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Family Child Care Home Participation in the CACFP— Effects of Reimbursement Tiering

A Report to Congress on the Family Child Care Homes Legislative Changes Study

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Abstract

The introduction of tiered reimbursement rates in 1997 reduced the number of family child care homes participating in the Child and Adult Care Food Program (CACFP) in 1998 and 1999. The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 mandated a tiered reimbursement structure designed to target benefits more narrowly to low-income children and called for a study of its effects on program participation and on meals offered to children. This report presents analyses focusing on how the revised reimbursement structure affected the number of family child care homes participating in the CACFP. By reducing participation incentives for child care homes that were not considered to be low-income (“Tier 2” homes), tiering reduced the total number of participating CACFP homes. Tiering had little or no discernible effect on the number of children participating in the program, the number of CACFP sponsors, or the nationwide number of licensed providers of child care.

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Executive Summary

The introduction of tiered reimbursement rates in 1997 reduced the number of family child care homes participating in the Child and Adult Care Food Program (CACFP) in 1998 and 1999. The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 mandated a tiered reimbursement structure—designed to target benefits more narrowly to low-income children—and called for a study of its effects on program participation and on meals offered to children. This report presents analyses focusing on how the revised reimbursement structure affected the number of family child care homes participating in the CACFP. By reducing participation incentives for child care homes that were not considered to be low-income (“Tier 2” homes), tiering reduced the total number of participating CACFP homes. Tiering had little or no discernible effect on the number of children participating in the program, the number of CACFP sponsors, or the nationwide number of licensed providers of child care.

The CACFP and Tiering

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) mandated certain changes to the CACFP and called for a study of the effects of the changes. Accordingly the U.S. Department of Agriculture (USDA) contracted with Abt Associates Inc. to conduct the *Family Child Care Homes Legislative Changes Study*. This report presents findings pertaining to the participation of family child care homes in CACFP.

The CACFP is a Federal program, administered by USDA, that subsidizes meals and snacks served in participating child care and adult day care facilities. Providers of care are reimbursed at fixed rates for the meals they serve. The PRWORA established a two-tier structure of meal reimbursement rates for family child care homes. Homes that are located in low-income areas or operated by persons with incomes at or below 185 percent of the Federal poverty guidelines are designated as Tier 1. Meal reimbursement rates for Tier 1 homes are comparable to the rates that existed for all CACFP homes before PRWORA. Family child care homes that do not meet the low-income criteria are designated as Tier 2. They have lower reimbursement rates, although they can be reimbursed at Tier 1 rates for any child in their care whose household income is at or below 185 percent of the poverty guideline.

Administrative data maintained by USDA indicate that Tier 2 providers in fiscal year 1999 cared for an average of 5.2 children daily. They served a daily average of 3.8 breakfasts, 4.4 lunches, 0.7 suppers, and 5.5 snacks. Their reimbursements under the new rate structure averaged \$177 per month. If they had been reimbursed at Tier 1 rates for all meals, their average monthly reimbursement would have been \$326.

Family child care homes can participate in the CACFP only if they are sponsored by a public or private nonprofit sponsoring organization that has entered into an agreement with a State agency to administer the program at the local level. Sponsors are responsible for enrolling homes into the program, monitoring compliance with program requirements, receiving the homes’ CACFP reimbursement claims, and distributing the reimbursements. With the tiered structure, sponsors also became responsible for designating homes as Tier 1 or Tier 2 and determining which individual

children in Tier 2 homes are eligible to have their meals reimbursed at Tier 1 rates. Sponsors receive separate reimbursement for administrative costs; PRWORA did not affect the reimbursement system for sponsors.

Number of CACFP Family Child Care Homes

About 175,000 family child care homes participated in the CACFP in fiscal year 1999, the second full fiscal year after the legislative changes took effect. That represented an 8-percent decline from the 1997 level of 190,000 participating homes. In contrast, the number of child care centers participating in CACFP increased during this time period by 11 percent.

The 1997-99 reduction in CACFP homes was concentrated among Tier 2 providers. From the fourth quarter of fiscal year 1997 (the first quarter of tiering) to the corresponding quarter of fiscal year 1999, the number of Tier 2 providers dropped by about 12,500 homes or 18 percent. The number of Tier 1 providers, in contrast, grew by nearly 5 percent during this period. Because the post-tiering decline in CACFP homes was attributable to a reduction in Tier 2 homes, it seems likely that the legislative change was a major reason for the overall decline.

However, the CACFP changes occurred at a time when several aspects of the broader economic and policy environment were changing in ways that could affect the demand for and supply of child care. These factors, which include a strong labor market, rising wages, welfare reform, and the growth of preschool programs in public school systems, must be taken into consideration when examining the recent decline of CACFP homes.

To separate the effects of the legislative change from the effects of other events occurring simultaneously, a time-series/cross-section model of the number of CACFP homes was estimated. The results indicate that, if tiering had not been introduced, the number of CACFP homes would have grown slightly rather than declining in 1998 and 1999. Our best estimate is that the number of CACFP providers in fiscal year 1999 was 14 percent less than it would have been without tiering.

If tiering did reduce the number of participating homes, the effect could have occurred in two ways. Existing CACFP providers could leave the program earlier than they would have done otherwise, or providers who otherwise would have enrolled in the CACFP could decide not to do so. One might expect that the main effect would be to deter potential new enrollees—people who had not already invested the effort to become licensed, find a CACFP sponsor, apply for participation, be trained, and master the CACFP meal planning and paperwork requirements. No direct evidence is available to test this hypothesis, but we do find suggestive indications that some deterrent effect occurred.

A survey of former CACFP providers provides direct information on premature CACFP exits, suggesting that tiering did lead some providers to leave the program. Their numbers cannot be estimated precisely, but they appear to account for only a portion of the estimated effect of tiering. This survey contacted persons who were operating homes that participated in the CACFP in January 1997, but were not on the CACFP rolls by January, 1998. The survey indicates that most providers who left the CACFP during that period did so for reasons unrelated to the CACFP reimbursement rates. Nonetheless, some CACFP providers who quit the child care business mentioned tiering as one among their reasons for doing so, and some who left CACFP but continued providing child care cited

reasons related to CACFP reimbursement rates. These two groups combined represent about 11,000 providers nationwide. If tiering was the deciding factor for all of them—if they would have remained active in the CACFP but for tiering—that would account for somewhat more than half of the estimated tiering-related reduction of 18,000 homes in 1998. It seems more likely that many, and perhaps most, of these providers would have left the CACFP even in the absence of tiering, but the available data do not allow a precise estimate.

Average CACFP Attendance in Family Child Care Homes

The implementation of tiering was accompanied by a slight decline in average daily CACFP home attendance, from about 977,000 in 1997 to 960,000 in 1999. CACFP attendance in homes has remained essentially flat since 1995, with the 1997-1999 reduction amounting to just under 2 percent. Thus, the decline in homes did not translate into a substantial decline in attendance.

In contrast to homes, average daily attendance in CACFP centers consistently grew during the 1990s. From 1997 to 1999 it went from 1.4 million to 1.7 million, an increase of 16 percent. Child care centers accounted for 64 percent of CACFP attendance in 1999, up from the 57-61 percent level that existed through most of the 1990s.

Number of CACFP Sponsors of Family Child Care Homes

The number of organizations sponsoring family child care homes in the CACFP also declined, from 1,193 in fiscal year 1997 to 1,151 in fiscal year 1999. This 3.6-percent reduction continued a downward trend that began in fiscal year 1995, well before the passage of PRWORA. Tiering added to the sponsors' administrative responsibilities and, by reducing the number of participating homes, reduced sponsors' average administrative reimbursements. Nonetheless, the data provide no indication that tiering affected the previous trend of sponsor participation in the CACFP.

Number of Licensed Family Child Care Homes

According to annual surveys carried out by The Children's Foundation, the national number of licensed family child care homes grew between 1997 and 1999. (The term "licensed," as used here, also includes providers who are certified, registered, or otherwise approved by a State agency.) States reported a total of 296,000 homes in the summer of 1999. This increase of 3.9 percent from 1997 reversed a slight downward trend that existed during 1995-97.

Because only licensed or approved child care homes can participate in the CACFP, the program has been seen as a force promoting licensure. This raised the hypothesis that reducing the reimbursement rates would lead to lower licensure rates. The national trend does not support this hypothesis, as the number of licensed homes increased in the period when the CACFP changes were introduced. Nonetheless, some individual States experienced reductions in the number of licensed providers following the implementation of tiering in 1997, and officials in some of those States felt that the CACFP changes contributed to the reduction. Thus the lower CACFP reimbursements may have affected the number of licensed providers in some locations, although there is no evidence that such an effect was large or pervasive.