



State of Arizona
Department of Education

CN# 18-12
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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

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DATE: November 16, 2011

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

Original Signed

This memorandum provides updated questions and answers (Q&As) to the guidance on Paid Lunch Equity memorandum CN# 05-12. 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*. This guidance establishes requirements for School Food Authorities (SFAs) concerning revenue from paid reimbursable lunches.

***New Q&As are in RED**

Compliance

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

Yes, School Food Authorities (SFAs) are required to comply with this new provision for SY 2011-2012. However, because the interim rule was published after many SFAs had made pricing decisions for the current school year, SFAs have additional flexibility in meeting the requirements for SY 2011-2012, as described in Question 4.

If prices were already set for SY 2011-2012, the SFA should calculate the required adjustment and compare it to the current average prices. If the required adjustment is more than the amount



set for SY 2011-2012, the SFA should plan to raise their paid lunch prices in 2012-2013 by this shortfall, plus the adjustment required by the calculation for SY 2012-2013.

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

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

Non-Federal Funding Sources

Q3. For purposes of PLE, what is considered a non-Federal source?

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

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

Some examples of unallowable non-federal support are:

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

Q4. For SY 2011-2012, are there any exceptions to this definition of “non-federal source”?

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

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

Q5. In SY 2011-2012, can an SFA count the entire amount that exceeds the required percentage of the state revenue match as a non-federal source?

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

Q6. If I am able to count non-federal contributions from SY 2011-2012 towards the revenue requirements for SY 2012-2013, how do I make these adjustments?

Arizona Department of Education (ADE) will issue guidance on how adjustments to the School Year 2012-2013 requirement will be determined in these situations.

Q7. Can an SFA count state or local per-lunch subsidies as non-federal sources of revenue? If so, can the per-meal subsidy for all meals be counted or just for paid lunches? Can breakfast per-meal subsidies be counted?

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

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

Total state or local subsidies: \$1,000

Share of total lunches which are paid lunches: 20%

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

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

Q8. What are examples of in-kind contributions converted to cash?

Examples include:

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

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

Q9. Can a school district pay a bill the school food service account had paid in the past, and count this as a non-federal contribution?

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

Q10. Can a school district count charges that it assesses to the SFA (direct or indirect) that it does not actually collect from the SFA account due to insufficient funds?

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

Q11. Must an SFA increase lunch prices if they currently have a large fund balance or if their current operation is consistently in the black?

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

Q12. If the school district has net cash resources which exceeds the three months average expenditures for its school food service account, can the SFA use some of their net cash resources rather than general funds to make up the difference if they do not want to increase the paid meal price for SY 2011-2012?

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

Q13. Per 7 CFR 210.19(a)(2), can an SFA still lower prices if its net cash resources exceed the 3 months average expenditures for its school food service account?

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

Q14. If using local funds to offset the price increase, would those funds have to be kept in a separate account?

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

Q15. Can an SFA split the revenue increase between non-federal sources and an increase in paid lunch prices?

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

Q16. When must the non-federal funds be added to the school food service account?

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

Q17. Are non-pricing schools exempt from this requirement as they do not charge students for meals?

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

Q18. We have some Provision 2 schools in our district. How are they handled for the calculation?

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

General

Q19. Is there a minimum average price that would require a paid lunch price increase?

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

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

Q20. Does an SFA have to raise prices for all paid lunches?

No, SFAs may vary paid lunch prices by school (for example, charging lower prices in schools located in lower-income areas or charging different prices in elementary and secondary schools), as long as the average revenue requirement is met across the SFA. FNS’ paid lunch calculator (found on our website) can assist SFAs in determining how to raise their paid lunch prices.

Q21. Can an SFA increase its average paid lunch prices more than 10 cents annually?

Yes, an SFA may increase its average paid lunch prices by more than 10 cents per year but is never required to do so. The 10 cent limit is the maximum that an SFA would ever be required to contribute in a given year, even if the SFA’s annual PLE calculation showed a higher amount. If an SFA chooses in any school year to increase paid lunch prices more than is required, the amount attributable to the SFA’s discretionary additional increase may be carried forward to the next school year(s) to meet the paid lunch equity requirements. SFAs must keep sufficient



records to document and carry forward the average price calculations. FNS will issue guidance on how to calculate these credits.

Q22. If the SFA has schools with lunch prices over \$2.46, does it have to include these schools in the average price calculation?

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

Q23. Are SFAs going to be required to raise paid lunch prices every year?

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

Q24. Regardless of what the PLE Tool yields in terms of a price, can an SFA choose to raise its average price to \$2.46?

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

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

Q25. Can SFAs with net cash resources that exceed three months average expenditures reduce their excess by lowering what they charge for Reduced Price Lunches and/or Breakfast?

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

Q26. Are schools that are new to the program required to price their paid lunches at a certain level?

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

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

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

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