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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 cost-based alternative methodologies and evaluation criteria for purposes of establishing subsidy payment rates.
- References:** The Child Care and Development Block Grant (CCDBG) Act (42 U.S.C. § 9857 et seq.); Section 418 of the Social Security Act (42 U.S.C. § 618); 45 CFR Parts 98 and 99.
- Purpose:** This Program Instruction builds on a previously issued Program Instruction (see PI CCDF-ACF-PI-2018-01)¹ to provide further guidance to State and Territory Child Care and Development Fund (CCDF) Lead Agencies on Office of Child Care requirements for developing and conducting cost-based alternative methodologies and payment rate setting.
- Background:** Section 658E(c)(4) of the Child Care and Development Block Grant (CCDBG) Act, 42 U.S.C. § 9858c(c)(4)(A), requires Lead Agencies to certify that their payment rates are sufficient to ensure equal access for eligible children that are comparable to child care services provided to children whose parents are not eligible for CCDF and provide a summary of the facts used to determine that their payment rates are sufficient to ensure equal access (*see also* 45 CFR 98.45). CCDF gives Lead Agencies the flexibility to set child care payment rates based on a market rate survey or an “alternative methodology, such as a cost estimation model” (42 U.S.C. § 9858c(c)(4)(B)(i); *see also* 45 CFR 98.45(c)(2)). Basing payment rates on the cost of care, rather than using a price-based market rate survey, can better capture child care operational costs because child care prices

¹ [CCDF-ACF-PI-2018-01](#)

(i.e., market rates) are constrained by what families can afford to pay, particularly in lower-income communities. Therefore, rates based on cost can increase parent choice in child care arrangements, improve access to high-quality care that meets family needs, improve provider operational stability, increase child care quality, and better support workforce compensation, recruitment, and retention.

CCDF requires any Lead Agency planning to use an alternative methodology, such as a cost-based estimation model, in lieu of a market rate survey to inform and set CCDF payment rates, to first submit a description of its proposed approach to the Office of Child Care (OCC) for pre-approval in advance of developing and conducting the methodology (45 CFR 98.45(c)(2)). Once the methodology is completed and rates are set, Lead Agencies must report their payment rates and their justification for how they meet equal access requirements to OCC in the triennial CCDF Plan or through a Plan amendment, including a summary of facts used to determine that their payment rates are sufficient to ensure equal access (45 CFR 98.45(b)). OCC will use this information to assess adherence to CCDF requirements. When determining a timeline for implementing rates based on a cost estimation model, Lead Agencies should consider the time necessary for pre-approval from OCC as well as estimate enough time to conduct any planned surveys and data collection and time for stakeholder engagement and data analysis activities. Some Lead Agencies have found that developing and conducting a cost-based methodology takes nine months to one year to complete.

Guidance: This document is intended to assist Child Care and Development Fund (CCDF) Lead Agencies interested in using a cost-based alternative methodology to set child care provider rates for the CCDF program and provides guidance on what Lead Agencies should include in the required pre-approval submission and OCC's expectations for assumptions included in any cost-based methodology to ensure validity (45 CFR 98.45(c)). Additionally, this document also provides information describing what Lead Agencies will need to submit as part of their triennial Plan or an amendment to their Plan when submitting their payment rates. Finally, this document provides guidance on how OCC will assess whether payment rates set by a cost-based methodology meet the CCDF equal access requirement. This guidance is focused on cost-estimation models, but a Lead Agency interested in doing a cost study or cost survey for their alternative methodology may also find it useful.

A Lead Agency interested in pursuing a cost-based alternative methodology may request pre-approval at any time. Lead Agencies are not required to complete a separate narrow cost analysis if their pre-approved alternative methodology addresses all the components required in the narrow cost analysis. Lead Agencies are not required to follow a particular format in requesting pre-

approval. This program instruction is intended to provide guidance on the information OCC will consider in deciding whether to approve cost-based alternative methodologies and is outlined in the FFY 2025-2027 CCDF Plan.

Pre-Approval Submission Guidance

CCDF regulations (45 CFR 98.45(c)(2)) require OCC pre-approval for a Lead Agency proposed cost-based methodology in advance of developing and conducting the methodology, when used in lieu of a market rate survey to set payment rates for purposes of CCDF compliance. Advance approval is not required if the Lead Agency plans to implement both a market rate survey and a cost-based methodology to set rates at a percentile of the market rate, but a Lead Agency conducting a limited market rate survey and using it to inform their cost model would need pre-approval for this approach. Lead Agencies may propose a cost-based methodology to align with the triennial Plan submission or at any time in the triennial Plan term. Lead Agencies planning to replace the market rate survey with a cost-based methodology are required to submit for pre-approval, regardless of whether the Lead Agency has received prior OCC approval for a previous CCDF Plan period. The pre-approval process in this instance allows Lead Agencies to report changes or updates to their methodology and data used.

When developing the methodology, Lead Agencies are encouraged to consider what data is available to them (i.e., administrative data) and use quality standards or benchmarks whenever possible, as well as consider whether to consult with experts in the field of cost modeling, fiscal analysis, and survey methodology. Data collection should be used to supplement administrative data, confirm accuracy of data, validate data with stakeholder engagement, and/or provide information not captured in existing data sources, to minimize the burden on individual providers. Lead Agencies should ensure that the methodology addresses the universe of providers, all ages of children served, and geographical differences. The Lead Agency should also ensure that all associated costs for all populations, including those in traditionally underserved communities, are considered throughout the development and analysis of a cost-based methodology.

A Lead Agency pre-approval submission for its cost-estimation model should include the following four elements (as listed in the FFY 2025-2027 CCDF Plan, OMB #0970-0114), which OCC will evaluate for completeness:

- Overall approach and rationale for using proposed methodology;
- Engagement of interested parties (stakeholder engagement);
- Description of the data and expected assumptions included in the methodology; and

- Description of how the methodology will capture the universe of providers, and reflect variations by provider type, age of children, geographic location, and quality.

Element 1: Overall approach and rationale for using proposed methodology

Lead Agencies proposing to use a cost-based methodology should include a description of their overall approach to and the rationale for using the proposed methodology. The Lead Agency should outline why they are pursuing a cost-based approach to payment rate setting and the intended impact on the child care landscape in their state or territory, including any short- and long-term goals for updating payment rates based on cost. If applicable, the description should include any intention for a phased-in approach to incrementally increase rates based on the cost of care over time. OCC expects this element within a pre-approval submission will address the following:

- How the cost-based alternative methodology will contribute to supporting and increasing parental choice, equal access, and quality in the child care landscape
- How the cost-based methodology will be developed, including any experts or partners who will help design the process (e.g., conduct data collection or validation) and/or build the cost-estimation model
- Description of the program models, populations, and geographies that will be analyzed as part of the cost-based methodology

OCC’s evaluation of this element will be based on completeness and appropriately aligned with the purposes and requirements of CCDF.

Element 2: Stakeholder Engagement

Lead Agencies must consult with stakeholders, including State Early Childhood Education and Care Advisory Council or similar coordinating body, local child care program administrators, local child care resource and referral agencies, and organizations representing child care caregivers, teachers, and directors, before conducting an alternative methodology (45 CFR 98.45(e)). Continuous stakeholder engagement is important when developing valid and reliable cost estimation models and conducting the analysis for a cost-based methodology.

The proposal to OCC should include a description for the Lead Agency’s plan for robust engagement throughout the process of conducting the cost-based methodology, including how all interested and affected parties will be represented in the engagement. Engagement should be used to validate the assumptions informing the cost estimation model and to ensure the methodology is representative of the child care landscape being modeled. Stakeholders should be educated and informed about the model development

and analysis process and feedback should be carefully considered. The cost estimation model assumptions and inputs should be adjusted as appropriate, to reflect feedback.

OCC encourages Lead Agencies to consider the following while consulting with stakeholders before and during the development of the cost-based methodology:

- How the Lead Agency plans to structure and conduct engagement of interested parties and partners, including who will be engaged and what strategies will be used (State Early Childhood Education and Care Advisory Council, local child care program administrators, local child care resource and referral agencies, parents and family members representing those participating in the child care subsidy program, organizations representing child care caregivers, teachers, and directors, etc.).
- How the Lead Agency will ensure engagement is meaningful and input informs the development of the cost-based alternative methodology and validation of cost components included in the cost-estimation model (i.e., model assumptions).
- How stakeholders will be consulted to validate model assumptions
- How stakeholders are educated informed, and consulted throughout the entire process

OCC's evaluation of this element will be based on completeness and appropriately aligned with the purposes and requirements of CCDF.

Element 3: Description of the data and expected assumptions included in the methodology

A cost-estimation model uses a set of assumptions and data to build estimated costs associated with operating child care programs. Lead Agencies should provide a description of the data and expected assumptions to be included in the methodology, including how these elements will yield valid and reliable results from the model. The data used to conduct the cost-based methodology, including the data collection, should be the most recent data available (within two years of Plan submission or an amendment to change payment rates) so that the results of the cost-based methodology reflect the most current costs. Lead Agencies may use existing administrative data or collect new data to inform the assumptions in the model. If new data will be collected, Lead Agencies should include a description of the data collection methodology and timeframe. If certain data, including administrative data, is not updated and available within the two-year timeframe, the proposal should justify how the data element is valid.

An approvable proposal should address the following:

Data

- How the Lead Agency will determine what data is already available, consider a wide range of sources, such as administrative, local, state, and national data, and determine what data collection is needed in addition to existing data.
- If using a new data collection, describe what data will be collected and how the data collection will include all provider types and what sort of outreach will be conducted to ensure adequate response rates. Additionally include a timeline of any surveys or primary data collection activities.
- If the Lead Agency proposes to use data that cannot be updated and available within the two-year timeframe, provide justification for how that data is necessary and valid.

Assumptions

Requests for approval should include all major assumptions and cost-drivers that will be included in the cost-based approach, and a description of how the assumptions will be validated to ensure reliable results. The major assumptions that should be included are:

- Salaries, health insurance, and other benefits for employees across program models
- Staffing levels that reflect ratios, group sizes, and hours of operation at each child care setting, including paid time off and planning time for staff and caregivers
- Facilities and other operational costs associated with each program model (e.g., rent and utilities, materials, food)

Proposals should also include intended data sources used to inform each assumption and cost, as well as the data collection timeframe so OCC can assess the validity and reliability of the proposed approach. Reporting on the data sources and timing of data collection helps evaluate the validity and reliability of the proposed approach.

OCC will evaluate proposed assumptions to ensure they meet the minimum required standards, which are detailed in the “Evaluation of payment rates” section of this document. Lead Agencies should provide a description of valid data sources that meet the minimum standards for any required assumption.

Element 4: Description of how the methodology will address the universe of providers and reflect variations by provider type, age of children, geographic location, and quality

Requests for approval should describe how the proposed methodology will address the universe of providers and programs that receive CCDF funding and reflect variations by provider type, age of children, geographic location, and

quality (45 CFR 98.45(b)(4) and 98.45(d)(1)). Lead Agencies should conduct analysis for each of the variations listed below and should be informed by data and assumptions listed in Element 3. Consideration should be given to how the variations in cost estimated in the methodology and included in the assumptions will account for underserved communities and wages for the workforce.

Lead Agencies proposing to use a cost-based methodology to set payment rates should develop multiple cost scenarios that account for differing levels of quality. As with any equal access analysis, Lead Agencies are required to include at least one scenario that models the base level of quality that meets health, safety, and staffing requirements (45 CFR 98.45(b)(3) and 98.45(f)(2)(ii)) and one of higher quality as defined by the Lead Agency (45 CFR 98.45(b)(4) and 98.45(f)(2)(iii)).

The proposed cost-based methodology should address differences in cost across the following characteristics:

- Provider/program type. The model should account for all types of programs that receive CCDF funding, including:
 - Center-based
 - Family child care
 - Licensed care
 - License-exempt care, as applicable
 - Extended/non-standard hours, as applicable
- Age of children served. The model should account for differences in the cost of care for the different ages of children served, which may be determined by the Lead Agency. OCC recommends the Lead Agency account for:
 - Infants
 - Toddlers
 - Preschoolers
 - School-age
 - Mixed age groupings, as applicable
- Geographic location. The model should account for differences in cost across different geographic locations, which may be determined by the Lead Agency. OCC recommends the Lead Agency at least consider:
 - population density (e.g., urban, rural)
 - geographic income distribution
 - community needs or considerations
 - state-specific factors, such as licensing regions, community hubs, alignment with Local Education Agency areas

- **Quality.** The model should account for differences in cost related to quality, as defined by the Lead Agency. OCC recommends the Lead Agency at least consider:
 - wages and benefits of the workforce
 - qualifications of the workforce
 - ongoing training and professional development
 - staffing levels by ratio and group size
 - program supports & services to meet family needs, such as family engagement specialists or behavioral health specialists

OCC will evaluate this element for completeness in describing how their cost-based methodology will include variations by provider type, age of children, geographic location, and develop at least two scenarios to estimate cost for at least two levels of quality.

Submission of Proposals for Pre-approval

Proposals for pre-approval need not follow any particular format. They should be submitted to OCC with enough time for review and approval before they conduct all activities associated with a cost-based methodology. OCC will respond to all requests for pre-approval within 60 days of submission. Lead Agencies are required to update their cost-based methodology at least once per triennial Plan period to ensure the data and assumptions used are valid and reliable (45 CFR 98.45(c)). Pre-approval from OCC must be obtained for each update of the cost-based methodology.

Submission of Payment Rates Set with Cost-Based Alternative Methodologies

Lead Agencies must include the following information in their CCDF Plan or as an amendment to the Plan if they are changing their methodology and establishing new payment rates based on cost within the triennial Plan term, as required by 45 CFR 98.45(c):

Description of completed methodology. The Lead Agency must describe how it conducted a valid and reliable methodology (45 CFR 98.45(c)(2)), including:

- When data collection occurred (if applicable) and when the analysis was completed.
- Any changes to methodology compared to the pre-approved methodology, including any major changes to stakeholder engagement, data, assumptions, or proposed scenarios.

Cost analysis. The Lead Agency must describe how it analyzed the cost of child care (45 CFR 98.45(d)(1) and 45 CFR 98.45(f)(1)(ii)), including:

- Relevant variations in costs by geographic location, category of provider, or age of child.
- The assumptions and data used to determine the cost of care at the base level of quality to meet basic health and safety standards and at higher levels of quality.
- How the reported data and assumptions met the minimum standards outlined in this guidance.

Partner views and comments. The Lead Agency must describe how it considered partner views and comments on the cost-methodology and rate setting (45 CFR 98.45(f)(1)(iii)), including:

- How it responded to partner views and comments.
- How feedback was considered and used to validate assumptions and data.
- A list of which partners were engaged and how partner input influenced development of the cost-based methodology.

Establishing payment rates: The Lead Agency must describe how it established payment rates based on the cost-based methodology results (45 CFR 98.45(f)(2)(i)-(iii)), including:

- The methodology or process for using the data to set payment rates.
- How the cost of care was used to set payment rates, including how it promotes the stabilization of child care providers.
- How the cost of higher quality was accounted for in setting payment rates
- A description of how they used the cost of care to determine that the payment rates are adequate to meet, health, safety, quality, and staffing requirements under CCDF.
- Include any information about additional program revenue to providers that is considered when determining payment rates to ensure equal access.

Base payment rates: The Lead Agency must report the base payment rates, the estimated cost of care, and percent of the estimated cost of care covered by the rates for infants, toddlers, preschoolers, and school age children in center and family child care settings (45 CFR 98.45(a)), including:

- Base payments rates, the estimated cost of care by age group and setting that resulted from the pre-approved methodology.
- The percent of the estimated cost of care covered by the base payment rate.

Tiered rates, differential rates, or add-ons. If applicable, the Lead Agency must describe rates for targeted needs or populations, or any add-ons to the base rate (45 CFR 98.45(b)), including:

- Any additional information that may be helpful for OCC to understand the structure of the Lead Agency’s CCDF payment rate system. This may include how the Lead Agency uses rate add-ons, provider-level grants, or other rate enhancement strategies. Lead Agencies are encouraged to include the following information, if applicable:
 - Which providers are eligible to receive the funding and how often the providers are paid
 - A description of the add-on structure, including how it is calculated
 - Any age groups or special populations that receive the differential or add-on rate
 - How the Lead Agency used the cost-based methodology to inform the tiered rates, differential rates, and add-ons

Cost-based approaches to payment rate setting can be more complex than an analysis of prices, so OCC needs the information outlined above to evaluate whether payment rates set with a cost-based methodology are sufficient to meet the equal access requirements of CCDF.

Evaluation of Payment Rates

CCDF requires Lead Agency payment rates be set at least at a rate sufficient to ensure equal access to child care for families participating in CCDF as for families who are not eligible for CCDF (42 U.S.C. § 9858c(c)(4); 45 CFR 98.45(a)). CCDF also requires payment rates be set to at least be sufficient for providers to meet CCDF health, safety, quality, and staffing requirements (45 CFR 98.45(f)(2)(ii)), though OCC considers that threshold to be lower than what is required by the equal access requirement.

OCC’s evaluation of whether Lead Agency provider payment rates set based on a cost-estimation model is compliant with CCDF rules is based on two thresholds:

- Whether the cost-based methodology used to set payment rates follows the methodology pre-approved by OCC; and
- If the rate is less than the full cost of care, an assessment of whether the reported payment rate as a percentage of the cost of care is sufficient to meet CCDF equal access requirements.

The following list defines what cost components OCC will consider in pre-approving a cost-estimation model. Whether payment rates are sufficient to meet CCDF requirements will be evaluated by assessing the assumptions used by the Lead Agency and the cost of care estimated from the methodology and how it is used to set base payment rate.

Workforce Salaries:

- Competitive wages (as defined by Lead Agency, but must be higher than the Federal minimum wage)
- Federally mandated benefits and taxes (e.g., SSI, FICA)
- Health benefits

Staffing Levels:

- Group size and ratio that meet minimum CCDF health and safety standards for all hours of operation
- The professional development costs that meet minimum health and safety training standards for the workforce
- Some paid time off, breaks, and planning time for all staff

Facilities and Operational Costs:

- Facilities costs (rent, utilities)
- Program and classroom materials
- Costs associated with providing meals and/or snacks for program operations, when applicable
- Insurance costs

Conclusion:

CCDF requires Lead Agencies to set payment rates sufficient to ensure equal access to child care for families participating in CCDF as for families who are not eligible for CCDF. While OCC has held payment rates set with a market rate survey to a benchmarked percentile of child care prices, no single benchmark is possible for payment rates set based on costs. The information outlined in this guidance will allow the Office of Child Care to assess whether payment rates set using a cost-based methodology meet CCDF equal access requirements at the proposal stage of the cost-based methodology and at submission of payment rates. Using cost information to inform payment rate setting can help increase parent choice in child care arrangements and reduce barriers to families finding the care that meets their needs. Lead Agencies' flexibility to use market rate surveys to set payment rates remains unchanged.

Questions: Inquiries should be directed to the appropriate [ACF Regional Office](#).

/s/

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