CHILDREN

Defining Narrow Cost Analysis

A Brief for CCDF Lead Agencies
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Introduction

This brief has three goals:

- define narrow cost analysis
- define and discuss child care costs and prices
- explain how narrow cost analysis helps inform payment rates

This brief draws on our discussions and interviews with:

- Child Care and Development Fund (CCDF) Lead Administrators
- child care researchers
- experts from the Office of Child Care (OCC)
- an expert from the National Center on Subsidy Innovation and Accountability[1]

[1] 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; **Lisa Brewer Walraven**, director, Office of Child Development and Care in the Michigan Department of Education; **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; **Roberta Weber**, PhD, professor emeritus and research associate, Oregon State University; and, from the Office of Child Care: **Dawn Ramsburg**, division director of program operations; **Andrew Williams**,

We also reviewed OCC guidance, prior literature, and state examples of narrow cost analyses. We define italicized key terms in a glossary at the end of the brief.

This is the first in a series on narrow cost analysis. **For more information on collecting and estimating costs**, see *Approaches to Narrow Cost Analysis* (the second in this series). **For more information on using a narrow cost analysis**, see *Using a Narrow Cost Analysis to Inform Payment Rates* (the third in this series).

Defining Narrow Cost Analysis

Regulatory Context

The term *narrow cost analysis* comes from OCC's Program Instruction for CCDF Lead Agencies, "Guidance on Alternative Methodologies and Cost Analyses for Purposes of Establishing Subsidy Payment Rates."[2] It explains that all states and territories must consider child care costs when setting payment rates.

Moreover, it says that CCDF Lead Agencies must estimate the cost of child care in two areas:

1. the cost to meet basic health, safety, quality, and staffing requirements; and
2. the cost to deliver higher-quality care (at each level of quality defined by the CCDF Lead Agency).

When analyzing costs in these two areas, CCDF Lead Agencies should include "any relevant variation by geographic location, category of provider, or age of child."

CCDF Lead Agencies must consider cost even if their payment rates are largely based on child care *prices* in the private market. (Prices are measured in *market rate surveys*, as we explain below.) The guidance states:

> While all states are required to analyze costs in these two areas, [the Administration for Children and Families] recognizes that states conducting a market rate survey … will focus their analytical efforts primarily on examining prices rather than costs … these states may conduct a cost analysis that is narrowly focused …. **Such an analysis is referred to as a "narrow cost analysis."** Lead

division director of the planning, data, and policy division; **Meryl Barofsky**, senior child care program specialist; **Megan Campbell**, child care program specialist; and **Francesca Longo**, child care program 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.

[2] "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.hhs.gov/sites/default/files/documents/occ/ccdf_acf_pi_2018_01.pdf.

> Agencies have significant flexibility in determining the approach and methodology for the narrow cost analysis, and they may use existing information and data to limit burden. (emphasis added)[3]

The guidance also states that "the purpose of the [narrow cost] analysis is to provide additional information for states to consider when setting payment rates." It goes on to say that "states should determine how much weight to assign these results in the rate-setting process depending on the rigor of the analysis."[4] CCDF Lead Agencies should use cost information to "evaluate the gap between costs and payment rates as part of [their] strategic, long-term approach to setting rates that support equal access."[5]

For the full text of the Office of Child Care's (OCC's) guidance on narrow cost analysis, see "Guidance on Alternative Methodologies and Cost Analyses for Purposes of Establishing Subsidy Payment Rates."[6]

A Definition of Narrow Cost Analysis

Based on the above guidance and discussions with experts within and outside of OCC, we define narrow cost analysis as follows.

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:

- *a base level of quality that meets health, safety, staffing, and quality requirements, and*
- *one or more higher levels of quality as defined by your agency*

As a CCDF Lead Agency, you can choose how you 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*

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[3] "Guidance on Alternative Methodologies and Cost Analyses for Purposes of Establishing Subsidy Payment Rates," OCC.

[4] "Guidance on Alternative Methodologies and Cost Analyses for Purposes of Establishing Subsidy Payment Rates," OCC.

[5] "Guidance on Alternative Methodologies and Cost Analyses for Purposes of Establishing Subsidy Payment Rates," OCC.

Flexibility in Approach and Methods

Methods for doing a narrow cost analysis are flexible. OCC's guidance explains that methods do not need to be preapproved.[6] Two common methods states use to meet the narrow cost analysis requirements are *cost models* and limited *cost surveys* (box 1). Both methods have a narrower focus and require less work than large-scale cost surveys. We discuss these methods in *Approaches to Narrow Cost Analysis*, the second in this series.

BOX 1

Cost Models and Cost Surveys: Two Approaches to Narrow Cost Analysis

Cost models use tools to estimate 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-to-child ratios, and teacher qualifications.

You will also need the cost or price of each resource needed 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 and cost-estimation models. The Provider Cost of Quality Calculator (PCQC) is an example of a cost model (OCC, n.d.).

Cost models work best when you use state-specific data. You can do this by:

- using existing data from your state or territory
- collecting new data
- talking with providers about the assumptions. (This may or may not mean collecting new data from them.)

A cost model may also include estimates of provider *revenues*. This can help show a fuller financial picture.

Cost surveys collect data directly from providers. You can then use the data to calculate the cost of providing child care services. The survey can vary in scale. The scale depends on the number of providers included and the range and types of questions asked. You can collect cost data as part of a market rate survey or as a separate survey.

You can analyze data from a cost survey to show the cost per program, per child per month, or per hour of care. It is ideal to calculate these costs by child age group.

You can use cost surveys alone or combined with cost models. This is discussed in *Approaches to Narrow Cost Analysis*, the second in this series.

[6] "Guidance on Alternative Methodologies and Cost Analyses for Purposes of Establishing Subsidy Payment Rates," OCC.

Whatever method you use, you must analyze costs by level of quality. You must also consider relevant variation by, at a minimum, provider type, child age, or location. But you have options in how you do so. For example:

- You could use a cost model that includes child age by assuming a set mix of infants, preschool children, and school-age children in the typical provider. Or you could estimate costs separately for different age groups. Both reflect variation by age.
- You could use a cost survey to compare costs for providers in urban and rural locations. This can be a simple way to look at variation by location. In future years, as you gain experience in doing cost analyses, you may look deeper into differences by location.

Understanding Child Care Costs and Prices

A defining feature of narrow cost analysis is its focus on child care costs. As explained in this section, the *cost* of care differs from the *price* of care. Also, collecting cost information from providers differs from collecting price information. Learning some basics about costs and how to measure them can help you plan a good narrow cost analysis.

Defining Cost and Price

The total cost of a child care program is the value of the resources needed to provide child care services. These resources include:

- salaries and benefits for teachers and other staff
- rent and utilities
- materials and supplies used to support children's care and learning
- food
- administrative costs
- everything else needed to support the delivery of care

The price of a child care program is the tuition or fees that child care providers charge families.

How to Measure Costs

You can measure costs in two ways:

- *Accounting costs* include only what the provider pays to offer child care services (Karoly et al. 2021).
- *Economic costs* are the total value of what is needed to provide child care services. In addition to paid expenses, this includes:

- volunteer time
- subsidized rent
- the value of any other resources received at a discount or free of charge
- the indirect costs of the organization offering the child care services. These can include administrative overhead for management, payroll, accounting, and so on (Davis et al. 2017; National Academies 2018).

Measuring accounting cost is simpler than measuring economic cost. The simpler approach may be good enough if the goal is to understand what providers are paying. But this may lead to setting payment rates that are too low to cover the costs of providers who do not have donated resources. A stronger approach is to calculate economic costs. This allows you to understand the full value of all resources (paid for and donated) across all providers.

Here are some tips for measuring and reporting costs. *Approaches to Narrow Cost Analysis*, the second in this series, has more information.

Measure program costs over a year. To do this, use the accounting year in providers' records. This allows you to capture one-time or yearly costs (e.g., equipment or insurance) plus monthly costs such as salaries and rent. Personnel costs often make up the largest share of program costs (BPC 2020; Kirby et al. 2022).

Estimate the cost of each resource. To do this, multiply the quantity (or amount) by the price (or value) of that resource (Karoly et al. 2021; National Academies 2018). For example, the cost of crayons is the number of boxes used multiplied by the price of a box. (25 boxes x $1.00 per box = $25.00.) Similarly, personnel costs are the salary and benefits for each type of staff member (e.g., teacher, teacher aide), multiplied by the number of staff members of each type and adjusted for average hours worked (if less than full time).

Calculate cost per child. This allows you to compare costs across providers**.** To do this, divide the total cost during a period by the number of children enrolled in that period. Since providers vary in weeks and hours of operation, you may want to report monthly, weekly, or hourly costs per child. To do this, divide the per-child cost by the number of months, weeks, or hours per year. We advise using the same costs per child as your payment rates (e.g., cost per child per week or per hour).

Changes in Resources Can Impact Costs

Changes in the amounts or prices of resources will change the total cost of care. For example, the number and type of teachers (e.g., teachers, teacher aides) varies across providers. This is partly driven by the needs for different rating levels in quality rating and improvement systems (QRIS). Teacher salaries and the prices of resources also vary. This may reflect market forces, such as supply and demand, or the cost of doing business in a location.

Standards for higher-quality care often require using more or higher-priced resources. So, **the cost of care tends to rise as the quality of care increases** (Caronongan et al. 2016). For example, the cost per

child will often increase when standards require fewer children per teacher. The cost per child will also increase when standards require teachers with more education (who have higher salaries).

Costs May Not Match Prices

Local market conditions as well as costs influence prices. Typically, providers set prices (or fees) per child, based on the child's age and whether the child attends full time or part time. When setting prices, providers may consider:

- what other local providers charge
- what they believe parents can afford (and whether a higher price will reduce enrollment)
- payment rates provided by their state or territory

Prices also depend on how much providers can subsidize the cost of care through grants, fundraising events, or other revenue sources.

The price of care can be lower or higher than the cost. Providers need to have enough revenue from parent fees and other sources to pay their monthly bills. But they do not need prices to equal costs for every child. In fact, providers often set the cost of care for one group of children to subsidize the care for other children (Karoly and Walsh 2020). For example, infant care costs more than preschool-age care, largely because of lower staff-to-child ratios. Some providers set fees *below* actual costs for infant care and *above* costs for preschool-age care (Karoly and Walsh 2020). This means the gap in costs between younger and older children can be larger than the differences in prices charged.

Cost Data Are Harder to Collect and Analyze Than Price Data

It's easy for providers to tell you what they charge for child care. Most providers have a "schedule" of prices based on child age, hours of care, and other factors. You may also be able to get price data from resource and referral agencies or other organizations. If you do contact providers, you are asking them to tell you something they know. You are also asking for less information than in a cost study.

Collecting and analyzing cost data requires more work:

- You must go to the provider and figure out who within their program knows about costs. Some providers do not have good financial records.
- Even providers with good records may find it hard to report costs by age group. To do this, a provider needs to split out costs by classroom and know the ages of children served in each group.
- Providers may not know the value of subsidized rent. If they are self-employed, they may not know the value of their time. You may need to add questions to get at volunteer hours, discounted rent, and other hidden supports. Then, you will need to figure out the estimated value of those resources.

- You must also collect information about the size of programs, such as enrollment and hours of care delivered by child age group. This allows you to calculate costs per child—or per child care hour—by age. You will need this to compare costs across providers.

For technical help with cost estimates, see *Guidance on Estimating and Reporting the Costs of Child Care* (NCECQA and NCSIA 2018). This document includes a simple method of estimating per-child costs by age group.

For more on the differences between market rate (price) surveys and cost studies, see table 1. You can also see *Market Rate Surveys and Alternative Methods of Data Collection and Analysis to Inform Subsidy Payment Rates*, OPRE Report #2017-115 (Davis et al. 2017).

For more information on collecting and estimating costs. see *Approaches to Narrow Cost Analysis*, the second in this series.

No One Number Reflects the Cost of Care

As you gather cost information, you might think that there is one "true" cost of care in your state or territory that is the same for many providers. But this is not true. In fact, **the cost of care differs a lot across providers.** For example, a study of child care costs in Oklahoma found striking differences in per-child costs, even across programs of the same quality level and provider type (Karoly and Walsh 2020). Studies in other states found no single cost of care, even when looking at providers:

- at the same quality level
- serving children of the same age and type of care
- in similar locations (Caronongan et al. 2016)

A provider's costs depend, in part, on business choices. They decide how to staff their program and what services to provide. This means that the costs of care—even after adjusting for child age and provider location—may not be the same across providers.

You can use an average or median number to stand for a "typical" cost in your state or territory. This could be the cost per child or per-child-care hour. But remember that some providers will have costs much higher or lower than your average number. Collecting actual cost data will show whether this is true for your state or territory.

How Narrow Cost Analysis Can Inform Payment Rates

In this final section, we review the purpose of narrow cost analysis. We also compare it with market rate surveys and other methods.

Promoting Equal Access

A core principle of CCDF is that **families receiving CCDF-funded child care should have equal access to care compared to other families**. This was reaffirmed in 2014, when the program was reauthorized.[7] CCDF Lead Agencies are required to certify that their payment rates are high enough to provide this equal access.[8]

States and territories have done market rate surveys for many years as one step in setting payment rates. A market rate survey looks at the prices charged to families who pay the full price for care in the private market. It can help you figure out the level of payment rates needed to subsidize care for children in families with low incomes so that they can access a range of providers.

See "Market Rate Survey Briefs"[10] for a series of four briefs on:

- planning a market rate survey
- designing and conducting the survey
- analyzing the data
- reporting and using results

For more technical information about market rate surveys, see also *Study of Market Prices: Validating Child Care Market Rate Surveys* (Grobe et al. 2008) and *Alternative Methods for Minnesota's Market Rate Study of Child Care Prices* (Davis et al. 2009).

Child care prices, measured through market rate surveys, help inform payment rates. But **CCDF Lead Agencies also must consider cost information, including the cost of higher-quality care, when setting payment rates.**

Information about costs can promote equal access. In some places, costs may be higher than prices, particularly for high-quality care. This can happen when parents with less income cannot afford to pay the full cost of child care. If payment rates are based only on market rate surveys of prices, rates may not cover providers' costs. If this leads providers to drop out of the subsidy program, families will lose access to their services. Providers who stay in the program may struggle to support high quality care because they cannot pay teachers with more education or experience (NCECQA and NCSIA 2018).

[7] "Child Care and Development Fund (CCDF) Program," 81 Fed. Reg. 67438 (Sep. 30, 2016), https://www.federalregister.gov/documents/2016/09/30/2016-22986/child-care-and-development-fund-ccdf-program.

[8] "Guidance on Alternative Methodologies and Cost Analyses for Purposes of Establishing Subsidy Payment Rates," OCC.

Narrow cost analysis can show what it would cost to improve quality among current providers. Or what it would cost to develop high-quality child care in places where child care is scarce. This can help expand access to high-quality care for families living in places without much child care.

Informing the Rate-Setting Process

Setting CCDF payment rates in states and territories involves two separate processes:

1. collecting, analyzing, and reporting data to inform payment rate setting; and
2. setting provider payment guidelines or payment rates (Davis et al. 2017)

Narrow cost analyses, like other data analyses, inform rates. But they do not set them. Setting payment rates involves balancing information about child care costs and prices with the priorities of state legislators, governors, and other interested parties.

A cost analysis can reveal how current payment rates compare with the cost of providing care. OCC states that you must evaluate the gap between payment rates and costs. The guidance states:

> While we do not expect Lead Agencies in all cases to immediately set rates to cover the full cost to provide care, **we expect Lead Agencies to use information from their cost analyses … to evaluate the gap between costs and payment rates as part of their strategic, long-term approach to setting rates that support equal access.**[9] (emphasis added)

You will know much more about the child care market and your payment rates if you have information about child care costs as well as prices. Cost information reveals the realities providers face. You can learn how providers' costs differ across:

- the age groups they serve
- the level of quality and the services they offer
- their location

To take full advantage of your study, **align the dimensions of your narrow cost analysis with those used in your payment rates.** These include age groups, quality levels, and locations.

A good narrow cost analysis also shows how different providers use resources to deliver child care. For example, it outlines:

- their staffing models
- the types of facilities where they operate
- what resources they use

[9] "Guidance on Alternative Methodologies and Cost Analyses for Purposes of Establishing Subsidy Payment Rates," OCC.

A good study also shows the differences in what providers across the state pay for salaries, rent, utilities, and other resources.

Answering Policy Questions of Interest to States and Territories

In addition to meeting federal requirements, a narrow cost analysis can answer local policy questions about payment rates, such as:

- If funding exists for increasing payment rates, where is the need most critical? For which age groups, quality levels, types of providers, or locations is the gap between costs and rates the largest?
- How will policy changes, such as changing staff-to-child ratios during COVID-19, increasing the minimum wage, or making changes to QRIS, affect costs?
- What are the costs of infant care in our state? Are costs higher in urban than rural areas, and, if so, by how much?
- Do some providers face much higher-than-average costs? Do some providers face much lower-than-average costs? What is the range between the highest and lowest costs for child care in our state, and which types of providers have the highest costs?
- Can we share better cost information with providers during trainings on improving business practices?

Comparing Three Studies That Can Inform Payment Rates

With the 2014 CCDF reauthorization, CCDF Lead Agencies must collect both cost data and price data to help set payment rates. In table 1, we compare a narrow cost analysis and a market rate survey. We also compare these with an *alternative methodology*. This is a study that uses *valid* and *reliable* data to provide a sound basis for setting payment rates. The method must be preapproved by OCC if it is to replace a market rate survey to inform payment rate setting. (If the alternative methodology is used in addition to the market rate survey, it does not need to be preapproved.) An alternative methodology could focus on cost data or price data.[10]

A market rate survey focuses on prices, and a narrow cost analysis focuses on costs. You generally need to do both studies. But in some cases, you could use an alternative methodology in place of one or both studies. If methods are preapproved by OCC, you can use it in place of a market rate survey to setting payment rates.[11] You can use it in place of a narrow cost analysis if it analyzes the gaps between costs and payment rates by quality level and includes relevant variation.

[10] "Guidance on Alternative Methodologies and Cost Analyses for Purposes of Establishing Subsidy Payment Rates," OCC.

[11] "Guidance on Alternative Methodologies and Cost Analyses for Purposes of Establishing Subsidy Payment Rates," OCC.

Market rate surveys must meet specific benchmarks to be considered "statistically valid and reliable." The surveys must:

- represent the full-priced child care market
- use complete and current data
- use rigorous data-collection procedures
- reflect geographical variation
- analyze data in a manner that captures relevant market differences[12]

An alternative methodology must meet similar benchmarks. **In contrast, a narrow cost analysis is more flexible**. The guidance on a narrow cost analysis states that may be done with varying degrees of rigor.[13] The purpose of a narrow cost analysis is not to replace the findings from a market rate survey but to "provide additional information for states to consider when setting payment rates."[14]

Both a narrow cost analysis and an alternative methodology based on cost can help states understand the costs of providing child care services. Similar methods may be used for both: a cost model, a cost survey, or other methods. Sometimes what one state calls a narrow cost analysis is what another state calls an alternative methodology. The key differences are that an alternative methodology:

- **can be used in place of a market rate survey to set payment rates if it is preapproved by OCC**[15]
- must meet similar benchmarks for validity and reliability as the market rate survey
- could focus on costs, prices, or other valid and reliable data to provide a sound basis for setting payment rates

You must write up the results of any of these three studies in a detailed report that you make widely available.[16]

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[12] "Child Care and Development Fund (CCDF) Program," 81 Fed. Reg. 67438 (Sep. 30, 2016).

[13] "Guidance on Alternative Methodologies and Cost Analyses for Purposes of Establishing Subsidy Payment Rates," OCC.

[14] "Guidance on Alternative Methodologies and Cost Analyses for Purposes of Establishing Subsidy Payment Rates," OCC.

[15] If you use the alternative methodology in addition to the market rate survey, it does not need to be preapproved by OCC.

[16] Child Care and Development Fund (CCDF) Program, 81 Fed. Reg. 67438 (Nov. 29, 2016). https://www.federalregister.gov/documents/2016/09/30/2016-22986/child-care-and-development-fund-ccdf-program.

TABLE 1

Comparing and Contrasting the Market Rate Survey, Alternative Methodology, and Narrow Cost Analysis

	Market rate survey	Alternative methodology	Narrow cost analysis
What it measures	**Prices:** the tuition or fees that child care providers charge families.	**Not specified**. It must be valid and reliable data to give a sound basis for setting payment rates.	**Costs:** the value of all resources required to provide child care services, including salaries, rent and utilities, and supplies.
Purpose	To guide CCDF Lead Agencies in setting payment rates within the context of market conditions so CCDF-eligible families have access to a wide range of child care services.	■ To guide CCDF Lead Agencies in setting payment rates so eligible families have access to a wide range of child care services. ■ If preapproved, may be used in place of a market rate survey to set payment rates. (If not preapproved, it may be used in addition to a market rate survey to inform payment rates).	■ To give CCDF Lead Agencies cost information by quality level and relevant variation. ■ To analyze the gaps between costs and payment rates to inform setting payment rates.
Methods	■ May collect data from all providers in a state or territory or a select subgroup of providers. ■ May rely on current data from resource and referral agencies or other sources if the approach meets benchmarks laid out in regulations and guidance for statistical validity and reliability.	■ Must follow similar benchmarks for statistical validity and reliability as the market rate survey. ■ Must be preapproved by OCC if the alternative methodology is to replace the market rate survey. (If you use the alternative methodology in addition to the market rate survey, it does not need to be preapproved by OCC). ■ A cost model and a cost survey are two possible types of alternative methods.	■ Methods are flexible and do not need to be preapproved by OCC. ■ A cost model and cost survey are two common methods. ■ If you use a cost survey, it need not cover all providers.
When required	Required unless the OCC approves an alternative methodology instead.	Not required. Can be done in place of a market rate survey.	Required unless there is an alternative methodology that: ■ estimates costs by quality level and relevant variation, and ■ analyzes the gaps between costs and payment rates

Sources: "Market Rate Survey Briefs," OCC Child Care Technical Assistance Network, March 7, 2018, https://childcareta.acf.hhs.gov/resource/market-rate-survey-series; National Center on Subsidy Innovation and Accountability

(NCSIA), "Common Terms and Definitions: Equal Access," Washington, DC: Health and Human Services, Administration for Children and Families, NCISA, 2019, https://childcareta.acf.hhs.gov/sites/default/files/public/ncsia_-_equal_access_terms_and_defs_final_6-4-19_508_docx.pdf; "CCDBG Act and Final Rule Requirements for Market Rate Surveys and Alternative Methodologies," Administration for Children and Families, December 20, 2016, https://www.acf.hhs.gov/sites/default/files/documents/occ/ccdf_acf_pi_2016_08_attachment_ccdbg_act_and_final_rule_requirements_for.pdf; "Guidance on Alternative Methodologies and Cost Analyses for Purposes of Establishing Subsidy Payment Rates," OCC.

Conclusion

In this brief, we define and discuss narrow cost analysis and child care costs. A narrow cost analysis provides some cost information to help inform payment rate setting. Yet it imposes less of a burden on providers and CCDF Lead Agencies than other methods. (Market rate surveys and full-scale cost surveys both require more data collection.)

Two common methods of narrow cost analysis are cost models and limited cost surveys. You can find more information on these as well as examples in *Approaches to Narrow Cost Analysis*, the second in this series.

Information on costs can help you see how well payment rates cover the costs of services. It can also help you see whether payment rates support the delivery of high-quality child care. See *Using a Narrow Cost Analysis to Inform Payment Rates*, the third in this series, for more on how to use a narrow cost analysis to inform rate setting.

Glossary

alternative methodology: a study that uses valid and reliable data to provide a sound basis for setting payment rates; promoting equal access; and supporting a basic level of health, safety, quality, and staffing. The method must be preapproved by OCC if it is to replace a market rate survey to inform payment rate setting. (If you use the alternative methodology in addition to the market rate survey, it does not need to be preapproved by OCC.) A cost-estimation model and cost survey are two types of alternative methods.

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

> **accounting cost:** the total expenses paid by the child care provider to provide child care services. This includes personnel and nonpersonnel expenses.
>
> **economic cost:** the total value of all resources required to provide child care services. This includes personnel and non-personnel resources. It also includes any resources provided in-kind (e.g., volunteer time, donated space).

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, n.d.). 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.

market rate survey: a study that collects data on the prices or fees that child care providers charge parents for care.. A market rate survey may collect data from all providers in a given state or territory or from a select subgroup. It may also rely on current data from resource and referral agencies or other sources. With any of these methods, the approach must be statistically valid and reliable.

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 or fees that child care providers charge families.

reliability/reliable: when a method gets the same results when repeated under the same conditions. For example, a survey is reliable if it collects similar data when you ask the same survey questions to two or more similar groups of individuals.

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

validity/valid: accuracy, or when a method results in correct measurements. Market rate survey findings are valid when they accurately measure the prices families pay for child care in the private market.

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