

Trends in CACFP Participation

The legislative mandate requires an assessment of the impact of reimbursement tiering on the number of family child care homes and sponsors participating in the program. The legislation had the effect of reducing CACFP meal reimbursement levels for some homes and adding administrative requirements for both homes and sponsors. If no other factors were changing in the child care environment, one might expect the numbers of participating homes and sponsors to decline as the legislation took effect in July, 1997.

This section reviews the changes from 1997 to 1998 in the number of family child care homes, the number of sponsors, and the average daily CACFP attendance in family child care homes (i.e., the average number of children participating in CACFP each day). It places the 1997-1998 changes in the context of the 10-year trend from 1989 to 1998, to see whether the recent changes represent a specific effect of the legislation or a continuation of longer-term processes. The data on homes, sponsors, and attendance come from the administrative data series maintained by USDA, as described above.

The analysis indicates that the new CACFP meal reimbursement structure was accompanied by a decline in the number of participating family child care homes. How much of this decline was caused by the CACFP changes and how much by other factors in the child care environment cannot be determined with the available data. The number of CACFP sponsors and average daily attendance in family child care homes also declined in 1997-1998, but in ways that appear to reflect a continuation of prior trends.

Patterns of CACFP Daily Attendance

Trends in the number of children served by CACFP family child care homes constitute an important backdrop to examining numbers of participating homes. Growth or shrinkage in the demand for child care normally leads to growing or shrinking numbers of providers. Conversely, changes in the number of CACFP homes may lead to changes in total CACFP attendance. Thus time trends in CACFP attendance both influence and are influenced by the number of participating CACFP homes.

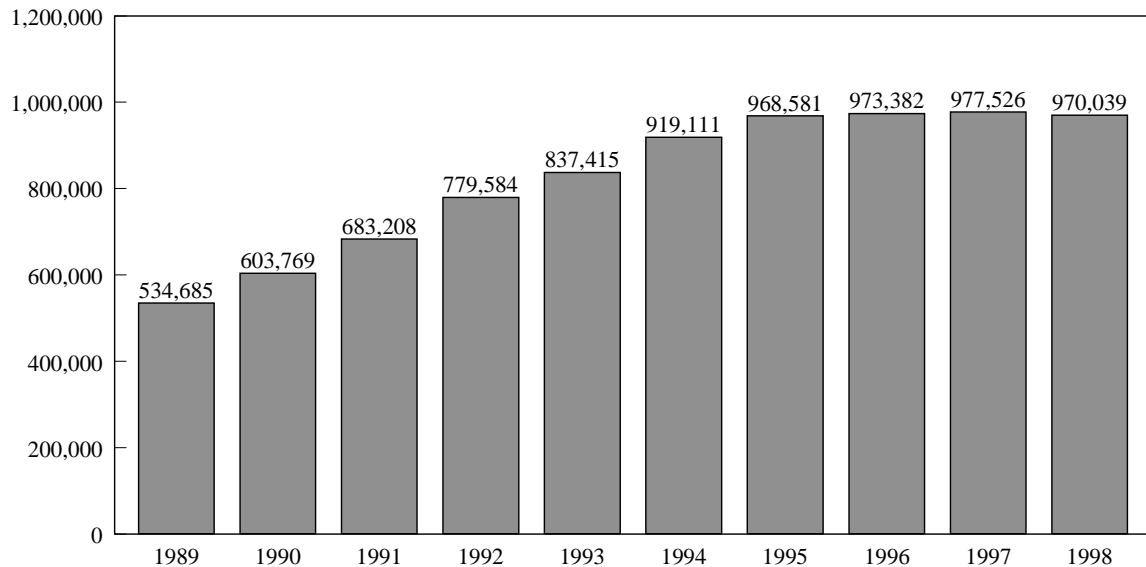
Total CACFP attendance in family child care homes in 1998 did not differ much from the level in 1997 or from the pattern of previous years. Average daily attendance in 1998 was about 970,000 (see Exhibit 4). This represents a decline of approximately 7,000, or 0.8 percent, from average attendance in 1997.

To gauge the effect of the CACFP changes, one would like to know what CACFP attendance would have been if the changes had not occurred. The growth pattern in prior years provides some clues but not a clear answer.

Average daily CACFP attendance in family child care homes climbed fairly rapidly during the early 1990s. This trend can be seen in Exhibit 5, which shows for each quarter the percentage change in average daily attendance since the corresponding quarter in the prior

Exhibit 4

Average daily attendance in CACFP family child care homes, fiscal years 1989-98



year. Annual growth rates exceeded 10 percent throughout fiscal years 1990-1992, although the rates fluctuated considerably. Growth rates were in the 5 to 10 percent range in 1993-1995, and have fluctuated between plus and minus 2 percent in fiscal years 1996-1998.

No clear effect of the CACFP changes is apparent. If the CACFP changes had a marked influence on average daily attendance and if no other factors were affecting CACFP attendance, the trend after the fourth quarter of fiscal year 1997 should diverge from the prior trend. To examine that possibility, a trend line was estimated for the period before the CACFP changes were implemented, and projected forward through 1998.¹⁵ The actual observations after the CACFP changes were implemented lie very close to the projected trend line. This does not rule out the possibility that CACFP had some effect that was counteracted by other forces in the child care environment. Nonetheless, the data provide no support for a hypothesis that the CACFP rate changes affected attendance.

Changes in attendance in CACFP homes are determined in part by demographics—that is, increases or decreases in the number of children in the appropriate age range in the United States. Most CACFP children are 1-5 years old (76 percent).¹⁶ Nationally, the number of children aged 1-5 grew at rates of 1.6 to 1.8 percent annually through 1993 and grew more slowly through 1995. The trend turned downward in 1996, and the number of children aged 1-5 declined by slightly less than one percent each year from 1996 to 1998.¹⁷

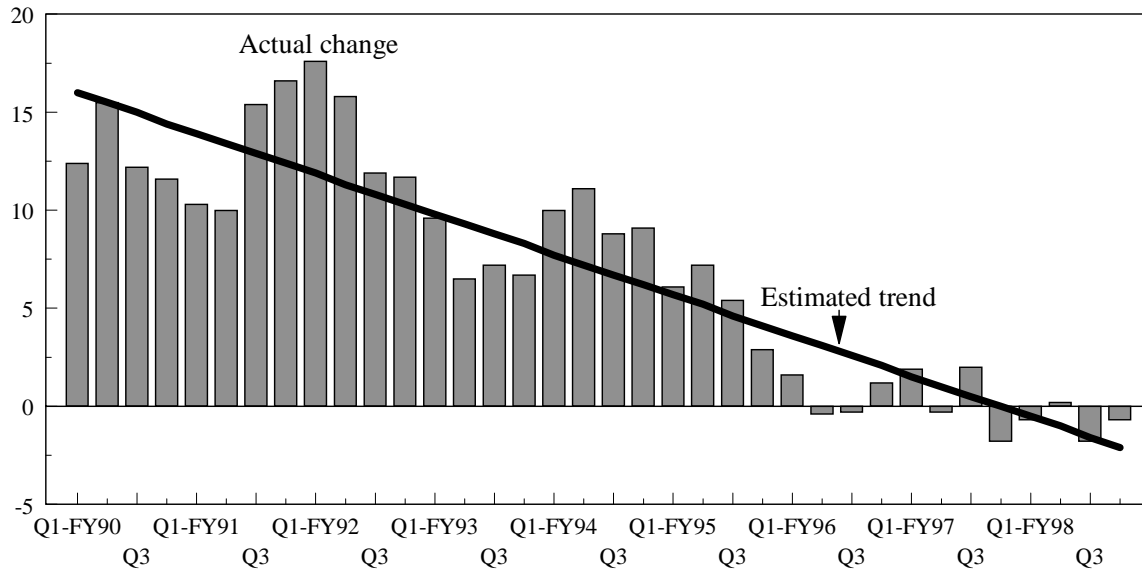
¹⁵ The trend line is estimated for the period Q1 1990 through Q2 1997 using linear regression and extrapolated for the remaining time periods using the regression coefficients.

¹⁶ F. Glantz, *et al.* *Early Childhood and Child Care Study: Profile of Participants in the CACFP*. Alexandria, VA: USDA, Food and Consumer Service, 1996.

¹⁷ Source: U.S. Bureau of the Census, *U.S. Population Estimates by Sex, Race, and Hispanic Origin*.

Exhibit 5

Percent change in average daily attendance from same quarter in previous fiscal year



Measured against the backdrop of the national population aged 1-5, attendance in CACFP family child care homes has scarcely changed at all since 1995. CACFP attendance amounted to 4.9 percent of the children aged 1-5 in 1995 and 5.0 percent in 1996-1998.¹⁸

Numbers of Participating Family Child Care Providers

Because the change in CACFP reimbursements has its most direct effect on providers, the central question is how those changes affected the number of family child care homes participating in the program. About 12,000 fewer family child care homes participated in the CACFP in 1998 than in 1997, a decline of 6.4 percent. The changes to the CACFP reimbursement structure may have contributed to this decline, although it is impossible to be certain.

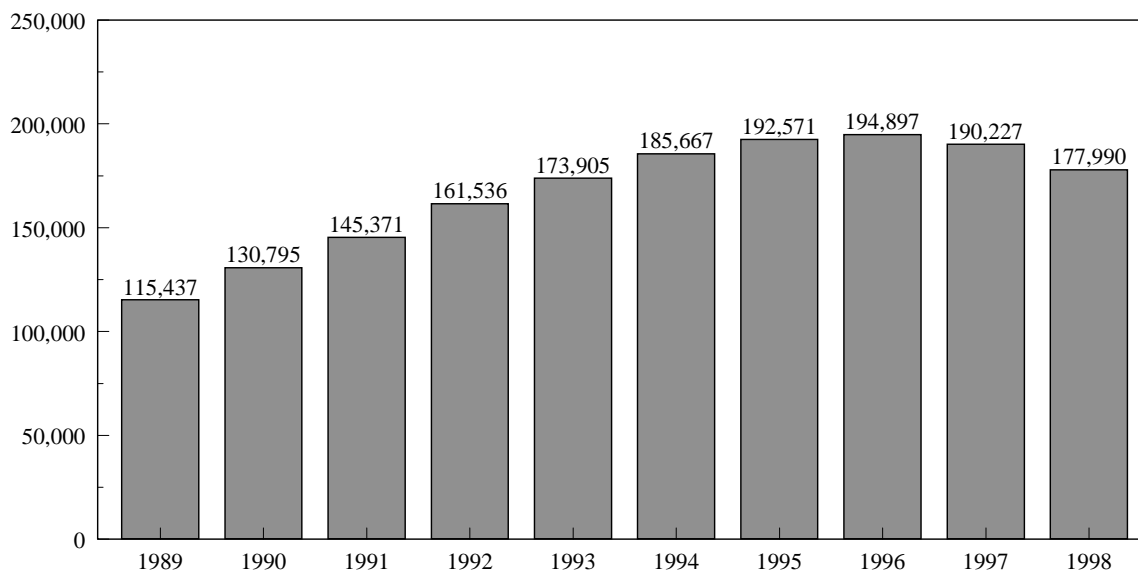
The number of participating CACFP providers, like the number of children, grew strongly in the early 1990s (see Exhibit 6). The growth rate then slowed, and the number of participating providers peaked in 1996 at about 195,000. The subsequent two years saw declines to about 190,000 providers in 1997 and 178,000 in 1998.

The changes in the number of CACFP homes resemble the pattern of changes in average daily attendance, but the number of homes grew a bit more slowly, peaked earlier, and declined more sharply than the number of children. This means that the average number of children under care in each home has generally been rising. In particular, as the number of participating homes dropped in 1998, the average daily CACFP attendance per home rose

¹⁸ These percentages can be used only as an indicator of the influence of demographic trends on CACFP. These percentages cannot be taken as measuring CACFP participation rates, because many children in the general population are not in day care, and hence not potential participants in CACFP, and many CACFP children are not in the 1-5 age range.

Exhibit 6

Average number of family child care homes participating in CACFP, fiscal years 1989-98



from 5.1 to 5.4 from 1997 to 1998, the sharpest rise of the 10-year period. Thus 1998 represented an acceleration of a consolidation trend that had been occurring for the past few years.

The patterns in 1997 and 1998 can be seen more clearly by comparing the number of CACFP homes in each quarter of the year to the number in the comparable quarter of the previous year (see Exhibit 7). Annual growth rates began at a level above 10 percent in the early 1990s and show a fairly steady downward trend throughout the period. The first period in which the number of family child care homes actually shrank (i.e., had negative annual change) was the second quarter of fiscal year 1997. This was before the CACFP changes were implemented but after information about the new rate structure was available to providers.

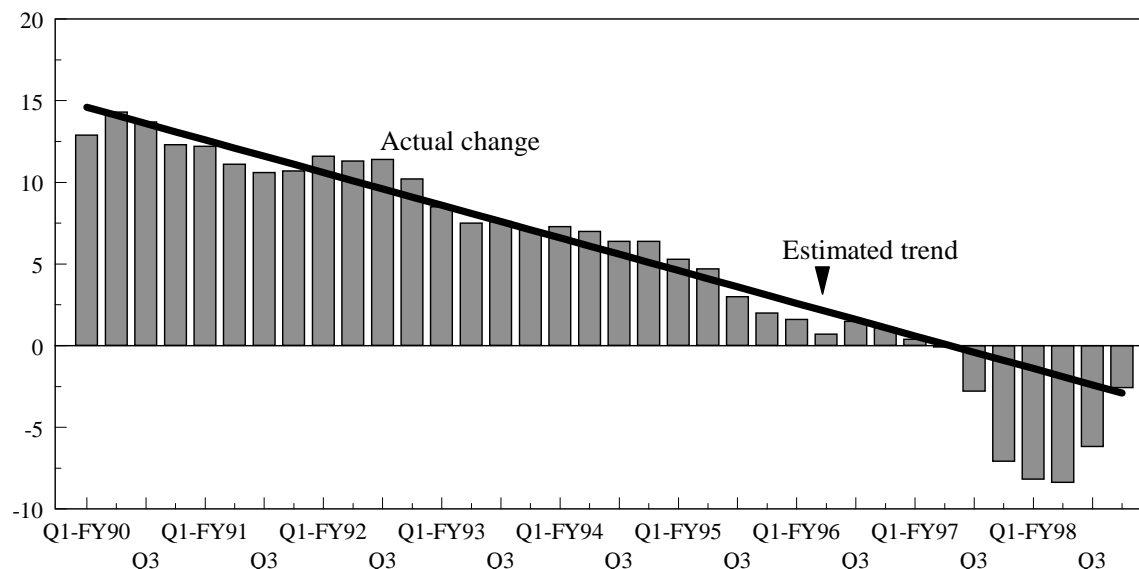
The recent decline in CACFP homes is significantly greater than would be predicted from the prior trend. This pattern is easily seen in Exhibit 7, as the negative changes from the third quarter of fiscal year 1997 through the third quarter of 1998 extend well below the trend line.¹⁹ The effect also is statistically significant in more formal testing.²⁰

19 The trend line is extrapolated based on the period from Q1 1990 through Q2 1997 using linear regression. The observed values in Q4 1997 through Q2 1998 are 6 to 7 percentage points less than the predicted value. In Q3 1997 and Q3 1998, the observed values are about 3 to 4 points less than the predicted value.

20 A linear regression model was estimated using the 36 quarters from 1990 through 1998. The dependent variable, the percent change in number of homes relative to the same quarter in the prior year, was regressed on a time trend variable and a dummy variable set equal to 1 in the five quarters following implementation of the CACFP changes. The coefficient on the dummy variable was -5.1 percent, significant at the .01 level. An alternative specification including the quarter just before implementation of the CACFP changes yields similar results.

Exhibit 7

Percent change in CACFP child care homes from same quarter in previous fiscal year



Possible Reasons for the Recent Decline in CACFP Homes

The significant 1997-1998 decline in the number of participating CACFP homes might stem from the new CACFP meal reimbursement structure, or it might have been caused by other aspects of the child care economic environment that were changing during the same period, as discussed in the Background section (p. 6).

Three factors might have contributed to the 1997-1998 decline in CACFP family child care homes. First, the strong labor market may have led some current or potential providers to choose other employment opportunities rather than child care, reducing the supply of CACFP homes. In support of this hypothesis, data on a sample of former CACFP providers indicate that most had left the child care business, and around half of those had changed to a different job or business (see the later section on Family Child Care Homes Who Leave the CACFP, p. 28). On the other hand, while the labor market improved from 1997 to 1998, the economic trend lines do not show as great a shift in 1998 as the trend in the number of family child care providers.

A second hypothesis is that the decline in CACFP homes reflects a general reduction in the demand for child care. The observed decline in average daily attendance in CACFP family child care homes would be consistent with this hypothesis, but other evidence argues against a general reduction in demand. Total CACFP attendance, including child care centers and family child care homes, increased about 6 percent from 1997 to 1998.²¹ Moreover, general employment growth, welfare reform, and the PRWORA child care provisions are all

21 Source: U.S. Department of Agriculture, *Program Information Report, U.S. Summary*, October 1997 and October 1998.

hypothesized to have increased the demand for child care during this period rather than reducing it.

This raises the third hypothesis—child care demand shifted from licensed family child care homes toward other types of child care. Consistent with this hypothesis, attendance in CACFP centers grew while attendance in CACFP homes was declining. On the other hand, some statistics indicate that the total number of licensed child care homes in the United States grew from 1997 to 1998 (see the next section, p. 22), arguing against the hypothesis of a declining demand for child care in licensed homes. Further, the percentage decline in the number of CACFP homes was considerably larger than the percentage decline in average daily attendance (6 percent vs. 1 percent). Even if a reduction in demand occurred, it does not completely explain the reduction in the number of providers.

In sum, the evidence tends to argue that the 1997-1998 decline in the number of CACFP family child care homes reflected a reduction in the supply of homes rather than the demand for service. Both the strong labor market and the CACFP meal reimbursement changes could have contributed to the decline in homes, but the data do not support a conclusion about how much contribution came from each source.

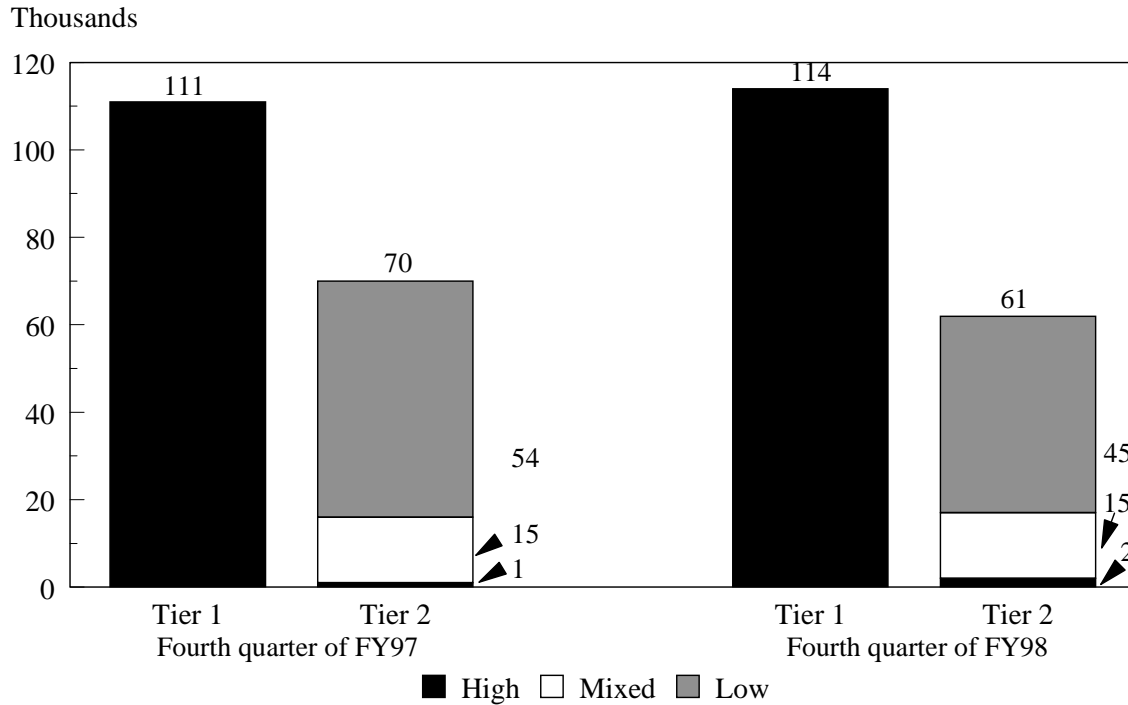
The 1997-1998 reduction in CACFP family child care providers was concentrated among the Tier 2 providers, whose reimbursement rates are lower under the new structure. From the fourth quarter of fiscal year 1997 to the corresponding quarter in 1998, the number of Tier 2 providers dropped 12 percent, while the number of Tier 1 providers actually grew slightly (see Exhibit 8). And among Tier 2 providers, the decline occurred mainly in the group in which meals for all children are reimbursed at the lower level.²²

Again this pattern is consistent with the hypothesis that the changed reimbursement rate contributed to the decline in participating CACFP homes, but again it must be considered as only suggestive evidence. We do not know whether the 1997-1998 patterns are similar to or different from patterns in the years before the CACFP changes were implemented because the distinction between tiers did not exist previously. Moreover, some providers who were classified as Tier 2 in 1997 may have been reclassified by 1998.²³

22 Tier 2 providers may be reimbursed at the higher rate for meals served to children with family incomes below 185 percent of the poverty line.

23 A provider's status might change as a result of a change in income or location. Moreover, if a provider who could legitimately be classified as Tier 1 was initially classified as Tier 2 (for example, if the sponsor did not have the information necessary to support the Tier 1 classification), the provider might supply the requisite information for reclassification. In constructing the sample for provider surveys in the *Family Child Care Homes Legislative Changes Study*, some homes were found to have been reclassified in each direction (from Tier 1 to Tier 2 and from Tier 2 to Tier 1) in a period of a few months.

Exhibit 8
CACFP child care homes by reimbursement tier



Numbers of CACFP Sponsors

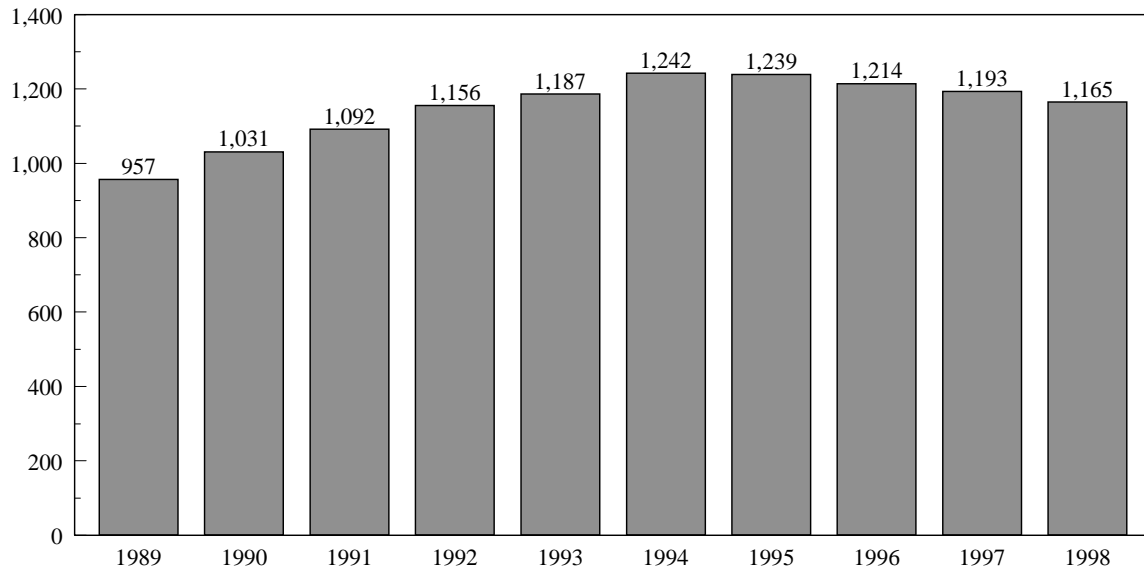
The CACFP changes added to sponsors' administrative duties the responsibility for determining the tier classification of providers and households. Indirectly, to the extent that the changes made the CACFP less attractive to providers, tiering may have increased the difficulties sponsors face in recruiting and maintaining providers. This would affect the sponsors' economic viability, because per-home administrative payments constitute a major source of income for many sponsors.

The national counts of sponsors cannot measure whether sponsors' difficulties have increased, but they do indicate that sponsors have not abandoned the CACFP in substantial numbers. The number of participating sponsors declined from 1,193 in 1997 to 1,165 in 1998. This 2.3 percent reduction is only slightly larger than reductions in the prior two years of 1.8 percent and 2.0 percent.

The overall trend from 1989 through 1998 shows the familiar pattern of growth in the early years, followed by a leveling off and decline toward the end of the period (see Exhibit 9). The total number of CACFP sponsors grew from 957 in 1989 to a peak of 1,242 in 1994 and declined thereafter. The decline in the number of sponsors began not only before the legislative changes were implemented in 1997 but before the legislation was formulated.

Exhibit 9

Average number of sponsors of CACFP family child care homes, fiscal years 1989-98



The number of participating sponsors has consistently grown more slowly than average daily attendance in CACFP child care homes, so the average number of children within the purview of each sponsor has consistently risen (see Exhibit 10). Sponsors' average number of family child care homes also grew for most of the period. In the most recent two years, however, the number of participating homes has shrunk faster than the number of sponsors, leading to a small reduction in the average number of homes per sponsor.

The smaller average number of homes per sponsor has direct consequences for the sponsors' revenues. The average sponsor had 151 family child care homes in the last quarter of fiscal year 1998, which would generate monthly administrative payments of \$9,636. This is 8 percent less revenue than would be generated by 165 homes, which was the average in the second quarter of fiscal year 1997.

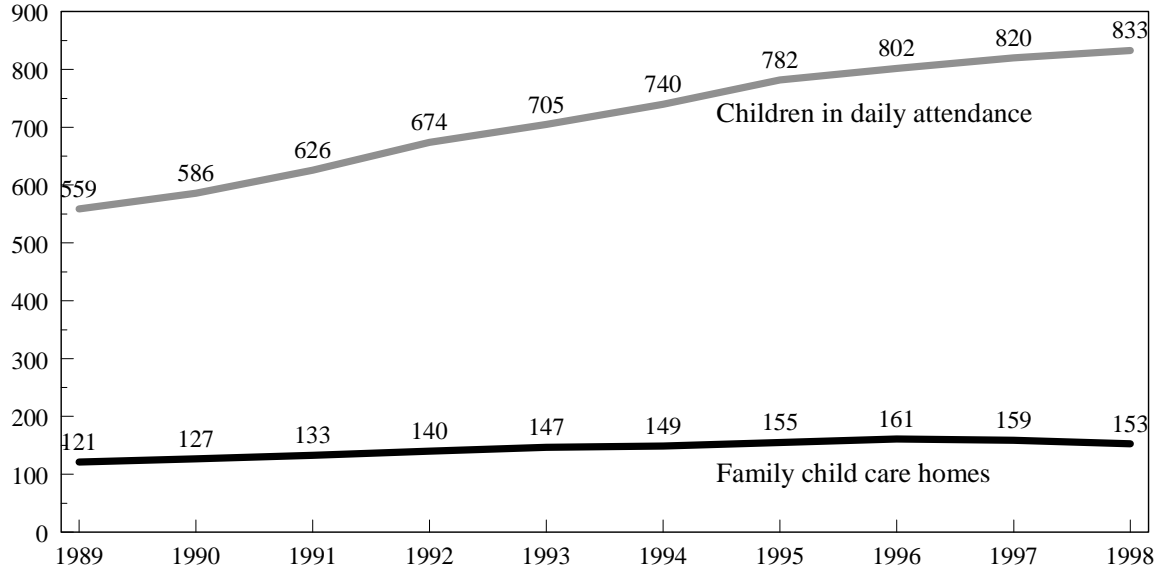
Differences in CACFP Trends Across States

Although the changes to CACFP reimbursements were universal, the participation trends differ from state to state. This may occur because of differences among states in the income level of providers and children in the program. In particular, the effects might be greatest in those states in which the pre-1997 CACFP program contained the highest proportion of providers whose location or income would cause them to be classified as Tier 2.

Exhibit 10

Average number of family child care homes and children in daily attendance per CACFP sponsor

Average number per sponsor



This hypothesis cannot be tested fully because the data available before the new reimbursement structure took effect do not characterize providers by the tiering criteria. It is possible, however, to use as a proxy the Tier 1 and Tier 2 proportions observed when the new procedures were first implemented in the fourth quarter of fiscal year 1997.

States with smaller proportions of Tier 1 homes in 1997 did tend to experience greater losses in CACFP homes between 1997 and 1998. In 1997, 15 states had designated less than half of their CACFP homes as Tier 1. Seven of those states saw the number of participating homes drop by at least 10 percent from 1997-1998, and none experienced an increase. In contrast, of the 20 states where more than three quarters of the homes were Tier 1, only four saw declines of 10 percent or more and the number of homes increased in eight states.²⁴ The geographic patterns of this distribution are shown in Exhibits 11 and 12.

Unlike the changes in numbers of providers, 1997-1998 changes in the number of CACFP sponsors and in average daily attendance are not closely related to the states' proportion of Tier 1 providers.²⁵ The number of sponsors, participating homes, and average daily attendance by state are shown in Appendix B.

24 The correlation between states' proportion of Tier 1 providers and their percent change in total providers from 1997 to 1998 is 0.37, a moderate level of correlation. This supports the visual impression that declines in providers were more likely in states with high proportions of Tier 2 homes. The moderate level of correlation also indicates that other factors were at work in causing the 1997-1998 change to vary across states.

25 The correlation between states' proportion of Tier 1 providers and their percent change in number of sponsors is 0.14. The correlation with CACFP average daily attendance is 0.09. Both are quite low levels of correlation.

Exhibit 11

Percent of CACFP child care homes that are Tier 1, fourth quarter FY97

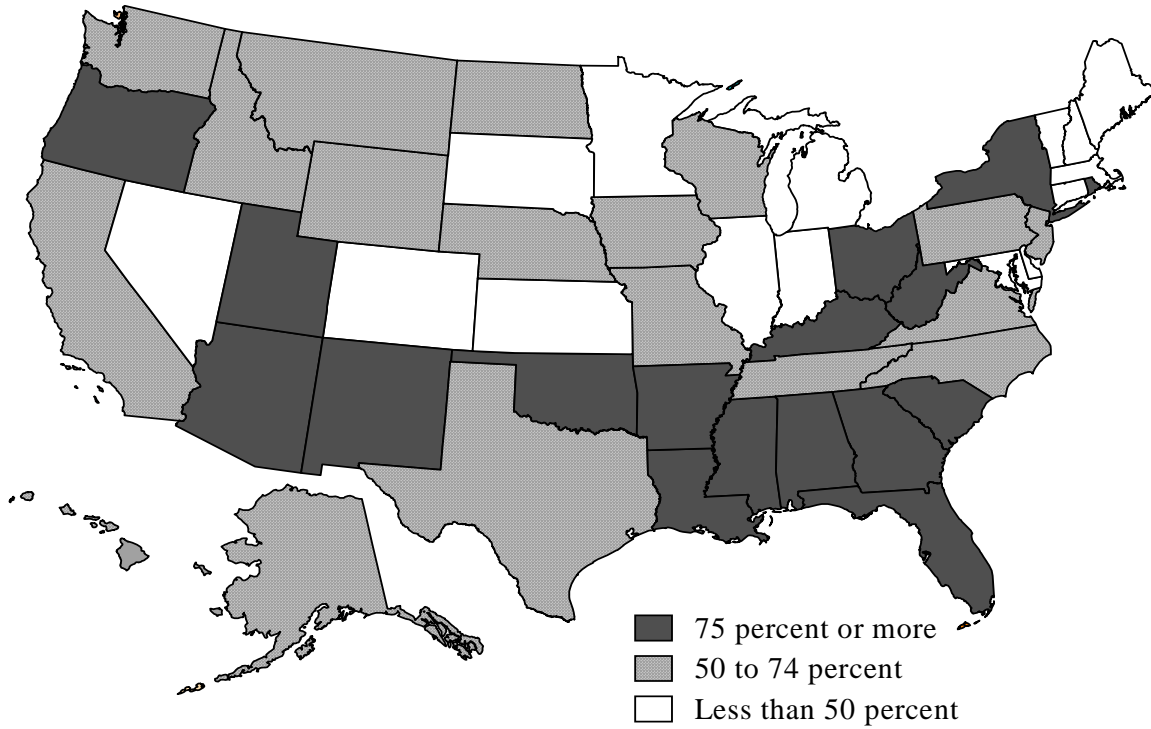


Exhibit 12

Percent change in CACFP child care homes, FY97 to FY98

