

Conclusion

By introducing a two-tiered meal reimbursement structure into the CACFP, the PRWORA changed the incentives for family child care providers to participate in the program. Providers who were not located in low-income areas and did not have low income themselves—that is, Tier 2 providers—would now be reimbursed at rates set at roughly half the level of the rates for other providers.

It was to be expected that this dramatic reduction in the participation incentive would lead to some reduction in provider participation. But it was not known how big a change in participation would occur, or whether the change in provider participation would in turn affect the number of children or sponsors participating in the CACFP or the overall number of licensed child care homes. The analyses presented in this report provide insights into these issues, but some interesting questions remain.

The evidence is quite strong that tiering did indeed reduce the number of family child care homes participating in the CACFP. About 28,000 fewer providers were participating in 1999 than would be predicted from economic trends and State child care policies, a 14-percent effect. Alternative analytic specifications consistently indicate a substantial and statistically significant effect of tiering. In the two years after tiering was implemented, the number of Tier 2 providers consistently declined. In contrast, the number of Tier 1 providers, the overall number of licensed providers, and the number of child care centers participating in the CACFP all increased during that period.

Tiering could have reduced the number of participating providers by inducing some participating providers to leave the CACFP earlier than they would leave otherwise, or by leading some prospective providers not to enroll. The study provides only limited information about how the observed effect actually occurred. Survey data indicate that some participating providers did leave prematurely, but the data do not allow firm estimates of how many did so. One would expect that reducing the participation incentive would have more effect on prospective than existing participants. The existing participants have already invested in becoming licensed, finding a sponsor, being trained, and learning to meet CACFP requirements for meal patterns and paperwork, and they are receiving reimbursements that end when they leave the program. Prospective participants may consider the initial investment as too great to be worth a low reimbursement. The study provides no information about prospective participants who did not enroll, however.

The analysis does not address tiering's long-run effect on the number of family child care homes participating in the CACFP. One would expect the process of adjustment to the new participation incentive to take several years, as existing providers leave the CACFP and potential new providers decide whether or not to enroll. The analysis shows that the tiering effect was larger in 1999 than 1998, but provides no estimate of how long the adjustment process will take or the ultimate size of the tiering effect.

Although the analysis indicates that tiering reduced the number of child care homes participating in the CACFP, there is little evidence of secondary effects on the number of participating children, the number of CACFP sponsors, or the number of licensed providers. The numbers of children and sponsors both declined slightly in 1998 and 1999, but the percentage reductions were much smaller than that for homes, and the 1998-99 patterns were not sharply distinguished from previous trends.

The number of licensed homes actually increased in 1998 and 1999, after declining in the 2 previous years.

None of these patterns suggest a substantial effect of tiering. This does not rule out the possibility that some effect has occurred, or that a delayed effect will occur after the period analyzed here. These trends were not subjected to the intensive modeling analysis that was applied in examining the number of CACFP homes, so any conclusion about the effect of tiering on these other populations must be more tentative. Nonetheless, the absence of substantial changes in the time trends for participating children, sponsors, and licensed homes suggests that, if tiering did have an effect, it was much smaller than the effect on the number of participating family child care homes.