

Family Child Care Home Participation in the CACFP: Effects of Reimbursement Tiering

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 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 CACFP changes affected the family child care homes, their sponsoring organizations, and the families of children cared for by the participating providers. The resulting *Family Child Care Homes Legislative Changes Study*, of which this report is a part, was carried out by Abt Associates Inc. under contract to the U.S. Department of Agriculture, Economic Research Service.

This report uses administrative data to address the question of how the revised reimbursement structure affected the numbers of family child care homes, sponsors, and children participating in the CACFP. Any change in the number of participating homes might lead to changes in the number of children participating in the CACFP or the number of organizations that participate by sponsoring family child care homes. Finally, because the CACFP may act as an incentive for family child care homes to become licensed or certified, the report examines changes in the total number of licensed family child care providers.

This report updates and extends material presented in the 1999 interim report, *Family Child Care Homes and the CACFP: Participation After Reimbursement Tiering* (Hamilton *et al.*, 1999). The present analysis includes data for 2 full years after the introduction of tiering (the interim report had

only 1 post-tiering year) and a more extensive statistical analysis of the effect of tiering on the number of participating homes.

Child and Adult Care Food Program

The CACFP is a Federal program that subsidizes healthful meals and snacks for children and adults in day care facilities. CACFP reimburses child care providers at set rates for meals served and, in some cases, provides them with USDA commodity food. 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 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-seven percent of these children were served through child care homes and 63 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.

From its inception, the goal of the CACFP has been to support the provision of nutritious meals to low-income children in child care. 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. In 1976, homes became eligible to participate provided that they meet State licensing requirements where these are imposed, or obtain approval from a 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. Three meal reimbursement categories—free, reduced price, and full price—corresponded to family incomes of 125 percent or less of the applicable Federal poverty guideline for households of a given size, 125 to 195 percent of the poverty guideline, and more than 195 percent of the poverty guideline.² 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 claimed that meal reimbursements were insufficient to cover their administrative costs and allow for adequate reimbursement to the homes.³ As a consequence, very few homes participated in the program—fewer than 12,000 by December 1978.

¹ As of July 1999, the CACFP also provides reimbursements for meals and snacks served to eligible children in homeless shelters. Eligibility for the child care portion of the CACFP is limited to children age 12 and under. Exception is made for children of migrant workers and children with disabilities who may participate under certain circumstances through ages 15 and 18, respectively.

² Operationally, income eligibility levels are based on the poverty guidelines issued by the Department of Health and Human Services. Although the last category is called full price, meals still receive a small subsidy.

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 providers.

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 middle-income children to participate in CACFP and for sponsoring agencies to recruit such homes for the program. Following the implementation of these amendments in May 1980, the family child care component of the program grew tremendously. 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 middle-income families; 62 percent of the children in participating homes were from families with incomes above 195 percent of the poverty guideline (Glantz *et al.*, 1983). 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 (Glantz *et al.*, 1996).⁵

Legislative Changes Implemented in 1997

In PRWORA, the Congress acted to re-focus 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. The rates for July 1998 through June 1999, when most data collection for the study occurred, are shown in Exhibit 1.

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

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.

⁵ The 1978 legislation also changed the cutoff levels for free and reduced-price meals in child care centers to 130 percent and 185 percent of the poverty line, respectively.

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 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 in which at least half of the children live in families with incomes at or below 185 percent of the poverty guideline, or an elementary school attendance area 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 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 child's eligibility must be determined by the home's sponsor. If the provider chooses not to request the sponsor to determine the eligibility of each child for Tier 1 reimbursement, or if low-income parents choose not to provide income information and the sponsor does not have other documentation that their child is eligible for Tier 1 reimbursed meals, a low-income child's meals are reimbursed at the Tier 2 rates.

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.⁶ Had they been reimbursed at the Tier 1 rates for those same meals, their reimbursements would have averaged \$326 per month.⁷

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 sponsoring agency 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, providing training and other support, and 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's CACFP office for payment, receive the reimbursements from the State office, and distribute the meal reimbursements to the homes. Sponsor reimbursements for administrative costs are the lesser of actual administrative costs; budgeted costs approved by the State CACFP office; a payment schedule

⁶ This estimate is based on the annual total number 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 could 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 in 1999. The figures shown are based on the reported mix of Tier 1 and Tier 2 reimbursements in Tier 2 homes.

⁷ Although CACFP attendance is reported in terms of average daily attendance, meal reimbursements are reported in terms of meals per month. The calculations shown here assume that homes operate for an average of 22 care days per month.

based on the number of homes sponsored; or 30 percent of the sum of meal reimbursements and administrative payments. The third of these factors—the payment schedule based on the number of homes sponsored—is established nationally and shown in Exhibit 2.

The legislative changes did not affect the reimbursement levels in the national administrative payment schedule, but did add new 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 income test. Parents send their income verification forms directly to the sponsor, who then makes the determination of whether the income is at or below 185 percent of the poverty guideline. Providers are notified of the number of children approved for the higher reimbursement rates, but not the names of the children approved.

Exhibit 2

**Administrative Payment Schedule for Family Child Care Home Sponsors,
July 1998-June 1999**

Number of Homes	Monthly Rate 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
