



Transforming the Child Care Landscape

A Case Study of New Mexico

September 2023

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Executive Summary

Over the last four years, New Mexico acted swiftly and comprehensively to reverse historical underinvestment in child care, as well as to target specific, COVID-related challenges facing residents of the state who engage with the child care system. Though many states are taking bold steps in transforming the supply, demand, and/or quality of child care, New Mexico has made significant strides across all three domains in addressing the child care crisis.

New Mexico's unprecedented use of state resources to transform the child care landscape creates a vital opportunity to study the impact of policy changes, both to learn about individual policy impacts and consider how policies might work together to create larger and more sustained impacts.

The Prenatal-to-3 Policy Impact Center (Policy Impact Center) conducted exploratory research to document New Mexico's numerous policy changes (see Timeline on page 16) and identify the expected outcomes from each change, both in isolation and considering the interplay between policy reforms (see Theory of Change Model on page 27).

Several important insights emerged as a result of this research process:

1. Significant reforms to the child care system occurred in relatively quick succession in New Mexico, starting in 2019 with foundational changes in child care governance, data gathering, and funding – including establishing an Early Childhood Trust Fund and using Land Grant Funds to build child care infrastructure. These foundational changes aimed to provide sustainable funding and oversight to the targeted reforms that followed in 2021 and 2022.
2. Targeted reforms continued in 2021 and 2022 with six key policy and program changes including: reimbursing subsidies at the tiered true cost of care; expanding subsidy eligibility; reducing subsidy administrative burdens; reducing out-of-pocket child care costs from families; supporting providers in building child care capacity and quality; and compensating and developing the early childhood workforce.
3. Stakeholders in the child care market – including providers, educators, and families with young children – are part of an interconnected, dynamic system. Reforms that target one stakeholder group are likely to have downstream impacts, both intended and unintended, on other stakeholders.
4. State leaders must pay careful attention to the interacting – and sometimes countervailing – forces of *availability*, *affordability*, and *quality* of the child care

ecosystem. Similarly, states must work to simultaneously address child care *supply*, child care *demand*, and *barriers* to child care take-up in order to effectively ameliorate the child care crisis.

5. Knowing how one child care reform strategy works in isolation is insufficient. Knowing how reforms work in combination is imperative to understanding the impact that complex statewide reforms can have.

Through these historic child care reforms, New Mexico emerged as a national leader in child care system transformation, with the aim of increasing equitable access to high-quality, affordable child care. However, to date, no evaluation has been conducted to comprehensively study the outcomes for children and families across the state.

Evaluating New Mexico's policy changes will provide policymakers and stakeholders in other states with clearer guidance on how best to invest available funds to stabilize the child care market, support child caregivers and early childhood educators, and provide affordable, high-quality care for working families.

Introduction

In 2019, the state of New Mexico began a major transformation of its child care landscape at the direction of newly-elected Governor Michelle Lujan Grisham. Reforms began with long-term, structural changes in oversight and funding of early childhood programming (2019-2022), and then moved to targeted programs and policies designed to solve specific, difficult problems in the child care market (2021 and 2022).

Through these historic reforms, New Mexico emerged as a national leader in child care, and it continues to seek improvements to its child care system through investments in the stabilization and affordability of care for families with young children, and in supporting the child care workforce.

Since these historic child care changes, a comprehensive evaluation of their impacts has not been completed. Though evidence from evaluations conducted in other state contexts identifies what the impacts may be for some of the policy and program changes, New Mexico's decision to transform so many areas of the child care landscape over a short period of time provides a vital opportunity to study the effectiveness of individual changes, as well as how policy and program changes might work together to create larger or more sustained improvements in opportunities and outcomes for children and families. Additionally, it is important to carefully consider the unique context in which reforms take place, and the timing and reach of each reform effort.

This report (1) systematically documents the diverse and wide-reaching reforms New Mexico made to child care and (2) uses existing scientific evidence to illustrate what the most likely impacts of those reforms will be.

The report is split into two chapters. First, a timeline describes **how New Mexico transformed child care** over the last four years in Chapter I. Next, Chapter II illustrates a theory of change model of **how child care reforms can transform New Mexico** for families, educators, and child care providers.

To create the timeline, theory of change model, and accompanying report, the Policy Impact Center conducted thorough background research and a targeted review of the scientific literature; assessed gaps in the scientific literature to identify priorities for building the evidence base; orchestrated key informant discussions and iterative rounds of feedback with the New Mexico Early Childhood Education and Care Department (ECECD); and tracked legislative progress and information on statewide data sources through publicly available information sources.

This report can support stakeholders in New Mexico to contextualize the child care changes that it has made in service of the state's youngest residents and their families. Lessons learned from this planning process, as well as lessons learned from a rigorous evaluation of New Mexico's child care reforms, can provide policymakers and stakeholders in other states with guidance on how to use state resources to provide high-quality, affordable child care to families with young children, and to support providers and educators in the early childhood workforce.

Chapter I: How New Mexico Transformed Child Care

Introduction

The state of New Mexico has many distinctive features, from the rich diversity of the population, unique topography, and resulting unique settlement patterns. Similar to states across the country, however, New Mexico's already-struggling child care industry entered a crisis phase during the pandemic.

In response, New Mexico took unprecedented public policy action. From a strategic planning process, to identifying sustainable state funding and re-organizing governance structures, to implementing numerous reforms to systematically transform the industry from all sides, New Mexico serves as a model to all states on the policy options available to work toward a more functional child care industry.

New Mexican Early Childhood Ecosystem

New Mexico represents a unique cultural and political context in which to study child care system changes. New Mexico has wide ethnic, racial, cultural, and linguistic diversity among its residents. Of the ~2.1 million people residing in New Mexico, approximately 115,000 are children under 5 years old.¹

Almost half of the population identifies as Hispanic or Latino/a, 36 percent identify as White, 11 percent identify as Indigenous, 3 percent identify as Black, and 3 percent identify as Asian. Approximately 23 percent of children speak a language other than English at home (mostly commonly Spanish or Diné).¹ Twenty-three sovereign Tribal Nations are within the borders of New Mexico: 19 pueblos, three Apache tribes, and part of the Navajo Nation.

A higher rate of New Mexican residents live in poverty than the US overall – especially children.² Over half of children birth-to-age-8 live in families with low income (below 200% of the Federal Poverty Level, or FPL); 13 percent live in extreme poverty.² The 2021 household state median household income (SMI) is just under \$54,000 per year, substantially less than the national median income of nearly \$71,000.^{3,4}

Unemployment and underemployment are a persistent struggle for the state, with 7 percent of parents reporting unemployment in 2021.⁵ New Mexicans report a lower percentage of children with all available parents in the workforce than the US on average, and 35 percent of children in the state are living with parents who lack secure employment.⁶

New Mexico also struggles with childhood hunger and maltreatment, especially for young children. Substantiated child maltreatment rates occur at ~1.5 percent of the population.⁷

Hunger prevention programs (e.g., the Child and Adult Care Food Program, Supplemental Nutrition Assistance Programs, Special Supplemental Nutrition Program for Women, Infants, and Children) serve a significant portion of state residents – for example, the Child and Adult Care Food Program (CACFP) serves an average of 31,000 children a month – but food insecurity and food deserts remain a reality for many families in New Mexico.⁸⁻¹¹ Crucially, access to high-quality child care is a protective factor against both childhood maltreatment and food insecurity.¹²

Innovative policy efforts are underway in New Mexico to reduce resident poverty and its comorbidities: the state minimum wage increased to \$12.00 in January 2023, the state is piloting universal basic income, and tuition-free college is available to many New Mexicans.¹³⁻¹⁵ Larger-than-average per capita state and federal spending make these investments possible, with a large portion of new funds coming from land-lease agreements with the oil and gas or other mineral extraction industries, as well as taxes on those industries.¹⁶

Child Care Crisis

The Importance of High-Quality Child Care

High-quality child care serves families in multiple ways. The period of development occurring prenatally to age 3 is foundational to later learning and growth; children experience the most rapid period of brain development during this time, and the environment in which children learn and play can dramatically shape their developmental trajectory.¹⁷ Access to high-quality care – care that provides children with a safe, nurturing, and enriching environment – can facilitate positive brain development in children, allowing them to thrive in future schooling and in the workforce as adults.¹⁸

For most parents, access to high-quality child care outside the home is a necessary precondition to finding and maintaining gainful employment. Access to child care facilitates economic security: it allows parents to maintain stable employment following the birth or adoption of a new child and can reduce the stress that is often associated with job instability and financial hardships.¹⁹⁻²¹ Improved economic security and self-sufficiency, along with reductions in parenting stress, can support children's physical health, cognitive development, educational achievement, and social adjustment later in life. In fact, the return on investing in early childhood education (ECE) is estimated to range between \$4 and \$9 for every \$1 invested.²²

At the aggregate, child care keeps the thriving economy of New Mexico running. High-quality early care and education provides children with safe, nurturing environments to learn and grow in their earliest years while their parents provide for their families and

support a strong, growing economy. Child care is a vital part of the infrastructure of the New Mexican economy and a critical industry to support.

A Gridlocked System

High-quality child care is expensive to provide, and families across the United States have felt that pinch for many years. The federal government considers child care affordable when it costs no more than 7 percent of household income.²³ In 2019, child care costs were estimated to consume between 11 and 40 percent of household income in New Mexico for one infant, and between 21 and 80 percent of household income for two children.²⁴

High-quality child care in New Mexico was unaffordable for many families, just as it was in almost every state in the US: Child Care Aware reported that annual child care costs for an infant in New Mexico in 2019 was more than in-state college tuition, and care for two children was typically more than a family's mortgage.²⁴

At the same time, early childhood educators do not earn enough money in most US states, even when working full time, to provide for themselves and their families. These broad national trends were true in New Mexico, too, in the period leading up to and during the COVID-19 pandemic, and as the state rolled out numerous reforms. Despite their essential nature, in 2019 the median hourly wage for a child care worker in New Mexico was \$10.00, below the living wage for a single, childless adult and far below the wage needed to support a family with children.²⁵ One in four early childhood educators lived in poverty at this time,²⁶ and nearly 26 percent of the early child care workforce received Medicaid.^{27,28} As a result of these low wages, a substantial portion of the child care workforce left the profession each year, with annual turnover estimated to be approximately 28 percent.²⁹

Finally, owners of child care businesses historically operate on a shoe-string budget, with most child care programs in the US functioning on profit margins of less than 1 percent.³⁰ For context, the Corporate Finance Institute considers a net profit margin of 10 percent “average” for a business and considers margins below 5 percent “poor.”³¹

Child care business owners and directors often struggle to hire and retain qualified early childhood educators to meet the needs of their communities, while existing early childhood educators struggle to make ends meet. However, in most instances, owners cannot afford to pay early childhood educators more than what they are currently offering given these tight profit margins.

The pre-reform child care system in New Mexico - along with much of the United States - struggled with gridlock: parents could not afford to pay more for care, child care program providers could not charge less, and early childhood educators did not make enough to

remain in the field. The supply of child care has historically been too low, but these persistent challenges have prevented new child care businesses from flourishing and disincentivized new early childhood educators from entering the field. Families in New Mexico bore the cost of these challenges through limited access to care that could promote positive child development and enable parents to work.

The COVID-19 pandemic put additional strain on an already struggling industry, even though many child care programs faced dire financial situations before the pandemic.³² Many child care programs that managed to remain open could not operate at full licensed capacity because they struggled to hire or retain early childhood educators.

Estimates from 2021 show that 53 percent of families in New Mexico lived in counties that were considered child care deserts.³³ Child care deserts are defined by the Center for American Progress as areas of insufficient licensed child care supply, such that there is a ratio of more than three children for every one licensed child care slot in a given area.³⁴ ECE educators are the workforce behind the workforce, and the loss of access to child care on this scale negatively impacts workers and businesses across all industries in the state.

Child Care Subsidies: The Child Care Assistance Program in New Mexico

Child care subsidy programs in the US are designed to increase access to and affordability of child care for families with low incomes. The Child Care Assistance Program, or CCAP, is the program that provides eligible families with a child care subsidy in New Mexico. By improving access to child care, CCAP assists parents in securing and maintaining employment, or completing education and training. CCAP also aims to improve access to high-quality child care for children, with the goal of positive child development for participating children.

Child care subsidies, such as New Mexico's CCAP, are an effective tool to support children and families. Research shows that receipt of financial assistance for child care and increased state spending on child care subsidies improve outcomes for children by promoting parental employment; ensuring families have sufficient household resources; and ultimately reducing material hardship among the state's families with low income.³⁵

Child care subsidies are funded through a combination of state and federal investments, and they are administered by state agencies. The Child Care and Development Fund (CCDF) is a state and federal partnership authorized under the Child Care and Development Block Grant (CCDBG) and the Child Care Entitlement to States (CCES) that provided more than \$11 billion in funding for child care subsidies across the US in 2023.³⁶ To establish and maintain enrollment in CCAP in New Mexico, parents must meet both federal and state-specific eligibility requirements.

State governments have wide latitude in determining the specific parameters of their child care subsidy system, including reimbursement rates (the amount a provider is reimbursed for each child whose family receives a subsidy), subsidy eligibility criteria, family copayment schedules, and administrative processes for how residents obtain child care subsidies and recertify their eligibility. CCDF program flexibility results in substantial state variation in child care subsidy policy. Understanding the crisis threatening the sustainability of the child care industry has led New Mexico to leverage this flexibility by implementing a wide range of reforms to the child care system between 2019 and 2022.

Because so many low-income families reside in New Mexico, public-sector funds traditionally made up a substantial proportion of the operating budgets in many child care programs; in FY2018, FY2019, and FY2020, approximately 20,000 children were served each month in CCAP through New Mexico's CCDF funds.^{28,37,38} Even before recent reforms took place, New Mexico demonstrated commitment to increasing child care accessibility through CCAP: from FY2014 to FY2020, the New Mexico state legislature more than doubled the amount spent on CCAP, using increases in federal CCDF dollars and state general fund allocations.²⁸

Increased investments in child care assistance enabled New Mexico to have more inclusive state-specific eligibility requirements, pre-reforms, than any other state,³⁹ and more than 20 percent of children in New Mexico who met federal eligibility criteria were receiving subsidized care – well above the national average of 11 percent. Though New Mexico served a greater proportion of children eligible for subsidies than other states prior to the major changes described below, most children in income-eligible families were not receiving subsidies, underscoring the opportunity for policy and program changes to benefit many New Mexican families by providing children with better access to high-quality early learning opportunities and enabling parents to work.

New Mexico's Strategic Goals for Child Care

In 2019, the state of New Mexico conducted an Early Childhood Needs Assessment to address the disconnect between the early childhood infrastructure and its stakeholders, while simultaneously assessing the social and economic wellbeing of families, providers, and educators.⁴⁰ The assessment prioritized stakeholder input and involvement, with a particular focus on engagement of underrepresented and vulnerable communities. The 2019 Early Childhood Needs Assessment amplified the voices of individuals from groups often marginalized through qualitative and quantitative data collection.

In response to the Needs Assessment findings, ECECD developed the 2021-2024 Strategic Plan, which outlines New Mexico's goals and strategies to build a state system to improve

the lives of young children and their families, including efforts to transform child care in the state.⁴¹ ECECD conducted a similar process two years later, culminating in ECECD's 2022-2027 Strategic Plan.⁴² ECECD developed the following unifying visions as a result of the needs assessment and strategic planning processes.

The 2021-2024 Vision

Each and every New Mexico child, prenatal to age five, and their families will have equitable access to quality early learning opportunities to support their development, health, and wellbeing, ensuring they are ready to succeed in kindergarten and beyond.

The 2022-2027 Vision

All New Mexican families and young children are thriving.

The Mission: Access to High-Quality and Affordable Child Care

Child care is a crucial element in realizing both the 2021-2024 and 2022-2027 visions. **Access to high-quality, affordable child care** aligns with the vision of improving equitable access to quality early learning opportunities, enabling parents to work to support their families, and allowing children to reach their full developmental potential and thrive.

Intermediate Objectives for a Functional, Equitable Child Care System

For New Mexico to realize this mission of increasing the number of children with access to high-quality and affordable child care, the 2022-2027 Strategic Plan identifies several additional strategic objectives, which act as crucial stepping stones to the vision. Several of these intermediate objectives specifically address transforming the child care system.

A Valued Educator Workforce

New Mexico hopes to build a system in which the ECE workforce feels valued and is fairly compensated for their crucial work. New Mexico aims to keep educators in ECE and to support educators in building a viable career and earning additional competencies and qualifications. New Mexico also aims to create an ECE workforce in which new educators are eager to join, and supported in joining, the growing field. Objective 1.1 of the 2022-2027 Strategic Plan reflects this goal.

***Obj. 1.1** All early childhood professionals are supported by a fully implemented equitable career and compensation system.*

A Stabilized Marketplace of Child Care Providers

New Mexico aims to stabilize the child care market across all regions of the state – from urban centers to frontier regions – to ensure that child care operations can remain viable and are able to provide high-quality care to the communities of New Mexico. Objective 4.3 of the 2022-2027 Strategic Plan reflects this goal.

Obj. 4.3 ECECD's professional development and technical assistance system builds the capacity of early childhood professionals to support high-quality, equitable services that are aligned to the early learning guidelines and meet the geographic, cultural, and linguistic diversity of programs and communities.

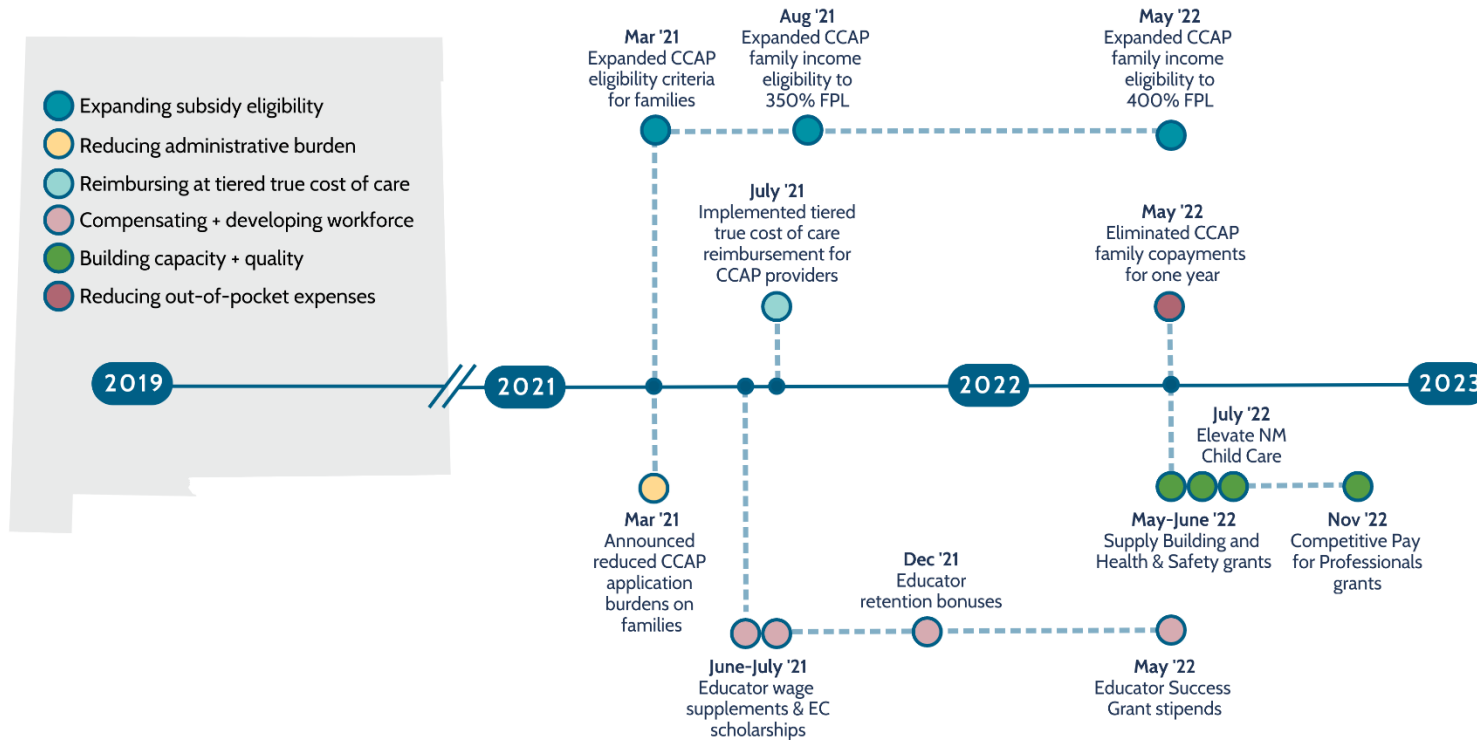
Improved Quality of Care for Children

New Mexico is also working toward universal access to high-quality child care outside the home for families that choose to use it. For children to have more access to high-quality care, child care options across the state must become higher quality in the aggregate. High-quality care – also called *nurturing care*⁴³ – generally describes care that is stable, safe, stimulating, and filled with warm, responsive relationships between educators and the children under their care. Objective 1.5 of the 2022-2027 Strategic Plan reflects this goal.

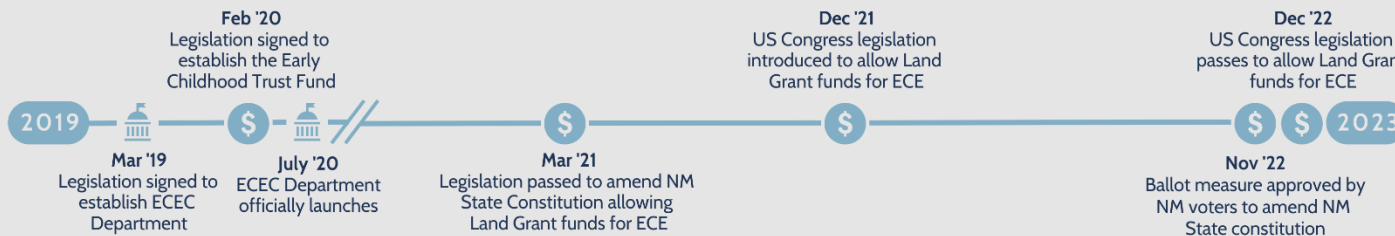
Obj. 1.5 Quality, universal, accessible, and affordable early care and education is available for all families and children.

How New Mexico Transformed Child Care

Timeline of New Mexico Child Care Reforms



Timeline of Sustainable Infrastructure and Funding Changes



Transforming the System: Child Care Changes in New Mexico

New Mexico implemented multiple policy reforms and programmatic changes that fall into two distinct categories: *sustainable infrastructure and funding changes* and *child care reforms*.

Sustainable infrastructure and funding changes include changes to governance of the child care system, as well as changes to the long-term funding of child care in the state, that in turn make possible the specific child care reforms and boost their success. Infrastructure reforms began in New Mexico in 2019 and continued through the end of 2022.

Child care reforms include changes to the CCAP system (such as eligibility expansion and reimbursement calculation), as well as the launch or expansion of programs designed to build child care provider capacity and quality, and programs to appropriately develop and compensate the early childhood education workforce. These reforms were meant to solve specific problems using targeted policy and program changes at the state level; the changes began in 2021 and are ongoing.

As states across the country continue to face numerous, interconnected child care challenges, the six key areas of child care reform provide a model for other states considering similar reforms. Similarly, New Mexico's innovative funding strategies provide examples of opportunities to sustainably fund state investment into child care.

Sustainable Infrastructure and Funding Changes

New Governance Structure

In 2019, Governor Michelle Lujan Grisham signed into law the creation of the Early Childhood Education and Care Department (ECECD) in the Governor's cabinet. The Department is led by Secretary Elizabeth Groginsky, who was unanimously confirmed by the New Mexico State Senate in January of 2020.⁴⁴ Legislative sponsors and early childhood advocates advanced ECECD as a single point of contact for families with young children, offering continuity of services and easing the transitions between different early childhood programs that have been traditionally housed in separate state agencies.⁴⁵

The Department officially opened its doors and began its work in 2020.²⁹ Programs overseen by ECECD include early intervention, home visiting, family support programs, pre-K, pre-school special education services, and CCAP – as well as coordination of care and service delivery across these programs. Public support for ECECD's work is clear: in November of 2022, New Mexican voters approved a constitutional amendment declaring that education from birth to age five is the right of every New Mexican child.⁴⁶

Long-Term Funding Sources

Legislators and government officials dedicated several temporary and permanent sources of funding to ECECD's work, including temporary federal funding from the American Rescue Plan Act (ARPA) and several smaller grants from philanthropic and charitable organizations.²⁹ New Mexico committed \$435 million of federal stimulus funds towards ECECD activities, but these funds expire in September 2023.

To create long-term viability, the state legislature dedicated additional funding for the long-term sustainability of ECECD programs through the Early Childhood Trust Fund (also known as the Early Childhood Education and Care Fund).⁴⁴ Oil, gas, and mineral extraction industry taxes and leasing revenues are invested in the Early Childhood Trust Fund.⁴⁷ The bulk of these funds are sustainably invested, with \$30 million or 5 percent dispersed annually to support early care and education.^{29,44}

Additionally, New Mexico passed legislation in 2020 to allow a change to the state constitution to disburse funds from the Land Grant Permanent School Fund to support early childhood education, at a rate of an additional 1.25 percent annually. Constituents voted to approve this change in November 2022, and the US Congress passed a resolution in support of this use of funds in December 2022.⁴⁸

The value of these permanent funding sources is difficult to precisely predict because the amounts dispersed grow as the value of the assets supporting the funds increases. As originally projected, ECECD estimates that these two additional funding sources will disburse approximately \$180 million annually. However, it appears this amount is swiftly increasing: New Mexico state economists now project that the Early Childhood Trust Fund, originally projected to disburse \$30 million annually, will actually provide at least \$90 million annually by FY2026, for example.⁴⁹

Reforming Child Care: Six Targeted Policy and Program Changes

New Mexico reformed child care through two primary pathways: (1) changes to the CCAP program; and (2) changes to support the child care workforce. By changing the subsidy reimbursement methodology, expanding subsidy eligibility, eliminating copays, and reducing administrative burden for families, New Mexico's ECECD transformed the CCAP program for both providers and families. Additional initiatives to support, develop, and compensate the child care workforce and support providers aimed to further stabilize the child care market.

Child Care Assistance Program Changes

1. Reimbursing Subsidies at the Tiered True Cost of Care

New Mexico began the work to fundamentally transform its child care assistance program by changing how the state calculates reimbursement rates for providers serving subsidized families.⁵⁰ Prior to 2021, New Mexico used a method that is commonly used across the US and set reimbursement rates for providers using market rate surveys and increased reimbursements as providers moved up QRIS levels – but subsidy rates across all types and quality-ratings were insufficient to cover operating costs, and the tiered reimbursement did not adequately cover increased costs associated with improvements to quality of care.^{28,32}

New Mexico sought federal Office of Child Care approval to implement an alternative method of calculating subsidy reimbursement rates, which better captures the true cost of care. Whereas most states set child care subsidy rates using market rate survey (MRS) methodologies, New Mexico was the first state to switch to an alternative methodology, using a cost-estimation model; the District of Columbia and Virginia also currently use cost estimation models to reimburse at the true cost of care.

New Mexico submitted this change for approval in their CCDF plan in response to the fundamental problem with the MRS approach: because the MRS sets reimbursement rates based on current *market prices* of child care, MRS rates capture what families can afford to pay, not necessarily what it costs providers to deliver quality care.^{35,51}

The difference in reimbursement rates between the true cost of care and MRS reimbursement methodologies is particularly stark for infant care. Prior to the July 2021 reimbursement rate changes, monthly reimbursement rates were \$334 lower than the true cost of providing 5-star center-based care for infants; rates for toddlers and 3-year-olds were set \$126 and \$198 below the cost of providing care, respectively.³² New Mexico now reimburses at a substantially higher rate when compared to rates provided in 2020 based on the state's MRS.

The cost estimation model used to set subsidy reimbursement rates is currently based on a financial model developed by Prenatal to Five Fiscal Strategies in 2021.³² This model calculates the true cost of providing care using expenses that are necessary to meet both state operating regulations and to meet well-established measures of quality child care. In essence, rates were based on the *actual costs* that are experienced by child care providers in the state based on the type of care, ages of children served, and quality of care provided.

Though the original cost estimation modeling uses a minimum wage of \$12.10 as a starting wage for the least experienced educators, ECECD plans to shift subsidy reimbursement rates

higher each year to accommodate higher wages (i.e., a \$15.00 minimum wage in FY2024 and FY2025, and an \$18.00 minimum wage in FY2026, for licensed child care facilities).^{32,52}

Importantly, the cost estimation model uses recent data collection to estimate the difference in costs between offering base-quality care and high-quality care. In the cost estimation model, for example, personnel costs make up approximately 65 to 70 percent of operating expenses for 2- and 3-star facilities in New Mexico, whereas personnel costs are approximately 75 to 80 percent of operating expenses for 4- and 5-star operations because of lower student-to-teacher ratios needed to meet those higher quality thresholds.³²

Salaries per teacher were also modeled to increase with increasing facility quality: subsidy rates were designed such that lead teachers in a 5-star facility could be paid annual salaries of nearly \$40,000, which is substantially higher than the 2019 average of \$24,445.³² The ability to hire and retain qualified teaching personnel with fair wages is recognized as the substantial financial investment that it is in this model.

New Mexico also decoupled subsidy reimbursement rates paid to providers from the rates that providers choose to charge private-pay families (i.e., families receiving care who are not participating in the subsidy system). Prior to this change, if subsidy-participating providers charged less to private-pay families than the value of the subsidy reimbursement, providers received the private-pay rate as subsidy reimbursement. The removal of this policy aims to further incentivize providers to accept subsidy-participating families into their facilities.

New Mexico primarily finances these changes in reimbursement policies through an amendment to the Land Grant Fund, as described above.⁴⁶ Switching to a tiered true cost of care reimbursement strategy currently impacts an estimated 600 center-based operations, 200 licensed home-based operations, and over 1,000 registered child care homes in the state of New Mexico. It is unclear how many providers are directly impacted by the change in private-pay policies.

2. Expanding Subsidy Eligibility

In March 2021, New Mexico expanded eligibility categories to include families with parents pursuing postsecondary and graduate education or seeking employment, families that choose not to seek child support payments from non-custodial parents, and those whose income from Temporary Assistance for Needy Families (TANF) or unemployment insurance may push their income beyond the eligibility threshold.⁵³ These expansions are explicitly allowed under federal CCDF guidelines, though not every state chooses to leverage these exemptions.⁵⁴

In August 2021, the New Mexico ECECD expanded income eligibility for child care subsidies, from 200 percent of the federal poverty level to 350 percent of the federal

poverty level.²⁹ In May 2022, New Mexico expanded income eligibility further, to 400 percent of the federal poverty level – which equates to approximately 154 percent of the state median income, or approximately \$100,000 per year for a family of three.⁹ As of April 2023, New Mexico’s income eligibility threshold is the highest in the nation in terms of state median income.⁵¹

Expanding income eligibility dramatically increases the potential reach of the subsidy program, encouraging new families and child care programs to enter the subsidy system and hopefully stabilizing the child care market overall. ECECD projects approximately 70,000 children under age 13 will be income-eligible for subsidies, and will have a need for child care subsidies, each year under the current eligibility expansion; though, as of November 2021, only approximately 45 percent of eligible children under 6 years old, and 6 percent of eligible school-age children, actually received subsidized care.⁵²

This larger number of children with the potential to participate in the subsidy system stands in contrast to the number of children actually served by CCAP in the years before the pandemic and subsequent child care reforms; during these years, CCAP averaged approximately 20,000 enrolled children per month.³⁸ However, the Four-Year Finance Plan developed by ECECD builds toward funding levels that will allow for 100 percent service saturation (i.e., 100 percent of eligible children needing a subsidy) receiving subsidized child care by FY2026.⁵²

When creating cost projections and distributing funding for CCAP, ECECD included changes to both reimbursement rates and eligibility policies, as well as expanded subsidy take-up because of increased parental employment, wage increases for early childhood educators, and increases in the quality of the care families can access over time.

Using this model, ECECD projects it will spend an increasing total amount on child care subsidies (from both federal and state sources) annually, from approximately \$213 million in FY2023 to approximately \$534 million in FY2026; this increase is estimated to serve approximately 20,000 additional children over the same time period, with an additional boosted supply for infant and toddler care and steadily increasing reimbursement rates for subsidy providers.⁵²

These increases in service rates are ultimately supported by increases in federal CCDF and TANF funding, as well as state general and permanent funds as described above. FY2026 projections are based on 100 percent of eligible children ages birth to age 5 participating in CCAP, along with 10 percent of eligible school-aged children.⁵² Holding ECE wages and quality of care constant, the New Mexico Legislative Finance Committee projected that the tiered true cost of care reimbursement and expanded eligibility alone would cost an additional \$52.1 million in FY2022 over FY2021.⁴⁹

New Mexico also allocated over \$21 million from temporary COVID-19 relief funding to child care subsidy changes, including the expansion of eligibility.⁹ The CCDBG eligibility rules cover true cost of care reimbursements for families earning up to 200 percent of the federal poverty level; therefore, New Mexico's additional eligibility expansions beyond this level are funded using state resources that are independent of the CCDF.^{55,56,49}

In the long term, true cost of care reform, eligibility expansion, and changes to copay amounts will be funded by the investments made to state funding structures over the entire ECECD, including the Early Childhood Trust Fund and the Land Grant Permanent School Fund.

3. Reducing Out-of-Pocket Expenses for Subsidized Families

In 2020, ECECD eliminated copays for families earning up to 200 percent of the federal poverty level. As outlined in their CCDF plan for FY2022-2024, ECECD relied on the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSA) to waive copays through June 2022.

To reduce out-of-pocket child care expenses for most low- and middle-income families, in May 2022 ECECD expanded the policy, effectively eliminating copays for *all* eligible families earning up to 400 percent of the federal poverty level for one year (through June 2023). As a result of eligibility expansion and copay elimination, ECECD estimates that 30,000 additional income-eligible families will have access to no-cost child care.⁵⁷

When expanding eligibility to families with incomes that previously did not qualify for subsidies, existing copay scales may no longer be practical to use. Specifically, existing copay scales may leave newly-eligible middle income families with a copay that is too high to meet the states' goals for ensuring child care is affordable. ECECD is conducting a review to set new copay rates that align with the extended subsidy eligibility thresholds that will go into effect once the waived copay period ends.

4. Reducing Subsidy System Administrative Burden

Administrative burden – which is the experience of participating in a publicly-administered program as “onerous” or “burdensome” – has been a challenging aspect of managing child care subsidies across the country.⁵⁸⁻⁶⁰ New Mexico announced several changes to help reduce administrative burden for families in March 2021, including: (1) replacing in-person-only submissions with electronic application submissions; (2) removing the mid-year re-certification; and (3) allowing changes to child care needs to be communicated to ECECD via phone.⁶¹

ECECD highlights online certification and recertification in the FY2022-2024 CCDF plan.⁵⁶ These operational changes sought to remove significant barriers to entering and remaining

in the subsidy system for families with young children, ultimately aiming to increase CCAP uptake and use. It is not currently clear how many families have been directly impacted by these specific administration changes, however.

Changes to Support the Child Care Workforce: Educators and Providers

5. Development and Compensation of the Child Care Workforce

To attract early childhood educators into the sector and to incentivize higher workforce qualifications, New Mexico funds several early care and education workforce development programs, including: (1) higher education scholarships and a free textbook program; (2) stipends for students of early childhood education; and (3) free professional development opportunities for educators wishing to extend their early childhood education training.²⁹ These initiatives are funded by a combination of ARPA and CRRSA funds, state general funds, and special funds allocated to ECECD (i.e. Early Childhood Trust Fund and the Land Grant Permanent School Fund).

Higher Education Scholarships

The ECECD Comprehensive Early Childhood Scholarship Program covers 100 percent of tuition, fees, textbooks, and PRAXIS (i.e., teacher qualifying exams) costs for students working 20 hours per week or participating in an approved internship in an ECE program and completing a certificate, associate's degree, or bachelor's degree in ECE or social work. Students must submit scholarship renewals every semester to remain eligible.⁶²

Stipends for Educators of Early Childhood

In May 2022, New Mexico launched the Early Childhood Educator Student Success Grant. Using this mechanism, ECECD provides funds to colleges and universities in the state, which then disperse stipends to students pursuing early childhood degrees based on the students' credit load.^{9,63} Between ~400 and ~800 scholars have been supported each semester by these scholarship and stipend programs since the program began. The New Mexico ECECD plans to dedicate \$6.5 million annually to higher education grants and supports for early childhood educators across FY2023–FY2027.⁵²

Professional Development Opportunities for Early Childhood Educators

In addition to higher education supports, the Department also used federal funds to provide all early childhood educators online access to professional development coursework. ECECD provides universal, no-cost access to professional development opportunities on Quorum, an online learning platform that offers ECE courses in English and Spanish. ECECD also partners with Project Echo at the University of New Mexico to offer synchronous, virtual professional development at no cost to ECE educators.^{9,64} As of January 2022, 4,556 educators had completed 34,508 hours of training.²⁹

Direct Compensation to Educators

Direct payments to educators are also a significant feature of ECECD reforms. ECECD introduced several wage-boosting programs in July 2021: a one-time bilingual incentive payment of \$1,500 made available to 130 certified bilingual educators, and an education- and experience-based supplement paid every six months, ranging from \$125 to \$2,548, for up to 500 educators.⁶⁵

In December of 2021, the Department used pandemic relief funds to pay \$1,500 retention bonuses directly to 7,665 educators to stabilize the market and encourage experienced educators to remain in ECE. In August of 2022, ECECD introduced a pay parity program for approximately 70 pre-K teachers working in New Mexico-funded community pre-K to align their salaries with pre-K teachers based in public schools.⁶⁶ ECECD projects that it will spend approximately \$1 million, across all direct-to-educator wage supplement programs, in FY2023-FY2026.⁵²

6. Provider Capacity- and Quality-Building Support

In addition to the subsidy system changes, New Mexico invested to stabilize the child care industry and ease hiring challenges in a number of ways by supporting revenue of child care facility owners, directors, and operators (e.g., providers). Investments include: (1) business operation supports; (2) expansion and quality improvement grants to boost the number of high-quality child care slots available to families; and (3) provider-based workforce compensation supports.

Business Operations Supports

Beginning in August of 2021, New Mexico's ECECD began providing shared services options for providers via the Elevate New Mexico Child Care program – which provides back office supports to approximately 750 providers in the state – to allow child care providers to streamline burdensome administrative and overhead processes.^{67,68} Changes to the state-funded child care data management system also aim to streamline and support child care business operations; those changes are projected to cost approximately \$3 million per year from FY2023 to FY2026.⁵²

Expansion and Quality Improvement Grants

In April of 2022, New Mexico pledged an additional \$10 million in state funds for grants to seed and/or expand child care services in communities where care is least accessible.⁵⁷ ECECD also plans to support provider capacity through professional development initiatives (projected costs increasing from approximately \$400,000 to \$800,000) and QRIS-related supports (projected costs increasing from approximately \$4.5 million to \$5.5 million).⁵²

Of the \$8 million in CRRSA funding New Mexico dedicated to ECECD, the Department plans to spend \$7 million directly on child care grants, capacity building, and businesses across multiple programs.⁵² Additionally, health and safety grants, which aim to provide additional resources to cover costs incurred for providing safe care to children in licensed care during the public health emergency, have thus far been distributed to 716 providers since June 2022.

Provider Supports for Workforce Compensation

To further incentivize retention of a qualified early childhood workforce, ECECD launched the Competitive Pay for Professionals (CPP) grant in November of 2022, using primarily ARPA funds to boost the pay of up to 16,000 educators in 951 licensed child care facilities over the next year. CPP makes state funds available directly to participating *providers*, not educators, though the funds are earmarked for increases to teacher wages. Lead educator wages are to increase to at least \$20 per hour, and assistant teacher wages are to increase to at least \$15 per hour. In FY2022, CPP supported increased wages for 3,788 early childhood educators.⁹

Summary

New Mexico transformed the child care system in the state in the years between 2019 and 2022. Eligibility for the child care subsidy system is dramatically wider and rules that might create barriers to use were changed; child care providers receive more adequate compensation for participating in the subsidy system and have new opportunities to receive funding to support capacity and quality improvements; and numerous new programs provide more competitive and sustainable wages for early childhood educators, and provide access to education to support their career development.

Undergirding these individual reforms are foundational changes to the infrastructure of the child care governance system, including a new cabinet-level department overseeing a large increase in sustainable, public investment.

Chapter II: How Child Care Can Transform New Mexico

Introduction

New Mexico systematically reformed child care through numerous policy and program changes beginning in 2019. Each specific change may affect supply, demand, and/or quality of child care by affecting providers, educators, and families. Implementing many changes at once, too, may create compounding or even competing effects on the child care market.

Creating a theory of change model to map policy and program changes – along with the expected outcomes, as defined by the existing scientific evidence, and how reforms might interact with one another – lays the groundwork for understanding the impact of New Mexico’s child care transformation.

Child Care System Stakeholders

In addition to understanding how changes to state policies and programs can transform outcomes of the child care system as a whole, it is important to understand unique intermediate outcomes and pathways for each of the three following stakeholder groups: child care **providers** (e.g., owners or directors of child care operations); early childhood **educators** (e.g., teachers, assistant teachers, and caregivers employed in child care operations); and **families with young children** (e.g., parents and children who seek child care in New Mexico).

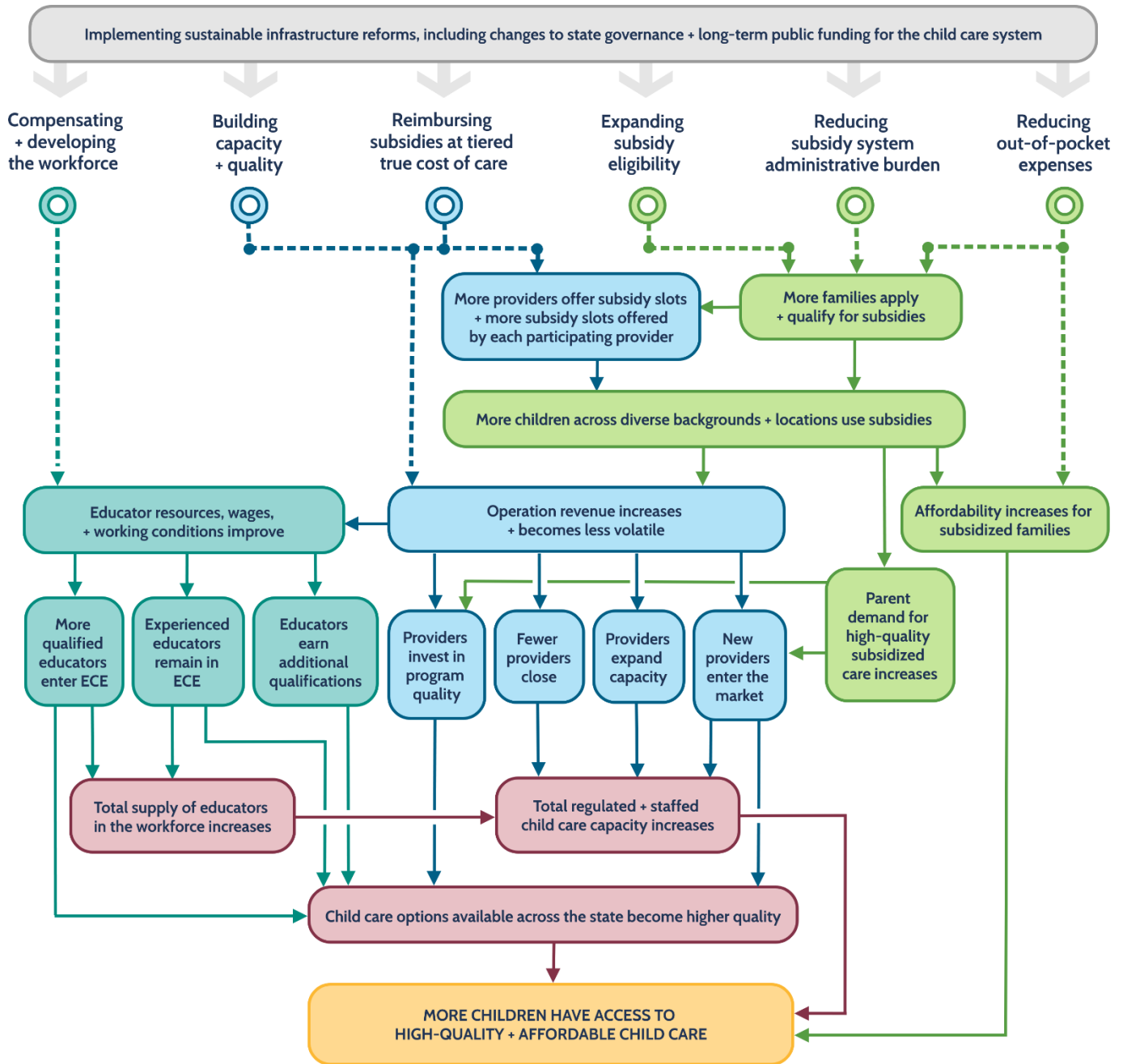
A Theory of System-Level Change

This Theory of Change model illustrates how a reform lever might impact child care outcomes for stakeholders, if implemented by a state, either as a stand-alone measure or as a part of a multifaceted approach to child care transformation. The chapter also describes the strength of the scientific evidence for positive outcomes associated with specific child care policies and programs, providing a guide for program and policy evaluation for stakeholders including individual state agencies and academic, advocacy, or funding organizations.

Policies, programs, and pathways that primarily impact **providers** are color-coded blue; those that primarily impact **families** are color-coded green, and those that primarily impact **educators** are color-coded teal.

How Child Care Can Transform New Mexico

A Theory of System-Level Change



New Mexico's Strategic Goals for Child Care

As discussed in Chapter I, the state of New Mexico published an Early Childhood Needs Assessment in 2020,⁴⁰ a Strategic Plan in 2021,⁴¹ and another Strategic Plan in 2022.⁴² As a primary mission for the prenatal-to-five population, New Mexico aims to increase the number of children and families with **access to high-quality and affordable child care**.

ECECD identifies at least three intermediate objectives (also detailed in Chapter I), representing each of the stakeholder groups, as steps toward this mission: (1) build a system in which the ECE workforce is valued highly, which will result in the **total supply of educators in the workforce increasing**; (2) stabilize the marketplace of child care providers, resulting in **the total regulated and staffed child care capacity increasing**; and (3) ensure that **child care options across the state become higher quality**.

Access to high-quality and affordable child care, although a seemingly simple metric to measure, actually encompasses three separate, but related, outcomes:

1. *Availability* of child care
2. *Affordability* of child care
3. *Quality* of child care

In some state contexts, child care may be available to parents who would like to use it, but unaffordable for most parents. By contrast, in other contexts, child care may be affordable, but low quality. In still other contexts, child care may be high quality and affordable, but the number of available child care slots too low to support the demand for child care in that location.

And just as child care *availability*, *affordability*, and *quality* may vary across contexts, policy and programming choices made by state leaders also vary widely. One policy lever may boost overall child care capacity, and thus availability of child care for families, while disregarding quality. The resulting system may not, then, promote positive child development in the state. Another policy lever may work to increase child care quality; however, this same policy may inadvertently negatively impact child care affordability.

For this reason, it is imperative that state leaders and decision-makers understand how each part of the child care system fits together, and how each policy and programmatic choice plays out in a dynamic system to impact the availability, affordability, and quality of the child care on which parents and families rely.

The Results of System Transformation: Expected Outcomes from Child Care Changes in New Mexico

Sustainable Infrastructure and Funding Changes

For specific policy and programmatic reforms to successfully launch and remain efficient, it is important to first **implement sustainable infrastructure reforms, including changes to state governance and long-term public funding for the child care system.**

New Governance Structure

Research shows that fragmented early childhood governance systems, with separate state agencies and departments responsible for different facets of early childhood programming and policy, are a major source of inefficiency for early childhood services, leading to difficulty for families in accessing and navigating the complex child care landscape.^{69,70}

New Mexico sought to address this issue by creating the cabinet-level Early Childhood Education and Care Department (ECECD), which now houses all prenatal-to-age-5 programming, including pre-K, home visiting, early intervention, and the CCAP child care subsidy program.²⁹

Long-Term Funding Sources

Monetary investments for child care reforms include a complex mixture of federal and state funding streams. However, experts in the field of early childhood education policy and child development agree that states have a responsibility to harmonize and coordinate the most efficient use of those funds, to maximize benefits for children and families, and to remove unnecessary administrative burdens from child care providers.⁷¹

Additionally, experts agree that the overall amount of sustained public funding should be substantially increased.⁷¹ There has been some movement in recent years toward sustained additional public investment in child care at the federal level (e.g., the Build Back Better Act, which was not ultimately passed into law, and substantial increases to the CCDBG program³⁶).

However, absent sufficient federal funding increases, the consensus remains that states are responsible for providing increased funds to bridge the gap and address current unmet needs for families, providers, and educators.⁷¹ New Mexico has made it clear that this increased state-level investment is a substantial part of their strategy and financing plans currently, and into the future.^{42,52}

Reforming Child Care: Six Targeted Policy and Program Changes

New Mexico reformed child care through several unique state policy and program levers to address the child care crisis. The state levers fall into two general categories: (1) changes to

the CCAP program; and (2) changes to support the child care workforce. Chapter I of this report details these policy and program levers in New Mexico implemented in 2021 and 2022.

Child Care Assistance Program Changes

ECECD transformed the CCAP program for both providers and families by activating the following policy levers: **reimbursing subsidies at a tiered true cost of care, expanding subsidy eligibility, reducing subsidy system administrative burdens, and reducing out-of-pocket expenses.**

1. Reimbursing Subsidies at Tiered True Cost of Care

As one of the states' first and most innovative policy changes, New Mexico changed how the child care subsidy system reimburses providers for offering subsidized care to eligible families.

Reimbursement amounts are no longer set using a market rate survey, which captures how much parents can afford to pay for child care, but may not reimburse providers enough to cover the actual cost of providing child care. Instead, New Mexico now uses a cost-estimation model to calculate the true cost of providing child care and sets its reimbursement rates based on that cost-estimation model, aiming to reimburse providers what it actually costs to provide high-quality child care. In this model, this change is labeled **reimbursing subsidies at the tiered true cost of care.**

Reimbursing providers at the true cost of care should prompt a shock to the child care system, resulting in fundamental changes to the child care market. Immediately following the reimbursement rate change, providers already serving eligible subsidy families will see **operation revenue increase** for every subsidized child in their care.

Because the true cost of care model is tiered – meaning that providers operating at higher quality levels receive higher reimbursement rates that genuinely reflect the cost of delivering higher-quality care – higher-quality operations will see their reimbursement rates increase more than lower-quality operations. Certain types of child care facilities may see their rates increase more than others, particularly facilities who have been historically undervalued (e.g., operations serving infants and toddlers, or home-based operations).

Increased operating revenue should, in turn, offer more financial security and income stability for the providers themselves, increase profitability for child care operations, and allow more providers to keep their doors open, thus maintaining necessary child care capacity in their communities (**fewer providers close**). Recent studies provide some evidence, particularly qualitative evidence, to support the assertion that large increases in reimbursement rates have economically benefitted child care businesses and their owners.⁷²

Though states can choose to reimburse child care subsidies at higher rates without using a true cost of care methodology, the Policy Impact Center's previous work has found that using a cost-estimation model to set reimbursement rates is accompanied by larger increases in subsidy reimbursement rates than average year-over-year increases based on market rate surveys.⁵¹

For example, when New Mexico shifted to a true cost of care model in 2021, the base-quality reimbursement rate for center-based care increased 22 percent for infants and 8 percent for toddlers. For increases for infants and toddlers cared for in child care homes, the respective increases were 54 percent and 83 percent. By contrast, states using the market rate survey methodology averaged a 7 percent increase for center-based care and a 5 percent increase for home-based care for infants and toddlers between 2020 and 2021.⁵¹

Simultaneously, changing to a tiered true cost of care reimbursement model should incentivize increases in subsidized capacity in two ways: providers who may have previously opted out of subsidy system participation will be incentivized to participate because the reimbursement rates are significantly higher (**more providers will offer subsidy slots**), and among participating subsidy providers, providers will increase the percentage of their overall capacity that serves subsidized families for the same reason (**more subsidy slots will be offered by each participating provider**). Several studies have demonstrated associations between increased reimbursement rates and higher participation in the child care subsidy system.^{72,73}

Potential positive impacts of a true cost of care reimbursement methodology on subsidy participation can be negated, however, by other subsidy system policy choices made by states. For example, when private-pay tuition rates are lower than the subsidy reimbursement rates for a particular provider, states typically reimburse at the private-pay rate (in other words, the lower of the two rates).

In the Policy Impact Center's work with the state of Texas, child care system stakeholders reported that a policy allowing providers to receive the set reimbursement rate regardless of the private-pay rate is a crucial part of incentivizing providers to participate in the subsidy system.⁷⁴ New Mexico designed their subsidy reimbursement policies to reflect this reality, and other states may wish to adopt similar strategies to reduce impediments to provider participation.

If families take up those additional subsidy slots (**more children use subsidies**), operation revenue should increase and stabilize further. The assumption that families will take up new subsidy slots remains a plausible, but untested, hypothesis across the existing research base. Some families – for instance, those currently on the waiting list for a subsidy slot – could immediately take advantage of additional subsidy capacity (i.e., current unmet demand).

However, current unmet demand only represents part of the demand-side constraints on the child care subsidy system. Creating new demand for child care subsidy slots is another avenue through which a state can transform the child care system.

With too few new families participating in the subsidy system, any change in reimbursement rates will have a limited impact.⁷⁴ But if increased supply is met with a balanced demand, the subsidy system can function as intended in supporting educators, providers, and families. Given that New Mexico's subsidy system (similar to all states) served fewer than half of eligible families prior to these reforms, it is probable that extensive new demand will be generated over time.^{39,52}

To build a system with balanced supply and demand for CCAP-funded child care, New Mexico engaged three separate family-facing policy levers: **expanding subsidy eligibility**, **reducing subsidy system administrative burden**, and **reducing out-of-pocket expenses for subsidized families**.

2. Expanding Subsidy Eligibility

In addition to changing the reimbursement methodology, New Mexico engaged in several family-focused policy and programmatic reforms to the child care subsidy system. ECECD **expanded subsidy eligibility** dramatically; first by broadening eligibility criteria such as work requirements and income categories (for example, by including parents who are earning graduate degrees and those who choose not to seek child support), then by expanding income eligibility to 400 percent of the FPL.

3. Reducing Subsidy System Administrative Burden

New Mexico also announced **reductions in subsidy system administrative burden** for families, including shifting to online applications and providing a direct phone number for families to contact with changes to their eligibility. Administrative burdens have historically been a significant problem for families wishing to use child care subsidies,^{60,75} and the reduction of those burdens has been shown to be useful in promoting subsidy uptake.⁷⁶

4. Reducing Out-of-Pocket Expenses for Subsidized Families

In New Mexico, ECECD eliminated all family copayments for one year beginning in May of 2022, which, in conjunction with an existing rule preventing providers from charging additional fees to subsidized families, **reduces out-of-pocket expenses** for families in the subsidy system by a substantial amount.

Each of these family-facing changes in the subsidy system – expanding eligibility, reducing administrative burden, and reducing out-of-pocket costs – should lead to **more families applying and qualifying for subsidies** in New Mexico.

If the supply of subsidy slots can meet this increased demand, this will lead to higher take up of child care subsidies (**more children across diverse backgrounds and locations using subsidies**). Economic modeling suggests that this increased subsidy uptake will further support a stabilized market and improved streams of child care operation revenue, leading to positive downstream impacts for children and families.⁷⁷

As profitability and stability of child care operations increase, new providers will be incentivized to enter the child care market (**new providers enter the market**), and providers already in operation will be incentivized to expand the number of children that they are able to serve (**providers expand capacity**).

New providers and expanded capacity for existing providers will lead to **total regulated child care capacity increasing**, thereby allowing **more children to have access to child care**. Though these hypothesized pathways make intuitive sense, very little rigorous empirical research has explicitly examined the system-level capacity impacts of improved operation revenue.

Family-facing changes to the subsidy system will also impact *affordability* of child care for many families (**affordability increases for subsidized families**). This increased affordability should occur in two ways: increased use of subsidized care will result in more families having access to child care for which they are not paying the full sticker price, whereas reductions in out-of-pocket expenses (especially the elimination of family copayments) will result in affordability increasing for all families in the subsidy system by reducing family contributions. Increased affordability will directly result in **more children having access to affordable child care**, an assertion that is supported by the existing scientific literature.⁷⁷⁻⁷⁹

Thus far, this Theory of Change model has focused on two of the three features of the fundamental goal which New Mexico has tried to achieve: *availability* of child care and *affordability* of child care. However, changes to the child care subsidy system can impact *quality* as well. The pathways by which subsidy system reforms can impact child care quality are similar pathways by which they can improve capacity: through supply-side changes and through demand-side changes.

An expanded number of children using subsidized child care should result in providers facing increased demand-side pressure from families to provide higher quality of the care (**parent demand for high-quality subsidized care increases**). This demand-side pressure is, in essence, competition among child care operations for the additional consumers that have entered the market.

This increasing demand for quality will likely have two downstream impacts. Providers already in operation will be incentivized to increase the quality of their currently operating child care centers and homes to attract these new consumers, for example by purchasing a

reputable curriculum, building a playground, or making building improvements (**providers invest in program quality**). Additionally, new, higher-quality child care operations may come into the market to capitalize on the influx of new consumers for subsidized care (**new providers enter the market**).

These changes should, in turn, lead to **child care operations available across the state becoming higher quality** in the aggregate. Though research is limited on this pathway to date, at least some studies have demonstrated that new families entering the subsidy system after an increase in subsidy generosity may make different choices regarding the types and quality of care sought as compared to families that are well-established in the subsidy system.^{80,81}

Importantly, providers are only anticipated to act upon these changing demand-side constraints regarding child care quality if there are commensurate changes in resources available to child care providers to make those quality improvements. In other words, changes in aggregate quality across the child care system are dependent on operation revenue being high enough and stable enough to make building a playground or purchasing a curriculum financially possible.⁷²

As described above, a policy to reimburse subsidies at the true cost of care should provide some of the additional operation revenue necessary to make quality improvements, especially if New Mexico is reimbursing subsidies at a higher rate for a larger number of eligible children.

Research has demonstrated that this is especially true for a tiered true cost of care model, in which states reimburse higher-quality operations at higher rates than lower-quality operations.⁸² This reimbursement structure more strongly incentivizes child care operations that participate in the subsidy system to strive for these benchmarks of high-quality child care.

Changes to Support the Child Care Workforce: Educators and Providers

The biggest changes to child care quality, research shows, happen through changes that support the workforce, and more specifically, through changes that improve recruitment and retention of qualified and experienced educators.⁸³ In addition to the changes made to the CCAP program, ECECD launched additional statewide initiatives to support, develop, and compensate the child care workforce. These state levers include programs that **build capacity and quality** and programs that **compensate and develop the workforce**.

5. Building Capacity and Quality

In New Mexico, ECECD launched several programs aimed at supporting child care businesses. State leaders can choose to earmark provider-focused funds for specific program improvement purposes; for example, in creating specific quality improvement grants or building grants.⁵⁷ Other programs – such as shared services programs or back-end business supports like Elevate New Mexico Child Care – simply free up revenue that may have gone toward administrative costs, which can now be applied to quality improvements.^{84,85}

Provider-facing programs such as these (**building capacity and quality**) should offer additional revenue and revenue stability to child care operations, leading to potential improvements in program quality.

6. Compensating and Developing the Workforce

In theory, providers earning additional revenue could use those additional funds to directly address workforce challenges by increasing educator compensation; creating staffing plans with adequate educator-to-child ratios to allow for floating teachers, thereby offering reasonable break times and paid vacation; or giving access to paid professional development opportunities (**educator resources, wages, and working conditions improve**).

However, existing evidence from New Mexico's Legislative Finance Committee suggests that this is unlikely to happen without dedicated funds for workplace supports that direct state funds to **compensating and developing the workforce** specifically.⁴⁹ When dedicated, fully-funded programs are available for workforce supports – for instance, New Mexico's Student Success Grant stipend program for those seeking higher education in ECE fields,⁶³ New Mexico's Pre-K pay parity program,⁶⁶ and the Competitive Pay for Professionals wage supplementation program⁹ – there is relatively strong evidence of effectiveness in reducing turnover and increasing aggregate educator qualifications.^{86,87}

These additional resources and higher compensation for educators should encourage **more qualified educators to enter ECE** and **experienced educators to remain in ECE**, while also incentivizing both new and experienced **educators to earn additional qualifications**.

Improved recruitment and retention should lead to the **total supply of educators in the workforce increasing**. Researchers have found strong causal evidence that increased compensation and resources for educators leads to higher retention and lower turnover for educators.⁸⁷ With more educators to fill ECE positions across the state, **total staffed child care capacity will increase**.

Retaining educators in the ECE sector – especially those with higher qualifications and more experience – should result in **child care operations available across the state**

becoming higher quality in the aggregate, over and above the quality improvements resulting from provider-focused programs. Existing evidence is strong that a stable ECE workforce with qualified educators leads to improved quality of care for children.^{88,89} This higher aggregate quality will lead to **more children having access to high-quality and affordable child care** in the state.

Without an adequate supply of educators in the workforce, the effects of subsidy-system reforms are likely to be modest at best. But, by focusing on programs and policies that promote *quality*, specifically by addressing the compensation and development of ECE *educators*, states can capitalize on the promise of subsidy-system reforms for increasing *availability* and *affordability* of child care as well.

Summary

This Theory of Change describes the short- and medium-term system-level impacts of several types of child care reforms at the state level. Though strong evidence supports many of the model's pathways, other pathways need additional rigorous evidence to assess their veracity. Using New Mexico as an illustrative case study, we show how a state can activate multiple policy and program levers simultaneously to enact positive change for families with young children, as well as for the child care providers and educators who care for them.

Looking at New Mexico's policy and program changes and their expected impacts clearly demonstrates that all pieces of the child care policy landscape are inexorably intertwined. Engaging in any one type of policy action – raising wages for educators, for example, or expanding eligibility for child care subsidies – may have some positive downstream impacts for some stakeholders. However, the system works better and more equitably for all stakeholders when a multifaceted approach is used.

Conclusion and Next Steps

Using New Mexico as a case study, this report details how leaders can make changes to policies and programs at the state level to boost child care capacity, balance child care supply with child care demand, and elevate child care quality. The report has also shown the likely impact of those reforms for educators, child care providers, and families.

In undergoing this research process, several important themes emerged. The child care ecosystem is a complex, interconnected system. Single policy and program changes are likely to have some downstream impacts, for some stakeholders. However, a robust, multifaceted approach that seeks to improve *availability*, *affordability*, and *quality* would be most beneficial across all the stakeholders during this time of crisis.

Importantly, chronic underinvestment in child care at the state level must be corrected for targeted policies and programs to be sustainable, and thus have their intended impact. This requires a paradigm shift for leaders at the state level – a shift that New Mexico’s recent reforms clearly demonstrate. Families, educators, and providers deserve this investment, and communities across the nation depend on this investment to thrive.

The state of New Mexico provides a uniquely optimal setting in which to evaluate child care reforms for two reasons. Firstly, as is clear in Chapter I of this report, New Mexico has made dramatic changes to its child care landscape, essentially turning ‘on’ each of the policy and program levers outlined in Chapter II that are most likely to positively impact the child care workforce and families with young children. Secondly, New Mexico has made it a priority to gather and analyze data from across the early childhood ecosystem to inform evaluation efforts,^{41,96} and has made significant strides in its data system to allow for rigorous, meaningful evaluation within and across these data systems.^{97,98}

The next step for the state of New Mexico will be to undertake such an evaluation. State leaders need to know whether the bold reforms that have been catalogued in this report have led to their intended impacts.

Child care plays a critical role in the economy by enabling parents to work, but are more New Mexican parents working as a result of these child care reforms?

Early care and education support healthy children, thriving families, and strong communities, but have New Mexican families gained sufficient access to affordable, high-quality care that would realize these positive impacts on development?

Early childhood educators and caregivers are the workforce behind the workforce and deserve dignity in their professional lives, but is the ECE workforce in New Mexico being

adequately supported in their important role, and are they able to meet the needs of children and families as a result?

Understanding and measuring impacts over time, and in response to multiple policy and program changes for multiple stakeholder groups, must be a foundational part of this evaluation strategy.

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