



STATE OF CONNECTICUT
DEPARTMENT OF EDUCATION



TO: Sponsors of the National School Lunch Program

FROM: Cheryl Resha, Education Manager
Bureau of Health/Nutrition, Family Services and Adult Education

DATE: April 19, 2011

SUBJECT: **Operational Memorandum #17-11**
Equity in School Lunch Pricing

This memorandum provides information relating to section 205 of the Healthy, Hunger-Free Kids Act of 2010, (Public Law 111-296). This provision requires school food authorities (SFAs) participating in the National School Lunch Program to ensure that schools are providing the same level of support for lunches served to students who are not eligible for free or reduced price lunches (i.e., paid lunches) as they are for lunches served to students eligible for free lunches. **This provision is effective July 1, 2011.**

The U.S. Department of Agriculture (USDA) has indicated that an implementation memorandum will not be issued for this provision. However, the USDA’s Food and Nutrition Service (FNS) expects to publish an interim rule by the provision’s effective date. The public will have an opportunity to comment on the rule, and the USDA anticipates issuing further guidance in conjunction with publication of the rule.

The attached Equity in School Lunch Pricing Fact Sheet is meant to provide information to SFAs as they await the publication of the rule. Also attached is clarification that was provided by the FNS Northeast Regional Office.

Questions may be directed to:

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Attachments (2)

1. What is the “Equity in School Lunch Pricing” Provision?

- Effective July 1, 2011, section 205 of the Healthy, Hunger-Free Kids Act of 2010 requires school food authorities (SFAs) participating in the National School Lunch Program to provide the same level of support for lunches served to students who are not eligible for free or reduced price lunches (i.e., paid lunches) as they are for lunches served to students eligible for free lunches. The Act directs SFAs to:
 1. Compare the average price charged for lunches served to students not eligible for free or reduced price lunches (i.e., students receiving “paid lunches”) to the difference between the higher Federal reimbursement provided for free lunches and the lower Federal reimbursement provided for paid lunches.
 2. If the average paid lunch price is *less than* the difference, an SFA must either gradually adjust average prices or provide non-Federal funding to cover the difference.

2. Why is this provision important?

- Historically, there have been three main sources of funds provided to nonprofit school food service accounts: Federal reimbursements, paid meal revenues, and State and local funding. The Federal reimbursement for paid meals was designed to be minimal in relation to these other sources and has always been substantially less than the reimbursement for free and reduced price meals.
- Research indicates that average prices charged for paid lunches in some SFAs are less than the cost of producing those lunches.
- Pricing paid lunches below the cost of production effectively increases Federal subsidies for higher income children because Federal funds intended for free and reduced price lunches are being used to help fill in the gap between what a paid lunch costs and what the school receives for it. Children across all income levels are negatively affected by limiting the funds available to provide nutritious meals.
- This provision will help ensure that schools have funding available to support serving nutritious meals to all students.

3. Which SFAs will be affected by this provision?

- Not all SFAs will be required to adjust prices or find alternative sources of funding for paid lunches. Applying this provision using current Federal reimbursement rates, SFAs in the continental U.S. now charging, on average, \$2.46 or more for a paid lunch would not be required to adjust prices in school year 2011-12.
- An SFA in the continental U.S. currently charging, on average, less than \$2.46 for a paid lunch may be required to either gradually increase prices or provide additional non-Federal support for its lunches. To determine how much, these SFAs must calculate an adjusted average paid lunch price.
 - For school year 2011-2012, the adjusted average price is the average price charged in school year 2010-2011 increased by a factor equal to two percentage points above the inflation rate and may be rounded down to the nearest 5 cents. For school year 2011-2012, the inflation factor is 1.14 percent. Combined with the required annual 2 percentage point increase, the total adjustment required is 3.14 percent.
 - This year's relatively low food price inflation, combined with the ability to round down, means that for this coming school year, SFAs in the continental U.S. with lunch prices below \$2.46 in School Year 2010-11 would have to increase lunch prices by only five cents or not at all.
- In general, when the adjusted average price is more than the current price, an SFA would have to either increase its average paid lunch price to the adjusted average price or provide additional non-Federal support for its paid lunches. The law caps the required increase in the average paid lunch price at 10 cents in any year. Therefore, an SFA with a significant gap between its price and the required level will have several years to make adjustments to its prices and/or provide other funding to the SFA account in order to meet this requirement.

4. Will SFAs have control over establishing paid lunch prices?

- SFAs maintain significant local control in establishing the prices for paid lunches. SFAs may maintain low paid lunch prices if they ensure that sufficient funding from non-Federal sources is added to the school food service account to cover the required revenue. SFAs also may vary paid lunch prices by school (for example, charging lower prices in schools located in lower-income areas or charging different prices in elementary and secondary schools), as long as the average revenue requirement is met across the SFA.

5. Will families with incomes slightly above the threshold for free and reduced price meals be disproportionately impacted by this provision?

- This provision does not require that additional revenue be secured through paid lunch price increases. Revenue can be generated from any non-Federal source.
- By limiting the maximum required annual average price increase to 10 cents, the Act allows for a gradual increase in paid lunch prices, thereby minimizing the impact on families with incomes just above the level eligible for reduced price meals.
- SFAs can also choose to vary the price of paid lunches by school as long as the average paid lunch price across the district meets the requirement. Therefore, SFAs could choose to keep lunch prices lower in schools with higher concentrations of low-income students.
- USDA's analysis suggests that the effect on participation of a 5 or 10 cent increase in the price of a paid lunch is very small – less than a 5 percent difference even after many years of implementation. However, USDA will carefully monitor the implementation of this provision and any impact on participation.

Equity in School Lunch Pricing – Why do I have to raise the cost of my paid lunches?

Bob Deegan, CNP Chief, USDA FNS Northeast Region

Section 205 of the Healthy, Hunger Free Kids Act of 2010 states that:

Effective for the school year beginning July 1, 2011, schools are required to charge students for paid meals at a price that is on average equal to the difference between free meal reimbursement and paid meal reimbursement; Schools that currently charge less are required to gradually increase their prices over time until they meet the requirement; Schools may choose to cover the difference in revenue with non-Federal funds instead of raising paid meal prices.

Other than this being a run-on sentence that would have my Mother, the English teacher, running for her red pen, what does it mean? And more importantly, why is Congress doing this to us and under what authority?

This all stems from a study done a couple of years ago that showed in many school districts, the federal reimbursements for free/reduced price lunches were offsetting the cost of paid lunches that were priced below the actual cost of producing the meal. Pricing paid lunches below the cost of production effectively increases Federal subsidies for higher income children because Federal funds intended for free/reduced price lunches are being used to help offset the difference between the cost of producing the meal and what the school receives for it. In other words, the federal government was indirectly subsidizing paid lunches. Congress, who funds all Child Nutrition Programs, cannot have our Federal tax dollars being used for a purpose they were never intended for and that's where Section 205 comes from.

Implementation guidance is still being developed for this Section and a nondiscretionary interim rule is scheduled to be issued by USDA Food and Nutrition Service in the spring 2011. The most important thing for School Food Authorities to know now is how to determine if paid lunch prices need to be raised. It's equally important to also know that the largest price increase required by this Section is 10¢ and that SFA's still have the authority to raise their prices more than 10¢, if needed.

The first step is determining your average cost for a paid lunch throughout the SFA. If your average cost is \$2.46 or higher, you do not need to raise your paid lunch price. \$2.46 is the difference between the Federal reimbursement for a free lunch (\$2.72) and a paid lunch (26¢). If your average cost is less than \$2.46, you need to calculate an adjusted average paid lunch price. This is done by taking your average cost and multiplying it by an annual inflation factor (1.14% for SY 2011-12) plus 2% for a total adjustment of 3.14%. The results may be rounded down to the nearest 5¢. Here are two examples:

Example 1: Average cost of paid lunch is \$1.50.
\$1.50 x 3.14% (0.0314) equals 0.047 (4.7¢)
Result – may raise paid lunch price by 5¢ or may round down to 0 and keep the same price for SY 2011-12

Example 2: Average cost of paid lunch is \$2.00.
\$2.00 x 3.14% (0.0314) equals 0.063 (6.3¢)
Result – must raise paid lunch price by at least 5¢ for SY 2011-12

Before you say anything, yes, we did notice the incongruity in these examples in that SFA's with paid lunches priced the lowest would not be required to raise their price, while SFA's closer to the \$2.46 point would have to raise them. Unfortunately, this is how the law was written and it's the process we must use.

There are still many good questions needing to be answered on this Section. Commonly heard ones include:

My SFA is already making a nice profit and I'm serving healthy, nutritious food so why would I want to penalize students by raising prices?

My SFA has many poor families whose income is just above the threshold for reduced price meals. This price increase would hurt these families.

Meals that are not priced in increments of 25¢ increase the likelihood of errors at the POS and also slow-down the line. Can I raise my price by 25¢ and then not have to raise it again for the next 2-3 years?

We have an answer to the second question and the other two should be answered in the interim rule due out this spring. For the second question, SFA's may price meals higher at those schools with lower free/reduced price percentages to allow the costs at the schools with the poorest families to stay the same as long as the average cost reflects the increase.