

State efforts to use narrow cost analysis to inform payment rates

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What is narrow cost analysis?



- States and territories must consider information about child care costs when setting payment rates
- Narrow cost analysis is a study of what it costs providers to deliver child care in a state or territory at two or more levels of quality
- Whatever method is used, CCDF Lead Agencies 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 cost information can inform payment rate setting

How did we learn about existing efforts?

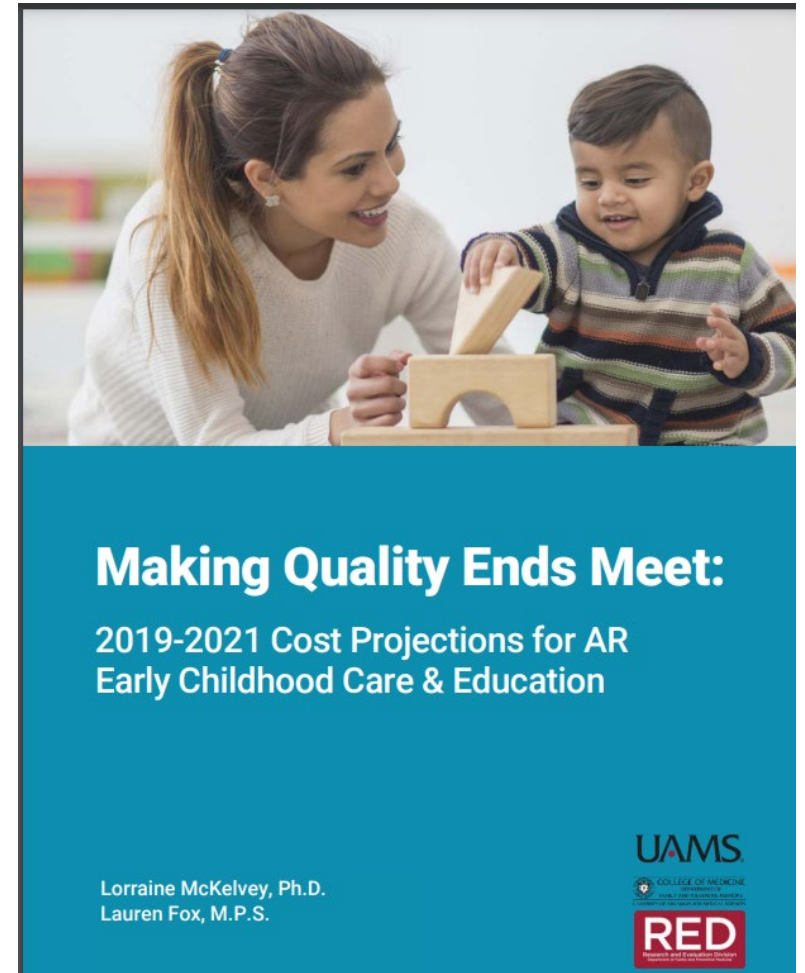
- Studies identified from lists of recent market rates survey reports and costs studies, shared by expert advisors
- We reviewed 13 narrow cost studies/analyses
 - Conducted between 2019-2021 (one in 2013)
- For each study, we reviewed:
 - Approach (cost model, cost survey, cost model informed by a cost survey)
 - Use of cost information
 - Key findings

What approaches did states use?

- 2 of 13 studies conducted cost surveys
- 11 of 13 studies used a cost model
- All 11 studies that used a cost model supplemented with additional data
 - State administrative data
 - Focus groups and interviews with providers to vet assumptions
 - Survey data from a sample of providers

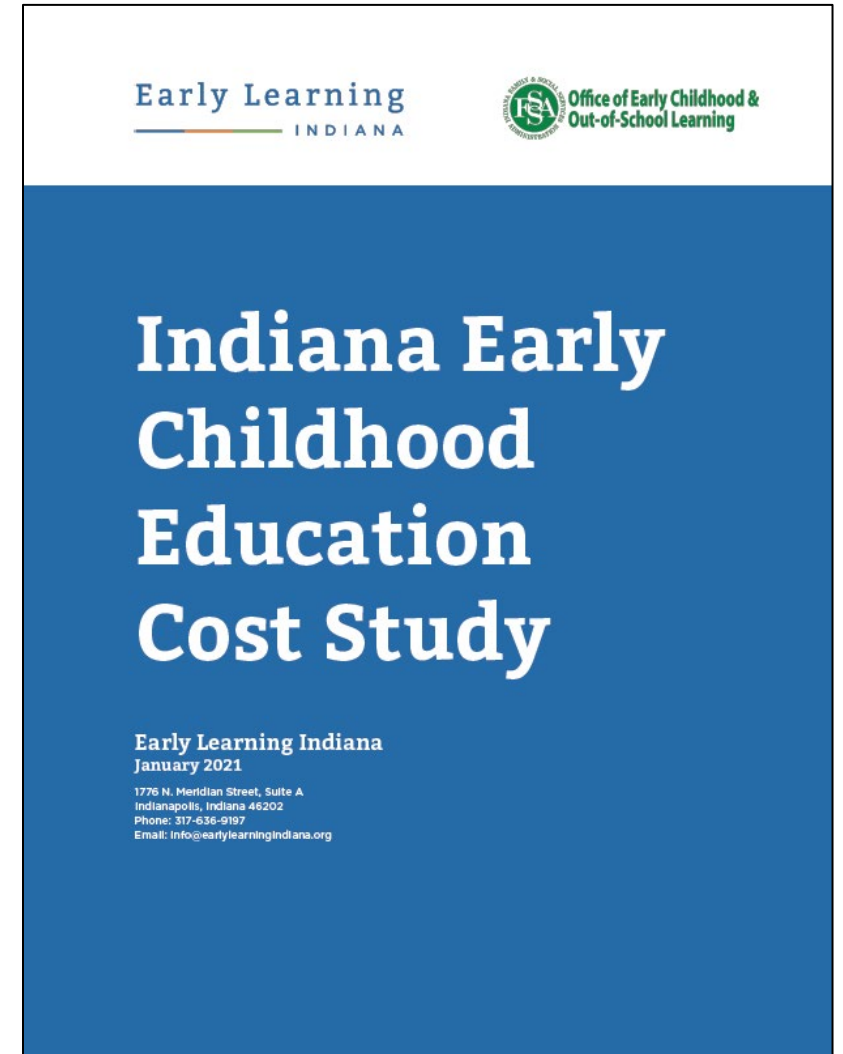
Example: Arkansas

- **Approach:**
 - Cost model informed by administrative data
 - Checked with program administrators in focus groups and individual interviews
- **Key findings:**
 - Payment rates exceed costs for urban center-based providers at high levels of quality
 - Costs exceed payment rates for rural providers, urban family child care providers at high levels of quality



Example: Indiana

- **Approach:**
 - Cost model informed by survey data from 40 providers
 - Used the Cost of Preschool Quality & Revenue Calculator
- **Key findings:**
 - Costs exceed payment rates for all provider types
 - Costs exceed payment rates for all age groups except 4-year-olds
 - Costs exceed payment rates at all quality levels, but the gap is largest at the lowest quality level



Example: Oklahoma

- **Approach:**
 - Cost model informed by 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
- **Key findings:**
 - For centers, costs exceed payment rates for most age groups and quality levels
 - For family child care providers, costs generally exceed payment rates



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Estimating the Cost of Quality Early Childhood Care and Education in Oklahoma



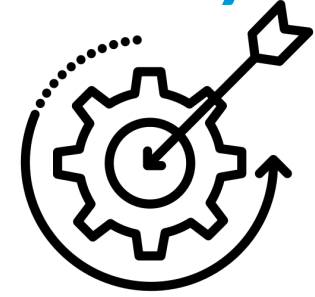
Sponsored by the Oklahoma Partnership for School Readiness Foundation

How have states used findings from their cost analyses?

- Broad changes to payment rates
 - DC: Rate increases across provider types, ages of children served, quality level
- Targeted adjustments to payment rates
 - VT: Analysis showed need to raise rates at higher quality levels
 - DC: Changed to a single rate for infants and toddlers due to similar costs across both age groups
- Short-term assistance to help providers cover costs
 - AR: Supplemental COVID-19 payments varied by provider type and location

What makes for a good narrow cost analysis?

- A “good” narrow cost analysis
 - Reflects conditions in a state or territory
 - Produces information that is useful for payment rate setting
- Combining a cost model with a cost survey component can bring together the advantages of surveys and the flexibility of cost modeling
 - Use information gathered from providers to inform cost model assumptions
- Efforts to use narrow cost analysis to understand child care costs can:
 - Build knowledge about how to improve access and equity
 - Improve financial stability for providers
 - Provide data to inform policy and funding decisions



Thank you!

- Full set of resources available at:
<https://www.acf.hhs.gov/opre/report/narrow-cost-analysis-three-part-series-ccdf-lead-agencies>
- These resources were developed as part of the Child Care Research and Evaluation Capacity Building Center.
- Contact: BuildChildCareResearch@urban.org
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