

# Executive Summary

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Low-income children increased from 21 percent of all children participating in the Child and Adult Care Food Program (CACFP) in 1995 to 39 percent in 1999. The Personal Responsibility and Work Opportunities Reconciliation Act of 1996 mandated a tiered reimbursement structure—designed to target benefits more narrowly to low-income children—and called for a study of its effects on program participants and on meals offered to children. The study finds that the proportion of dollars allocated to low-income children more than doubled, from 21 percent to 45 percent.

In accord with the PRWORA mandate, the U.S. Department of Agriculture (USDA) contracted with Abt Associates Inc. to conduct the *Family Child Care Homes Legislative Changes Study*. This report, one of several prepared as part of the study, presents findings pertaining to the effect of the legislated changes on the characteristics of children under care in CACFP family child care homes (see References, p. 38, for a list of the other reports).. It is based principally on a 1999 survey of 1,200 parents or guardians of children being served by family child care homes participating in the CACFP, together with comparable data from a 1995 survey.

## The CACFP and Tiering

The CACFP is a Federal program, administered by USDA, that subsidizes meals and snacks offered in participating child care and adult day care facilities. Providers of care are reimbursed at fixed rates for qualifying meals that 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 at or 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 the PRWORA. Family child care homes that do not meet the low-income criteria are designated as Tier 2. Tier 2 homes receive lower reimbursements, although they can be reimbursed at Tier 1 rates for children of families whose income is at or below 185 percent of the poverty guideline.

The intent of Congress in establishing tiering was to focus CACFP benefits more narrowly on low-income children. A 1995 study, the *Early Childhood and Child Care Study*, showed that more than three-quarters of the children served in CACFP family child care homes came from families with incomes above 185 percent of the Federal poverty guideline. Meal reimbursement rates were the same for all income categories, which meant that less than a quarter of program benefits were going to low-income children. Reducing reimbursement rates for meals served to higher-income children would, in principle, allocate a greater share of program resources to the low-income group and reduce overall costs of the program.

The tiering procedure was designed to minimize the use of a means test—that is, an official determination of individual children’s eligibility, which requires obtaining information on individual households’ income. Although the household means test is used in CACFP child care centers and in numerous other programs, it was argued that this process would be unduly intrusive in the context of a family child care home, where many providers care for the children of their friends and neighbors. By basing Tier 1 criteria on local area income levels and the provider’s own income level, it was assumed that most low-income children would tend to be served by Tier 1 homes. Some low-income children would still be served by Tier 2 providers, and a means test would be used to qualify these

children's meals for reimbursement at the higher Tier 1 rate. Privacy could be preserved in these situations by having the provider's sponsor, rather than the provider, administer the means test.

## Effects on Targeting

The proportion of CACFP meal reimbursement dollars allocated to low-income children more than doubled between 1995 and 1999, from 21 percent to 45 percent. Much of this change resulted from a shift in the income composition of households served by CACFP family child care homes. Average daily attendance in CACFP homes was about the same in 1995 and 1999 (969,000 and 959,000 children, respectively). But the number of children with family incomes at or below 185 percent of the poverty level grew by about 165,000 from 1995 to 1999, while the number of children with family incomes above that threshold shrank correspondingly. The change in income composition was particularly evident in the category of children with household incomes at or below 130 percent of the poverty level, which went from 11 percent of all children in 1995 to 25 percent in 1999.

In addition to the change in the composition of participating households, the differential reimbursement levels further concentrated meal reimbursement dollars on low-income children. Meals for higher-income children in Tier 2 homes were reimbursed at the lower rate (although meals for those higher-income children served by Tier 1 homes continued to be reimbursed at the higher rate). Thus while 61 percent of the participating children in 1999 had family incomes above 185 percent of the poverty level, this group accounted for only 55 percent of meal reimbursement dollars.

The tiering policy as specified and implemented appears to be quite effective at making sure that low-income children's meals are subsidized at Tier 1 rates. About 88 percent of low-income children participating in the CACFP in 1999 were in Tier 1 homes, and about 7 percent were in Tier 2 homes that received some meal reimbursements at the higher rates. About 58 percent of participating higher-income children (i.e., those with household income over 185 percent of poverty) are in Tier 1 homes and have their meals reimbursed at the higher rate. Thus the tiering mechanism is more likely to apply the higher subsidy rate to higher-income children than to apply the lower rate to low-income children.

## Effects on Households

It was hypothesized that tiering might affect households participating in the CACFP in several ways. Tier 2 providers might respond to lower meal reimbursements by not participating in the CACFP or, if they participated, by raising their fees, taking on more children, altering their hours of operation, or not providing some meals or snacks. Any of these responses could change the child care opportunities open to families seeking care. Tier 2 providers wishing to obtain the higher reimbursement for low-income children in their care would initiate the means testing process, which would result in participating families being asked to complete application forms with their income and other pertinent information. More indirectly, the shift towards a lower participant income profile might be accompanied by other changes in the demographics of the participant population.

Among these possibilities, the main effect seen in the analysis is a significant increase in inflation-adjusted hourly child care expenditures by families served by Tier 2 homes. This effect is observed in a multivariate analysis controlling for the age of the child, the weekly hours in care, and characteristics of the area in which the provider operates. The effect may result from some Tier 2 providers raising their fees, from fewer Tier 2 providers who charge below-average fees participating in the program, or from a combination of both factors.

There is no indication that tiering affected the number of hours that parents have their children in care or the proportion of parents who send food with their children. Likewise, survey responses do not suggest that the means test was an important issue for parents of children in Tier 2 homes.

As would be expected from the increased proportion of low-income households, a higher proportion of families in 1999 than in 1995 participated in other food assistance programs, such as Food Stamps and WIC. Families of children participating in the CACFP in 1999 were also somewhat larger, on average, than those participating in 1995.