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Effects of CACFP Meal Reimbursement Tiering

Major Findings of the Family Child Care Homes Legislative Changes Study



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During the spring and summer of 1999, family child care providers who take part in the U.S. Department of Agriculture's Child and Adult Care Food Program (CACFP), parents of children cared for by the providers, and sponsoring groups took part in a USDA survey.

The survey was conducted within the family child care homes part of CACFP. It answered questions raised by Congress about the effects of the new meal reimbursement tiering system that was applied to family child care homes in July 1997. This report is mostly for the people who answered survey questions and who said they were interested in seeing study results; others interested in the study's findings may also find it useful.

USDA's Economic Research Service and Food and Nutrition Service funded the study, and Abt Associates Inc., conducted it. Staff members of all three organizations join in thanking the people who answered the survey for their time and effort, which helped make the study successful.

The CACFP and Tiering

The Child and Adult Care Food Program is run by USDA at the Federal level and by State agencies, mostly departments of health or education, at the local level. CACFP helps pay for meals and snacks served in child and adult daycare facilities that sign up to be part of the program. The program pays care providers a fixed amount for each meal they serve that meets CACFP standards.

Seeking to focus CACFP benefits more tightly on feeding low-income children, Congress passed a 1996 law that set up a two-tier system of CACFP meal repayment rates for family child care homes. That law, the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA), is best known for the major changes it made in the U.S. welfare system.

Table 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
Snack	0.49	0.13	-0.36	-73.5

Note: Reimbursements are higher in Alaska and Hawaii.

Under the new law, “tiering” of CACFP meal payments went into effect in July 1997. Homes in low-income areas or homes in which the care providers are low-income are in the Tier 1 group (see low-income definition, page 4). Meal reimbursement rates for Tier 1 homes are almost the same as the rates that existed for all CACFP homes before PRWORA.

Family child care homes that do not qualify as low income are in the Tier 2 group. Reimbursement rates are lower for Tier 2 homes, but they can be reimbursed at Tier 1 rates for meals served to low-income children (see table 1 for the rates that were in effect during the study).

Tiering cut meal reimbursements almost in half for Tier 2 providers. In fiscal 1999, Tier 2 homes received meal repayments averaging \$177 per month (including some meals reimbursed at the Tier 1 rate). Had they been repaid at the Tier 1 rates for all meals, their monthly reimbursements would have averaged \$326.

Sponsors Allow “Care” Homes To Be Part of CACFP

To participate in the CACFP, family child care homes must be sponsored by a public or private nonprofit organization that has an agreement with a State CACFP agency. The agreement allows the organization to run the CACFP at the local level.

Sponsors recruit providers into the CACFP, train and monitor them to make sure they follow program rules, and handle meal reimbursement claims and payments. When tiering started, sponsors had to use the low-income rules to put each home care provider into the Tier 1 or Tier 2 group. If Tier 2 providers requested it, sponsors also had to determine whether any of the children in the providers’ care came from low-income households and, therefore, qualified for Tier 1 reimbursed meals. Tiering gave sponsors more CACFP duties, but the sponsors’ costs to run the program are paid back under rules that did not change when tiering started.

“Low Income” Definitions

The definitions of “low income” used in the child care portion of the CACFP are:

1) For a provider to qualify for Tier 1 meal reimbursements

a) Low-income area—the child care provider is located within the attendance area of an elementary school in which 50 percent or more of the children qualify for free or reduced-price school meals (which requires family income to be at or below 185 percent of the Federal poverty guidelines), or

–the child care provider is located within a census block group area in which 50 percent or more of the children live in families with income at or below 185 percent of the Federal poverty guidelines.

b) Personal low income—the child care provider’s household income is at or below 185 percent of the Federal poverty guidelines (with appropriate documentation by the home’s sponsor).

2) For a child in a Tier 2 home to have meals reimbursed at the Tier 1 rates

–the child lives in a family with income at or below 185 percent of the Federal poverty guidelines (with appropriate documentation by the home’s sponsor).

The Federal poverty guidelines are determined by the U.S. Department of Health and Human Services and are used by many Federal programs. They include adjusted poverty levels for Alaska and Hawaii, which the U.S. Census Bureau’s poverty thresholds do not. When this study was conducted, the 1999 poverty guidelines and the 185 percent level used by the CACFP were:

Table 2—1999 HHS poverty guidelines and 185 percent of the guidelines

Number of persons in family unit	48 Contiguous States and DC		Alaska		Hawaii	
	Poverty Level	185%	Poverty Level	185%	Poverty Level	185%
1	\$8,240	\$15,244	\$10,320	\$19,092	\$9,490	\$17,557
2	11,060	20,461	13,840	25,604	12,730	23,551
3	13,880	25,678	17,360	32,116	15,970	29,545
4	16,700	30,895	20,880	38,628	19,210	35,539
5	19,520	36,112	24,400	45,140	22,450	41,533
6	22,340	41,329	27,920	51,652	25,690	47,527
7	25,160	46,546	31,440	58,164	28,930	53,521
8	27,980	51,763	34,960	64,676	32,170	59,515
For each additional person, add:						
	2,820	5,217	3,520	6,512	3,240	5,994

The Family Child Care Homes Legislative Changes Study

The 1996 welfare reform law called for a study of the effects of CACFP tiering and its related requirements on participating family child care homes, sponsors, and the children and families served by CACFP homes. The Family Child Care Homes Legislative Changes Study collected data in the spring and summer of 1999 from nationally representative samples of family child care homes, their sponsors, and the parents of children they serve. Data were collected in 20 States and included 268 CACFP sponsors, 576 Tier 1 and 595 Tier 2 homes, and 1,200 parents or guardians of children served in Tier 1 (576) and Tier 2 (624) homes.

In addition, 1,971 former CACFP providers—providers who were participating as CACFP homes in January 1997 but not in January 1998—were tracked to find out whether they currently provide child care and their reasons for leaving the CACFP.

Because tiering started nationwide on July 1, 1997, we examined its effect by looking at conditions before and after that date, most often comparing our 1999 survey data with survey data collected for the 1995 Early Childhood and Child Care Study. In analyzing changes, whenever possible we considered the effects of other factors—such as the strong economy, changes in the child care industry, and changing dietary patterns—along with tiering's effects.

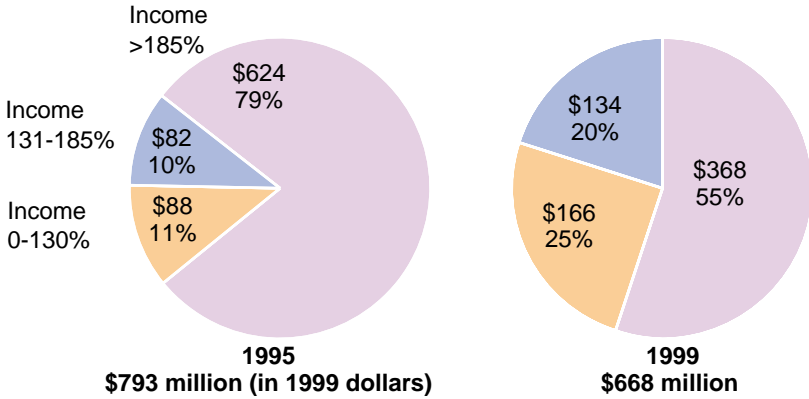
Selected major study findings follow. More detailed results are available in six related reports posted on the ERS website in Adobe Acrobat readable files. Those reports and their Web addresses are listed on the back cover.

Family child care homes component focused more on low-income children after tiering started

In 1995, just 21 percent of CACFP meal reimbursements to family child care homes were for meals served to low-income children (those from families with income at or below 185 percent of the Federal poverty guidelines). That figure more than doubled, to 45 percent, by 1999. The increase was particularly strong among the lowest income children, those from families with income at or below 130 percent of the poverty guidelines (fig. 1).



Figure 1—Share of meal reimbursements in 1995 and 1999 by ratio of children's household income to the Federal poverty guidelines



Source: Administrative data on CACFP family child care homes and surveys of parents of children in CACFP family child care.

The reallocation of dollars results from three factors:

- The number of low-income children served by CACFP homes grew by 165,000 (80 percent);
- The number of higher income children served by CACFP homes fell by 174,000 (23 percent);
- Meals for nearly all low-income children were reimbursed at the higher rate, while meals for 42 percent of higher income children were reimbursed at the lower Tier 2 rate. The 58 percent of higher income children who receive meals reimbursed at the Tier 1 rates are cared for by providers who meet the Tier 1 criteria.

Tiering reduced the number of family child care homes participating in the CACFP

Tiering greatly reduced the financial reasons for Tier 2 providers to be part of the CACFP. Program data show that the number of CACFP family child care homes declined 10 percent from 1996 to 1999. Although factors other than tiering might have caused a decline, projections based on economic and demographic trends indicate that the number of family child care homes would have grown slightly over this period. The study estimates that the number of participating CACFP homes in 1999 was about 14 percent lower than it would have been in the absence of tiering (fig. 2).

Tiering might have reduced the number of CACFP homes either because it caused some CACFP providers to leave the program earlier than they

otherwise would have done, or because it deterred some non-CACFP providers who otherwise would have enrolled, or both.

Our survey of former CACFP providers who left the program between January 1997 and January 1998 shows that tiering was the reason some providers left the program, but not for a large proportion. Tiering's possible dampening effect on new care homes enrolling in CACFP may have been an equally or more important reason. But the study provides no direct information on providers who never entered the CACFP.

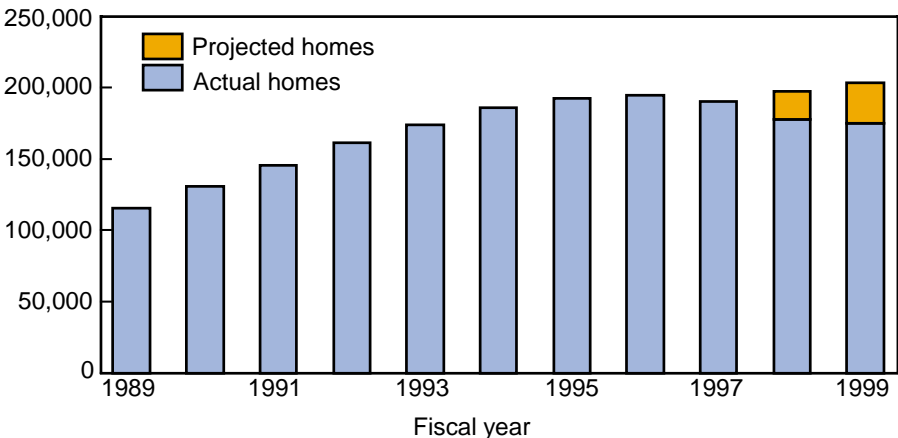
Decline in CACFP homes accompanied by much smaller decline in children's attendance

A corresponding drop in the number of children receiving program benefits did not accompany the decline in CACFP homes. Children's attendance in CACFP homes grew rapidly during the early 1990s, but then changed only a little from 1995 to 1999. Attendance increased 1 percent or less in 1996 and 1997 and then decreased by similar percentages in 1998 and 1999. The extent to which tiering influenced this trend was not analyzed. But, if the number of CACFP homes had increased as projected, more children probably would have been served in 1999.

Tiering did not cause a drop in the number or nutritional quality of meals and snacks offered to children in Tier 2 CACFP homes

CACFP meal reimbursements and program rules about what type of food can be used for a reimbursable meal or snack are intended to help providers offer healthful food to the children in their care. A key question

Figure 2—Actual and projected numbers of CACFP family child care homes



about tiering was whether, with the lower Tier 2 reimbursements, providers would offer fewer or less nutritious meals or snacks.

The study found no evidence of a tiering-related decline in the quantity or quality of food offered to children in Tier 2 homes. The analysis compared Tier 2 providers in 1999 to similar providers in 1995 and found: Tier 2 providers in 1999 offered essentially the same pattern of meals and snacks as their counterparts did in 1995. Breakfast, lunch, and afternoon snack were each offered by more than 90 percent of providers.

The vast majority of meals and snacks offered by Tier 2 providers in 1999 contained the meal components required by program rules. The four CACFP-required meal components are milk; fruit, vegetables, and juice; bread and bread alternatives such as cereal; and meat and meat alternatives such as cheese or eggs. The rules specify which components must be included in each meal and snack. Compliance rates for all meals and snacks in 1999 were equal to or better than those for similar providers in 1995.

The CACFP has rules for what food components should be in a meal or snack, but no rules on nutrient content. To assess the nutrients in meals served by Tier 2 providers, National School Lunch and School Breakfast Program nutrition standards were used as benchmarks. According to those standards, breakfast should provide one-fourth of the Recommended Dietary Allowances (RDA) for food energy and five nutrients—protein, vitamin A, vitamin C, calcium, and iron; and lunch should provide one-third.



The meals offered by Tier 2 providers in 1999 contained similar or greater percentages of those RDAs than meals offered by similar providers in 1995. Breakfasts offered more than one-fourth of the RDA for all five nutrients, and lunches offered more than one-third of all but iron. Both breakfasts and lunches fell somewhat short of the targets for food energy. Tier 2 providers in 1999 moved closer to the standards by offering larger portion sizes and therefore more food energy at both meals than similar providers did in 1995.

Tier 2 breakfasts fell within ranges recommended by the Dietary Guidelines for Americans and the National Research Council's Diet and Health Report for percentages of food energy derived from total fat and carbohydrate and for levels of cholesterol and sodium. However, lunches were above those recommended ranges, except for cholesterol, which was within its recommended range. These patterns were essentially the same for Tier 2 providers in 1999 as for similar providers in 1995.



Tier 2 providers raised child care fees and held down their food spending

Average child care fees were higher for Tier 2 providers in 1999 than for similar providers in 1995 by about \$0.31 per hour, or \$11 per week for a child in care for 36 hours (adjusted for inflation). Compared with Tier 1 providers, Tier 2 providers' food spending was about \$2 lower per child per week than was projected based on their operations and locations. Information on food spending was not collected in the 1995 study.

These differences appear to reflect some providers' direct responses to the lower meal reimbursements (about 15 percent said they made these changes in response to lower reimbursements). The differences may also reflect the loss of Tier 2 providers who dropped out of the program (or did not enter it) because the child care markets in their areas would not support higher fees or lower food spending.

Tiering has added challenges for CACFP sponsors, but it has not led to a major decline in the number of sponsors

With the introduction of tiering, sponsors became responsible for:

- classifying homes as Tier 1 or Tier 2;
- determining the eligibility of children in Tier 2 homes for meals reimbursed at Tier 1 rates (if requested by the provider);
- determining each month the number of meals to be reimbursed at each rate, for Tier 2 providers with some children reimbursed at Tier 1 rates.

To the extent that it reduced providers' incentive to participate in the CACFP, tiering would also be expected to make it more difficult for sponsors to recruit and retain providers. If the added administrative responsibility and recruitment difficulty led to higher per-provider operating costs, the economic pressures on sponsors may have increased.

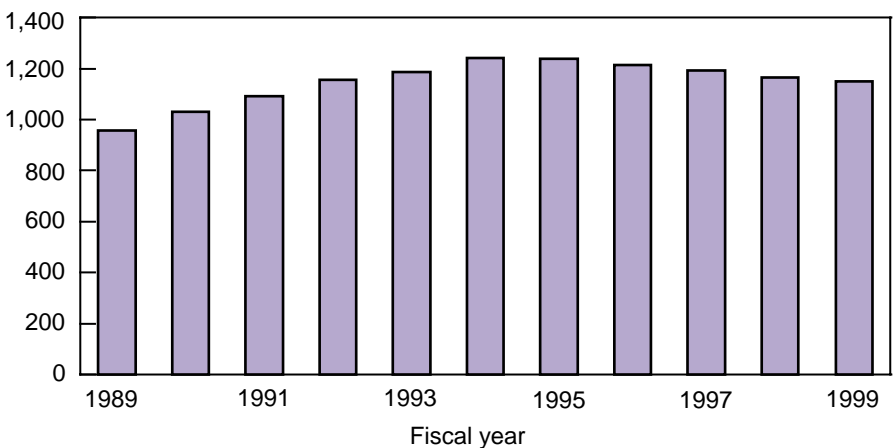
Most sponsors surveyed said that the staff hours spent on CACFP work went up after tiering began. In addition to spending time on the new tiering tasks, sponsors said they had stepped up training, monitoring visits, and recruiting. The most common reasons given for the increases in training and monitoring were to explain the details of tiering and to find and keep providers by offering a higher level of services. Sponsors said they stepped up recruitment because attracting new homes was more difficult and competition had gotten stronger among sponsors for homes.

The number of CACFP sponsors peaked in 1994-95 and declined slightly in each subsequent year. A 3.6-percent decrease occurred from 1997 to 1999. This was essentially the same as the 3.7-percent decrease in the 2 prior years, suggesting that tiering did not have a substantial effect on the number of participating sponsors (fig. 3).

Tiering had little effect on the total number of licensed family child care homes

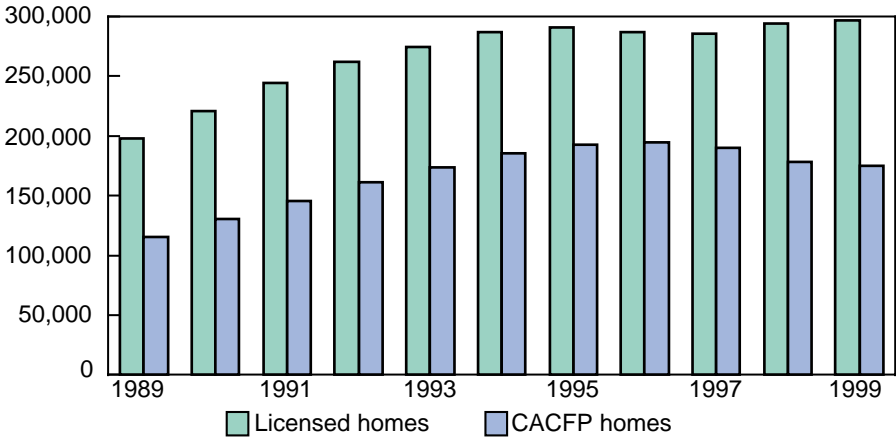
States seek to make sure child care facilities operate under correct safety and sanitary conditions by requiring all or certain classes of family child care homes to be licensed, certified, or registered (the wording and

Figure 3—Number of sponsors of CACFP family child care homes



Source: CACFP administrative data.

Figure 4—Number of licensed and CACFP family child care homes



Source: Children's Foundation data on licensed homes and CACFP administrative data.

licensing policies vary from State to State). Homes must meet the applicable State requirements in order to participate in the CACFP. CACFP benefits—particularly the meal reimbursements—therefore have been seen as a major incentive for homes to become licensed.

After declining 2 percent from 1995 to 1997, the total number of licensed homes in the United States increased by 4 percent from 1997 to 1999. In that 1997-99 period, the number of CACFP homes fell by 8 percent (fig. 4). Although the possibility cannot be ruled out that the number of licensed homes would have grown even more without tiering, the national trend does not indicate a negative impact. State-level data suggest that tiering may have contributed to a decline in licensed homes in some States, but that tiering did not play a major role.

National Agricultural Library Cataloging Record:

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The summary report of the Family Child Care Homes Legislative Changes Study is available:

Hamilton, William L., Nancy R. Burstein, and Mary Kay Crepinsek, *Reimbursement Tiering in the CACFP: Summary Report to Congress on the Family Child Care Homes Legislative Changes Study*. FANRR-22. U.S. Department of Agriculture, Economic Research Service, March 2002. <http://www.ers.usda.gov/publications/fanrr22>

Reports of more detailed results on sponsors, Tier 2 meals, children in care, trends in participation, and providers are:

Bernstein, Lawrence S., and William L. Hamilton, *Sponsoring Organizations in the CACFP: Administrative Effects of Reimbursement Tiering*. E-FAN-02-003. U.S. Department of Agriculture, Economic Research Service, March 2002. <http://www.ers.usda.gov/publications/efan02003>

Crepinsek, Mary Kay, Nancy R. Burstein, Ellen B. Lee, Stephen D. Kennedy, and William L. Hamilton, *Meals Offered by Tier 2 CACFP Family Child Care Providers: Effects of Lower Meal Reimbursements*. E-FAN-02-006. U.S. Department of Agriculture, Economic Research Service, March 2002. <http://www.ers.usda.gov/publications/efan02006>

Crepinsek, Mary Kay, Linda M. Ghelfi, and William L. Hamilton, *Households with Children in CACFP Child Care Homes: Effects of Meal Reimbursement Tiering*. E-FAN-02-005. U.S. Department of Agriculture, Economic Research Service, March 2002. <http://www.ers.usda.gov/publications/efan02005>

Hamilton, William L., Eric M. Stickney, Nancy R. Burstein, and Lawrence S. Bernstein, *Family Child Care Home Participation in the CACFP: Effects of Reimbursement Tiering*. E-FAN-02-002. U.S. Department of Agriculture, Economic Research Service, March 2002. <http://www.ers.usda.gov/publications/efan02002>

Zotov, Natasha, Shao-hsun Keng, and William L. Hamilton, *Family Child Care Providers in the CACFP: Operational Effects of Reimbursement Tiering*. E-FAN-02-004. U.S. Department of Agriculture, Economic Research Service, March 2002. <http://www.ers.usda.gov/publications/efan02004>