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## MEMORANDUM

TO: Vermont Senate Committee on Agriculture  
FROM: Rosie Krueger, Assistant Director of Child Nutrition Programs  
SUBJECT: Impact of Universal Free School Meals in Vermont  
DATE: January 16, 2019

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Advocacy groups in Vermont have suggested that the Legislature consider how to offer free universal school meals to all students in Vermont schools. This memo describes how meals are currently paid for and what options exist for offering universal free meals under the federal child nutrition programs, and attempts to describe some of the potential costs and potential hurdles of moving to statewide universal free meals.

### **Snapshot of School Meals in Vermont**

In the 2017-2018, public school students in Vermont ate 7,373,089 school lunches and 4,117,509 school breakfasts through the National School Lunch Program (NSLP) and the School Breakfast Program (SBP).<sup>i</sup> This means that each day, approximately 41,000 students (54%) ate school lunch, and approximately 22,900 students (30%) ate school breakfast. Statewide, approximately 59% of school lunches and 74% of school breakfasts were served at no cost to students through state and federal funding.<sup>ii</sup> 74 schools served breakfast and lunch at no charge to all students, and an additional 13 schools served breakfast at no charge to all students.

### **How School Meals are paid for in a “Pricing” program**

In the NSLP and SBP, families with incomes under 135% of the federal poverty level qualify for free meals. This means the federal government pays the school \$3.37 for each lunch served, and \$1.79 for each breakfast served. Families between 135% and 185% of the federal poverty level qualify for “reduced price” meals. However, in Vermont, the State pays for the family’s share of the cost. For each reduced price lunch served, the federal government pays \$2.97, and the state pays \$0.40. For each reduced price breakfast, the federal government pays \$1.49 and the state pays \$0.30. Families above 185% of the federal poverty level qualify for “paid” meals. The federal government subsidizes the paid meals with \$0.37 per lunch served and \$0.31 per paid breakfast served. The student’s family pays the remainder, usually around \$3 per lunch and \$1.84 for breakfast, depending on the school. The federal government also provides \$0.3425 worth of USDA Foods for each student lunch served, regardless of free, reduced or paid status.

### Revenue for student lunches

Reimbursement + price charged + USDA Foods = Revenue



This means that schools usually have about \$3.71 to pay for food, labor, supplies, equipment and administration to produce each lunch, and between \$1.79 and \$1.84 to pay for each breakfast. The Vermont Agency of Education (AOE) has not independently determined whether these costs accurately reflect the actual cost to produce each meal. However, we do know that many schools run food service account deficits, which suggests that these funds are not enough to cover the true cost of producing the meals. The last USDA School Lunch and Breakfast Cost Study, conducted in 2005-06, indicated that on average nationwide, revenues only covered 84% of the full cost of providing meals. <sup>iii</sup>

### Qualifying for Free & Reduced Meals

Students may be “directly certified” to receive free meals because they participate in other means-tested programs with a cut-off of 135% of the federal poverty level, including 3SquaresVT (SNAP) or ReachUp (TANF). In addition, homeless or migrant students identified by a school official or the state as participating in Head Start, or as Homeless, Migrant or State Placed Foster are all considered to be directly certified. Families may also qualify for free or reduced meals by submitting an application showing that their income is below 185% of the federal poverty level.

### Options for Offering Universal Free Meals

USDA allows schools to offer meals at no charge to students in four different ways. These are the Community Eligibility Provision (CEP), Provision 2, Non-Pricing, and Provision 3. The vast majority of sites currently offering meals at no charge use the Community Eligibility Provision with most of the rest using Provision 2. A few sites run Non-Pricing programs and no sites utilize Provision 3.

### Community Eligibility Provision:

CEP is a non-charging option for the highest poverty schools. Only schools where 40% or more of the students are directly certified are eligible to apply. The number of directly certified students is multiplied by 1.6 to obtain the percentage of meals that will be reimbursed at the “free” rate. All other meals must be paid for with non-federal funds. The school does not collect applications, and only counts the number of total meals served to students. The percentage of meals claimed as “free” stays the same for 4 years, or a school has the option to reestablish their numbers each year if the directly certified percentage increases. After 4 years, a school must re-establish their Identified Student Percentage (ISP). At that time, if a school’s directly certified percentage has dropped below 40% they may continue to operate the program in a grace year, but they cannot continue the program beyond that if their directly certified percentage remains below 40%.

For schools with a directly certified percentage of around 60% or more, the 1.6 multiplier means that 100% of the meals served to students receive federal reimbursement at the free rate. However, for schools with a directly certified percentage closer to 40%, the cost of covering the “paid” meals with non-federal funds can be a significant burden. Sixty-three schools in Vermont are currently participating in CEP. Several schools are now in their fifth “grace” year, and with the improving economy, their directly certified percentages have dropped below 40% and they will need to go back to charging for meals or decide to operate a Provision 2 or Non-Pricing program next year. Even among schools that continue to qualify after 4 years, we are seeing a reduction in directly certified percentages, meaning that the school is having to pick up a larger share of the cost of the program.

### **Provision 2:**

Under Provision 2, schools collect free and reduced meal applications and direct certification information during the first “base” year of operation. They do not charge for the meals, but they track the status of the students who eat during the first year, and claim reimbursement from USDA and the state based on the number of free, reduced and paid students who eat. In the three subsequent years, the percentages of free, reduced and paid students who ate during the first year are applied to the total number of students who eat, so individual status is no longer tracked, reducing administrative burden. In all years, the school must come up with a non-federal source of funds to pay for the “paid” student meals. In the 5<sup>th</sup> year, the school must re-establish their claiming percentages by again collecting applications and tracking the status of each student who eats. If the school can demonstrate that the socioeconomic status of the community is unchanged, the state may grant an extension of the percentages set in the initial base year for an additional 4 years. During the base year, USDA requires that the state review all of the schools’ applications to ensure accuracy. Depending on the size of the school and number of errors found, this base-year review and subsequent report can take approximately 8 hours of labor at the state agency level for each school.

It is difficult to predict how much non-federal funding a school will need to come up with in order to cover the cost of the paid meals under Provision 2. If there is high participation among free and reduced students and low participation among paid students in the first year (often an indicator of low meal quality) then the school’s base year percentages will be very favorable. If the school subsequently increases meal quality and overall participation, then they may break even. However, if participation among paid students is high during the first year, then the base year percentages will be unfavorable and the school may end up having to cover the cost of the “paid” meals. For a typical school, these costs can be several tens of thousands of dollars.

### **Non-Pricing Program:**

In this option, a school collects applications and direct certification information for its students each year, and the school claims reimbursement based on the status of the students who eat. Students in “paid” status are not charged for the meals, and a non-federal source of funds must be used to cover the family’s share of the paid meal cost.

### **Provision 3:**

Under this provision, a school can opt to simply receive the same level of federal cash reimbursement and USDA Foods assistance each year, for a period of 4 years, based on what was received in the last year for which they made eligibility determinations and counted meals.

At the end of each 4-year period, the state may approve a 4-year extension if the school can show that there is no change to the economic status for the students (through census or other data). The amount is adjusted each year to reflect changes in inflation and enrollment. The school does not charge for meals, and the additional revenue needed to support the program must come from a non-federal source. No Vermont schools currently participate in this option.

### **Program Costs of Moving to Universal Free Meals Statewide**

Free and Reduced meal applications are used as a metric for student poverty throughout the education system and beyond. If meals are universally available for free, families will not have an incentive to return applications and it is likely that free and reduced numbers would drop across the board; AOE has observed this anecdotally at a few small schools that operate Non-Pricing programs. Many, but not all, of the students in families below 135% of the Federal Poverty Level would still be identified through direct certification. Statewide there are approximately 18,000 public school students who are directly certified for free meals through DCF, and approximately 11,000 students who qualify as free or reduced based on the school meals applications that their families complete. Assuming that most of those families would stop submitting applications once meals were universally free, Vermont's statewide free and reduced percentage would drop from around 40% to around 25%.

If schools statewide implemented Non-Pricing programs, we can assume that over the long run, the only students in "free" status would be those on the direct certification list, and there would be few or no students with "reduced" status. This allows us to make a ballpark estimate of what the state or local entities would need to contribute to cover the cost of meals for students in paid status. Assuming a public school enrollment of approximately 75,000 students<sup>iv</sup>, and assuming that approximately 18,000 would be directly certified as free, we can assume that non-federal funds would need to pay the student share of breakfast and lunch for 57,000 students. At \$3 for lunch and \$1.84 for breakfast, the required state or local contribution might be approximately \$50 million per year.<sup>v</sup> There would be some small offsetting savings: the state would receive an additional \$2 million worth of USDA Foods because of all the additional meals served and the state's current costs to cover the family's share of the reduced price category would be eliminated.

An additional cost that we have not calculated is that the drop in free and reduced lunch rates would mean that many schools who are currently eligible for "severe need" reimbursement rates would likely no longer qualify for those payments. These schools receive an additional \$0.35 per free or reduced breakfast served and an additional \$0.02 per reimbursable lunch served from USDA.

This is certainly not a thorough evaluation of the costs of a universal meals program, but is meant to convey the scale of the potential expense to the state and/or local governments. This does not reflect any savings that might result throughout the school community as a result of ensuring that more students are fed, or some administrative savings that could occur at the school level from a reduction in application processing.

## Other Programs Impacted by Universal Meals

A significant drop in free and reduced percentages, discussed above, would negatively impact many other federal and state programs. These programs use free and reduced data as a metric for student poverty.

Free and Reduced data is used to determine eligibility and funding for the following ways:

- E-Rate programs for school & local library technology
- TCLI program (student loan forgiveness for teachers in low income schools)
- Qualifying a summer meal site to offer free meals for all children ages 0-18
- Qualifying an afterschool meal site to offer free meals for all children ages 0-18
- Equity determinations for state and federal accountability systems
- Distribution of Title 1 funds among Vermont schools.

This is not an exhaustive list, there may be additional programs impacted and other agencies such as AHS would need to review the implications for their programs.

Schools who do not collect any applications because they are participating in CEP use a different “household income form” to try to collect family income information for these programs. Some schools have reported struggling to collect this information from families when it is not tied to qualifying for free school meals.

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<sup>i</sup> This number includes students at several independent schools that are served out of a public school School Food Authority, such as Sacred Heart School, which is included in the Southwest Vermont Supervisory Union School Food Authority.

<sup>ii</sup> This does not include “paid” meals covered by non-federal funding in non-pricing, CEP and Provision 2 schools.

<sup>iii</sup> USDA is in the process of conducting an updated cost study; however, results have not yet been published.

<sup>iv</sup> Vermont had 75,652 public school students as of October 1, 2017

<sup>v</sup> 57,000 students x 180 school days x (\$3 per lunch + \$1.84 per breakfast) = \$49,658,400