

Healthy Foods, Healthy Lives
University of Minnesota
Policy Brief

**The Child Nutrition Act and the National School Lunch Program (NSLP):
Revising the Annual Adjustment in the Federal Reimbursement Rate**

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In July 2008, the U.S. Department of Agriculture (USDA) announced changes in the federal reimbursement rate for the National School Lunch Program (NSLP) for the 2008-2009 school year. These adjustments reflected the May 2007 to May 2008 increase in the Consumer Price Index for All Urban Consumers for Food Away from Home (CPI-U:FAFH of 4.27 percent (*Federal Register*, 2008). However, the estimated increase in the cost of serving nutritious school lunches was 11.6 percent (*Medical News Today*, 2008). The School Nutrition Association (SNA) reported that schools had to pay 14 percent more for milk in fall 2008 compared to a year earlier, 13 percent more for fruits and vegetables, 11 percent more for meat and meat alternatives, and 15 percent more for bread, all key components of a typical school lunch (School Nutrition Association, 2008).

According to the SNA, about three-quarters of U.S. schools had to raise the price of their lunches for the 2008-2009 school year, because the increase in the reimbursement rate was inadequate given the rising cost of food (Kingsbury, 2008). The average price increase was about 25 cents per day for the typical lunch (Hu, 2008). In addition, many school food services were forced to cut back on the quality of the foods served to save money. Reductions were required in the categories that are particularly crucial to providing healthier meals, such as whole grains and fresh fruits and vegetable, because they are relatively more expensive.

Currently the annual adjustment in the federal payment rate for the NSLP effective July 1- June 30 reflects the May-to-May change in CPI-U:FAFH (rounded down to the nearest whole cents), which is determined by the Bureau of Labor Statistics (BLS) in the U.S. Department of Labor. The reimbursement rate does vary depending on the schools location and circumstances. Schools in Hawaii and Alaska have a higher reimbursement rate, because of higher costs of living. A greater NSLP reimbursement is also provided to schools with 60 percent or more of their students eligible for free or reduced price lunches (Houston, 2008). However, the CPI-U:FAFH has clearly proven to be an inadequate basis for adjusting the NSLP reimbursement rate the last several years, especially for the increase implemented on July 1, 2008.

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The Minnesota Department of Education, Food and Nutrition Services collects data from Minnesota school districts each year on the cost of the lunches they provide under the NSLP. The Department then provides an average cost per school lunch for Minnesota, so that the changes in price from year to year can be easily determined. The table below compares the percentage increase in Minnesota school lunch prices between school years with the percentage increase in the NSLP reimbursement rate, based on the May-to-May CPI-U: FAFH.

<u>School Year</u>	<u>Increase in Average Cost of MN NSLP Lunches</u> (Compared to Prior School Year) Percent	<u>Increase in National Average NSLP Payment Rate*</u> Percent
2004-05	6.01	2.86
2005-06	6.07	3.16
2006-07	1.53	3.16
2007-08	12.41	3.27

* The change in the national average payment rate reflects the change in the preceding May to May CPI-U:FAFH, which is shown in the table. Source: *Federal Register*, various issues.

The CPI-U:FAFH index covers all foods served in full service restaurants, limited service restaurants, vending machines, as well as foods served at employee and school sites. The CPI-U:FAFH is consequently not a very good basis for establishing the change in the NSLP federal reimbursement rate, as commercial food service and school lunch are very different types of operations. In terms of full-service restaurants, the cost of food and beverages accounts for 31.9 to 33.1 percent of their total sales. For limited-service (fast food) restaurants their food costs average only 30.4 percent of sales (National Restaurant Association, 2008). In comparison, food and beverage costs represent 37 percent of the total costs of the typical school lunch (Newman, Ralston, and Clauson, 2008). Restaurants and other food service operations spend more on labor and overhead costs, such as the space or building. Moreover, the composition of meals is typically very different. Each NSLP meal is required to include a serving of milk. In addition, school lunches are supposed to comply with certain nutritional guidelines, which is not required of restaurant or other commercial food service meals.

Commodities provided by USDA to the schools (basically for free), which are worth on average 20.75 cents per meal in 2008-09 (an increase of 1.25 cents over the prior year), typically provide 15-20 percent of the food served. The remaining 80-85 percent must be purchased from suppliers (Houston, 2008). In addition, the recent Farm Bill does provide some additional funding for schools to buy fruits, vegetables, and nuts. However, the USDA commodities still do not offset the rise in NSLP costs when food prices are increasing.

In her testimony before a Congressional Committee on July 9, 2008, Kate Houston, the then Deputy Under-Secretary of USDA for Food, Nutrition, and Consumer Services, suggested that the annual adjustments in the NSLP reimbursement rate in relation to actual cost changes faced by school food services averaged out over time. She specifically said that: “The annual adjustments in cash and commodity reimbursement rates help schools deal with rising costs *over time*; however, *near-term cost increases can be challenging* to schools” (Houston, 2008).

In the years covered in the previous table, the increases in the NSLP reimbursement rate were clearly not sufficient to cover the rising cost of school lunches in Minnesota over a four year period. Moreover, schools are supposed to provide balanced, nutritious meals every year and not just when the federal reimbursement rate may more adequately cover their costs.

Interestingly, the Bureau of Labor Statistics (BLS) currently derives a separate Consumer Price Index for Elementary and Secondary School Food. However, the BLS warns that the sample of schools is very small and hence the results are not reliable. Under the reauthorization of the Child Nutrition Act, Congress could mandate and provide funding for the BLS to determine a CPI for school lunches, based on a nationally representative sample of schools.

One price index would need to just cover NSLP meals, and might be referred to as the CPI-NSLP. The new CPI-NSLP would need to be based on a nationally representative sample of both urban and rural schools. Additional price indices could be provided for other school food, such as school breakfasts, competitive (a la carte) foods, and vending machines, if thought necessary by Congress. The data for and calculation of the CPI-NSLP would only need to be done once a year (in May) to establish the July federal adjustment in the school lunch reimbursement rate, rather than monthly as the standard Consumer Price Index is and its sub-indices. The annual, compared to a monthly derivation, would reduce the cost considerably. Although the high food price inflation of 2007 and 2008 is now past and food prices are currently actually declining, the renewal of the Child Nutrition Act should consider the long-term adequacy of the funding for the National School Lunch Program.

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