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**UNIVERSAL-TYPE SCHOOL MEAL PROGRAMS  
REPORT TO CONGRESS**

**OFFICE OF ANALYSIS AND EVALUATION  
FOOD AND NUTRITION SERVICE**

**JUNE 1994**

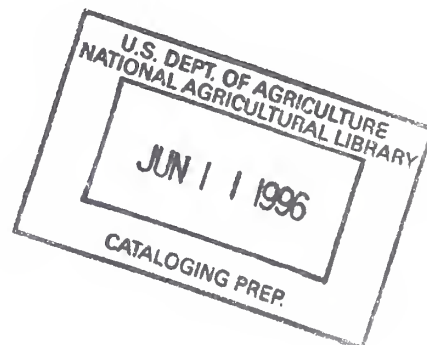
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## EXECUTIVE SUMMARY

Senate Resolution 303 requested the Secretary of Agriculture to study and report on the feasibility of a universal-type school lunch and breakfast program. In requesting the report Congress expressed concerns that the current administrative structure of the program was too complex and burdensome and, as a result, created barriers to participation among eligible institutions and students.

This report examines five alternative administrative structures for universal-type program that would reimburse all meals at a single rate, regardless of household income status. The report considered seven factors in evaluating alternatives: impact on student participation; impact on Federal costs; distribution of benefits; impact on student fees and local revenues; administrative feasibility; paperwork reduction; and impact on program integrity. USDA worked with the Department of Treasury Office of Tax Analysis and the Internal Revenue Service to explore ways to finance a universal-type programs through the tax system. The reports major findings are summarized below.

**Universal free options either increase Federal costs or cut low-income participation.** A universal free option in all schools would double the current cost of the school programs, an increase of \$7 billion. Limiting universal free to elementary and middle schools would increase Federal costs by over \$5 billion. The only cost neutral option would maintain current level Federal spending by imposing a significant fee on free and reduced price students that would cause their participation to decrease by one-fourth.

**Almost half the cost of a universal free system would go to reimburse meals that would be served under current law.** Thirteen million lunches are served daily at full or reduced price rates. Under a universal system these meals would be reimbursed at the free meal rate at a cost of \$ 3.3 billion.

**The increase in total meals served under a universal system would be very modest compared to the additional Federal cost.** Total meals served under a universal free system would increase by 36 percent. At the same time the Federal cost of the program would double.

**Most of the additional Federal cost goes to subsidize meals served to upper-income children.** Over 76 percent of the cost of a universal lunch program would subsidize meals served to children from

households above 185 percent of poverty. Only 14 percent would go to children from households currently eligible for free meals.

**Administrative savings are small relative to increased Federal costs.** Administrative cost savings under would be about 7 percent of the additional Federal costs of a universal free program.

**Limited implementation of universal-free or no-fee programs can increase low-income participation at more modest Federal costs.** Universal free in high poverty schools would increase Federal costs by an estimated \$65 million in Fiscal Year 1996. Over 90 percent of the additional benefits would go to children eligible for free or reduced price meals. Implementing no-fee programs in schools with 70 percent of children eligible for free or reduced price meals would cost approximately \$144 million and over half of the additional cost would go to low-income children.

**Using the tax system to offset the cost of a universal free program increases the complexity of the meal counting and claiming process.** The most equitable system to offset the cost of a universal free program would require tracking participation by child and billing for meals served through the tax system. There is a significant increase in burden and complexity compared to the current system.

**Counting school meal benefits as income for tax purposes would recover less than one-fourth of the additional Federal cost of a universal lunch program.** Because meal benefits would be taxed at the marginal income tax rate only a portion of the additional Federal costs would be recovered. As a result, net Federal costs would increase by nearly \$5 billion in Fiscal Year 1996.

There are alternatives to universal-type programs that would reduce administrative burden and increase participation at costs much lower than a universal-type system. USDA has a series of paperwork reduction pilot projects underway that focus on schools with a high proportion of students eligible for free or reduced price meals. Preliminary results from these projects indicate that changes to meal application requirements and counting and claiming procedures can significantly reduce administrative burden and increase participation among low-income children not taking full advantage of program benefits. A preliminary report on the pilot projects was released in July 1994 and a final report will be available later in the year.

More focused initiatives of the type employed in the pilot projects target increased Federal expenditures on providing additional meals rather than increasing the rate of reimbursement for meals that would be served in the absence of a universal-type program. They also produce proportionately greater savings in administrative burden because they affect schools with greater numbers of applications to process. Finally, a much larger proportion of the additional costs go to increase benefits to low-income children.



## INTRODUCTION

In July 1992, Senate Resolution 303 requested the Secretary of Agriculture to study and report on the feasibility of a universal-type school lunch and breakfast program. The resolution defines universal-type programs as lunch and breakfast programs in which all meals are reimbursed at the same rate regardless of the income of the family of the student. Under the current system meals are reimbursed at three different levels which vary with the household income of the student. The resolution specifically directed the Secretary to:

- Explore ways to administratively structure universal-type school lunch and breakfast programs;
- Examine options for funding the cost of universal-type school lunch and breakfast programs;
- Determine the administrative costs and savings at Federal, State, and local levels as a result of not having to determine family income and do income-based meal counts;
- Discuss an appropriate a la carte food policy to be consistent with universal-type school lunch and breakfast programs;
- Explore how to increase the role of nutrition education;
- Discuss how to encourage schools to increase their participation in the School Breakfast Program; and
- Determine what legislative changes would be required to carry out universal-type school lunch and breakfast programs.

The preamble to the resolution recognized the contribution of the lunch and breakfast programs in preparing children to learn and in combating childhood hunger. It also cited a number of factors affecting the programs in requesting the report:

- differences between daily lunch (25 million) and breakfast participation (5 million);
- children eligible for free or reduced price meals not participating;
- reductions in Federal cash and commodity assistance during the 1980s;

- increases in administrative cost and complexity; and
- increases in the use of local indirect cost assessments of school food services.

This report describes current procedures and requirements for the National School Lunch and School Breakfast Programs and examines five alternative approaches for administering a universal-type system. Data from ongoing studies and administrative records were used to examine the feasibility of alternative approaches to the current system. The report considered seven factors in evaluating alternatives: impact on student participation; impact on Federal costs; distribution of benefits; impact on student fees and local revenues; administrative feasibility; paperwork reduction; and impact on program integrity. USDA worked with the Department of Treasury Office of Tax Analysis and the Internal Revenue Service to explore ways to finance a universal-type programs through the tax system.

The report is organized into six chapters. The first two chapters describe the current lunch and breakfast programs and examine trends in funding and participation. Chapter three provides a brief historical outline of the evolution of the programs and describes recent legislative changes. The fourth chapter presents five options for structuring a universal-type system. Each option is evaluated according to the criteria discussed previously. Chapter five examines options for financing a universal-type program through the Federal tax system. The final chapter summarizes the report.

## CHAPTER 1

### Overview of the National School Lunch and School Breakfast Programs

The Food and Nutrition Service (FNS), U.S. Department of Agriculture (USDA) administers the National School Lunch (NSLP) and School Breakfast Programs (SBP). FNS implements authorizing legislation; establishes regulations, policies and guidelines; monitors State and local program performance; and provides meal reimbursement and program administrative funds to the States. This chapter describes Federal program requirements and State and local administrative responsibilities.

#### Eligibility Levels and Reimbursement Rates

Both the National School Lunch and School Breakfast Programs provide per meal cash reimbursements. The NSLP also provides per meal commodity subsidies. The level of reimbursement and the price paid varies with the income eligibility status of the child receiving the meal. Children from households with incomes below 130 percent of the Federally-defined income poverty guidelines are eligible to receive free meals. In School Year (SY) 1993-94 a household of four persons was eligible for free meals if their annual income was \$18,655 or less (free meals). Children who are members of households receiving food stamps or Aid to Families with Dependent Children (AFDC) are categorically eligible to receive free meals. Children from households with incomes between 130 and 185 percent of poverty (\$18,656 to \$26,548 for a household of four) have to pay a maximum of 40 cents for a lunch or 30 cents for a breakfast (reduced price meals). While meals served to children above 185 percent of poverty receive Federal reimbursement, there are no restrictions on the prices that schools can charge for these meals (full price meals). Income eligibility levels are updated annually to reflect changes in the Consumer Price Index for all Urban Consumers.

Reimbursement rates are adjusted annually based on changes in the Consumer Price Index for Food-Away-From-Home and a commodity index developed by the Secretary. The commodity reimbursement rate was 14.00 cents per meal for all meals served for SY 1993-94 (July 1, 1993-June 30, 1994). Cash reimbursement rates reflect the eligibility status of the child. In SY 1993-94 full price meals received a total of 30.50 cents in cash and commodities. Free lunches were reimbursed at

a rate of \$1.8650 per meal including cash and commodities. Reduced price meals were reimbursed at a rate of \$1.4650.<sup>1</sup> A similar reimbursement scheme is in place in the breakfast program with the additional provision that breakfasts served in schools serving 40 percent or more of their lunches to free and reduced price students may receive higher 'severe need' reimbursements. Table 1.1 summarizes lunch and breakfast reimbursement rates for SY 1993-94.

**Table 1.1**  
**1994 School Lunch and Breakfast Reimbursement Rates**

Category	NSLP	SBP	
	Cash & Commodities	Non-Severe Need	Severe Need
Free	\$ 1.8650	\$ .9600	\$ 1.1425
Reduced Price	1.4650	.6600	.8425
Full Price	.3050	.1900	.1900

Note: Rates are in effect from July 1, 1993 to June 30, 1994.

### Student Eligibility Requirements

Students must meet the income guidelines and submit an application to receive free or reduced price meals. Applications must provide information on income by source, household size, the signature of an adult household member and the social security number of the signing adult or an indication that they do not have a social security number. Direct certification, a simplified method of determining free meal eligibility, is also permitted. In place of applications, school officials may obtain documentation from food stamp or AFDC offices that children are members of a food stamp household or AFDC assistance

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<sup>1</sup> The Federal reduced price reimbursement rate for lunch is 40 cents lower than the free meal rate--reflecting the maximum student charge of 40 for reduced price meals. The breakfast reduced price reimbursement and maximum rate are similarly structured with reduced price breakfasts earning 30 cents less in Federal reimbursement than free breakfasts.



unit. Sixteen States have implemented direct certification on a statewide basis.<sup>2</sup>

### **Meal Pattern Requirements**

In order to receive Federal reimbursement, school meals must meet a meal pattern. School lunches are planned to provide approximately one-third of the Recommended Dietary Allowances (RDA) over a menu cycle and must contain meat or a meat alternate (such as cheese or beans), bread or a bread alternate (such as pasta), two servings of fruits or vegetables and fluid milk.<sup>3</sup> School breakfasts are designed to provide approximately one quarter of the RDA and must contain a fluid milk, a serving of fruit or vegetable and two servings of either a bread or bread alternate or a meat or meat alternate.

### **State and Local Administration**

Within each State, responsibility for the administration of school nutrition programs usually rests with the State education agency. State administering agencies enter into an agreement with FNS that outlines the requirements for participation. The State agency provides technical assistance to local school districts and monitors program performance. The State administering agency also collects and summarizes data on the number of meals served from each participating School Food Authority (SFA) and prepares a claim for reimbursement from FNS.

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<sup>2</sup> As of November 1993, the following States have implemented direct certification on a statewide basis: Alaska, Illinois, Indiana, Maryland, Massachusetts, Michigan, Minnesota, Missouri, North Dakota, Ohio, Oklahoma, Pennsylvania, Rhode Island, Texas, Utah, and Washington.

<sup>3</sup> In response to concerns about food waste, in 1975 Congress (P.L. 94-105) permitted high school children to refuse up to two items contained in a school lunch. Until this provision was enacted, a child had to take all five required items for a lunch to be eligible for Federal reimbursement. The new provision, known as "Offer vs Serve" was eventually expanded so that by 1981 (P.L. 97-35), elementary schools could operate under "Offer vs Serve" rules.

Local School Food Authorities, typically school districts, enter into an agreement with the State agency that outlines the requirements for program participation. At the local level, district staff administer the program in the schools they supervise. Schools participating in the school lunch and/or breakfast programs are required to prepare and serve meals meeting USDA established meal patterns. Schools are responsible for collecting and approving applications for free and reduced price meals and verifying a sample of applications. Schools count meals served each day by category (free, reduced price or full price) and submit monthly claims for reimbursement through the SFAs.

### **Reporting and Record-Keeping Requirements**

NSLP and SBP regulations impose a number of requirements on program administrators at the State and local levels as a condition of participation. These provisions are structured to ensure that meals served meet the programs' nutritional requirements and that reimbursements are paid appropriately. The most time intensive requirements are the recordkeeping necessary to document non-profitability status and the maintenance of production and menu records. Fifty-three percent of the paperwork burden is associated with maintaining non-profitability status and 14 percent is associated with keeping daily meal production records. These two provisions account for two-thirds of the local administrative burden associated with program participation. Preparing claims for reimbursement, program reviews, maintaining records for the State revenue matching requirement, commodity distribution, and other reporting activities account for 16 percent of the administrative burden.

The remainder of NSLP paperwork is associated with approving student applications and counting meals by type. In order to count meals by type, the eligibility status of the child must be determined at the point that the meal is served. This is necessary to claim the proper reimbursement and to charge the student the appropriate fee.

### **Meal Counting and Claiming**

The NSLP and SBP provide performance based reimbursements--the amount of reimbursement is determined by the number of meals served at each of the three eligibility levels. Meal counting and claiming are integral parts of the current performance based funding system. In order to provide differential per meal reimbursements student eligibility

must be established, and the child's status determined at the point that the meal is served. This is necessary to determine the appropriate Federal reimbursement for the meal, as well as the price that the child should pay (if the child is eligible for reduced price or full price meals).

While performance based funding provides an incentive to increase free and reduced price participation that a grant program does not, the current meal counting and claiming system creates some disincentives for student participation. First, households are required to submit an application that provides household income information, which is subject to verification, and a social security number, if the household has one. Some households are reluctant to provide this information. Second, there is the potential for children to be identified as low-income in the process of receiving a free or reduced price lunch. Although overt identification of students eligible for free or reduced price meals is prohibited, it is difficult to eliminate completely, particularly when serving older children. FNS currently has a study underway which is examining the role barriers to application and stigma associated with receiving subsidized meals play in the decisions to apply for and receive meals. FNS intends to use the information obtained through the study to assist schools in reducing stigma increasing participation.<sup>4</sup>

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<sup>4</sup> The School Lunch Eligible Non-Participant Study will: a) determine why potentially eligible families do not apply for school meal benefits; b) determine why certified children do not participate; and c) determine the characteristics of eligible non-applicants/non-participants. A final report will be released in 1994.



## CHAPTER 2

### Participation and Cost of the National School Lunch and School Breakfast Programs

Universal-type program options would have a significant impact on participation and the cost of the School Nutrition Programs. This chapter describes current program availability, participation, Federal costs, student revenues, and the distribution of program benefits among children eligible for free, reduced price and full price meals. It provides baseline information that is used in subsequent chapters to estimate the impact of universal-type options.

#### Program Availability

The NSLP is widely available, particularly to children attending public schools. Almost 99 percent of public schools and 83 percent of all schools participate in the NSLP.<sup>5</sup> Approximately 45 million children attending over 93,000 schools (grades K-12) have access to the program daily. On an average day, almost 25 million children participate in the program and over the course of a week as many as 29 million children participate at least once. In Fiscal Year (FY) 1993 the program served over 4 billion lunches.

About 65 percent of the schools that offer the NSLP also offer the School Breakfast Program (SBP). In 1994 over 29 million children in over 60,000 schools had access to both the breakfast and lunch programs. In SY 1993-94 an average of over 5 million children ate breakfast each day. During FY 1993 nearly 950 million breakfasts were served.

The breakfast program is more likely to be offered in NSLP schools with a higher than average proportion of low-income children. In SY 1991-92 about 54 percent of children in schools which offered the breakfast program were income eligible for free or reduced price meals

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<sup>5</sup> Burgardt, J., Gordon, A., Chapman, N., Gleason, P., Fraker, T. The School Nutrition Dietary Assessment Study: School Food Service, Meals Offered, and Dietary Intakes. (Princeton, NJ: Mathematica Policy Research Inc., 1993). p. 29.

compared to 44 percent in schools sponsoring the lunch but not the breakfast program.<sup>6</sup>

In recent years the number of schools offering both lunch and breakfast has grown significantly. Since 1989, over 20,000 schools have initiated a breakfast program, an increase of about 50 percent. Federal grants authorized in the Child Nutrition and WIC Reauthorization Act of 1989 (P.L. 101-147) contributed to this increase by providing \$23 million to States for breakfast program start-up grants between 1990 and 1994. Schools receiving start-up grants have provided program access to an additional 800,000 students over the five year period.

### **Participation**

From FY 1985 through FY 1991 average daily participation in the National School Lunch Program gradually increased from 23.6 to 24.2 million meals daily (Table 2.1). Since 1991 participation has increased more rapidly, rising to 24.8 million participants daily in 1993. This overall growth is being driven by large increases in the number of free meals since 1989. In 1989 an average of 9.8 million free eligible children participated daily. By 1993 the number of free eligible children participating daily had increased to 11.8 million, a gain of 20 percent over 4 years. This caused the proportion of total meals reimbursed at the free rate to rise from 41 to 48 percent.

The rise in the number of free meals served is paralleled by increases in the number of children approved for free meals. Between 1990 and 1993 the number of children approved for free meals went from 11 million to 13.8 million. The proportion of children certified for free meals climbed from 27 to 31 percent. The increase in free meal eligibility is being caused by an increase in the number of low-income children. Between 1988 and 1992 the number of school-age children below 185 percent of poverty increased by 8 percent and the proportion of total children in this category increased from 33 to 36 percent.<sup>7</sup>

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<sup>6</sup> Ibid. p. 148.

<sup>7</sup> Data from the March 1989 and March 1993 Current Population Surveys.

**Table 2.1**  
**National School Lunch Program Enrollment and Participation**

Year	Enrollment			Participation (in millions)				
	Children in all schools in millions	NSLP Schools in thousands	Children in NSLP schools in millions	Free	Reduced	Full Price	Total	% of Total Part.
1978	47.6	93.8	45.1	10.3	1.5	14.9	26.7	59%
1979	46.7	94.3	44.7	10.0	1.7	15.3	27.0	60%
1980	46.2	94.1	44.1	10.0	1.9	14.7	26.6	60%
1981	45.5	92.4	43.0	10.6	1.9	13.3	25.8	60%
1982	45.2	91.2	41.3	9.8	1.6	11.5	22.9	55%
1983	45.0	90.6	40.9	10.3	1.5	11.2	23.0	56%
1984	44.9	89.2	40.4	10.3	1.5	11.5	23.4	58%
1985	45.0	89.4	39.5	9.9	1.6	12.1	23.6	60%
1986	45.2	89.9	40.3	10.0	1.6	12.2	23.7	59%
1987	45.5	90.2	40.6	10.0	1.6	12.4	23.9	59%
1988	45.4	90.6	40.7	9.8	1.6	12.8	24.2	59%
1989	45.9	91.4	41.1	9.7	1.6	12.8	24.2	59%
1990	46.5	91.3	41.5	9.9	1.7	12.6	24.1	58%
1991	47.0	91.6	41.8	10.3	1.8	12.2	24.2	58%
1992	47.9	92.7	43.2	11.3	1.8	11.8	24.8	57%
1993	48.7	92.9	43.9	11.8	1.8	11.4	24.8	56%

Source: FNS administrative data; Projections of Education Statistics to 2003, National Center for Education Statistics, NOES 92-218.

Note: Percent of Total Participation reflects average daily participation in relation to all children in schools with the school lunch program available.

Increased use of direct certification school for free meals also contributed to the growth in the number of children approved for free meals. Direct certification increases the number of children approved for free meals by easing the administrative process. During the same time period that States began implementing direct certification of AFDC and food stamp households, the number of children in households receiving food stamps

began to increase dramatically. From 1988 to 1992, the number of school age children in food stamp households rose from 6.2 to 7.9 million, an increase of 28 percent.

### **Rates of Student Participation in NSLP**

On average, 56 percent of children in attendance at schools offering the NSLP participate daily. There is considerable variation in the rates of participation by eligibility status, age and gender. A recent study conducted by USDA showed that meal price, fat content of meals, open campus (i.e., allowing children to leave school during the lunch period), race, and location (i.e., region of the country and urban vs rural) also affect student participation rates.

Free and reduced price eligible students participate more frequently than full price students. Administrative data show that, on an average day in 1993, about 41 percent of the children eligible for full price meals purchased a school lunch. In contrast, 70 percent of the children eligible for reduced price meals and 86 percent of the children eligible for free meals ate school lunches.<sup>8</sup>

Table 2.1 shows that before 1981 between 59 and 60 percent of children in schools offering the NSLP participated in the lunch program on a daily basis. In 1982 participation fell to 55 percent but climbed back to 60 percent by 1985. Between 1986 and 1993 participation gradually declined to the current level of 56 percent.

Younger students have significantly higher rates of participation. This is true regardless of meal price status. Children of elementary school age (6-10) eat 66 percent of the time. Children age (11-14) eat 55 percent of the time and children of high schools age (15-18) participate about 40 percent of the time. Students in high school are more likely to eat at a restaurant or obtain food from vending machines and are less likely to bring lunch from home.<sup>9</sup>

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<sup>8</sup> The rates reported are adjusted for student attendance.

<sup>9</sup> Burghardt, J., Gordon, A., Chapman, N., Gleason, P., Fraker, T. The School Nutrition Dietary Assessment Study. (Princeton, NJ: Mathematica Policy Research, Inc., 1993), p. 140.



Male students are more likely than female students to participate in the NSLP (60 percent participation rate versus 52 percent, respectively). Just over one-third of high school girls eat an NSLP lunch while 12 percent do not eat lunch at all.<sup>10</sup>

### **Rates of Student Participation in the School Breakfast Program**

Student participation rates are much lower for breakfast than the lunch program, although the relationships of price status, age, gender and participation were consistent between the programs. Only 40 percent of students eligible for free meals obtain an SBP breakfast on a typical day. The reduced price participation rate is 18 percent. Among children who must pay full price, only 4 percent participate in the SBP on an average day.<sup>11</sup>

The availability of the breakfast program does not increase the likelihood that a student will eat breakfast. Most students who do not participate in the School Breakfast Program eat breakfast at home. However, about 12 percent of students do not eat breakfast at all.<sup>12</sup>

### **Federal Expenditures**

Annual Federal expenditures to States for school nutrition programs have increased from less than \$100 million in 1946 to a projected \$5.6 billion in 1993 (including \$77 million in State Administrative Expense funds). Table 2.2 displays Federal payments by program. Recent cost increases reflect the participation shifts from paid to free meals, inflation adjustments to per meal reimbursement rates and expansion of the School Breakfast Program to additional schools.

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<sup>10</sup> Ibid, p. 132.

<sup>11</sup> Ibid, p. 151.

<sup>12</sup> Ibid, p. xxii.

**Table 2.2**  
**National School Lunch and School Breakfast Program Costs**  
(in millions)

Year	National School Lunch Program				School Breakfast Program		Total
	Meals Served	Cash Subsidies	Commodity Subsidies	Total Cost NSLP	Meals Served	Total Cost SBP	
1978	4,294	\$1,808	\$ 485	\$2,293	479	\$ 181	\$2,474
1979	4,357	\$1,984	\$ 675	\$2,659	566	\$ 231	\$2,890
1980	4,387	\$2,279	\$ 766	\$3,045	620	\$ 288	\$3,333
1981	4,211	\$2,381	\$ 579	\$2,960	644	\$ 332	\$3,292
1982	3,755	\$2,185	\$ 426	\$2,611	567	\$ 317	\$2,928
1983	3,803	\$2,402	\$ 427	\$2,829	581	\$ 344	\$3,173
1984	3,826	\$2,508	\$ 441	\$2,949	589	\$ 364	\$3,313
1985	3,890	\$2,578	\$ 456	\$3,034	595	\$ 379	\$3,413
1986	3,942	\$2,715	\$ 446	\$3,161	611	\$ 406	\$3,567
1987	3,940	\$2,797	\$ 449	\$3,246	622	\$ 447	\$3,693
1988	4,033	\$2,916	\$ 466	\$3,382	643	\$ 482	\$3,864
1989	4,005	\$3,006	\$ 472	\$3,478	658	\$ 513	\$3,991
1990	4,009	\$3,211	\$ 466	\$3,677	708	\$ 589	\$4,266
1991	4,033	\$3,489	\$ 584	\$4,073	766	\$ 677	\$4,750
1992	4,101	\$3,856	\$ 583	\$4,439	853	\$ 787	\$5,226
1993	4,137	\$4,077	\$ 584	\$4,662	923	\$ 868	\$5,530

Source: FNS Administrative data.

In addition to the per meal cash and commodity reimbursements, States receive State Administrative Expense (SAE) grants for program administration. Annual SAE funding is equal 1.5 percent of Federal child nutrition expenditures in the second prior year. For 1993, the Federal Government provided about \$77 million for State administration of the NSLP and SBP.

## Student Revenues

The NSLP and SBP are supported by a combination of Federal subsidies, student payments for free and reduced price meals, State and local subsidies and revenues from a la carte and other miscellaneous sources.

Student payments for lunches and breakfasts totaling \$2.35 billion in 1993 are equivalent to 42 percent of Federal cash and commodity subsidies (Table 2.3).

**Table 2.3**  
**1993 School Meals Revenues**  
**Student Payments and Federal Subsidies**

	Number of Meals (000s)	Average Student Price	Federal Subsidy	Total Revenue (000s)
<b>Lunches</b>				
Free	1,987,200	\$ 0	\$1.84	\$ 0
Reduced Price	287,316	\$ .38	\$1.44	\$ 109,180
Full Price	1,865,484	\$1.16	\$ .30	\$2,163,961
<b>Total</b>	<b>4,140,000</b>			<b>\$2,276,141</b>
<b>Breakfasts</b>				
Free	789,583	\$ 0	\$1.06	\$ 0
Reduced	46,545	\$ .28	\$ .74	\$ 13,033
Full Price	104,503	\$ .61	\$ .19	\$ 63,747
<b>Total</b>	<b>940,631</b>			<b>\$ 76,780</b>

Source: FNS administrative records; Special Nutrition Dietary Assessment Study.

Note: Revenue total does not reflect State or local subsidies and a la carte sales. Federal subsidy includes cash and entitlement commodities

## Distribution of Benefits

NSLP and SBP meal reimbursements are well targeted to low-income children. This is as expected, given the differential in reimbursement rates--\$1.865 for a free meal compared to 30.50 cents for a full price meal--and higher participation rates among free and reduced price students.

About 89 percent (\$5.2 billion) of all program benefits go to students eligible for free or reduced price meals. Approximately \$4.8 billion (81 percent) of all Federal expenditures for the school lunch and breakfast programs reimburse meals served to free eligible students and \$474 million (8 percent) funds meals for reduced price eligible students. Table 2.4 presents the projected distribution of program benefits by student eligibility status in FY 1994.

**Table 2.4**  
**Projected Distribution of NSLP and SBP Program Benefits**  
**by Student Price Status in FY 1994**

Category	NSLP			SBP			TOTAL FEDERAL DOLLARS	
	Meals	Dollars in millions	%	Meals	Dollars in millions	%		%
Free	2,039	\$3,829	79	871	\$ 939	94	\$ 4,768	81
Reduced Price	295	\$ 435	9	51	\$ 39	4	\$ 474	8
Full Price	1,914	\$ 587	12	115	\$ 22	2	\$ 609	10
Total	4,248	\$4,851	100	1,037	\$1,000	100	\$ 5,851	100

Source: FNS Administrative data.  
 Figures may not sum to total due to rounding.

## CHAPTER 3

### Legislative History of the National School Lunch and School Breakfast Programs

The National School Lunch Program was established as a grant program in 1946 to assist schools in providing lunch programs. Over time and through a series of legislative changes the program evolved to its current status as an entitlement program providing means-tested per meal reimbursements. This chapter describes the major legislative milestones in the development of the lunch and breakfast programs.

#### NSLP Grants

From 1946 until 1962 the USDA provided grants to States to fund local school lunch operations. State grant levels were based on the number of children enrolled in schools and State per capita income. Schools were required to offer meals free or at a reduced price to low-income children but received no additional Federal funding for free or reduced price meals. As a result, many schools could not afford to operate lunch programs, particularly in low-income areas.

#### Special Assistance Grants

Congress authorized a special assistance grant program in 1962 to provide additional grant funds for States to distribute to schools in low-income areas. States determined which schools received special assistance funds and how much. Schools established the criteria for free or reduced price eligibility.

In 1970 Congress amended the special assistance grants program to provide additional funds to all schools in the nation who served meals free or at a reduced price--not only to those located in low-income areas. In addition, uniform national income guidelines were established for receipt of free or reduced price lunches. The original guidelines required schools to serve meals free or at a reduced price to children whose household income was below 100 percent of the Federally established poverty guideline.

The special assistance amendments introduced between 1962 and 1970 were intended to ensure that low-income children had access to a lunch program, however, they did not provided sufficient funding to serve all eligible children. Grants were allocated to States on the basis of student

enrollment and total participation, however, there was no guaranteed per meal reimbursement.

### **Performance Based Funding**

In 1971 Congress (P.L. 92-153) established the current performance-based reimbursement system, in which schools are reimbursed at an established rate for each meal served. It was intended to ensure that all eligible children received meals and to encourage program expansion. At the time of implementation in 1973, meals reimbursed at the free rate received \$.53, meals reimbursed at the reduced price rate received \$.43 and meals reimbursed at the full price rate received \$.08 in Federal subsidies. Schools also received \$.07 per meal in entitlement commodities for all meals.

From 1971 to 1980 Congress enacted laws that increased the income eligibility guidelines for free or reduced price lunches and provided automatic adjustments for reimbursement rates to keep pace with inflation. During this period, daily meal service to free eligible children doubled from 6.2 million in 1971 to about 12 million in 1980.

### **School Breakfast Program**

The School Breakfast Program was authorized as a pilot project under Section 4 of the Child Nutrition Act of 1966. Priority was established for schools in areas with poor economic conditions, and with a substantial proportion of children traveling long distances. Federal reimbursements were intended to cover food costs only, and the Secretary established a payment rate of 15 cents per meal regardless of the income status of the child served. In schools determined to be in 'severe need' Federal financial assistance was made available for up to 80 percent of the operating cost of the program (food, labor and other costs).

Between 1968 and 1975 the SBP continued to operate as a pilot project and its funding structure grew to parallel that of the lunch program. All meals received a basic reimbursement and free and reduced price meals received higher reimbursements. Schools serving 40 percent or more of their lunches at free or reduced price rates were eligible to receive higher severe need breakfast rates for meals served to free and reduced price students if the school's production costs exceeded the standard rates. In 1975 Congress permanently authorized the SBP.

## Omnibus Budget Reconciliation Acts (OBRA) of 1980 and 1981

The OBRA of 1980 (P.L. 96-499) and the OBRA of 1981 (P.L. 97-35) instituted a number of changes which reduced the cost of the program and slowed the rate of program growth. The most significant changes:

- reduced reimbursement rates for full price meals;
- lowered Federal entitlement commodity support for all school lunches;
- lowered the eligibility limits for free and reduced price meals (from 150 to 130 percent of poverty for free meals and from 200 to 185 percent of poverty for reduced price meals);
- raised the maximum price on reduced price meals from 20 to 40 cents and decreased the reimbursement by 20 cents;
- prohibited program participation by private schools with tuition above \$1500 per year; and
- changed cost of living adjustments from a semi-annual to an annual basis and deferred some adjustments.

OBRA 1981 also required that additional information be provided on program applications and required schools to verify the information on 3 percent of the applications. The changes from OBRA 1980 took effect in January 1981. The OBRA 1981 provisions regarding eligibility and reimbursement rates were implemented at the beginning of the 1981-82 school year.

The OBRA cuts reduced the cost of the program in three ways: 1) fewer children were eligible for program benefits; 2) reimbursement rates for full price meals decreased; and 3) fewer children participated in the program. As Table 2.1 shows, in 1980 about 58 percent of all children in school (public and private) participated in the school lunch program and about 26.6 million meals were served daily. By 1982 only about 51 percent of all children participated and 22.9 million meals were served daily--a 14 percent drop in average daily meals served.

## **Restoration of OBRA Cuts**

After the cutbacks in the early 1980's, Congress restored funding for portions of the program and provided some protection from further reductions. The School Lunch and Child Nutrition Amendments of 1986 (P.L. 99-591 and P.L. 99-661) restored eligibility for school lunch program participation to all private schools and permitted schools with lunch programs to also operate milk programs for children in split-session kindergarten classes who do not have access to lunch programs because of scheduling.

Legislation passed in the mid and late 1980's also increased funding for the Breakfast Program. The 1986 laws (School Lunch and Child Nutrition Amendments of 1986 (Public Laws 99-591 and 99-661) added 3 cents in cash to the reimbursement rates for schools breakfasts and allowed 3 cents in bonus commodity assistance for each breakfast, provided commodities were available. In addition, the Hunger Prevention Act of 1988 (P.L. 100-435) added another 3 cents to the cash reimbursement rate for breakfasts.

The Child Nutrition and WIC Reauthorization of 1989 (P.L. 101-147) authorized \$3 million in 1990 and \$5 million annually for fiscal years 1991-1994 for school breakfast program start-up grants. The grants were competitively awarded to States submitting proposals outlining plans for increasing the number of schools offering the breakfast program. Special emphasis was put on expanding breakfast service to schools with high proportions of free and reduced price eligible children. The \$23 million in total grants were awarded to 38 States to begin breakfast programs serving almost 800,000 low-income children.

## **Bonus Commodity Donations**

Schools participating in the NSLP are eligible to receive bonus commodities acquired by USDA through price support or surplus removal activities. In the early 1980's, USDA began to distribute large quantities of dairy price support commodities such as cheese, butter and nonfat dry milk from government surplus inventories.

From 1981 until 1987 schools were able to order unlimited dairy products. The dollar value of distributions peaked in 1987 at \$440 million or about 11 cents for every meal served. The Food Security Act of 1985 (P.L. 99-198) altered the dairy price support program to correct market imbalances, greatly reducing USDA acquisitions of surplus dairy products. By 1990, USDA had exhausted its inventories of surplus cheese and discontinued



donations through the NSLP. In 1993 schools received about 3 cents per meal in bonus commodities that included butter and butter oil, cornmeal, corn flour, beans, almonds, asparagus, ham, canned pork, dehydrated potatoes, frozen strawberries, date pieces and grape juice.<sup>13</sup>

In a recent survey of school food service managers, most (88 percent) reported that reduced levels of bonus commodities had affected their lunch and breakfast operations in one or more ways. Specific effects noted include changed menus, increased food costs, use of more convenience items, increased lunch prices and increased breakfast prices.<sup>14</sup>

### **Program Integrity**

Beginning with OBRA 1980, program integrity took on a greater emphasis in the NSLP. USDA instituted a formal review and monitoring system for the lunch program in 1981 after reviews and audits conducted by the General Accounting Office and USDA's Office of the Inspector General in the late 1970's found serious deficiencies in meal counting and claiming systems. States were required to review school districts at least once every four years. Reviews focused on ensuring that applications for free and reduced price meals were correctly approved, that meals were properly claimed, and that meals served included the required food items.

After the State review system had been in place several years, Federal audits continued to find serious administrative deficiencies in some school districts. As a result, in 1989 FNS initiated Federally administered reviews of local districts that appeared to have serious deficiencies in meal counting and claiming procedures. Federal reviews concentrated on the same administrative aspects as the State-conducted program reviews. Reviews of a nationally representative sample of districts and schools in 1989 found that most schools and SFAs operated the NSLP in an accountable manner, but Federal reviews did identify very serious system

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<sup>13</sup> The Food, Agriculture and Trade Act of 1990 (P.L. 101-624) required the Secretary of Agriculture to submit a report to Congress detailing the quantity of bonus commodities lost, by State, since the 1987-88 school year. The report is available from FNS.

<sup>14</sup> St. Pierre, R., Puma, M., Moss, M., Fox, M. Child Nutrition Program Operations Study: Third Year Report. (Cambridge, MA: Abt Associates, Inc., 1993). p. 79.

breakdowns in a number of districts which resulted in large dollar claims.<sup>15</sup>

In response to concerns about administrative burden and duplicative efforts Congress amended the National School Lunch Act (in the Child Nutrition and WIC Reauthorization Act of 1989, P.L. 101-147) and directed FNS to establish a unified accountability system to coordinate State and Federal reviews of local school districts. The Coordinated Review Effort has been in place since 1992 and requires that every school district be reviewed once every four years by State and/or Federal personnel.

### **Reporting and Recordkeeping Requirements**

District level paperwork requirements for the program have not changed since the mid-1970's with two notable exceptions: 1) requiring schools to verify a sample of free and reduced price applications every year; and 2) instituting edit checks when preparing claims for reimbursement. Both requirements increased the total NSLP paperwork burden by less than one percent.

### **Paperwork Reduction Efforts**

A number of efforts to reduce paperwork, particularly requirements associated with applications and meal counting, have been initiated. In 1977 Congress authorized special assistance and certification procedures (P.L.95-166) that created alternatives to current approval and claiming procedures. These alternatives, commonly referred to as Provision 1 and Provision 2, allow schools to reduce annual certification and public notification requirements in schools that have a very high percentage of low-income students. Provision 2 also allows schools that serve meals at no charge to all students to base claims for reimbursement on claiming percentages rather than a daily meal count by eligibility category. Although these alternatives have been available to schools since 1977, as of 1990 only about 59 schools in the country opted to use Provision 1 and 287 schools in the country opted to use Provision 2. FNS has efforts underway to increase awareness of the advantages Provision 2 in low-income areas.

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<sup>15</sup> Review Systems for the National School Lunch Program, Office of Analysis and Evaluation, Food and Nutrition Service. March, 1992. p. 17.

The Child Nutrition and WIC Reauthorization of 1989 (P.L. 101-147) initiated three efforts to streamline administrative requirements. First, Congress directed FNS to convene a task force to develop options to reduce the paperwork associated with administering the School Nutrition Programs. The task force included representatives of the American School Food Service Association and program cooperators at the regional, State and local levels. The recommendations spanned all program areas and were reported to Congress in April, 1991 in the Paperwork Reduction in the Special Nutrition Programs 1990 Report to Congress. As a result, FNS instituted some administrative actions and proposed legislative changes. For example, agreements between FNS and State agencies and between State agencies and the local districts have been made permanent agreements are now updated only when changes occur, rather than on an annual basis.

Second, the act made direct certification of students based on AFDC or FSP participation a local option. Since SY 1991, SFAs have had the option to certify children eligible for free meals based on information from the State or local Aid to Families with Dependent Children (AFDC) or food stamp officials. This option eliminates the need for many eligible families to complete an application and can reduce the associated paperwork burden for school administrators.

Third, Congress directed FNS to conduct pilot projects to test alternatives to annual application requirements and daily meal counting procedures in the National School Lunch Program. The purpose of these projects is to reduce administrative burden--particularly in schools with a large percentage of students from low-income families--while providing a reliable count of the actual number of meals served to children by eligibility status. Pilot projects fall into four categories: 1) tests of alternates to Provisions 1 and 2; 2) tests of extended application periods; 3) tests of the effects of direct certification; and 4) tests of providing lunch at no charge to all students (no fee programs). A final report on the paperwork reduction pilot projects will be provided to Congress in the fall of 1994.



## CHAPTER 4

### **Alternatives to Administratively Structure a Universal-Type School Lunch and Breakfast Program**

Senate Resolution 303 defines a universal-type school meals program as one in which Federal reimbursements would be provided at an equal rate without regard to the income of the family of the student. This differs most significantly from current program operations in that it removes the differential in support provided since 1962 for meals served to free and reduced price children.

This chapter discusses five options for a universal-type school meals program and examines the impacts of each in relation to a set of criteria outlined below. The proposals were developed using data from a variety of sources including the School Nutrition Dietary Assessment Study (1993), the Child Nutrition Program Operations Study (1991-93), the National Evaluation of School Nutrition Programs (1984), and the Paperwork Reduction Pilot Projects (1990-94).

#### **Criteria for Examining Alternative Administrative Structures**

USDA examined impacts in seven areas considered to be most critical to the feasibility of the options. The seven areas are participation; Federal costs; distribution of program benefits; student payments and local revenues; administrative feasibility; paperwork reduction; and program integrity. The significance of each of these areas is discussed briefly below.

The critical assumption in estimating the impact of the alternatives was the hypothesized effect on participation. Participation estimates were in turn used to calculate the effects on Federal costs, distribution of program benefits, student payments and local revenue. In some instances there is information that can be drawn on directly to make the estimates, for example, the paperwork reduction pilot projects. In other cases there is no actual experience with a specific option and it was necessary to make a series of assumptions in order to produce the estimates. This chapter describes the assumptions used to estimate the impact of the options.

## Impact on Participation

USDA examined the options in terms of how they would be expected to affect the rates of participation compared to the current programs. Particular attention was focused on low-income students eligible for free or reduced price meals and how alternatives might provide incentives for currently nonparticipating students to receive meals. Four factors are likely to affect participation under the alternatives: change in or elimination of application procedures; change in price paid; reductions in stigma associated with participation; and increases in the number of schools providing the programs.

Changing or eliminating the application process would have the greatest impact on children from households which are eligible, but do not apply, for free or reduced price benefits. Although their household income would make them eligible, students not certified for free or reduced price meals are required to pay the full price for meals. For these children, changing or eliminating the application process would remove a barrier to receiving free or reduced price meals.

There are approximately 3.3 million children who are eligible for free or reduced price meals but whose families do not apply for benefits.<sup>16</sup> About half of these children are eligible for free meals and half are eligible for reduced price meals. A recent study provides some answers on why eligible households do not apply for NSLP benefits. Over half of eligible non-applicant households did not apply because they did not think they were eligible. Other common reasons for not applying include preferring lunches made at home, administrative barriers such as not receiving an application or the difficulty completing the application, and preferring to pay full price for meals.<sup>17</sup> FNS is currently conducting a study that will

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<sup>16</sup> Based on data from the School Nutrition Dietary Assessment Study that 44 percent of all children in school eligible for free or reduced price benefits while administrative data shows that, in 1993, just over 37 percent were certified for free or reduced price benefits.

<sup>17</sup> Burghardt, J., Gordon, A., Chapman, N., Gleason, P., Fraker, T. The School Nutrition Dietary Assessment Study. (Princeton, N.J.: Mathematica Policy Research, Inc., 1993). p. 146.

further explore the reasons why children eligible for free or reduced price meal benefits do not apply for or participate in the program.<sup>18</sup>

There is a well documented relationship between meal price and participation in the National School Lunch Program. Full price student participation is closely linked to the price charged and decreasing the price that full price students pay would cause a significant increase in the rate of participation. There is also a good deal of evidence about the response of reduced price students to changes in prices based the impact of the OBRA 1981 price increase on reduced price participation. The effect of price on breakfast participation is not as well understood because full price students participate infrequently, despite low average student fees, and there is relatively little variation in the prices charged. The lack of price variation makes it difficult to estimate the impact of price changes on participation.

The third factor which affects participation is a reduction in stigma. If students are overtly identified and as a result do not participate or participate less frequently, making the program universally available would increase participation by reducing the stigma associated with receiving a free meal.

The fourth factor affecting participation is an increase in the number of schools offering Federally subsidized school meals. Currently, almost all public schools offer the school lunch program while between one-quarter and one-third of all private schools students attend a school which offers the NSLP. Increasing reimbursement for upper-income students and reducing application burdens will cause more private schools to enter the program. Because many private schools are small and attended by children from upper-income households, Federal reimbursements provide little financial incentive for the schools to participate in the program. Seventy-eight percent of private schools have fewer than 300 students. If a private school has 300 students and all are in the full-price category, the school will receive an average of \$824 per month in Federal reimbursement (cash and commodities).<sup>19</sup> Under a universal program that same school could receive as much as 6 times their current reimbursement--even if

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<sup>18</sup> Results from the National School Lunch Program Eligible Non-Participants Study are being compiled and will be released in a final report in 1994.

<sup>19</sup> Full-price students have a participation rate of 45% and schools operate an average of 20 days per month. To calculate the average monthly reimbursement of a 300 student school where all students are in the paid category --  $300 \times .305$  (Federal reimbursement cash + commodities)  $\times .45$  (participation rate)  $\times 20$  days = \$824.

participation did not increase--making the school lunch and breakfast program participation much more attractive.

The impact of a universal-type system on participation is expected to vary by student age. The largest potential impact is in high schools because participation is lowest among high school-aged children. However, while high school students will experience a greater proportional increase in participation, the majority of additional meals will be served in elementary/middle schools for two reasons: 1) 72 percent of all students are in elementary/middle schools; and 2) participation rates among elementary/middle school children will continue to exceed rates in high schools where there are generally more lunch choices.

There is some evidence as to how participation may be affected by a universal-type program. Currently four school districts are testing "no-fee" meal programs--in which meals are served to all children at no charge regardless of household income. Although the operation of the pilots and the level of meal reimbursement they receive differs from what it would be under a universal-type program, the effect on student participation is likely to be comparable. Under a no-fee program, the school or district provides meals at no charge and receives Federal reimbursement based on the number of free, reduced price, and full price eligible children enrolled in school. Because students eat for free participation in a no-fee system should be similar to what it would be in a universal-type program.

Philadelphia, Pennsylvania is currently operating the largest no-fee program in the demonstration. The district has been providing meals at no charge to all children in 144 of their 265 schools since the 1991-92 school year. Between the first and second years of the program, participation tripled in high schools (from about 400,000 to 1.2 million meals served), and increased by 54 percent in middle schools (from 1.6 to 2.5 million served), and 13 percent in elementary (from 7.6 to 8.6 million served). The percentage change was greatest in high schools that originally had less than 20 percent of the students eating lunch. However, elementary students accounted for the largest number of new meals served because there are more elementary school students overall in the no-fee program.

The increase in the number of lunches served has varied from 10 to 30 percent across the four districts that have implemented no-fee programs under the Paperwork Reduction Pilot Projects (from 10 to 30 percent). The magnitude of increase seems to be related to the rate of participation prior to initiation of the demonstration.



**Table 4.1**  
**Increases in Participation in No-Fee Pilot Sites**

Pilot Site	Baseline Average Daily Participation	Year 2 Average Daily Rate	Percent Increase in Meals Served
Philadelphia, PA	53%	63%	28%
Jersey City, NJ	60%	73%	30%
Salinas, CA	73%	87%	25%
National City, CA	78%	84%	10%

The largest proportional increases occurred in Jersey City and Philadelphia, where participation had been lowest at the beginning of the project--an average of only 60 percent students participated daily in the pilot schools in Jersey City and 53 percent participated in Philadelphia. In Jersey City and Philadelphia, the number of meals served increased by 30 and 28 percent, respectively. In the other no-fee sites, average daily participation at the beginning of the pilot was as high as 78 percent in National City and 73 percent in Salinas. In those districts, the number of meals served has not risen as significantly--by 25 percent in Salinas and only 10 percent in National City.

### Impact on Federal Costs

The alternatives affect Federal costs in two ways: 1) by changing the per meal reimbursement rate; and/or 2) by changing the number of meals served. The NSLP is projected to serve 4.3 billion meals in FY 1994. Each 1 cent increase in the average reimbursement rate increases Federal costs by approximately \$43 million.

The previous section explained how universal-type programs are expected to increase the number of meals served. The impact on costs will depend on the level at which the universal reimbursement rate is set. The estimated costs for each option reflect **additional** cost to the National School Lunch and Breakfast Programs above and beyond the current projected baseline costs for FYs 1995-1999.

### **Impact on the Distribution of Program Benefits**

The current structure of NSLP and SBP meal reimbursements targets Federal funds in support of meals served to low-income children. Approximately 92 percent of program benefits are provided to reimburse meals served to children certified for free and reduced price meals. Under a universal-type program, the primary beneficiaries would be children currently only eligible for full price meals. As a result, the proportion of benefits received by upper-income children will increase substantially. USDA examined the distribution of total Federal reimbursements and the distribution of incremental Federal costs among households at different income levels for the alternatives.

### **Impact on Student Payments and Local Revenue**

Under four of the universal-type alternatives student fees would be eliminated in the schools which implemented the provisions. In FY 1994 student payments for reduced price and full price lunches are estimated to total \$ 2.4 billion. Under some of the alternatives loss of student revenues would be more than offset by increased Federal reimbursements (in effect an income transfer to students from households above 185 percent of poverty). In other alternatives, increased Federal reimbursements would only partially offset decreases in student payments.

Because student payments provide such a significant proportion of the total funding for the programs, USDA estimated the net impact of increases in Federal subsidies and decreases in student payments among the alternatives. USDA also examined the distributional impact at the school and district level which varies with the distribution of students by income status and the level of full price participation.

### **Impact on Administrative Feasibility**

USDA examined the administrative feasibility of the alternatives in light of the current responsibilities of Federal, State and local program co-operators. USDA also considered what administrative changes would be necessary in order to implement the changes.

### **Impact on Paperwork Reduction**

A significant portion of administrative effort in the NSLP and SBP is devoted to determining eligibility and counting meals by income status of

the child at the point of service. There is also some effort, albeit at a much lower magnitude, associated with determining whether the eligibility and counting procedures have been performed appropriately and Federal reimbursement has been properly made. A number of the alternatives would eliminate some of the procedures or reduce the reporting and recordkeeping identified with the requirements. USDA estimated the savings in labor hours and costs that could be attributed to the universal-type alternatives.

### **Impact on Program Integrity**

Current program requirements specify that lunches and breakfasts must meet minimum meal pattern criteria to be reimbursed. The authorizing legislation, Federal regulations and program guidance also include provisions to ensure that Federal funds are used in an appropriate manner. In examining the impact of program integrity, USDA appraised the hypothesized impact of the alternatives on the quality of meals provided and on the accountability of Federal funding.

### **Universal-Type Program Options**

USDA examined 5 options for structuring a universal-type school meals program. The options presented are:

1. **Universal Free.** Provide a single rate equal to current free meal reimbursement for all meals served regardless of the income status of a child's household. Schools would be required to operate both the school lunch and breakfast programs to participate.
2. **Universal Free in Elementary/Middle Schools Only.** Implement the above universal program in schools serving kindergarten through grade 8 only.
3. **Budget-Neutral Average Reimbursement Rate.** Provide an average reimbursement rate for all meals served. The rate would be set at a level estimated to provide the same level of Federal support and the same level of student fees as under current law. The rate would be higher than the current law full price rate, but lower than the free rate. A maximum lunch charge (regardless of income) would be established at a level estimated to maintain income from student fees.

4. **Claiming Percentage No-Fee Meal Program.** Provide Federal reimbursement based on claiming percentages rather than meal counts by type. Districts willing to provide meals at no charge to all students or to students in specific schools ("no-fee" systems) would receive Federal reimbursements based on the income distribution of enrolled students. This option is an variation of procedures in use in four districts under the Paperwork Reduction Pilot Projects authorized by P.L. 101-147.
5. **High-Poverty Schools.** Schools located in areas designated as high-poverty (**geographic eligibility**) or schools serving a high proportion of low-income students (**low-income schools**) or with a high proportion of directly certified students would receive free reimbursement rates for all meals served. About 2,100 schools containing almost 1 million low-income children have 90 percent or more of their total enrollments approved for free or reduced price meals. This option would be targeted at these high-poverty schools.

### **Universal Free in All Schools**

Under a universal free system all meals served would be reimbursed at the current-law free meal rate. Applications for free or reduced price meals would be eliminated--because all children would be eligible--and a total meal count would replace meal counts by type.

The Universal Student Nutrition Act of 1993 (H.R. 11) which was introduced in January 1993 by Rep. George Miller (D-CA) would establish an optional universal school lunch and breakfast program to be implemented nationwide by the year 2000. The universal program outlined by H.R. 11 provides Federal funding equal to the National average cost to produce a meal (approximately the current-law free reimbursement rate) for all meals served to children in school.<sup>20</sup> Schools would be required to offer the School Breakfast Program in order to participate in the universal program. Each lunch served in a universal free program would receive about \$1.84 in cash reimbursement plus \$.15 in commodities in 1996.

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<sup>20</sup> The national average cost to produce a lunch is roughly equal to the free reimbursement rate. St. Pierre, R., Fox, M., Puma, M., Glantz, F., Moss, M. Child Nutrition Program Operations Study: Second Year Report. (Abt Associates: Cambridge, MA), 1992. p. 71.

Each breakfast served in a universal program would receive about \$1.03.<sup>21</sup>

Nearly 65 percent of the schools in the lunch program also offer breakfast. Because schools would be required to operate a breakfast program in order to participate in lunch, it is assumed that virtually all schools would provide breakfast if these provisions were enacted into law.

### **Student Participation--Lunch**

The number of lunches served under a universal-type program would be assumed to increase by 36 percent or almost 1.6 billion meals. Most of the new meals would be served in elementary schools (57 percent). In addition, meals served by private schools would double, adding 20 million lunches.

USDA examined the increase in lunch participation in five categories (Table 4.1). In currently participating schools: increased participation by students from households with incomes above 185 percent of poverty (price decrease); increased participation by children eligible, but not approved for free and reduced price meals (reduction in application burden/barrier), increased participation by approved reduced price children (price decrease), increased participation by approved free children (stigma decrease) and additional schools offering the program.

The largest number of new meals (69 percent) would be served to upper-income children. The participation rate for children from families with income above 185 percent of poverty would increase by 55 percent and total meals served will increase by 56 percent.

Ten percent of new meals would be served to 3.3 million low-income children who are not currently certified to receive free or reduced price meals (eligible non-applicants). Because there is no application, these children who are currently counted as full price students are assumed to behave like other low-income children and would participate in the program 140 percent more frequently, i.e., their average daily participation

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<sup>21</sup> Schools that are currently receiving "severe need" reimbursement because: 1) more than 40% of their students are eligible for free or reduced price meals; and b) they have higher than average meal costs, would continue to receive a rate that is about 18 cents higher than the regular breakfast rate under this option.

rate would rise from 36 percent to 87 percent for free eligible children and 79 percent for reduced price eligible children.

Fifteen percent of new meals would be served to children currently eligible for free meals and 5 percent to reduced price. Because all children are treated the same at lunch or breakfast, it is assumed that free eligible children would increase participation by 10 percent. Reduced price eligible children will participate 25 percent more frequently because price and stigma are removed.

Finally, 1 percent of the new meals would be served in schools that are assumed to join the program because of the higher Federal payments offered under a universal free program.

**Table 4.2**  
**Estimated Increases in Lunch Participation Under a Fully Implemented**  
**Universal Free Program in FY 1996**

Category	Reason for Increase	Number of Additional Meals	Percent of Total Increase
Children above 185%	price decrease	1,086,728	69%
Children below 130% (approved)	stigma reduction	232,338	15%
Children below 185% (not approved)	removal of barrier (application)	150,424	10%
Children between 130-185% (approved)	price reduction	78,119	5%
Additional schools offering the program	additional reimbursement	19,828	1%
<b>Total</b>		<b>1,567,437</b>	<b>100%</b>

A universal free system would have the biggest impact in schools where current participation is lowest--high schools (regardless of student household income) and upper-income school districts--because low-income and elementary school children currently participate in the school lunch program at much higher rates.

## Student Participation--Breakfast

In a universal free school breakfast program, all breakfasts would be reimbursed at a rate of about \$1.03 with the exception of schools currently receiving severe need rates. Schools currently receiving severe need rates would continue to receive the free severe need rate--about 18 cents more per breakfast--for a portion of the breakfasts served in their schools.

The total number of breakfasts would increase by are estimated 31 percent under a universal free program in 1995 and 36 percent at full implementation in 1996. One-third of this increase is assumed to be due to children eating breakfast more frequently, but most is attributed to additional schools offering breakfast as a condition of joining the universal free school meals program. Participation rates in the School Breakfast Program are assumed to increase by about 10 percent. Studies have shown that participation in the SBP is not as closely linked to price as it is in the NSLP so rates would not increase as much as they are assumed to in lunch. The decision to participate in the breakfast program--or to eat breakfast at all--is more related to factors like bus schedules and individual characteristics such as age (younger children are more likely to eat breakfast than older children), gender (male students are more likely to eat breakfast than female students), income level (low-income students are less likely that upper-income students to eat breakfast) to meal price.<sup>22</sup>

## Federal Cost

Both USDA and the Congressional Budget Office estimate that a universal school meals program would more than double the cost of the current school lunch and breakfast programs when fully implemented. USDA estimates the proposed legislation would cost \$7 billion at full implementation in FY 1996 and nearly \$35 billion in additional Federal

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<sup>22</sup> Burgardt, J., Gordon, A., Chapman, N., Gleason, P., Fraker, T. The School Nutrition Dietary Assessment Study: School Food Service, Meals Offered, and Dietary Intakes. (Princeton, NJ: Mathematica Policy Research Inc., 1993). p. 152-154. Note: while SNDA does show SBP participation is somewhat affected by meal price, the effects are not statistically significant at the 95 or 99 percent confidence levels.

costs over five years (FYs 1995-99).<sup>23</sup> The FY 1996 cost represents an increase in excess of 100 percent of current services levels (Table 4.3).

The Universal Student Nutrition Act (H.R.11) allows a phase-in period before full implementation in the year 2000. However, the cost estimates presented here assume that the universal program would be offered to all schools at the same time and would be fully implemented by 1996. There is no incentive for a school to wait to implement the option. The availability of large increases in Federal dollars would encourage school districts to join the program immediately. The estimates also assume that almost all schools currently in the program will decide to operate a universal free system.

**Table 4.3**  
**Estimated Cost of the Universal School Meals Program**  
(in billions)

	1995	1996 (fully implemented)	1997	1998	1999
<b>Lunch</b>	\$ 5.0	\$ 6.4	\$ 6.7	\$ 7.0	\$ 7.2
<b>Breakfast</b>	\$ .5	.6	.6	.5	.4
<b>Subtotal</b>	\$ 5.5	\$ 7.0	\$ 7.3	\$ 7.5	\$ 7.6
<b>Baseline Cost</b>	6.2	6.6	6.9	7.2	7.4
<b>Total Cost</b>	\$11.7	\$13.6	\$14.2	\$14.2	\$15.0

### Distribution of Program Benefits

The largest proportion of the cost associated with a universal free system would go to increase payments for meals currently served and reimbursed at the full price rate (Table 4.4). The second most significant cost would be to pay for additional meals served to children above 185 percent of

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<sup>23</sup> Federal cost assumes that the severe need free breakfast rate is paid to all schools currently receiving severe need rates but all new meals are paid at regular rates. If all schools receive the severe need free rate (about 19 cents more than the regular rate), a Universal free program would cost \$200 million more in 1996. If all schools receive regular rates, this option would cost \$123 million less in 1996.



poverty. In comparison, the additional costs to reimburse meals served to low-income children would be relatively small. The net effect is to dramatically shift the distribution of program benefits, which are now heavily weighted towards low-income children, to upper-income children.

Approximately 77 percent of additional Federal funds under this proposal would increase benefits to upper-income students, nine percent would fund additional meals for reduced price eligible students and 14 percent would fund additional meals for free eligible students. Low-income students already participate in the program at high rates--children eligible for free meals eat a school lunch nine out of ten days they are in school--so most of the additional meals would be served to children from families with incomes above 185 percent of poverty.

Nearly \$3.3 billion in additional costs would be needed simply to increase reimbursements for meals currently served to reduced price and full price eligible children. Of the \$3.3 billion needed to finance additional meals, \$2.7 billion, or 82 percent, would reimburse meals served to upper-income children.

Under the current system, free and reduced price eligible children eat about 62 percent of all NSLP and SBP meals but receive the benefit of 90 percent of Federal cash and commodity reimbursements for school lunches and breakfasts. While 38 percent of meals are served to upper-income children, full-price meal reimbursements represent about 10 percent of total NSLP and SBP program dollars. Under this proposal, 41 percent of Federal reimbursement would support meals served to upper-income children.

**Table 4.4**  
**Distribution of Estimated Additional Lunch Costs Under a**  
**Fully Implemented Universal Free School Meals Program**  
**in FY 1996**

<b>Student/School Eligibility Category</b>	<b>Meals in Baseline (000s)</b>	<b>Higher Rate for Baseline Meals (millions)</b>	<b>Additional Meals (000s)</b>	<b>Cost of Added Meals (millions)</b>	<b>Total Cost (millions)</b>
<b>Full Price</b>	1,626,569	\$2,719	1,086,728	\$2,172	\$4,891
<b>Reduced Price</b>	294,479	\$ 118	78,119	\$ 156	\$ 274
<b>Free</b>	2,071,490	\$ 0	232,338	\$ 464	\$ 464
<b>Free and Reduced Eligible Non-Applicants</b>	254,862	\$ 426	150,424	\$ 301	\$ 727
<b>New Schools</b>		\$ 0	19,828	\$ 40	\$ 40
<b>Total</b>	4,247,400	\$3,263	1,567,437	\$3,132	\$6,396

### **Student Payments and Local Revenue**

It is estimated that students will pay an average price of \$1.26 for full-price and \$.38 for reduced price lunches in 1996.<sup>24</sup> Under a universal free program approximately \$2.6 billion in student payments would be lost. However, as Table 4.4 shows, student payments would be offset by with increased Federal reimbursements.

### **Administrative Feasibility**

The administrative changes that would be necessary to implement a universal free program would be straightforward and relatively simple. Current requirements for collecting and approving of free and reduced price applications would be eliminated and other procedures would be simplified (providing total meal counts, rather than counts by category). No additional requirements of any significance would be imposed at the Federal, State or local levels.

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<sup>24</sup> The average price of \$1.14 in 1992 from the School Nutrition Dietary Assessment Study, was projected using the projected Consumer Price Index for Urban Consumers.

Perhaps the most complicated administrative issue would occur in school food authorities in the process of implementing universal programs in all their schools. Because not all schools would be able to operate a breakfast program initially (a requirement to participate in the universal program) schools in the same district would be participating under two separate sets of procedures with differing reimbursements. With the strong financial incentives to operate a universal program, however, it is anticipated that most schools would be able to initiate a breakfast program within two years.

If some schools opted not to operate a universal program, either for philosophical reasons or because they cannot operate a breakfast program, States and the Federal government would have to administer two types of school lunch systems--the current system using applications and a stratified meal count, and a universal system using a single reimbursement rate.

### **Paperwork Reduction**

A universal free system would eliminate all paperwork related to application processing and meal counting by type. Schools would be responsible for counting total meals only. In addition, paperwork related to preparing the claim for reimbursement as well as certain reporting requirements would be reduced. As a result, about 25 million hours of paperwork valued at \$550 million would be removed from the program and meal costs could be reduced by approximately 10 cents per meal on average.

### **Impact on Program Integrity**

The primary focus of current program integrity is ensuring that children are properly approved for free or reduced price meals and counting meals by type. This runs out the Programs' objective of providing targeted assistance to low-income children. USDA also emphasizes providing high-quality nutritious meals that meet the program standards for reimbursement and avoiding overt identification of children eligible for free or reduced price meals.

Under a universal free program the issues of properly identifying eligible children and counting meals accurately by type become moot. Schools would no longer be required to certify low-income children for free or reduced price meals or verify a sample of applications. Meal

counts by category would be abolished and overt identification would be much easier to prevent. Schools would still be required to maintain a non-profit food service operation, serve lunches and breakfasts meeting meal requirements, and properly count and record total meals served.

There are concerns about how a universal free program might affect nutritional content and meal quality. The school lunch and breakfast meals provide a low-cost alternative to other meal sources, even to students paying full price. In order to serve these children, the programs must compete not only on a cost basis, but also in terms of quality and student acceptability. The need to compete for students with alternatives to the programs improves the quality of meals served to all children, including free and reduced price students that might not have another alternative. Making free meals available to all students at no cost reduces the competitive pressures and could result in a decrease in meal quality.

## Universal Free in Elementary and Middle Schools

An alternative to full implementation of a universal free lunch and breakfast program in all schools is a limited implementation in elementary and middle schools. This alternative is identical to the previous option except only schools serving lunch and breakfast to children through eighth grade would be eligible to participate. The principal difference between this proposal and providing universal free in all schools is lower Federal costs.

### Student Participation

Students in elementary and middle schools typically participate at higher rates than high school aged children (Table 4.5). On an average day 66 percent of children in grades one through nine participate, compared to about 41 percent of children in grades nine through twelve. This pattern holds true for children eligible for full price meals. As a result, the potential for participation increases in elementary schools is proportionally not as great as for high schools.

**Table 4.5**  
**Estimated Average Daily Meal Changes in Elementary and**  
**Middle Schools as a Result of Universal Free**

	Elementary/Middle Schools			High Schools		
	Current Rate	New Rate	Change	Current Rate	New Rate	Change
<b>Free</b>	84%	90%	+ 8%	55%	64%	+15%
<b>Reduced Price</b>	66%	80%	+20%	51%	68%	+35%
<b>Full Price</b>	40%	60%	+50%	30%	49%	+65%
<b>Total</b>	<b>53%</b>	<b>73%</b>	<b>+38%</b>	<b>35%</b>	<b>34%</b>	<b>+54%</b>

Source: School Nutrition Dietary Assessment Study and Program Information Data.

Upper-income children would experience the greatest increase in average daily meal service. Average daily meals to full-price children is projected to rise by 50 percent--from a current rate of 40 percent of

children participating on any given day to about 60 percent participating.

As in the universal free option for all schools, most of the new meals would be served to upper-income children (66 percent). Free eligible children would receive 18 percent of new meals and reduced price eligible children would receive 9 percent of new meals served. Five percent of the new meals would be served to children who are eligible for free or reduced price meal benefits but do not apply. Finally, 2 percent of new meals would be served in schools that are new to the program.

**Table 4.6**  
**Estimated Increases in Lunch Participation Under a Fully Implemented**  
**Universal Free Program Elementary and Middle Schools in FY 1996**

Category	Reason for Increase	Increase in Meals (000s)	Percentage of Total Increase
Children > 185% Poverty	decrease price	758,643	66%
Children < 130% (approved)	reduce stigma	202,134	18%
Children < 185% (not approved)	remove application barrier	62,104	9%
Children > 130 and < 185% (approved)	decrease price	62,104	5%
Additional Schools	universal free	19,828	2%
<b>Total</b>		<b>1,148,931</b>	<b>100%</b>

### Federal Cost

A universal free meals program implemented only in elementary schools would cost an additional \$4.7 billion in lunch reimbursements and \$400 billion in breakfast reimbursements in 1996--73 percent of the cost to implement a universal program in all schools (Table 4.7).

**Table 4.7**  
**Estimated Additional Cost of the Universal School Meals Program**  
**in Elementary and Middle Schools**  
**(\$ billions)**

Meal Service	1995	1996	1997	1998	1999
Lunch	\$ 4.0	\$ 4.7	\$ 4.9	\$ 5.2	\$ 5.3
Breakfast	.4	.4	.4	.4	.3
Additional Cost	4.4	5.1	5.3	5.6	5.6
Baseline Cost	\$ 6.2	\$ 6.6	\$ 6.9	\$ 7.2	\$ 7.4
Total Cost	\$10.6	\$11.7	\$12.2	\$12.8	\$13.0

### Distribution of Benefits

As in the universal free for all students proposal, this proposal would cause a dramatic shift in the proportion of program benefits going to low-income children.

**TABLE 4.8**  
**Distribution of Additional Lunch Costs**  
**Under a Universal Free School Meals Program in**  
**Elementary/Middle Schools in 1996**

Student/School Eligibility Category	Meals in Baseline (000s)	Higher Rate for Baseline Meals (billions)	Additional Meals (000s)	Cost of Added Meals (billions)	Total Cost
Full Price	1,243,263	\$2.08	758,643	\$1.52	\$3.60
Reduced Price	251,583	.10	62,104	.12	.22
Free	1,799,054	0	202,134	.40	.40
Free and Reduced Price Eligible Non-Applicant	134,411	.23	106,222	.21	.44
New Schools		0	19,828	.04	.04
<b>Total</b>	<b>3,431,311</b>	<b>\$2.41</b>	<b>1,148,931</b>	<b>\$2.29</b>	<b>\$4.70</b>

The largest cost associated with a universal free system would go to increase reimbursements for meals currently served and reimbursed at the full price rate (Table 4.8). The second most significant cost would be to reimburse additional meals served to children above 185 percent of poverty. In comparison, the additional costs to reimburse meals served to low-income children would be rather small. The net effect is to dramatically shift the distribution of program benefits. An estimated 77 percent of all new program monies under this proposal would provide additional benefits for upper-income students, nine percent would fund additional meals for reduced price eligible students and 14 percent would fund additional meals for free eligible students. Low-income students already participate in the program at high rates--children eligible for free meals eat a school lunch nine out of ten days they are in school--so most of the new meals would be served to children from families with incomes above 185 percent of poverty.

Fifty-one percent of the estimated additional cost would result from increasing reimbursement for meals that would have been served to reduced price and full price eligible children and 49 percent from increases in the numbers of meals served. About two thirds of the meals would be served to upper-income children. Over \$2 billion in additional costs would be incurred in 1996 to increase reimburse for meals that would have been served to full-price students in the absence of a universal program.

Under the current system, low-income children eat about 62 percent of all meals served in elementary and middle schools, but receive 91 percent of all Federal meal reimbursements. Upper-income children would receive the majority of new benefits so the proportion of total benefits to each income category will change. Whereas full price students in elementary and middle schools currently receive only nine percent of Federal reimbursements (less than \$500 million), under a universal system they would receive 41 percent of all benefits--over \$4 billion (Table 4.9).

### **Student Payments and Local Revenues**

As part of a universal free system, elementary and middle schools would no longer collect over \$1.9 billion in student payments for lunches and breakfasts. However, higher Federal reimbursements for meals served to currently participating full and reduced price elementary school children would rise by about \$2.4 billion for lunches alone, more than offsetting losses in student payments.



**Table 4.9**  
**Change in the Estimated Distribution of Federal Reimbursements**  
**Among Income Categories**  
**Universal Free in Elementary/Middle Schools**

	Free	Reduced Price	Full Price
<b>Current Distribution of Federal Benefits</b>	83%	8%	9%
<b>Projected Distribution of Federal Benefits Under Alternative</b>	50%	9%	41%

### **Administrative Feasibility**

Operating a universal free program in elementary and middle schools but not high schools introduces administrative complexity not present in a system that would provide universal free meals in all schools. Districts would be required to administer separate programs for elementary/middle schools and high schools. While the meal application and counting and claiming processes would be greatly simplified in elementary/middle schools, the tasks would still have to be performed in high schools.

Schools that serve children in kindergarten through grade 12 or some combination of high school-aged and younger children would create additional administrative difficulties. They could operate a universal free program for all children in kindergarten through grade 8, but would be required to take applications, count meals and collect money from paying students for children in grades 9 through 12.

### **Paperwork Reduction**

A universal program in elementary and middle schools reduces paperwork significantly at the school level (in elementary and middle schools) and less so at the SFA and State levels. Elementary and middle schools would no longer be required to collect applications or count meals by type. Since 82 percent of all free and reduced price applicants are elementary or middle schools students, the paperwork associated with application processing would be reduced by that proportion. In addition, meal counts in elementary and middle schools (70 percent of all schools) would be simplified. As a result of these

and other changes, almost 10 million hours of paperwork valued at about \$220 (about 5 cents per meal) million would be avoided.

High schools would be required to certify children for free and reduced price benefits and accurately count and claim meals served to eligible children by category (free, reduced price and full price).

Districts would continue to perform many of the current tasks involved in establishing free and reduced price eligibility for high school students. These include notifying the public that low-income children are eligible to receive meals free or at a reduced price, approving and verifying applications, counting meals by category and preparing claims for reimbursement. At the State level, all current paperwork requirements would be unchanged. State reviews of district level operations would be reduced because reviews of elementary and middle schools would cover fewer areas than reviews of high schools.

### **Effect on Program Integrity**

For elementary and middle schools the focus of program integrity on proper approval of free or reduced price eligibility and counting meals by type would shift. Providing high-quality nutritious meals that meet the program standards for reimbursement and avoiding overt identification of children eligible for free or reduced price meals would take greater prominence.

The impact of a universal free program on nutritional content and meal quality would be a concern. Making free meals available to all students in elementary and middle schools could decrease overall meal quality.

Introducing an application process in high school might have a chilling effect on participation by children eligible for free or reduced price meals. High school-aged participation is believed to be more sensitive to the stigma associated with receiving free meals and an elementary/middle school universal free program could increase the incidence of overt identification in high schools.

It is also possible that some districts may elect not to offer the lunch or breakfast program in high schools in order to avoid the administrative complexities that arise from running two types of programs. As a result, some low-income high school children would be denied access to a free or reduced price meal.

## **Average Reimbursement Rates**

The universal free options previously discussed met the objective of reimbursing all meals at the same rate by increasing the reimbursement rates for full price and reduced price meals to the current free meal rate. Whether applied only in elementary and middle schools or in all schools, universal free options significantly increase Federal costs. USDA examined the feasibility of a budget-neutral average reimbursement rate designed to provide the same level of total Federal support to the program and equal reimbursement to all meals.

An average reimbursement rate system would provide the same amount of funding that would be made available under current services equally divided over all the meals projected to be served. The average rate would be provided regardless of the household income of the child served. It is estimated that in 1996 under an average reimbursement rate, every lunch served would be reimbursed \$1.37 (\$1.22 in cash and \$.15 in commodities) and every breakfast about \$1.03, whether it was served to an upper- or lower-income child. Schools would not be required to provide free or reduced price meals to lower-income children.

The difficult task in an average reimbursement rate system is maintaining revenues from student fees. In 1996, student payments are expected to be \$2.7 billion. Schools would have to maintain current participation levels and charge at least \$.60 per lunch and \$.09 per breakfast in order to maintain this level of revenues from student fees. Removing the differential in Federal reimbursement would eliminate the need to determine student eligibility and count meals by type. This is perceived as one of the primary advantages of a universal-type system. However, without this information schools could not charge students based on their household income status. The most practicable choice for maintaining revenues in a system in which all meals receive the same Federal support is to charge students the same amount without regard to their household income. In this alternative USDA estimated average lunch and breakfast charges at a level designed to maintain current service levels of student payments.

## **Student Participation**

An average reimbursement rate system would change the price of lunch and breakfast for every student. Students previously eligible for free meals would now face a charge while prices would increase for reduced

price students. Full price students would experience a significant price decrease. USDA research has demonstrated a strong relationship between meal price and student lunch participation.

The price changes would significantly alter the patterns of participation by children in the current three-tier income eligibility system. Overall upper-income students would eat more often while children previously eligible for free and reduced price meals would participate less frequently. The specific effects on participation can only be hypothesized, however. There is a good deal of historical information available on the impact of price increases on full price and reduced price student participation, but considerably less on the response to price decreases, particularly of the magnitude that would be experienced by full price students under an average reimbursement rate. There is no historical precedence for estimating the effect of introducing a charge for meals previously served free to low-income children. Therefore, the estimates presented below are largely based on untested assumptions.

If the national lunch price for full price eligible students is dropped to 60 cents per meal from an average of \$1.26, the number of meals served to full price eligible students would rise by an estimated 32 percent or over 622 million meals (Table 4.10).<sup>25</sup> Some of these meals would feed low-income children who never applied for free or reduced price meal benefits. An estimated 3.3 million children are eligible to receive free or reduced price meals but do not apply for a variety of reasons.

**Table 4.10**  
**Changes in Average Daily Participation by Category**  
**Under an Average Reimbursement Rate**

Category	Current Average Daily Participation Rate	Projected Average Daily Participation Rate	Percent Change
<b>Free</b>	79%	58%	-27%
<b>Reduced Price</b>	63%	50%	-20%
<b>Full Price</b>	36%	48%	+32%

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<sup>25</sup> Average meal price is based on data from the School Nutrition Dietary Assessment Study, p. 31.

There is a historical basis for estimating the impact of a price increase on reduced price participation. In 1982 subsidies for reduced price meals were reduced by 20 cents and the maximum allowable charge was increased from 20 to 40 cents. Partially as a result of the reduced price increase, participation dropped from 1.9 to 1.5 million meals per day--a 21 percent reduction. This reduction cannot be entirely attributed to the price increase since income eligibility guidelines were lowered at the same time (from 195 percent of poverty to 185 percent of poverty) resulting in fewer reduced price eligible students. In addition, schools were newly required to verify the income listed on a portion of all free and reduced price applications which may have resulted in even fewer applications being filed. Therefore, a 20 percent decrease in average daily participation is assumed as the upper boundary of a drop in reduced price participation (from the current 63 percent average daily participation (ADP) to 50 percent ADP).

Although there is no prior experience to use as a basis for estimating the impact of a charge on free students, it is safe to assume that it would cause a significant decrease in participation. Current participation differentials between free and reduced price students are evidence that a 40 cent charge for lunch can deter participation by low-income students. Although an average 58 cent meal charge for lunch would still be a bargain relative to many alternatives, some households may not be able to provide that for school lunches. As a basis for estimating the effects of this proposal, USDA assumed that free participation would drop by 27 percent--resulting in an average daily participation rate of 58 percent. If free participation drops more than 27 percent, and full and reduced price children participate as assumed, Federal costs would decrease under this proposal. Conversely, if free participation drops by less than 27 percent, Federal costs would increase.

### **Federal Cost**

This proposal is designed to be cost neutral. The total number of meals served is estimated to remain stable although more meals would be served to upper-income students and fewer to low-income students. To the extent that actual participation differs from USDA assumptions there would be additional costs or savings. For example, if full price participation increases as projected and if current free eligible participation drops more than predicted--reducing the total number of meals served--Federal costs would decrease. On the other hand, if free

eligible participation drops by less than expected--increasing the total number of meals served--this proposal would expand Federal costs.

### **Student Payments and Local Revenues**

Schools that have low percentages of free and reduced price eligible students would benefit under this proposal. Under the assumptions used for this estimate, schools with fewer than 35 percent of their students eligible for free meals would receive increased Federal reimbursement. Approximately 64 percent of schools in the country have fewer than 35 percent of students enrolled eligible for free meals.

Schools that have a high proportion of full price children would benefit from this proposal. As Table 4.11 shows, schools with less than 10 percent free eligible students would receive an extra \$.77 per meal in Federal reimbursements. In contrast, schools with 90 percent or more of their students eligible for free or reduced price meals would lose an average of \$.60 per meal.

Schools with a high proportion of low-income students also experience additional losses when student revenues are considered. Low-income schools would lose revenues from two sources: 1) decreased average per meal revenues; and 2) decreased participation. All together, schools with more than 40 percent of students eligible for free meals would lose about \$619 million (in Federal payments and student revenues) which would be shifted to upper-income schools. Decreased average per meal revenue (Federal reimbursement and student payments) accounts for about 40 percent of the change, while the drop in low-income participation accounts for the remaining 60 percent.

**Table 4.11**  
**Estimated Changes in Federal and Student Revenues Using**  
**An Average Reimbursement Rate**

Percent Free Applications on File	Number of Schools in Category	Avg. % of Meals Served Free	Avg. % of Meals Served Reduced Price	Current Avg. Per Meal Federal Reimbursement	Change in Per Meal Federal Reimbursement
0 - 9.9	16,340	10%	9%	\$ .60	\$ .77
10 - 19.9	18,936	26%	8%	\$ .87	\$ .50
20 - 29.9	14,863	40%	7%	\$1.09	\$ .28
30 - 39.9	10,535	52%	7%	\$1.28	\$ .09
40 - 49.9	7,623	62%	6%	\$1.44	\$- .07
50 - 59.9	6,068	70%	6%	\$1.58	\$- .21
60 - 69.9	4,339	78%	6%	\$1.70	\$- .33
70 - 79.9	3,339	85%	5%	\$1.81	\$- .44
80 - 89.9	2,671	91%	5%	\$1.90	\$- .53
90+	2,090	97%	2%	\$1.97	\$- .60

### Distribution of Benefits

This option would radically redistribute program benefits from low-income children to upper-income children. Whereas low-income children currently receive about 89 percent of Federal lunch reimbursements (cash and commodities), under this proposal, they would receive about 41 percent. The proportion of benefits that upper-income children receive would increase from 11 to 59 percent.

The average reimbursement rate system would redistribute subsidies by decreasing the per meal reimbursement for meals served to children below 185 percent of poverty and by causing a significant decrease in the number of meals served to low-income children at the same time the number of meals served to upper-income would increase.

## Administrative Feasibility

The changes in Federal or State administration required to accommodate an average reimbursement rate system would be relatively easy to make. This system would require financial management systems to be reprogrammed for a single reimbursement rate system. Other than this change, all financial and administrative systems and requirements at the Federal and State levels would remain the same.

**Table 4.12**  
**Estimated Change in Percentage of Federal Lunch Program Cash and Commodity Benefits by Eligibility Category**

<b>Eligibility Category</b>	<b>Current Reimbursements</b>	<b>Average Reimbursement Rate</b>	<b>Change in Meals Served (millions)</b>
<b>Free</b>	80%	35%	-561
<b>Reduced Price</b>	9%	6%	- 61
<b>Full Price</b>	11%	59%	+622

## Paperwork Reduction

As under the universal system, all paperwork related to application processing and meal counting by type could be eliminated using an average reimbursement rate. By eliminating these requirements as well as streamlining the claim for reimbursement and certain reporting requirements, about 25 million hours of paperwork valued at \$550 million would be removed from the program and meal costs would be reduced by an average of approximately 13 cents per meal on average.

This system would still require school personnel to handle lunch sales, but because all children would be subject to the same lunch price, the process would be simplified. Currently, program regulations prohibit the overt identification of free or reduced price eligible children. As a result, schools are required to distribute or sell tickets prior to the lunch service to prevent the student body from detecting who may be receiving free or reduced price meals. If all children were charged the same amount ticket sales would be simplified and could be handled exclusively in the cafeteria.



## Effect on Program Integrity

Under an average reimbursement rate system schools would no longer be required to certify low-income children for free or reduced price meals or verify a sample of applications. Meal counts by category would be abolished and overt identification would be much easier to prevent. Schools would still be required to maintain a non-profit food service operation, serve lunches and breakfasts meeting the NSLP meal pattern, and properly count and record total meals served.

The concerns about meal quality in a universal free program would be less critical under this option. The programs would continue to have to compete for paying customers, in terms of price as well as in terms of quality and student acceptability. The need to compete for students with alternatives to the programs improves the quality of meals served to all children, including free and reduced price students that might not have another alternative.

Because this proposal would significantly decrease program participation by children from households below 185 percent of poverty it would have dramatic negative impacts on nutrition for low-income children. The School Nutrition Dietary Assessment Study showed that participation in the NSLP leads to significant increases in intakes of protein, vitamin A, vitamin B12, phosphorus, magnesium, and zinc for low-income students.<sup>26</sup> Many low-income children depend on school meals and decreased participation in the lunch program has clear negative consequences on their ability to meet the RDA for critical nutrients. This proposal could leave many children without an affordable alternative.

## Claiming Ratios and No-Fee Meal Programs

An alternative to daily meal counts by type is a claiming factor based on historic precedent. A claiming factor has the same effect as an average reimbursement rate except that the claiming rate is developed specifically for the school or SFA rather than using a national average.

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<sup>26</sup> Burghardt, J., Gordon, A., Chapman, N., Gleason, P., Fraker, T. The School Nutrition Dietary Assessment Study: Dietary Intakes of Program Participants and Nonparticipants. (Princeton, NJ: Mathematica Policy Research, Inc., 1993), p. 29.

Schools develop claiming factors, count total meals on a daily basis, and apply the claiming factor to determine meal claims.

Because a claiming ratio does not allow schools to identify which children should be charged for a reduced price or full price meal, this option schools would be required to provide all meals for free (No-Fee Program). This restriction makes the option most viable in schools serving a high proportion of low-income students.

Like a universal free program, in claiming ratio and no-fee programs schools serve meals to all students without charge regardless of the income level of the child. It differs from universal free program in that Federal reimbursements are provided based on claiming ratios. Claiming ratios are established using historical participation, school enrollment, econometric models or other alternatives. Instead of counting meals by free, reduced price and full price categories in the cafeteria, school food service operators would count only total meals and then apply claiming percentages to the total in order to develop the claim for Federal reimbursement. Because all children receive free meals there is no need to identify the eligibility status of individual students to claim reimbursement or charge student fees.

Claiming percentages are allowed under current law. The 1977 amendments to the National School Lunch Act (P.L. 95-166) authorized the special assistance and certification procedures known commonly as Provision 2. Under Provision 2, a school that serves meals at no charge to all children may take applications once every three years. Counting and claiming procedures are also modified. During the year that applications are taken, schools are required to count meals by category. These meal counts are converted into percentages of free, reduced price and full price meals served each month. In the second and third years, schools take only total counts of meals and apply the claiming percentages from the corresponding month to get numbers of free, reduced price and full price meals to claim for reimbursement.

Because districts operating under Provision 2 lose student payments for meals served to reduced price and full price students, many schools or districts that have the potential to operate viable Provision 2 programs are concerned about the financial risks involved. For this reason Provision 2 has not been widely used and many program operators are not aware that it is an option. In 1990, only 287 schools in 110 districts operated under Provision 2.

Recently, four school districts implemented claiming ratio no-fee meal counting and claiming procedures as part of the Paperwork Reduction Pilot Projects.<sup>27</sup> In order to minimize financial risk, two sites have restricted participation in the no-fee pilot to schools with very high percentages of free and reduced price students.

Three of the sites are operating using claiming percentages based on enrollment in school and one is operating using claiming percentages based on actual participation. Enrollment percentages are calculated by determining the eligibility status of all children in a school and converting the numbers into percentages. If a school of 100 students has 75 students eligible for free meals, then 75 percent of each day's meal count will be claimed as free. Two of the sites (Salinas, CA and Jersey City, NJ) using enrollment-based claiming percentages collect applications to determine the number of children in school eligible for free and reduced price meals. Because the school has an incentive to generate a high free claiming percentage, each school ensures that all possible applications are received and processed. To encourage students to return applications promptly, both districts provided rewards to classes that turned in all their applications.

The third site using enrollment-based claiming percentages (Philadelphia, PA) used a socio-economic study combining information on food stamp and AFDC households with in-home interviews. The district determined how many children in each school would be eligible based on receipt of food stamps or AFDC. It then interviewed 2,500 households not eligible for food stamps/AFDC to determine what percentage of the households would be eligible for free or reduced price meals. The information from the two sources was combined to create enrollment-based claiming percentages for each school in the district. Philadelphia's method of determining claiming percentages has an advantage over application-based systems in that it eliminates any barriers associated with the application process. In addition, the system does not rely on students and families to return applications properly completed in a timely manner.

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<sup>27</sup> The Child Nutrition and WIC Reauthorization of 1989 (P.L. 101-147) authorized the USDA to conduct pilot projects to reduce paperwork and administrative burden in the NSLP. As part of that project, four school districts operate as no-fee pilot sites including Philadelphia, PA; Jersey City, NJ; Salinas, CA; and National City, CA.

The fourth no-fee site is using participation-based claiming percentages to calculate claims for Federal reimbursement. Participation-based claiming percentages are developed based on the actual number of meals served to free, reduced price and full price eligible children. The advantage to the school of participation is that free and reduced price eligible children eat school lunches more frequently than full price eligible children yielding higher free and reduced price claiming percentages than enrollment.

Table 4.13 compares the difference in reimbursement using enrollment and participation percentages in a hypothesized school of 100 students.

**Table 4.13**  
**A Comparison of Enrollment vs Participation-Based**  
**Claiming Ratios in 1996**

	Enrollment		Participation	
	Meals	Federal %	Meals	Federal \$
<b>Free</b>	32	\$63.95	40	\$ 79.94
<b>Reduced</b>	13	20.76	13	20.76
<b>Full Price</b>	19	6.21	11	3.60
<b>Total</b>	64	\$90.92	64	\$104.30

In Table 4.13 a school is assumed to have 100 students - 50 eligible for free meals, 20 eligible for reduced price meals and 30 eligible for full price meals, and serves 64 meals per day. Based on direct counts, forty would be served to free eligible children, 13 to reduced price eligible children and 11 to full price eligible children.<sup>28</sup> If the school used an enrollment percentage, only 32 of the 64 meals would be counted as free (64 meals multiplied by 50 percent children eligible for free meals).

The disadvantage to using participation percentages is that, initially meals have to be counted by category to establish baseline. For example, Provision 2 schools count and claim meals using standard

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<sup>28</sup> The counts used are consistent with the national average daily meal rates for free (79 percent), reduced price (64 percent) and full price (27 percent) students.

procedures for one year, then apply these factors to total meal counts for the next two years. Students have to be reoriented to a ticket system every third year which can impose considerable burden--and could serve as a barrier to participation. If children did not eat lunch as frequently during the baseline year when meals were counted by free, reduced price and paid categories (due to having a ticket or roster system in place), the claiming percentages developed would not be an accurate reflection of participation during the following two years when only total meals are counted. In effect, the meal counting barrier would be factored into the baseline claiming percentage.

### **Student Participation**

No-fee programs have considerable potential for increasing school lunch participation, particularly among high school-aged students and upper-income students in districts or schools with a high proportion of low-income children. The reduction in price is a significant incentive to participate. And because there are no applications to receive meals, a no-fee system can eliminate barriers associated with completing an application or stigma associated with participating in the program.

The Paperwork Reduction Pilot Project sites provide the best information for estimating the effect of no-fee systems on participation. All four no-fee pilot sites increased the number of meals served from 10 to 30 percent.<sup>29</sup> The largest increases in participation came in those schools where participation had traditionally been lowest--high schools--although only Philadelphia had high schools participating in the program at the time these data were collected.

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<sup>29</sup> Economic effects have not been included in this analysis. The pilot projects were implemented in the 1992 school year and the numbers of meals presented are for 1991 and 1992. As noted in Chapter 2, free lunch participation was increasing significantly at that time.

**Table 4.14**  
**Changes in Meals Served under a No-Fee Program**

	Meals Pre-pilot	Meals Under No-fee	Change
Salinas, CA	667,333	831,274	+ 25
Jersey City, NJ	1,017,001	1,319,207	+ 30
National City, CA	900,143	986,515	+ 10
Philadelphia, PA-Elementary	9,221,190	11,104,680	+ 20
High Schools	397,871	1,239,775	+212
Philadelphia (all schools)	9,619,016	12,344,445	+ 28

Source: Paperwork Reduction Pilot Projects Study, School Years 1990-91 and 1991-92 data.

High schools offer the largest potential for growth because of their traditionally low participation. Students often have more lunch choices (i.e., restaurants, a la carte) and are more aware of any stigma associated with NSLP participation. In Philadelphia participation in the 13 pilot high schools rose by over 200 percent (from 13 to 39 percent). However, high schools still represent only 10 percent of meals served in the Philadelphia pilot schools.

The cost estimate for this proposal assumes that total meals served would increase by 18 percent in schools sponsoring a no-fee program. Forty-seven percent of all new meals would be served to upper-income students. Ten percent would be served to reduced price eligible students and 43 percent to free eligible students. Although full price participation is projected to rise by 55 percent, while free and reduced price participation rise by 15 and 25 percent, respectively, over half of all new meals will be served to low-income students (Table 4.16).

**Table 4.15**  
**Estimated Distribution of New Meals Under a No-Fee Program**

Category	Reason for Increase	Increase in Meals	Percentage of Total Increase
Children > 185%	price decrease	47,195	47%
Children > 130 and < 185% (approved)	price decrease	10,143	10%
Children < 130% (approved)	stigma reduction	43,626	43%

**Table 4.16**  
**Estimated Increases in Average Daily Meals Served by Category**

Category	Current Average Daily Meal Rate	Projected Average Daily Meal Rate	Percent Change
Free	79%	91%	+15%
Reduced Price	64%	80%	+25%
Full Price	37%	57%	+55%

As in Universal Free, full price students would experience the largest increase in participation. However, while full price participation experiences the largest increase the majority of new meals (53 percent) in a no-fee system would be served to free or reduced price eligible students.

### **Federal Cost**

A no-fee system implemented in all schools with more than 70 percent of students eligible for free meals is estimated to cost \$119 million for lunch and \$25 million for breakfast in Fiscal Year 1996. The Federal cost would be the result of an additional 101 million lunches and 53 million breakfasts served in no-fee sites (Table 4.17).

**Table 4.17**  
**Estimated Federal Cost of a No-Fee System**  
(\$ millions)

Meal Service	1995	1996	1997	1998	1999
Lunch	\$ 115	\$ 119	\$ 122	\$ 126	\$ 130
Breakfast	24	25	25	26	27
Additional Cost	\$ 139	\$ 144	\$ 147	\$ 152	\$ 157
Baseline Cost	\$6,237	\$6,535	\$6,851	\$7,182	\$7,477
Total Cost	\$6,376	\$6,679	\$6,998	\$7,334	\$7,634

Under a no-fee system, Federal costs increase if overall participation rises. If participation is stable, a no-fee system based on enrollment could actually decrease Federal costs. Enrollment percentages understate the actual percentage of meals served to free and reduced price eligible students because they don't account for higher participation rates among these students. Unless participation increase, a claiming percentage would result in fewer free and reduced price meals claimed than a direct count. If the no-fee program were based on enrollment percentages and participation remained stable, no-fee schools would lose about \$90 million in Federal lunch and breakfast reimbursements.

This proposal differs from Provision 2 in that it does not require schools to count and claim meals one out of every three years. It also offers districts some flexibility on how to calculate claiming percentages and eliminate applications.

### **Distribution of Benefits**

The potential beneficiaries of a no-fee system are schools and districts with high percentages of free and reduced price eligible students. These schools would receive enough Federal reimbursement per meal to cover the costs of meal production. The approach is applicable for low-income schools within school districts. Districts with schools with high concentrations of low-income children can benefit from a no-fee program by using claiming percentages in these schools and meal counts in the rest of the district. School district in Philadelphia and Jersey City used this approach in the Paperwork Pilot Demonstration.



**Table 4.18**  
**Estimated Distribution of Additional Lunch Costs**  
**Under a No-Fee System in 1996**  
**(in millions)**

<b>Student Eligibility Category</b>	<b>Meals in Baseline</b>	<b>Change in Federal Cost of Current Meals</b>	<b>New Meals</b>	<b>Categorical Cost of New Meals</b>	<b>Total Cost</b>
<b>Full Price</b>	36	\$ 11	47	\$ 4	\$ 15
<b>Reduced Price</b>	30	7	10	10	17
<b>Free</b>	496	-77	44	164	87
<b>Total</b>	561	\$-59	101	\$178	\$119

The estimated total Federal cost of new lunches served to children in no-fee sites would be \$178 million. However, because no-fee sites use claiming percentages, some of their meals served will shift categories from free to reduced price and full price. About a third of the Federal cost of new meals will be offset by shifts in categorical claiming.

About 81 percent of new meals served will be reimbursed at the free rate, reflecting the percentage of students from households below 130 percent of poverty--not necessarily the number of meals actually served to these children. While the majority of new meals will receive the free reimbursement rate, only 43 percent will be served to free-eligible children, 10 percent will be served to reduced price eligible children and 47 percent to full-price eligible children.

### **Student Payments and Local Revenues**

Because schools or school districts must make up the difference between the Federal reimbursement received for full price and reduced price meals and the cost to produce a meal, this option is feasible only in schools or districts with that do not rely heavily on student fees to support their meal programs. It is assumed that schools in the pilot project with at least 70 percent of their students eligible for free meals would be able to benefit from this type of program. At least 9 percent of schools nationwide (over 8,300 schools) have more than 70 percent free eligible students.

School food service operations receive revenue from at least two sources--Federal reimbursement and student payments. Because schools lose all income from student payments under a no-fee system, they need to increase Federal reimbursements and/or reduce unit production costs and increase meal volume in order to break even financially. Student revenue to the lunch program would be reduced by \$55 million in 1996 if a no-fee system were implemented in all schools with more than 70 percent of students eligible for free meals.

**Table 4.19**  
**Estimated Change in Lunch Revenues in No-Fee Schools**  
(in millions)

Loss of Student Revenues	Claims based on Enrollment	Increases in Participation
-\$55	-\$59	+\$178

Overall, revenues to schools operating no-fee program would increase by an estimated \$64 million. However, without increases in participation, Federal reimbursements would decrease by \$59 million.

### **Administrative Feasibility**

This system maintains the current administrative and funding structure of the program. Districts are reimbursed according to the numbers of free, reduced price and full price meals served (as determined through claiming percentages). A method for developing claiming percentages would need to be devised for use in different types of districts, whether urban or rural, small or large. The Paperwork Reduction Pilot Projects have already yielded several successful examples that could be applied in other school districts.

For example, two pilot sites are basing enrollment percentages on applications collected. Jersey City is collecting applications every year and Salinas is collecting applications once every three years. Jersey City decided to collect application each year because the district was concerned that families would get out of the habit of completing and returning applications. Jersey City also focus on high poverty schools by including only those schools with 80 percent or more of the children are approved for free or reduced price meals. Salinas was initially

concerned that students might not complete and return applications after three years. In order to ensure that applications did get completed and returned promptly, Salinas provided incentives for children to return all applications.

Philadelphia based their claiming percentages on a socio-economic study. It has the advantage of being statistically valid, however, it is relatively expensive. Temple University staff conducted the study at a cost of approximately \$125,000. Conducting a socio-economic study may be an option for large school districts but may not be feasible for middle or small districts with fewer resources.

The socio-economic model should produce higher claiming ratios than an application based enrollment factor. By estimating the economic status of potential participants using extant data, the model captures a higher proportion of low-income students than a system relying on applications because not all eligible children apply for program benefits.

National City, California uses participation-based claiming percentages to calculate claims for reimbursement. National City hired a statistician from the University of San Diego to create a multi-variate model that estimates participation percentages based on historic participation, gross regional product, unemployment and other local economic indicators. The model allows National City to use participation percentages without having to count meals once every three years.

The National City model has three shortcomings for wider application. First, not all indicators are appropriate or available for all areas in the country. No single model is likely to be applicable nationwide. Second, participation is never measured directly after the base year but is based on the accumulated past estimates, changes in actual participation may occur without be captured by the model. Finally, the National City model is not sensitive enough to be applied in districts that plan to implement no-fee in some schools but not in others. A statistical model uses measures from a lower area rather than specific neighborhoods so is only applicable for districts planning implement no-fee district-wide.

### **Paperwork Reduction**

Implementing a no-fee system in all schools with more than 70 percent of students eligible for free meals would save about 5 million hours of

paperwork worth about \$110 million (about 16 cents per meal) in years when applications were not processed and only total meals were counted. The 9 percent of schools that could implement a no-fee system have enrolled about one-fourth (about 3.4 million) of all free eligible students in the nation. By implementing a no-fee system in 9 percent of schools, 24 percent of the application processing and verification burden would be eliminated from the program during the years when applications are not taken.

A no-fee system reduces paperwork at the local level--even in districts that operate some schools under no-fee and some schools under current program regulations. Depending on how claiming percentages are developed, districts may no longer have to take applications every year in no-fee schools. Since it is likely that no-fee schools would contain a large proportion of the low-income children in a district, application processing burden can be markedly reduced. For example, Philadelphia included about half their schools in the no-fee system. Of the 101,000 children in no fee schools, 83 percent were eligible for free meals with an additional 7 percent eligible for reduced price meals. Philadelphia was able to eliminate processing over 90,000 applications.

No-fee schools are not required to count meals by category, eliminating the need to use a ticket or roster system in the cafeteria. Some paperwork costs that may be eliminated include ticket printing, ticket sales, ticket distribution (often conducted by teachers during classroom time), money collection in the cafeteria, time spent after lunch counting tickets. In the pilot sites using a no-fee system, labor that was previously used for meal counting has been reallocated to meal production.

### **Impact on Program Integrity**

Under a no-fee system, a key issue of program integrity is the accuracy of percentages used to develop the claim for Federal reimbursement relative to numbers of free, reduced price and full price children attending school. Program accountability may be affected in two ways: First, reimbursement claims based on claiming percentages would differ from claims based on actual meal counts because average claiming percentages do not capture day-to-day fluctuations from factors such as menu or meal quality. A no-fee system captures change in total meals served but does not capture change in the mix of meals served to children in differing eligibility categories. Secondly, family size or

income may change during the period that lunch applications are retained by the school (i.e., up to three years).

Household factors that result in a change in a child's eligibility status would not be captured during the extended application period. This would become a problem if a significant number of children change eligibility category, because the claiming percentage would no longer accurately reflect the student population. Using a no-fee system, Federal reimbursement is not tied to individual children but rather to the proportion of children in the various eligibility categories. If a large number of families lost employment at one time, the school's meal claiming percentages would no longer accurately reflect the proportions of free or reduced price eligible children attending school in the district.

### **Universal Free in High Poverty Areas**

An alternative to national implementation of a universal free program is limited operation in areas with high concentrations of low-income children. Eligible schools or school food authorities would be designated either through geographic eligibility or by more direct measures of the children eligible for free and reduced price meals. Although the two approaches would be implemented in different manners, they are discussed together because they would both target high poverty areas. For the purposes of discussion, this option assumes focuses in schools with 90 percent or more children eligible for free meals.

There are a number of precedents for providing higher reimbursements in high poverty areas in current USDA programs. The Summer Food Service Program (SFSP) provides meals to children during the summer months in areas with significant concentrations of low-income children. SFSP uses both area eligibility and applications to certify sites which provide meals free to all participating children.

School districts serving 60 percent or more of their meals at the free or reduced price rate in the National School Lunch Program are entitled to an additional 2 cents (2 cent differential) in reimbursement for each meal served. In Fiscal Year 1993 USDA provided \$27 million in 2 cent differential payments. Schools in the School Breakfast Program serving 40 percent or more of their lunches at the free or reduced price rates and demonstrating costs in excess of the standard reimbursement are entitled to higher 'severe need' reimbursement rates for meals

served to free or reduced price students. In Fiscal Year 1993 severe need rates were approximately 18 cents higher than regular rates. Over 50 percent of all breakfasts served are reimbursed at the severe need rate.

While high poverty based categorical eligibility would reduce administrative burden and boost participation among low-income children, it has a number of disadvantages. The effectiveness of targeting benefits would be diminished in areas where the income distribution of students in schools differed from the income distribution of the surrounding community. This could occur where schools are not community based. It would also be difficult to target high schools, which may draw from a larger geographic area and have the largest proportion of eligible nonparticipating children.

From 1962 to 1970 USDA provided special assistance grants for schools in low-income areas. In 1970 special assistance grants were expanded to all schools serving free and reduced price meals, in part because of concern that providing special assistance only to schools with large proportions of low-income children was helping to subsidize the continuation of racially segregated school systems.<sup>30</sup> High poverty based categorical eligibility could raise these concerns again.

### **Geographic Eligibility**

A geographic eligibility option would designate areas in which schools or school districts would be eligible to serve all children without charge and be reimbursed at the free meal rate. Geographic areas could be specified using extant data such as the decennial census or food stamp participation or could correspond with areas designated as empowerment zones or enterprise communities.<sup>31</sup>

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<sup>30</sup> Jones, Jean Yavis, Universal School Lunch Program Background, Issues and Analysis, Congressional Research Service, January 1992.

<sup>31</sup> Increasing use of direct certification makes designation of area eligibility schools more feasible. Some of the paperwork savings attributable to elimination of applications in area eligibility could also be achieved through direct certification alone, however.

The advantage of using high poverty to determine categorical eligibility is that it reduces paperwork in schools with the largest number of applications to process, without greatly increasing Federal subsidies for meals served to children not eligible for free or reduced price meals. Geographic eligibility could be integrated with other comprehensive community-based school initiatives.

Children attending schools in designated areas would not be required to submit an application for participation. Schools would no longer be required to count meals by type, but only to claim total meals. All meals would be reimbursed at the free rate.

### **High Poverty Schools**

Schools with a high proportion of children approved for free price meals, for example 90 percent or more, could also be made categorically eligible for a universal free program. Families would be still be required to submit applications, although they might be valid for multiple years. In districts that employed direct certification of households receiving Aid to Families with Dependent Children (AFDC) or food stamps, a separate threshold could be established based on the proportion of children directly certified.

A threshold based on direct certification offers greater potential for decreasing paperwork and reducing administrative burden than using approved applications. It eliminates the requirement for schools to request, approve and verify applications. In eliminating the application process barriers to participation associated with applying for program benefits are removed. A second advantage is that it is a direct measure the income status of students, rather than a measure of the community around the school. This makes direct certification more appropriate for middle and high schools.

### **Student Participation**

Student participation would increase under area eligibility for three reasons. First, it would remove any barriers that are associated with applying for benefits. Students who were eligible, but had not previously applied would be eligible for free, rather than full price meals. Second, some relatively small number of children previously ineligible would now become eligible for free meals. Finally, the elimination of any overt identification associated with receiving a free

meal would encourage greater participation by children eligible for free or reduced price meals.

Using direct certification to determine eligible schools would have a similar effect because students would no longer have to submit applications. Establishing eligibility based on the proportion of free and reduced applications submitted is likely to result in smaller participation increases because some eligible households would not submit applications. The potential to offer a universal program will provide schools with a strong incentive to reach out and encourage all eligible households to apply. However, it is likely that there would be schools that would fall short of the thresholds established because some eligible children did not apply.

**Table 4.20**  
**Increases in Average Daily Meals Served by Category**

Category	Current Average Daily Meal Rate	Projected Average Daily Meal Rate	Percent Change
<b>Full Price</b>	37%	57%	+55%
<b>Reduced Price</b>	64%	80%	+25%
<b>Free</b>	79%	91%	+15%

A universal program in very high poverty schools would increase the number of meals served by an estimated 17 percent in targeted schools. The 17 percent increase in meals served assumes of full price participation increasing by 55 percent, reduced price participation increasing by 25 percent and free participation increasing by 15 percent. These are the same increases assumed under a No-Fee system. However, because no-fee schools have a slightly higher percentage of full-price students, the increase in total meals served would also be slightly higher--18 percent in no-fee schools versus 17 percent in high poverty areas.

The size of the increase nationwide would depend on two factors, the number of geographic areas designated and the level of pre-existing participation in those areas. USDA has estimated the participation effects and costs assuming that schools with 90 percent or more children eligible for free meals would offer universal programs.



## Federal Cost

A program that full price for free meals to all children in high poverty schools (those with more than 90 percent of children at or below 185 percent of poverty) would cost an estimated \$47 million in Federal reimbursements for lunches and \$17.4 million for breakfasts in 1996. This cost is based on Federal reimbursement of \$2.00 in cash and commodities for each lunch served and \$1.22 in cash for each breakfast served. Because this universal system focuses on schools in very high poverty areas, all breakfasts would be reimbursed at the severe need breakfast rate. If all breakfasts were reimbursed at the regular free rate, this option would cost about \$.2 million less in 1996.

**Table 4.21**  
**Estimated Federal Cost of a Universal System**  
**in High Poverty Areas in 1996**

Increases in Federal Benefits (millions)	Free	Reduced Price	Full Price	Total
Additional Lunch Benefits	41	\$3	\$4	\$48
Additional Breakfast Benefits	17	1	*	18
<b>Total Additional Benefits</b>	<b>58</b>	<b>\$4</b>	<b>\$4</b>	<b>\$65</b>

\* Less than \$500,000. Totals may not sum due to rounding.

**Table 4.22**  
**Five Year Federal Cost of a Universal**  
**Free System in High Poverty Areas**  
**(in millions)**

Meal Service	1995	1996	1997	1998	1999
<b>Total</b>	<b>\$63</b>	<b>\$64</b>	<b>\$67</b>	<b>\$68</b>	<b>\$70</b>

## Distribution of Program Benefits

Over 1 million students attend approximately 2,000 schools that have more than 90 percent of all children eligible for free meals. A universal free program serving these high poverty schools would be very well targeted. About 94 percent of the additional cost would

reimburse meals served to children eligible for free and reduced price meals (Table 4.21). Only 8 percent of the incremental cost would go to reimburse currently served meals. The remaining 92 percent would fund increases in the number of meals served.

About 86 percent of the total cost of this option would reimburse new meals served to free eligible students. Four percent would reimburse new meals to reduced price eligible students and three percent would reimburse new meals to full price students.

**Table 4.23**  
**Distribution of Additional Lunch Costs**  
**Under a Universal System in High Poverty Areas in 1996**  
**(in millions)**

Student Eligibility Category	Meals in Baseline	Add'l Cost of Current Meals	New Meals	Cost of New Meals	Total Cost
Full Price	1.3	\$2.3	.73	\$ 1.5	\$ 3.7
Reduced Price	3.5	1.4	.87	1.7	3.1
Free	135.2	0	20.28	40.5	40.5
<b>Total</b>	140.0	<b>\$3.6</b>	21.88	<b>\$43.7</b>	<b>\$47.3</b>

### Student Payments and Local Revenues

Schools eligible for high poverty universal free categorical eligibility would, by definition, have very few children paying full price for meals because most children would be eligible for free or reduced price meals. The proposal would have a very minor impact on student payments. Students fees in high poverty areas would decrease by about \$4 million.

### Administrative Feasibility

The initial administrative issue in a geographic based system is establishing high poverty areas. The decennial census provides the most comprehensive and detailed information, but is updated only once a decade. Other information sources are likely to be aggregated at a level too large to identify pockets of very high poverty. The

advantages of this option for targeting benefits to low-income areas diminishes as the size of geographic area under consideration grows. Direct certification is better suited to defining eligible schools because income information is current and could be school building specific.

Small fluctuations in the number of children eligible for free and reduced price meals could change a school's eligibility status. For example, a school may certify 90 percent of its students for free and reduced price meals in year 1 and find in year 3 that only 89 percent of children now meet the criteria. Under a 90 percent threshold this school would be required to count and claim meals by type. The same situation could occur in a school establishing eligibility based on direct certification. The easiest way to address this issue is to require a change in status only if the change in the proportion of children exceeds a tolerance level such as 5 percentage points.

Reimbursing meals would be straightforward for both the SFA and the State. Claims could be made through the existing system without having to establish any special procedures.

### **Paperwork Reduction**

It would be possible to eliminate significant paperwork burdens without large expansions in participation if the geographic areas were tightly defined.

Geographic eligibility would create the greatest paperwork savings because it eliminates applications and the need for direct certification. Establishing eligibility based on student applications would not reduce paperwork to the same degree, however, allowing schools to be eligible for multiple years based on the first year's applications would create additional paperwork savings. Using direct certification would further decrease the burden associated with determining school eligibility.

If schools in high poverty areas could eliminate application processing, verification, ticket systems, and other administrative tasks associated with the current system of receiving Federal reimbursement by free, reduced price and full price categories, approximately 2 million hours of paperwork could be saved at a cost of \$40 million per year--about 24 cents per meal.

## **Program Integrity**

Providing universal free in high poverty schools could raise concerns about shifting the focus on the NSLP and SBP to income support from nutrition programs. Basing school eligibility on high poverty status could stigmatize schools determined to be eligible for universal free.

## CHAPTER 5

### Funding Options for Universal-Type Meal Systems

Senate Resolution 303 directed USDA to examine options for funding the additional costs of universal-type meal systems. Currently the National School Lunch and School Breakfast Programs are supported through a combination of Federal subsidies, student payments, State and local subsidies, and other local meal service revenues such as a la carte or vending machine sales. All the universal-type options, with the exception of the average reimbursement rate, significantly increase participation and the Federal cost of operating the Programs. The alternatives also affect student payments, State and local subsidies and revenue from other sources. This chapter examines alternative ways to offset all or part of the cost of a universal-type system using the Federal income tax system. USDA worked with the Department of Treasury Office of Tax Analysis and the Internal Revenue Service in examining ways to finance universal-type programs through the tax system.

Three issues are critical to the design of a tax-based system: which households would be subject to a tax; how would the household's tax liability be determined; and what would be the collection mechanism. A fourth issue related to the other three is whether to recover all or part of the incremental cost of a universal-type program through the tax system. USDA examined two collection mechanisms: treating school lunch benefits as income for the purposes of determining tax liability or reducing the personal exemption for households with school-age children.

Ideally, the financing mechanism would accomplish several objectives: reduce the administrative complexity associated with collecting student fees, increase the tax liability of households in line with their increase in meal benefits; and offset any additional Federal cost. Because not all of these objectives can be met simultaneously, USDA examined the alternatives based on three factors: their impact on program simplification; the equity of incremental charges and benefits; and net Federal costs.

The analysis focuses on ways to fund two of the universal-type options: universal free in all schools and universal free in elementary and middle schools. The cost of these two options, \$5 to \$7 billion annually, requires a large revenue increase. The universal access that they would create and the large number of children that would be

affected are more suited to a broad-based funding mechanism such as the tax system than the other options. The third option, average reimbursement rates, does not require any additional funding. The final two options, no-fee schools and universal free in high poverty schools, expand program benefits in a limited number of schools and at significantly lower costs. Given the small number of schools affected by these two options and the much lower additional costs, use of the tax system to fund these options would not be warranted.

### **Determining Households to be Taxed**

The majority of additional program costs under the universal free options would reimburse meals served to children from households with incomes above 185 percent of poverty. Under current law, these students must pay full price for school lunches and breakfasts. This analysis assumes that households with school-aged children and taxable income in excess of the income eligibility guidelines for reduced price meals would be subject to a lunch tax. This restricts the tax increase to households that could directly benefit from a universal program.

USDA used 1992 tax return information to calculate tax burdens assuming that households with school age children (5 - 18 years of age) and incomes in excess of \$25,000 would be subject to a school lunch tax. The income eligibility limit for a family of four in 1992 was \$24,790 for reduced price meals.<sup>32</sup>

In Fiscal Year 1992, 23.4 million tax returns were filed with school aged children claimed as dependents. A total of 44.0 million children were listed on these tax returns. This compares with a total 49.4 million school aged children in Fiscal Year 1992. Approximately 29.4 million children were in households with incomes of \$25,000 or higher. These households would be subject to a school lunch tax. If the entire additional cost of a universal free program were to be recovered from these households, the additional tax liability would average approximately \$240 per child in Fiscal Year 1996.

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<sup>32</sup> The average number of children per tax return was 1.88. For the purpose of this analysis a household size of four was used to establish tax liability. Separate income cutoffs could be established based on the number of children on the tax return.

There are a number of difficulties associated with identifying households to be taxed. Some sources of household income--such as child support payments which are considered in determining eligibility for school program benefits--are not treated as income for tax purposes. As a result, some households currently eligible for full price meals would not be subject to fee collections through the tax system because their taxable income would be lower than their household income as defined by the NSLP. In addition, not every household files a tax return, including households with incomes that would make them eligible for full priced meals. There would also be households with relatively high incomes and no tax liability. The cost of lunch participation could not be recovered from these households.

Household definition differences introduce additional complexity. The NSLP defines households differently from the IRS family definition. In the NSLP a child's eligibility is based on household income which would include non-married household heads or non-resident aliens. There is no means to verify household income if its members file separate returns, which they must do if they are not married or if they are non-resident aliens.

If information about the dependent were available it would be necessary to determine whether the taxpayer is liable for the school lunch expense. If certain low-income taxpayers are exempt or qualify for reduced assessments--the tax return may not have sufficient information to routinely determine a reduced tax liability.

### **Establishing a Household's Tax Liability**

The most equitable method for establishing a household's tax liability would be to count the number of meals children in the household receive and adjust the household's tax return to recover the cost of these benefits. In effect, this is what the current in cafeteria system does--establishes the eligibility of the child, determines the appropriate charge and collects the amount owed, either at the point of service in cash or through a ticket or billing system. An actual meal value system would attempt to parallel this process, except that the charge owed would be collected through the tax system.

Using actual meal value would require significant administrative efforts that would increase, rather than reduce the administrative burden associated with the current system. It would not eliminate any of the administrative procedures required for payment under the current

system and would introduce a new level of complexity by requiring that the individual student meal receipt data be linked to an income tax filing unit in order to recover the cost. This approach would take a relatively simple procedure--the child takes lunch and pays the cafeteria worker--and interject the Federal government into the fee collection process.

A less complicated approach would impose a flat per child school lunch tax on all households who claimed school-aged dependents above established income levels. The amount would assume an average program participation rate. A flat lunch tax would be the simplest to administer. It would impose the same tax on households with school-aged children, regardless of the number of meals eaten and even in the case of children never eating meals. The advantage of this method is that it is relatively easy to define which households would have a tax liability. Its major drawback is that the tax would only by chance bear any relationship to the actual benefits that were received. For example, there is no way to determine if 1) the child in the household was enrolled in school; 2) whether the school offered the lunch or breakfast program; and 3) if they were enrolled in a participating school, how often they participated, if ever.

## **Tax Collection Methods**

### Treating Lunch Benefits as Taxable Income

School lunch benefits could be treated as taxable income using either an actual meal value or an average value of meals. If actual value were used the tax filer would receive a statement indicating the value of the lunches received. If an average value were used every tax filer with school aged children would be required to report an established value for school lunch benefits as income.

The actual amount of tax paid would depend on the taxpayer's marginal tax rate. This would be a function of net taxable income and would vary depending on the number of tax exemptions and income deductions. This approach would recover only a portion of additional Federal meal costs--roughly equal to the average marginal rate of households subject to the tax. This would mean that households with higher incomes and higher marginal tax rates would pay more for their school lunch benefits, however, the cost would be a fraction of what



they would pay for the meal under the current system and in no case would exceed 40.2 percent, the highest marginal tax rate.<sup>33</sup>

This approach would contribute significantly to increasing the Federal deficit. Assuming a marginal tax rate of 25 percent and 100 percent capture of households subject to the tax, applying this approach to a universal free would increase net Federal costs over of \$5 billion annually beginning in Fiscal Year 1996.<sup>34</sup>

#### Adjusting the Personal Exemption

A second alternative would be to adjust the personal exemption in households with school-aged children to reflect the receipt of school meal benefits. This alternative would only be appropriate to use with an average meal value approach. The size of the adjustment could be established based on the amount of Federal costs to be offset. Because the personal exemption deduction reduces taxable income, any change in the deduction would interact with the marginal tax rate of the tax filer to determine the amount of offset.

In order to recover the entire incremental cost of a universal free program in all schools, the personal exemption would have to be reduced by \$1,000 per child for all households with school aged children and income in excess of \$25,000 annually. Currently the personal exemption is \$2,150 annually. Assuming an average marginal tax rate of 25 percent and 100 percent compliance, this would amount to nearly \$240 per school aged child in increased tax liability.

#### **Administrative Feasibility**

USDA requested comments from the Internal Revenue Service (IRS) on the administrative feasibility of using the tax system to collect funds from families of children in school. IRS expressed substantial concern

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<sup>33</sup> Although this approach would increase the cost of the meal as household income rises the tax system is significantly less progressive than the payment scheme in the current National School Lunch Program.

<sup>34</sup> The collection of revenues would lag behind increased program participation during the initial years of implementation. Additional costs in the first year would not be taxed until the following year.

about administrative issues and the policy implications of using the tax system to offset the cost of a universal free program.

Although dependent information is reported on tax forms it is not routinely captured in the manner that forms are currently processed. Using this information would require recording and maintaining it in a data base. Small additions to processing routines that must be recorded require additional transcription, programming, accounting, storage and costs. It is IRS' assumption that the tax would be levied on every single taxpayer who claims a dependent of school age. There are nearly 41 million tax returns with dependent children. It would be necessary to revise the forms and processing routines for all tax returns since it would not be possible to prescreen all the taxpayers who would be covered.

IRS was not able to estimate a specific cost of implementing a system to offset in whole or in part the cost of a universal free system because their cost accounting system does not provide the necessary information. However, costs of new programs often reach the tens of millions of dollars. For example, the cost of sending a routine notice to low-income taxpayers who qualify for the earned income tax credit was estimated at \$15 million. The cost included preparing, printing and mailing the notice, and, handling telephone and mail inquiries about the notice. The cost of implementing this system is likely to exceed that estimate.

IRS was also concerned about the serious policy questions raised by a proposal to use the income tax system to collect user fees. There are many other Federal programs that exact user fees. Setting a precedent such as this opens the door to numerous other equally worthy efforts which would quickly become overburden the tax system. This would be a completely new use of the tax form and it would have implications for use by other programs.

### **Equity of A Tax-Based System**

Two of the difficulties with a tax-based payment system previously noted were identifying which households should be subject to a tax and establishing the appropriate level of tax liability. Both factors reduce the equity of a tax-based payment system that would ideally assess tax liability based on the value of the meal benefits received.

Because taxable income and IRS family definition can vary significantly from the household and family size definition used to determine NSLP eligibility, some high income households which currently must pay for meals may incur very small or no additional tax liability under a tax-based funding scheme. Some households eligible for free or reduced price meals might face an increased tax liability.

The goal of increasing equity conflicts with the goal of reducing administrative complexity under a tax-based system. The only practical way to implement the system is to universally apply a tax to households with school-aged above specified income levels. Under this arrangement households will pay an amount that is unrelated to the level of participation or even the availability of program benefits. The only alternative is to count meals by child and report the information to the IRS--which would greatly increase the administrative burden associated with the program.

The cost of a universal system that recovered costs through the tax system would be significantly more expensive to a typical household than the current system. On average children eligible for full price meals participate 36 percent of the time. Factoring in attendance and an average lunch price of about \$1.25, households expend an average of approximately \$85 per child in lunch payments. A child with perfect attendance and 100 percent participation would still only consume \$225 in meals per year. As noted previously, this approach not only bills households for meals which they receive, it shifts the cost of increasing benefits to children from households below 185 percent of poverty under a universal free system to households above 185 percent of poverty.

### **Offsetting Additional Federal Costs**

Providing universal free lunches and treating the value of meals as income for tax purposes would significantly increase the cost of operating the National School Lunch and School Breakfast Programs because costs would only be recovered in proportion to the average marginal tax rate for households subject to the tax. USDA estimates that this type of mechanism would increase net Federal costs by \$5 billion annually.



## CHAPTER 6

### Summary of Universal-Type Options

The universal-type options considered by USDA differ significantly in their impact on participation, Federal costs, distribution of program benefits, student payments and local revenues, administrative feasibility, paperwork reduction and program integrity. This chapter summarizes how each of the five alternatives compare to the five criteria. It also addresses four other issues raised in Senate Resolution 303:

- an appropriate a la carte policy consistent with universal-type school lunch and breakfast programs;
- ways to increase the role of nutrition education;
- ways to encourage increases in the school breakfast program; and
- legislative changes that would be necessary to implement universal-type school lunch and breakfast programs.

#### Student Participation

Student lunch participation would increase under all the alternatives with the exception of the average reimbursement rate. Under the average reimbursement rate, it is assumed that total participation would be stable but the number of meals served to upper-income children would increase while the number served to lower-income children would decrease. The estimated change in participation by student price status for the five options is shown in Table 6.1.

The universal free options are estimated to have the most dramatic effect on student participation. Universal free in all schools would increase the number of lunches served in Fiscal Year 1996 by over one-third (36 percent). If implemented only in elementary and middle schools, total program meals would be expected to rise by 27 percent. However, most of the increase in participation occurs among students eligible for full price meals. Under the universal free option for all schools an estimated 70 percent of the additional lunches would be served to children from households with incomes above 185 percent of poverty.

The universal free options would increase low-income participation by reducing barriers and stigma associated with applying for program benefits and receiving program meals. Implemented in all schools, universal free would promote participation among the 3.3 million children in households with incomes below 185 percent of poverty that currently do not apply. In elementary and middle schools it would affect approximately half that number of eligible non-applicants. Increases in low-income participation would be small relative to overall participation increases, however.

**Table 6.1**  
**A Comparison of Estimated Changes in Meals Served**  
**by Student Eligibility Status—Fiscal Year 1996**

Options	Change in the Number of Meals (millions)			Total
	Free	Reduced Price	Full Price	
Universal Free	307	153	1,107	1,567
Universal Free in Elementary and Middle Schools	255	115	778	1,149
Average Reimbursement	-501	- 63	561	0
No-Fee System	44	10	47	101
Universal Free in High Poverty Schools	20	1	1	22

The number of breakfasts served would increase by 36 percent at full implementation under a universal free program. Two-thirds of the increase occurs because schools would be required to start a breakfast program as a condition of participation in universal free. The actual participation rate of students would be estimated to rise by about 10 percent.

The no-fee system and universal free in high poverty schools options would also increase participation but on a much smaller scale because these options would be implemented on a limited basis. The no-fee would increase participation by 5 percent, less than one-seventh the increase under a universal free option. Implementing universal free in high poverty schools would have an even smaller a still--one percent

increase. In these two options, the increases are more focused on low-income students. Additional meals served to children below 185 percent of poverty account for 53 percent of the increase in the no-fee schools and 92 percent in high poverty schools. In contrast, only 30 percent of the additional meals are served to low-income students in the universal free option.

The average reimbursement rate maintains overall participation while reducing the number of meals served to low-income children by imposing a fee on all meals regardless of the income status of the participating child. An average price of 58 cents for lunch and 9 cents for breakfast would be necessary to retain student fees at current services level. While these prices are low relative to other meal choices (a la carte, vending machines, restaurants, etc.) they are projected to have a strong negative effect on participation by low-income households. Under this option meals served to children below 130 percent of poverty would drop by an estimated 27 percent.

### **Federal Cost**

Federal costs for the five fully-implemented universal-type options range from \$0 to an additional \$7 billion in 1996. Additional costs are due to higher reimbursement rates and increases in the number of meals served to children.

The universal free option would cost \$7 billion in Fiscal Year 1996. It is the most costly option because it would be implemented in most schools in the country and would increase benefits to children regardless of their household income. Almost half the cost of this proposal would be attributable to higher reimbursements for reduced and full price meals currently served and the remainder to fund increases in the total number of meals served.

While a universal free program would increase the number of meals served by 36 percent, it would more than double the cost of the program. The cost increase far outpaces the growth in meals because the proposal not only reimburses an additional 1.6 billion meals, it also raises the reimbursement for 2.2 billion currently served reduced and full price lunches at a cost of \$3.3 billion. Under this proposal it would cost \$3.3 billion more to operate the existing program before the first additional meal was served.

Because costs increase at three times the rate of meals in this proposal, the average cost per additional lunch served (total increase in costs divided by the total increase in meals) is \$4.06, \$2.06 higher than the cost to reimburse a lunch at the universal free rate (Table 6.2). The average cost highlights how expensive it is to increase participation under a universal free system.

Universal free implemented only in elementary and middle schools is less expensive (\$5.1 billion in Fiscal Year 1996) because it only applies to children age 14 or younger.<sup>35</sup> Just over half of the additional cost (51 percent) would increase reimbursements for reduced price and full price meals that would be served to children under the current program. Because most of the benefits go toward adding reimbursement for meals that would be served, the average cost per new meal (\$4.08) is even higher than under the all schools universal free option.

The average reimbursement rate option is designed to be cost neutral. Under the assumptions used in the cost estimate any additional costs due to increased participation by upper-income students would be offset by reductions in the number of meals served to low-income children.

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<sup>35</sup> A higher percentage of new meals are served in high schools where the problem of stigma is greatest. Stigma is evidenced in two ways: 1) about half of the eligible non-applicants are in high schools (11 percent are eligible non-applicants in high schools versus less than 6 percent in elementary schools); 2) participation rates in high schools are currently lower than in elementary schools.



**Table 6.2**  
**Estimated Additional Federal Costs for Fully-Implemented**  
**Universal-Type Systems**

Option	Cost in 1996 (millions)	Increase in Lunches Served (millions)	Average Per Meal Cost for Added Lunches
<b>Universal Free</b>	\$7,000	1,567	\$4.06
<b>Universal Free in Elementary and Middle Schools</b>	\$5,100	1,149	\$4.08
<b>Average Reimbursement Rate</b>	\$ 0	0	\$ 0
<b>No-Fee System</b>	\$ 144	101	\$1.18
<b>Universal Free in High Poverty Schools</b>	\$ 65	22	\$2.16

A no-fee system implemented in low-income schools (schools with more than 70 percent of students eligible for free or reduced price meals) would cost \$144 million in 1996. Under this option increased Federal costs result from an increase in the number of meals served. The no-fee system has the lowest per meal average cost because additional meals are reimbursed at current free, reduced price and full price rates and there is no change in reimbursement for currently served meals.

A universal free program in high poverty schools (schools with more than 90 percent of all children eligible for free or reduced price meals) would cost an additional \$65 million in 1996. Over 92 percent of the incremental cost would reimburse additional meals. Only 8 percent of the additional cost would be due to higher meal reimbursements for currently served meals.

### **Student Payments and Local Revenues**

Student payments make a significant contribution to the support of the National School Lunch Program. In 1996 students payments are projected to be approximately \$2.5 billion. Four of the universal options eliminate student payments altogether. The three universal free options--in all schools, in elementary and middle schools, and in high poverty schools--provide free meal reimbursements for all lunches and

breakfasts served. In these options student payments are replaced by Federal subsidies, and except in the case of high poverty schools, primarily benefit upper-income households. In the no-fee system foregone student payments would not be offset by increased Federal reimbursements. It is assumed, however, that this alternative would only be implemented by schools in which increased participation, and subsequently Federal reimbursement, would offset any revenue loss.

A fifth option, the average reimbursement rate, would charge all students the same rate, regardless of household income. USDA would establish a maximum charge at a level that would allow schools to maintain student revenues at current law levels. The average reimbursement rate would maintain the overall level of student payments and local revenues but would shift benefits away from lower- to upper-income students.

### Distribution of Benefits

Benefits in the current school meals program are well targeted to low-income children. About 91 percent of Federal reimbursements fund meals served to children below 185 percent of poverty. Table 6.3 presents the estimated distribution of additional Federal costs by income status of children for the five options. Four of the universal-type options increase benefits provided to upper-income children as well as increase Federal support for meals served to low-income students.

**Table 6.3**  
**Distribution of Additional Costs by Student Price Status**

Option	% Benefits to Full Price	% Benefits to Reduced Price	% Benefits to Full Price
Universal Free	77%	9%	14%
Universal Free in Elementary and Middle Schools	77%	9%	14%
Average Reimbursement Rate			
No-Fee System	47%	10%	43%
Universal Free in High Poverty Schools	8%	7%	86%

Note: Under the Average Reimbursement Rate existing benefits are redistributed but there are no new Federal benefits.

The largest proportion of additional benefits in the universal free and universal free in elementary/middle schools options accrue to upper-income students because it costs over \$2 billion to increase reimbursements for meals currently served and reimbursed at the full-price rate. The second most expensive aspect of the proposal is reimbursing additional meals to upper-income children. About 69 percent of all new meals would be served to upper-income students.

In contrast, the no-fee and high poverty schools options target benefits to low-income students by limiting the program to schools with high numbers of free and reduced price eligible students. Over 8,000 schools serving over 4 million students would be assumed to participate under the no-fee option and about 2,000 schools serving 1 million children would qualify for universal free in high poverty schools.

The average reimbursement rate system redistributes benefits from low- to upper-income children. While Federal costs would remain the same, free-eligible participation drops by 27 percent, reduced price participation drops by 20 percent and full price participation rises by 32 percent. The average reimbursement rate is the only option that reduces benefits for low-income children.

### **Paperwork Reduction**

All of the universal options reduce paperwork by eliminating or simplifying the application process and by streamlining meal counting procedures. The universal free in all schools and the average reimbursement rate options both reduce paperwork by an estimated 25 million hours of school administrative valued at approximately \$550 million. These options eliminate the application process and require only total meals be counted. Because student fees would continue to be collected if an average reimbursement rate were used, this option would require slightly more administrative effort.

The universal free in elementary/middle schools saves 10 million hours of paperwork worth \$220 million. This option is more administratively burdensome than the universal free option for all schools because it requires districts to operate two school meals systems--one in elementary/middle schools and one in high schools. Districts would be required to take applications and keep eligibility records in high schools as well as prepare district claims by price category.

The two options that focus on schools with a high proportion of low-income students would not reduce total paperwork burdens to the extent of the other options. Because these schools have a disproportionate number of low-income students, however, the paperwork savings per school is larger. The 9 percent of schools that could implement a no-fee system have enrolled 24 percent of all free eligible students in the nation. By implementing a no-fee system in 9 percent of schools, 24 percent of the application processing and verification burden would be reduced during the years in which applications are not taken. The no-fee system would reduce paperwork by 5 million hours worth about \$110 million.

Universal free in high poverty schools reduces paperwork by 2 million hours in very high poverty schools--those with more than 90 percent of students eligible for free or reduced price meals. The 2,000 schools (2 percent of total schools) that would implement this option process between 5 and 6 percent of all free and reduced price applications.

### **Administrative Feasibility**

Almost without exception, the universal-type options would simplify administration relative to the current program. Most changes could be implemented at the State and local level without significant changes. The universal free in all schools and the average reimbursement rate systems would be the simplest to implement and administer because the options would simplify or eliminate current procedures without creating any additional procedures. The requirement that schools operate a breakfast program in order to qualify for the universal free program would delay full implementation, but USDA expects that within two years all lunch schools would be able to start a breakfast program and new schools would enter the program.

The universal free in elementary/middle schools would not reduce administrative complexity as much as universal in all schools because it would require districts to operate two types of school meals systems--one for elementary/middle schools and one for high schools. Administration would be most complex in combination schools in which children ages 14 or older attend the same school as younger children. This option would be the most difficult to administer.

The most complicated administrative issue in the no-fee or the high poverty schools option would occur at the Federal level--determining which schools would be eligible. For high poverty schools, reliable

procedures for determining area eligibility would need to be developed. Extant information such as Census tract data is updated only once a decade. Direct certification using food stamp or AFDC participation data could be the most appropriate vehicle. A second issue is how to determine allowable methods for establishing accurate claiming percentages in no-fee schools. School eligibility based on applications would be the easiest to implement (and possibly more accurate than other methods) but would not reduce paperwork or eliminate barriers to participation to the same extent as alternatives that did not rely on student applications.

The no-fee and universal free in high poverty schools options could require the operation of two types of systems at the district level. For example, in a large city like Philadelphia, some schools in low-income areas would qualify for the no-fee or universal system while others would continue to operate using current procedures. Philadelphia currently operates no-fee programs in 144 of their 265 schools under the paperwork reduction pilot project.

### **Program Integrity**

The principal program integrity issues are the nutritional quality of meals service to low-income children, and accountability of Federal dollars. USDA is concerned that universal free options could reduce the nutritional content and meal quality of program meals because competition with other sources of meals would be reduced. Currently, school meals must compete with alternatives not only on a cost basis, but also in terms of quality and student acceptability. By removing price competition, the need to maintain quality is diminished. This is also related to issues of a la carte meal service and competitive foods. Schools could operate a two-tier system in which the NSLP meals are provided free but are of a lower quality and sell high-quality, high profit margin items a la carte. Under this two-class scenario higher-income students would continue to purchase meals a la carte while low-income students would be offered an inferior quality universal free meal.

Program access among low-income children would be diminished under several universal-type options. The average reimbursement rate would significantly reduce participation by free and reduced price eligible students. It would reverse a policy that has been in place since 1962--providing free or reduced price meals low-income children. Program access would also be decreased under the universal free in

elementary/middle schools option because districts may elect to remove high schools from the school lunch and breakfast programs rather than operate two systems. Up to 3 million low-income high school students could potentially be effected by this option.

There is an additional concern that providing universal free or no-fee meals to schools in high poverty areas might stigmatize the schools or areas that are defined as eligible under these options. It could encourage districts to consolidate low-income children into certain schools in order to qualify. It also shifts the programs' emphasis from nutrition to income support.

Because universal-type options change or eliminate many current Federal requirements they redefine the notion of meeting Federal accountability standards. Current Federal requirements for approving applications and counting meals by type would be eliminated under some of the universal options.

Under a no-fee system, one measure of program integrity would be how meal claims derived from claiming percentages compare to actual meal counts taken at the point of service. Ideally, the two methods would produce similar results. It may be difficult to evaluate the appropriateness of the factors used, however.<sup>36</sup> A second issue is how frequently the claiming percentages would need to be revised. Current procedures require that applications are taken at least once per year. Under a no-fee system, claiming percentages based on applications would be used for multiple years. The longer claiming percentages are used without adjustment, the more inaccurate they are likely to become. This is particularly true if there are large fluctuations in local economic conditions.

### **A La Carte Policy**

Resolution 303 directed USDA to consider what would be an appropriate a la carte policy under a universal free system. Earlier the report raised USDA's concern that implementation of a universal free system might cause some schools to implement a two-class system in which low-quality meals were made available at no charge and higher quality foods were available a la carte. One way to address the potential for a two-class system is to limit a la carte to items offered as

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<sup>36</sup> Eliminating meal counts by type could increase participation by reducing the incidence of overt identification.

part of the full-plate meal. For example, a student not taking the full meal could purchase an entree, fruit, vegetable or milk. Sale of items not available as part of the NSLP meal would be prohibited. This policy would encourage schools to maintain consistent meal quality while allowing children to purchase additional food (i.e., seconds) if necessary. In addition, this policy would ensure that a la carte items were of high nutritional quality.

### **Role of Nutrition Education**

Increasing the role of nutrition education in all FNS programs is one of the most important priorities within USDA. USDA views the role of nutrition education as two-fold. USDA will work to increase the knowledge level among food providers in order to improve the nutrient content of school meals. This is an important first step in ensuring that the meals provided meet the dietary guidelines established by USDA and the Department of Health and Human Services. The second step is to increase the nutrition knowledge of program consumers--students and parents--so that they understand the value of a well-balanced nutritious meal.

The best way to compete with alternatives to school meals is to make program lunches and breakfasts nutritionally superior to the competition and to inform the public of the quality of the meals. USDA recognizes the expanded role of nutrition education in this strategy.

### **Efforts to Increase Breakfast Participation**

Considerable efforts are underway to increase participation in the School Breakfast Program. Since 1990 USDA has provided \$23 million in grants to start new breakfast programs. Grants have been awarded to over 4,400 schools in 44 States. As a result over 800,000 additional low-income children now have access to the School Breakfast Program.

States and program advocates have also been promoting breakfast program expansion. To date, 17 States have implemented breakfast mandates in various forms. Advocacy groups have also worked at the State and local level to encourage school administrators to initiate the program. As a result, over 20,000 schools added a breakfast program between 1990 and 1994, an increase of about 50 percent nationwide.

During that same time period average daily participation increased by 1.9 million meals daily, a 49 percent increase.

USDA believes more emphasis needs to be placed on increasing participation in existing schools. The efforts to expand the program has increased its availability but done little to affect participation rates. In 1994 the SBP student participation has been averaging about 19 percent within SBP schools, about the same rate as in 1990 when there were nearly 5 lunches served for every breakfast. A key component of this effort should be nutrition education. Like the lunch program, nutrition education is a critical component for schools to provide nutritious breakfasts and for students and parents to make nutritious choices.

### **Legislative Changes**

The options presented all require changes to the National School Lunch and Child Nutrition Acts, some of which simplify the current laws and, in other cases, make them more complex. The options considered in this paper only address changes in the school based programs. Many of the eligibility and claiming procedures that would be amended also apply to the Child and Adult Care Food Program (CACFP). Extending the provisions to CACFP would increase the costs of the proposals. If the options were implemented only in the school programs the authorizing legislation would have to establish separate procedures for CACFP.

Implementing the universal free option in all schools would require that many of the current legislative procedures be deleted. This would be a relatively simple task. Some provisions would need to be adjusted. States are currently required to matching a proportion of Federal reimbursement. The basis for calculating the match would be eliminated under a universal proposal.

Universal free in elementary and middle schools would require retaining current legislative procedures and creating new provisions that would apply only to elementary and middle schools. Defining elementary and middle schools in legislation could prove difficult.

The Child Nutrition Act of 1966 would also require substantial legislative changes. Breakfast rates would need to be restructured as well as the determination and payment of breakfast severe need rates. Eligibility for severe need reimbursements is based on the proportion of



lunches served at the free or reduced price rates. Under a universal free program a new basis would have to be developed. Section 7, which establishes the level of State Administrative Expenses (SAE), would need to be revised. States currently receive administrative funding equivalent to 1.5 percent of all Federal Child Nutrition meal reimbursements received in the second prior year. If the SAE provisions were not amended States would receive an additional \$83 million in administrative funds in 1997 at the same time administrative requirements were being reduced.

The average reimbursement rate necessitate legislative changes like those required for the universal free program. All references to differential rates and free and reduced price eligibility would be removed.

The no-fee and high poverty school options leave all current legislation in place but add sections implementing these provisions in low-income areas. This could be done by amending the current special assistance provisions.

Option	Additional Federal Cost in 1996	Change in Participation	Student Payments	Distribution of New Benefits	Paperwork Reduction	Administrative Feasibility	Program Integrity
<b>Universal Free</b>	\$7 billion	<u>Lunch:</u> Full Price +55% Reduced +25% Free +10% <u>Breakfast:</u> +10%	\$2.7 billion decrease in student payments.	14% to free 9% to reduced 77% to full price	Eliminates 25 million hours of program paperwork.	Easy to implement and administer.	Could reduce nutritional content and meal quality.
<b>Universal Free in Elementary and Middle Schools</b>	\$5.1 billion	<u>Lunch:</u> Full Price +50% Reduced +20% Free +8% <u>Breakfast:</u> +10%	\$2 billion decrease in student payments.	14% to free 9% to reduced 77% to full price	Eliminates 10 million hours of program paperwork.	Districts would have to run two types of programs. Difficult in combination schools.	High schools might be dropped, denying access to low-income children.
<b>Average Reimbursement Rate</b>	\$0	<u>Lunch:</u> Full Price +32% Reduced -20% Free -27%	Student revenues constant. Average lunch price \$.60, average breakfast price, \$.09.	Shifts \$619 million in Federal benefits from low- to high-income schools.	Eliminates 25 million hours of program paperwork.	Easy to implement and administer.	Totally undermines program for low-income children.
<b>No-Fee System</b>	\$144 million	<u>Lunch:</u> Full Price +55% Reduced +25% Free +15% <u>Breakfast:</u> +20%	\$55 million decrease in student payments.	43% to free 10% to reduced 47% to full price	Saves 5 million hours of program paperwork.	Maintains current funding and administrative structure of program.	Claiming percentages must correctly reflect school's income distribution.
<b>Universal Free in High Poverty Schools</b>	\$65 million	<u>Lunch:</u> Full Price +55% Reduced +25% Free +15% <u>Breakfast:</u> +20%	\$4 million decrease in student payments.	86% to free 7% to reduced 8% to full price	Saves 2 million hours of program paperwork.	Establishing area eligibility difficult.	Raises concerns about NSLP/SBP as welfare programs.

## Summary

Since 1962 the school meals programs have targeted benefits to low-income children. Concerns about low participation by eligible children and program administrative burden have caused Congress to consider a universal-type systems that would reimburse all meals at the same rate without regard to the household income of the participating child. The conclusions of USDA's analysis of five universal-type options are summarized below.

**Universal free options either increase Federal costs or cut low-income participation.**

The options analyzed in this report show that it is not possible to operate a universal free system that would be available to all schools without significantly increasing Federal costs or significantly reducing low-income participation. A universal free option in all schools would double the current cost of the school programs. Limiting universal free to elementary and middle schools would increase costs by over \$ 5 billion annually. The only cost neutral option, the average reimbursement rate, would maintain current level Federal spending by imposing a significant fee on free and reduced price students that would cause their participation to decrease by an estimated 24 percent.

**Nearly half the additional cost of a universal free system would be incurred to reimburse meals that would be served under current law.**

Thirteen million lunches are served daily at full or reduced price rates. Under a universal system these meals would be reimbursed at the free meal rate at a cost of \$ 3.3 billion annually. At the same time student payments of \$ 2.5 billion annually would be eliminated.

**The increase in total meals served under a universal system is very modest compared to the additional Federal cost.**

Total meals served under a universal free system would increase by 36 percent. At the same time the Federal cost of the program would double.

**Most of the additional Federal cost goes to subsidize meals served to upper-income children.**

Over three-fourths of the cost of a universal lunch program would subsidize meals served to children from households above 185 percent of poverty. Only 14 percent would go to children from households currently eligible for free meals.

**A universal-free in elementary and middle schools significantly increases Federal costs and provides a similar share of benefits to upper-income children.**

Implementing a universal free program in elementary and middle schools increases Federal costs by \$ 5.1 billion, 77 percent of which increases reimbursement to upper-income children.

**Administrative savings are small relative to increased Federal costs.**

While universal free options would decrease administrative costs, the savings are small in comparison to the additional Federal cost of meal reimbursements. Administrative cost savings under would be about 7 percent of the additional Federal costs of a universal free program.

**Many current administrative procedures would be necessary even if meals were not counted by type.**

The average reimbursement option illustrates that application and meal counting procedures are necessary to determine the amount a student is to be charged for the meal as well as the level of Federal reimbursement for each meal served. Without eligibility information fees cannot be collected from upper-income students or low-income students must be charged the same fee.

**Limited implementation of universal-free or no-fee programs can increase low-income participation at more modest Federal costs.**

Universal free in high poverty schools would increase Federal costs by an estimated \$65 million in Fiscal Year 1996. Over 90 percent of the additional benefits would go to children eligible for free or reduced price meals. Implementing no-fee programs in schools with 70 percent of children eligible for free or reduced price meals would cost \$144 million and provide 53 percent of the additional cost to low-income children.

**Limited implementation of universal free or no-fee programs produces greater proportional administrative savings.**

Implementing no-fee programs in 9 percent of schools nationwide would reduce the burden associated with application processing nationwide by almost one-fourth.

**Using the tax system to offset the cost of a universal free program increases the complexity of the meal counting and claiming process.**

The most equitable system to offset the cost of a universal free program would require tracking participation by child and billing for meals served through the tax system. There is a significant increase in burden and complexity compared to the current system.

**Counting school meal benefits as income for tax purposes would recover less than one-fourth of the additional Federal cost of a universal lunch program.**

Because meal benefits would be taxed at the marginal income tax rate only a portion of the additional Federal costs would be recovered. As a result, net Federal costs under a universal free program would increase by nearly \$5 billion in Fiscal Year 1996.

**Offsetting the cost of universal free by adjusting the personal exemption would significantly increase the cost of the lunch program to upper-income students.**

If the cost of universal free were completely offset through reductions in the personal exemption for households with school aged children and incomes of \$25,000 or higher, the cost per student would be approximately \$240 annually. On average these households currently pay about \$85 for lunch benefits. If the children participated every day under the current system their annual cost would be approximately \$225.

## **Conclusions**

There are alternatives to universal-type programs that would reduce administrative burden and increase participation at costs much lower than a universal-type system. USDA has a series of paperwork reduction pilot projects underway that focus on schools with a high proportion of students eligible for free or reduced price meals. Preliminary results from these projects indicate that changes to meal

application requirements and counting and claiming procedures can significantly reduce administrative burden and increase participation among low-income children not taking full advantage of program benefits. A preliminary report on the pilot projects was released in June 1994 and a final report will be available later in the year.

More focused initiatives of the type employed in the pilot projects target increased Federal expenditures on providing additional meals rather than increasing the rate of reimbursement for meals that would be served in the absence of a universal-type program. They also produce proportionately greater savings in administrative burden because they affect schools with greater numbers of applications to process. Finally, a much larger proportion of the additional costs go to increase benefits to low-income children.







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