This Profile of Innovation is part of a series highlighting innovative initiatives implemented or planned by Child Care and Development Fund (CCDF) Lead Agencies. These profiles feature activities aligned with recovery priorities and many were funded with federal COVID-19 funds including the Coronavirus Aid, Relief, and Economic Security (CARES) Act, the Coronavirus Response and Relief Supplemental Appropriations (CRRSA) Act, and the American Rescue Plan (ARP) funds.

The Office of Child Care has issued Information Memoranda (IM) for all the COVID-19 federal response and recovery funds. These guidance documents include an overview of the funds, details about the obligation and liquidation periods, allowable use of funds, administrative cost cap, etc. OCC has strongly encouraged Lead Agencies to use these funds as part of a cohesive vision to implement policies that will better support the developmental and learning needs of children, meet parents’ needs and preferences with equal access to high-quality child care, and support a professionalized workforce that is fairly and appropriately compensated.

Overview of New Mexico’s Use of Federal Relief Funds to Increase Subsidy Rates

The CCDF Lead Agency in New Mexico is the Early Childhood Education and Care Department (ECECD), a new department established in 2020 to create a cohesive, equitable, and effective prenatal to 5 early childhood system. Although no legislative or budget authority is required for ECECD to spend funds, the ECECD cabinet secretary works closely with the governor’s office, the Children’s Cabinet, and the Legislative Finance Committee. ECECD used a stakeholder advisory group to guide development of a cutting-edge cost estimation model to set increased subsidy payment rates for providers. The advisory group included child care providers, members of the state’s Early Learning Advisory Council, advocates, Child Care Resource and Referral staff, state partners, and representatives from the New Mexico Head Start Association and the New Mexico Association for the Education of Young Children.

Innovation

Based on the estimation model they designed, ECECD increased base subsidy rates across settings and age groupings. Rates were increased to an average of 100% of the estimated cost of care for family child care and 94% for center-based care. Differential rates align to each tier of FOCUS, their quality rating improvement system. In comparison, 2020 base subsidy rates were, on average, 62% of the cost of care for family child care and 79% for center-based care. Cost-modeling revealed current subsidy payment rates did not cover the cost of care for any age group from birth to five, at any quality level or type of setting and were a disincentive to attain higher quality levels. Working with budget staff to run various scenarios and to get subsidy rates as close to the cost of care as possible, ECECD responded by increasing rates to incentivize higher quality.
Profiles in Innovation:
New Mexico ARP Supplemental Discretionary Funds

About 20% of child care programs in New Mexico closed during some part of the pandemic. Although most have reopened, setting payment rates based on the cost of care was seen as instrumental to providers attaining financial stability, especially for family child care. ECECD worked in partnership with external fiscal consultants to develop a robust alternative methodology, incorporating a cost study and development of a cost estimation model.

New Mexico’s alternative methodology included:

- Interactive and robust cost-modeling approach.
- Comparisons of cost across levels of quality aligned to the five tiers in New Mexico’s quality rating and improvement system, age of child, type of care setting, and geographic location.
- Extensive stakeholder and provider engagement to guide the study.
- Revenue analysis, allowing the state to compare current and proposed subsidy rates to costs, model the impact of other revenue streams, and consider the impact of different quality measures.

Cost Model Highlights

Launching a new state department focused on early care and education; development of a strategic plan committed to supporting children, families, and communities; and establishment of the Early Childhood Trust Fund to fund the work of the new department set the stage for state leaders to seek approval to conduct an alternative methodology. The project was guided by strong stakeholder engagement to ensure the cost-modeling was comprehensive and collaborative. The stakeholder group provided input on:

- Cost-survey and estimation model.
- The model’s quality variables and data gathering and analysis assumptions.
- Ensuring providers were engaged in data gathering and review of results.
- Modifications to the model based on analysis of interim results.

Planning for Success

Initial work focused on preparing ECECD staff to use a cost model approach and attaining approval for an alternative methodology from the Office of Child Care. Once approved, ECECD staff worked closely with external consultants and partners at Growing Up New Mexico to engage a diverse body of child care stakeholders in all elements of the process.

The cost estimation model will inform future efforts to align subsidy rates with cost of quality and increase access to high-quality settings for low-income families. It is a dynamic tool allowing ECECD to create and consider various scenarios reflective of the child care landscape.

Other Plans for ARP Supplemental Discretionary Funds

ECECD is now exploring improvements to their co-payment structure and expanded eligibility levels.

WOULD YOU LIKE TO KNOW MORE?

Please contact the Office of Child Care regional office, the State Capacity Building Center’s state systems specialist, or the Tribal technical assistance specialist for your region to request additional information.

March 2022