

## Conclusion

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Tiering's most immediate and obvious effect was to change the economics of the child care business for Tier 2 CACFP homes. For perspective on the change, consider the following hypothetical situation. A child is in care for 33 hours per week, the median reported for children in the study sample (Crepinsek *et al.*, E-FAN-02-005). The provider charges \$1.95 per hour, the Tier 1 average for unsubsidized children, which generates \$64 in weekly revenue. The provider's main out-of-pocket expenditure for individual children is for food, which amounts to about \$17 per week for the child, again the Tier 1 average.<sup>25</sup> The provider receives CACFP reimbursements for the child's breakfast, lunch, and one snack for five days, for a total of about \$15 at Tier 1 rates. Netting out food expenditures and CACFP reimbursements, \$62 is available to cover other fixed and variable business costs (such as rent, heat, electricity, telephone, and supplies) and to make up the provider's own income.

If the same provider received reimbursement at the Tier 2 rates rather than the Tier 1 rates and nothing else changed, the CACFP reimbursement would amount to about \$7 and about \$56 would be left to cover other costs and provide income. Assuming no change in other costs, the lower CACFP reimbursements might translate into 10-20 percent less personal income for the provider.<sup>26</sup>

This change in business economics might lead actual or potential Tier 2 CACFP providers to respond in several ways. With lowered opportunity for personal income, some people might choose other employment opportunities over the child care business, either ending their existing business or deciding not to begin one. Other people might continue or open a child care business but decide not to participate in the CACFP, feeling that the smaller meal reimbursement would not be worth the trouble of complying with requirements for licensing, meal patterns, recordkeeping, training, and monitoring. Still others might continue to operate a child care business and participate in the CACFP, either accepting lower personal income or finding some other way to increase revenues or reduce costs.

The study findings suggest that all of these responses happened to some degree. Analysis reported elsewhere estimates that tiering led to a 14-percent reduction in the number of participating homes (Hamilton *et al.*, 2001b). This includes people who left the child care business (or did not start one) as well as people who continued operating a child care business but left the CACFP (or did not enroll). The available data do not permit estimates of the relative frequency of these distinct responses, however.

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<sup>25</sup> The Tier 1 average weekly expenditure was \$110, and Tier 1 providers reported average daily attendance of 6.5 children.

<sup>26</sup> The difference in CACFP reimbursements is \$7.85, which is 12.7 percent of the \$62 remaining at Tier 1 rates. The percentage reduction in income depends on the magnitude of other costs. If other costs amount to \$10 per child per week, income would be reduced by 15.1 percent. If other costs amount to \$20, the income reduction is 18.7 percent.

Tier 2 providers who remained in the CACFP or entered after tiering took effect seem to have adapted in several ways. They charged higher average fees in 1999 than similar providers charged in 1995, after adjusting for inflation. They incurred lower food expenses than their Tier 1 counterparts in 1999. The estimates suggest that the higher fees would add about \$10 per child per week in revenue, on average, while the lower food expenditures would save about \$2. Both estimates should be considered to be rough approximations, however, as they have wide confidence intervals.

A particular concern for the CACFP was whether the lower reimbursement rates would lead Tier 2 providers to offer fewer or less nutritious meals and snacks. The findings reported above show essentially no effect on the proportion of providers offering particular meals and snacks, and analysis reported elsewhere shows no substantial effect on the nutritional content of the meals and snacks offered (Crepinsek *et al.*, E-FAN-02-006). The absence of any effect on snacks is particularly interesting, because the Tier 2 reimbursement level (\$0.13 per snack in 1999) is less than a third of the Tier 1 reimbursement rate. This suggests that providers who participate in the CACFP are constrained in their meal service by the market in which they operate as well as by the requirements of the program. It also indicates that the lower food expenditures observed for Tier 2 providers result from efficiencies in shopping and menu planning rather than from fewer or less nutritious offerings.

Although tiering might have led to changes in the profile of CACFP providers' operating characteristics, only small differences were observed between the 1995 and 1999 cohorts of participating providers. One might have expected, for example, that the 1999 providers would be caring for more children or operating for more hours. This could result from Tier 2 providers attempting to increase their revenue from fees, or from reduced CACFP participation by providers who serve few children or offer few meals (and therefore receive limited CACFP reimbursements). In fact, the survey of CACFP "dropouts" suggests that smaller-scale providers were particularly likely to leave the program, but this did not result in substantial changes in the overall provider profile.