

## **Background**

The School Lunch and Breakfast Cost Study was carried out by Abt Associates Inc. of Cambridge, MA, under contract to the Food and Nutrition Service (FNS) of the United States Department of Agriculture (USDA). It provides a detailed examination of the cost of producing reimbursable meals in the National School Lunch and Breakfast Programs (NSLP and SBP) during School Year (SY) 1992-93. Information was collected from a nationally representative sample of 94 School Food Authorities (SFAs). In each SFA, data were collected in a representative sample of schools and kitchens. In total, data were collected in a sample of 540 schools.

The study examined the costs charged to SFAs (reported costs), as well as those costs incurred by the school district in support of SFA operations, but not charged to the SFA (unreported costs). Together, the reported costs and the unreported costs are the full cost of meal production.

## **Findings**

### **Nonprofit Foodservice Operations**

SFAs are required to be nonprofit and self-sufficient. Usually, SFAs operate at the break-even level, i.e., costs should equal revenues from all sources. Nonprofit status is determined by the financial status of the school food service as a whole rather than the financial status of each Federal program separately. SFAs are not required to maintain separate cost and revenue records for the NSLP, SBP and other nonprofit school food service activity. SFAs can use Federal lunch and non-severe need breakfast payments to support their overall nonprofit school food service. Federal funds from NSLP

can be used to support SBP or non-profit food service such as a la carte service.

Because SFAs are nonprofit, reported costs will generally equal revenues. Within this overall status though, SFAs may shift costs between breakfast and lunch, or reimbursable and non-reimbursable meals. If revenues from reimbursable meals exceed the cost of producing these meals, the SFA may use the funds to support a la carte meals. Similarly, if revenues from reimbursable meals are less than the costs, the SFA may use the a la carte revenues to support the cost of reimbursable meals.

Major findings related to SFA revenues and reported costs include:

On average, SFAs operate at the break-even level, with total revenues about equal to total reported costs.

Revenues from reimbursable meals exceed the cost of producing those meals. Reimbursable lunches generate a revenue surplus that is used to offset losses from reimbursable breakfasts. SFAs also subsidize non-program food service (e.g., a la carte) with surplus revenues from reimbursable lunches.

Revenues from reimbursable meals (including government subsidies and student payments) accounted for an average of 85 percent of total SFA revenues.

### **Reported Costs**

From an SFA's perspective, reported costs are the costs of running the Child Nutrition programs. That is, reported costs are the costs SFAs are expected to cover from revenues derived from food service sales and government reimbursements. Major findings related to the reported cost of producing reimbursable meals include:

The combined Federal subsidy for free lunches and breakfast covers the cost of producing these meals. The combined median cost of producing NSLP and SBP meals (\$2.68) was less than the combined Federal subsidy for free meals (\$2.79).

The reported cost of producing a reimbursable lunch was less than the Federal subsidy for a free lunch. The SFAs median reported cost of producing a reimbursable lunch was \$1.63, compared with a Federal subsidy of \$1.84 for a free lunch. In 75 percent of the SFAs, the reported cost of producing reimbursable lunches was less than the Federal subsidy.

The reported cost of producing a reimbursable breakfast exceeded the Federal subsidy for a free breakfast. The SFAs' median reported cost of producing a reimbursable breakfast was \$1.05, compared with a Federal subsidy of \$0.95 for a free breakfast (\$1.12 for a "severe need" breakfast). In two-thirds of the SFAs, reported costs exceeded the regular reimbursement rate for free breakfasts.

Federal meal subsidies are not intended to cover all costs for all SFAs. It is expected that some SFAs will have reported costs above the subsidy while others will have costs below the subsidy. However, it is intended that, on average, across

all SFAs Federal subsidies will cover the costs of producing reimbursable meals.

### **Unreported Costs**

Most school districts incur some costs in support of the food service operations that are not charged to the SFA budget. In some cases, the school districts chose to bear these costs as a way to subsidize the SFA, while in other cases, the districts carried the costs because the SFA had insufficient funds to cover all expected costs. Major findings related to the unreported costs and the full cost of producing reimbursable meals include:

Across all SFAs, unreported costs accounted for an average of 17 percent of full costs.

For the average SFA, the median full cost of producing a reimbursable lunch and breakfast was \$1.88 and \$1.38, respectively.

Unreported costs are primarily labor, indirect costs, equipment depreciation, and utilities.

Administrative labor costs accounted for 13 percent of the average SFA's full cost (compared to eight percent of the average SFA's reported costs).

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