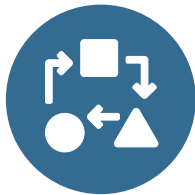


## Narrow Cost Analysis Tip Sheet

All states and territories must consider child care costs when setting payment rates. They can do this by conducting a narrow cost analysis. A narrow cost analysis is a study of what it costs providers to deliver child care. An estimate must include costs for the basic level of care (care that meets basic health, safety, quality, and staffing requirements) and expenses to provide care at each level of quality defined by the Lead Agency. It should analyze costs for different types of child care programs and any relevant differences in costs across different geographies and age groupings of children. States and territories must use the narrow cost analysis to analyze the gaps between costs and the subsidy payment rates.



### Choose a Method

States and territories have options for how to complete a narrow cost analysis.

**Simple Estimate of Costs:** Using available data, such as workforce salary, economic, or facility cost data, to develop a rough or approximate calculation of costs.

**Cost Model:** Creating an expense budget for a sample child care program that reflects the child care licensing requirements such as staff-to-child ratios, group size limitations, staff training, etc. It is a calculation of expenses for a typical program. There are various ways to create a cost model, including online tools and design your model, but ultimately they all allow you to calculate costs.

**Cost Survey:** Using a survey to gather cost information from a sample of child care providers. Some surveys are used to inform a cost model; however, a survey could be analyzed by averaging expenses or identifying percentiles of total costs for programs.

The Office of Child Care provides more information in the [list of options for narrow cost analysis](#).



### Include the Cost at Base-level Care

Lead Agencies must include information about cost at base-level care. Base-level care is how much it costs for a program to operate while complying with the CCDF health and safety requirements and/or a state or territory's licensing requirements. Health and safety requirements include, but are not limited to, group sizes, staff/child ratios, and staff training.



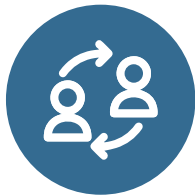
## Include the Cost at Each Level of Quality

The narrow cost analysis must include the costs at each level of quality as defined by the Lead Agency. The levels of quality could be the different levels of the QRIS, accreditation standards, Head Start standards, or another definition used by the Lead Agency.



## Consider Other Differences in Costs

A Lead Agency should look at the differences in expenses based on variations in the child care programs. These variations include the type of provider, including small and large family child care providers, small and large center-based providers, and out-of-school time providers. It also could include differences in age, including infants, toddlers, preschool, and school-age children. Also, a Lead Agency may want to compare the geographic regions that align with child care subsidy rates or consider other differences, such as urban vs. rural.



## Engage Stakeholders in the Process

To complete the narrow cost analysis, the Lead Agency should engage stakeholders in the process. Engaging stakeholders provides you with critical information and builds their knowledge of the complexities of child care financing. Stakeholders can support the Lead Agency in many ways, including checking assumptions, providing feedback on survey tools or models, and more.



## Gather Data from Reliable Sources

Data can be gathered from various sources, including licensing, state workforce surveys, and national data, but it needs to be current. As a reminder, data must reflect costs within two years of submitting your state plan.



## Identify the Gap Between Subsidy Rates and Cost

A comparison of the cost of care to the Lead Agency's subsidy payment rates at the different subsidy levels will need to be completed. For example, it may cost \$500 per week to provide care for an infant in a child care center in one county, and the subsidy rate is \$300 per week. This results in a difference or gap of \$200.

You may find that the most significant gap is in a specific age category, geographic region, type of provider, or another category. You may use the information on payment rate gaps to prioritize changes to their subsidy reimbursements.

## Don't Forget

- When using a contractor or external group to complete the narrow cost analysis, the Lead Agency is responsible for ensuring all components are reported and should understand how to translate what the contractor provided to respond to their CCDF plan.
- What child care providers charge families, or the price of child care, is different from the cost or operating expenses of the child care provider. While information about price may be used in a cost model to estimate revenue, it is not a narrow cost analysis.
- This information is used in combination with the Lead Agency's market rate survey or alternative methodology. The information must be included with the stakeholder feedback and how it was used in a detailed report. It is also used to inform the Lead Agency's rate setting process.

## Resources

1. [Guidance on Estimating and Reporting the Costs of Child Care | Child Care Technical Assistance Network \(hhs.gov\)](#)
2. [Narrow Cost Analysis, A Three-Part Series for CCDF Lead Agencies | The Administration for Children and Families \(hhs.gov\)](#)
3. [List of Potential Options for Narrow Cost Analysis | The Administration for Children and Families \(hhs.gov\)](#)
4. Technical assistance is available to Lead Agencies by requesting it through their state systems specialist.

*The National Center on Subsidy Innovation and Accountability helps states, territories, and Tribes streamline the delivery of their child care subsidy services and is funded by the U.S. Department of Health and Human Services, Administration for Children and Families, Office of Child Care.*

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