



United States  
Department of  
Agriculture

Food and  
Nutrition  
Service

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**DATE:** October 24, 2011

**MEMO CODE:** SP 39-2011 - Revised

**SUBJECT:** Child Nutrition Reauthorization 2010: Guidance on Paid Lunch Equity and Revenue from Nonprogram Foods

**TO:** Regional Directors  
Special Nutrition Programs  
All Regions

State Directors  
Child Nutrition Programs  
All States

This memorandum provides updated questions and answers to the Child Nutrition Reauthorization 2010 implementation memorandum SP 39-2011, Guidance on Paid Lunch Equity and Revenue from Nonprogram Foods.

The interim rule entitled, “National School Lunch Program: School Food Service Account Revenue Amendments Related to the Healthy, Hunger-Free Kids Act of 2010” implements sections 205 and 206 of the Healthy, Hunger-Free Kids Act (Public Law 111-296). These provisions established requirements for school food authorities (SFAs) for—

- Revenue from paid reimbursable lunches (7 CFR 210.14(e)); and
- Revenue from foods sold outside of reimbursable meals when those foods are purchased with school food service account funds (7 CFR 210.14 (f)).

The following items are provided with this memorandum:

- Questions and Answers based on inquiries from State agencies (SA) and SFAs.
- Step-by-step instructions on—
  - how to determine the SFA’s average price for paid lunches;
  - the comparison of the average price and the difference between the free and paid reimbursement rates;
  - how to determine if price increases are needed; and
  - the amount of revenue from non-Federal sources that may be added to the food service account in lieu of a paid lunch price increase.
- An Excel-based tool with user instructions that SFAs may use to determine the amount of revenue from nonprogram foods required to be in compliance with Section 206.

Regional Directors  
State Directors  
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If there are any questions on these requirements, SFAs should contact their SAs. SAs should contact the appropriate Food and Nutrition Service regional office.

**Original Signed**

Cynthia Long  
Director  
Child Nutrition Division

Attachments

# **Paid Lunch Equity and Revenue from Nonprogram Foods**

## **Questions and Answers**

\* New questions are in RED

### ***Paid Lunch Equity (PLE)***

#### **Compliance**

**Q1. If I have already set my paid lunch prices for School Year (SY) 2011-2012, do I still need to determine whether I am in compliance with this new requirement as set forth in the interim rule?**

Yes, school food authorities (SFAs) are required to comply with this new provision for SY 2011-2012. However, because the interim rule was published after many SFAs had made pricing decisions for the current school year, SFAs have additional flexibility in meeting the requirements for SY 2011-2012, as described in Question 5.

If prices were already set for SY 2011-2012, the SFA should calculate the required adjustment and compare it to the current average prices. If the required adjustment is more than the amount set for SY 2011-2012, the SFA should plan to raise their paid lunch prices in 2012-2013 by this shortfall, plus the adjustment required by the calculation for SY 2012-2013. When a State agency (SA) conducts a CRE or another review, the SA should make sure to note if SFAs have not appropriately adjusted their paid lunch prices and indicate the need for appropriate adjustment in the coming year.

**Q2. In order to be exempt from the PLE requirement, can an SFA submit Claims for Reimbursement only for the free and reduced price lunches it serves and not claim general cash assistance for paid lunches?**

No. SFAs participating in the school meal programs must offer meals to all children and must claim all meals served at each reimbursement rate. SFAs must comply with the PLE requirement and are not permitted to submit claims only for free and reduced price lunches. Paid meals are part of the school meal programs and Federal reimbursements, as well as children's payments, are part of how SFAs cover costs of producing school meals.

**Q3. What action will be taken against SFAs that do not comply?**

The SA needs to ensure that all SFAs are aware of the requirement and have made a good faith effort to comply. If an SFA is making a good faith effort to comply with this provision, we expect the SA to provide any needed technical assistance. If necessary, the SA may require a corrective action plan from an SFA that, for example, failed to properly calculate their required average paid lunch price or which failed to add funds from non-Federal sources. Action for willful non-compliance will be taken on a case-by-case basis.

## Non-Federal Funding Sources

### **Q4. For purposes of PLE, what is considered a non-Federal source?**

Financial support from non-Federal sources must be cash for direct support for paid lunches, including but not limited to:

- per-lunch reimbursements for paid lunches provided by States, counties, school districts and others;
- funds provided by organizations, such as school-related or community groups to support paid lunches;
- any portion of State revenue matching funds that exceeds the minimum requirement established in 7 CFR 210.17 and that is provided for paid lunches; or
- any proportion attributable to paid lunches from direct payments made from school district funds to support the lunch service; e.g., a pro-rata share of general funds used to support the lunch service.

Some examples of unallowable non-Federal support are:

- any payments, including additional per-meal reimbursements, provided to the SFA for support of the School Breakfast Program or other Child Nutrition Programs;
- any payments, including additional per-meal reimbursements, provided specifically to support free and reduced price meals; and
- any in-kind contributions converted to direct cash expenditures after July 1, 2011.

### **Q5. For SY 2011-2012, are there any exceptions to this definition of “non-Federal source”?**

In recognition of the short timeframe for implementation, for SY 2011-2012 only, SFAs may include any non-Federal cash contribution, except for in-kind contributions and revenues from foods and beverages sold in competition with reimbursable meals.

We also recognize that the interim rule and this guidance were issued after many SFAs had already made pricing decisions for SY 2011-2012. Some of these SFAs may have done so because they were unsure whether their non-Federal revenue contributions would meet the requirements set out in the interim rule. Therefore, those SFAs that can demonstrate that they raised their prices and also met the non-Federal cash contribution required for SY 2011-2012, may count any non-Federal cash contribution, except for in-kind contributions and revenues from foods sold in competition with reimbursable meals, toward the PLE revenue requirements for SY 2012-2013.

### **Q6. In SY 2011-2012, can an SFA count the entire amount that exceeds the required percentage of the State revenue match as a non-Federal source?**

Yes, in SY 2011-2012 SFAs may count the *entire* amount of excess of the required percentage of the State revenue match as a non-Federal source. In subsequent school years, SFAs may only count the amount exceeding the required percentage of the State revenue match that is provided specifically for paid lunches as a non-Federal source.

**Q7. If I am able to count non-Federal contributions from SY 2011-2012 towards the revenue requirements for SY 2012-2013, how do I make these adjustments?**

FNS will issue guidance on how adjustments to the School Year 2012-2013 requirement will be determined in these situations.

**Q8. Can an SFA count State or local per-lunch subsidies as non-Federal sources of revenue? If so, can the per-meal subsidy for all meals be counted or just for paid lunches? Can breakfast per-meal subsidies be counted?**

State or local subsidies that directly support paid lunches may be counted as non-Federal sources of funding. Funds that support all meals served must be prorated by the share attributable to the paid lunches as described in the example below. This provision applies only to lunch and therefore subsidies for breakfast cannot be counted as non-Federal sources.

Example of prorating by the share of total lunches in the paid category:

Total state or local subsidies: \$1,000

Share of total lunches which are paid lunches: 20%

$\$1,000 \times 20\% = \$200$

Prorated portion of State or local subsidy attributable to paid lunches: \$200

**Q9. What are examples of in-kind contributions converted to cash?**

Examples include:

- charging for janitorial services that were previously provided without cost;
- charging a prorated share for teachers or office staff that serve as cafeteria monitors;
- charging for supplies, such as office equipment, that were previously provided at no cost; and
- charging a prorated share for utilities that were previously paid by the district.

Please keep in mind that any conversions like these had to be made prior to July 1, 2011, to count as a non-Federal source.

**Q10. Can a school district pay a bill the school food service account had paid in the past, and count this as a non-Federal contribution?**

Yes, but the school district must provide the non-Federal funds to the school food service account to allow the SFA to pay the bill.

**Q11. Can a school district count charges that it assesses to the SFA (direct or indirect) that it does not actually collect from the SFA account due to insufficient funds?**

No; to qualify as a non-Federal source, cash must actually be added to the account.

**Q12. Must an SFA increase lunch prices if they currently have a large fund balance or if their current operation is consistently in the black?**

All SFAs must calculate their average paid lunch prices and determine if any adjustments are required, regardless of any of the circumstances noted in the question.

**Q13. If the school district has net cash resources which exceeds the 3 months average expenditures for its school food service account, can the SFA use some of their net cash**

**resources rather than general funds to make up the difference if they do not want to increase the paid meal price for SY 2011-2012?**

No, the excess funds are still considered part of the non-profit school food service account. Further, 7 CFR 210.19(a)(2) allows SAs to require SFAs to use net cash resources which exceed the 3 months average to improve food quality or take other action designed to improve the school food service.

**Q14. Per 7 CFR 210.19(a)(2), can an SFA still lower prices if its net cash resources exceed the 3 months average expenditures for its school food service account?**

SFAs must first determine compliance with the PLE requirements. If an SFA is not exceeding the PLE requirement with its current prices, it would not be allowed to lower prices. SFAs would only be able to lower prices if they are in compliance and would remain in compliance with the PLE requirement after the price is lowered. Federal regulations will be updated accordingly.

**Q15. If using local funds to offset the price increase, would those funds have to be kept in a separate account?**

No, the amount provided would need to be documented and added to the non-profit food service account.

**Q16. Can an SFA split the revenue increase between non-Federal sources and an increase in paid lunch prices?**

Yes. Some of the required revenue can come from an increase in paid lunch prices and the rest from non-Federal contributions to the nonprofit school food service account.

**Q17. When must the non-Federal funds be added to the school food service account?**

When SFAs choose to raise paid lunch prices, revenue is available throughout the school year. Because the revenue is needed over the entire school year to support paid lunches, we recommend the non-Federal funds be added at the beginning of the school year, on a monthly or quarterly basis or otherwise made available during the current school year.

**Q18. Are non-pricing schools exempt from this requirement as they do not charge students for meals? How will the SA include these types of schools in the Department of Agriculture report?**

Yes, non-pricing schools are exempt from this requirement because they do not charge for meals. SFAs and SAs should report non-pricing schools as "\$0" in their pricing reports.

**Q19. We have some Provision 2 schools in our district. How are they handled for the calculation?**

Only those prices and paid meals claimed in non-Provision 2 or 3 schools should be included in the average price calculation. This would also apply to any SFAs with schools that participate in the Community Eligibility Option.

## General

### **Q20. Is there a minimum average price that would require a paid lunch price increase?**

All SFAs should calculate their average paid lunch prices and the amount of price increase required. There is no uniform threshold for price increases and there are some instances where a SFA with an average price below \$1.60 will be required to increase their average paid lunch price.

Furthermore, SFAs that are not required to raise their price in SY 2011-2012 due to the rounding process, should keep in mind that they are required to use their unrounded average paid lunch prices from SY 2011-2012 in their calculations for SY 2012-2013.

### **Q21. Does an SFA have to raise prices for all paid lunches?**

No, SFAs 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. FNS' paid lunch calculator (found on our website) can assist SFAs in determining how to raise their paid lunch prices.

### **Q22. Can an SFA increase its average paid lunch prices more than 10 cents annually?**

Yes, an SFA may increase its average paid lunch prices by more than 10 cents per year but is never required to do so. The 10 cent limit is the maximum that an SFA would ever be required to contribute in a given year, even if the SFA's annual PLE calculation showed a higher amount. If an SFA chooses in any school year to increase paid lunch prices more than is required, the amount attributable to the SFA's discretionary additional increase may be carried forward to the next school year(s) to meet the paid lunch equity requirements. SFAs must keep sufficient records to document and carry forward the average price calculations. FNS will issue guidance on how to calculate these credits.

### **Q23. If the SFA has schools with lunch prices over \$2.46, does it have to include these schools in the average price calculation?**

Yes, all paid lunch prices charged within the SFA must be included in the calculation of the average lunch price.

### **Q24. Are SFAs going to be required to raise paid lunch prices every year?**

Not necessarily. SFAs must check if they meet the requirement each year. Depending on the rate of inflation or other factors, an SFA may be in compliance one year but not in compliance the next.

### **Q25. Regardless of what the PLE Tool yields in terms of a price, can a SFA choose to raise its average price to \$2.46?**

Yes, the PLE Tool yields the minimum amount the SFA must raise its average paid lunch price to meet the requirement. However, SFAs may raise their paid lunch prices above the minimum required. Some SFAs have chosen to raise their meal prices by more than the minimum amount required. We encourage SFAs to carefully evaluate and consider the impact of discretionary price increases that are above the minimum requirements.

The SFA must still check that it is in compliance each year as the \$2.46 figure will change when Federal reimbursements change.

**Q26. Can SFAs with net cash resources that exceed 3 months average expenditures reduce their excess by lowering what they charge for Reduced Price Lunches and/or Breakfast?**

We encourage SFAs to use such excess funds to improve the quality and nutritional content of meals and to meet the requirements of the new meal pattern. As part of their assessment of any changes needed to support high quality meals, SFAs should consider whether fund balances might best be used to improve or enhance menu offerings, upgrade equipment or otherwise improve program capacity to serve improved meals. In any case, SFAs should consider reducing the price of reduced price lunches or paid and reduced price breakfast only if they have fully met the requirements of the new meal pattern.

**Q27. Are schools that are new to the program required to price their paid lunches at a certain level?**

For a new school that is part of an existing SFA that has not yet met the average paid lunch requirement, the school would have to price their lunches at the same level or higher than other schools within the SFA (for example, if it were a new elementary school, they would have to set the paid lunch price at the same rates or higher than the rates at already existing elementary schools).

For new SFAs, the school would have to price their paid lunches equal to or more than the difference between the reimbursement rates for free and paid lunches at the time they enter the program – or \$2.46 for school year 2011-2012.

**Q28. Do you have any information on the intended release date of the required State Agency form used for reporting annual averages for paid lunch prices?**

This form must go through the Office of Management and Budget for the approval process and we anticipate that it will be available in fall 2011.

***Revenue from Nonprogram Foods***

**Q1. What is the purpose of the revenue from nonprogram foods provisions?**

To ensure that revenues from the sales of nonprogram foods generate at least the same proportion of SFA revenues as they contribute to SFA food costs.

**Q2. What is considered a nonprogram food?**

For the purposes of this provision a nonprogram food is a food (including beverages) that is sold in a participating school other than a reimbursable meal and is purchased using funds from the school food service account of the school.

These include but are not limited to:

- A la carte items sold in competition with school meals;
- Adult meals;
- Items purchased for fund raisers, vending machines, school stores, etc.; and
- Items purchased for catering and vended meals.



**Q3. What is considered revenue?**

Revenue is all money that is provided to the nonprofit school food service account. This includes but is not limited to:

- Federal reimbursement;
- State or local funds, such as per meal subsidies and State revenue matching funds;
- Children’s payments for reimbursable meals and a la carte sales;
- Payments for items purchased for fund raisers, vending machines, etc; and
- Income from catering, adult meals, vended meals, etc.

**Q4. How does a SFA determine the “cost to obtain” a nonprogram food?**

The cost to obtain a nonprogram food includes only the cost of the food. If a nonprogram food is made from scratch, the SFA would determine the price of ingredients to calculate the food cost. The SFA should not include labor or other costs in this calculation.

This same principle applies to calculating program food costs for the purpose of this provision.

**Q5. How does a SFA determine whether it is in compliance with the Revenue from Nonprogram Foods Sold in Schools provision?**

The SFA would determine its total food cost and the proportion of that total that is nonprogram food. The SFA would then calculate the share of total revenue generated from nonprogram food sales over the same period. If the second figure is at least as great as the first figure, then the SFA is generating sufficient revenue from nonprogram food sales.

The following example shows how this provision is applied:

An SFA has the following characteristics:

- Total Costs: \$1,000,000
- Total Food Costs: \$500,000
  - o Cost of food for reimbursable meals: \$450,000
  - o Cost of nonprogram food: \$50,000
- Total Revenue: \$1,000,000

Revenue Requirement:

- Minimum proportion of revenue required from the sale of nonprogram foods:  
 $\$50,000/\$500,000 = 10\%$
- Minimum dollar revenue required from the sale of nonprogram foods:  
 $10\% \times \$1,000,000 = \$100,000$

If this SFA earns \$100,000 in revenue from nonprogram food sales, they are in compliance.

**Q6. Can an SFA price some nonprogram foods lower than their actual cost?**

Yes, as long as the total revenue generated from all nonprogram food sales meets the proportional requirement described above

**Q7. What period of time should be included in the calculations?**

The SFA uses the revenue and costs for a school year to calculate revenue targets. For SY 2011-2012, the revenue and costs for SY 2010-2011 are used. In cases where the prior year is not reflective of the typical school year (e.g., a school opens in the middle of the school year or is closed for a portion of the year due to a disaster), the SFA could use their Fiscal Year, a representative month multiplied by the number of months in the school year or another method as approved by the State agency.

**Q8. How are SFAs to implement this requirement for SY 2011-2012?**

All SFAs must do the revenue calculations. If the proportion of revenue is equal to or greater than the proportion of the food costs, no additional action is needed. If not, the SFA must review the prices charged for nonprogram foods and make necessary adjustments. If there are extenuating circumstances which prevent immediate corrective action, such as an inability to obtain necessary School Board approvals, these factors should be discussed with the SA and an appropriate corrective action plan must be developed.

**Q9. How are SFAs to track nonprogram food sales and revenues?**

SFAs that do not already have systems in place to track nonprogram food sales and revenues should work with their SAs to develop plans to improve their recordkeeping systems. FNS will also provide further guidance in this area.

**Q10. What are some resources for SFAs as they work to implement section 206 and determine how to price nonprogram foods?**

SFAs may want to consult guidance from the National Food Service Management Institute (NFSMI). While NFSMI does not currently have guidance specific to section 206, they do have guidance on nonprogram food pricing and school food service account management. SFAs may find this information helpful as they price their nonprogram food.

**NFSMI Financial Management Information:**

<http://www.nfsmi.org/documentlibraryfiles/PDF/20080225031916.pdf>

Please note however that SFAs should ensure that they are in compliance with the requirements of section 206 when using any outside resource. FNS plans to issue more guidance for SFAs on this issue.

## Step-by-Step Instructions for Paid Lunch Equity Calculations

### Determining Average Paid Lunch Price

**Step 1:** Determine the number of different prices charged for paid reimbursable lunches in the SFA (do not include adult prices or prices charged for second lunches) (Column A in example below)

**Step 2:** Determine the number of paid lunches claimed at each price for October of the prior school year (use October 2010 for SY 2011-2012) and the total number of paid lunches (Column B)

**Step 3:** Determine the revenue generated by each paid lunch price by multiplying each paid lunch price by the number of paid lunches claimed and the total revenue from paid lunches (Column C)

**Step 4:** Determine the average price of paid lunches by dividing the total revenue generated by paid lunches at each price by the number of lunches claimed and round the result to the nearest whole cent (0-4 round down or 5-9 round up) (Column D)

A Each Price Charged for Paid Reimbursable Lunches	B Number of Paid Lunches Claimed at each price and total number of paid lunches claimed	C Revenue Generated by Each Paid Lunch Price (Column A x Column B) and total revenue for paid lunches	D Determine Average Price
\$1.25	1,000	\$1,250	
\$1.50	2,000	\$3,000	
\$2.00	1,500	\$3,000	
\$2.25	3,000	\$6,750	
	Total paid lunches 7,500	Total Revenue \$14,000	\$14,000/7,500 =1.8666 rounded to \$1.87

### Determining if New Price/Additional Revenue is Required

**Step 1:** Determine if the average paid lunch price is equal to or greater than, or less than the difference between the applicable paid and free lunch reimbursements (reimbursement difference).

- If result is equal to or greater than the reimbursement difference, the SFA is not required to increase the average lunch price or to add additional revenue as long as the price is not less than the reimbursement difference.
- If result is less than the reimbursement difference, the SFA is required to determine the required average paid lunch price (Step 2).
- If result is less than the reimbursement difference, the SFA is required to adjust the average paid lunch price and determine if a price increase is needed (Step 2). In lieu of

- increasing the average paid lunch price the SFA may add non-Federal sources of funds to the food service account (Step 3).

**Step 2:** To determine the new average paid lunch price:

- Multiply the average lunch price by the sum of the inflation factor used to determine the prior year's reimbursement rate plus 2 percent. For SY 2011-2012, use the inflation factor for SY 2010-2011 which was 1.14%;
- Round the result to the nearest cent (0-4 round down or 5-9 round up); and
- (Optional) Further round down to the nearest 5 cent increment.

If the SFA chooses to raise paid lunch prices, it has flexibility to determine how to raise prices—by school, by price, or all prices. However, the maximum required increase to the average paid lunch price is 10 cents. SFAs may increase the average paid lunch price more than 10 cents if they wish and will receive a credit in subsequent school years for the amount increased over the requirement. Note that individual prices may always be increased more than 10 cents in order to meet the average paid lunch price requirement.

**Optional Step 3:** To determine the amount of required revenue in lieu of a paid lunch price increase, the SFA determines the total number of paid reimbursable lunches claimed for the previous school year (for SY 2011-2012, use SY 2010-2011 total). That total is multiplied by the difference between the new average paid lunch price and the current average paid lunch price.

**An example when average price is less than the reimbursement difference:**

Step 1: Using \$1.87 as the average paid lunch price, and \$2.46 as the difference between the free and paid lunch reimbursement rates (SY 2010-2011 free rate of \$2.72 minus the paid rate of \$.26). Since \$1.87 is less than \$2.46, the SFA must complete Step 2.

Step 2: Multiply the average paid lunch price times the inflation factor plus two percent ( $\$1.87 \times .0314 = \$.0587$ ). That result is added to the average paid lunch price and rounded ( $\$1.87 + .0587 = \$1.9287$ , rounded to \$1.93); the new average price is \$1.93. If the SFA chooses to round down to the nearest five cents, the new average paid lunch price is \$1.90. The SFA would then raise actual prices so that the new average paid lunch equals or exceeds \$1.90.

Optional Step 3: Using \$ .03 ( $\$1.90 - \$1.87 = \$ .03$ ) as the difference between the new and current average paid lunch prices, the SFA would determine the needed non-Federal revenue by multiplying the total number of paid lunches claimed for SY 2010-2011 ( $\$.03 \times 150,000$  paid lunches = \$4,500). The SFA would need to add \$4,500 in SY 2011-2012 to the food service account from non-Federal sources of revenue in lieu of raising paid lunch prices.