

Households with Children in CACFP Child Care Homes: Effects of Meal Reimbursement Tiering

Introduction

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 low-income areas or operated by low-income persons. The intent of these changes to the CACFP was to target program benefits mainly to low-income children.

The law also called for a study of how the new meal reimbursement structure affected CACFP family child care homes, their sponsoring organizations, and the families of children participating in the program. This report specifically addresses issues related to the children cared for in CACFP family child care homes and their families. It describes the effectiveness of reimbursement tiering on income targeting of CACFP participation and benefits, characteristics of participating children, and households' CACFP child care experience. 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.¹

Description of the Child and Adult Care Food Program

The CACFP reimburses child care providers for qualifying meals served. The program operates in nonresidential day care facilities including child care centers, after-school-hours child care centers,

¹ Other reports in the series include a summary report (Hamilton *et al.*, FANRR-22) and examinations of the effect of tiering on sponsors (Bernstein and Hamilton, E-FAN-02-003), participating providers (Zotov *et al.*, E-FAN-02-004), nutritional aspects of CACFP meals (Crepinsek *et al.*, E-FAN-02-006), and trends in the number of providers participating in the CACFP (Hamilton *et al.*, E-FAN-02-002).

family and group child care homes, and some adult day care centers.² 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 an annual 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 (FNS), an agency of USDA. State agencies generally oversee the program at the local level.

From its inception, the goal of CACFP has been to ensure that low-income children in child care would receive nutritious meals. 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 existing State licensing requirements or, in the absence of licensing or certification procedures, 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.³ Providers complained that the means test was overly burdensome and too invasive for their relationship with the families for whom they provided child care. In addition, sponsors claimed that meal reimbursements were insufficient to cover their administrative costs and still allow for adequate reimbursement to the homes.⁴ 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. In addition, the amendments separated the reimbursement of sponsors' administrative costs from the meal reimbursement for family child care homes.⁵

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 higher-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

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

³ Three categories of reimbursement were established for participating homes, corresponding to family incomes of participating children 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.

⁴ 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.

⁵ Other changes included the establishment of alternative procedures for approving homes and the provision of startup and expansion funds for family child care sponsors. Also, income eligibility thresholds for child care centers were changed from 125 and 195 percent of the poverty guideline to 130 and 185 percent.

children served in these homes were from families with incomes above 185 percent of the Federal poverty guideline.⁶

The Legislative Changes Implemented in 1997

As part of the PRWORA, the Congress acted to refocus the family child care component of the CACFP on low-income children. PRWORA 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.

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 the 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 area in which at least half of the children live in households with incomes at or below 185 percent of the poverty guideline. 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 any of these criteria are referred to 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.

The new reimbursement structure set CACFP reimbursement rates for Tier 2 family child care homes at about half the Tier 1 level. In fiscal year 1999, Tier 2 homes received meal reimbursements averaging \$177 per month (including those meals for low-income children that were 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.

Hypotheses Regarding the Effect of Tiering on Children and Families

The impetus for the changes in the family child care component of the CACFP included in the welfare reform legislation was the rising proportion of participating children from higher-income families (that is, families with incomes above 185 percent of the poverty guideline). The experience of providers and sponsors in the late 1970s suggested that means testing of individual children was not a feasible basis for determining meal reimbursements and might severely reduce program participation rates. Thus, tiering was instituted as an alternative to the household means test. In theory, information about the provider's income relative to Federal poverty guidelines or the poverty status of the provider's geographical location would be a rough guide to the income level of children in the provider's care. Reimbursement rates were then reduced for providers unlikely to be caring for low-income children. A primary question to be addressed in this report is, "How well is this approximation working to refocus CACFP benefits to low-income children?"

⁶ Glantz *et al.*, 1997.

Secondary issues relate to the potential effects on participating children and families that might result from the responses of providers and sponsors to tiering. The new CACFP meal reimbursement structure changed one aspect of the economics of family child care homes. Those homes participating in the CACFP that became classified as Tier 2 received substantially smaller CACFP reimbursements than they would have received at the Tier 1 rates. Unless the providers could raise fees or cut costs, the lower revenue would translate into a lower net income from the business. Higher fees, fewer meals or snacks, and longer operating hours have all been suggested as possible responses of providers who receive the lower levels of meal reimbursements. Each of these would affect the families of children in care with these providers and is addressed in this report. The question of whether the reduction in reimbursements for Tier 2 providers would ultimately affect the nutritional adequacy or quality of meals served to children in family child care homes is also important and is addressed in a separate report (Crepinsek *et al.*, E-FAN-02-006).

Finally, prior to the PRWORA, a child's participation in the CACFP did not require any special actions on the part of the parents. However, as described above, the legislative changes do provide for individual means testing of families in Tier 2 homes if the provider requests it. Parents of children may be asked, by either their provider or the provider's sponsor, to complete an income verification form and return it to the provider's sponsoring organization. This study examines the extent to which this provision is being implemented, whether parents are cooperating, and, if not, their reasons for not doing so.

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. A number of specific questions were posed 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 involved extensive data collection with 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 family child care homes they sponsor. A sample of family child care homes was then drawn from each sponsor's list. 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 is described in more detail in Appendix A.

A telephone household survey of the parents of children served by CACFP family child care homes was conducted during May-September 1999. The survey obtained information on household income and composition, the number of children in care and the hours of child care, characteristics of the children and household, and whether an application for Tier 1 reimbursement was completed. (Appendix B contains a copy of the survey instrument.) The survey sample included 1,298 eligible households, of whom 1,200 completed an interview.

The household survey is the primary data source used in this report. Many of the analyses combine data from the 1999 household survey with data from a parallel survey conducted in 1995 as part of the *Early Childhood and Child Care Study*. Because the sampling approach and the content of the two surveys are quite similar, it is possible to compare 1999 and 1995 data to gain insights into the effect of tiering.

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.