

Reimbursement Tiering in the CACFP: Summary Report to Congress on the Family Child Care Homes Legislative Changes Study

Introduction

The Child and Adult Care Food Program (CACFP) is a Federal program that subsidizes 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 low-income areas or operated by low-income persons. The intent of this change to the CACFP was to target program benefits more closely to low-income children.

The law also called for a study of how the new meal reimbursement structure affected the family child care homes participating in the CACFP, their sponsoring organizations, and the children in their care. USDA accordingly contracted with Abt Associates Inc. to carry out the *Family Child Care Homes Legislative Changes Study*. The results of the study are summarized in this report and presented in more detail in a series of five reports. (See References, p. 42, for a list of the other reports.)

The Child and Adult Care Food Program

To promote healthful meals and snacks in child and adult day care facilities, CACFP reimburses providers for qualifying meals served. 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 adult day care centers.¹ Eligibility for the child care portion of the CACFP is generally limited to children age 12 and under. In fiscal year 1999, the child care component of the

¹ As of July 1999, the CACFP has also provided reimbursements for meals and snacks served to eligible children in homeless shelters.

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. CACFP is administered at the Federal level by the USDA Food and Nutrition Service (FNS). State agencies generally oversee the program at the local level; in the case of Virginia, FNS' Mid-Atlantic Regional Office serves this function.

When the CACFP 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 were also 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 public or private 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. The three categories of reimbursement for participating homes corresponded to family incomes of 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.² Family child care providers complained that the means test was overly burdensome and too invasive for their relationship with the few families for whom they each provided child care. In addition, sponsors argued that meal reimbursements were insufficient to cover their administrative costs and still allow adequate reimbursement to the homes.³ As a consequence, very few homes participated in the program—fewer than 12,000 in 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. The three-level reimbursement structure was replaced with a single reimbursement rate for all participants, at a level slightly below the free-meal reimbursement rate in child care centers. In addition, the Amendments separated the reimbursement of sponsors' administrative costs from the meal reimbursement for family child care homes.⁴

The 1978 Amendments provided financial incentives for homes serving higher income children to participate in CACFP and for sponsoring agencies to recruit such homes for the program. Following

² Operationally, income eligibility levels are based on the poverty guidelines issued by the Department of Health and Human Services.

³ 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.

⁴ Other changes included the establishment of alternative procedures for approving homes and the provision of startup and expansion funds for family child care sponsors.

the implementation of these amendments in May 1980, the family child care component of the program began to experience tremendous growth. In June 1980, 17,000 homes participated in CACFP; by March 1981, this number had grown to 43,000. In March 1980, program administrative data showed that most of the children that were served in participating homes were from low-income families; only 32 percent of these children were from families with incomes above 195 percent of the poverty guideline. By January 1982, however, most of the children served in participating homes were from higher income families; 62 percent of the children in participating homes were from families with incomes above 195 percent of the poverty guideline.⁵ The family child care component of the program has continued to grow steadily. In 1995, over 190,000 homes were participating in the program and more than 75 percent of the children served in these homes were from families with incomes above 185 percent of the poverty guideline.⁶

The Legislative Changes Implemented in 1997

In the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, the Congress acted to refocus the family child care component of the CACFP on low-income children. The Act created a two-tier reimbursement structure for the family child care component of the program, which took effect July 1, 1997 (Exhibit 1).

Under the new reimbursement structure, family child care homes designated as Tier 1 have reimbursement rates that are similar to the rates that existed for all family child care homes before PRWORA. Homes located in low-income areas and those in which the provider's own household income is at or below 185 percent of the poverty guideline qualify as Tier 1. A low-income area is defined operationally as either a census block group where at least half of the children live in

Exhibit 1
Meal Reimbursement Rates by Tier, July 1998 - June 1999

Meal	Tier 1 Rate	Tier 2 Rate	Difference between Tier 2 and Tier 1	
			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

Note: Reimbursements are higher in Alaska and Hawaii.

⁵ Glantz, 1983.

⁶ The three reimbursement categories for child care centers had been reset to 130 percent or less, 131 to 185 percent, and above 185 percent of the Federal poverty guideline by the time of this study (Glantz et al., 1997).

families with incomes at or below 185 percent of the Federal poverty guideline,⁷ or 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.

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 still 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.

Tier 2 providers in fiscal year 1999 received CACFP reimbursements that were, on average, 54 percent of the amount that they would have received if they had been classified as Tier 1. The actual reimbursement to a provider depends on the number and types of meals served and, in Tier 2 homes, the number of children qualifying for the higher reimbursement rate. In fiscal year 1999, Tier 2 homes received CACFP meal reimbursements averaging \$177 per month.⁸ Had they been reimbursed at the Tier 1 rates for those same meals, their reimbursements would have averaged \$326 per month.

Changes for Sponsors of Family Child Care Homes

Family child care homes can participate in the CACFP only if they are sponsored by a public or private nonprofit organization that has entered into an agreement with a State agency to administer the program at the local level. Sponsors are responsible for determining that homes meet the CACFP eligibility criteria, for providing training and other support, and for monitoring the homes to make sure that they comply with applicable Federal and State regulations. Sponsors receive and verify the homes' claims for CACFP reimbursement, forward the claims to their State CACFP offices, receive the reimbursements, and distribute the meal reimbursements to the homes. Sponsors are reimbursed for their CACFP administrative activities. The administrative payment is the lowest of four factors: the sponsor's actual costs; a budgeted amount approved by the State; a fixed amount per home based on a rate schedule established nationally; and 30 percent of the combined meal reimbursement to providers and the administrative payment to the sponsor. The national rate schedule for fiscal year 1999 is shown in Exhibit 2. PRWORA did not alter the reimbursement structure or rates for sponsors, although the national rate schedule is adjusted annually for inflation.

⁷ Based on the most recent decennial census, which has been the 1990 census and will become the 2000 census when children's family income tabulations are available.

⁸ This estimate is based on the annual total reported numbers of meal reimbursements of each type multiplied by the applicable reimbursement rate, divided by the total number of participating family child care homes. As noted previously, Tier 2 homes can receive the higher reimbursement rate for meals served to low-income children, and about 11 percent of all meals reimbursed for Tier 2 providers were reimbursed at the Tier 1 rate. The figures shown are based on the reported mix of Tier 1 and Tier 2 reimbursements in Tier 2 homes.

Exhibit 2**Administrative Payments for Family Child Care Home Sponsors, July 1998 - June 1999**

Number of Homes	Monthly Payment per Home
Initial 50 (homes 1-50)	\$76
Next 150 (homes 51-200)	58
Next 800 (homes 201-1,000)	45
All additional (homes 1,001 & over)	40

The legislative changes added new sponsor responsibilities. Sponsors were given primary responsibility for classifying providers as Tier 1 or Tier 2. In addition, for Tier 2 homes seeking reimbursement at the Tier 1 level for individual children, sponsors administer the eligibility determination. Sponsors determine individual child eligibility based on income eligibility forms submitted by parents directly to the sponsor or on other documentation that shows the child is categorically eligible for free meals under federally funded child nutrition programs.⁹ Providers are notified of the number of children approved for the higher reimbursement rates, but are not told the names of the children approved.

The Family Child Care Homes Legislative Changes Study

After mandating changes in the CACFP reimbursement structure, the PRWORA called for a study of the effects of those changes. The Act posed a number of questions about effects on CACFP participating family child care homes, CACFP sponsors, and the children and families served by CACFP 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 completed with the publication of this report.

The *Family Child Care Homes Legislative Changes Study* involved extensive data collection with nationally representative samples of family child care homes, their sponsors, and the parents of children they serve. A multistage sampling approach was used. Twenty States were selected in the first stage. A sample of sponsors was drawn within each of the selected States, and the sampled sponsors provided lists of the family child care homes that they sponsored. A sample of family child care homes was then drawn from the lists. 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.

⁹ Children who are members of households receiving food stamps, Temporary Assistance for Needy Families, or certain other types of assistance are categorically eligible to receive free meals.

Conducted in January-August 1999, the data collection included the following elements:

- A self-administered *survey of family child care sponsors* to learn about procedures through which sponsors implemented the requirements associated with the new tiered reimbursement structure, and the effects of tiering on their operations.
- An *operations survey of family child care providers*, including both current and former CACFP providers, which asks about provider operations and the effects of tiering. Tier 2 providers and former providers also completed a *menu survey* gathering information on meals and snacks offered to children during a 5-day period. For a subsample of Tier 2 providers, *meal observations* conducted by field interviewers measured the portion sizes of food items served on 2 of the 5 days covered by the menu survey.
- A telephone *household survey* obtained information from parents or guardians of children in CACFP homes concerning household income, characteristics, and experiences in the CACFP.

Where possible, data from the surveys above are compared with findings of the 1995 *Early Childhood and Child Care Study*. Many features of the 1999 data collection were modeled on the 1995 surveys, allowing analysis to combine data from the 2 years.

In addition to these primary data sources, some analyses use data from secondary sources. These include: the CACFP administrative systems operated by the Food and Nutrition Service, which provide nationwide data for 1989-99 on CACFP participation and meal reimbursements; a multiyear data series on State licensing policies and numbers of licensed family child care homes, maintained by the Children's Foundation; and economic and demographic data from the U.S. Census Bureau, the Bureau of Labor Statistics, and the Bureau of Economic Analysis.

Because of the complex structure of the study samples, 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 to reflect sampling probabilities. 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 ($p < 0.10$) in the text. Differences that are significant at the 5-percent level or better are simply reported as statistically significant. In tables, three levels of statistical significance are noted, 1 percent, 5 percent, and 10 percent.

Study Limitations

The primary objective of the analyses presented in this report is to understand the effects of the tiered reimbursement structure introduced by the PRWORA. Because tiering was implemented nationwide in July 1997, the best available evidence of tiering's effect is the difference between pre-tiering and post-tiering conditions.

The key limitation of these pre-post comparisons is that one cannot be certain that tiering has caused whatever difference is observed. A pre-post difference could stem from:

- Changes over time in the economic, demographic, and social environment in which CACFP operates;
- Changes over time in the preferences and behaviors of CACFP providers, sponsors, parents, or children; or
- Tiering, which could have two types of effects:
 - CACFP providers and sponsors could use different operating practices in response to the lower Tier 2 reimbursement rate or tiering-related requirements; or
 - The number or composition of CACFP providers, sponsors, or children could change if the lower reimbursement rate or tiering-related requirements leads some kinds of providers or sponsors not to participate in the program.

Given these multiple possible causes and our inability to take many of them into account in the following analyses, all differences (or lack of difference) between CACFP conditions and characteristics before and after tiering cannot be attributed solely to tiering and must be interpreted with caution.