

## **Executive Summary**

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The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) mandated certain changes to the Child and Adult Care Food Program (CACFP) and called for a study of the effects of the changes. Accordingly the U.S. Department of Agriculture (USDA) contracted with Abt Associates Inc. to conduct the Family Child Care Homes Legislative Changes Study. This report presents interim study findings.

The CACFP is a Federal program, administered by USDA, that provides meals and snacks in participating child care and adult day care facilities. Providers of care are reimbursed at fixed rates for the meals and snacks they serve.

The PRWORA established a two-tier structure of meal reimbursement rates for family child care homes. Homes that are located in low-income areas or operated by persons with incomes below 185 percent of the Federal poverty guidelines are designated as Tier 1. Meal reimbursement rates for Tier 1 homes are comparable to the rates that existed for all CACFP homes before PRWORA. Family child care homes that do not meet the low-income criteria are designated as Tier 2. They have lower reimbursement rates, although they can be reimbursed at Tier 1 rates for meals served to children from families with income below 185 percent of the poverty guideline.

Administrative data maintained by USDA indicate that Tier 2 providers in fiscal year 1998 cared for an average of 5.2 children daily. They served a daily average of 3.8 breakfasts, 4.4 lunches, 0.7 suppers, and 5.5 snacks. Their reimbursements under the new rate structure averaged \$173 per month. If they had been reimbursed at Tier 1 rates for all meals, their average monthly reimbursement would have been \$321.

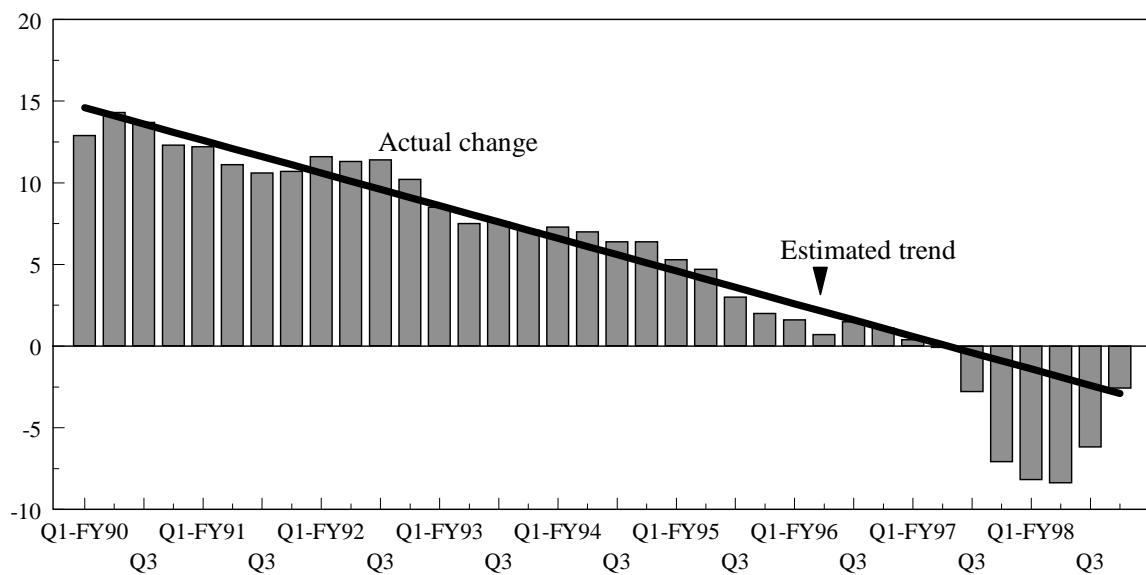
Family child care homes can participate in the CACFP only if they are sponsored by a recognized sponsoring organization. Sponsors are responsible for enrolling homes into the program, monitoring compliance with program requirements, receiving the homes' CACFP reimbursement claims, and distributing the reimbursements. With the tiered structure, sponsors also became responsible for designating homes as Tier 1 or Tier 2 and determining the eligibility of individual children cared for by Tier 2 homes for Tier 1 reimbursement. Sponsors receive a per-home CACFP administrative payment, which was not altered by PRWORA.

The study objectives specified in the Act concern the impact of reimbursement tiering on the number of family child care homes participating in the CACFP, the number of CACFP sponsoring agencies, and the total number of licensed child care homes, independent of their participation in the CACFP. The information available to date on these points is summarized below.

## **Number of CACFP Family Child Care Homes**

About 178,000 family child care homes participated in the CACFP in fiscal year 1998, the first full fiscal year after the legislative changes took effect. That represents a 6 percent decline from the 1997 level of 190,000 participating homes. The trend over several previous years suggests that some shrinkage in the number of participating homes would have occurred in any event, but the actual decline was significantly greater than the prior trend would suggest.

## **Percent change in CACFP child care homes from the same quarter in the previous year**



How much of the observed decline stemmed from the reimbursement change and how much was caused by other factors cannot be determined from the data available. The extraordinarily strong economy in this period may have led many actual or potential child care providers to take other employment even without the CACFP change. Among a sample of former CACFP providers who left the program after January, 1997, the vast majority said they left the child care business entirely, and few mentioned CACFP reimbursement rates as a reason. Nonetheless, some former providers did consider the CACFP issue important in their decision to leave the business. Some providers left the CACFP but continued to provide child care (information on their reasons will be obtained later in the study). Moreover, the national number of child care homes appears to have grown even as the number participating in the CACFP was shrinking, raising the possibility that CACFP may have lost some attractiveness to new providers. Thus we cannot reject the hypothesis that the CACFP changes contributed to the decline in the number of participating homes.

## **Number of CACFP Sponsors of Family Child Care Homes**

The number of organizations sponsoring family child care homes in the CACFP also declined, from 1,193 in fiscal year 1997 to 1,165 in fiscal year 1998. This 2 percent reduction continued a downward trend that began in fiscal year 1995, well before the passage of PRWORA. The data provide no indication that the CACFP changes affected the trend.

## **Number of Licensed Family Child Care Homes**

According to annual surveys carried out by the Children's Foundation, the national number of licensed family child care homes grew from 1997 to 1998 (the term "licensed" as used here also includes providers who are certified, registered, or otherwise approved by a state agency). States reported a total of 294,000 homes in the summer of 1998. This increase of 3 percent reversed a slight downward trend that existed from 1995-1997.

Because child care homes must be licensed to participate in the CACFP, the program has been seen as a force promoting licensure. This raises the hypothesis that reducing the reimbursement rates would lead to lower licensure rates. The national trend does not support this hypothesis, as the number of licensed homes increased in the period when the CACFP changes were introduced. Nonetheless, some individual states experienced reductions in the number of licensed providers from 1997 to 1998, and officials in some of those states felt that the CACFP changes contributed to the reduction. Thus the lower CACFP reimbursements may have affected the number of licensed providers in some locations, although there is no evidence that such an effect was large or pervasive.