was created to model costs that align with New Mexico's child care licensing standards and FOCUS standards. These interactive spreadsheets allow comparisons across settings and a range of scenarios of facility size, composition of children's ages, and types of funding and programming.

Input from Stakeholders

The study team worked closely with Growing Up New Mexico, an early care and education non-profit with a long history of engaging child care stakeholders, to ensure the cost-modeling process was completed comprehensively and collaboratively. Part of this collaborative work included establishing a stakeholder advisory group comprising child care providers (including representatives of the state's two child care organizations), members of the state's Early Learning Advisory Council (ELAC), advocates, resource and referral staff, representatives from the New Mexico Head Start Association, representatives from the New Mexico Association for the Education of Young Children and state partners. This group was tasked with providing input on:

- the cost-survey approach and reach
- the cost-estimation model
- the quality variables that frame the model
- the model's data gathering and analysis assumptions
- ensuring that providers are engaged in both data gathering and in the review of model results
- modifications to the model based on analysis of interim results
- feedback and validation of assumptions in the model

Provider Data Collection

As part of the alternative methodology data collection, the study team conducted interviews and online surveys in English and Spanish. Data collection took place between October and December 2020.The online survey gathered cost data directly from providers. That survey was shared with all of New Mexico's licensed center and home-based child care providers, as well as registered family homes. Local partners, including New Mexico's child care resource and referral network, helped validate the survey and the overall process. The study team's analysis ensured that representative responses were collected from all provider types, from all regions of the state, and that the responses reflect the diversity of New Mexico's providers, including considerations for program quality, location, ages of children served, income, mix of children served, culture and language. The study team used maps tracking licensed provider locations and numbers to ensure that providers representing all geographic regions in the state were included.

In addition to the survey, interviews were used to gather provider data. The purpose of the interview process was to: (1) gather a deeper level of data on the cost of operating a program than could be captured through an online survey, (2) ensure data were collected from providers serving specific populations, such as infants and toddlers and children in rural communities, and providers operating at the higher levels of the state's QRIS, and (3) reach providers who preferred not to complete an online survey. All providers could request an interview rather than completing the online survey. Those who did complete the survey were prompted to respond whether they would like to participate in an interview to share information not collected in the survey.

During later stages of the data collection, outreach was targeted to providers in regions of the state that had not participated in the survey or in an interview. Targeted outreach was conducted for any underrepresented provider groups. The interviews provided additional information on how providers manage their program, including what elements, and their associated expenses, are necessary to meet the base-quality and higher-quality levels of FOCUS. This process ensures that the cost-estimation model fully captures the cost of operating both base-quality and high-quality programs and does not replicate the inadequacies and inequities of the current child care subsidy rate-setting process.

The study team conducted targeted outreach to over 60 providers to request an interview to inform the cost study. Outreach took place via email and direct phone calls and the study team provided the option of conducting interviews in English or Spanish. Interviews were primarily targeted to providers at higher levels in FOCUS to capture the specific additional costs providers face in meeting higher-quality standards. While the online survey was able to capture the cost of base level of quality personnel and non-personnel costs, the varied ways that providers meet FOCUS quality standards, and the potential cost drivers associated with these ways, were better understood via an interview.

The cost-study team received financial data from a total of 146 providers, including 115 centers and 31 family homes. This represents 30 percent of open centers and 16 percent of open homes (weighted average of 25.2 percent) (as of September 2020), or 21 percent of all licensed centers, and 15 percent of all licensed homes (weighted average of 19.4 percent). The geographic distribution of responses reflects the distribution of providers across the state: 72 percent of responses were from urban providers, (71 percent of providers are in urban counties and 77.5 percent of total capacity is in urban counties) and 28 percent of responses were from rural providers (29 percent of providers are in rural counties and 22.5 percent of capacity is in rural counties).

Once data collection was completed, it was imperative that the data used to inform cost assumptions in the model accurately reflected the New Mexico provider experience. The assumptions used in the model varied based on cost drivers such as ratio and group sizes, compensation, professional qualifications, fee collection (i.e., level of bad debt), and others. Detailed information on the assumptions is covered in Appendices B and C. Use of the cost-modeling spreadsheets also made it possible to include a range of revenue sources, including child care subsidy, private tuition, and the Child and Adult Care Food Program. The assumptions underlying the cost model were vetted by key stakeholders, and initial findings were reviewed before they were shared in a series of public meetings. All meetings offered American Sign Language (ASL) interpretation, and one session was specifically presented in Spanish. Additionally, at each discussion of the cost study, the introduction was done in both Spanish and English, and a separate breakout room was available to accommodate Spanish speakers. Day and evening meeting times helped accommodate provider schedules.

Stakeholder meetings during the cost estimation process

Content	Date
Child Care Study Launch	July 15, 2020
Child Care Quality Frame Discussion	September 1, 2020
Child Care Quality Measures and Cost Drivers	September 10, 2020
Child Care Small Group Meeting	October 21, 2020
Discussion of Cost Model Assumptions	March 4, 2021
Discussion of Cost Model Findings – ELAC	March 11, 2021
Discussion of Cost Model Findings – Public Stakeholder Feedback Meetings	March 24, 2021 (ASL interpretation) March 30, 2021 (ASL interpretation) April 1,2021 (Spanish session; ASL interpretation)

Results

Default scenario assumptions

The cost-estimation model can be used to run multiple scenarios to estimate the cost per child of various program characteristics and quality variables. The cost-estimation model is a dynamic tool that ECECD can use to help set child care subsidy rates, creating scenarios that reflect the current child care landscape.

To provide illustrative results to inform this report, the study team created a default scenario for a child care center, small family child care home (FCC), and large family child care home (FCC). For licensed centers, the default scenario is a program serving children from birth through school age, with one classroom per age group, licensed to serve between 78 and 110 children, depending on Star level. This scenario was selected based on analysis of child care licensing data which found average capacity in a licensed center in New Mexico of 79 children. In addition, data from the study team's provider survey found that a majority of programs served children birth through school age, with an average of five classrooms and capacity for 88 children. The default scenarios are further impacted by the FOCUS quality levels. There are four Star levels in New Mexico's FOCUS quality system, and these drive several quality variables, including ratio and group size decreasing at higher levels of quality difference in total children across the scenario at the levels of quality. The results that follow in this section are based on these default scenarios.

The child care center default scenario is a program serving children from birth to school age, as shown in Table 1:

Table 1: **Size and ages served in default scenario**

Age Group	Number of classrooms	Total Enrollment at Licensed/ 2+ Star, 3 Star, 4 Star	Total Enrollment at 5 Star
Under 2s (Infants)	1	12	8
2- to 3-year-olds (Toddlers)	1	20	12
3- to 4-year-olds (Preschoolers)	1	24	18
4- to 5-year-olds (Preschoolers)	1	24	20
Kindergarten entry and above (School age)	1	30	20

The FCC default scenarios assume enrollment of six children in a small FCC home, referred to as licensed FCC in New Mexico, with no more than two infants, and 12 children in a large FCC home, referred to as a group home, with no more than four infants.

In both the center and family child care scenarios, the model is run using Bureau of Labor Statistics (BLS) salaries adjusted to account for a $12.10 minimum wage. Full salary data used in the model are detailed in Appendix B. The default scenario provides health insurance to employees, as well as 10 days paid sick leave and 10 days of paid time off.

The cost per child data presented in the tables below are full-day, full-year rates, for a program that pays Gross Receipts Tax, a New Mexico specific sales tax, and makes a 5 percent contribution to an operating reserve. The calculations also account for the program operating at 85 percent of licensed capacity, and 97 percent of expected revenue being collected. This is in line with best practices for cost-modeling child care operations.[iii]

For licensed FCC and group homes the cost model does not produce age-based differences for full-time, full-year care because the program operates as a single classroom, without age-based ratios and group sizes under New Mexico regulations. The default scenario includes no more than two infants, which negates the need for an extra staff person based on the number of infants.

Tables 2 through 4 detailed the annual cost per child based on these default scenarios, including variations by age and quality level.

Table 2: **Cost of quality in licensed child care center**

	Annual cost per child			
Age Group	**Licensed/2 Star**	**2+/3 Star**	**4 Star**	**5 Star**
Under 2s	$ 12,024	$ 12,336	$ 15,432	$ 19,260
2- to 3-year-olds	$ 9,156	$ 9,408	$ 11,940	$ 15,192
3- to 4-year-olds	$ 8,436	$ 8,676	$ 10,776	$ 12,468
4- to 5-year-olds	$ 8,436	$ 8,676	$ 10,776	$ 11,928
School age (kindergarten entry and above)	$ 5,196	$ 5,820	$ 6,972	$ 8,400

Table 3: **Cost of quality in licensed family child care home**

	Annual cost per child			
Age Group	**Licensed/2 Star**	**2+/3 Star**	**4 Star**	**5 Star**
Birth – school age	$ 10,284	$ 11,940	$ 12,756	$ 13,596
School age (kindergarten entry and above)	$ 5,712	$ 6,612	$ 7,092	$ 7,548

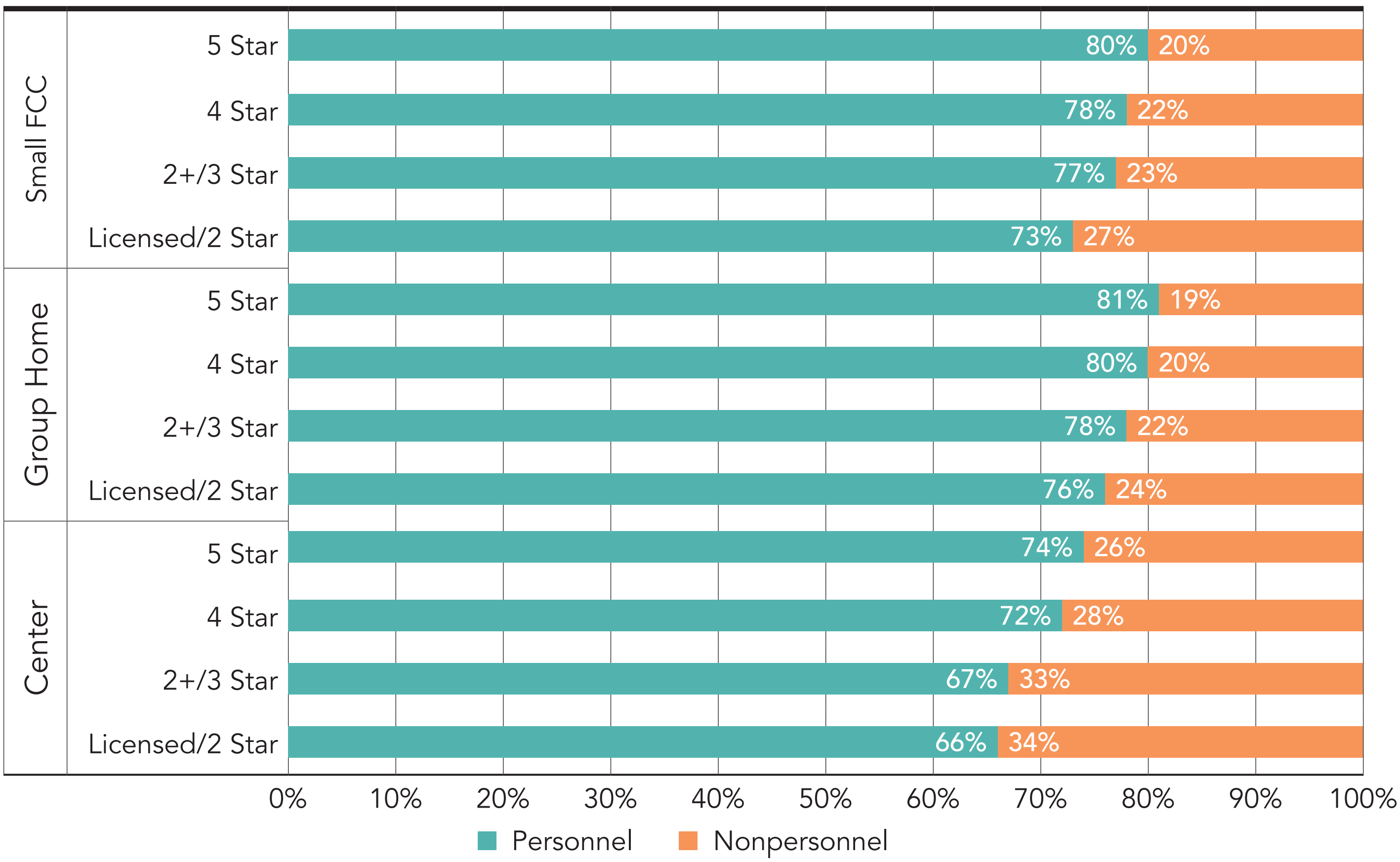
Table 4: **Cost of quality in group home**

	Annual cost per child			
Age Group	**Licensed/2 Star**	**2+/3 Star**	**4 Star**	**5 Star**
Birth – school age	$ 10,044	$ 10,944	$ 11,724	$ 12,504
School age (kindergarten entry and above)	$ 5,316	$ 5,796	$ 6,204	$ 6,624

Distribution of expenses

The default scenarios allow for analysis of how the cost of care is distributed across expenses within a program. This analysis can help identify opportunities for efficiencies and better understand the potential impact of changes to current rates. Figure 1 shows the breakdown of expenses between personnel and nonpersonnel costs in the default scenarios at each level of quality. As shown in the chart, personnel expenses account for between 66 percent and 74 percent of overall expense in a center, between 73 percent and 80 percent in a licensed home and between 76 percent and 81 percent in a group home. This share of expense increases as the quality level of the program increases due to the increased salaries at the higher star levels.

Figure 1: **Personnel and nonpersonnel expenses as a share of total expense, by quality level.**



Registered family child care homes

The cost estimation model estimates the cost of meeting state licensing standards and higher standards as defined by New Mexico FOCUS. New Mexico also has license-exempt family child care settings, or registered homes, as part of its child care system. Registered homes serve up to four non-resident children, in addition to up to two resident children. Registered homes do not follow the same licensing requirements as licensed homes, or participate in the FOCUS quality system, so an alternate approach was used to estimate the cost of providing care in these settings. Given the large variability in how registered homes operate, including the number of children served, the length of time the program operates, the financial needs of the owner, and the direct expenses they incur, developing a default model has many challenges. The cost-estimation model is based on licensing standards and quality regulations, therefore the tool is not a match for estimating costs of registered homes.

As a result, in consultation with ECECD and based on analysis of data in other states, the study team estimated the cost per child of providing care in a registered home based on a minimum wage for the educator. Using a minimum wage of $12.10 per hour, the registered home provider needs to collect $25,168 annually to meet this minimum wage. For this calculation, the study team then applied the number of non-resident children registered homes are allowed to care for under this license-exempt status which is four non-resident children. As such, the rate per child that is needed for the provider to achieve the minimum salary is $6,292 per year, or $524 per month. This approach enables registered home providers to make minimum wage if they operate at full capacity and collect full revenue from all families.

Themes

Several themes emerge in using the New Mexico cost-estimation tool, related to current subsidy rates and policy.

I. Current subsidy rates are insufficient to cover the true cost of care

The cost-estimation tool demonstrates that the current subsidy rates do not cover the cost of care for any age group from birth to age five, at any quality level or type of setting. School-age is the only age group where the current subsidy rates cover the cost of care, at some quality levels. For school-aged care in center-based settings, the subsidy rate is sufficient to cover the cost of care generated by the cost-estimation model, at all quality levels except 5 Star. For group homes, the subsidy rate is insufficient compared to the cost of providing services at 2 Star, but sufficient at higher levels of quality. In licensed homes, those serving six children, the cost model demonstrates subsidy payment rates for school-aged care in 2 Star, 2+/3 Star, and 4 Star homes are insufficient, compared to the cost of care at these levels.

The insufficiency of the current child care subsidy rates is important to understand as part of decision making related to setting new rates. The largest gap between cost of care demonstrated by the model and the current subsidy rates is found in **center-based infant care**. At all levels of quality, the gap between the actual cost of care in a child care center and the current subsidy rate is larger for infants than any other age group. Figures 2 through 6 demonstrate the monthly gap between cost per child and subsidy rates for each age group. The infant age group has the largest gap at each quality level, and has the largest shortfall overall, with infant care at the highest level of quality costing $334 more per month per child than the maximum monthly subsidy payment.

2 Star 2+/3 Star 4 Star 5 Star

Figure 2: **Monthly gap between subsidy and cost per child, center-based, infants**

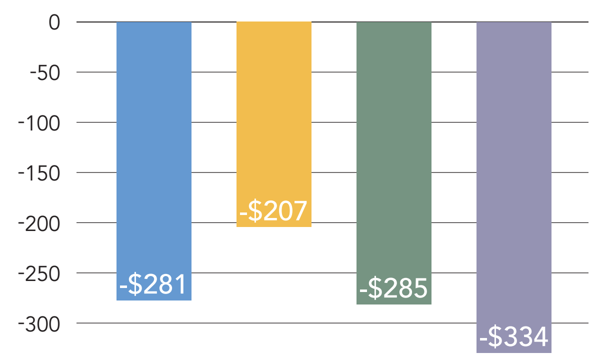


Figure 3: **Monthly gap between subsidy and cost per child, center-based, toddlers**

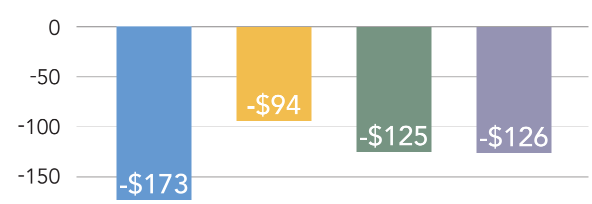


Figure 4: **Monthly gap between subsidy and cost per child, center-based, 3-year-olds**

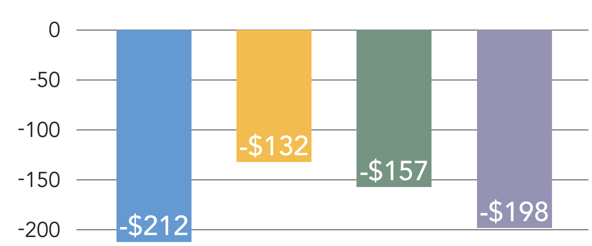


Figure 5: **Monthly gap between subsidy and cost per child, center-based, 4-year-olds**

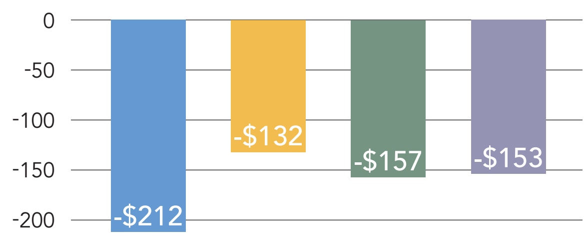
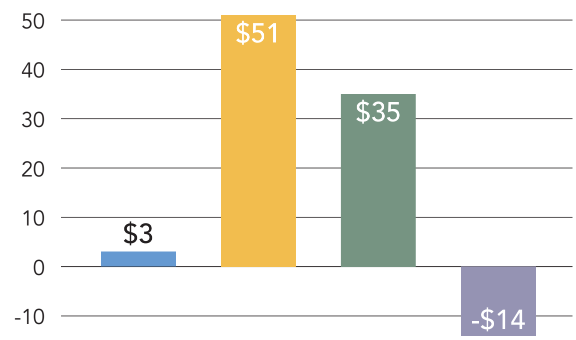


Figure 6: **Monthly gap between subsidy and cost per child, center-based, school-age**



Family child care settings are small businesses, usually operated by the owner. The owners of these businesses face a reality that their income is based on net profit left at the end of the year. In many instances this translates to 50 percent of the regional minimum wage for a full- time equivalent. To understand the actual cost of child care in this setting, the cost-estimation model assigns a salary for the family child care owner/provider. Figures 7 through 11 demonstrate the results of modeling for **licensed family child care homes**. Figures 12 through 16 demonstrate results for **group family child care homes**. As the owner/provider meets the state licensing and quality regulations of the lead teacher or educator, the salary of that position, commensurate with a center, was used at all quality levels and both types of family child care homes. The model results demonstrate there is no quality level or age of child, from birth to five years, where the current subsidy rates cover the cost of family child care services when the provider is paid a salary.

Figure 7: **Monthly gap between subsidy and cost per child, licensed FCC, infants**

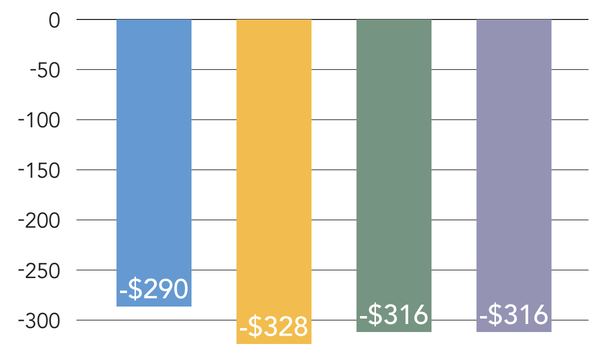


Figure 8: **Monthly gap between subsidy and cost per child, licensed FCC, toddlers**

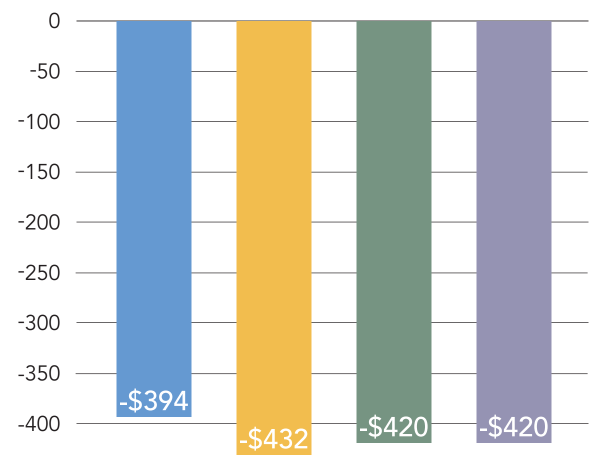
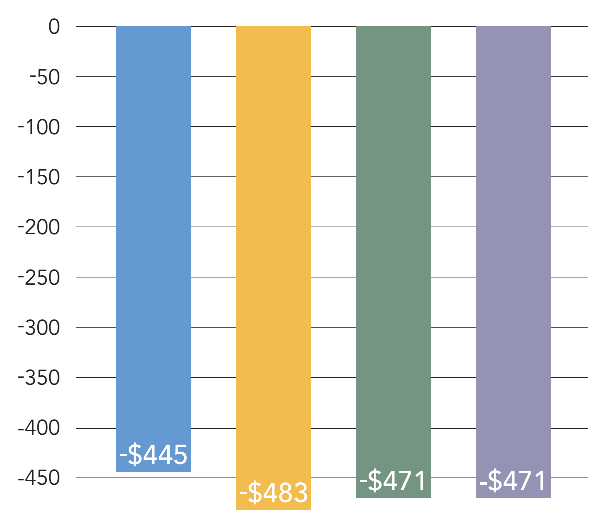


Figure 9: **Monthly gap between subsidy and cost per child, licensed FCC, 3-year-olds**



2 Star | 2+/3 Star | 4 Star | 5 Star

Figure 10: **Monthly gap between subsidy and cost per child, licensed FCC, 4-year-olds**

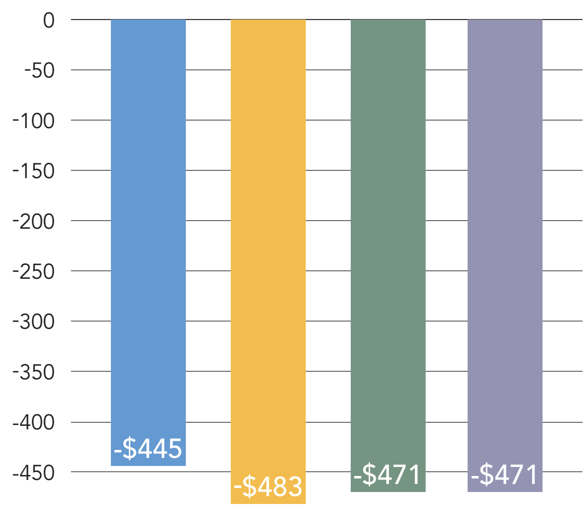


Figure 11: **Monthly gap between subsidy and cost per child, licensed FCC, school-age**

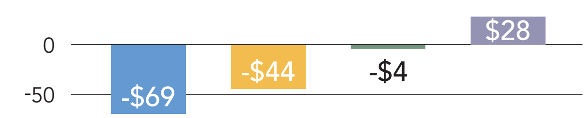


Figure 12: **Monthly gap between subsidy and cost per child, group home, infants**

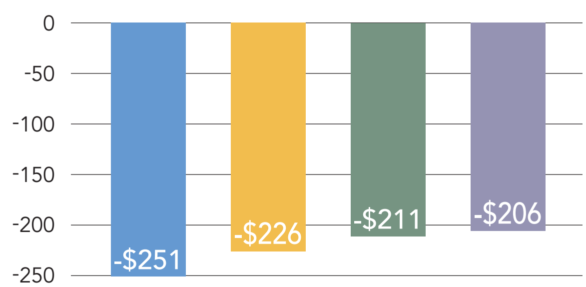


Figure 13: **Monthly gap between subsidy and cost per child, group home, toddlers**

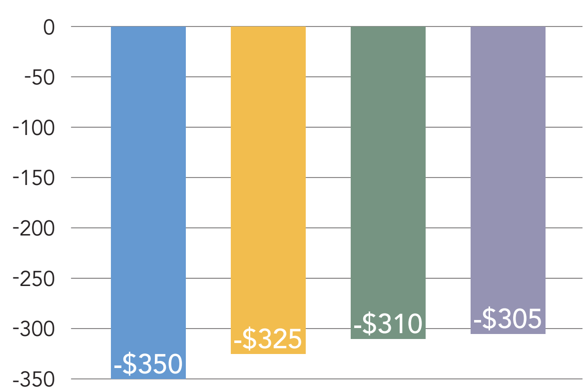


Figure 14: **Monthly gap between subsidy and cost per child, group home, 3-year-olds**

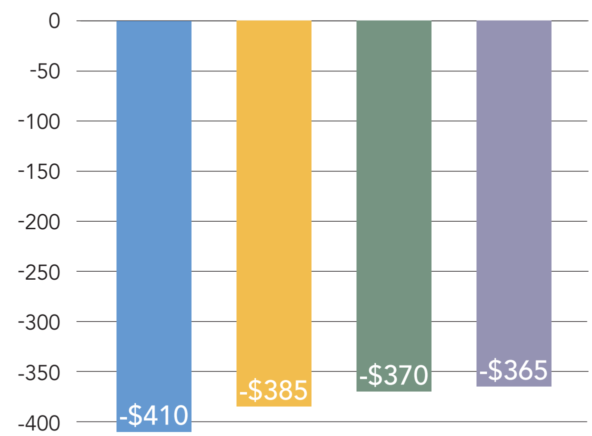


Figure 15: **Monthly gap between subsidy and cost per child, group home, 4-year-olds**

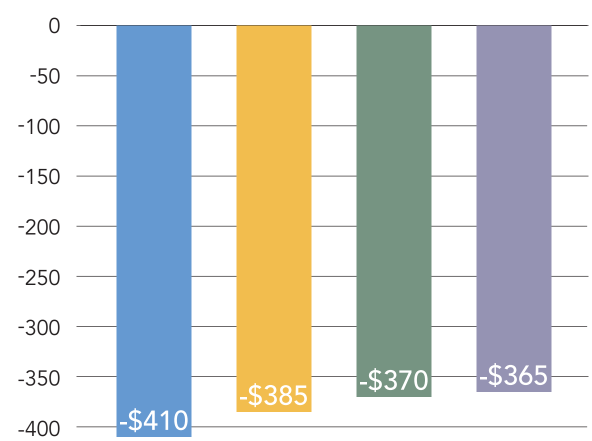
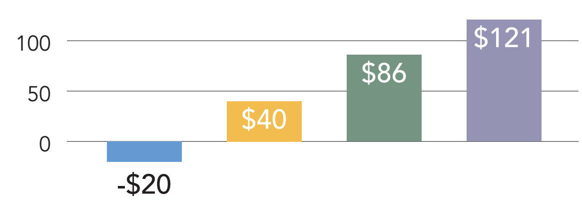


Figure 16: **Monthly gap between subsidy and cost per child, group home, school age**



For registered family homes, if the provider relies solely on income from subsidy child care, under the current subsidy rates they would only generate revenue of about $12,800 per year (assuming 1 infant, 1 toddler, 1 preschooler and 1 school age). Based on a 40-hour work week this is the equivalent of only $6.16 per hour.

2 Star **2+/3 Star** **4 Star** **5 Star**

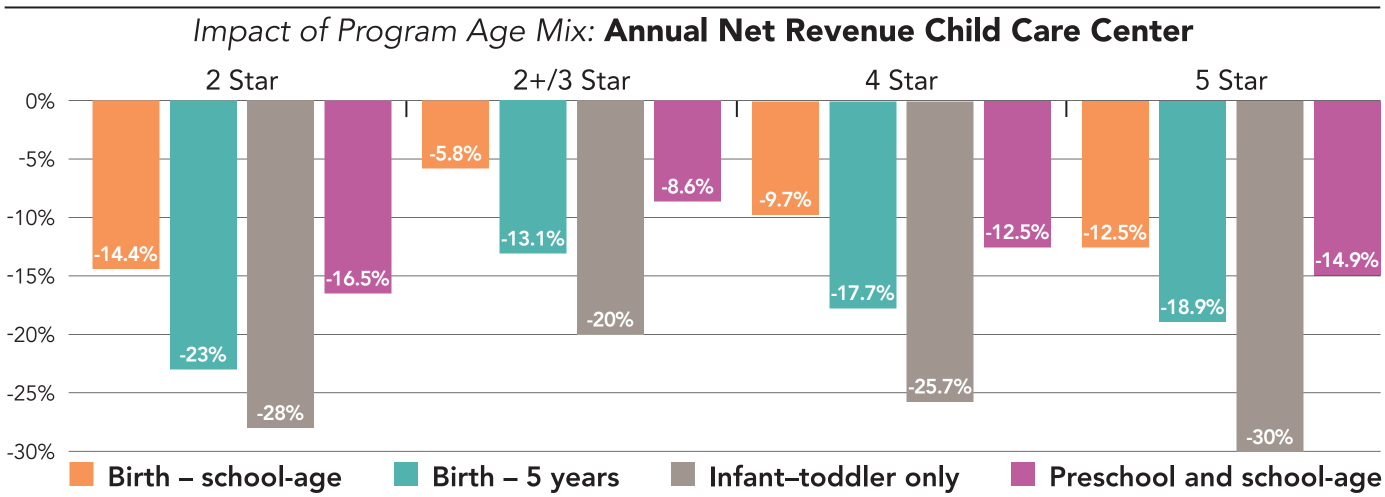
Current rates disincentivize quality

New Mexico uses a tiered reimbursement system currently, therefore rates at higher levels of quality are higher than those for the same child age at lower levels of quality. The cost-estimation model demonstrates that these increased payment rates do not keep pace with the increased costs associated with higher levels of quality. In this way, the current rates are a disincentive to function at higher-quality levels. For example, centers serving infants and preschoolers lose more money per child, per month, when they achieve 4 Star and 5 Star. The smallest gap in cost compared to revenue for infants and preschoolers is found when a center remains at a Star level 2+/3. Similarly, in licensed FCCs the cost model demonstrates that providers face the same gap in revenue serving children from birth to five whether functioning at a 4 Star or 5 Star level, thus offering no incentive for a provider to move to 5 Star. Tiered reimbursement approaches are designed to incentivize providers to deliver higher quality. These levels of quality typically have greater costs, something the cost model results showed for New Mexico providers.

II. Program financial viability requires a mixed-age group of children

To be financially viable, programs need to serve a mix of ages. The cost-estimation model demonstrates that center-based programs serving only infants and toddlers suffer the most financially as shown in Figure 17. At any level of quality, a program that serves only infants and toddlers sees the biggest gap between the cost of those services and the funding they receive under current subsidy rates. As Figure 17 demonstrates, the cost model results find the most financially viable option to serve children under the current rates is to include all ages, birth to school-aged. Even settings serving children from birth to five years do only marginally better than if they only served infants and toddlers. The most financial benefit comes from having a full mix of ages: infants, toddlers, and preschoolers, along with school-aged children. Unfortunately, there is no quality level example where the mix of all ages of children puts a program's annual net revenue into solvency; in all instances programs are operating at an overall loss. Additionally, the issue of the higher reimbursement rates for higher levels of quality not being sufficient under the current rates remains true when considering age mix of children. Greater losses, regardless of the age mix of children are seen at 4 Star and 5 Star, compared to 2+/3 Star, thus programs have no financial incentive to move to higher levels of quality after reaching 2+/3 Star.

Figure 17: **Comparison of center-based program net revenue when different ages of children are served**

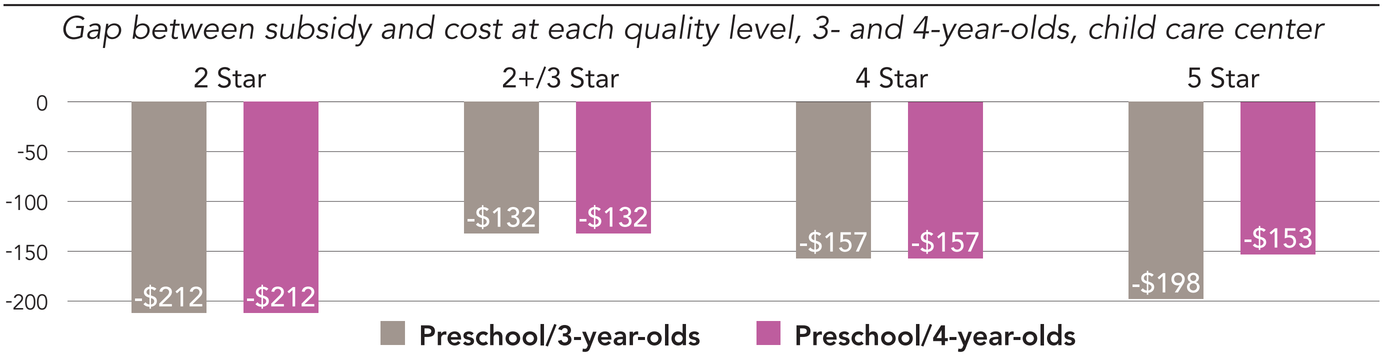


III. State policies need to align with the reality of program operations

The cost-estimation model results demonstrated instances where state policies are misaligned with the reality of program operations. For instance, the cost-estimation model finds that the current rate structure disincentivizes serving 3-year-olds in a 5 Star program. Licensing ratios and group size requirements are the same for 3- and 4-year-olds until a program reaches FOCUS level 5 Star. At this point, the ratio and group size for 3-year-olds decreases. However, child care subsidy pays the same for a preschooler regardless of age. The lower group size and ratios leads to higher costs to serve 3-year-olds at 5 Star, but this higher cost is not reflected in current subsidy payment rates, creating a larger gap for 3-year-olds at 5 Star, as shown in Figure 18.

The result of this could be that a program opts not to increase quality to 5 Star because it will have to decrease the group size and lose revenue, or a 5 Star program chooses not to serve 3-year-olds. Alternatively, many programs likely operate a mixed-age preschool room across 3- and 4-year-olds. To continue operating a mixed-age classroom once it reaches 5 Star, the program would have to use the lower ratio and group size for the whole room. Therefore, the cost of 4-year-olds at 5 Star would be the same as the increased cost for 3-year-olds, as opposed to what the "per regulation" cost is demonstrating.

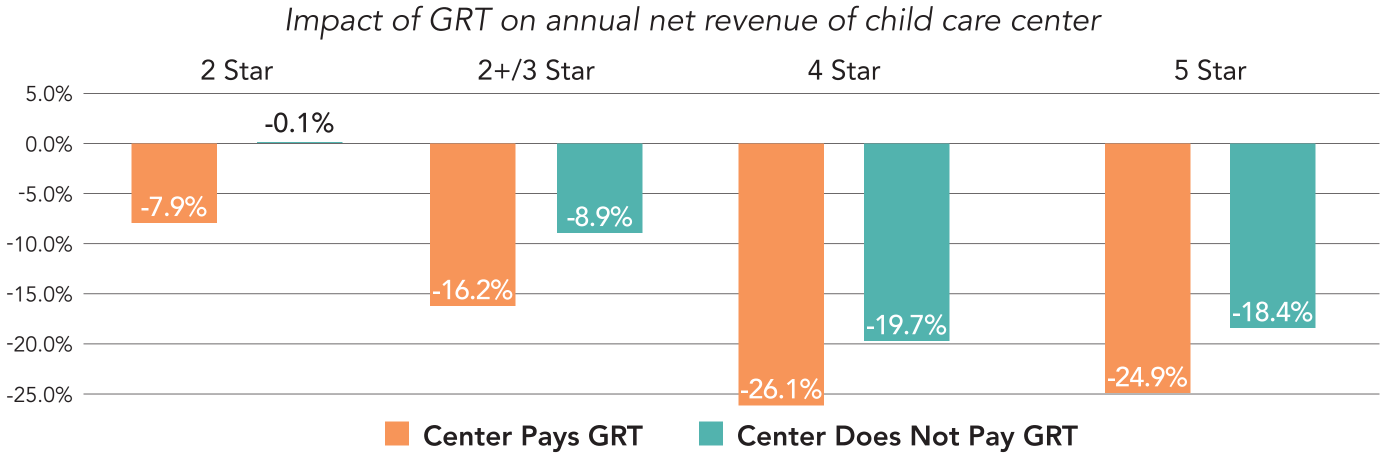
Figure 18: **Comparison of cost/subsidy gap for preschool-age children**



New Mexico Gross Receipts Tax

New Mexico has a taxing approach for businesses, the Gross Receipts Tax (GRT). This tax is levied on for-profit businesses, including for-profit child care programs, irrespective of whether they serve families accessing publicly funded child care subsidies. As Figure 19 demonstrates, programs fare better financially when they do not pay the Gross Receipts Tax. Many programs that are required to pay the GRT pass this expense on to the families they serve, dividing the annual GRT either among only families who pay private tuition, or among all families enrolled in their program including subsidy recipients, levying an additional family payment beyond the co-payment under the subsidy structure. In these programs, families who qualify for publicly funded child care subsidy assistance are paying for the costs associated with a state tax. Programs are forced into this position due to the overall insufficiency of child care subsidy rates, meaning they are unable to cover the cost of GRT without recouping the expense from families. Given the insufficiency of public funding to pay for child care, adding an additional requirement to pay a tax can have a significant impact on the financial stability of child care providers.

Figure 19: **Impact of GRT on annual net revenue**



IV. Regional analysis

The cost study investigated the regional variations in programs' expenses in New Mexico. No significant regional variation in expenses was found. While variations in program occupancy expenses were seen, these were not aligned with geographic location, and instead were the result of individual program characteristics, such as whether the program was co-located in another building, had an organizational sponsor that covered occupancy costs, or had a long-term, below-market lease.

Additionally, in analyzing program operations and interviewing child care programs, no variance in the implementation of child care licensing or quality regulations was found across regions. While some variations in salaries were reported by providers, these differences were often aligned with program quality level of primary funding source (such as child care assistance or private tuition), rather than geographic location. In regions where lower salaries were found in data collection, these fell below the minimum wage standard for 2021, thus the regional difference in salary was eliminated when bringing salaries up to 2021 minimum wage requirements.

As a result, the cost-estimation model does not use different data for the regions of the state. All the data gathered, across all geographic regions of the state, is used in aggregate to inform program cost and operations reality in the model. The scenarios modeled represent a statewide expense for child care, with other variations in type of care, quality level, age of children served, program composition, and size of program. New Mexico currently uses a single-rate approach across the geographic regions of the state; this rate structure was used to compare expenses generated by the cost-estimation model with available subsidy revenue.

Conclusion

The process of engaging in a cost study and development of a cost-estimation model provides new information to child care leaders and offers opportunities to adjust subsidy rates and policies in accordance with findings related to program operations. New Mexico is one of few states that have fully engaged in the process and is possibly the only state to pursue approval for alternative methodology with their Child Care Development Fund plan for 2022–24. Alternative methodology has tremendous potential to inform changes needed to alter broken elements of the child care market, with the focus on using what it costs to provide child care at different levels of quality to set subsidy rates. In New Mexico, the study process to support its implementation of alternative methodology pointed to several themes: current rates are insufficient at any level of quality for services to children from birth to five years; the quality incentive structure does not keep up with the actual increase costs at higher levels of quality; programs need to serve mixed ages to cover some of the steepest losses; and state policies on child to-adult ratios and taxing structures impact the program bottom line, driving decisions that impact quality and cost levied on families. New Mexico child care leaders now have new information and analysis to support their efforts to increase child care subsidy rates to align with the cost of quality and increase access to high-quality settings for low-income working families.

Appendix

A. Definitions

Term	Definition
CACFP	The federal child and adult care food program, provided through the U.S. Department of Agriculture and administered by ECECD.
Co-payment	The portion of the approved and agreed upon monthly child care cost for clients receiving child care assistance that the client is required to pay to the child care provider. The department's payment to the provider is reduced by the co-payment amount.
Child Care Subsidy	New Mexico's child care subsidy program is called Child Care Assistance (CCA) or the Child Care Assistance Program (CCAP). This program subsidizes the cost of childcare for low-income parents, grandparents or legal guardians that are working and/or in school, or in a job training program and have a need for childcare. Families are eligible for the program when their income is at or below 200% of the federal poverty level and remain eligible until income exceeds 250% of the federal poverty level. Any child between the ages of six weeks and 13 years old (or up to 18 years of age if special supervision is required) who meets the above eligibility requirements may qualify for the subsidy. The subsidy amount varies depending upon the age of the child, the type of childcare, the location of the program, and the quality rating of the childcare program. Childcare is funded through a combination of federal block grants (Child Care Development Block Grant (CCDBG) and Temporary Assistance for Needy Families (TANF)) and state appropriations through the General Fund.
Department	New Mexico Early Care and Education Department
ECECD	New Mexico Early Care and Education Department
ELAC	Early Learning Advisory Council, a thirteen-member body which makes recommendations and advises the government and legislature regarding early learning issues in New Mexico.
FOCUS	FOCUS is New Mexico's Tiered Quality Rating and Improvement System (TQRIS) that supports early learning providers and allows parents to identify high quality early learning programs. It provides criteria, tools, and resources for providers to improve the quality of their programs. The five-level rating system (or STAR levels) applies to licensed child care providers. The system ascends in quality elements and offers tiered reimbursements based on STAR level. Programs that attain STAR levels 4 and 5 are considered "high quality." Additionally, STAR level 5 requirements and the NM Pre-K standards are both based on the criteria for accreditation through the National Association for the Education of Young Children.

Friend, family, or neighbor (FFN)	Care to be provided temporarily in a home to be self-certified by the parent or legal guardian and registered by the department, not to exceed six months. In the case of a public health emergency, the department may extend the temporary status.
Infant	Child zero–23 months
Licensed family child care home	Child care provided in the home of a provider who is licensed by the department to care for up to six children.
Licensed group child care home	Child care provided in the home of a provider who is licensed by the department to care for up to 12 children.
Parents	This term is used broadly to include biological parents; grandparents; foster parents; adoptive parents and other caregivers who are caring for a child birth to 5.
Preschooler	Three- to five-year-olds
Registered home	Child care provided in the home of a provider who is registered with the department to care for up to four non-residential children and up to two resident children. All registered homes receiving child care assistance subsidies must be enrolled and participate in the child and adult care food program (CACFP) unless they are exempt.
School age	Six-year-olds and older
Star level	A license indicating the level of quality of an early childhood program. A greater number of stars indicates a higher level of quality.
Toddler	Child 24–35 months

B. Salary data

Table 5: **BLS categories used in model**[iv]

Child Care Estimation Model Position	BLS category	Description
Director	11-9031 Education and child care administrators, preschool, and daycare	Plan, direct, or coordinate academic or nonacademic activities of preschools or child care centers and programs, including before- and after-school care.
Lead Teacher	25-2011 Preschool teachers, except special education	Instruct preschool-aged student, following curricula or lesson plans, in activities designed to promote social, physical, and intellectual growth
Assistant Teacher	39-9011 Child care workers	Attend to children at schools, businesses, private households, and childcare institutions. Perform a variety of tasks, such as dressing, feeding, bathing, and overseeing play.
Kindergarten Teachers	25-2012 Kindergarten teachers, except special education	Teach academic and social skills to kindergarten students

Table 6: Salary data used in model

		FY19 Data Collection	Licensed/ 2 Star	2+ or 3 Star	4 Star	5 Star
Director		$ 44,965	$ 50,940	$ 50,940	$ 56,034	$ 61,128
Assistant Director		$ 33,629	$ 40,752	$ 40,752	$ 44,827	$ 48,902
Administrative Support	$10.50 min wage	$ 23,407	$ 21,840	$ 21,840	$ 24,024	$ 26,208
	$12.10 min wage		$ 25,168	$ 25,168	$ 27,685	$ 30,202
Teacher		$ 27,445	$ 33,160	$ 33,160	$ 36,476	$ 39,972
Assistant Teacher	$10.50 min wage	$ 24,197	$ 23,470	$ 23,470	$ 25,817	$ 28,164
	$12.10 min wage		$ 25,168	$ 25,168	$ 27,685	$ 30,202
Floater	$10.50 min wage	$ 21,433	$ 21,840	$ 21,840	$ 24,024	$ 26,208
	$12.10 min wage		$ 25,168	$ 25,168	$ 27,685	$ 30,202
Family Child Care Provider		$ 16,980 *(avg. biz income)*	$ 33,160	$ 33,160	$ 36,476	$ 39,972

C. Cost model methodology

The cost-estimation model is an Excel-based tool based on the methodology used in the Provider Cost of Quality Calculator, an online tool from the U.S. Office of Child Care. The Excel model is customized for New Mexico's specific context. The specifics of the model are detailed below.

Ratio and Group Size

The cost model uses ratio and group size data from New Mexico's child care licensing regulations as detailed below.

Table 7: **Center Ratio and Group Size**

	Licensed/2 Star		2+/3 Star		4 Star		5 Star	
	Ratio	**Group size**	**Ratio**	**Group size**	**Ratio**	**Group size**	**Ratio**	**Group size**
Under 2 (infant)	1:6	12	1:6	12	1:5	10	1:4	8
2-3 years	1:10	20	1:10	20	1:8	16	1:6	12
3-4 years	1:12	24	1:12	24	1:10	20	1:9	18
4-5 years	1:12	24	1:12	24	1:10	20	1:10	20
School age	1:15	30	1:15	25	1:12	24	1:10	20

Two types of family child care programs are included in the model. A home can serve up to six children, with no more than two infants unless an additional educator is present. A group home can serve up to 12 children, with two educators, including up to four infants.

Staffing and personnel expenses

The personnel calculations are based on a standard staffing pattern typical of most centers, with the following assumptions built in:

Non-teaching staff

- Program director (one full time)
- Assistant director (0.5 FTE if 30 children or fewer, one FTE if 31 or more children enrolled)
- Administrative assistant (0.5 FTE if 30 children or fewer, one FTE if 31 or more children enrolled)

Classroom staff

The number of teachers and assistant teachers is driven by New Mexico's ratio and group size regulations. Each classroom has a lead teacher, with additional staff counted as assistant teachers to meet ratio requirements. In schoolage classrooms, teaching staff are calculated at 60 percent salary to account for summer and before-/after-school care only.

The model also includes an additional 0.2 FTE per classroom teaching staff to allow for coverage throughout the day for breaks and opening/closing. This reflects that the program is open more than 40 hours per week so to always maintain ratios, additional staffing capacity is needed.

Family child care homes

In licensed homes, the owner/lead educator is the only staff member unless more than two infants are present, in which case an assistant is added. In group homes, an assistant teacher is included at all times.

Mandatory and Discretionary Benefits

Mandatory benefits are included for all salaried staff, including FICA-Social Security at 6.2 percent, Medicare at 1.45 percent, unemployment insurance at 0.5 percent and workers' compensation at 2 percent.

By default, 10 days paid sick leave and 10 days paid leave is included for all staff. This is captured as an expense by including the cost to pay a substitute teacher to provider classroom coverage.

If the health insurance option is selected in the model, an annual amount of $4,967 per FTE is included, which is the average annual employer contribution to health insurance, based on Kaiser Family Foundation data for New Mexico.[v] This benefit is included in the model as a dollar amount, which individual providers could choose to deploy in different ways, including health insurance contribution, retirement contribution or other discretionary benefits.

Nonpersonnel Expenses

Nonpersonnel costs are aggregated into five categories:

Education Program for Children and Staff, which includes:

- **Education/Program—Child:** Food/food related, classroom/child supplies, medical supplies, postage, advertising, field trips, family transportation, child assessment materials.
- **Education/Program—Staff:** Professional consultants, training, professional development, conferences, staff travel

Occupancy: Rent/lease or mortgage, real estate taxes, maintenance, janitorial, repairs, and other occupancy-related costs

Program Management and Administration: Office supplies, telephone, internet, insurance, legal and professional fees, permits, fundraising, memberships, administration fees

School-age transportation: For school-age classrooms, additional expense is included to account for transportation costs.

Values for each of these nonpersonnel categories is based on data collected from New Mexico providers in the cost model survey. The table below provides the values used in the default scenario (Center: five classrooms, serving children birth through school age; small FCC: six children; large FCC: 12 children)

Table 8: **Nonpersonnel expenses**

Expense Category	Child Care Center – Annual amount	Small Family Child Care Home – Annual amount	Large Family Child Care Home – Annual amount
Education/Program – Child	$1,225 per child	$870 per child	$1,780 per child
Education/Program – Staff	$100 per child	$40 per child	$40 per child
Occupancy	$20,350 per classroom	$5,140 per home	$5,140 per home
Program Management and Administration	$105 per child	$1,130 per child	$1,050 per child
School age transportation	$420 per child	N/A	N/A

In addition to these expenses, the model also includes a 5 percent contribution to an operating reserve, a practice that contributes to long-term financial sustainability, and helps programs survive unexpected interruptions to their revenue or unanticipated one-time expenses.

Adjustments to anticipated revenue

The model takes into account how providers operate. No program is 100 percent full all of the time and as such the model adjusts the expected revenue to account for classrooms not operating at full capacity. By default, this enrollment efficiency is set at 85 percent, which is the industry standard, meaning that the cost per child calculations are based on the program needing to cover its expenses when only collecting revenue from 85 percent of the total licensed capacity.

In addition, the model also accounts for uncollected, or bad, debt. This reflects the reality that programs are not always able to collect full tuition from families, or families leave the program while still owing tuition. This also accounts for uncollected subsidy co-payments. The model uses the industry default of 3 percent bad debt.

Revenue

For the purposes of understanding the sufficiency of current revenue streams to support the cost of quality child care, the model includes revenue data. The following revenue data are included:

Child Care Subsidy – federal Child Care and Development Block Grant funding

Current subsidy rate data are used, including quality differentials for FOCUS Star levels. Current monthly subsidy rates, the New Mexico Child Care Assistance Program, are detailed in table 9 below.[vi]

Table 9: **Monthly Child Care Subsidy Rates (New Mexico Child Care Assistance) as of May 2021**

CENTERS	2 Star	2+ Star	3 Star	4 Star	5 Star
Infant	720.64	808.64	820.64	1000.64	1270.64
Toddler	589.55	677.55	689.55	869.55	1139.55
Preschool	490.61	578.61	590.61	740.61	840.61
School age	436.27	524.27	536.27	616.27	686.27

FCC	2 Star	2+ Star	3 Star	4 Star	5 Star
Infant	566.98	654.98	666.98	746.98	816.98
Toddler	463.50	551.50	563.50	643.50	713.50
Preschool	411.62	499.62	511.62	591.62	661.62
School age	406.83	494.83	506.83	586.83	656.83

GROUP HOME	2 Star	2+ Star	3 Star	4 Star	5 Star
Infant	586.07	674.07	686.07	766.07	836.07
Toddler	487.11	575.11	587.11	667.11	737.11
Preschool	427.13	515.13	527.13	607.13	677.13
School age	422.74	510.74	522.74	602.74	672.74

Private tuition

Tuition data are included in the model and the model adjusts rates based on the FOCUS quality level selected. Users can also make calculations using either metro tuition rates or rural tuition rates, as defined in the 2018 market rate survey. Tuition data are based on the market prices detailed in the 2018 market rate survey, adjusted for inflation to April 2021.[vii]

Child and Adult Care Food Program

The cost-estimation model accounts for revenue from the federal Child and Adult Care Food Program, or CACFP. The federal food program provides reimbursement to providers for meals served to children, with different rates based on family eligibility. The most recent CACFP rates are included, and the model assumes that all children eligible for a subsidy are also eligible for CACFP.[viii]

Adjustments Based on FOCUS Quality Level

The cost-estimation model accounts for additional expenses at each level of New Mexico FOCUS, the state's Quality Rating and Improvement System. The study team analyzed the child care licensing standards and the requirements of FOCUS to develop a quality frame to estimate the financial impact of requirements.[ix] This quality frame was reviewed with members of the ECECD staff and the stakeholder advisory group, and was reviewed and finalized at stakeholder feedback meetings.

The impact of higher quality on the cost of operating a program is seen in the following areas:

- Lower ratios and smaller group sizes at FOCUS 5 Star level
- Increased professional qualifications
- Additional training/professional development and planning release time
- Time for staff to engage in intentional leadership activities

Ratio and group size data are presented earlier in this methodology. The impact of increased professional qualifications at higher quality levels is captured through higher salaries being included in the model as the quality levels increase. The expense related to additional quality variables is realized through including substitute staff to provide release time for educators and/or program directors to engage in the activities required at higher-quality levels. Table 10 details the additional time included in the model at each quality level. This time is translated into a total substitute expense, with the substitute paid the same hourly rate as an assistant teacher.

Table 10: **Additional Time Included in Model for Quality-Related Activities**

	2+ or 3 Star	4 Star	5 Star
Planning Release Time			
Lead Teacher	2.5 hours per week	2.5 hours per week	2.5 hours per week plus 1 hour per week joint planning with assistant
Assistant Teacher	N/A	2.5 hours per week	2.5 hours per week plus 1 hour per week joint planning with lead
Intentional Leadership			
Director or FCC owner/ educator	2 hours/week	3 hours/week	4 hours/week

Notes

i. District of Columbia Office of the State Superintendent of Education, "Modeling the Cost of Child Care in the District of Columbia 2018," available at: https://osse.dc.gov/sites/default/files/dc/sites/osse/publication/attachments/OSSE%20Cost%20Model%20Report_2018.pdf

ii. New Mexico Early Childhood Development Partnership, (2021) "The New Mexico Early Childhood Strategic Plan 2021-2024," available at: https://www.nmececd.org/wp-content/uploads/2021/01/2021-2024_NMEarlyChildhood_StrategicPlan.pdf

iii. U.S. Administration for Children & Families, Office of Child Care, National Center on Child Care Quality Improvement, (2014) "Increasing Quality in Early Care and Education Programs: Effects on Expenses and Revenues", available at https://childcareta.acf.hhs.gov/sites/default/files/public/240_1411_pcqc_increase_quality_final_0.pdf

iv. U.S. Bureau of Labor Statistics, "May 2020 State Occupational Employment and Wage Estimates New Mexico", available at https://www.bls.gov/oes/2020/may/oes_nm.htm

v. Kaiser Family Foundation (2019), "Average Annual Single Premium per Enrolled Employee For Employer-Based Health Insurance", available at https://www.kff.org/other/state-indicator/single-coverage/?currentTimeframe=0&sortModel=%7B%22colId%22:%22Location%22,%22sort%22:%22asc%22%7D

vi. New Mexico Early Care and Education Department, "Emergency Amendment to 8.15.2 NMAC Sections 10, 13, and 17, effective March 16, 2020", available at https://www.nmececd.org/wp-content/uploads/2020/06/8_15_2_amend_emergency_posting-1.pdf

vii. New Mexico Children, Youth & Families Department, (2018) "New Mexico Child Care Market Rate Survey Report", available at http://www.newmexicokids.org/wp-content/uploads/2018-MRS-Report_June18.pdf

viii. Federal Register, Vol. 86, No. 127, "Child and Adult Care Food Program: National Average Payment Rates for the Period July 1, 2021 Through June 30, 2022", available at https://www.govinfo.gov/content/pkg/FR-2021-07-07/pdf/2021-14435.pdf

ix. New Mexico Early Childhood Education and Care Department, "NM State Child Care Regulations" available at: http://www.newmexicokids.org/caregivers-and-educators/nm-state-child-care-regulations/; New Mexico Children, Youth and Families Department, (2015) "New Mexico FOCUS: Essential

Elements of Quality for Center-Based Early Care and Education Programs", available at: http://www.newmexicokids.org/wp-content/uploads/FOCUS_Criteria_Essential_Elements_of_Quality_01222015.pdf; New Mexico Children, Youth and Families Department, (2016) "New Mexico FOCUS: Essential Elements of Quality for Family Child Care Programs", available at: http://www.newmexicokids.org/wp-content/uploads/FINAL-Focus-Home-Eng-3-3-16.pdf

P▸5 Fiscal Strategies