



State of Arizona
Department of Education

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MEMORANDUM

TO: Sponsors of the National School Lunch Program

FROM: Mary Szafranski, Deputy Associate Superintendent
Arizona Department of Education, Health and Nutrition Services

Cara Peczkowski, Director
Arizona Department of Education, School Nutrition Programs

DATE: July 18, 2011

SUBJECT: Child Nutrition Reauthorization 2010: Guidance on Paid Lunch Equity

This memorandum is regarding the interim rule relating to sections 205 and 206 of the Healthy, Hunger-Free Kids Act (Public Law 111-296) as referenced in memorandum CN# 28-11: *Equity in National School Lunch Program Pricing*. These provisions establish requirements for School Food Authorities (SFAs) concerning revenue from paid reimbursable lunches.

Paid Lunch Equity (PLE)

The provision requires SFAs participating in the National School Lunch Program (NSLP) to ensure that schools are providing adequate support for paid lunches served to students. SFAs may simply raise the paid lunch price to \$2.46, which qualifies as a discretionary increase under section 205 or may use the PLE Tool to determine the price increase necessary to meet the required price adjustment for school year 2011-2012. SFAs are required to comply with this new rule for school year 2011-2012. In recognition of the short timeframe given for implementation, in school year 2011-2012 **only**, SFAs may include any non-Federal cash contribution, except for in-kind contributions and revenues from non-program foods and beverages sold in competition with reimbursable meals, toward the PLE revenue requirement.

Non-Federal Funding Sources

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

- Per-lunch reimbursements for paid lunches provided by states, counties, school districts and others;

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- Funds provided by organizations, such as school-related or community groups to support paid lunches;
- Any portion of direct payments made from school district funds in support of lunch service, must be prorated by the share of funds specifically used for paid reimbursable lunches:

- Example

Total share of district funds: \$1,000
 Share of total lunches which are paid lunches: 20%
 $\$1,000 \times 20\% = \200

Some Examples of Unallowable Non-Federal Sources Are:

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

The attached Excel-based tool with user instructions may be used to determine the current average price for paid lunches and the new average paid lunch price requirement. The tool may also be used to determine the total amount of non-Federal revenue that would be needed if the SFA chooses not to raise the average paid lunch price.

Or, SFAs may use the following instructions to determine if a price increase or additional revenue is required for paid lunch prices to be in compliance with these provisions:

Step-by-Step Instructions for Paid Lunch Equity (PLE) Calculations (See example below)

Determining Average Paid Lunch Price

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

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

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

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

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Example:

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

Determining if New Price/Additional Revenue is Required

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

- If result is equal to or greater than the reimbursement difference, the SFA is not required to increase the average lunch price or add additional revenue;
- If result is less than the reimbursement difference, the SFA is required to determine the required average paid lunch price (**Step 2**);
- If result is less than the reimbursement difference, the SFA is required to adjust the average paid lunch price and determine if a price increase is needed (**Step 2**);
- In lieu of increasing the average paid lunch price the SFA may add non-Federal sources of funds to the food service account (**Step 3**);

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

- Multiply the average lunch price by the sum of the inflation factor, used to determine the prior year's reimbursement rate, plus 2%. For school year 2011-2012, use the inflation factor for school year 2010-2011 which was 1.14% (1.14% + 2% = 3.14% or 0.0314); round the result to the nearest cent (0-4 round down or 5-9 round up); or
- (Optional) Further round down to the nearest 5 cent increment.

If the SFA chooses to raise paid lunch prices, it has the flexibility to determine how to do so whether by school, price, or all prices. However, the maximum required increase to the average paid lunch price is 10 cents in a given school year, even if the SFA's annual PLE calculation shows a higher amount. SFAs may increase the average paid lunch price more than 10 cents if they wish and will receive a credit in subsequent school years for the amount increased over the requirement. SFAs must keep sufficient records to document and carry forward the average

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price calculations. (Note that individual prices may always be increased more than 10 cents in order to meet the average paid lunch price requirement).

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

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

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

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

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

SFAs must conduct an updated calculation using the PLE tool and document the result. If it is not possible to make the necessary price increase for school year 2011-2012, the SFA must document this and ensure that corrective action and pricing plans are in place for school year 2012-2013.

Non-pricing schools will report the most commonly charged price which would be \$0.00. There are no further requirements for these types of schools.

Please contact your School Nutrition Programs Specialist at (602) 542-8700 if you have any questions.

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