

# Sponsoring Organizations in the CACFP: Administrative Effects of Reimbursement Tiering

## Introduction

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The Child and Adult Care Food Program (CACFP) is a Federal program that subsidizes nutritious meals and snacks in participating child care and adult day care facilities. It is administered by the Food and Nutrition Service (FNS) of the U.S. Department of Agriculture (USDA). Under CACFP, care providers receive a fixed reimbursement per meal served, with different reimbursement rates for different types of meals such as breakfasts, lunches, and snacks.

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) changed the meal reimbursement structure for family child care homes. The law established two tiers of reimbursement rates, with the higher rates applying to homes located in low-income areas or operated by low-income persons. The intent of these changes to the CACFP was to target program benefits to low-income children.

The law also called for a study of how tiering affected the family child care homes, their sponsoring organizations, and the children participating in the program. This report addresses issues related to the organizations that sponsor family child care homes in the CACFP. It describes the ways that sponsoring agencies have implemented reimbursement tiering and assesses the burden of the new requirements. This is one in a series of reports of the *Family Child Care Homes Legislative Changes Study*, which was carried out by Abt Associates Inc. under contract to USDA's Economic Research Service.

## Description of the Child and Adult Care Food Program

CACFP reimburses child and adult care providers at a fixed amount per qualifying meal served and, in some cases, also supplies them with USDA commodity food. The program operates in nonresidential day care facilities including child care centers, after-school child care centers, family and group child care homes, and some adult day care centers.<sup>1</sup> In fiscal year 1999, the child care

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<sup>1</sup> As of July 1999, the CACFP also provides reimbursements for meals and snacks served to eligible children in homeless shelters. Eligibility for the child care portion of the CACFP is limited to children age 12 and under. Exceptions are made for children of migrant workers, who may participate through age 15; for children enrolled in at-risk after school programs, who may participate through age 18; and

component of the program served an average of 2.5 million children daily at a cost of \$1.6 billion. Thirty-six percent of these children were served through child care homes and 64 percent through centers. The CACFP is administered at the Federal level by FNS. State agencies administer the program at the local level.<sup>2</sup>

From its inception, the goal of the CACFP has been to support low-income children in child care. When the program was first established by Congress in 1968 under Section 17 of the National School Lunch Act (42 U.S.C. 1766), participation was limited to center-based child care in areas where poor economic conditions existed. Beginning in 1976, family child care homes became eligible to participate provided that they meet State licensing requirements where these are imposed, or otherwise obtain approval from a State or local agency. In addition, homes must be sponsored by a public or private nonprofit organization that assumes responsibility for ensuring compliance with Federal and State regulations and that acts as a conduit for meal reimbursements.

Initially, reimbursement rates for meals and snacks served in homes, like those served in centers, were based on a means test of the family incomes of individual children.<sup>3</sup> Providers complained that the means test was overly burdensome and too invasive for their relationship with the families for whom they provided child care. In addition, sponsors claimed that meal reimbursements were insufficient to cover their administrative costs and allow for adequate reimbursement to the homes.<sup>4</sup> As a consequence, very few homes participated in the program—fewer than 12,000 by December 1978.

The 1978 Child Nutrition Amendments (P.L. 95-627) incorporated wide-ranging changes to the program with the purpose of expanding participation, particularly among family child care homes. Most significantly, the 1978 Amendments eliminated the means test for family child care homes. In addition, the Amendments separated the reimbursement of sponsors' administrative costs from the meal reimbursement for family child care homes.<sup>5</sup>

In the years following the elimination of the means test, the family child care component of the CACFP experienced tremendous growth. At the same time it increasingly became a program serving middle-income children. The *Early Childhood and Child Care Study*, conducted in 1995, reported

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for children with disabilities in homes that serve mostly children under 18, who may participate through age 18.

<sup>2</sup> The exception is Virginia, where the FNS Mid-Atlantic regional office administers the CACFP.

<sup>3</sup> Three categories of reimbursement were established, corresponding to free, reduced price, and full price meals. The categories were defined in terms of the household incomes of participating children and were, respectively: 125 percent or less of the applicable Federal poverty guideline, 126 to 195 percent of the poverty guideline; and more than 195 percent of the poverty guideline.

<sup>4</sup> Meal reimbursements generated by participating homes were paid directly to the sponsoring agency. The sponsor was permitted to deduct administrative costs before passing the residual reimbursement on to the providers.

<sup>5</sup> Other changes included the establishment of alternative procedures for approving homes and the provision of start-up and expansion funds for family child care sponsors. Also, income eligibility thresholds for children in centers were changed from 125 and 195 percent of the poverty line to 130 and 185 percent.

that over 190,000 homes were participating in the program, and nearly 80 percent of the children served in these homes were from families with incomes above 185 percent of the Federal poverty guideline (Glantz *et al.*, 1997).

## The Legislative Changes Implemented in 1997

Among the many changes included in the PRWORA, the Congress acted to re-focus the family child care component of the CACFP on low-income children. The Act changed the reimbursement structure for the family child care component of the program to target benefits more specifically to homes serving low-income children. The new rate structure for family child care homes took effect July 1, 1997.

Under the new reimbursement structure, family child care homes located in low-income areas or operated by low-income providers have reimbursement rates that are similar to the rates that existed for all family child care homes before the PRWORA. These homes are called Tier 1 homes. To be classified as Tier 1, a home must meet one of the following criteria:

- The child care home is operated by a provider whose household income meets the income standard for free or reduced price meals in the National School Lunch and School Breakfast Programs (i.e., at or below 185 percent of the Federal poverty guideline);
- The home is located in an area served by a school enrolling elementary students in which at least 50 percent of all enrolled children are certified eligible to receive free or reduced price meals; or
- The home is located in a census block group in which at least 50 percent of the children residing in the area are members of households which meet the income standards for free or reduced price meals.

All other homes are classified as Tier 2 and reimbursed at substantially lower rates. Tier 2 homes can receive the higher Tier 1 reimbursement rates for meals served to children whose household income is at or below 185 percent of the poverty guideline, provided that the families submit forms indicating their eligibility to their provider's sponsoring organization or the sponsor has other documentation that verifies the child's categorical eligibility for free meals under federally funded child nutrition programs.<sup>6</sup>

The new reimbursement structure cut CACFP reimbursements almost in half for Tier 2 family child care homes. In fiscal year 1999, Tier 2 homes received meal reimbursements averaging \$177 per month (including some meals reimbursed at the Tier 1 rate). Had they been reimbursed at the Tier 1 rates for all meals, their monthly reimbursements would have averaged \$326 (Hamilton *et al.*, E-FAN-02-002).

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<sup>6</sup> Children who are members of households receiving food stamps, Temporary Assistance for Needy Families, or certain other types of assistance are categorically eligible to receive free meals.

## The Role of Sponsors and the Legislative Changes

In order to participate in the CACFP, a family child care home must have a public or private nonprofit sponsoring organization. Before the PRWORA, sponsors' key requirements included:

- For each potentially participating home, submit to the State agency information indicating the home's fulfillment of CACFP eligibility requirements;
- Make pre-approval visits to each potentially participating child care home to discuss the program and verify the home's ability to provide meal service;
- Conduct training for providers before they begin participating in the CACFP;
- Conduct subsequent training at least annually;
- Monitor homes' compliance with meal pattern and record keeping requirements by means of at least three reviews annually;
- File claims for providers' meal reimbursements, based on information that sponsors obtain from the providers and verify; and
- Receive reimbursement payments and disburse them to the providers.

The tiered reimbursement structure created by the PRWORA means additional responsibilities for sponsors. Now they must:

- Classify all participating child care homes as Tier 1 or Tier 2 homes;
- Review Tier 1 classifications at periodic intervals—annually for homes classified on the basis of provider income, at least triennially for homes classified on the basis of school district data, and at least decennially for homes classified on the basis of census block group data;
- For Tier 2 homes that opt to have the low-income status of their children determined, determine the eligibility of individual children for the higher reimbursement level.<sup>7</sup> This involves obtaining information annually about the children's family incomes or participation in programs that confer categorical eligibility for Tier 1 reimbursed meals, such as the Food Stamp Program or TANF;
- At least annually, re-determine family income eligibility of children in Tier 2 homes who are receiving meals reimbursed at the Tier 1 rates; and
- In filing claims for meal reimbursements for Tier 2 homes, indicate the number of meals to be reimbursed at the lower rates and the number at the higher rates.

In addition to introducing explicit new responsibilities, tiering might be expected to alter the way that sponsors performed some of their continuing functions. For example, initial training would have to cover the issue of tier classification and why homes are classified into particular tiers. For Tier 2 providers, training would have to deal with the potential availability of Tier 1 reimbursements for meals served to low-income children. More subtly, the lower reimbursements for Tier 2 providers might mean that sponsors would find it harder to recruit and retain homes, which could lead to a variety of changes in the way they operate. If tiering led to a reduced number of homes participating

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<sup>7</sup> A Tier 2 home may choose to accept reimbursements for all meals at the Tier 2 rate, in which case sponsors do not have to determine the eligibility of children served by that home.

in the CACFP, this would imply reduced revenue for sponsors, which could lead in turn to more general changes in their CACFP or non-CACFP operations.

Sponsors are reimbursed for their CACFP administrative activities. The administrative payment is the lower of four factors: the sponsor's actual costs; a budgeted amount approved by the State; a fixed amount per home based on a national rate schedule published annually by USDA; and 30 percent of the combined meal reimbursement to providers and the administrative payment to sponsors. The national rate schedule for fiscal year 1999 is shown in Exhibit 1. The PRWORA did not alter the reimbursement rules or rates for sponsors.

The median sponsor in fiscal year 1999 had 67 participating child care homes, according to the survey of sponsors. Using the national per-home rate schedule, this would generate maximum monthly reimbursements of \$4,786 or about \$57,000 annually.

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**Exhibit 1**  
**Maximum Monthly Administrative Payments for Family Child Care Home Sponsors**  
**July 1, 1998 - June 30, 1999**

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<b>Number of Homes</b>	<b>Rate per Home</b>
Initial 50 (homes 1-50)	\$76
Next 150 (homes 51-200)	58
Next 800 (homes 201-1,000)	45
All additional (homes 1,001 & over)	40

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## The Family Child Care Homes Legislative Changes Study

The PRWORA called for a study of the effects that its changes had on the CACFP. The Act posed questions about effects on CACFP sponsors, on participating family child care homes, and on the families served by those homes. USDA accordingly designed, and contracted with Abt Associates Inc. to implement, the *Family Child Care Homes Legislative Changes Study*. The study began in late 1997.

The *Family Child Care Homes Legislative Changes Study* involved extensive data collection from nationally representative samples of family child care homes, their sponsors, and the parents of children they serve. A multi-stage sampling approach was used. In the first stage, 20 States were selected. A sample of sponsors was drawn within each selected State. The selected sponsors provided lists of the child care homes that they sponsored, and a sample of family child care homes was drawn from each sponsor. In the final sampling stage, a subsample of the family child care homes was used to draw a sample of households whose children were in the care of those providers. The sample design for the sponsor survey is described further in Appendix A.

The principal data source for this report is the self-administered *survey of family child care sponsors*. The survey, conducted in January-August 1999, asked about certain characteristics of the sponsoring organizations, procedures through which they implemented the requirements associated with the new tiered reimbursement structure, and the effects of tiering on their operations. (Appendix B contains a copy of the survey instrument.) The survey sample included 301 eligible sponsors, of whom 268 returned completed questionnaires, for a response rate of 89 percent. Where possible, data from the survey are compared with findings of the 1995 *Early Childhood and Child Care Study*.

Because the surveys use a complex sampling design, the survey data must be weighted in any estimates of national means or proportions. All means and proportions presented in this report are therefore weighted, using weighting procedures described in Appendix A. The number of sample members included in each analysis is shown as an unweighted count. Statistical significance tests and measures of variability use a procedure that takes the complex sampling structure into account.

Differences between groups that have less than a 10-percent probability of arising by chance are reported as statistically significant. Some disciplines conventionally consider differences to be significant only if their probability of arising by chance is less than 5 percent. Accordingly, differences that are significant at the 10-percent level but not the 5-percent level are indicated as ( $p < 0.10$ ) in the text. Differences that are significant at the 5-percent level or better are simply reported as statistically significant. In the tables, three levels of statistical significance are noted, 1-percent, 5-percent, and 10-percent.