

Tiering's Effect on the Number of Licensed Child Care Homes

CACFP tiering naturally has its most direct effects on the child care providers, sponsors, and children who participate in the CACFP. Another hypothesis, explored in the analyses described below, was that tiering would reduce the number of family child care homes that would be licensed, certified, or registered according to the applicable regulations of the 50 States.

A licensed (or certified or registered) home is one that has been granted formal permission to operate by virtue of meeting applicable State health, safety, and other requirements.³⁵ Unlicensed homes generally fall into two categories: those that are exempt from State regulation because they do not receive public funds (including CACFP reimbursements) or because they serve a small number of children; and those that should be licensed, but instead operate without the knowledge or approval of the State ("underground" operations).

Concerned about the health and safety of all child care facilities, State child care regulatory agencies have attempted to minimize the number of underground homes, primarily through educating caregivers about the value of a license and how to obtain one. In promoting licensure, State agencies and child care sponsors have traditionally used the CACFP as a major attraction. Only licensed, certified, or otherwise approved homes may participate in the CACFP, and CACFP meal reimbursements can amount to several hundred dollars per month in additional revenue for the provider.³⁶ Indeed, some providers may feel that the main reason to be licensed is to receive the CACFP reimbursements, or that their business would be viable only with the CACFP reimbursement. The lower Tier 2 reimbursements reduced this incentive to licensing for some providers, raising the possibility that the overall number of licensed homes would decline.

The analysis finds little evidence of a tiering effect on the number of licensed homes. Nationwide, the number of licensed homes increased after the introduction of tiering, even though the number of CACFP homes declined. Some States did experience a decrease in the number of licensed homes, but officials in those States generally felt that tiering was only one contributing factor (Hamilton et al., E-FAN-02-002).

The analysis is based principally on a data series maintained by the Children's Foundation. The Children's Foundation conducts an annual survey of the 50 States and the District of Columbia to obtain, among other information, the number of currently licensed homes in the State. To verify major changes from 1997 to 1998 and to obtain information on possible reasons for the changes, Abt

³⁵ For simplicity, the term "licensed" is used here to include "certified" or "registered" homes. Terminology as well as requirements for approval vary from State to State.

³⁶ Homes that are exempt from licensing may participate in the CACFP, but the State must establish an alternate approval process for determining eligibility for participation.

Associates staff conducted followup correspondence and interviews with officials in 41 States. The analysis is reported in Hamilton et al., E-FAN-02-002.

Trends in Numbers of Licensed Homes

The number of licensed child care homes in the United States rose steadily each year from 1989 to 1995, declined slightly in 1996 and 1997, then increased in 1998 and 1999, as shown in Exhibit 19. From 1997 (the year the CACFP changes were implemented) to 1999, the total number of licensed child care homes grew about 4 percent. The 1998 increase was the first since the 1994 to 1995 period.

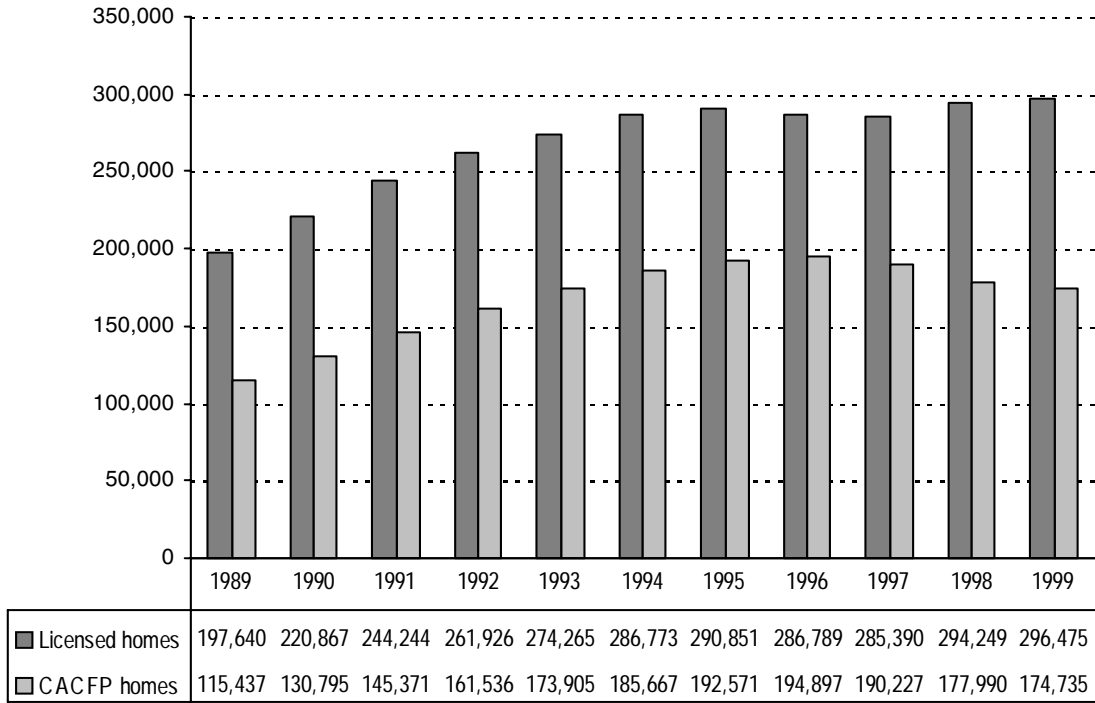
The tiering-related decline in the number of CACFP homes clearly did not prevent growth in licensure. The numbers of licensed and CACFP homes follow similar patterns of growth from 1989 to 1994, and both experience a plateau from 1995 to 1997.³⁷ After that point they diverge, with licensed homes showing modest increases and CACFP homes turning downward in 1998 and 1999. Although one cannot rule out the possibility that the number of licensed homes would have grown even more in the absence of the CACFP changes, the national trend does not demonstrate a negative impact.

Examining trends on a State-by-State basis yields much the same result. The number of licensed homes either increased or remained fairly stable from 1997 to 1999 in most States. Of the 50 States and the District of Columbia, 18 had increases of more than 5 percent, 19 had essentially stable numbers (between a 5-percent gain and a 5-percent loss), and 14 had declines of more than 5 percent.

Licensing officials from all States were asked to explain changes in their States' number of homes from 1997 to 1998, and 41 States responded to the request. In seven of the States with declines in licensure between 1997 and 1998, officials mentioned the lower Tier 2 CACFP reimbursements as being one factor in the decline. All but one of those officials mentioned other reasons in addition to CACFP, including increased stringency of licensing standards, pre-existing trends toward shrinkage in the number of smaller child care homes, and improved employment opportunities offered by the strong economy. These responses suggest that, while tiering may have exerted a downward pressure on the number of licensed homes, it was not a dominant force in most States or nationwide.

³⁷ Data on CACFP homes and licensed homes are not fully comparable. Licensure data reflect the number of homes licensed to operate, but not all may actually be operating at any given time. Also, licensure data are maintained separately by the States, while the CACFP data come from a uniform Federal reporting system.

Exhibit 19
Number of Licensed or Certified Family Child Care Homes and CACFP Homes
in the U.S., 1989-1999



Source: Children's Foundation; CACFP administrative data.