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Reimbursement Tiering in the CACFP: Summary Report to Congress on the Family Child Care Homes Legislative Changes Study. William L. Hamilton, Nancy R. Burstein, and Mary Kay Crepinsek of Abt Associates Inc. for the U.S. Department of Agriculture, Economic Research Service, under contract number 53-3198-7-016 funded by ERS' Food Assistance and Nutrition Research Program and the Food and Nutrition Service, Food Assistance and Nutrition Research Report No. 22.

Abstract

The introduction of tiered reimbursement rates in the Child and Adult Care Food Program (CACFP) concentrated program benefits more intensely on low-income children, as intended. Tiering reduced the number of family child care homes participating in the program, but did not alter the number or nutritional quality of meals offered by participating providers. The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 mandated the tiered reimbursement structure and called for a study of its effects on program participation and on meals offered to children. Data were collected during the spring and summer of 1999 from nationally representative samples of participating family child care homes, their sponsors, and the parents of the children they served. This report summarizes the results of the study.

Keywords: Child and Adult Care Food Program, CACFP, child care, food assistance, meal reimbursement tiering, nutrition, welfare reform

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Contact for further information

ERS' contract representative on this study is Linda Ghelfi. For further information, e-mail her at lghelfi@ers.usda.gov; write to her at ERS-FRED-Room 2081, 1800 M Street NW, Washington, DC 20036-5831; or call her at (202) 694-5437.

Contents

Executive Summary	iv
Introduction	1
The Child and Adult Care Food Program	1
The Legislative Changes Implemented in 1997	3
Changes for Sponsors of Family Child Care Homes	4
The Family Child Care Homes Legislative Changes Study	5
Study Limitations	7
Tiering’s Effects on Program Targeting	8
Allocation of CACFP Reimbursement Expenditures by Income Category	8
Changes in the Composition of CACFP Participants	10
Targeting Efficiency of the Tiering Mechanism	11
Tiering’s Effect on the Number of CACFP Family Child Care Homes	13
The Number of CACFP Family Child Care Homes	13
Sources of the Tiering-Related Reduction in CACFP Homes	15
Consequences for CACFP Attendance	17
Tiering’s Effect on Nutritional Aspects of CACFP Tier 2 Meals	20
Meals and Snacks Offered	21
Compliance with Meal Component Requirements	22
Nutrient Composition of Meals and Snacks Offered	24
Tiering’s Effect on Provider Operations	27
Child Care Fees	27
Food Expenditures	29
Other Operating Adjustments	30
CACFP Experiences and Perceptions	31
Tiering’s Effect on CACFP Sponsors	32
Number and Size of Participating Sponsors	33
Administrative Effort	34
Recruiting Providers	36
Tiering’s Effect on the Number of Licensed Child Care Homes	37
Trends in Numbers of Licensed Homes	38
Conclusion	40
References	42

Executive Summary

The introduction of tiered reimbursement rates in the Child and Adult Care Food Program (CACFP) concentrated program benefits more intensely on low-income children, as intended. Tiering reduced the number of family child care homes participating in the program, but did not alter the number or nutritional quality of meals offered by participating providers. The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 mandated the tiered reimbursement structure and called for a study of its effects on program participation and on meals offered to children. Data were collected during the spring and summer of 1999 from nationally representative samples of participating family child care homes, their sponsors, and the parents of the children they served. This report summarizes the results of the study.

The CACFP and Tiering

The CACFP is a Federal program, administered by the U.S. Department of Agriculture (USDA), that subsidizes meals and snacks in participating child care and adult day care facilities. Providers of care are reimbursed a fixed amount for each qualifying meal they serve.

Seeking to focus CACFP benefits more narrowly on low-income children, the Personal Responsibility and Work Opportunity Reconciliation Act (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 guideline 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. Tier 2 homes receive lower reimbursements, although they can be reimbursed at Tier 1 rates for meals served to children whose household income is at or below 185 percent of the poverty guideline.

Tiering cut meal reimbursements almost in half for those providers classified as Tier 2. 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.

Family child care homes participating in the CACFP must be 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 ensuring that providers meet CACFP requirements and serve as a conduit for reimbursements to providers. With the introduction of tiering, sponsors became responsible for classifying providers as Tier 1 or Tier 2. Sponsors were also given the responsibility of verifying children's household income, upon request of any Tier 2 provider wishing to be reimbursed at Tier 1 rates for meals served to low-income children. Sponsors' administrative costs are reimbursed under rules that did not change with the introduction of tiering.

The Family Child Care Homes Legislative Changes Study

The PRWORA called for a study of the effects of CACFP tiering and its associated requirements on participating family child care homes, sponsors, and the children and families served by CACFP homes. The *Family Child Care Homes Legislative Changes Study* collected data in the spring and summer of 1999 from nationally representative samples of family child care homes, their sponsors, and the parents of children they serve. Data collection occurred in 20 States and included 268 CACFP sponsors, 576 Tier 1 and 595 Tier 2 homes, and 1,200 parents or guardians of children served in Tier 1 (576) and Tier 2 (624) homes. In addition, 1,971 former CACFP providers—providers who were participating as CACFP homes in January 1997 but not in January 1998—were tracked to determine whether they currently provide child care and their reasons for leaving the CACFP.

Where possible, data from the surveys above are compared with findings of the 1995 *Early Childhood and Child Care Study*. In addition, some analyses use data from secondary sources. These include the CACFP administrative systems operated by the Food and Nutrition Service (FNS), 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; and economic and demographic data from the Bureau of the Census, the Bureau of Labor Statistics, and the Bureau of Economic Analysis.

Because tiering was implemented nationwide at a single point in time (July 1997), the study examines the effect of tiering by comparing conditions before and after that date. In survey-based analyses, pre-post differences are represented by the difference between the 1995 and 1999 survey results. Differences over this time period may result from factors unrelated to tiering—such as the strong economy, changes in the child care industry, or changing dietary patterns—as well as from tiering.

The family child care homes component of the CACFP became substantially more focused on low-income children after tiering was introduced.

In 1995, just 21 percent of CACFP meal reimbursement dollars were for meals served to children with household incomes at or below 185 percent of the Federal poverty guideline. That figure more than doubled, to 45 percent, by 1999. The reallocation of dollars results from three factors:

- The number of low-income children served by CACFP homes grew by 165,000 (80 percent);
- The number of higher income children fell by 174,000 (23 percent); and
- Meals for nearly all low-income children were reimbursed at the higher rate, while meals for 42 percent of higher income children were reimbursed at the lower Tier 2 rate.

Tiering reduced the number of family child care homes participating in the CACFP.

Tiering substantially reduced the financial incentive for Tier 2 providers to participate in the CACFP. Program administrative data show that the number of CACFP family child care homes declined by 10 percent from 1996 to 1999. Although factors other than tiering might arguably have caused a decline, projections based on economic and demographic trends alone indicate that the number of homes would have grown slightly over this period. The study estimates that the number of participating CACFP homes in 1999 was about 14 percent less than it would have been in the absence of tiering.

Tiering might reduce the number of CACFP homes by inducing some CACFP providers to exit the program earlier than they would otherwise have done, by deterring some non-CACFP providers who would otherwise have enrolled, or both. A survey of former CACFP providers who left the program between January 1997 and January 1998 suggests that tiering was the deciding factor for some exiting providers, but not a large proportion. The deterrence of new enrollments may have been equally or more important, but the study provides no direct information on providers who never entered the CACFP.

The decline in CACFP homes was accompanied by a much smaller decline in attendance.

Attendance in CACFP homes grew at annual rates exceeding 10 percent in the early 1990s. Total attendance changed relatively little from 1995 to 1999, however, with increases of 1 percent or less in 1996 and 1997 and then decreases of similar magnitude in 1998 and 1999. The extent to which tiering influenced this trend is not clear.

Tiering did not lead to deterioration in the number or nutritional quality of meals and snacks offered to children in Tier 2 CACFP homes.

CACFP meal reimbursements and program requirements regarding the characteristics of a reimbursable meal or snack are intended to motivate and enable providers to offer healthful food to the children in their care. A key question following the introduction of tiering was whether, with the lower Tier 2 reimbursements, providers would offer fewer or less nutritionally appropriate meals or snacks.

The study found no evidence of a tiering-related decline in the nutritional package offered to children in Tier 2 homes. The analysis compared Tier 2 providers in 1999 to similar providers in 1995 by controlling for two of the three provider characteristics used in tier classification (the provider's household income relative to the Federal poverty guideline, and the percent of children in the provider's census block group with household incomes at or below 185 percent of poverty).

Key findings are:

- Tier 2 providers in 1999 offered essentially the same pattern of meals and snacks as their counterparts in 1995. Breakfast, lunch, and afternoon snack were each offered by more than 90 percent of providers. More than half offered a morning snack, while relatively small proportions offered supper or an evening snack.
- The vast majority of meals and snacks offered by Tier 2 providers in 1999 contained the meal components required by program regulations. (The four components included in CACFP meal pattern requirements are milk; fruit, vegetables, and juice; bread and bread alternates such as cereal; and meat and meat alternates such as cheese or eggs. Regulations specify which components must be included in each meal and snack.) Compliance rates for all meals and snacks in 1999 were equal to or better than those for similar providers in 1995.
- The analysis examined the percent of the *Recommended Dietary Allowances* (RDAs) for food energy and five nutrients (protein, vitamin A, vitamin C, calcium, and iron) offered in breakfasts, lunches, and morning and afternoon snacks.¹ Although no nutrient standards have been established for the CACFP, standards for the National School Lunch and School Breakfast Programs offer useful benchmarks. These standards specify that breakfast should provide one-fourth of the RDA for these nutrients and that lunch should provide one-third of the RDA. No standards have been established for snacks.

Across all of these dietary elements, the meals and snacks offered by Tier 2 providers in 1999 typically contained similar or greater percentages of the RDA than meals and snacks offered by similar providers in 1995. Breakfasts offered more than one-fourth of the RDA for all five nutrients and lunches offered more than one-third of all but iron.

Both breakfasts and lunches fell somewhat short of the target percent of the RDA for food energy. Tier 2 providers in 1999 offered significantly more food energy at both meals than similar providers in 1995, moving closer to the standard. Tier 2 providers in 1999 tended to offer larger portion sizes than those offered by similar providers in 1995, leading to significantly higher average levels of food energy in 1999 for all meals and snacks examined.

- Tier 2 breakfasts and morning and afternoon snacks generally fell within recommended ranges of the percent of food energy derived from total fat and carbohydrate and for levels of cholesterol and sodium.² Lunches typically did not meet any of the benchmarks for these nutrient measures except that for cholesterol. These patterns were essentially the same for Tier 2 providers in 1999 as for similar providers in 1995.

¹ Nutritional characteristics of suppers and evening snacks were not examined.

² The CACFP has no requirements regarding these aspects of the nutrient profile. Study benchmarks are based on current *Dietary Guidelines for Americans* and recommendations of the National Research Council. Benchmarks for cholesterol and sodium assume that no more than one-fourth of the daily maximum should be offered at breakfast, and one-third at lunch. No maximum amount for cholesterol or sodium is assumed for snacks.

- Relatively few statistically significant differences were observed between 1995 and 1999 in the number or types of food served. At lunch, Tier 2 providers in 1999 more frequently offered high-sodium condiments and foods, such as ketchup, hot dogs, processed cheese, and breaded fried chicken or fish, than similar providers did in 1995. Among other significant differences, some could be consistent with a hypothesis that providers were trying to control food costs, such as a reduction in the proportion of breakfasts including a meat or meat alternate (which is optional under CACFP regulations). Other differences would be contrary to that hypothesis, such as an increase in the proportion of lunches including fresh fruit.

Tier 2 providers raised child care fees and contained their food expenditures.

Average child care fees were higher for Tier 2 providers in 1999 than for similar providers in 1995 by about \$0.31 per hour, or \$11 per week for a child in care for 36 hours. Tier 2 providers' food expenditures were about \$2 lower per child per week than would be projected based on characteristics of their operations and location.³

These differences could reflect deliberate provider responses to the lower revenue from meal reimbursements. They could also result from selective attrition, with economic pressures driving out (or preventing entry by) Tier 2 providers who operated in markets that would not support higher fees or lower expenditures. Some Tier 2 providers reported in surveys that they had raised fees or reduced food expenditures specifically because of limited meal reimbursements, but the proportions giving these responses were relatively small (around 15 percent). No direct evidence of selective attrition is available, but it would be reasonable to believe that the observed reduction in the number of CACFP homes was concentrated among the providers whose economic situation was least favorable.

In theory, providers might also have responded to tiering by changing their operations. For example, they might seek to increase their revenue by enrolling more children or by operating for more hours per day or more days per week. No statistically significant tiering effects were observed on these dimensions. Providers in 1999 operated for somewhat more hours per day and days per week, but the increase was concentrated in Tier 1 rather than Tier 2 homes.

³ Food expenditure data are not available for 1995. The analysis compares Tier 1 and Tier 2 providers in 1999, controlling for operating characteristics (e.g., which meals are served) and characteristics of the location (e.g., percent of low-income children).

Tiering has added challenges for CACFP sponsors, but it has not led to a substantial decline in the number of sponsors.

With the introduction of tiering, sponsors became responsible for classifying homes as Tier 1 or Tier 2; determining the eligibility of children in Tier 2 homes for reimbursement at Tier 1 rates (if requested by the provider); and, for Tier 2 providers with some children reimbursed at Tier 1 rates, determining each month the number of meals to be reimbursed at each rate. To the extent that it reduced providers' incentive to participate in the CACFP, tiering would also be expected to make it more difficult for sponsors to recruit and retain providers. If the added administrative responsibility and recruitment difficulty led to higher per-provider operating costs, the economic pressures on sponsors may have increased.

Most sponsors surveyed said that the staff hours devoted to CACFP increased after tiering was introduced. In addition to time allocated to the new tiering tasks, sponsors reported that they had stepped up training, monitoring visits, and recruiting. The most common reasons for increased training and monitoring were to explain the details of tiering and to bolster recruitment and retention efforts by offering a higher level of services to providers. Sponsors said they stepped up recruitment because attracting new homes was more difficult and because of intensified competition from other sponsors.

The sponsor survey responses are consistent with the expectation that tiering would increase per-provider costs. No information is available on the actual dollar value of the increase, or how the total level of CACFP-related costs compares to the sponsors' CACFP administrative cost reimbursements.

The number of CACFP sponsors peaked in 1994-95 and declined slightly in each subsequent year. A 3.6-percent decrease occurred from 1997 to 1999. This was essentially the same as the 3.7-percent decrease in the 2 prior years, suggesting that tiering did not have a substantial effect on the number of participating sponsors.

Tiering had little effect on the total number of licensed family child care homes.

States seek to ensure the health and safety of child care facilities by requiring all or certain classes of family child care homes to be licensed, certified, or registered (terminology and licensing policies vary from State to State). Homes must meet the applicable State requirements in order to participate in the CACFP. CACFP benefits—particularly the meal reimbursements—have therefore been seen as a major incentive for homes to become licensed.

After declining 2 percent from 1995 to 1997, the total number of licensed homes in the United States increased by 4 percent from 1997 to 1999. In that 1997-99 period, the number of CACFP homes fell by 8 percent. Although one cannot rule out the possibility that the number of licensed homes would have grown even more in the absence of tiering, the national trend does not indicate a negative impact. State-level data suggest that tiering may have contributed to a decline in licensed homes in some States, but that any role of tiering was not dominant or pervasive.