

Tiering's Effect on Provider Operations

The lower meal reimbursement rates for Tier 2 providers caused some providers not to participate in the CACFP who would otherwise have done so. Those Tier 2 providers who continued to participate, or who enrolled after tiering was introduced, faced a different economic situation. The lower meal reimbursements would translate into lower net income from the business unless they could make some adjustment. In principle, they had three options: increasing revenue from non-CACFP sources, reducing costs, or accepting a lower net income.

The analyses summarized below indicate that tiering led to higher average child care fees charged by Tier 2 providers and also to some efforts to limit food expenditures. Higher fees appear to be the more dominant response, although average fees may have increased because of attrition of low-fee providers as well as explicit fee increases. The average reduction in food expenditures appears relatively small, estimated at about \$0.50 per child per day, which probably accounts for the absence of substantial nutritional impacts shown previously. Whether the adjustments to fees and food expenditures were sufficient to offset the reduction in CACFP reimbursements, or whether a substantial proportion of providers experienced a reduction in their net child care income, cannot be determined from the available data.

The analyses are based on a survey of 576 Tier 1 and 595 Tier 2 providers conducted in the spring and summer of 1999, together with a generally comparable survey of 532 CACFP family child care providers of all types in 1995. The surveys asked not only about child care fees and food expenditures, but about general operating characteristics such as the scale and hours of operation and about providers' experiences with and perceptions of the CACFP. The analyses summarized here are presented in full in Zotov et al., E-FAN-02-004.

Child Care Fees

One way that Tier 2 providers could compensate for their lower meal reimbursements was to raise the fees that they charge to parents. The analysis indicates that some providers did indeed adopt this strategy.

The average CACFP provider in 1999 charged \$2.12 per hour for a child in full-time care, as shown in Exhibit 13. This was not significantly different from the average fee charged in 1995, which was \$1.98 before adjusting for inflation and \$2.19 with the adjustment.

Tier 2 providers charged significantly higher fees than Tier 1 providers, with an average difference of \$0.50 per hour. Multivariate analysis indicates that part of this difference occurs because the Tier 1 and Tier 2 providers are located in different kinds of areas, with Tier 2 providers generally located in higher income neighborhoods and higher cost regions of the country. Even taking these factors into

Exhibit 13**Hourly Child Care Fees Charged by CACFP Providers (in 1999 dollars)**

Fee	1995 ^a	1999	Difference 1999-95	1999		Difference Tier 2 - Tier 1
				Tier 1	Tier 2	
Average full-time fee	\$2.19	\$2.12	-\$0.07	\$1.95	\$2.45	\$0.50***
Unweighted sample	331	1,010		475	535	

^a Adjusted for inflation using CPI-U.

Significance levels:

* = 0.10

** = 0.05

*** = 0.01

Source: Provider surveys, 1995 and 1999.

account, however, Tier 2 providers in 1999 reported hourly fees that were \$0.31 higher than the inflation-adjusted fees reported by similar providers in 1995.²⁸

This result is corroborated by parents' reports of the child care fees they pay. Analysis of data from the household survey, controlling for the age of the child and characteristics of the provider's location, showed that fees for children in Tier 2 homes in 1999 were significantly greater than those for children served by similar providers in 1995.²⁹

Survey responses indicate that some Tier 2 providers raised fees as an explicit response to the lower meal reimbursements. Providers who were active in January 1997, 6 months before tiering was implemented, were asked whether they had changed their fees between that date and the time of the survey, which occurred in the summer of 1999. About 43 percent of providers in both Tier 1 and

²⁸ Explanatory variables in the regression analysis included year (1995 or 1999), an indicator for Tier 2 in 1999, the percent of low-income children in the census block group in 1990, urban/rural, geographic region (using the four census regions), and whether any children in the provider's care received subsidies. Only the Tier 2 interaction term and the location variables were statistically significant. The R-squared was 0.319. A weighted regression model was estimated using SUDAAN software (Zotov et al., E-FAN-02-004).

²⁹ The mean hourly fee for a single child in care in 1999 was reported as \$2.17, not significantly different from the inflation-adjusted 1995 average of \$2.19. The regression model included: year, an indicator for Tier 2 in 1999, child age (0-2, 3-5, 6-12), full-time vs. part-time care, household income relative to the poverty guideline, the percent of low-income children in the census block group in 1990, the percent of the census block group in an urbanized area, and census region. Households whose child care fees were subsidized by other government programs were excluded from the analysis. The estimated effect of tiering was \$0.59, a statistically significant effect that is not significantly different from the estimate of \$0.31 from the provider model. A weighted regression model was estimated using SUDAAN software (Crepinsek et al., E-FAN-02-005).

Tier 2 said they had raised their fees for reasons typically related to increased costs but not specifically connected to CACFP reimbursements. An additional 15 percent of Tier 2 providers (and less than 1 percent of Tier 1 providers) had raised fees and explicitly cited lower meal reimbursements as a reason.

Child care fees may have increased not only because some providers took action to raise them, but also because of selective CACFP participation. The number of Tier 2 providers in the CACFP declined after tiering was introduced. It is quite possible that the shrinkage was disproportionately concentrated in providers who charged below-average fees. The lower CACFP reimbursements would put greater pressure on such providers, and if they were operating in markets where they felt they could not raise fees, they would have a greater incentive to leave the child care business, or less incentive to enter the field. Although it is theoretically likely that selective attrition occurred, the data offer no direct evidence on the point.

Food Expenditures

Another possible response to lower CACFP reimbursements would be to reduce operating costs. Food expenditures, which generally represent the largest day-to-day expenditure for providers, would be an obvious target for cost savings.

CACFP providers reported spending an average of \$104 per week on food for meals and snacks served to the children in their care in 1999. Tier 2 providers spent less, on average, than Tier 1 providers. Controlling for factors such as the number of children and meals served and characteristics of the provider's location, Tier 2 providers reported spending an estimated \$16 less per week than Tier 1 providers.³⁰

Up to 14 percent of Tier 2 providers may have adjusted to the lower reimbursement rates by reducing their spending on food, while others may have fended off inflationary increases by switching to more economical purchasing strategies. Providers who had been active since January 1997 were asked whether their food expenditures had increased or decreased over that period. About two-thirds of providers in both Tier 1 and Tier 2 reported that expenditures had increased, the expected result of modest inflation over the 2½ years.³¹ Only a small fraction of providers (12 percent of the total) said that their food expenditures had declined, but significantly more Tier 2 than Tier 1 providers gave this response. And among those who said their food expenditures had not changed in spite of inflation, Tier 2 providers were more likely to mention purchasing strategies such as buying food on sale, buying generic brands, and buying in bulk.

³⁰ Data on food expenditures are available only in the 1999 survey. The regression model included: tier, variables indicating the number of children to whom each meal is served over the week (e.g., the number of days breakfast is served times the average daily attendance), the presence of any children whose fees are subsidized, urban/rural, geographic region (indicators for Northeast, South, and West), and the percent of low-income children in the census block group. The model, fit as a weighted regression using SUDAAN, had an R-squared of 0.336.

³¹ The CPI-U rose 4.5 percent from January 1997 to June 1999.

Curbing food expenditures appears to be a less important part of the response to tiering than raising fees. An increment of \$0.31 in hourly fees would amount to \$11 per week for a child in care for 36 hours during the week. A savings of \$15 in weekly food expenditures would amount to about \$2 per child, assuming average daily attendance of 6.5 children. Although these estimates are not fully comparable and have wide confidence intervals, they suggest that the fees provided a greater part of the economic response than the food expenditures.

Other Operating Adjustments

Apart from raising fees or cutting food expenditures, Tier 2 providers might have attempted to increase their net child care revenue by enrolling more children or operating for longer hours. The data suggest that neither of these responses occurred at a discernible level.

CACFP providers in the 1999 survey reported having 6.5 children in attendance, on average (Exhibit 14). They operated an average of 11 hours daily. Most provided care for a 5-day week (78 percent), but about a fifth operated at least 6 days weekly.

Average attendance and enrollment were not significantly different in 1999 from the levels reported in 1995, and levels for Tier 1 and Tier 2 homes were statistically indistinguishable. Significantly more providers in 1999 reported operating more than 5 days per week, however, and a small increase in average daily operating hours was also observed ($p < 0.10$). Although increased operating hours would be a possible response to lower meal reimbursements, the longer days and workweeks are

Exhibit 14

Operating Scale and Schedules of the CACFP Family Day Care Homes in 1995 and 1999

	1995	1999	Difference 1999-95	1999		Difference Tier 2 - Tier 1
	Total	Total		Tier 1	Tier 2	
Operating scale—average (mean) number of:						
Children attending	7.0	6.5	-0.5	6.5	6.7	0.2
Children enrolled	8.3	8.1	-0.2	7.7	8.9	1.2
Hours of operation	10.7	11.1	0.4*	11.2	10.8	-0.4
Days of Operation— percent of providers operating:						
5 days (Monday-Friday)	86.7%	77.8%	-8.8%**	72.1%	89.5%	17.4%***
5 weekdays plus some weekend	9.9	19.0	9.2***	25.0	6.7	-18.3***
Unweighted sample	510	1,154		564	590	

Significance levels:

* = 0.10

** = 0.05

*** = 0.01

Source: Provider surveys, 1995 and 1999.

concentrated among the Tier 1 rather than the Tier 2 providers. This suggests that the profile of provider operating characteristics was shifting as a response to consumer demand rather than a response to tiering.

CACFP Experiences and Perceptions

Although tiering's most obvious effect on providers was the reduced reimbursement level, it also affected some of the program's administrative operations. For example, providers applying for CACFP participation now have to supply the information necessary to determine their appropriate tier. Tier 2 providers, if they wish to be reimbursed at the higher rate for low-income children in their care, must distribute (or have the sponsor distribute) income eligibility forms, which the parents must complete and send to the sponsor.

These requirements do not appear to have created substantial differences in the CACFP experiences of Tier 1 and Tier 2 providers, nor between providers in 1999 and those in 1995. Tier 1 providers tended to report going to slightly more training sessions and receiving slightly more home visits from their sponsors than Tier 2 providers. This appears to reflect differences in the providers' interests and experience since the administrative requirements were not greater for Tier 1 than Tier 2 providers.

Tiering seems to have led to more negative provider perceptions of the CACFP, however. Fully 65 percent of Tier 2 providers find the meal reimbursement rates "not very satisfactory" or "not at all satisfactory," compared with 12 percent of Tier 1 providers and just 6 percent of all providers in 1995 (Exhibit 15).

Exhibit 15
Providers' Satisfaction with CACFP Reimbursement Rates in 1995 and 1999

Response	1995 All	1999 All	Difference 1999-95	1999		1999 Difference Tier 2 - Tier 1
				Tier 1	Tier 2	
Very satisfactory	53.3%	28.3%	-25.0%***	39.4%	5.9%	-33.5%***
Somewhat satisfactory	41.1	41.9	-0.8	48.3	29.0	-19.3***
Not very satisfactory	5.1	19.5	14.4***	10.7	37.1	26.4***
Not at all satisfactory	.5	10.3	9.8***	1.6	28.0	26.4***
Unweighted sample	492	1,147		559	588	

Significance levels:

* = 0.10

** = 0.05

*** = 0.01

Source: Provider surveys, 1995 and 1999.