

# ISSUES

## IN FOOD ASSISTANCE

### Program Targeting: Effects of Reimbursement Tiering on the Child and Adult Care Food Program

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**Issue:** A 1995 study of the family child care homes portion of the Child and Adult Care Food Program (CACFP) found that nearly 80 percent of children served came from middle and higher income families. To refocus the program on low-income children, the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) mandated an income-targeted meal reimbursement structure and called for a study of its effects. The U.S. Department of Agriculture (USDA) contracted with Abt Associates Inc., for a study of the effects of tiered meal reimbursement on the family child care homes portion of the CACFP. This comprehensive study was based on administrative data and nationally representative samples of participating family child care homes, their sponsoring organizations, and the parents of the children they served.

**Background:** The CACFP is a Federal program that subsidizes healthful meals and snacks in child and adult day-care facilities. CACFP reimburses child care providers at various rates for up to two meals and one snack per day served to eligible children and, in some cases, provides child care providers with USDA commodities. The program operates in nonresidential daycare facilities including child care centers, after-school-hours child care centers, family and group child care homes, and some adult daycare centers. In fiscal year 1999, the child care component of the program served an average of 2.6 million children daily at a cost of \$1.4 billion. Thirty-seven percent

of these children were served through child care homes—the focus of this brief—and 63 percent through centers. CACFP is administered at the Federal level by the USDA Food and Nutrition Service (FNS). State agencies generally oversee the program at the local level; in Virginia, FNS' Mid-Atlantic Regional Office serves this function.

Family child care homes can participate in the CACFP only if they are sponsored by an organization that has entered into an agreement with the State office to administer the program at the local level. Sponsors are responsible for recruiting care homes, determining that the homes meet CACFP eligibility criteria, determining their tier status, 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 State CACFP offices for payment, receive the reimbursements, and distribute the meal reimbursements to the homes. Sponsors receive payments for these administrative activities that are based on a four-part formula—the lowest amount of a) actual costs, b) State-approved budgeted costs, c) the sum of a rates-times-homes schedule, or d) 30 percent of total meal reimbursements and administrative costs. The rates-times-homes schedule accounts for economies of scale by reimbursing sponsors at decreasing rates as the number of homes sponsored increases (table 1).

**Table 1—Administrative cost reimbursement rate schedule for family child care home sponsors, July 1998 - June 1999**

Number of homes	Rate per month per home		
	48 contiguous States, DC, and territories	Alaska	Hawaii
Initial 50 (homes 1-50)	\$76	\$123	\$89
Next 150 (homes 51-200)	58	94	68
Next 800 (homes 201-1,000)	45	73	53
All additional (homes 1,001 & over)	40	65	47

**Table 2—Meal reimbursement rates for family child care homes by tier, July 1998-June 1999**

Meal	48 contiguous States, DC, and territories		Alaska		Hawaii	
	Tier 1	Tier 2	Tier 1	Tier 2	Tier 1	Tier 2
Breakfast	\$0.90	\$0.34	\$1.42	\$0.52	\$1.04	\$0.39
Lunch/supper	1.65	1.00	2.68	1.62	1.93	1.17
Snack	.49	.13	.80	.22	.57	.16

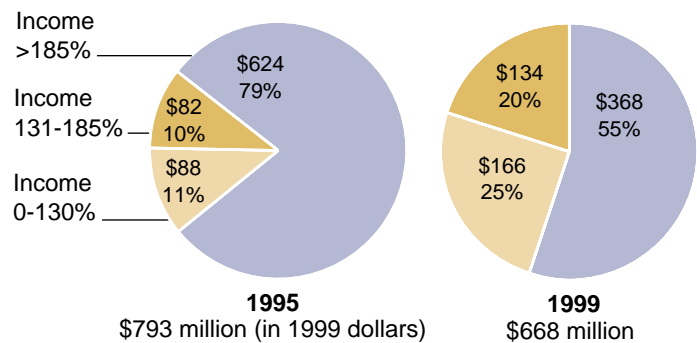
PRWORA established a two-tier structure of meal reimbursement rates for CACFP family child care homes. Homes that are either located in low-income areas or run by providers with family incomes at or below 185 percent of the Federal poverty guideline are designated as Tier 1. An area is considered low-income if 50 percent or more of the children at the local elementary school have been approved for free or reduced-price school meals, or if 50 percent or more of the children in the area are in families with incomes at or below 185 percent of the Federal poverty guidelines as measured by the most recent decennial census.

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. Tier 2 homes receive lower reimbursements, although they can be reimbursed at Tier 1 rates for meals served to children from families with incomes at or below 185 percent of the poverty guideline, given appropriate documentation. Tiering cut meal reimbursements almost in half for Tier 2 providers. As shown in table 2, rates are higher in Alaska and Hawaii due to higher food costs in those States.

**Findings:** A key study finding was that the family child care homes component of the CACFP became substantially more focused on low-income children after tiering was introduced. The share of meal reimbursement dollars for meals served to children with household incomes at or below 185 percent of the Federal poverty guideline doubled from 21 percent in 1995 to 45 percent in 1999 (fig. 1). The reallocation resulted from 3 factors: 1) the number of low-income children served by CACFP homes grew by 165,000 (80 percent); 2) the number of higher income children fell by 174,000 (23 percent); and 3) 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. More than half of higher income children receive Tier 1 reimbursed meals because they are cared for by Tier 1 providers.

Another important finding of the study was that tiering reduced the number of family child care homes participat-

**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.

ing in the CACFP, but attendance declined only a little. The number of CACFP family child care homes declined by 10 percent from 1996 to 1999. Although factors other than tiering might arguably have caused a decline, projections based on economic and demographic trends indicate that the number of homes would have grown slightly in the absence of tiering (fig. 2). Total attendance changed relatively little, however, with increases of 1 percent or less in 1996 and 1997 and similar magnitude decreases in 1998 and 1999.

Results from the study also indicated that tiering did not lead to deterioration in the number or nutritional quality of meals and snacks offered to children in Tier 2 CACFP homes. Compared with similar providers in 1995, Tier 2 providers in 1999 offered essentially the same pattern of meals and snacks, complied equally or better with meal component requirements for all meals and snacks, and offered meals and snacks that contained similar or greater percentages of the recommended daily amounts of nutrients.

Results indicated that Tier 2 providers raised child care fees and held down food expenditures. Average child care fees were higher for Tier 2 providers in 1999 than for similar providers in 1995 by about \$11 per week for a

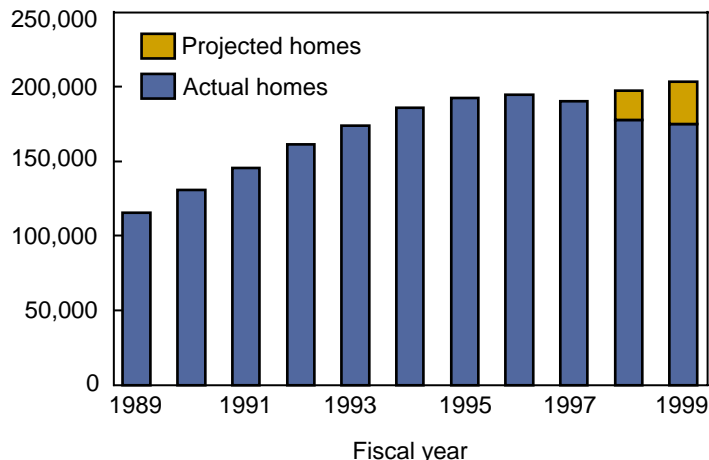
child in care for 36 hours, in constant dollars. Tier 2 providers' food expenditures were about \$2 lower per child per week than would be projected based on characteristics of their operations and location. These differences appear to reflect some providers' direct responses to the lower meal reimbursements (about 15 percent said they made these changes in response to lower reimbursements) and selective attrition driving out (or preventing entry by) Tier 2 providers who operated in markets that would not support higher fees or lower expenditures.

Tiering has added challenges for CACFP sponsors, but it has not led to a substantial decline in the number of sponsors. Public and private nonprofit sponsoring organizations are responsible for ensuring that providers meet CACFP requirements and serve as conduits for reimbursements to providers. 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); and, for Tier 2 providers with some children reimbursed at Tier 1 rates, determining each month the number of meals to be reimbursed at each rate. Along with those new administrative duties, many sponsors reported increased difficulty in recruiting and retaining providers. The number of CACFP sponsors peaked in 1994-95 and declined slightly in each subsequent year. The rate of decline has been unchanged since tiering was instituted (fig. 3).

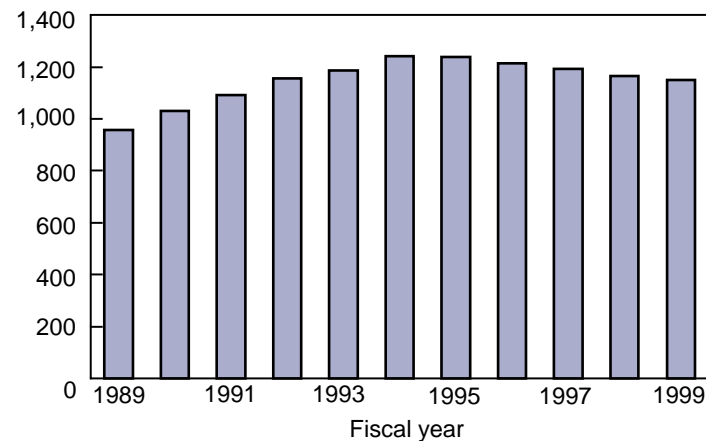
Finally, results from the study indicated tiering had little effect on the total number of licensed family child care homes. Homes must be licensed, certified, or registered according to applicable State requirements in order to participate in the CACFP. CACFP benefits have been seen as a major incentive for homes to become licensed. While the number of CACFP homes fell, the total number of licensed homes increased by 4 percent from 1997 to 1999 (fig. 4).

**Unresolved Questions:** The comprehensive study of CACFP has raised questions in two key areas. First, reimbursement tiering was instituted to refocus the child care homes portion of the CACFP on low-income children without a means test of each individual child's family income. Low-income status of the areas in which providers are located or their own low-income status is used as a proxy for the children's low-income status. Tiering was conducted in this manner to avoid a child means test that was blamed for low participation by homes when they were first allowed into the program in 1976. Parents were required to disclose their family income to CACFP family child care providers; this means test was viewed as burdensome for providers to administer and too

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

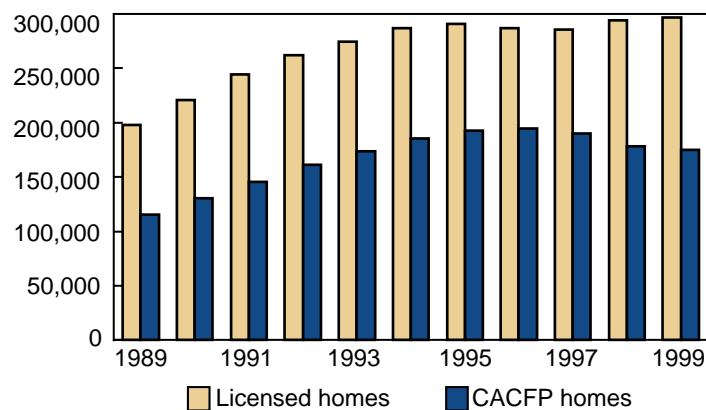


**Figure 3—Number of sponsors of CACFP family child care homes**



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.

invasive for their relationship with the few families for whom they each provided child care.

The child means test and a three-level reimbursement tiering system based on family income levels was removed from the child care homes portion of the CACFP in 1978. The manner in which the current indirect means test was instituted guarantees that nearly all low-income children are served meals that are reimbursed at the Tier 1 rates, but also allows higher income children cared for by Tier 1 providers to be served meals reimbursed at those rates. In order to restrict Tier 1 reimbursements exclusively to low-income children's meals, a more direct means test is required. How such a test could be designed and put into operation without causing a large dampening effect on participation by child care homes is an open question.

Second, while the number of sponsoring organizations does not appear to have been reduced by tiering, sponsors reported changes in the content of training and greater difficulty in recruiting homes. Sponsors also rate low-income area determinations and providers' low-income status determinations as their most burdensome duties. Open questions regarding sponsoring organizations include:

- Has the decline in participating homes put some sponsors on tenuous financial grounds that will cause them to drop out of the program in the near future?
- Is the nutrition knowledge of providers adequate now that sponsors need to spend some training time to educate providers on tiering determination rules?
- Is the reimbursement of sponsors' administrative costs adequate now that tiering has added income status determination to their duties?

ERS has funded an exploratory study on sponsors' administrative cost reimbursements that will shed some light on the last of these questions.

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