

# Family Child Care Providers in the CACFP: Operational Effects of Reimbursement Tiering

## Introduction

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The Child and Adult Care Food Program (CACFP) is a Federal program supporting nutritious meals and snacks in participating child care and adult day care facilities. It is administered by the Food and Nutrition Service (FNS) of the U.S. Department of Agriculture (USDA). Under CACFP, care providers receive a fixed reimbursement per meal served, with different reimbursement rates for different types of meals, such as breakfasts and lunches.

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) changed the meal reimbursement structure for family child care homes. The law established two tiers of reimbursement rates, with higher rates applying to homes in lower-income areas or operated by lower-income persons. The intent of these changes to the CACFP was to target program benefits more closely to low-income children.

The law also called for a study of how the CACFP changes affected the family child care homes, their sponsoring organizations, and the families participating in the program. This report presents information in response to that congressional request, specifically addressing the experiences and perspectives of family child care providers participating in the CACFP. The report is one in a series of reports on the *Family Child Care Homes Legislative Changes Study*, which was carried out by Abt Associates Inc. under contract to the U.S. Department of Agriculture, Economic Research Service. (See References, p. 34, for a list of other reports in the series.)

## Description of the Child and Adult Care Food Program

To provide healthful meals and snacks in child and adult day care facilities, the CACFP reimburses child care providers for their meal costs and, in some cases, provides them with USDA commodity food. Reimbursement is limited to a maximum of two meals and one snack or one meal and two snacks per child per day.<sup>1</sup> The program operates in nonresidential day care facilities including child care centers, after-school-hours child care centers, family and group child care homes, and some

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<sup>1</sup> Prior to enactment of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (P.L. 104-193), CACFP centers were allowed to claim reimbursement for an additional meal or snack for children in care 8 or more hours per day.

adult day care centers.<sup>2</sup> Eligibility for the child care portion of the CACFP is limited to children age 12 and under. In fiscal year 1999, the child care component of the program served an average of 2.5 million children daily at a cost of \$1.6 billion. Thirty-six percent of these children were served through child care homes and 64 percent through centers. The CACFP is administered at the Federal level by the Food and Nutrition Service. State agencies generally oversee the program at the local level.

When the program was first established by Congress in 1968 under Section 17 of the National School Lunch Act (42 U.S.C. 1766), participation was limited to center-based child care in areas where poor economic conditions existed. Beginning in 1976, family child care homes became eligible to participate provided that they meet State licensing requirements where these exist, or otherwise obtain approval from an appropriate State or local agency. In addition, homes must be sponsored by a nonprofit organization that assumes responsibility for ensuring compliance with Federal and State regulations and that acts as a conduit for meal reimbursements.

Initially, reimbursement rates for meals and snacks served in homes, like those served in centers, were based on a means test of the family incomes of individual children.<sup>3</sup> Providers complained that the means test was overly burdensome and too invasive for their relationship with the families for which they provided child care. In addition, sponsors claimed that meal reimbursements were insufficient to cover their administrative costs and allow for adequate reimbursement to the homes.<sup>4</sup> As a consequence, very few homes participated in the program—fewer than 12,000 by December 1978.

The 1978 Child Nutrition Amendments (P.L. 95-627) incorporated wide-ranging changes to the program with the purpose of expanding participation, particularly among family child care homes. Most significantly, the 1978 amendments eliminated the means test for family child care homes. In addition, the amendments separated the reimbursement of sponsors' administrative costs from the meal reimbursement for family child care homes.<sup>5</sup>

In the years following the elimination of the means test, the family child care component of the CACFP experienced tremendous growth. At the same time it increasingly became a program serving middle-income children. The *Early Childhood and Child Care Study*, conducted in 1995, reported that over 190,000 homes were participating in the program, and more than 75 percent of the children

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<sup>2</sup> As of July 1999, the CACFP also provides reimbursements for meals and snacks served to eligible children in homeless shelters.

<sup>3</sup> Three categories of reimbursement were established for participating homes, corresponding to family incomes of participating children of the following: 125 percent or less of the applicable Federal poverty guideline for households of a given size, 126 to 195 percent of the poverty guideline, and more than 195 percent of the poverty guideline.

<sup>4</sup> Meal reimbursements generated by participating homes were paid directly to the sponsoring agency. The sponsor was permitted to deduct administrative costs before passing the remaining reimbursement on to the providers.

<sup>5</sup> Other changes included the establishment of alternative procedures for approving homes and the provision of startup and expansion funds for family child care sponsors.

served in these homes were from families with incomes above 185 percent of the Federal poverty guideline.<sup>6</sup>

## The Legislative Changes Implemented in 1997

Among the many changes included in the PRWORA, the Congress acted to refocus the family child care component of the CACFP toward low-income children. The Act changed the reimbursement structure for the family child care component of the program to target benefits more specifically to homes serving low-income children. The new rate structure for family child care homes took effect July 1, 1997. The applicable rates in 1999, when the data were collected for this study, are shown in Exhibit 1.

Under the new reimbursement structure, family child care homes located in low-income areas have reimbursement rates that are similar to the rates that existed for all family child care homes before PRWORA. A low-income area is defined operationally as either an area served by an elementary school in which at least half of the enrolled children are eligible for free or reduced-price school meals or a 1990 census block group in which at least half of the children live in families with incomes at or below 185 percent of the poverty guideline.<sup>7</sup> Homes where the provider's own income is at or below 185 percent of the poverty guideline have the same reimbursement structure as homes located in low-income areas. Homes meeting at least one of these criteria are designated as Tier 1 homes.

All other homes are reimbursed at substantially lower rates. This latter group of homes, referred to as Tier 2 homes, includes those that are neither located in a low-income area nor operated by a low-income provider. Tier 2 homes can receive the higher Tier 1 reimbursement rates for meals served to children from families with incomes at or below 185 percent of the poverty guideline, but the individual children's eligibility must be determined.

**Exhibit 1**  
**Meal Reimbursement Rates by Tier,<sup>a</sup> July 1, 1998–June 30, 1999**

| Meal               | Tier 1 Rate | Tier 2 Rate | Difference Between Tier 2 and Tier 1 Rate |            |
|--------------------|-------------|-------------|---|------------|
|                    |             |             | Amount                                    | Percentage |
| Breakfast          | \$0.90      | \$0.34      | -\$0.56                                   | -62.2%     |
| Lunch/Supper       | 1.65        | 1.00        | -0.65                                     | -39.4      |
| Supplement (snack) | 0.49        | 0.13        | -0.36                                     | -73.5      |

<sup>a</sup> Reimbursement rates are higher in Alaska and Hawaii.

<sup>6</sup> F. Glantz *et al.*, 1997.

<sup>7</sup> This criterion is applied using data from the 1990 decennial census for the provider's census block group.

Under the new reimbursement structure, CACFP reimbursement rates for Tier 2 homes are roughly half of the rates for Tier 1 homes. In fiscal year 1999, Tier 2 homes received meal reimbursements averaging \$177 per month (including some meals reimbursed at the Tier 1 rate). Had they been reimbursed at the Tier 1 rates for all meals, their monthly reimbursements would have averaged \$326.<sup>8</sup>

Tiering changed the economics of family child care for existing CACFP homes that were now reimbursed at the Tier 2 rates. Lower rates would translate into lower net income from the business unless the providers could raise fees or reduce expenses. Providers newly entering the CACFP as Tier 2 providers would not experience a change but would have to establish their fees, operating scale, hours, and expenditures in the context of the Tier 2 rates. Hypotheses about Tier 2 effects, therefore, suggest that Tier 2 providers might charge higher fees, be open for longer hours, take on more children, serve fewer meals, or more often encourage families to send food with the children than if the providers were operating under Tier 1 rates. This report examines the extent to which these factors have changed since 1995 and the extent to which they differ between Tier 1 and Tier 2 providers.

## The Family Child Care Homes Legislative Changes Study

After mandating changes in the CACFP reimbursement structure, the PRWORA also called for a study of the effects of those changes. The Act posed a number of specific questions about effects on CACFP sponsors, participating family child care homes, and the families served by those homes. USDA accordingly designed, and contracted with Abt Associates Inc. to implement, the *Family Child Care Homes Legislative Changes Study*. The study began in late 1997, and is scheduled for completion early in 2001.

The *Family Child Care Homes Legislative Changes Study* involved extensive data collection from nationally representative samples of family child care homes, their sponsors, and the parents of children they serve. A multistage probability sampling approach was used. In the first stage, 20 States were selected. A sample of sponsors was drawn within each of the selected States, and the sampled sponsors provided lists of the child care homes that they sponsored. A sample of family child care homes was drawn from each sponsor. In the final sampling stage, a subsample of the family child care homes was used to draw a sample of households whose children were in the care of those providers. The sample design and weighting procedures are described in Appendix A.

Conducted in January-August 1999, the data collection included a **survey of family child care providers**, which is the principal data source for analyses in this report. The survey was a self-administered mail survey. The analysis sample includes 576 Tier 1 and 595 Tier 2 providers. Response rates for these two strata were 86.4 percent and 79.8 percent, respectively.

The survey and the sampling approach were closely modeled on a survey conducted in 1995 as part of the *Early Childhood and Child Care Study*. That survey reached a nationally representative sample of 532 family child care homes. The 1995 data are used in combination with the 1999 data to examine changes since the introduction of tiering in 1997.

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<sup>8</sup> W. Hamilton *et al.*, 1999.

Because of the complex structure of the sample, survey responses must be weighted in order to portray distributions in the overall population appropriately. All percentages, means, and other distributional statistics presented in this report have been weighted using procedures described in Appendix A. Tables also show the unweighted number of observations upon which the statistics are based. Standard errors and significance tests are estimated with correction for the complex sample design.

Differences between groups are reported as statistically significant if they have less than a 10 percent probability of arising by chance. Some disciplines conventionally consider differences to be significant only if their probability of arising by chance is less than 5 percent. Accordingly, differences that are significant at the 10-percent level but not the 5-percent level are indicated as ( $p < 0.10$ ). Differences that are significant at the 5-percent level or better are simply reported as statistically significant. In the tables, three levels of statistical significance are noted, 1-percent, 5-percent, and 10-percent.