PRENATAL TO FIVE FISCAL STRATEGIES APPLAUDS NEW MEXICO FOR BECOMING THE FIRST STATE IN THE NATION TO SET CHILD CARE SUBSIDY RATES BASED ON THE TRUE COST OF QUALITY

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On July 1, New Mexico Governor Lujan Grisham announced that the state would make significant changes to how it supports access to high-quality early care and education for children and families. At a press conference announcing the changes, the Governor revealed that the Early Childhood Education and Care Department will move to setting child care subsidy rates based on a cost estimation model, rather than a market rate survey. Prenatal to Five Fiscal Strategies (P5FS), national early care and education fiscal experts, worked with ECECD to develop the cost estimation model on which the new rates will be based.

Historically, New Mexico, like all states, has set subsidy rates based on a percentage of the market rate. However, this market rate reflects the prices that providers charge families, which in turn reflects what families can afford to pay. This creates an inequitable system where providers in communities where families cannot afford high tuition receive lower reimbursement rates than providers in higher-income neighborhoods. This often results in lower educator compensation and higher turnover. Setting rates based on the current market also embeds the low wages that early childhood educators receive. Since 2014, the federal Administration for Children and Families has allowed states to set rates based on a cost estimation model, rather than the market rate. To date, only the District of Columbia has moved to this approach. With the Governor's announcement, New Mexico becomes the first state in the nation to move to this approach.

To inform the new rates, ECECD worked with P5FS to develop a child care cost estimation model. This model development was guided by a stakeholder advisory group, made up of early childhood providers and leaders from across the state, and informed by data from a statewide provider survey and interviews with providers. The model developed by P5FS allows ECECD to better understand the finances of early care and education providers, and how those costs differ by the age of child, type of program, and quality requirements. The model also enables ECECD to set rates at a level that provides sufficient resources to pay teachers higher salaries, contribute to health insurance, and to offer paid leave. This work was supported in part by the Pritzker funded National Collaborative for Infants and Toddler Capacity-building Hub, ran by the BUILD Initiative. BUILD and P5FS partner to ensure responsive capacity supports are available to states and communities as they work to improve access, quality and coordination of programs and systems that support families of children from the prenatal period to five years of age.

As the child care industry across the country struggles to overcome the devastating economic impact of the COVID-19 pandemic, it is more important than ever that states address the broken fiscal system that child care has long operated under. Setting subsidy rates at a level that reflects the true cost of care, including adequate educator compensation, is a key part in building a robust child care system that meets the needs of children, families, educators, and providers.

To learn more about this work or how P5FS can help states with rate setting that better reflects the true cost of quality please contact Jeanna Capito or Simon Workman at info@prenatal5fiscal.org.