

Family Child Care Homes and the CACFP: Participation After Reimbursement Tiering

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Introduction

The Child and Adult Care Food Program (CACFP) is a Federal program that provides meals and snacks in participating child care and adult day care facilities. 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 lower-income areas or operated by lower-income persons.

The law also called for a study of the extent to which these changes to the CACFP affected the numbers of family child care homes and sponsors participating in the program and the numbers of licensed family child care homes in general. This report presents preliminary information addressing that Congressional request. The report is prepared as an interim product of the Family Child Care Homes Legislative Changes Study, which is being carried out by Abt Associates Inc. under contract to the U.S. Department of Agriculture, Economic Research Service.

This report also reviews the legislation, the CACFP program, and the child care environment in which the legislative changes were implemented. After a description of data sources, we present the evidence available to date on how CACFP participation and the numbers of licensed homes have changed since the legislative changes were implemented. Finally, the report describes future study activities that will answer more fully the questions posed in the legislation.

Background

The Legislative Mandate for the Study

Section 708 of PRWORA mandated changes to the CACFP reimbursement structure that were intended to strengthen the targeting of family child care home meal reimbursements to low-income beneficiaries. The Act also mandated that a study be done to analyze the effects of the new reimbursement structure on:

- ! the number of family child care homes participating in the CACFP;
- ! the number of child care home sponsoring organizations participating in the program;
- ! the number of child care homes that are licensed, certified, registered, or approved in each state;
- ! the rates of change in the numbers of participating homes, sponsors, and all licensed, certified, registered, or approved homes;
- ! the nutritional adequacy and quality of meals served in family child care homes that
 - ▶ received reimbursement under the program prior to the legislative changes but are no longer receiving reimbursements; or
 - ▶ received full reimbursement under the program prior to the legislative changes but are now receiving reduced reimbursements; and
- ! the proportion low-income children are of all children participating in the program prior to and after implementation of the legislative changes.

USDA designed and contracted with Abt Associates for the *Family Child Care Homes Legislative Changes Study* in order to answer these questions. The results of this study are to be presented to Congress in the form of two reports. This first report uses administrative data from USDA's Food and Nutrition Service and data from state licensing agencies to address the first four questions above. A second report, scheduled to be available in early 2001, will present findings with regard to Congress' remaining questions regarding the impact of the legislative changes to the CACFP.

Description of the Child and Adult Care Food Program

The CACFP is a Federal program that provides healthful meals and snacks in child and adult day care facilities. CACFP reimburses child care providers for their meal costs and, in some cases, provides them with USDA commodity food. The program operates in non-residential 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. In fiscal year 1998, the child care component of the program served an average of 2.5 million children daily at a cost of

\$1.5 billion. Thirty-nine percent of these children were served through child care homes—the focus of this report—and 61 percent through centers. 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; in the case of Virginia, FNS' Southeast Regional Office serves this function.

From its inception, the goal of the CACFP has been to provide 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. Homes became eligible to participate in 1976, provided that they meet state licensing requirements or obtain approval from a state or local agency. In addition, homes must be sponsored by a 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. There were three categories of reimbursement for participating homes corresponding 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.¹ 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.² As a consequence, very few homes participated in the program—fewer than 12,000 by 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. 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. Sponsors are now reimbursed solely on the basis of the number of homes sponsored.³

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 began to experience tremendous growth. In June, 1980,

1 Operationally, income eligibility levels are based on the poverty guidelines issued by the Department of Health and Human Services.

2 Meal reimbursements generated by participating homes were paid directly to the sponsoring agency. The sponsor was permitted to deduct administrative costs before passing the reimbursement on to the providers.

3 Other changes included the establishment of alternative procedures for approving homes and the provision of start-up and expansion funds for family child care sponsors.

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.⁴ 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.⁵

The Legislative Changes Implemented in 1997

In the years following the elimination of the means test, the family child care part of the CACFP increasingly became a program serving middle-income children. Among the many changes included in the PRWORA, the Congress acted to re-focus the family child care component of the CACFP on low-income children. The Act 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 (see 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: Reimbursement rates are higher in Alaska and Hawaii.

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 PRWORA. A low-income area is defined operationally as either an area where at least half of the children live in families with incomes below 185 percent of the poverty guideline or 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. Homes where the provider's own income is below 185 percent of the poverty guideline have the same reimbursement structure

4 F. Glantz, et al. *Evaluation of the Child Care Food Program: Results of the Child Impact Study Telephone Survey and Pilot Study*. Cambridge, MA: Abt Associates Inc., 1983.

5 F. Glantz, et al. *Early Childhood and Child Care Study: Profile of Participants in the CACFP*. Alexandria, VA: USDA, Food and Consumer Service, 1996.

as homes located in low-income areas. Homes meeting one 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 below 185 percent of the poverty guideline.

Tier 2 homes in fiscal year 1998 received CACFP meal reimbursements averaging \$173 per month.⁶ Had they been reimbursed at the Tier 1 rates for all meals, their reimbursements would have averaged \$321 per month. The reimbursements reflect an average daily attendance of 5.2 children per family child care home, with an average of 0.7 breakfasts, 0.8 lunches, 1.1 snacks, and 0.1 suppers per child per day.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 recognized sponsoring agency. 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 FNS for payment, receive the reimbursements from FNS, and distribute the meal reimbursements to the homes. Sponsors receive payments for these administrative activities at the rates shown in Exhibit 2.

Exhibit 2

Administrative payments for family child care home sponsors, July 1998 - June 1999

Number of Homes	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

6 This estimate is based on the average monthly reported numbers 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 9 percent of all meals reimbursed for Tier 2 providers were reimbursed at the Tier 1 rate. 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.

The legislative changes did not affect sponsors' administrative payment levels 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 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.

The Changing Economic Environment for Child Care

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 about \$148 per month less in CACFP reimbursements than they would have received at the Tier 1 rates. Unless the providers could raise prices, cut costs, or increase their operating scale, the lower revenue would translate into a lower net income from the business.

With less favorable business conditions, economic theory indicates that supply should decline—in this case, existing family child care providers would leave the business or fewer new people would enter it. If no other forces were changing the economic environment of child care, a time trend would show a drop in the number of CACFP family home care providers after July, 1997, when the new rates took effect.

As it happens, the CACFP changes occurred at a time when several aspects of the broader economic and policy environment were changing in ways that could affect the demand for and supply of child care. These include a strong labor market, welfare reform, and the growth of preschool programs in public school systems.

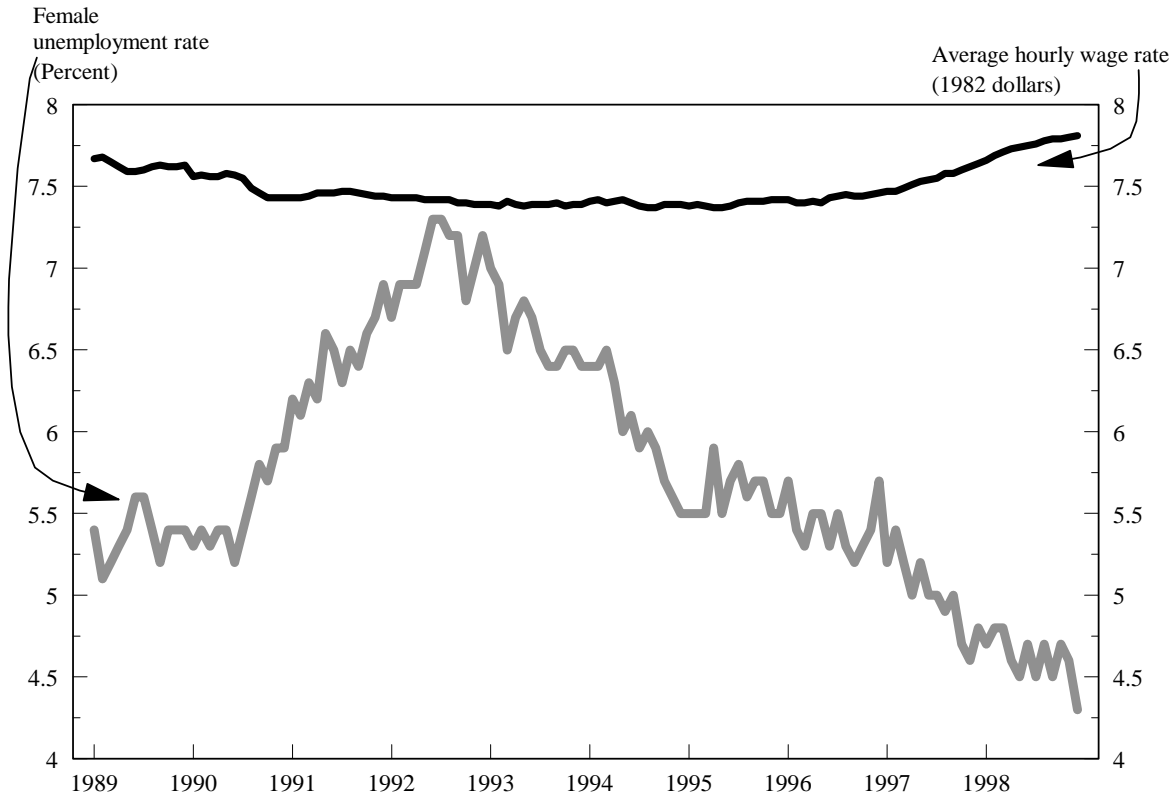
The economic environment in which the CACFP changes took place featured strong and growing employment opportunities. The national unemployment rate for females was extraordinarily low. Female unemployment averaged just 4.6 percent in 1998, down from 5.0 percent in 1997 and 7.0 percent in 1992 (see Exhibit 3).⁸ Female labor force participation grew throughout the decade.⁹ Real average hourly earnings, which declined slightly from 1989-1993 and remained at that level through 1996, rebounded in 1997 and 1998.¹⁰

8 Bureau of Labor Statistics. *Labor Force Statistics from the Current Population Survey: Seasonally Adjusted Unemployment Rate - Civilian Labor Force Female*. Data series LFS600002. Annual rates estimated as the simple average of the 12 monthly unemployment rates.

9 Bureau of Labor Statistics, *ibid*. The female labor force participation rate climbed from 57.4 percent in 1989 to 59.3 percent in 1996 and 59.9 percent in 1998.

10 Bureau of Labor Statistics. *Nonfarm Payroll Statistics from the Current Employment Statistics: National Employment, Hours, and Earnings. Average Hourly Earnings, 1982 Dollars*. Series EES00500049. Annual rates estimated as the simple average of the 12 monthly rates. This series does not distinguish wages by gender.

Exhibit 3
Female unemployment rate and average hourly earnings, 1989-98



These positive economic trends have two potential implications for family child care homes. First, more women working should mean greater demand for child care, including both a greater need and more ability to pay for care. Second, low unemployment rates and rising wages could offer a broader array of alternative employment opportunities to people who are currently or might become family child care providers.

Another critical element of the recent child care environment has been the welfare reform and child care provisions of the PRWORA. The Act fundamentally reshaped the nation's system of cash assistance to low-income families, replacing Aid to Families with Dependent Children (AFDC) with the new Temporary Assistance to Needy Families (TANF) program. Many aspects of this legislation were expected to make recipients more likely to seek employment while on welfare and more likely to leave welfare quickly. Moving welfare recipients into employment would be expected to increase the demand for child care.

On the funding side of the equation, the PRWORA reauthorized and expanded the child care block grant by merging several funding streams into the Child Care Development Fund (CCDF). Total CCDF funding potentially represented a substantial increase—estimated at 27 percent by the Congressional Budget Office¹¹—over the child care funding in the prior

11 *Federal Budgetary Implications of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996*. Congressional Budget Office, December 1996.

programs. The CCDF also gives states considerably more flexibility in the administration of child care subsidies, especially flexibility to serve the non-welfare, working poor population. Nonetheless, states' allocation of the funding is expected to remain heavily targeted toward current or recent welfare families.¹² Thus the child care provisions of PRWORA would be expected to lead to greater demand for child care among lower-income families, and especially families that are receiving or have recently received welfare.

Another development that may be altering the child care landscape is the growth of preschool education programs. Although the purpose of these programs is educational rather than custodial, they have the effect of removing the need for child care while children are attending preschool. No national statistics are available to indicate the number of children in preschool each year, but it is clear that many new programs have been adopted during the 1990s, including universal programs for four-year olds in Georgia and New York.¹³ Other things being equal, the growth of such programs could reduce the demand for child care.

Finally, although the discussion above has considered child care in general, CACFP family child care homes represent only one segment of the child care industry. Two other segments of note are child care centers and unlicensed family child care providers.¹⁴ Some of the general trends might affect these different segments in different ways. For example, increased earnings levels might shift demand from the family child care homes toward child care centers, which tend to have higher prices. The new CCDF funding, which is not restricted to licensed providers, might disproportionately go to unlicensed providers.

In short, the child care landscape in 1997-1998 was quite dynamic, subject to influence from contradictory national trends and varying state-level policies. Low unemployment, welfare reform, and CCDF funding could be expected to increase the demand for and supply of child care. Growing preschool programs could be expected to reduce the demand for child care, while the favorable labor market might reduce the supply. With this complicated backdrop, only very cautious conclusions can be drawn about the effect of the changed CACFP reimbursement structure.

12 Sharon K. Long, *et al.* *Child Care Assistance Under Welfare Reform: Early Responses by the States*. Washington, DC: The Urban Institute. Assessing the New Federalism; Occasional Paper No. 15. 1998.

13 Long, *et al.*, *ibid.* Jane Knitzer and Stephen Page. *Map and Track: State Initiatives for Young Children and Families*. New York: National Center for Children in Poverty, 1998.

14 Only providers who are licensed, certified, registered, or otherwise approved by the state can participate in the CACFP.