

**CCDF Rate Setting in the FY25-27 State Plans:  
An Updated Review of Lead Agencies Approaches to  
Completing the CCDF Narrow Cost Analysis**

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## Introduction

The federal Child Care and Development Fund (CCDF) is the primary source of public funding to support access to child care for low-income working families. In fiscal year 2025, combined state and federal governments spent nearly \$12.5 billion annually on CCDF activities, including direct service and quality supports.<sup>1</sup> The bulk of this spending is direct reimbursements to child care providers to offset some or all of the cost of providing care.

CCDF Lead Agencies<sup>i</sup> determine the reimbursement rates paid to child care providers for the care they provide to eligible children and families. While agencies have significant flexibility in how they implement CCDF requirements in alignment with the 2014 Child Care and Development Block Grant Act (CCDBG), they are required to set subsidy reimbursement rates at a level that is “sufficient to ensure equal access for eligible children... comparable to child care services provided to children whose parents are not eligible for CCDF.”<sup>2</sup> Every three years states and territories are required to submit plans detailing how they will implement CCDF funding, known as the CCDF State Plan. Within these plans, Lead Agencies must address how they plan to set CCDF payment rates and ensure they meet the equal access provision of the CCDBG Act.

This issue brief reviews data from the FY2025-2027 CCDF state plans to analyze how Lead Agencies are setting subsidy payment rates, with a specific focus on the Narrow Cost Analysis (NCA)

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<sup>i</sup> Under CCDF regulations, states and territories must designate a Lead Agency to manage the CCDF program. In this brief, the authors refer to Lead Agencies to align with the language used in CCDF. Lead Agencies are usually a state early childhood department, or an office within a state department of education or department health and human services. For a full list of state and territory Lead agencies, see: <https://www.acf.hhs.gov/occ/contact-information/state-and-territory-child-care-and-development-fund-administrators>

requirement. This issue brief is a follow up to the P5FS analysis of FY2022-2024 CCDF state plans.<sup>3</sup> While all states are required to conduct an NCA, they vary in their rigor, and Lead Agencies have flexibility in how and to what extent this data is used to inform rate setting. States may use several approaches to complete their NCA, including conducting analysis using a cost model or a cost study.

## CCDF Rate Setting

Access to reliable child care that meets families' needs is critical for parents to work, attend school, and receive job training, improving whole family wellbeing, financial stability, and supporting child development. However, many families struggle to afford child care tuition, which is often the first or second largest expense in their monthly budget. At the same time, child care tuition rates are driven by what families can afford rather than the true cost of providing care, and even the current burdensome tuition levels are often insufficient to cover providers' true operating costs.<sup>4</sup> Providers must keep their tuition rates as low as possible in order not to price families out of the market, but this leaves them operating on shoestring budgets with limited resources to dedicate to workforce compensation.<sup>5</sup>

CCDF is the main source of public funding supporting low-income working families' access to child care. The program is intended to help working families pay for child care, providing a subsidy payment that covers all or a portion of child care tuition for families at or below 85% of state median income (SMI). Historically, the rate at which CCDF Lead Agencies will reimburse providers serving subsidy-eligible children has been based on tuition rates, also known as the market rate. Since the 2014 reauthorization of CCDBG, which funds CCDF, Lead Agencies have the option to set rates informed by cost, not just the prices providers charge.<sup>6</sup> Using cost-based data instead of market rates can better reflect the actual cost of care, including the cost to meet higher quality standards and provide fair and competitive compensation for early childhood educators.<sup>7</sup>

## CCDF Narrow Cost Analysis Approaches

Although states have broad discretion in setting subsidy payment rates, Lead Agencies must use reliable data to set subsidy payment rates that ensure equal access to child care. They can do this through two approaches:

1. Conduct a market rate survey that reflects the prices charged in the private market,
2. Use an approved alternative method such as a cost estimation model, or cost study, to determine the cost of meeting state licensing and higher quality standards.<sup>8</sup>

In either approach, Lead Agencies must analyze and report on differences associated with quality, provider type, age of child, and geographic location in their rate setting.<sup>9</sup> Furthermore, in all cases, Lead Agencies are required to analyze the actual cost of providing child care through a Narrow Cost Analysis (NCA) which details the costs incurred by providers, distinct from the prices they charge.

This ensures that in addition to data on what providers are charging in the public marketplace, each state reports on what it costs providers to meet standards.

### *Cost-based rate setting*

Setting payment rates informed by the true cost of care can support child care providers to serve CCDF-eligible families while covering the costs of delivering high quality care inclusive of competitive compensation for the child care workforce. Under the market-based approach, states are required to set rates at the 75<sup>th</sup> percentile of the market rate, a federal benchmark defined as providing equal access to the child care market for families utilizing CCDF as for private pay families. However, because market rates reflect what families can afford, not the true cost of care, setting subsidy rates informed by market rates alone replicates the inequities within the child care market and perpetuates the underfunding of this critical service. Using an alternative methodology, with a cost-based approach, or combining narrow cost analysis results with market rate data can help address the market failures, aligning payment rates with what it costs to provide the service, regardless of parents' ability to pay.

Lead Agency approaches to conducting narrow cost analyses vary. In general, the approaches fall into one of the following four categories:

1. *Customized cost model* – a cost model that reflects state licensing and quality standards and includes state-specific data, often informed by provider data collection.
2. *Provider Cost of Quality Calculator* – federal cost modeling tool developed by the Administration for Children and Families, Office of Child Care that includes state-specific default data and some options for customization (e.g. for QRIS levels).
3. *National cost calculator* – a tool developed by a national entity to support better understanding of the true cost of child care, including some state-specific data but limited options for customization.
4. *Cost study* – a report of the current costs incurred by child care providers in a jurisdiction to meet state standards, producing a point-in-time analysis.

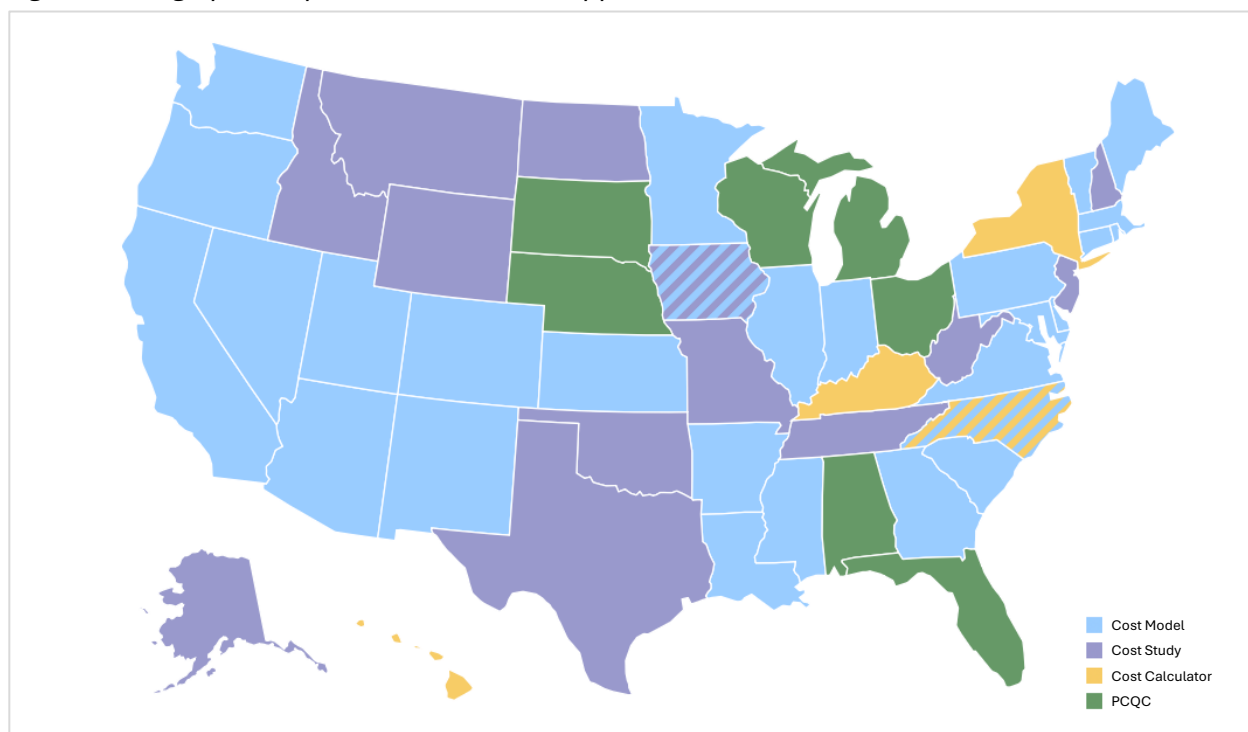
Table 1 details the approach used by each state for whom narrow cost analyses were publicly available, as of February 2026. As shown, the most common approach is the use of a cost model, with 29 states using this approach, followed by 13 states utilizing a cost study. This compares to 12 states who used a cost model and 12 who used a cost study in their FY22-24 state plans.<sup>10</sup> Figure 1 provides a geographic visual representation of the approach used in each state.

Table 1. List of NCA Approaches used in FY25-27 CCDF State Plan, by approach<sup>ii</sup>

Cost Model		PCQC	Cost Calculator <sup>iii</sup>	Cost Study
Arkansas	Massachusetts*	Alabama	Hawaii	Alaska
Arizona	Minnesota	Florida	Kentucky	Idaho
California*	Mississippi	Michigan	New York	Iowa
Colorado*	Nevada*	Nebraska	North Carolina	Missouri
Connecticut	New Mexico*	Ohio		Montana
District of Columbia*	North Carolina	South Dakota		New Hampshire
Delaware	Oregon	Wisconsin		New Jersey
Georgia	Pennsylvania			North Dakota
Illinois	Rhode Island			Oklahoma
Indiana*	South Carolina*			Tennessee
Kansas	Utah			Texas
Kentucky	Virginia*			West Virginia
Louisiana	Vermont			Wyoming
Maine	Washington			
Maryland				

\*These states used an alternative methodology for CCDF subsidy rate setting, using a cost estimation model, rather than a market rate survey.

Figure 1: Geographic Representation of NCA Approaches used in FY25-27 CCDF State Plan



<sup>ii</sup> States that appear in more than one column used a blended approach that incorporates both methodologies.

<sup>iii</sup> The two cost calculators referenced in FY25-27 state plans are (a) the Center for American Progress costofchildcare.org tool, and (b) the Prenatal to Five Fiscal Strategies 50-State Child Care Cost Model online tool.

As part of the cost analysis, Lead Agencies report on the gaps between current reimbursement rates and the cost of care, as defined by the NCA. In reviewing the FY25-27 state plans, the greatest gaps were consistently identified for providers serving infants and toddlers, those in rural communities, and programs participating at higher levels of a state’s Quality Rating and Improvement System (QRIS). These trends are aligned with research showing that few states set rates at levels that reflect the actual cost of care and the cost to meet quality standards.<sup>11</sup>

## Themes from FY25-27 CCDF Rate Setting Approaches

Several themes emerged through this analysis of FY25-27 CCDF state plans and the way market rate surveys, NCAs, or approved alternative methodologies were used to inform rate setting.

**Nine Lead Agencies reported using an alternative methodology to inform rate setting rather than a market rate survey approach.** While all nine use a cost estimation model to inform rate setting, they differ in the status of their implementation of cost-based rates and in the percent of the cost of care they cover with reimbursement rates.

To provide equal access to child care for families receiving CCDF assistance as for families not receiving assistance,<sup>12</sup> states are recommended to set rates at a minimum of the 75<sup>th</sup> percentile of the most recent market rate survey. Despite this requirement, many states fail to achieve this percentile level due to insufficient funds. For example, as of October 2024, **only 20 states set infant and toddler reimbursement rates at or above the 75<sup>th</sup> percentile or based on a cost estimation model.**<sup>13</sup> This continues a historical trend of states failing to meet the 75<sup>th</sup> percentile requirement; in several 2025–2027 CCDF plans, states explicitly noted that providers have not seen rate increases in over five years.

**Many states increased reimbursement rates for providers with higher quality ratings, often requiring participation in the state QRIS to access higher payments.** These tiered reimbursement structures align with federal guidance encouraging states to integrate quality indicators into payment practices, although they are often not linked to the actual cost of delivering higher quality.<sup>14</sup>

To better align rates with cost, **many states are layering supplemental compensation strategies on top of rates**, including tiered rates tied to QRIS and bonuses aimed at stabilizing the workforce and supporting high quality care. These strategies reflect widespread acknowledgment that workforce compensation, ratios, and operational costs are significant cost drivers.

Some states noted a **delay in setting new rates** and requested a waiver to avoid being out of compliance with CCDF requirements. These states reported working through legislative or regulatory delays that have taken longer than expected. Other states committed to phased increases over a transition period, with the aim of raising reimbursement rates to at least the 60<sup>th</sup> percentile or higher.

## How Cost Data Is Supporting Change

Overall, this 2025–2027 CCDF state plan analysis finds Lead Agencies making changes to better support families in accessing high quality child care and investing in the workforce.

- To address affordability for families, 34 states and the District of Columbia made policy changes to ensure families spend no more than 7 percent of the household income for family copayments.<sup>15</sup>
- States are using cost data to inform additional workforce initiatives including increased teacher compensation, enhanced professional development, and lower staff-child ratios, recognizing that staff retention is a key driver of quality and cost.
- To assist providers to deliver high quality care, 33 states offer reimbursement rate increases to providers who meet quality standards above licensing, better aligning payment rates with the increased cost of providing high quality care.
- States are also employing strategies such as supplemental payments and performance-based bonuses to help cover the gap between the price and the cost of care, demonstrating a data driven approach to supporting providers and strengthening access to high quality child care for families.
- Finally, cost data is helping demonstrate the impact of policies such as paying based on enrollment versus attendance and making prospective payments, showing how these strategies can support the financial stability of child care programs.

### *Proposed Changes to CCDF Requirements*

In January 2026, the U.S. Department of Health and Human Services (HHS), through the Administration for Children and Families (ACF), published a Notice of Proposed Rulemaking (NPRM) titled “Restoring Flexibility in the CCDF.” This proposal would rescind four specific regulatory requirements added in the March 2024 CCDF Final Rule, including provisions on limiting family co-payments to 7 percent of income, use of grants/contracts for direct services, prospective payments to providers, and provider payment based on enrollment rather than attendance. At the time of this brief’s publication the rulemaking process is ongoing and these provisions are not yet finalized. Regardless of whether these specific regulatory requirements change, the underlying practices added in the 2024 Final Rule support provider financial stability and family affordability. Linking reimbursement rates to the actual cost of quality care, analyzing cost differences by provider type, and supporting provider stability help ensure equitable access and workforce sustainability. States that adopt these approaches, regardless of federal mandates, align with both CCDF goals and long-standing guidance encouraging cost- and quality-informed payment practices.

## Conclusion

The 2025–2027 CCDF state plans reflect meaningful progress in how states are using market rate surveys, narrow cost analyses, and alternative methodologies to better understand the gap between reimbursement rates and the true cost of child care. Across states, the largest cost pressures are concentrated in infant and toddler care, rural communities, and programs operating at higher quality levels, highlighting the deep interconnection between quality, workforce stability, and affordability. States are increasingly using cost analyses to guide investments in workforce compensation, professional development, and operational standards, while tiered rates, supplemental payments, and performance-based bonuses are being paired with phased rate adjustments to more closely align subsidies with actual costs. Many states are also exploring how cost models can complement market rate surveys, helping to clarify cost drivers by child age, provider type, geographic location, and quality level, and providing a foundation for more evidence-based reimbursement policies.

At the same time, data from the CCDF state plans demonstrate that tiered rates and incentives alone are insufficient to fully close the gap between reimbursement rates and the true cost of care, underscoring the need for sustained base rate increases, long-term funding commitments, and ongoing federal, state, and legislative engagement. Targeted technical assistance, learning opportunities, and clear guidance can help states translate cost data into practical actions, connect analyses to policy decisions, and communicate findings to constituents, ensuring that investments reflect both quality and sustainability. As states move forward with implementation, these strategies create momentum toward a system that not only meets federal requirements but also strengthens providers, stabilizes the workforce, and expands equitable access for families.

The recent federal appropriations bill largely flat-funded CCDF, keeping funding near prior year levels with only minimal increases that fail to keep pace with inflation or rising provider costs.<sup>16</sup> While the bill avoids major cuts, it does little to expand public investment in child care at a time when the true cost of providing care continues to climb due to staffing, facility, and regulatory expenses. This status quo exacerbates the current broken fiscal system, leaving many providers with large gaps between the cost of delivering high-quality care and the revenue they can generate, while families continue to be burdened with high out-of-pocket expenses. Ultimately the child care system requires significantly more public investment to close the gap between what parents can afford to pay and the true cost of care, ensuring equitable access for families, and stability for child care providers and their workforce.

### *Prenatal to Five Fiscal Strategies Cost Modeling*

P5FS supported over a dozen states in the FY25-27 state plan cycle with cost modeling to inform rate setting. The team is available to support states in leveraging cost data and translating insights into actionable, long-term strategies that advance high-quality care. As Lead Agencies look ahead to the FY28-30 CCDF state plans, P5FS can support states to gather cost data and conduct a robust cost analysis to ensure that policymakers have the data needed to inform decisions. Please reach out if you are interested in talking about the services P5FS can offer: [info@prenatal5fiscal.org](mailto:info@prenatal5fiscal.org)

# Endnotes

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- <sup>1</sup> Administration for Children and Families (ACF), Office of Child Care. *GY2025 CCDF Funding Allocations (Based on Appropriations)*. Available at <https://acf.gov/occ/data/gy-2025-ccdf-allocations-based-appropriations>
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- <sup>4</sup> Prenatal-to-3 Policy Impact Center. *Prenatal-to-3 State Policy Roadmap 2025: Child Care Subsidies*. Available at: <https://pn3policy.org/pn-3-state-policy-roadmap-2025/us/child-care-subsidies/>
- <sup>5</sup> Simon Workman. *Where Does Your Child Care Dollar Go?* Center for American Progress, 2018. Available at: <https://www.americanprogress.org/article/child-care-dollar-go/>
- <sup>6</sup> U.S. Department of Health and Human Services, Administration for Children and Families, Office of Child Care. *Child Care and Development Fund (CCDF) Final Rule*.
- <sup>7</sup> Jeanna Capito and Simon Workman. *Using Cost Estimation To Inform Child Care Rate Setting*. Prenatal to Five Fiscal Strategies, 2021. Available at: [https://p5f-cdn-dev.s3.us-east-1.amazonaws.com/P5\\_FS\\_Cost\\_Estimation\\_Report\\_Dec2021\\_9f694b157b.pdf](https://p5f-cdn-dev.s3.us-east-1.amazonaws.com/P5_FS_Cost_Estimation_Report_Dec2021_9f694b157b.pdf)
- <sup>8</sup> Administration for Children and Families (ACF), Office of Child Care. *Guidance on Establishing Subsidy Payment Rates: Program Instruction CCDF-ACF-PI-2018-01*. Available at: <https://acf.gov/archive/occ/policy-guidance/ccdf-acf-pi-2018-01>
- <sup>9</sup> U.S. Department of Health and Human Services, Administration for Children and Families. *45 C.F.R. §98.45 — Child Care Provider Payment Rates*. Available at: <https://www.ecfr.gov/current/title-45/subtitle-A/subchapter-A/part-98/subpart-E/section-98.45>
- <sup>10</sup> Simon Workman and Jeanna Capito. *A Review of the CCDF Narrow Cost Analyses*. Prenatal to Five Fiscal Strategies, 2023. Available at: [https://p5f-cdn-dev.s3.us-east-1.amazonaws.com/A\\_review\\_of\\_the\\_CCDF\\_Narrow\\_Cost\\_Analyses\\_19a148aaf8.pdf](https://p5f-cdn-dev.s3.us-east-1.amazonaws.com/A_review_of_the_CCDF_Narrow_Cost_Analyses_19a148aaf8.pdf)
- <sup>11</sup> Child Care and Development Block Grant Act of 2014, 42 U.S.C. §9858 et seq. Available at: <https://www.law.cornell.edu/uscode/text/42/chapter-105/subchapter-II-B>
- <sup>12</sup> Child Care and Development Block Grant Act of 2014, 42 U.S.C. §9858 et seq.
- <sup>13</sup> Prenatal-to-3 Policy Impact Center. *Prenatal-to-3 State Policy Roadmap 2025: Child Care Subsidies*.
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- <sup>15</sup> U.S. Department of Health and Human Services, Administration for Children and Families, *Child Care and Development Fund (CCDF) Final Rule*, 89 Fed. Reg. 15366 (Mar. 1, 2024), available at: <https://www.federalregister.gov/documents/2024/03/01/2024-04139/improving-child-care-access-affordability-and-stability-in-the-child-care-and-development-fund-ccdf>; Child Care Aware® of America, *State Session Round-Up: Summer 2025*. Child Care Aware® of America, 2025. Available at: <https://info.childcareaware.org/hubfs/State-Session-Round-Up-Summer-2025.pdf>
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