



**Using Narrow Cost Analysis
to drive both interim rate
setting and long-term change**

EC Cost Modeling Technical Network

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P5
Fiscal
Strategies

Lead Agencies are required to analyze the estimated cost of care primarily in two areas when setting payment rates, including any relevant variation by geographic location, category of provider, or age of child:

1. The cost of child care providers' implementation of health, safety, quality, and staffing requirements
2. The cost of higher-quality care, as defined by the Lead Agency using a quality rating and improvement system or other system of quality indicators, at each level of quality

Purpose: To evaluate gap between costs and payment rates. Cost information should be used to narrow difference between costs and rates.

Flexibility: Lead Agencies may determine approach and method for narrow cost analysis. May use existing cost information to limit burden.

Use: Depending on rigor of analysis, Lead Agencies determine weight to assign these results in the rate-setting process.

ACF	U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES	
Administration for Children and Families	1. Log No: CCDF-ACF-PI-2018-01	2. Issuance Date: February 26, 2018
	3. Originating Office: Office of Child Care (OCC)	
	4. Key Words: Child Care and Development Fund (CCDF), Alternative Methodology, Narrow Cost Analysis, Payment Rates	
PROGRAM INSTRUCTION		
To:	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.	
Subject:	Guidance on alternative methodologies and cost analyses for purposes of establishing subsidy payment rates.	

1. Develop customized cost model
2. Use the PCQC
3. Use a cost calculator
4. Conduct a limited cost survey or study

Data Options

- Defaults in PCQC or cost calculator
- Use information from existing studies, such as market rate survey, ARPA applications, workforce registry
- Primary data collection – survey, focus groups, interviews

Examples of approaches used by states

Cost model	PCQC	Cost Calculator	Cost Study
Arkansas	Alabama	Idaho	Alaska
Colorado	Connecticut	Montana	Delaware
District of Columbia	Maine		Iowa
Georgia	Maryland		Louisiana
Illinois	Michigan		Missouri
Indiana	New York		North Dakota
Kansas	Wisconsin		Ohio
New Mexico			Pennsylvania
Oklahoma			Rhode Island
Oregon			Tennessee
Virginia			Utah

Cost driver inputs related to quality levels

- Ratios
- Group Size
- Staff Qualifications
- Teacher Compensation
- Professional Development
- Non-classroom hours for teachers

Ratios: Reduced ratios for all, or for younger age children

Staff qualifications: Increasing qualifications and compensation by level

Time: Staff time for activities beyond what regulations require

Example 1

Connecticut

Example 2

Maryland

Maryland's Approach

- Used Provider Cost of Quality Calculator
- Integration of state data
- Approach to quality
- Approach to regions



**Other
examples?**

Discussion

How can we support states with their NCA needs?

What level of TA is needed, and how does this vary?