

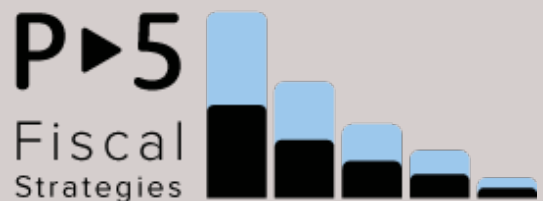


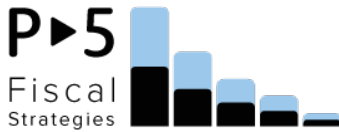
UNDERSTANDING THE COST OF QUALITY CHILD CARE IN NEW MEXICO:

*A cost estimation model to support alternative
methodology for CCDF subsidy rate setting*

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ABOUT PRENATAL TO FIVE FISCAL STRATEGIES

Prenatal to Five Fiscal Strategies is a national nonprofit founded by Jeanna Capito and Simon Workman that 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 on shared principles that center on the needs of children, families, providers, and the workforce. This approach fundamentally rethinks the current system to better tackle issues of equity in funding and access.

For more information about Prenatal to Five Fiscal Strategies, please visit: www.prenatal5fiscal.org.

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I. INTRODUCTION AND BACKGROUND

SUBSIDY RATE SETTING: UNDERSTANDING MARKET RATE AND ALTERNATIVE METHODOLOGY APPROACHES

The Child Care Development Fund (CCDF) is the primary federal source of funding to support access to child care for low-income working Americans. Each state or territory is responsible for determining the maximum reimbursement rates that child care programs can receive when they serve a child who is eligible for assistance under CCDF. In general, states have broad authority to set reimbursement rates, but they are required to assess the cost of delivering child care services and then use this data to inform rates for subsidized child care. In New Mexico, CCDF funding is administered through the New Mexico Early Childhood Education and Care Department (ECECD), and child care subsidy is known as the Child Care Assistance Program (CCAP).

Since the 2014 reauthorization of CCDF, states have had two options for rate setting. States—in consultation with their State Advisory Council on Early Childhood Education and Care, local program administrators, resource and referral agencies, and other appropriate entities—must develop and conduct either a statistically valid and reliable survey of the market rates for child care services in the state that reflects variations in the cost by geographic area, type of provider, and age of the child; or conduct an alternative methodology, such as a cost estimation model. States are allowed to differentiate rates based on various characteristics of care. Reimbursement rates are supposed to be sufficient to ensure equal access to the same services for families qualifying for child care subsidies (type of care, quality of care) as those tuition-paying families.

New Mexico’s ECECD successfully led an alternative methodology process in 2020- 2021 which included both a cost study and dynamic cost estimation model to understand the actual costs of delivering high-quality child care in New Mexico. To learn more about the broken child care market and the role of alternative methodology, see the appendices. The cost study consisted of a survey process, input sessions, and interviews with providers across the state, as well as a review and integration of extant data sources, coming together as the data sources for the cost estimation model; all which informed the alternative methodology process. In response to the cost model outputs, the state was able to successfully increase rates in 2021 and again in 2023 to ensure these rates more accurately reflected the true cost of care for providers.

New Mexico maintained its collaboration with national experts, Prenatal to Five Fiscal Strategies (P5FS), to refine its alternative methodology approach in 2024. For this alternative methodology process, ECECD has updated its cost estimation model to generate cost estimates based on various program characteristics to inform subsidy rate setting <https://www.nmeccd.org/new-mexico-child-care-cost-model/>. These characteristics include program size, program type, age of child, and FOCUS Level (New Mexico’s quality rating system). The state has developed two distinct cost models: one for center-based child care and another for family child care home settings. This approach ensures a comprehensive understanding of the true costs associated with different types of child care settings, enabling more accurate and equitable subsidy rate determinations. The models operate similarly and utilize the same data sources, but they are tailored to reflect the distinct regulations and operational differences inherent to these types of care.

By using cost estimation models, the alternative methodology approach is more robust than a cost analysis alone; the data from the cost study is built into the cost estimation tool, allowing the state to understand the cost of services, for different ages of children, across program types, and at different regulatory requirements, compared to current and proposed subsidy rates. In addition to being more than just about costs, the cost model used in New Mexico includes the ability to compare scenarios with subsidy and other forms of revenue. This feature of the cost model, unlike a cost study or analysis alone, allows ECECD to run scenarios with increasing rates, increasing quality standards and other metrics to understand the impact of these potential policy choices on program operations, thus providing a valuable tool that can project costs and inform decision-making for subsidy implementation.

II. CHILD CARE LANDSCAPE IN NEW MEXICO

New Mexico has several types of child care providers, including centers, large and small family child care homes, and license-exempt, or registered, 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 in March 2024 was: 749 licensed child care centers, 106 licensed homes, 127 licensed group homes, and 768 registered homes. The following types of providers and programs are all part of New Mexico's child care landscape:

- Licensed child care centers
- Licensed family child care homes
- Licensed group child care homes
- Registered family child care homes
- Tribal child care and Early Head Start and Head Start programs
- Regional Early Head Start and Head Start programs

Child care programs in New Mexico are distributed such that 43% are center-based sites, 13% are licensed and family group homes, and 44% are registered homes.

NEW MEXICO CHILD CARE ASSISTANCE PROGRAM

In New Mexico, child care providers must be licensed or registered to participate in the Child Care Assistance Program (CCAP). License-exempt programs may also qualify for CCAP if they are classified as registered homes. The types of programs eligible for participation include licensed child care centers, licensed family child care homes, licensed group homes, and registered homes. Participation in ECECD's Child Care Assistance Program has increased 107% since 2021 due to policy changes that have enhanced the program's attractiveness to providers¹. These changes include expanding eligibility to families with incomes up to 400% of the Federal Poverty Level (FPL) with a graduated phase out at 425% of FPL and using cost rather than market rates to inform rates. The average per-child reimbursement rates have increased by 20-30%, accommodating rising staff compensation and operational costs,



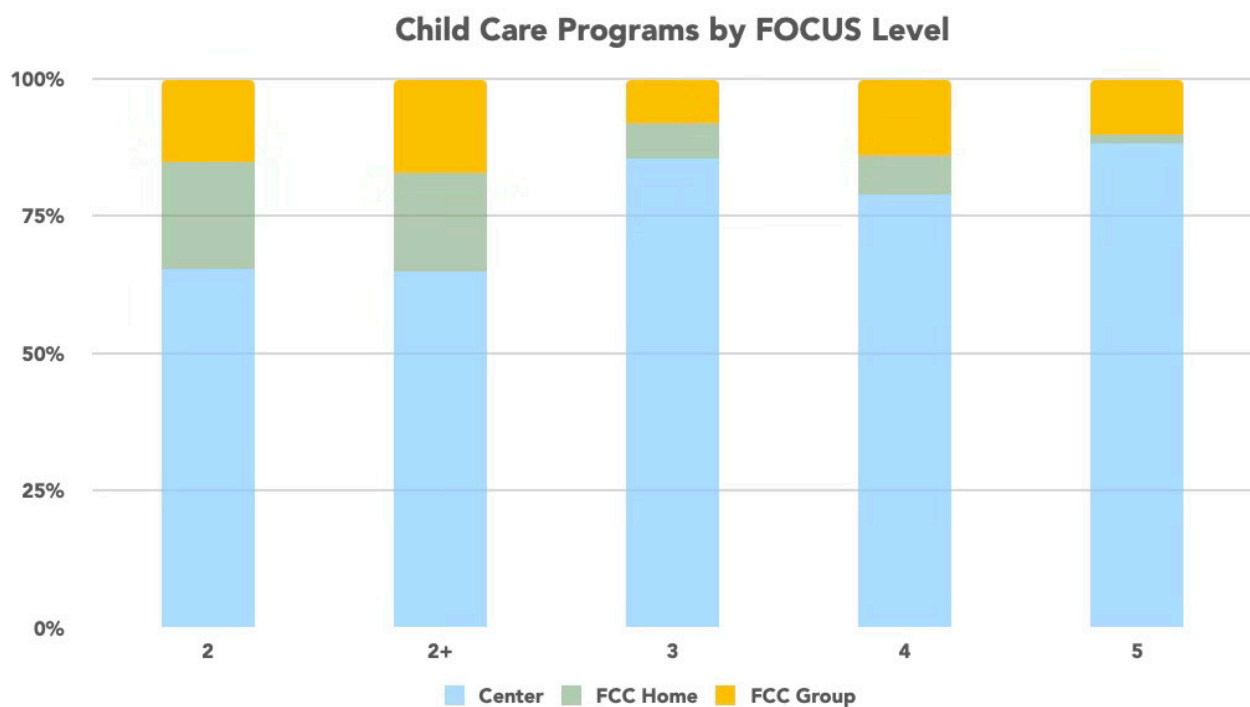
which makes it more financially viable for providers to accept subsidies.

NEW MEXICO FOCUS ON YOUNG CHILDREN'S LEARNING

New Mexico's FOCUS (Focus on Young Children's Learning) is a Quality Rating and Improvement System designed to strengthen early childhood programs serving children and families in the state. The system assesses and improves the quality of early childhood education and care settings, assigning quality ratings to providers based on factors such as teacher-child ratios, professional qualifications, and health promotion. FOCUS provides a framework for continuous quality improvement, offering support, resources, and financial incentives to help providers enhance their programs and achieve higher quality ratings. Figure 1 illustrates the distribution of licensed child care providers by type of setting across various quality levels.



Figure 1: Distribution of licensed providers across quality star levels



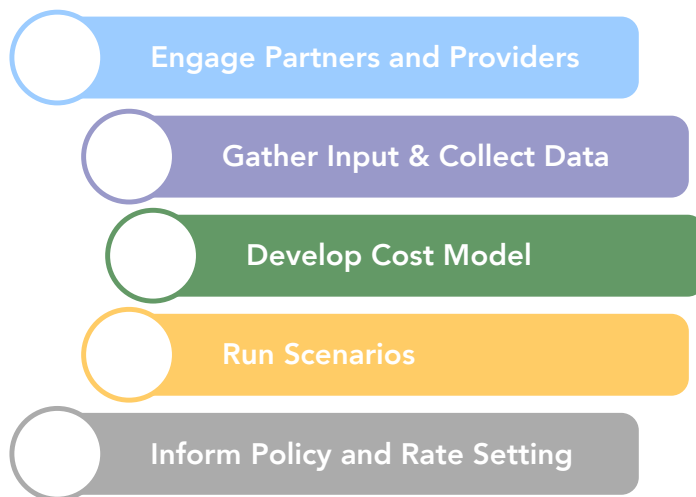


III. STUDY METHODOLOGY

The New Mexico Alternative Methodology process was conducted in line with the Prenatal to Five Fiscal Strategies approach to cost modeling for alternative methodology rate setting.

This approach includes five phases, as shown in Figure 2. This section of the report details the steps of this process completed in New Mexico.

Figure 2: Prenatal to Five Fiscal Strategies cost modeling approach



CONSTITUENT ENGAGEMENT AND INPUT

Integrating constituent input, primarily from child care providers, is a central component in alternative methodology and developing a cost model. P5FS used several modes of gathering information and input from constituents, as detailed in Figure 3. Overall leadership of the alternative methodology project was held by ECECD as the CCDF Lead Agency. P5FS met with leadership regularly to ensure the process aligned with the state’s goals for CCDF programming. Beyond the leadership team, the New Mexico Alternative Methodology Task Force was formed to provide input and guidance to the alternative methodology process. Members of the workgroup included child care providers as well as representatives from policy, business, and education sectors. A complete list of Task Force members and affiliations is included in Appendix Table A1.

In October of 2023, New Mexico’s Early Childhood Education and Care (ECEC) Advisory Council voted to endorse the plan to pursue alternative methodology for the 2024 CCDF plan cycle. The ACF Pre Approval letter was submitted in December 2023 while the formation of the Alternative Methodology Task Force, a cross

subcommittee ad hoc of the ECEC materialized. This Task Force, made up of many different organizations allowing for diverse participation across representatives from different areas of the state provided advisement on all aspects of New Mexico’s alternative methodology approach, analysis, and results through regular meetings between January 2024 and July 2024.

Table 1 catalogs the ECEC and Task Force meetings. These meetings included gathering input on all aspects of the alternative methodology and model development including:

- the cost estimation model’s purpose
- the survey approach and content
- the variables to be included in the model frame
- the model’s data gathering and analysis assumptions
- provider outreach, engagement, and data collection
- modifications to the model based on analysis of initial results
- feedback and validation of assumptions in the model

Figure 3: Cost estimation model constituent input

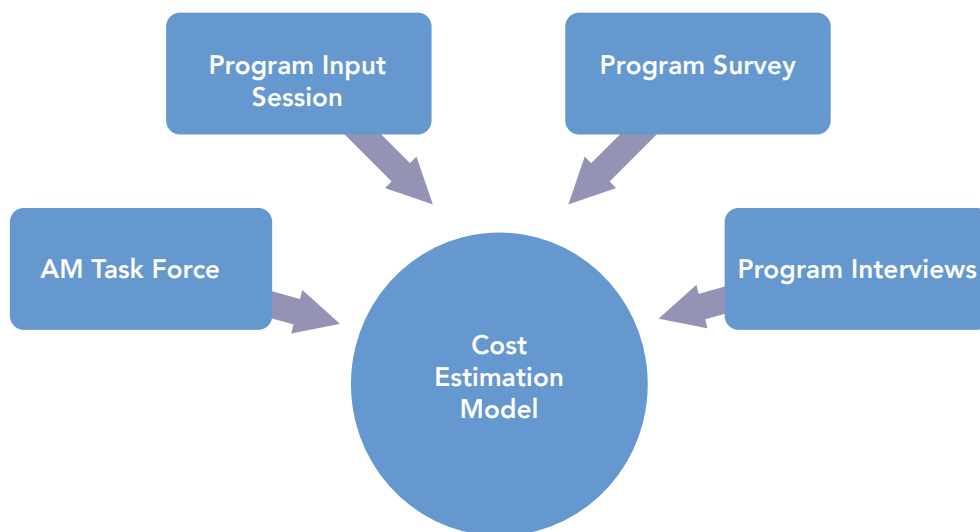


Table 1: Leadership and Task Force meetings

Alternative Methodology Leadership and Task Force Meetings	
ECEC Advisory Council Meeting - Alternative Methodology Approval and Task Force Formation	October 4, 2023
ECEC Advisory Council Meeting - Review of Pre-Approval Letter, Finalization of Task Force, Non-Council members, and Meeting Dates	December 6, 2023
AM Task Force - Project launch meeting, Alternative Methodology review	January 17, 2024
AM Task Force - Data Collection Review, Cost Model Frame, and Outreach	February 15, 2024
ECEC Advisory Council Meeting - CCDF State Plan, Task Force Structure	March 13, 2024
AM Task Force - Data Collection Process, and Engagement, Communications and Messaging	March 20, 2024
AM Task Force - Adjusted Schedule, Provider Participation, Cost Model Functioning	April 24, 2024
ECEC Advisory Council Meeting - Overview and Input of Key Elements of CCDF Plan, Update of AM timeline	May 22, 2024
AM Task Force - Preliminary Data Analysis Review; Survey, Input Sessions	June 18, 2024
AM Task Force - Initial Results, Inclusion and DLL Approach Discussion	July 22, 2024

CHILD CARE PROVIDER ENGAGEMENT AND DATA COLLECTION

Provider data collection under alternative methodology was built to reach all child care programs, whether in the subsidy system or not. It is imperative that any cost model is informed by those with the deepest knowledge about the operations of the programming the tool is seeking to model. P5FS designed an approach to data collection that would minimize the burden on child care providers while also providing ample opportunities to hear from the diverse voices of the provider community. The data collection targeted program administrators/directors and family child care providers/owners since they are most likely to know the financial details of their organization/business.

The P5FS approach to data collection for the New Mexico alternative methodology was two-pronged. A **statewide survey** and individual interviews with providers gathered quantitative data on provider expenses, program characteristics, and revenue, including tuition rates. **Provider input sessions** gathered qualitative data on providers' current challenges with respect to costs, revenue, and sustainability of program operations. The following sections provide an overview of the survey, interviews, and input session procedures and materials, and participants.



Outreach Efforts

P5FS worked closely with the state leadership and the Task Force to develop an outreach strategy responsive to the unique context of New Mexico. This strategy utilized multiple partners to increase the likelihood that child care providers heard about engagement opportunities from a trusted and known source. This outreach strategy included:

- Informational presentations
- Communications and outreach toolkit
- Partner newsletters
- Direct email sends
- Dedicated website
- Information, materials, meetings and website in both English and Spanish

Informational presentations were offered to various groups to support education, engagement, and outreach efforts around provider data collection. Additionally, P5FS collaborated with ECECD during the New Mexico Association for the Education of Young Children conference to engage providers in the alternative methodology process and address any questions attendees might have had. Materials distributed included postcards featuring QR codes that directed participants to a survey and sign-up for input sessions. 2,000 copies of each communication material were printed and

included in the resource bags for conference attendees. These information sessions are outlined in Table 2. These opportunities supported provider outreach and recruitment for the data collection process.

A constituent engagement communications and messaging toolkit was created to support provider outreach efforts and ensure consistent messaging. The toolkit included sample emails, newsletters, and social media captions with graphics, along with designed flyers and postcards. The materials were made available on a shared drive for downloading as well as emailed to provider support organizations. Task Force members were oriented on how to use the materials and integrate them into their existing communications to providers. All materials in the toolkit were in English and Spanish.

P5FS sent multiple **direct email blasts** to each licensed and registered child care providers, as well as registered home providers. This distribution list included a total of 1,754 providers.

A dedicated landing page was created on the Prenatal to Five Fiscal Strategies website. This page served as a central resource for information about the alternative methodology process, including links to access the survey and register for an input session, and a frequently

Table 2: Informational presentations to support provider data collection

Opportunity	Format	Date
New Mexico AM Communications Training	Virtual	April 3, 2024
New Mexico AM Communications Training	Virtual	April 4, 2024
NMAEYC Conference	In-Person	April 5-6, 2024
Full Circle Children, Families, and Educator Services	Virtual	April 6, 2024
New Mexico CRECER Coaches	Virtual	April 17, 2024

asked questions document. This web page also included information for providers who preferred to engage in a one-on-one interview with P5FS rather than complete the survey. Several providers with multiple sites preferred this option rather than completing multiple online survey entries. The New Mexico webpage registered 1,712 page views during the study period, March 18, 2024 and May 21, 2024.

P5FS leveraged provider data by county and region to track survey responses and input session participation relative to concentrations of providers in the regions. This tracking helped guide additional outreach to ensure that providers from all geographic regions in the state were included in the data collection. Throughout the data collection period, P5FS regularly shared updates with the leadership team and the Task Force on response rates by provider type and location to focus additional targeted outreach as needed.

These outreach efforts maximized the potential for child care providers across New Mexico to have the opportunity to participate in the alternative methodology process, ensuring participation representing the diversity of providers across the state. Details on survey and input session participation rates are outlined in the following sections.

Provider Survey

The provider survey aimed to gather detailed data from individual child care programs related to program characteristics and key cost drivers. This data was used to inform the cost estimation model and enable analysis of the variations in cost based on program type, location, and age of child served. By conducting a statewide survey, P5FS was able to once again engage many providers in all parts of the state in a relatively short time period. P5FS used its past experience engaging child care providers to develop a survey that minimized the burden on providers by focusing on questions that relate to the major cost drivers child care programs face. The main content areas

covered by the survey were as follows:

1. Program characteristics, including size, program type, ages of children served, and funding streams.
2. Staffing patterns, including the number of program staff and the number of teaching staff.
3. Tuition rates for full-time and part-time, by age of children served.
4. Compensation and benefits, including average salaries for employees and benefits offered.
5. Select non personnel expenses, such as occupancy, including rent/lease/mortgage and utilities.
6. Costs for serving different populations of children and families, such as children with delays or disabilities, children with behavior concerns, children of immigrant families, or children and families with unstable housing.

The online survey employed skip logic, which allowed participants to be presented with relevant questions based on provider type and previous answers. For example, family child care providers were asked about the number of hours spent providing child care and conducting child care-related work in their home and were asked about occupancy costs specific to their setting. Similarly, providers were only asked about tuition rates for age groups they had indicated that they serve, with the option to upload their tuition rates electronically. This approach helped minimize the burden on providers completing the survey and increased the ease of completion.

The New Mexico Cost of Care and Rate Survey was sent to over 1,754 providers, including child care centers, family child care homes, and registered homes. The survey was provided in English and Spanish, based on data on primary languages of providers and input from the Task Force. For those providers that needed the survey in a different language, P5FS was prepared to engage translation services as needed. While no one asked for these additional services, the opportunity was offered. As survey response

numbers were monitored, a strategic decision was made to keep the survey accessible longer than intended to provide more time for providers to complete. The statewide survey was primarily administered online, with providers able to complete via desktop, laptop, or mobile device. For those providers that had more than one center, a multi-site tool was used to streamline data reported. P5FS also completed a virtual survey help session with English and Spanish speaking staff to offer providers in the southern region of the state an opportunity to ask questions as they completed the survey real time. Survey provider data collection took place between March 18, 2024 and May 21, 2024.

A total of 277 providers in New Mexico completed the survey. As shown in Figure 3, the final sample comprised licensed centers (41%), licensed family and group homes (28%), and registered homes (31%) This distribution across provider types is similar to the distribution of all providers in the state, with a moderate overrepresentation in family child care compared to centers. Additionally, the survey participants by regional distribution mapped closely to the distribution of providers across the regions (Figure 4). Based on survey responses, 84% of participants who are licensed centers and homes, and 71% of registered homes participate in CCAP.

Figure 3: Comparison between survey respondents and total programs in New Mexico, by provider type

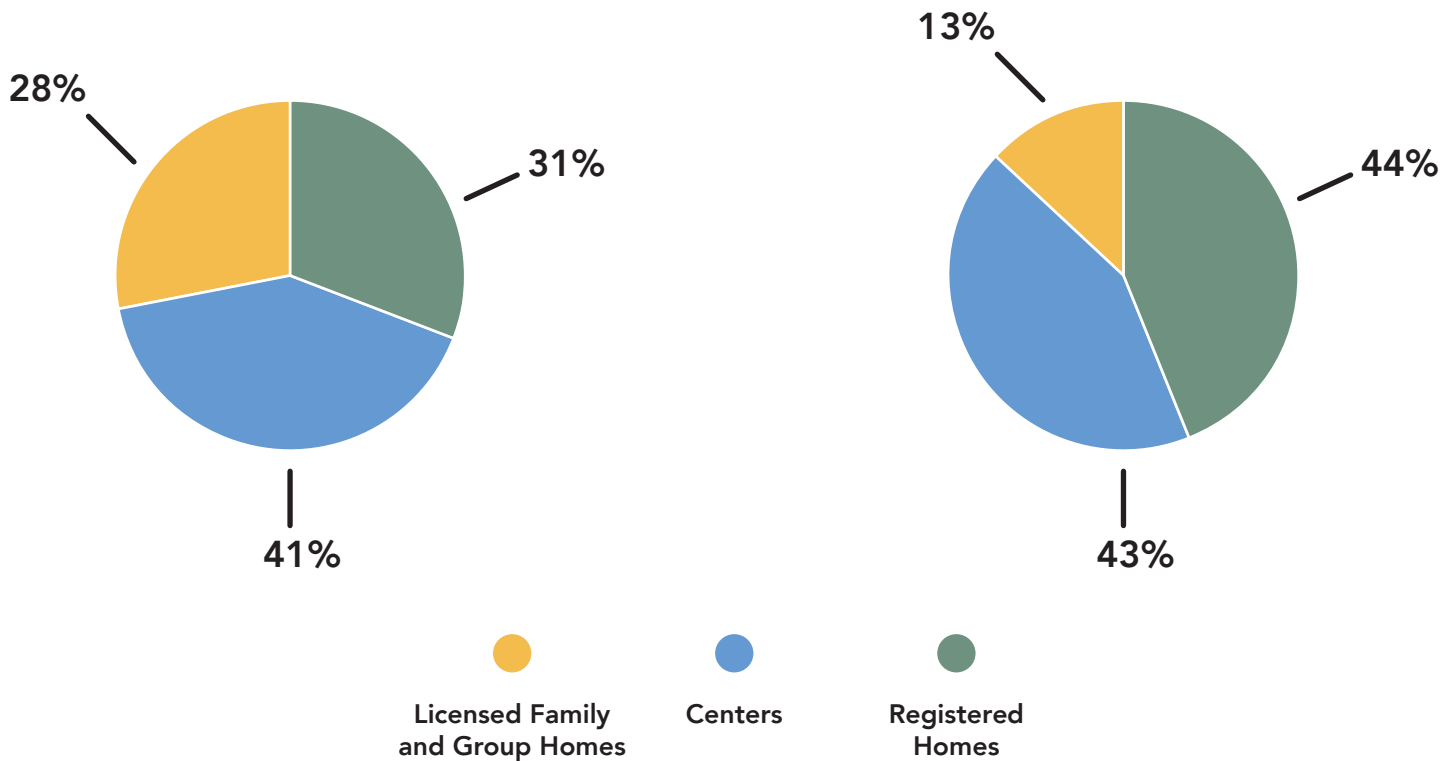


Figure 4: Comparison between survey respondents and total providers in New Mexico, by region

Region	Participation #	% By Reigon	Total Providers	% By Region
Albuquerque	96	35%	620	35%
Northeast	21	8%	183	10%
Northwest	10	4%	80	5%
Southeast	23	8%	189	11%
Southwest	127	46%	682	39%
Grand Total	277	100%	1754	100%

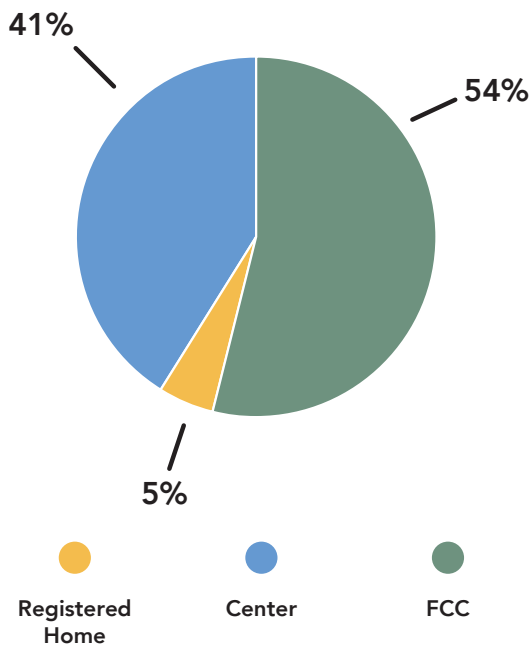
Provider Input Sessions

The input sessions provided an opportunity to engage in deeper dialogue with providers about their expenses, challenges with operations and revenue, and the true cost of providing care when not constrained by limited resources. The input sessions engaged providers in a discussion about barriers to delivering the quality they aspire to provide and what they need to be able to recruit and retain staff, provide quality care, and meet the needs of children and families in their community.

A total of ten input sessions were offered; nine of those input sessions were completed virtually to accommodate the schedules of providers at both centers and FCCs. Providers registered in advance, indicating their program type and preferred language. Two sessions were provided in partnership with Growing Up New Mexico and the New Mexico Child Care and Education Association to engage provider members in input sessions. P5FS also completed an in-person input session with the Partnership for Community Action for their Home Based Child Care Provider Network.

A total of 68 providers participated in the input sessions hosted between April 29, 2024, and May 16, 2024. As shown in Figure 5, 41% of the participants in the input sessions were licensed and child care centers, and 59% were family child care home providers, licensed or registered. Across both the input sessions and the survey, 345 providers participated in the alternative methodology process representing 20% of all licensed providers (including providers accepting CCAP and those who do not take CCAP) with 85% of survey respondents receiving subsidies. The distribution of responses across geography and program type, and from providers who accept CCAP and those who do not, provide validity to the data collected across the survey and input sessions. While the survey and input sessions are not the only source to inform the cost estimation model, they provide important data on the current child care system for this alternative methodology.

Figure 5: Input session participation, by provider type



IV. COST ESTIMATION MODEL

The New Mexico alternative methodology uses a cost estimation model to inform CCDF subsidy rate setting. A cost estimation model is a tool to estimate the cost of meeting program standards and uses primary and secondary data to inform assumptions in the model. The dynamic model is built to enable running different scenarios to understand the cost of care with variations for different program characteristics and model variables, such as program size, age of child served, and various quality variables. New Mexico’s cost model is designed to calculate expenses for children from birth to school age, in a program operating full day and for a full year.

The provider data collection discussed in the prior section helped inform the cost estimation model. Results from the data collection were shared with the New Mexico Alternative Methodology Task Force and reactions and input were sought on how the data can inform the cost model. While current data from providers helps ensure a baseline, the model is not constrained solely by the data collection. This allows the model to reflect how programs should operate, not just how they are currently operating under their

available funding. It also allows for thinking more expansively about the resources needed to maintain a robust and sustainable child care system in New Mexico.

This next section of the report details the data assumptions and functionality of New Mexico’s cost estimation model, including cost drivers and the default values assigned to those cost drivers.

PROGRAM CHARACTERISTICS

The cost estimation model accounts for many key program characteristics. Each characteristic impacts the cost of care and is explained below.

Program Size: Size is represented as the number of classrooms by age range— infants, two-year-olds, three-year-olds, four-year-olds, and school age. For family child care, size is determined by the licensed capacity.

Ratio and Group Size: The cost estimation model incorporates FOCUS Star Levels which directly influences the required staff-to-child ratios and maximum group sizes in different child care settings. These parameters are adjusted based on the selected FOCUS level. Table 3 provides a breakdown of the new ratios and group sizes for each FOCUS Star level in child care centers,

Table 3: Adult to child ratio, child care center by FOCUS Star Level

Age Group	Ratio			
	Licensing/ 2 Star	2+/3 Star	4 Star	5 Star
Infant (0-12 months)	1:5	1:5	1:4	1:4
Age 2	1:8	1:8	1:6	1:6
Age 3	1:10	1:10	1:9	1:9
Age 4	1:12	1:12	1:10	1:10
School Age	1:15	1:15	1:12	1:12

illustrating how these requirements become more stringent as the quality rating increases. Similarly, Table 4 presents a detailed overview of the corresponding ratios and group sizes for family child care homes, reflecting the unique considerations for smaller, home-based care environments. The star levels included in the model are licensing/2 Star, 2+/3 Star, Star 4, and Star 5.



Table 4: Adult to child ratio, family child care

Age Group	Licensed Family Home	Family Group Home
Max number of children	6	12
Toddlers- school-age	4	8
Infants	2	4

STAFFING AND PERSONNEL

The personnel calculations are based on a standard staffing pattern typical of most centers and family child care homes, with the following assumptions built in.

Nonteaching staff

- Program Director, one full time employee
- Assistant Director, 50% of full time employee less than 30 children, at full time if more than 30 children
- Administrative Assistant, 50% of full time employee less than 30 children, at full time if more than 30 children

Teaching 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 and additional assistant teachers to meet the required staff-to-child ratios. The model also accounts for floater staff members who provide coverage during breaks, supporting teachers’ planning activities, and facilitating release time. In family child care homes, the provider/owner is the only staff member as long as there are six or less

children with no more than two of those children under the age of two. In group family child care homes, the model includes a full-time assistant.

Wages

The cost model for New Mexico incorporates multiple salary data sources including the Bureau of Labor Statistics (BLS) and the MIT Living Wage standard to provide a comprehensive understanding of how various wage levels affect the overall cost of child care. Based on the data analysis, the New Mexico cost estimation model employs a standardized approach to salary scales, applying uniform wage rates across the entire state without incorporating geographic variations. This decision was made to address potential wage inequities that may exist between different regions. By adopting the highest minimum wage standard found within the state and applying it universally across all areas, the model aims to create a more equitable baseline for wage calculations. The salary point selected is \$18 per hour minimum wage and is established as the salary floor for the assistant teacher position, with other salaries increased from this floor to account for additional job responsibilities for other positions in the program.

Based on the 2024 Cost of Care and Rate Setting Survey, 67% family child care providers reported that they do not pay themselves a salary. In order to capture the true cost of providing home-based care the cost estimation model includes a salary for the family child care provider/owner, intended to ensure the model accounts for them being able to generate income after all business expenses have been paid. The owner/provider's salary is \$51,768, which is pinned at the lead teacher position. This income can be used by the provider/owner to cover their business taxes and personal income, as compensation for the high number of hours worked per week, or a portion of it could be used to hire additional staff to reduce the number of hours per week that the provider/owner must work to operate the business.

MANDATORY AND DISCRETIONARY BENEFITS

All mandatory expenses related to staffing are built into the models. These include federal and state requirements, including unemployment insurance and workers' compensation. These include FICA-Social Security at 6.2%, Medicare at 1.45%, unemployment insurance at .5%, and workers' compensation at 2%.

The model also includes discretionary benefits in the form of ten sick and ten paid leave days for each staff and an amount referred to as health insurance. If the health insurance option is selected, the model includes \$5,043 per FTE, which is the average annual employer contribution to health insurance, based on Kaiser Family Foundation data for New Mexico.



NONPERSONNEL EXPENSES

Center-based

Nonpersonnel costs are aggregated into three categories, including the following types of expenses:

- Program Management and Administration: Office supplies, telephone, internet, insurance, legal and professional fees, permits, fundraising, memberships, administration fees.
- Occupancy: Rent/lease or mortgage, real estate taxes, maintenance, janitorial, repairs, and other occupancy-related costs.
- 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.

Annual contributions to an operating reserve fund—a practice that contributes to long-term financial sustainability—can be included as a percentage of total expenses. The amount is set at 5% by default, but can be removed or changed to reflect current program functioning.

Values for these nonpersonnel categories are based on nonpersonnel expense data in the Provider Cost of Quality Calculator. This federal tool provides validated state-specific data on typical nonpersonnel values in child care programs. While the alternative methodology data collection included gathering data on some nonpersonnel expenses, the data was inconsistent and pointed to variations more likely related to other program characteristics such as funding source, for profit/non-profit status, access to in-kind support or other individual program factors.

Table 5 summarizes the statewide nonpersonnel base values used in the cost estimation model for child care centers.

Table 5: Nonpersonnel expense categories and values, child care center

Expense Category	Annual Cost
Administration	\$383/child
Occupancy	\$42,765/classroom
Education program	\$3,319/child

Family Child Care Homes

Nonpersonnel costs in the family child care home model align with the expense categories that home-based providers report on their federal taxes (Internal Revenue Service Schedule C).

These expenses are broken out into:

- Program Management/Administration: This category includes advertising, insurance, legal and professional fees, office supplies, repairs, maintenance, and cleaning of the child care space.
- Occupancy – Shared Use of Business and Home: Home-based businesses may count a percentage of their occupancy costs as business expenses, including rent/lease/mortgage costs, property taxes, homeowners insurance, utilities, and household supplies. The model follows Internal Revenue Service Form 8829 to estimate a time-space percentage for how these expenses apply to the business.
- Education/Program Child: This category includes classroom supplies, medical supplies, food, and educational supplies. This amount varies based on the number of children.

Annual contribution to an operating reserve fund—a practice that contributes to long-term financial sustainability—can be included as a percentage of total expenses. The amount is set at 5% by default.

Values for these nonpersonnel categories are based on nonpersonnel expense data in the Provider Cost of Quality Calculator. Table 6 summarizes the nonpersonnel values used in the cost estimation model for family child care homes.

Table 6: Nonpersonnel expense categories and values, family child care homes

Expense Category	Annual Cost
Administration	\$798/child
Occupancy	\$742/child
Education/Program	\$1,934/child

MODEL VARIABLES

The model includes several variables that relate to meeting licensing and FOCUS quality standards. These variables include:

- Training and Professional Development
- Planning and Release Time

Training And Professional Development

Annual training hours are included to meet licensing requirements, as well as additional professional development training hours to meet FOCUS Quality standards. The expense related to these supports covers the cost of hiring a substitute to cover staff to attend trainings.

Planning And Release Time

The model has the option of including weekly planning and release time for teachers and provider/owner, or teachers, provider/owner, and assistant teachers. The expense related to these supports is the cost of a substitute to cover the teaching staff and provider/owner time.

Table 7: Professional Development, child care centers and homes, annual amounts

	Licensing/ 2 Star	2+/3 Star	4 Star	5 Star
Center Director/ Lead Teacher/Assistant Teacher	24 hours	24 hours	24 hours	24 hours
Family Child Care Owner/ FCC Assistant Teacher	12 hours	12 hours	12 hours	12 hours

Table 8: Planning and Release Time, child care centers and homes

	Licensing/ 2 Star	2+/3 Star	4 Star	5 Star
Lead Teacher/FCC Owner	2 hours/ week	5 hours/week	5 hours/week, 1.25 together/week	5 hours/week + 2.5 hours with asst
Assistant Teacher (CB or FCC)	None	None	1.25 together/week	5 hours/week + 2.5 hours with lead

ENHANCEMENTS

Inclusion supports was calculated as a separate monthly cost per child, across child care settings, age groups, and FOCUS level. Inclusion supports are calculated by a cost per child amount that has been calculated based on the materials needed and the number of hours an additional aide would provide. The dual language support cost is based on materials needed, and a 10% increase in salary for teacher and family home provider.

REGISTERED FAMILY CHILD CARE HOMES

Registered homes serve up to four non-resident children, in addition to up to two resident children, and can only serve a maximum of two infants within those parameters. Registered homes do not follow the same licensing requirements as licensed homes, or participate in the FOCUS quality system, therefore 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 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 \$18.00 per hour, the registered home provider needs to collect \$37,440 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 \$9,360 per year, or \$780 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.

V. SCENARIO RESULTS

To provide illustrative results to inform this report, P5FS created default scenarios for child care centers, licensed family child care homes, group family child care homes and registered homes. Each default scenario serves children and infants through school age and operates on a 10-hour day, full-year schedule. Details of these default program characteristics are provided below.

Table 9: Default child care center characteristics

	Classrooms	Capacity	
		Licensing- 3 Star	4-5 Star
Infants	1	10	8
Two-yr-olds	1	16	12
Three-yr-olds	1	20	18
Four-yr-olds	1	24	20
School age	1	30	24

The licensed family home default scenarios assume enrollment of six children, with no more than two infants. The default scenario for the group home has capacity for 12 children, with no more than four infants.

Scenarios were run for a program meeting licensing standards and for programs meeting each of the levels of FOCUS. All scenarios include the cost of employer contribution to health insurance or other discretionary benefits, ten days paid sick leave and ten days paid vacation, and a 5% contribution to an operating reserve. The default scenarios were run using the \$18 minimum wage salary selection point.



The results in Tables 10-12 below are presented as monthly cost per child figures for full-time care and represent the estimated cost per child to meet licensing or higher FOCUS Star Levels. School-age results reflect an average monthly value, based on annual attendance that includes full-time during summer and school breaks, and part-time during the school year. For the FCC scenarios, the cost model does not produce age-based differences for full-time, full-year care because the program operates as a single group of children, without age-based ratios and group sizes or other age-related cost drivers. The default scenarios assume a distribution of ages such that the licensed home does not need a full-time assistant, and the group home needs only one

full-time assistant. Across all scenarios, the school-age cost of care calculation is based on average attendance of 60% across the year, accounting for before/after school care during the school year and full-time care during school breaks. The cost estimation model was also used to calculate the additional cost of serving children with special needs. This accounts for the additional costs related to materials, percentage salary increase for teacher/provider, and coverage time needed to attend required meetings for children with special needs. The additional cost of per child per month for serving children with special needs are shown in Table 13.

Table 10: Cost of care results, monthly cost per child, child care center

	Infant	Toddler	Preschool	School age
Licensed	\$1,974	\$1,494	\$1,335	\$729
2 Star	\$1,974	\$1,494	\$1,335	\$729
2+ Star	\$2,001	\$1,513	\$1,350	\$737
3 Star	\$2,001	\$1,513	\$1,350	\$737
4 Star	\$2,718	\$2,109	\$1,702	\$969
5 Star	\$2,919	\$2,256	\$1,814	\$1,029

Table 11: Cost of care results, monthly cost per child, licensed family home

	Infant	Toddler	Preschool	School age
Licensed	\$1,872	\$1,770	\$1,583	\$851
2 Star	\$1,872	\$1,770	\$1,583	\$851
2+ Star	\$2,023	\$1,913	\$1,711	\$920
3 Star	\$2,023	\$1,913	\$1,711	\$920
4 Star	\$2,264	\$2,141	\$1,914	\$1,029
5 Star	\$2,520	\$2,383	\$2,131	\$1,145

Table 12: Cost of care results, monthly cost per child, group home

	Infant	Toddler	Preschool	School age
Licensed	\$1,713	\$1,620	\$1,449	\$779
2 Star	\$1,713	\$1,620	\$1,449	\$779
2+ Star	\$1,843	\$1,742	\$1,558	\$838
3 Star	\$1,843	\$1,742	\$1,558	\$838
4 Star	\$2,054	\$1,942	\$1,737	\$934
5 Star	\$2,279	\$2,155	\$1,927	\$1,036

Table 13: Additional monthly cost to serve children with special needs

	Infant	Toddler	Preschool	School age
Licensed	\$813	\$813	\$813	\$488
2 Star	\$813	\$813	\$813	\$488
2+ Star	\$813	\$813	\$813	\$488
3 Star	\$813	\$813	\$813	\$488
4 Star	\$891	\$891	\$891	\$535
5 Star	\$969	\$969	\$969	\$582

COMPARISON TO CURRENT CHILD CARE ASSISTANCE PROGRAM RATES

The child care cost estimation model results can be compared to current reimbursement rates for the New Mexico Child Care Assistance Program at each level of FOCUS to understand to what extent the current payment rates cover the cost of care, outputs from the 2024 cost model, and how this differs by quality level, child age, and setting. Tables 14-16 detail the results of this comparison, also known as a gap analysis. Negative values denote that the CCAP payment rate is below the estimated cost of care.



Table 14: Monthly gap between estimated cost of care and NM Child Care Assistance Program rates, child care center

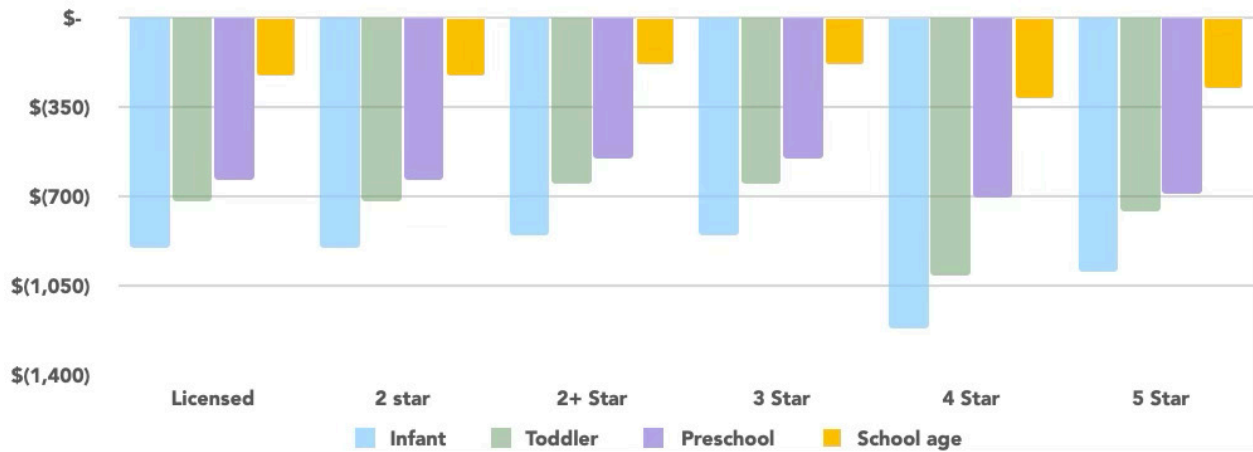


Table 15: Monthly gap between estimated cost of care and NM Child Care Assistance Program rates, licensed family home

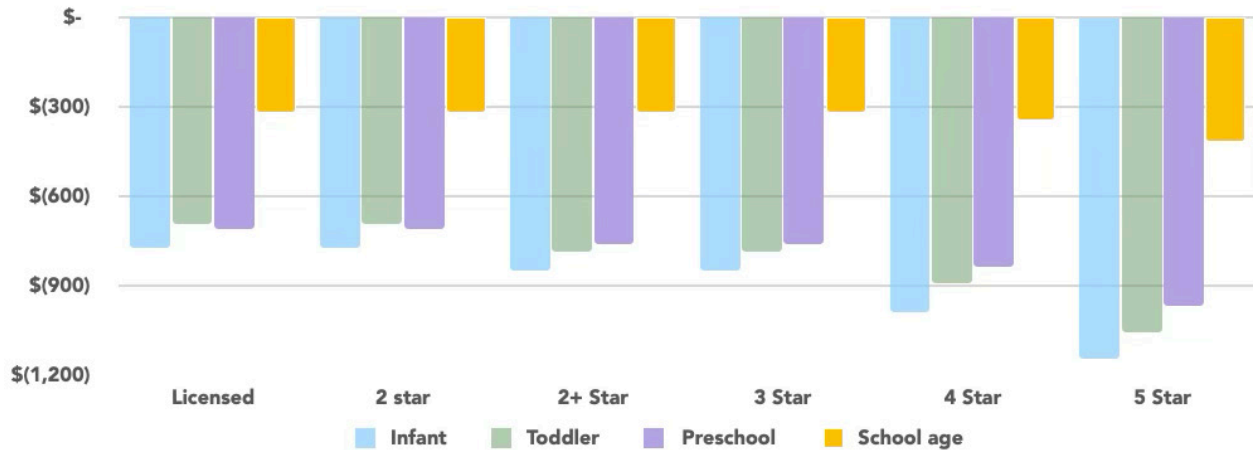
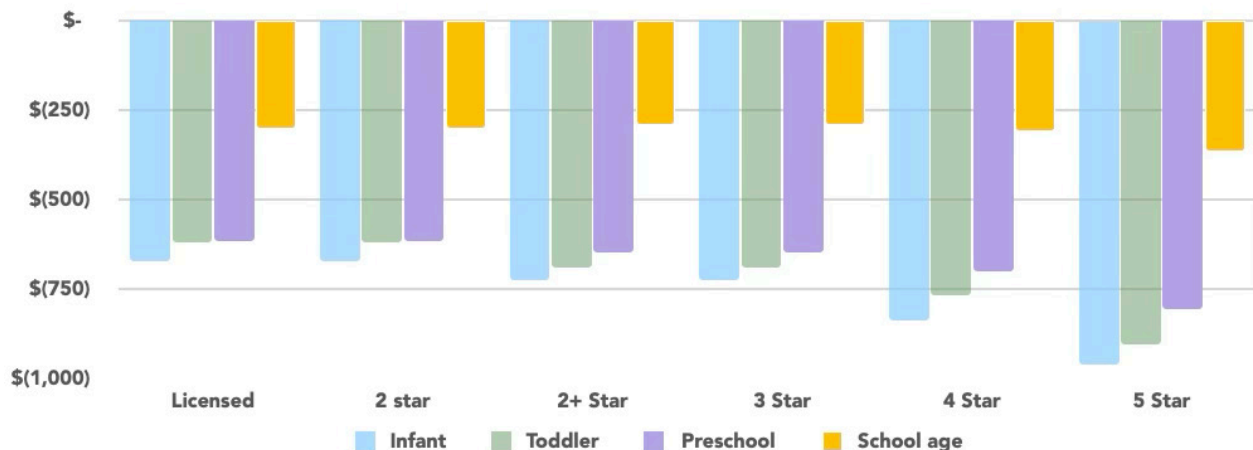


Table 16: Monthly gap between estimated cost of care and NM Child Care Assistance Program rates, group home



As highlighted in the gap analysis above, current subsidy rates are insufficient to cover the actual cost of child care across the various settings and age groups.

VI. THEMES

Several themes emerge from reviewing the results of the cost estimation model.

THE YOUNGER THE CHILD, THE HIGHER THE COST OF CARE.

As shown in the results for the child care center-based scenarios, the younger the child, the higher the cost of care. The cost of child care in a licensed center is \$7,668 more per year, or \$640 per month, for an infant compared to a four-year-old. For a program meeting FOCUS Star Level 5 and paying higher salaries, this gap increases to \$13,260 per year or just over \$1,000 per month. This higher cost is driven by the smaller adult-child ratios and group sizes that are best practices in high-quality care for the youngest children. For example, an infant classroom meeting licensing can serve a maximum of 10 children, staffed with two teachers, while the four-year-old classroom can serve 24 children with the same two teachers. As the cost of that staffing can be shared among a larger group in the older classroom the cost per child is much lower than in the infant classroom.

Based on results from the family child care home and group scenario at licensing, infants cost close to \$300 more a month than a four-year-old, amounting close to \$3,600 per year. Similar to a child care center, ratios are smaller as family child care home cannot have more than two infants, and a group home cannot have more than four.

CHILD CARE ASSISTANCE PROGRAM RATES ARE INSUFFICIENT TO COVER THE COST OF CARE ACROSS ALL SCENARIOS.

Based on the Cost of Care and Rate survey, a significant majority of child care providers participate in the Child Care Assistance Program (CCAP), with 84% of all providers reporting involvement. The participation rates vary across different types of child care settings. Child care centers show the highest engagement, with 96% reporting that they receive subsidies. Licensed family child care homes follow closely, with 83% participating in the program. Registered homes, while still representing a majority, have a somewhat lower participation rate at 71%. Survey participants were also asked about the barriers they face in accessing or participating in the CCAP program.

The survey results align with the gap analysis findings, as 50% of respondents indicated that subsidy payments are insufficient. The gap between payment rates and the cost of care is highest for the youngest children, reflecting the high cost of providing care for infants and toddlers and that families cannot afford tuition rates that cover the higher cost of care for this population. CCAP rates for an infant in a licensed/2 Star center are on average \$225 per child per week less than the estimated cost of care. Even for



older children, gaps still exist between the cost of care and the current CCAP rates, with rates for a four-year-old in a licensed/2 Star child care center amounting to approximately \$159 per child per week less than the estimated cost of care.

For registered 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.

Significant gaps exist across all different levels of quality. Centers with a 2+ Star/3 Star rating see a gap of \$550 per month for 3- and 4-year-olds, while the monthly gap increases to \$648 for toddlers. The largest gaps across the different age groups exist in a 4 Star center, with a monthly gap of \$1,218 for infants and \$1,009 for toddlers. School age, across all quality levels and settings demonstrate having the smallest gap between CCAP rates and cost of care, with the lowest monthly gap of \$187 in a 3 Star center, and the highest monthly gap of \$366 in a 5 Star family child care group home.

As quality levels increase, costs rise to meet the standards set by each Star Level. Reviewing the current rates, there is a noticeable increase in costs with each FOCUS Star Level, with infant care being the most expensive and school-age care the least. Between the 3 Star and 4 Star ratings, percentage increases range from 15% to 30%. The increase from Licensed/2-Star to 2+/3 Star typically averages around 7-10%, while the jump from 4 Star to 5 Star varies from 8% to 28%. Despite these increases, the percentage changes still do not fully cover the true cost of care across all levels and child care settings, as highlighted in the gap analysis above.

New Mexico's recent changes to reduce the allowable child-to-caregiver ratios for infants, toddlers, and preschoolers, have significantly increased operational costs for providers. With

fewer children permitted per caregiver, labor costs per child have risen. Unfortunately, the current subsidy rates do not adequately cover these increased costs, leaving providers in a challenging position.

THE NEED FOR INCREASED FUNDS TO SUPPORT PROGRAMS SERVING CHILDREN WITH SPECIAL NEEDS.

Based on survey and input session data analysis, providers expressed challenges around the cost of serving children with special needs. Seventy-seven percent of centers report serving children with special needs, compared to 38% of family child care homes and 16% of registered homes. As seen in Table 13 on page 18, additional monthly costs were included to inform the true cost of care. For infants, toddlers, and preschoolers, the additional cost remains constant at \$813 per month from Licensing to 3 Star levels, increasing to \$891 at 4 Star and \$969 at 5 Star levels. This represents a 9.6% increase at 4-Star and a 19.2% increase at 5-Star from the base level. School-age children have lower additional costs, starting at \$488 per month for Licensed to 3 Star levels, rising to \$535 at 4 Star and \$582 at 5 Star levels, following a similar percentage increase pattern. The consistency in costs across infant, toddler, and preschool age groups suggests similar additional needs, regardless of age, while the lower costs for school-age children might indicate less intensive support needed. These rates encompass the additional materials, and increased staffing costs needed to provide high quality care to children with special needs.



VII. CONCLUSION

This analysis of child care costs in New Mexico reveals a complex landscape with investments from the 2021 alternative methodology informed rate setting process beginning the work to address inequities in the child care system. The data consistently shows that the cost of care is highest for the youngest children, particularly infants and toddlers, due to the smaller adult-child ratios and group sizes required for high-quality care. This cost disparity is evident across all types of child care settings, from licensed centers to family child care homes. A gap between the Child

Care Assistance Program (CCAP) rates and the actual cost of care does exist, especially as the state seeks to raise the licensing floor in relation to ratio and group size. Furthermore, the analysis highlights the additional financial pressures faced by providers serving children with special needs, with significant monthly costs added to the already high expenses of child care. With this comprehensive data analysis, New Mexico's child care leaders can continue to seek increased subsidy rates that align with the true cost of quality care, thereby enhancing access to high-quality settings for low-income working families.



APPENDICES

THE BROKEN CHILD CARE MARKET

The prevailing method of setting reimbursement rates for publicly funded child care is through a market rate approach, which relies on a study of market prices, also known as the tuition rates charged to families, for child care through a market rate survey. Data from the market rate survey are then used to set maximum reimbursement rates for subsidized child care. The problem with this approach is that the market rate reflects the prices that providers charge families, which then reflects what families can afford. The cost of child care for a family with young children can be overwhelming, particularly for a family earning a low income. Programs must set tuition

at what families in their community can afford rather than what the service costs.

This approach to rate setting creates an inequitable system that perpetuates inequality between higher-income and lower-income communities, such that providers in communities where families cannot afford high tuition receive lower reimbursement rates than providers in higher-income neighborhoods. These lower reimbursement rates often result in lower educator compensation and higher staff turnover in lower-income communities. Setting rates based on the current market serves to maintain the low wages that early childhood educators receive, as wages are the most significant portion of the program expenditures, and tuition rates of families cannot keep up with full cost of the program. The impact of this market failure exacerbates low-quality settings and low wages across child care, disproportionately affecting low-income communities, minority groups, and communities of color. The market, driven by tuition or the price that families can pay, is not representative of the cost of child care.

In a functioning market where families, as consumers, can afford the true cost of care, setting rates based on the price charged to parents would allow subsidy-eligible families and those paying tuition to have equal access to child care. However, because most families cannot afford the cost of child care, programs face a disincentive to serve children for whom the gap between what families can afford and what it costs to provide care is greatest. For example, a provider might be able to achieve financial stability when serving preschool-age children or in a program that meets state licensing standards. But, if that same program serves infants and toddlers or meets higher program standards, this can leave them operating at a deficit. If the public reimbursement rate is a source of this gap, providers are disincentivized from serving children for whom the public subsidy is the family's primary payment source.

Defining Terms

PRICE OF CARE means the tuition prices that programs set, which are usually based on local market conditions and what families can afford, ensuring that programs are competitive within their local market and can operate at as close to full enrollment as possible.

COST OF CARE means the actual expenses providers incur to operate their program, including any in-kind contributions such as reduced rent, and allocating expenses across classrooms and enrolled children based on the cost of providing service and not on what parents can afford.

TRUE COST OF CARE refers to the cost of operating a program with the staff and materials needed to meet licensing and quality standards and provide a developmentally appropriate learning environment for all children. Cost of quality is another term often used to refer to the true cost of care. The true cost includes adequate compensation to recruit and retain a professional and stable workforce, in line with the education and experience requirements of the positions.

Policymakers continue to recognize the deficiencies of the market price-based approach and the importance of developing a deeper understanding of the true costs of child care programming. To that end, states are seeking to develop cost estimation models to help estimate the true cost of care and how this cost varies based on various program characteristics. They can then use this information to inform subsidy rate setting.



TASK FORCE MEMBERS

Table A1: New Mexico Alternative Methodology Task Force Roster

Name	Title	Organization
Early Childhood Education and Care Advisory Council Members		
Cindy Martinez	Dean of Early Childhood	Western New Mexico University
Crystal Tapia	Owner/Operator	NM Early Learning Academy
Daisy Lira	Executive Director Chair 2023-2024	The HIVE Education ECEC Advisory Council
Elizabeth Groginsky	ECECD Secretary	NM Early Childhood Education and Care Department
Lula Mae Brown	Director of Early Childhood Services	ENMRSH, Inc
Rob Black	President	New Mexico Chamber of Commerce
Robert Chavez	CEO	Youth Development Inc.
Zach Ben	Parent Representative	Family Leadership Council, Tribal
Non-Council Members		
Anne Liley	Director	First Presbyterian Child Care Development Center
Barbara Tedrow	Owner Policy Chair	A Gold Star Academy and Child Development Center; New Mexico Child Care and Education Association
Cesare Sandro Tonini	VP of Lending	WESST
Crystal Peña	President	New Mexico Head Start Association
Jacob Vigil	Deputy Policy Director	NM Voices for Children
Kelly Klundt	Principal Analyst	New Mexico Legislative Finance Committee
Laura Barriga	Parent	NM Family Council Leadership Group
Rhonda Montoya	VP of Early Learning	Growing Up New Mexico
Ruth Porta	Manager President	La Esperanza Child Development Center New Mexico Child Care & Education Assoc.
Steve Spensley	Chief Financial Officer	Amistad Family Services
Susie Kantz	Sr Training and Development Consultant	UNM Early Childhood Services
Teresa Madrid	Deputy Director	Partnership of Community Action

Table A1: New Mexico Alternative Methodology Task Force Roster (cont)

ECECD Staff	Position Title in 2024
Kimberly Brown	Child Care Services Bureau Chief
Devi Gajapathi	Policy Bureau Chief Policy Bureau Chief
Casey Lafferty	Quality Initiatives Bureau Chief
Sara Mickelson	ECECD, Deputy Secretary
Shana Runck	Acting Director, Head Start State Collaboration Office
Lela Wendell	Director of Policy, Research, and Quality Initiatives

SALARY SCALE

Table A2: Default salary scales included in cost estimation model

		Licensing/ 2 Star (Year 1)	2+ (year 2) or 3 Star	4 Star	5 Star
Director		\$75,778	\$75,778	\$83,356	\$90,934
Asst Director		\$60,623	\$60,623	\$66,685	\$72,747
Admin Support	\$18 min wage	\$37,440	\$37,440	\$41,184	\$44,928
Teacher		\$51,768	\$51,768	\$56,945	\$62,122
Asst Teacher Sub/Floater	\$18 min wage	\$37,440	\$37,440	\$41,184	\$44,928
Family Child Care Home Provider		\$51,768	\$51,768	\$56,945	\$62,122



CHILD CARE ASSISTANCE PROGRAM PAYMENT RATES

Centers	Infant	Toddler	Preschool	School age
Licensed	\$1,075	\$775	\$700	\$500
2 Star	\$1,075	\$775	\$700	\$500
2+ Star	\$1,150	\$865	\$800	\$550
3 Star	\$1,150	\$865	\$800	\$550
4 Star	\$1,500	\$1,100	\$1,000	\$650
5 Star	\$1,925	\$1,500	\$1,125	\$750

Licensed Family Homes	Infant	Toddler	Preschool	School age
Licensed	\$1,100	\$1,075	\$870	\$530
2 Star	\$1,100	\$1,075	\$870	\$530
2+ Star	\$1,175	\$1,125	\$950	\$600
3 Star	\$1,175	\$1,125	\$950	\$600
4 Star	\$1,275	\$1,250	\$1,075	\$680
5 Star	\$1,375	\$1,325	\$1,160	\$725

Group Homes	Infant	Toddler	Preschool	School age
Licensed	\$1,040	\$1,000	\$830	\$475
2 Star	\$1,040	\$1,000	\$830	\$475
2+ Star	\$1,115	\$1,050	\$910	\$545
3 Star	\$1,115	\$1,050	\$910	\$545
4 Star	\$1,215	\$1,175	\$1,035	\$625
5 Star	\$1,315	\$1,250	\$1,120	\$670

Registered Homes	Infant	Toddler	Preschool	School age
Reg Home, FFN	\$425	\$425	\$375	\$350

SOURCES

New Mexico Child Care Assistance Program

- <https://www.nmececd.org/child-care-assistance/>

New Mexico FOCUS Tiered Quality Rating and Improvement System

- FOCUS Criteria - https://www.nmececd.org/wp-content/uploads/2024/10/FocusChart_Oct-2024.pdf

Compensation Data

- Bureau of Labor Statistics, Occupational Employment Statistics, May 2023 – https://www.bls.gov/oes/current/oes_nm.html
- MIT Living Wage Calculation for New Mexico – <https://livingwage.mit.edu/states/35>
- Kaiser Family Foundation Average Annual Single Premium per Enrolled Employee For Employer-Based Health Insurance – <https://www.kff.org/other/state-indicator/single-coverage/>

Endnotes

- 1 <https://www.nmececd.org/2024/03/28/ececd-spotlights-child-care-quality-and-sustainability-with-a-cost-of-care-survey/>

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Fiscal
Strategies

