



## School Districts' Food Service Programs Generally Are Not Financially Self-Sufficient

### *at a glance*

The financial condition of the state's school district food service programs is mixed. Although most programs have positive fund balances, almost one half have experienced significant declines in these reserves in recent years and current levels may not be sufficient to cover unforeseen expenses or revenue shortfalls. In addition, fund balances often overstate the financial status of food service programs because most school districts do not charge the programs for all indirect and support costs, and many school districts use general funds to subsidize their food service programs.

Several factors affect meal prices including meal costs, federal reimbursement revenue, levels of student participation, federal commodities, and a la carte sales. Over the past five-year period, about two-thirds of school districts have raised meal prices to cover rising costs. On average, meal prices and meal costs increased by similar rates.

The current methodology used to allocate state general revenue funds to support school district food service programs does not provide incentives to promote fiscal efficiency. If the Legislature continues current funding levels, it could change the methodology to better meet Legislative objectives.

### Scope

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As directed by the Legislature, OPPAGA reviewed Florida's school nutrition programs.<sup>1</sup> This report assesses program finances and addresses three questions.

- Are school district food service programs fiscally self-sufficient?
- How do meal prices relate to meal costs, and how have prices changed over the last five years?
- Does the current methodology used to allocate state funds to school district food service programs create incentives for fiscal efficiency?

Separate OPPAGA reports assess the state-level organizational placement of school nutrition programs, evaluate the financial impact of implementing a statewide universal-free breakfast program, and identify best practices for the efficient and effective operation of school district food service programs.

### Background

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In recognition of the relationship between good nutrition and the capacity of students to develop and learn, it is the policy of both the state and federal government for local school authorities to establish and maintain food service programs to meet the nutritional needs of children.<sup>2</sup>

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<sup>1</sup> Chapter 2008-190, *Laws of Florida*.

<sup>2</sup> The National School Lunch Act, as amended (42 U.S.C. 1751-1769), and the Child Nutrition Act of 1966, as amended (42 U.S.C. 1773), and s. 1006.06, *F.S.*

The U.S. Department of Agriculture (USDA) administers four major school nutrition programs that support school district operations. Three of these programs, the National School Lunch Program, the School Breakfast Program, and the Summer Food Service Program, provide federal grants to the states.<sup>3</sup> The Child Nutrition Commodity Program distributes food commodities to schools.<sup>4</sup>

These programs provide financial assistance to school districts through cash reimbursements for each meal served and allocations of USDA commodities for each lunch served. In return, the school districts must serve meals that meet federal nutritional requirements and school districts must offer free or reduced price lunches to eligible children. School districts can also be reimbursed for snacks served to children through age 18 in after school programs.

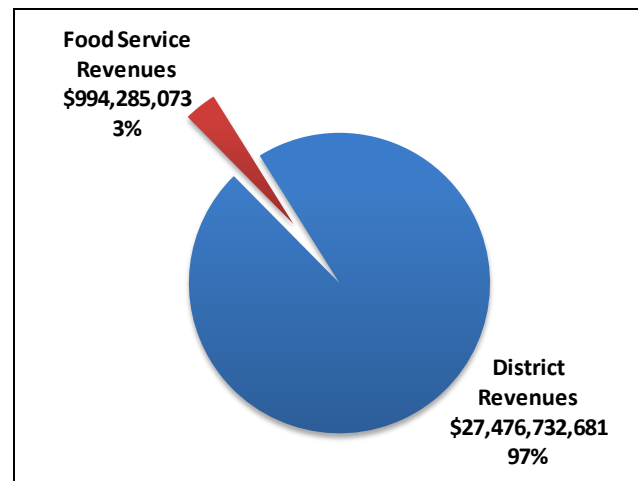
Two state agencies have a role in administering the programs. The Department of Education administers the National School Lunch Program, the School Breakfast Program, and the Summer Food Service Program. The department operates these programs through agreements with school districts. The Florida Department of Agriculture and Consumer Services administers the commodity program and assists school districts in selecting foods that they are entitled to receive from lists of commodities purchased by the USDA.

School districts (governed by locally elected school boards) are responsible for local program administration. Within state and federal rules, school districts select menus, prepare meals, set prices, collect revenue, and manage program budgets. School district food service programs face competing pressures. They seek to operate

efficiently as self-supporting units to avoid the need for school districts to subsidize their operations with funds that otherwise could be used in the classroom. However, the programs also are under pressure to keep meal prices low, and federal regulations prohibit the programs from generating profits.<sup>5</sup> Ideally, food service programs can build up cash reserves within federal limits and operate on a breakeven basis over time.

Food service revenues account for a small part of school district's overall budgets. For Fiscal Year 2006-07, the most recent year for which complete data was readily available during our fieldwork, school districts reported that their total revenues from all governmental funds were \$28.5 billion.<sup>6</sup> As shown in Exhibit 1, food service programs accounted for approximately 3% (\$994 million) of the school district revenues.

**Exhibit 1**  
**In Fiscal Year 2006-07, Food Service Programs Accounted for 3% of School District Revenues**



Source: *Financial Profiles of Florida School Districts, 2006-2007 Financial Data Statistical Report*, May 2008, Florida Department of Education.

<sup>3</sup> Schools in the National School Lunch or School Breakfast Programs may also participate in the Special Milk Program to provide milk to children in half-day pre-kindergarten and kindergarten programs where children do not have access to the school meal programs. The Special Milk Program provides milk to children in schools and childcare institutions who do not participate in other federal meal service programs. The program partially reimburses schools for the milk they serve.

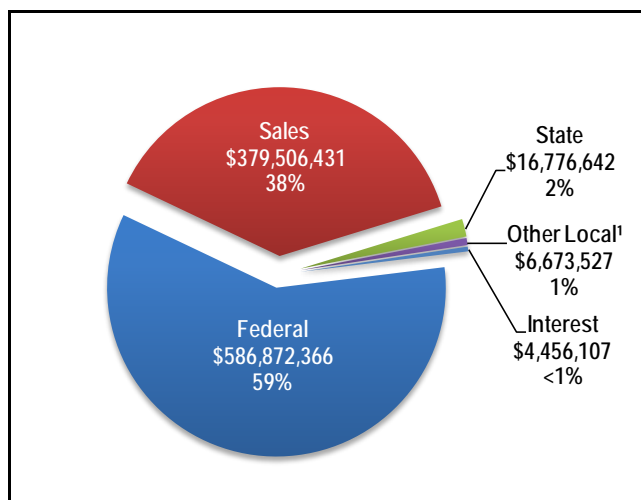
<sup>4</sup> USDA also supports other food assistance programs in Florida including the Child and Adult Care Food Program, which is administered by the Department of Health.

<sup>5</sup> Title 7 Section 210.9(b)(2), *Code of Federal Regulations*, limits food service programs' net cash resources to an amount that does not exceed three months average expenditures for its nonprofit school food service or such other amount as may be approved in accordance with § 210.19(a).

<sup>6</sup> This report includes only the 67 school districts included in the department's school district financial profile revenue and expenditure reports and electronic annual financial report data (form ESE348) and therefore excludes entities such as the developmental research (laboratory) schools and charter schools.

While most (91%) school district revenues shown in Exhibit 1 were derived from state and local sources in Fiscal Year 2006-07, over one half (59%) of the food service revenues were from federal sources. As shown in Exhibit 2, food sales provided over one-third of program revenues, with funds from state sources representing only 2% of total revenues.<sup>7,8</sup>

**Exhibit 2  
In Fiscal Year 2006-07, Federal Funds Accounted for 59% of Food Service Revenues**



<sup>1</sup> Other local sources included revenues from gifts, grants, bequests, and other miscellaneous sources.  
Source: *Financial Profiles of Florida School Districts, 2006-2007*  
*Financial Data Statistical Report, May 2008*, Florida Department of Education.

For Fiscal Year 2008-09, the federal government reimbursed Florida school districts up to \$1.68 for each breakfast served, up to \$2.59 for each lunch served, and \$0.71 for each after school snack served to children participating in the National School Lunch and School Breakfast Programs.<sup>9</sup> This reimbursement rate is adjusted

<sup>7</sup> Food sales includes student and adult (e.g., school administrators, teachers, and parents) fees charged for meals served and revenue generated by selling a la carte foods that are sold separately from the school meal programs.

<sup>8</sup> About one-half (\$9,165,197) of the state revenues are state required matching funds. Title 42 U.S.C. 1756, generally requires states to annually provide revenues for the operation of the National School Lunch Program of not less than 30% of a portion of the federal reimbursements they received for the school year beginning July 1, 1980. The remaining state revenues are appropriated to supplement the breakfast program and to offset the cost of school cafeteria health inspections.

<sup>9</sup> Federal reimbursement rates vary depending on the type of meal served, the economic status of the student, and the economic

status of the school's student population.<sup>10</sup> School districts also received commodities with an average minimum value of \$0.21 for each reimbursable lunch served in Fiscal Year 2008-09.

**Are school district food service programs fiscally self-sufficient?**

The financial condition of the state's school district food service programs is mixed. We examined five indicators of the programs' fiscal condition: their current fund balances, the level of these financial reserves, changes in fund balances over the past five years, whether the school districts have transferred general funds into their food service programs, and whether the programs are fully self-supporting. While most school districts have positive fund balances, almost one-half have experienced significant declines in fund balances in recent years and current reserve levels may not be sufficient to cover unforeseen expenses or revenue shortfalls. Twenty-one school districts transferred general funds into their food service programs during Fiscal Year 2006-07, which reduced funds available to meet other school district needs. Furthermore, the positive fund balances of many programs overstate their financial status because the food service programs do not pay all indirect and support costs that could be reasonably attributed to their programs. Instead these costs are paid by school district funds that otherwise could be used for instructional purposes.

Most school district food service programs had positive fund balances. Most (64 of 67) of the state's school district food service programs had positive fund balances for Fiscal Year 2006-07.<sup>11</sup>

status of the school's student population.

<sup>10</sup> School lunch and breakfast reimbursement rates are adjusted annually by law to reflect the programs' operating expenses as indicated by the change in the Food Away From Home Series of the Consumer Price Index for all Urban Consumers, published by the Bureau of Labor Statistics of the U.S. Department of Labor.

<sup>11</sup> OPPAGA used the Department of Education's annual financial report data as it was the only complete and readily available source for school district food service program financial account information. Annual financial report data provided by the Department of Education is unaudited. Therefore, OPPAGA used beginning fund balances to reflect prior year fund balances as these figures are more likely to include audit adjustments, if any.

Fund balances are an indicator of a food service program’s self sufficiency in that a positive fund balance indicates that the program’s revenues over time have exceeded its expenditures. Positive fund balances ranged from a low of \$2,892 in Holmes to a high of \$18,133,960 in Palm Beach, with a median fund balance of \$590,376. However, two school districts (Collier and Indian River) reported negative fund balances, while one school district (Baker) reported a fund balance of \$0.

More than one-third of programs have limited reserves. The magnitude of the fund balance in relation to annual program expenditures indicates a food service program’s financial position because it shows the program’s ability to cover large unforeseen expenditures. While there are no legal requirements for the size of fund balances, a reserve of 5% of annual expenditures provides reasonable flexibility in meeting unforeseen expenses.

As shown in Exhibit 3, the fund balances of 25 school district food service programs were below this threshold. These programs would be more likely to need to borrow funds or obtain financial assistance from their school districts’ general funds in the event of a large shortfall or financial emergency.

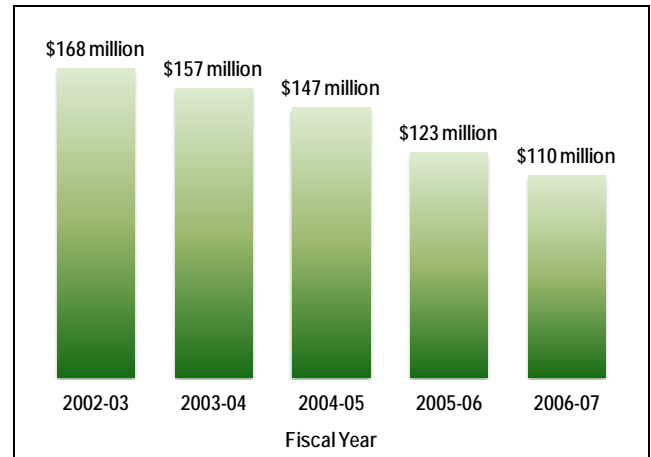
**Exhibit 3  
Over One-Third of the Food Service Programs Had Limited Fund Balances in Fiscal Year 2006-07**

School Districts With Food Service Fund Balances Below 5% of Annual Expenditures		
Baker	Hendry	Orange
Broward	Highlands	Sarasota
Collier	Hillsborough	Suwannee
Duval	Holmes	Taylor
Franklin	Indian River	Wakulla
Gadsden	Jackson	Walton
Gilchrist	Madison	Washington
Gulf	Miami-Dade	
Hardee	Monroe	

Source: Department of Education annual financial report data and OPPAGA analysis.

Statewide, food service program fund balances have declined considerably in recent years. As shown in Exhibit 4, school district food service fund balances statewide declined from \$168 million for Fiscal Year 2002-03 to \$110 million for Fiscal Year 2006-07, a net decline of \$58 million, or 35%.

**Exhibit 4  
School District Food Service Program Fund Balances Declined 35% Since Fiscal Year 2002-03<sup>1</sup>**



<sup>1</sup> Annual financial report data provided by the Department of Education is unaudited. Therefore, OPPAGA used beginning fund balances to reflect prior year ending fund balances as these figures are more likely to include audit adjustments, if any. Source: Department of Education annual financial report data and OPPAGA analysis.

As shown in Exhibit 5, over one-half (37 of 67) of school districts experienced an overall decrease in their fund balances during this period. Most (32) of these school districts had balances that declined at least 25%, and 10 school district programs experienced fund balance declines each year over the period.<sup>12</sup> If this trend continues, over time many of these school districts might drain their existing program reserves and have to borrow funds or obtain financial assistance from school district general funds to continue to operate.

In contrast, 30 school districts experienced growth in their food service fund balances. Twenty-two of the school districts experienced growth that exceeded 25%.

<sup>12</sup> Baker, Broward, Collier, DeSoto, Dixie, Indian River, Lee, Madison, St. Lucie, and Taylor county school districts’ fund balances declined each year from 2002-03 through 2006-07.

**Exhibit 5**

**Changes in Beginning Fund Balances Mixed Between Fiscal Years 2002-03 and 2006-07**

Decrease in Fund Balance			Increase in Fund Balance			
Greater Than 25%			Less Than 25%	Less Than 25%	Greater Than 25%	
Baker	Glades	Martin	Citrus	Alachua	Brevard	Marion
Bay	Gulf	Miami-Dade	Columbia	Clay	Calhoun	Nassau
Bradford	Hamilton	Monroe	Putnam	Escambia	Charlotte	Orange
Broward	Hardee	Okaloosa	Union	Flagler	Hernando	Pasco
Collier	Hendry	Sarasota	Volusia	Levy	Jackson	Pinellas
DeSoto	Highlands	St. Lucie		Okeechobee	Jefferson	Polk
Dixie	Hillsborough	Suwannee		Osceola	Lafayette	Santa Rosa
Duval	Holmes	Taylor		Palm Beach	Lake	Seminole
Franklin	Indian River	Wakulla			Leon	St. Johns
Gadsden	Lee	Washington			Liberty	Sumter
Gilchrist	Madison				Manatee	Walton

Source: Department of Education annual financial report data and OPPAGA analysis.

The depletion of food service program fund balances appears to be more of a problem for the state’s smallest school districts. Approximately two-thirds of the state’s small school districts (those with fewer than 20,000 students) had declining fund balances in the past four years. In comparison, only 38% of the larger school districts experienced declines over the same period.

Over one-third of school districts have transferred general funds to subsidize the food service program. As shown in Exhibit 6, 25 school districts indicated that they had transferred general funds at least once to subsidize their food service program between Fiscal Years 2002-03 and 2006-07. Twenty-one school districts reported making such transfers during the 2006-07 fiscal year.<sup>13</sup> While these transfers were often necessary to prevent food services fund balance from becoming negative, these actions reduced the money available to the school districts to meet other educational needs. In Fiscal Year 2006-07, general fund transfers ranged from a low of \$24,959 in Sumter to a high of \$505,000 in Monroe.

**Exhibit 6**

**One-Third of School Districts Used General Funds to Subsidize the Food Service Program at Least Once Between Fiscal Years 2002-03 and 2006-07**

General Funds Used to Subsidize Food Service Program		
Baker	Hendry	Miami-Dade
Calhoun	Hillsborough	Monroe
Duval	Holmes	Okaloosa
Franklin	Indian River	Sumter
Gadsden	Jackson	Suwannee
Gilchrist	Lafayette	Wakulla
Glades	Levy	Walton
Gulf	Liberty	Washington
Hamilton		

Source: OPPAGA school district survey results.

Food service program fund balances may overstate their financial strength. Most school district food service programs do not pay all indirect and support costs that could be reasonably attributed to their programs. Thus, their reported fund balances overstate the financial condition of their food service programs.

<sup>13</sup> As part of this review, OPPAGA surveyed all 67 school districts.

The federal government has established an indirect cost allocation option that is intended to help school districts allocate costs for general services such as personnel, recruiting, accounting, and computer processing across all federal programs, including the National School Lunch Program.<sup>14, 15</sup> Using this rate, while not required by the federal government, helps ensure that programs pay a fair share of school district operating costs. The allowable indirect cost rate varies by school district; in 2006-07, the approved rate ranged from 0.82% in Jefferson to 6.2% in Holmes.

When asked if they applied the federal indirect cost rate to their food service program in Fiscal Year 2006-07, 29 school districts responded that they did not (see Exhibit 7).<sup>16</sup> Based on their reported expenses and federal indirect cost rates, these school districts could have charged indirect costs totaling \$3.7 million for Fiscal Year 2006-07 which would have further reduced their fund balances.

Furthermore, most school districts did not allocate all other support costs to their food service program. In addition to the federal indirect cost rate, school districts may charge food service programs for other direct support expenses such as electricity and other utilities, trash removal, and warehousing. School districts are not required to charge their food service programs for the costs of

these services. However, when these costs are not allocated, financial reports understate true program costs and school districts may make erroneous conclusions about their program's self-sufficiency.

**Exhibit 7  
Twenty-Nine School Districts Reported Not Charging Indirect Costs to Their Food Service Programs in Fiscal Year 2006-07**

School Districts		
Baker	Gulf	Nassau
Bradford	Hamilton	Polk
Calhoun	Hendry	Sarasota
Columbia	Hernando	Suwannee
Desoto	Jefferson	Taylor
Dixie	Leon	Union
Duval	Levy	Wakulla
Gadsden	Liberty	Walton
Gilchrist	Madison	Washington
Glades	Monroe	

Source: OPPAGA school district survey results.

As shown in Exhibit 8, school districts often do not charge for one or more support services. Most school districts (50) reported that they did not charge their food service programs for janitorial services, and 41 did not charge for water and sewer utilities at school sites. In contrast, most school districts (50) did charge specific transportation costs to food service programs, and approximately one half charged for trash removal, warehouse storage, and pest control. Estimating some support costs can be complicated; for example, schools might not have a separate electric meter for the cafeteria. However, school districts can develop methods for allocating a portion of school or overall school district electricity bills so that food services programs pay their estimated contribution to these expenses.

<sup>14</sup>Title 34 Section 76.560 through 76.563, *Code of Federal Regulations*, provides that each state educational agency, on the basis of a plan approved by the U.S. Department of Education Secretary, shall approve an indirect cost rate for each school district that requests it to do so.

<sup>15</sup> Indirect costs are those costs of general management that are agency wide. General management costs consist of expenditures for administrative activities necessary for the general operation of the school district (e.g., accounting, budgeting, payroll preparation, personnel management, purchasing, and centralized data processing). The standardized method for distributing these indirect costs to programs is referred to as the indirect cost rate. State Board Rule 6A-7.0411(2)(k), *F.A.C.*, limits the amount of funds recovered annually for food service indirect costs to the school district's approved restricted federal indirect cost rate, multiplied by the total food service fund expenditures less expenditures for capital outlay, replacement of equipment, and USDA food commodities and cash-in-lieu of food commodities.

<sup>16</sup> One additional school district (Osceola County) does not charge indirect costs because the food service program performs all general management activities that would generally be classified as indirect costs.

**Exhibit 8**  
**Most School Districts Did Not Allocate All Other School District Support Costs to the Food Service Program in Fiscal Year 2006-07**

Food Service Programs Charged for Other School District Support			
Service	Yes	No	NA <sup>1</sup>
Janitorial Services	17	50	0
School Site Utilities	26	41	0
School Site Electricity	28	39	0
Pest Control	32	35	0
Trash Removal	34	33	0
Warehouse Storage	33	30	4
Transportation	50	16	1

<sup>1</sup> NA=Not applicable because the district does not incur any costs in the category area surveyed.  
 Source: OPPAGA school district survey results.

As is the case with the federal indirect cost rate, school districts that do not assess all direct support costs to their food service programs tend to overstate the financial condition of the programs. School district food service program fund balances would have been lower if all reasonable costs had been charged to these programs.

**How do meal prices relate to meal costs, and how have prices changed over the last five years?**

Meal costs are one of several factors that determine how much a school district charges for breakfast and lunch meals. Other factors include federal cash reimbursement revenue, levels of student participation, value of commodities, and amount of a la carte sales. Over the past five years, about two-thirds of school districts have raised meal prices between 12% and 16%. During this same period estimated school district meal costs increased by similar rates.

Several factors affect meal prices. School districts balance several factors when deciding whether and how much to increase meal prices. These factors include meal costs, federal cash reimbursement revenue, the value of commodities, anticipated changes in student

participation and a la carte food sales, and school district financial support for the food service program.

Meal costs have increased in recent years. According to Department of Education data, these costs increased by an average of 14% over the past five years (2002-03 to 2006-07 school years).<sup>17</sup> This increase reflects changes in food and labor costs, which rose by about 13% over this period.<sup>18</sup>

School districts received increased federal funding to help offset this increase. Federal subsidies represent the largest source of revenue for school district food service programs and the amount reimbursed for students receiving free meals increased by about 12% over the five-year period. In Fiscal Year 2006-07, the total federal subsidy for students receiving a free lunch (\$2.57 per lunch) exceeded the estimated average meal cost (\$2.51 per lunch) by an average of \$0.06 per lunch meal (based on the Department of Education’s calculated average cost per lunch meal served).

The total federal subsidy includes the value of commodities. In Fiscal Year 2006-07, the average minimum value of commodities was \$0.17 for each reimbursable lunch served. These subsidies enhance program offerings and help districts keep meal prices down.

School districts may also cover increased food costs by increasing the prices charged for meals and a la carte foods, but often do so only as a last resort due to resistance from students and parents. School districts must consider whether higher meal prices will result in lower sales. Raising meal prices may result, at least initially, in lower revenues as students may begin to bring their lunches rather than eating school food service meals at the cafeteria.<sup>19</sup>

<sup>17</sup> The Department of Education estimates meal costs using a per meal cost calculation worksheet that distributes school meal expenditures across the number of meal equivalents served (school meals and sales converted to lunch equivalents).

<sup>18</sup> This increase is based on the Food Away From Home series of the Consumer Price Index for All Urban Consumers.

<sup>19</sup> Chapter 2008-190, *Laws of Florida*, provides that beginning with the 2009-10 school year, each school district must annually set

Some school districts may be able to avoid having to raise meal prices by absorbing at least some food service program costs or by transferring monies from the school district's general fund to underwrite the food service program. While these actions may help school districts from having to increase meal prices, they may require the use of funds which could otherwise be spent in the classroom.

Meal prices vary across school districts, with lowest prices charged to elementary students. In the 2006-07 school year (the most recent year for which both meal price and cost data were available from the Department of Education during our fieldwork), most school districts charged between \$1.25 and \$2.35 for school lunches. In general, elementary schools charged the lowest average student lunch prices at \$1.55 per meal, while middle and high schools had higher student lunch prices at \$1.81 and \$1.84 per meal, respectively (see Exhibit 9).

**Exhibit 9  
For Fiscal Year 2006-07, School District Lunch Prices Varied by Level of School**

Price	Elementary	Middle	High
<b>Range</b>	<b>\$1.25-\$2.00</b>	<b>\$1.25-\$2.35</b>	<b>\$1.45-\$2.35</b>
\$1.01-\$1.50	37	13	12
\$1.51-\$2.00	30	48	48
\$2.01-\$2.50	0	6	7
<b>Average</b>	<b>\$1.55</b>	<b>\$1.81</b>	<b>\$1.84</b>

Source: Department of Education school district reported meal prices and OPPAGA analysis.

Statewide, average meal prices and reported meal costs have increased by similar rates. From 2002-03 to 2006-07, average meal prices and meal costs have increased by similar rates. During this period, school district breakfast and lunch prices increased on average about 16% and 13%, respectively. During the same period, reported meal costs increased an average of 14%.

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prices for breakfast meals at rates that, combined with federal reimbursements, are sufficient to defray costs of school breakfast programs without requiring allocations from the district's operating funds, except if the district school board approves lower rates.

During these five years, 46 school districts raised school lunch prices while 31 raised breakfast prices. As shown in Exhibit 10, the average price increase for lunch ranged from \$0.26 in elementary schools to \$0.31 in middle schools, while the average breakfast price increased between \$0.22 in elementary schools and \$0.23 in middle and high schools.

**Exhibit 10  
Elementary School Meal Prices Increased the Least Between Fiscal Years 2002-03 and 2006-07**

School Level Meal Type	Average Price Increase From 2002-03 to 2006-07 <sup>1</sup>	Number of School Districts Increasing Prices
<b>Elementary Schools</b>		
Lunch	\$0.26	45
Breakfast	0.22	31
<b>Middle Schools</b>		
Lunch	\$0.31	44
Breakfast	0.23	28
<b>High Schools</b>		
Lunch	\$0.30	46
Breakfast	0.23	28

<sup>1</sup> The average price increase is for those school districts that increased prices.

Source: Department of Education school district reported meal prices and OPPAGA analysis.

In their survey responses to OPPAGA, most school districts (49) reported increasing their student meal prices, while 57 increased prices for a la carte foods in the 2008-09 school year to address rising food costs. Most school districts (55) also reported that they modified their menus to reduce meal costs.

**Does the current methodology used to allocate state funds to school district food service programs create incentives for fiscal efficiency?**

The current allocation methodology does not provide incentives to promote efficiency but instead provides incentives to maximize student participation in the federal free and reduced price school nutrition programs. The federal government requires states to distribute state



matching funds to school districts. The Florida Department of Education distributes matching funds as well as the state's breakfast supplement to school districts based on student participation in the programs. However, the Legislature could modify the department's allocation methodology for matching funds, the breakfast supplement, and/or inspection funds to influence school district food service programs to meet state policy objectives.

The methodology used to distribute the \$16.9 million appropriated by the Legislature varies by program component. For Fiscal Year 2008-09, the Legislature appropriated approximately \$16.9 million in general revenue funds to school district food service programs. About \$9.2 million (54%) of the appropriation was used to satisfy federal matching requirements associated with the National School Lunch Program. The remaining funds were provided mainly to support a 1989 legislative initiative that breakfast be available at all elementary schools; a small amount was used to help school districts pay for required health inspections of their food preparation and storage areas. The Department of Education has developed different procedures to allocate the appropriation among the program's three components.

*The Lunch Allocation.* The \$9,165,197 allocation used to satisfy the federal matching fund requirement is referred to as the lunch allocation. The federal government requires that the state matching funds be provided to school districts for food service operations. The department distributes this allocation to school districts based on their total dollar value of claims submitted for reimbursement of free and reduced lunch meals, breakfast meals, and snacks. This allocation method provides an incentive for school districts to encourage families of students eligible for free and reduced price meals to participate in these programs. The amount of required state matching is set by the USDA each year.<sup>20</sup>

<sup>20</sup> This fixed base amount is not less than 30% of the funds received by the states under Section 4 of the National School Lunch Act as of the school year beginning July 1, 1980, and subject to

*The Breakfast Allocation.* This allocation totals \$7,590,912 for Fiscal Year 2008-09 and was initiated by the Legislature in 1989 to encourage and later to require breakfast availability in all elementary schools. The funding amount is prorated to school districts based on the number of free and reduced elementary breakfast meals they claim for reimbursement. This funding method provides an incentive for school districts to encourage families of students eligible for free and reduced price meals to participate in the breakfast program.

*The Inspection Allocation.* This allocation is \$129,937 for Fiscal Year 2008-09. It is allocated to school districts based on each school district's proportionate share of the statewide cost for sanitary inspections of school food preparation and storage areas.<sup>21</sup>

The Legislature could modify the allocation methodology. The Legislature could consider altering the funding allocation methodology to pursue other policy goals, such as encouraging school districts to maximize the efficiency of their food service programs and/or to avoid subsidizing these programs with funds that otherwise could be used to support classroom operations. Several possible options, and their advantages and disadvantages, are presented below.

- Option 1 - Create an incentive to maximize program efficiency. In this option, the Legislature would direct the Department of Education to allocate a portion of appropriated funds based on each school district's performance on efficiency measures such as meals per labor hour or average food costs per meal served.<sup>22</sup> However, using

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adjustment relative to Florida's per capita income compared to the national average. The \$9,165,197 cited above is the requirement for School Year 2008-09.

<sup>21</sup> Although documentation could not be found, interview testimony indicates that this allocation moved to the Department of Education in Fiscal Year 1994-95 when the then Florida Department of Health and Rehabilitative Services was abolished and its functions were split among several agencies.

<sup>22</sup> This option might result in the unintended consequence of school districts using less costly, lower quality food items to reduce their per meal costs which could affect student participation.

these types of measures to allocate funds could result in penalizing small school districts that might have difficulty achieving economies of scale. To address this issue, the Legislature could direct the department to create a supplemental allocation for small school districts when distributing the funds.

- Option 2 – Provide funding for innovative programs. In this option, the Legislature would direct the Department of Education to set aside a portion of the appropriation for those school districts that implement innovative programs such “Breakfast in the Classroom” or “Breakfast on the Bus” programs. To do so, the department could distribute the appropriation based on a formula that includes all revenue for breakfasts, including free, reduced price, and full price meals. This option would provide an incentive for expanding breakfast to all students who may not have eaten at home, not just those eligible for free and reduced price breakfast. However, it would reduce funding available for other school districts unless the Legislature chose to increase the overall appropriation.
- Option 3 – Eliminate funding for school breakfasts and inspections. Given the state’s budget crisis, the Legislature could eliminate state funding for the breakfast and inspection allocations, which accounted for \$7.7 million (46%) of the state’s \$16.9 million appropriation to school district food service programs in Fiscal Year 2008-09. Eliminating state funding for these allocations would preserve the required state match and would not endanger federal funding. However, it would likely have an adverse impact on the financial condition of school district food service programs, could result in school districts taking additional actions to reduce program costs such as modifying menus for both lunch and breakfast meals, and could result in districts raising their meal prices.

Option 4 – Create an incentive for school districts to allocate all costs to their food service programs. Currently school districts have great flexibility in determining which costs should be charged to their food service programs and in using general funds to subsidize the program. To encourage school districts to account for all program costs and avoid subsidizing programs with funds that could otherwise be used in the classroom, the Legislature could direct the Department of Education to require school districts to identify and charge all reasonably identifiable food service costs incurred by the school district to their food service program, and to allocate a portion of the appropriation to those school districts that operate on a full cost-recovery basis. The Legislature could also direct the department to develop a methodology to assist districts in estimating these costs, when necessary. The primary advantage of this option is that it would give clear guidance to school districts on where to report these costs in their financial accounting systems and provide more uniform reporting statewide. The primary disadvantage is that it would restrict the ability of school districts to take local conditions into account when allocating available funds. It would also require school districts to amend their accounting procedures and establish cost allocation methodologies and procedures.

## Agency Response ---

In accordance with the provisions of s. 11.51(5), *Florida Statutes*, a draft of our report was submitted to the Department of Education to review and respond. We met with department officials to discuss report findings, and the department chose not to submit a formal, written response.



*The Florida Legislature*  
*Office of Program Policy Analysis*  
*and Government Accountability*



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