



# Using a Narrow Cost Analysis to Inform Payment Rates

A Brief for CCDF Lead Agencies  
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## Introduction

This brief describes how Child Care and Development Fund (CCDF) Lead Agencies can use cost data when setting *payment rates*. It covers two main topics:

- Analyzing gaps between costs and payment rates
- Exploring strategies to close gaps

This brief draws on our discussions and interviews with Child Care and Development Fund (CCDF) Lead Administrators and experts within and outside the Office of Child Care (OCC).<sup>1</sup> We also reviewed

<sup>1</sup> The brief is informed by expert meetings on March 1, 2021, and September 14, 2021. The following experts were consulted during these meetings: **Woody Dover**, enterprise project management director, Georgia Department of Early Care and Learning; **Lynn Karoly**, PhD, senior economist, RAND Corporation; **Lorraine McKelvey**, PhD, associate professor, Department of Family and Preventive Medicine, University of Arkansas; **Jeanie Mills**, senior trainer and technical assistance specialist, National Center for Child Care Subsidy Innovation and Accountability; **Lisa Brewer Walraven**, director, Office of Child Development and Care in the Michigan Department of Education; **Roberta Weber**, PhD, professor emeritus and research associate, Oregon State University; and, from the Office of Child Care: **Meryl Barofsky**, senior child care program specialist; **Dawn Ramsburg**, division director of program operations; **Andrew Williams**, division director of the planning, data, and policy division; **Megan Campbell**, child care program specialist; and **Francesca Longo**, child care program

state examples of narrow cost analyses (summarized in appendix A). We define italicized key terms in a glossary at the end of the brief.



This is the third in a series on narrow cost analysis. **For information on defining narrow cost analysis**, see “Defining Narrow Cost Analysis” (the first in this series). **For more information on collecting and estimating costs**, see “Approaches to Narrow Cost Analysis” (the second in this series).

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## Analyzing Gaps Between Costs and Payment Rates

Analyzing gaps between costs and payment rates can help promote equal access to child care. It helps pinpoint groups of providers who struggle to improve or maintain the quality of services under current payment rates. Some of these providers may struggle to remain viable as a business. Narrowing gaps between costs and payment rates may help ensure that more providers can accept subsidies and still maintain their business. When more providers can accept subsidies, families may be more likely to find the care they need.

Analyzing gaps is a key step in doing a *narrow cost analysis*. Requirements for a narrow cost analysis are described in OCC’s Program Instruction for CCDF Lead Agencies, “Guidance on Alternative Methodologies and Cost Analyses for Purposes of Establishing Subsidy Payment Rates.”<sup>2</sup> They also are described in “Defining Narrow Cost Analysis” (the first in this series) and summarized below.

A narrow cost analysis is a study of what it costs providers to deliver child care in your state or territory at two or more levels of quality:

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specialist. Other participants in the expert meetings were the OPRE project officer **Alysia Blandon**, and project staff including the authors, **Gretchen Kirby** from Mathematica, and **Teresa-Derrick-Mills** from Urban.

Three of these experts—Lorraine McKelvey, Jeanie Mills, and Roberta Weber—also attended other smaller discussions with the authors to give more feedback.

We also spoke with the following CCDF Lead Agency staff in January and February 2022, to learn more about their state’s approaches to narrow cost analysis: **Julie Allison**, child care bureau chief, Iowa Department of Human Services; **Woody Dover**, enterprise project management director, Georgia Department of Early Care and Learning; **Wendy Hoogeveen**, child care program manager, Iowa Department of Human Services; **Rachel Machen**, project manager, Arkansas Division of Child Care and Early Childhood Education; **Laurie Possin**, program manager, Minnesota Department of Human Services; **Amanda Ward**, data and research analyst, Minnesota Department of Human Services; and **Lisa Brewer Walraven**, director, Office of Child Development and Care in the Michigan Department of Education.

We also reviewed OCC guidance, prior literature, and state examples of narrow cost analyses.

<sup>2</sup> “Guidance on Alternative Methodologies and Cost Analyses for Purposes of Establishing Subsidy Payment Rates: Program Instruction CCDF-ACF-PI-2018-04,” US Department of Health and Human Services (HHS), Administration for Children and Families (ACF), Office of Child Care (OCC), memorandum to the State and Territory Lead Agencies administering child care programs under the Child Care and Development Block Grant (CCDBG) Act of 2014 and other interested parties, February 26, 2018, [https://www.acf.hhsna.gov/sites/default/files/documents/occ/ccdf\\_acf\\_pi\\_2018\\_01.pdf](https://www.acf.hhsna.gov/sites/default/files/documents/occ/ccdf_acf_pi_2018_01.pdf).

- a base level of quality that meets health, safety, staffing, and quality requirements, and
- one or more higher levels of quality as defined by CCDF Lead Agencies

As a CCDF Lead Agency, you can choose how to approach narrow cost analysis. Common methods include:

- *cost models*
- limited *cost surveys*
- a cost model informed by a cost survey

Whatever methods you use, you will need to:

- estimate costs by level of quality
- include relevant variation by, at a minimum, provider type, child age, or location
- analyze the gaps between estimated costs and payment rates so the cost information can inform payment rate setting

It is helpful to organize your cost data in a way that makes it easy for you to compare estimated costs to the payment rates in your state or territory. We discuss steps for doing so below. We also provide tips to help you measure the size of the gap.

## Comparing Costs and Payment Rates for Similar Providers

It is important to compare estimated costs and payment rates for similar providers. Costs will likely differ in center-based and family child care settings. They may also differ for providers of different quality levels. A higher-quality provider may have higher staff salaries if they require teachers to have a college degree.

When you do a narrow cost analysis, you must look at costs by quality level. You will want to compare these to payment rates by quality level.

- You can compare the estimated costs to meet licensing and regulatory requirements to base payment rates. This can show if payment rates allow providers to meet the minimum standards needed to operate.
- If your state or territory uses tiered payment rates for providers with higher levels of quality, you should look at those. You will want to compare estimated costs for higher levels of quality to the tiered rates.
- If your state or territory does not use tiered payment rates, you can still look at quality. You can compare payment rates to estimated costs of higher quality. This can show you how the gap may increase if providers pursue quality improvements.

You must also think about how estimated costs vary by any other relevant dimensions. For example, your state or territory may have payment rates that vary by:

- provider type (centers vs. family child care)
- child age
- location



**For more information on collecting and estimating costs for family child care providers**, see “Approaches to Narrow Cost Analysis” (the second in this series). This also covers how to analyze costs by child age or location.

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Below we look at how states compared costs and payment rates for differing groups of providers. These and other examples are listed in appendix table A.1.

- Minnesota estimated costs by provider type, child age group, quality level, and region. They compared each estimate to payment rates for the same dimensions. They learned that the gaps between payment rates and costs were highest for infants and toddlers, for providers at lower levels of quality, and in non-metropolitan areas (Minnesota Department of Human Services 2020).
- New York compared estimated costs and payment rates for five different regions. They chose this approach because the cost of living varies widely across these areas. The results showed a large gap between costs and payment rates across the state. This was most notable for family child care providers. The authors also compared estimated costs and payment rates by age and quality (Workman and Jessen-Howard 2019).

## Comparing Costs and Payment Rates for Similar Time Periods

Costs are often measured or modeled as a provider’s total costs for a full year. In contrast, payment rates are often defined per day, week, or month per child. To compare costs and payment rates, you must estimate costs for the same time periods as your rates. To do so, you need to know providers’ hours of operation, weeks open per year, and number of children served.

- With a cost survey, you should collect information about providers’ hours of operation, weeks open per year, and number of children served.
- With a cost model, you should check what the model assumes about hours of operation, weeks open, and number of children served.

This information will allow you to convert total costs into a cost per child and per unit of time. Having costs per child will help you compare costs and payment rates for different groups of children.



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**For tips and examples of converting costs to similar units as payment rates, see [Guidance on Estimating and Reporting the Costs of Child Care](#). This shows how to convert to costs by month, week, and day.**

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You can also estimate total annual *revenue*. Comparing this to total costs for a year will tell you whether a typical provider can break even. To do so, you will have to make some assumptions. You will need to assume a level of *enrollment* and the number of enrolled children who are subsidized. This is because providers are reimbursed on a per child basis. So whether a provider can cover their costs with payment rates depends on enrollment. Here are two examples:

- An Arkansas study modeled annual costs for a full-day full-year program. They compared those costs to annual revenue. They assumed providers were enrolled at 85 percent of their *capacity* (the number of children they are licensed to serve). They also assumed that every child enrolled receives subsidies (McKelvey and Forsman 2019).
- Washington used a cost model to estimate total costs and revenues. They used different assumptions about provider revenue makeup. One scenario assumed that provider revenue was split 30/70. It had 30 percent of revenue from subsidies and 70 percent of revenue from private tuition. This is the statewide average (Mitchell 2013).

You could also vary your revenue estimates based on *attendance*. This is an option if your state or territory reimburses providers based on attendance and not just enrollment. Here is an example:

- An Oklahoma study used a cost model to estimate costs per child year. It assumed an operating schedule of ten hours per day, five days per week, and 52 weeks per year. It also assumed that providers were enrolled at capacity. The authors estimated costs. They then compared those costs to annual revenue based on 80, 90, and 100 percent attendance (Károly and Walsh 2020).

## Measuring the Gap

There are several ways to measure the gap between estimated costs and payment rates. One way is to measure the gap in dollars. This can show how much it would cost to raise payment rates to cover the cost of providing care. Here is an example:

- A cost study from Indiana found that the average cost per infant per week in a center was about \$366. The weekly subsidy payment rate for infant care in centers was \$237. The gap was thus \$129 per week per infant. The same study found a smaller gap—\$45 per week—for toddlers. The toddler group had weekly costs of about \$257. Their weekly payment rates were \$212 (Early Learning Indiana 2021).

This approach can help policymakers and administrators see what would close the gap. It can show the level of funding needed to cover the costs of care. To find the total cost of closing the gap, multiply the number of children served at each payment rate by the gap for that payment rate.

Sometimes payment rates are higher than costs. This results in a different kind of gap, where the provider is gaining revenue for certain groups of children. Often, this is because a provider charges fees that are higher than costs for preschool-age children in order to offset fees that are lower than costs for infant care. Here is an example:

- Indiana found that for four- and five-year-olds, payment rates were higher than costs. Yet payment rates were lower than costs for younger children (Early Learning Indiana 2021).

You can also calculate annual profit in dollars to estimate the gap. To do this, subtract estimated total costs from estimated total revenue. This shows whether the typical provider is making money, losing money, or breaking even and by how much. You also can see how this might change if economic conditions were to change. Here is an example:

- Arkansas used their cost model to estimate yearly profit over time. They did this for several groups of centers. They found that centers and family child care homes in urban areas would become less profitable over the next three years if payment rates did not increase (McKelvey and Forsman 2019).

Another way to measure the gap is to look at the percentage of estimated costs covered by payment rates. To calculate the percentage covered, divide the costs by the payment rate. Here are two examples:

- In Oklahoma, it costs providers \$40 per day to care for an infant. The payment rate is \$20 per day. This covers only 50 percent of the cost of infant care. It costs providers \$24 per day to care for a toddler. The payment rate is \$17 per day. This covers about 70 percent of the cost of toddler care (Karoly and Walsh 2020).
- Louisiana did a cost analysis to see how proposed guidelines related to COVID-19 would affect payment rates. It found payment rates would cover only 40 to 55 percent of costs (Louisiana Policy Institute for Children 2020).

Using percentages can help you compare the size of gaps across groups of providers. This can help you see how the gap varies based on differences in:

- provider type or quality
- child age or schedule of care
- location

Here are two examples:

- Pennsylvania's cost study showed that some counties have payment rates that cover only 40 percent of costs. Other counties have payment rates that cover 66 percent of costs (Sirinides and Collins 2020).
- New Mexico's cost study looked at net revenues by ages served and quality level. Among centers serving birth to school age children, costs exceeded revenues by 6 to 14 percent.

Among centers serving only infants and toddlers, costs exceeded revenues by 20 to 30 percent (Capito, Rodriguez-Duggan, and Workman 2021).

No matter how you measure the gap, keep in mind that your estimated costs represent an average. In other words, they represent a typical child care provider. The actual gap between costs and payment rates will vary for each provider. You can ask for input from providers and others familiar with child care in your area to help you understand your findings.

## Capturing the Full Value of Resources

Before you measure the gap, make sure your cost estimates capture all the resources needed to provide care. If you miss any key resources, your measure of the gap will not be complete. For example, make sure your cost estimates include resources received at a discount or free of charge. If you miss these resources, you may underestimate average costs. You might also miss key costs if you do not have enough information about some resources. This might happen if resources vary widely within your state or territory.

Missing key costs may lead you to underestimate the gap for some providers. You may need to adjust your estimates to account for missing or undervalued resources. For example, you may have missed resources that some providers receive at a discount or free of charge. You could then update your estimates to include volunteer time and donated space.

Here are two examples of states that have tried to improve their cost estimates:

- Minnesota used information from their provider *survey* to update *default values* about personnel benefits in the state's cost model. These include the number of days of leave provided to staff and health insurance costs (Minnesota Department of Human Services 2020).
- Georgia used existing administrative data on class size and teacher turnover to inform their cost models. They hope to gather more data through targeted surveys or through the license renewal process. They plan to get more information about staff benefits, food, and facilities costs. This will help their cost models better reflect provider costs and how they vary in their state.<sup>3</sup>

## Exploring Strategies to Close Gaps

Lead Agencies are not expected to set rates to cover full costs right away. Rather they are to “narrow the difference between the cost of delivering services and the payment rates.” This is in order to improve access to “an adequate supply of providers who can afford to participate in the subsidy program” (OCC 2018). Rate setting often involves a political and legislative process. But narrow cost

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<sup>3</sup> Personal communication with Woody Dover, Georgia department of Early Care and Learning (January 26, 2022).

analysis can help inform talks to develop short- and long-term plans around rate-setting. These may include talks with providers, unions, advocacy organizations, legislative leaders, and CCDF agency staff.

## Setting Priorities

Once you have compared payment rates to costs, you can set priorities. To do so, consider how closing gaps for certain groups of providers might affect goals such as:

- improving child care access
- maintaining provider financial stability and sustainability
- addressing key priorities in your state or territory

This could mean checking to make sure that payment rates can cover certain costs for all providers. Here is an example:

- Iowa used their narrow cost analysis to look at proposed changes to payment rates. They wanted to ensure the changes would cover the costs of meeting regulatory requirements at base levels of quality.<sup>4</sup>

Your narrow cost analysis can help you set priorities for changing payment rates. It can help you look at the gaps for subgroups of providers. Here are three examples:

- In Arkansas, the state's narrow cost analysis showed that payment rates could not cover costs for rural providers under certain assumptions. These involved quality improvements and minimum wage increases. The analysis also showed payment rates could cover such costs for urban, center-based providers. This finding stressed how urgent it is to prioritize payment rate increases for rural providers to ensure access to quality care (McKelvey and Forsman 2019).
- Minnesota's narrow cost analysis also showed that rural providers have less financial sustainability than urban providers (Minnesota Department of Human Services 2020).
- New Mexico's cost model showed that payment rates did not cover the costs of providing family child care services when a salary for the provider was factored in. This finding pointed to the need to increase payment rates for family child care providers at all quality levels and ages of children served (Capito, Rodriguez-Duggan, and Workman 2021).

Providers serving infants and toddlers may be another priority for setting payment rates to cover costs. These providers need more staff to meet child-staff ratio requirements. This can cause significant cost pressures. The gaps between payment rates and estimated costs tend to be large. Here are two examples:

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<sup>4</sup> Personal communication with Julie Allison and Wendy Hoogeveen, Iowa Department of Human Services (January 7, 2022).

- Oklahoma’s cost study estimated that payment rates covered only 40 to 50 percent of costs for infants. Payment rates covered 79 to 99 percent of costs for 4-year-olds (Karloly and Walsh 2020).
- New York’s cost analysis found that the average cost of center-based care is about 80 percent higher for infants than 4-year-olds. Yet the subsidy rates for infants are only 13 to 40 percent higher than the rate for 4-year-olds. The size of the gap between costs and payment rates varies by region. But it exists across the state for infants and toddlers (Workman and Jessen-Howard 2019).

## Policy Responses

Learning about gaps between costs and payment rates may indicate a need to think about changing payment rates. This might mean changing overall rates. It could also mean changing how rates vary and for which providers.

You may find that broad changes are necessary and warranted. Here is an example:

- The cost analysis for the District of Columbia found widespread gaps between costs and payment rates. Based on this, they increased payment rates for all provider types, ages of children served, and quality levels (District of Columbia Office of the State Superintendent of Education 2021).

Your analysis may show a need to think about adjusting payment rates for higher levels of quality. Here are two examples:

- Vermont found that payment rates for centers covered costs only at base levels of quality. This suggests they need to raise rates at higher quality levels. This would encourage quality improvement (Vermont Department for Children and Families 2019).
- Analyses in the District of Columbia and Indiana showed that tiered reimbursement rates cover the extra costs of operating at higher quality levels (District of Columbia Office of the State Superintendent of Education 2021; Early Learning Indiana 2021).

Sometimes analyses show that there may not be a need for different rates across age groups, locations, or other factors. Here are two examples:

- New Mexico found that staff wages did not vary much by location. When setting new rates, they did not adjust payment rates by location (The Hunt Institute 2022).
- The District of Columbia had different payment rates for infants and for toddlers. But they changed their rates to have a single rate for infants and toddlers. This was due to similar child-staff ratio requirements and, therefore, similar costs for these two age groups (The Hunt Institute 2022).

There may be other ways to help providers cover their costs in the short-term. This can happen before longer-term changes to payment rates can be formally enacted. Here are two examples:

- Arkansas gave supplemental payments to help providers stay in business during the COVID-19 pandemic. These payments varied for certain provider types and locations. They were based on different gaps between rates and costs found in the state’s cost analysis.<sup>5</sup>
- Several states reimbursed providers based on enrollment rather than attendance during the COVID-19 pandemic. This allowed providers to keep paying staff and to cover costs when children were absent or when programs had to close for a while.<sup>6</sup>

## Considering Trade-Offs when Setting Rates

Basing payment rates on the cost of care may support the supply and quality of child care. It can help providers:

- cover their costs and sustain their child care business
- hire and pay staff in a way that matches their education, training, and skills. This, in turn, may reduce staff turnover. It also may improve retention in the field and the quality of the child care services offered.

You should also think about what else rate changes could impact. As shown in table 1, changes to payment rates may also affect:

- access to care
- equity across providers and families
- consequences for the child care market

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<sup>5</sup> Personal communication with Rachel Machen, Arkansas Department of Human Services (January 5, 2022).

<sup>6</sup> These include, but may not be limited to, Nebraska (<https://dhhs.ne.gov/Documents/COVID-19-Child-Care-Subsidy-FAQs.pdf>), New Jersey (<https://www.childcarenj.gov/COVID19>), Maine ([https://www.maine.gov/dhhs/sites/maine.gov.dhhs/files/inline-files/FINAL Child Care Plan for Maine.pdf](https://www.maine.gov/dhhs/sites/maine.gov.dhhs/files/inline-files/FINAL%20Child%20Care%20Plan%20for%20Maine.pdf)), and Washington (<https://www.dcyf.wa.gov/services/early-learning-providers/subsidy/communications/2022-04-05>).

TABLE 1

**Considerations When Evaluating Payment Rates**

Consideration	Questions
The gap between costs and payment rates	<ul style="list-style-type: none"> <li>■ Do payment rates cover a lot more or less than the provider’s costs?</li> <li>■ Do payment rates reflect local variation?</li> <li>■ Do payment rates account for the cost of higher-quality services?</li> </ul>
Access	<ul style="list-style-type: none"> <li>■ Do families have access to care in their communities?</li> <li>■ Do they have access to high-quality care?</li> </ul>
Equity	<ul style="list-style-type: none"> <li>■ Do providers in similar circumstances, offering a similar service, receive the same payment?</li> <li>■ Do families using subsidies have the same access as families not using subsidies?</li> <li>■ Do payment rates vary by quality, provider type, child age, location, or other dimensions in the desired way?</li> </ul>
The consequences for the child care market	<ul style="list-style-type: none"> <li>■ Does payment policy affect the number, type, and quality of providers willing to accept subsidies?</li> </ul>

**Source:** Adapted from Davis, E., Karoly, L., Weber, B., Caronongan, P., Tout, K., Banghart, P., Shaw, S., & Partika, A., (2017). *Market rate surveys and alternative methods of data collection and analysis to inform subsidy payment rates*, OPRE Report #2017-115, Washington, DC: Office of Planning, Research and Evaluation, Administration for Children and Families, U.S. Department of Health and Human Services.

Changes to payment rates could affect the child care market in your state or territory in some negative ways:

- If payment rates rise but there is no increase in funding for child care subsidies, fewer children will be covered. This means fewer families will be able to afford the care they need.
- Increased payment rates may lead to increased fees for families that pay out-of-pocket. This may be a hardship for those families. If families drop out of programs because of higher fees, it could be hard for providers to maintain enrollment.



You can find tips and strategies to help you increase payment rates and address trade-offs in the guide [Strategies to Increase Base Payment Rates](#).

## Conclusion

In this brief, we describe steps that you can take to use a narrow cost analysis to inform payment rates. Closing the gap between costs and payment rates is a complex process that involves many actors. The examples in this brief show how states have used narrow cost analysis to better:

- align payment rates to costs

- address priorities that ensure access to care

Narrow cost analysis is part of a broader effort to understand child care costs. Your efforts can:

- build knowledge about how to improve access and equity among families and providers
- improve financial stability for providers
- provide data to inform policy and funding decisions

## Glossary

**attendance:** the number of children physically present on a given day in a child care program.

**capacity:** the number of children that a center or family child care provider is staffed to care for, given their staff-to-child ratios, group sizes, and number of classrooms.

**cost:** the value of the resources needed to provide child care services. These include, but are not limited to, salaries, rent, and supplies.

**cost model:** a method that estimates how much it costs to provide child care services. To use this method, you must make decisions about some aspects of the child care programs you are modelling. These are the modeling assumptions. Some assumptions may be the total number of children served by age group, the staff-child ratios, and teacher qualifications. You will also need the cost or price of each resource required to provide child care services. Some examples are the salaries and benefits for staff, the rent, and so on.

We use the term cost models. Other common terms are cost calculators or cost-estimation models. The [Provider Cost of Quality Calculator \(PCQC\)](#) is an example of a cost model (OCC 2018). Cost models work best when you use state-specific data.

**cost survey:** a study that collects data from a group of child care providers to calculate the costs required to provide child care services. This data can be analyzed in different ways to show the cost per program, per child per month, or per hour of care.

**default values:** the values (or amounts) assigned to variables in a tool. These values are used when a specific value is not assigned. Tools like the PCQC include default values related to personnel and nonpersonnel expenses. These are based on national and state data. They can be updated by the user.

**enrollment:** the number of children registered to participate in a child care program. This includes children who are not physically present on a given day.

**narrow cost analysis:** a study of what it costs providers to deliver child care in your state or territory at two or more levels of quality:

- a base level of quality that meets health, safety, staffing, and quality requirements, and

- one or more higher levels of quality as defined by CCDF Lead Agencies

CCDF Lead Agencies can choose how to approach narrow cost analysis. Common methods include:

- cost models
- limited cost surveys
- a cost model informed by a cost survey

Whatever methods you use, you will need to:

- estimate costs by level of quality
- include relevant variation by, at a minimum, provider type, child age, or location
- analyze the gaps between estimated costs and payment rates, so the cost information can inform payment rate setting

**payment rates:** the amount CCDF Lead Agencies pay child care providers for subsidized child care services. Also called reimbursement rates.

**price:** the tuition and/or fees child care providers charge families.

**revenue:** the money made from running a business. In child care programs, revenue may come from parent fees, subsidy payments, grants, and/or other sources.

**survey:** a study that involves collecting data by asking a sample of people to respond to a set of questions.

# Appendix A

Table A.1 describes 13 state examples of cost analyses that compare child care costs to payment rates. We provide an overview of the approach each state used. This includes:

- whether the states gathered information directly from providers
- how the states used cost information, including how the state compared costs to payment rates
- whether the analysis looked at variation in the gap between cost and payment rates by quality level, age group, provider type, and location

A narrow cost analysis must analyze costs by level of quality, beginning with base level costs. You also must consider relevant variation by, at a minimum, child age, provider type, or location. Not all the examples below meet these requirements. Also, some analyses are more comprehensive than a narrow cost analysis. For example, the District of Columbia and New Mexico use a full alternative methodology. We collected the list of reports below by consulting with our expert advisors and reviewing lists of recent market rate survey reports and cost studies. We excluded reports that did not compare costs and payment rates. Otherwise, we did not screen or review these reports for quality. Reports that may be weak in some areas may have strengths in other areas.

TABLE A.1

Examples of How States Used Cost Analysis to Compare Child Care Costs and Payment Rates

State	Approach	Use of cost information	Looked at variation in the gap between cost and payment rates?	Findings
Arkansas (2019)	Cost model informed by administrative data. Checked with program administrators in focus groups and individual interviews.	Estimated annual total costs and compared to annual total revenues to examine profitability. Calculated break-even rates.	Yes, by quality level, provider type, and location	<ul style="list-style-type: none"> <li>» Payment rates exceed costs for urban center-based providers at high levels of quality.</li> <li>» Costs exceed payment rates at for rural providers and urban family child care providers at high levels of quality.</li> </ul>
District of Columbia (2021)	Excel-based cost model adapted from the PCQC. Model was informed by publicly available data and administrative data, plus focus groups with teachers, directors, and representatives of caregiver organizations.	Estimated annual and daily per-child costs. Compared costs and payment rates.	Yes, by quality level, age group, and provider type	<ul style="list-style-type: none"> <li>» Tiered payment rates offset the cost of operating at higher levels of quality. Payment rates cover costs at the highest quality level.</li> <li>» Costs exceed payment rates at lower quality levels. The gap between costs and payment rates is largest for infants and toddlers.</li> </ul>

State	Approach	Use of cost information	Looked at variation in the gap between cost and payment rates?	Findings
<b>Indiana (2021)<sup>a</sup></b>	Cost model informed by survey data from 40 providers. Used the Cost of Preschool Quality & Revenue Calculator.	Estimated average weekly costs and compared with payment rates.	Yes, by quality level, age group, and provider type	<ul style="list-style-type: none"> <li>» Costs exceed payment rates for all age groups except 4-year-olds.</li> <li>» Costs exceed payment rates for all provider types, including centers, child care operated by a church or religious ministry, and family child care providers.</li> <li>» Costs exceed payment rates at all quality levels, but the gap is largest at the lowest quality level.</li> </ul>
<b>Iowa (2020)</b>	Online survey that collected information about enrollment and costs from 192 center-based providers and 234 family child care providers.	Reported annual per-child cost and per-child per-day costs. Compared base payment rates to costs of meeting regulatory requirements.	No	<ul style="list-style-type: none"> <li>» Base payment rates cover the costs of meeting regulatory requirements.</li> </ul>
<b>Louisiana (2020)</b>	Cost model informed by data on costs based on interviews with eight providers.	Estimated annual per-child costs with and without COVID-19 requirements. Compared costs with tuition rates and payment rates.	Yes, by quality level and age group	<ul style="list-style-type: none"> <li>» Costs exceed payment rates for providers operating under COVID-19 requirements.</li> <li>» The gap between costs and payment rates is particularly large for infants and toddlers.</li> </ul>

State	Approach	Use of cost information	Looked at variation in the gap between cost and payment rates?	Findings
<b>Minnesota (2020)</b>	Cost model informed by data from the Bureau of Labor Statistics, an advisory panel workshop, interviews with 20 providers, and survey data from 881 centers and family child care providers. Used the PCQC.	Estimated annual total costs and compared with revenues. Estimated annual per-child costs and compared with maximum payment rates.	Yes, by quality level, age group, provider type, and location	<ul style="list-style-type: none"> <li>» In non-metro areas, costs exceed payment rates at all levels of quality and age groups.</li> <li>» In small metro areas, payment rates exceed costs for preschoolers and toddlers in centers with the highest quality ratings.</li> <li>» In large metro areas, payment rates exceed costs for toddlers and preschoolers at all levels of quality.</li> <li>» Where costs exceed payment rates, the gap is largest for infants and at lower levels of quality.</li> </ul>
<b>New Mexico (2021)</b>	Excel-based cost model adapted from the PCQC. Model was informed by financial data obtained by surveys and interviews of 146 center-based and family child care providers.	Estimated monthly per-child cost. Compared monthly per-child costs with monthly per-child payment rates.	Yes, by quality level, age group, and provider type	<ul style="list-style-type: none"> <li>» Costs exceed payment rates in all settings and at all levels of quality for infants, toddlers, 3-year-olds, and 4-year-olds.</li> <li>» Payment rates cover costs for school-age children at some quality levels in centers and family child care settings.</li> </ul>

State	Approach	Use of cost information	Looked at variation in the gap between cost and payment rates?	Findings
<b>New York (2019)</b>	Cost model informed by workforce registry and state administrative data, and feedback from a technical work group. Used the PCQC.	Estimated annual per-child costs and compared to annual per-child payment rates. Calculated gap under different assumptions about staff salaries.	Yes, by quality level, age group, and location	<ul style="list-style-type: none"> <li>» With current staff salaries, costs exceed payment rates for infants and toddlers in nearly all settings.</li> <li>» For centers, payment rates exceed costs for 4-year-olds in all regions, and exceed costs for 3-year-olds in some regions.</li> <li>» For family child care providers, costs exceed payment rates for all age groups, and the size of the gap varies by region.</li> </ul>
<b>North Carolina (2021)</b>	Excel-based cost model adapted from the PCQC. Model was informed by data from an existing workforce survey, other existing data sources, and some information from providers.	Estimated monthly per-child costs and compared to per-child payment rates.	Yes, by quality level, age group, and location	<ul style="list-style-type: none"> <li>» In urban areas, payment rates exceed costs at most quality levels for all age groups except infants.</li> <li>» In suburban areas, payment rates exceed costs at most quality levels for older children.</li> <li>» In rural areas, costs exceed payment rates at all quality for most age groups. The gap between costs and payment rates is larger for younger children.</li> </ul>

State	Approach	Use of cost information	Looked at variation in the gap between cost and payment rates?	Findings
Oklahoma (2020) <sup>b</sup>	Cost model informed by data about program structure and costs collected via interviews and surveys of 13 center-based providers and 12 family child care providers. Developed a cost model informed by the PCQC and other calculators.	Estimated annual, weekly, and daily per-child cost of care. Compared per-child costs with payment rates, under different assumptions about percent attendance.	Yes, by quality level, age group, and provider type	<ul style="list-style-type: none"> <li>» For centers, costs exceed payment rates for most age groups and at most quality levels. The gap between cost and payment rates is larger for younger children at most levels of quality.</li> <li>» For centers with 100 percent attendance, payment rates for older children exceed costs at middle ranges of quality.</li> <li>» For family child care providers, costs generally exceed payment rates. The gap between costs and payment rates is larger at lower levels of quality.</li> </ul>
Pennsylvania (2020)	Conducted in-person visits with 30 licensed providers. Documented key resources used to deliver child care through personnel interviews, photos, audio recordings. Created item database and identified market price of each item.	Reported per-child cost estimate and key cost drivers.	Yes, by location	<ul style="list-style-type: none"> <li>» Maximum base payment rates cover approximately half of costs.</li> <li>» The percent of cost covered by base payment rates varies by county. Base payment rates cover between 40 to 66 percent of cost.</li> </ul>

State	Approach	Use of cost information	Looked at variation in the gap between cost and payment rates?	Findings
Vermont (2019) <sup>c</sup>	Cost model based on assumptions from a prior state report (Blue Ribbon Commission report) and vetted with 4 providers.	Estimated annual total costs and weekly total costs. Compared weekly costs to weekly average market rate.	Yes, by quality level, age group, and provider type	<ul style="list-style-type: none"> <li>» For centers, costs exceed payment rates at all but the lowest quality level.</li> <li>» For family child care providers, costs exceed payment rates at all quality levels.</li> <li>» The gap between costs and payment rates (where costs exceed payment rates) is larger at higher levels of quality.</li> </ul>
Washington (2013)	Cost model informed by existing state and federal data and input from 16 center-based and family child care providers.	Estimated annual total cost and compares to annual total revenue, assuming 100 percent subsidy revenue.	Yes, by quality level and provider type	<ul style="list-style-type: none"> <li>» For centers, payment rates exceed costs at lower quality levels, but are below costs at higher quality levels.</li> <li>» For family child care providers, total annual net revenue is above the mean preschool teacher wage and below the mean director wage.</li> </ul>

**Source:** Data compiled by authors.

**Notes:** <sup>a</sup>A public URL for this report is not available.

<sup>b</sup>Oklahoma's report has two sets of cost estimates. The first set is based on program and cost data collected from 25 providers via interviews and surveys. The second set is based on a cost model developed using information from the 25 providers. In this table, we focus on the model-based cost estimates.

<sup>c</sup>Vermont's cost analysis report compared estimated costs and market rates, rather than estimated costs and payment rates. The report includes cost estimates and payment rates by provider type, quality level, and age group, which can be used to compare costs and payment rates.

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