

Child Nutrition Programs Challenged to Meet Nutrition Standards, Maintain Participation, and Remain Solvent

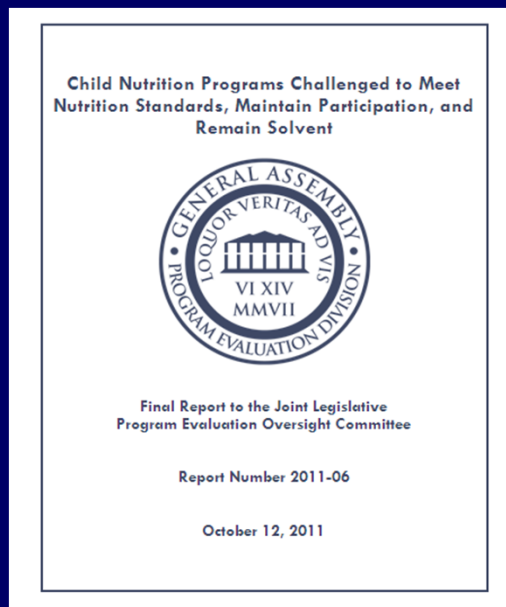
A presentation to the
Joint Legislative Program Evaluation Oversight Committee
October 12, 2011

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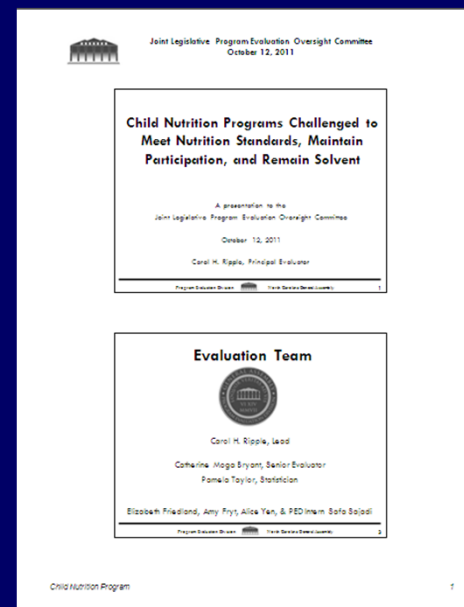


Handouts

The Full Report



Today's Slides



Evaluation Team

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Overview: Our Charge

- NC Session Law 2010-115
- Task Force on Childhood Obesity
2010 Report Recommendation
- Focus on
 - Indirect costs
 - Nutrition standards



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Overview: Findings

1. Program viability depends on a delicate balance of cost, nutritional value, and student participation
2. Research on this so-called “trilemma” reveals challenges and some promising results



Overview: Findings

3. Indirect costs challenge program solvency
4. North Carolina does not supplement federal funding beyond the required match
5. Programs have adopted strategies to address the trilemma

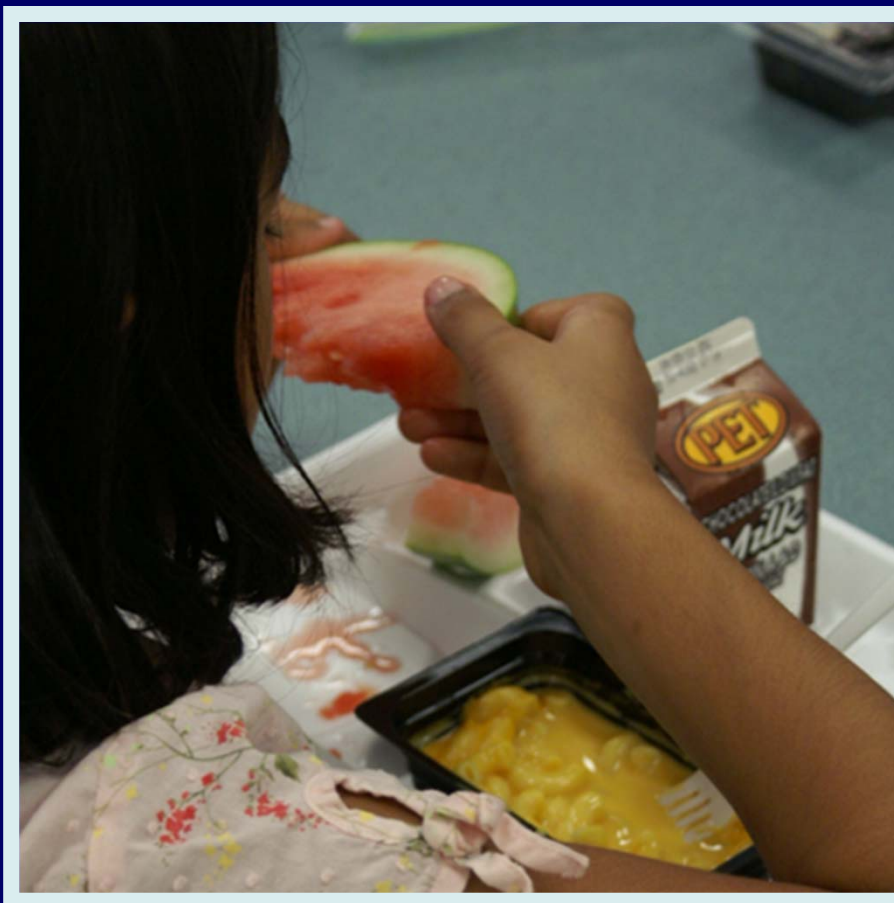


Overview: Recommendations

- Require program solvency before indirect costs may be assessed
- Support the North Carolina Procurement Alliance



Background



Child Nutrition Program Purpose

- Federal program began in 1946
- Provides schoolchildren access to nutritious foods at school
- What those foods consist of is important: children consume up to 50% of daily calories at school



Program Funding (FY 2009-10)

- For this report, “school meals” consist of lunch and breakfast
- In North Carolina:

Source	Amount	Percent
Federal	\$429.5 million	67%
Local	200.8 million	32%
State	7.5 million	1%
Total	\$637.8 million	100%

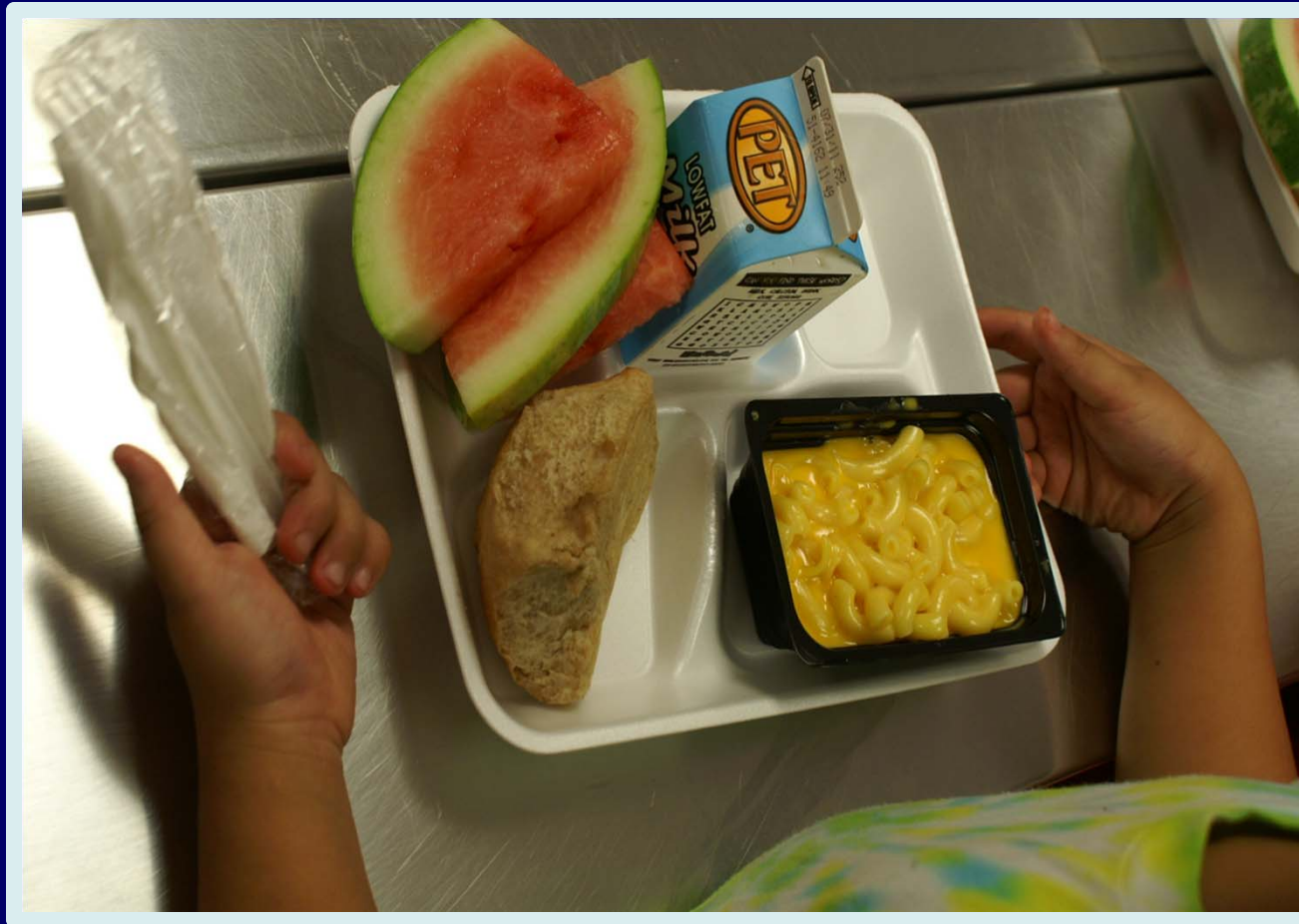


All School Districts Operate a Program

- Prepare and serve food to children
- Collect revenue based on food purchased (including federal reimbursements and student payments)
- All expenses paid from sales revenue
- May be charged indirect costs by the district



Findings



**Finding 1.
Program viability
depends on a
delicate balance of
cost, nutrition, and
student
participation**

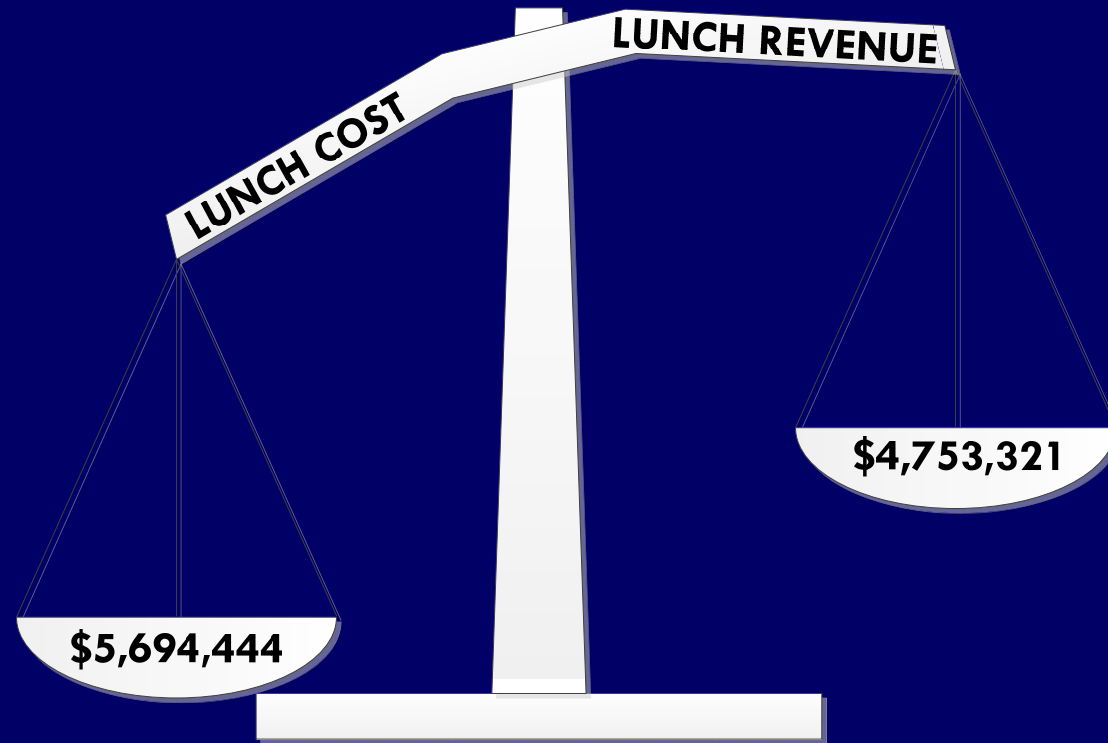


Cost, Nutrition, Participation: The “Trilemma”

- On average, North Carolina’s Child Nutrition Programs lose money on each reimbursable meal served
- Nutritious foods cost more
- Student participation = revenue

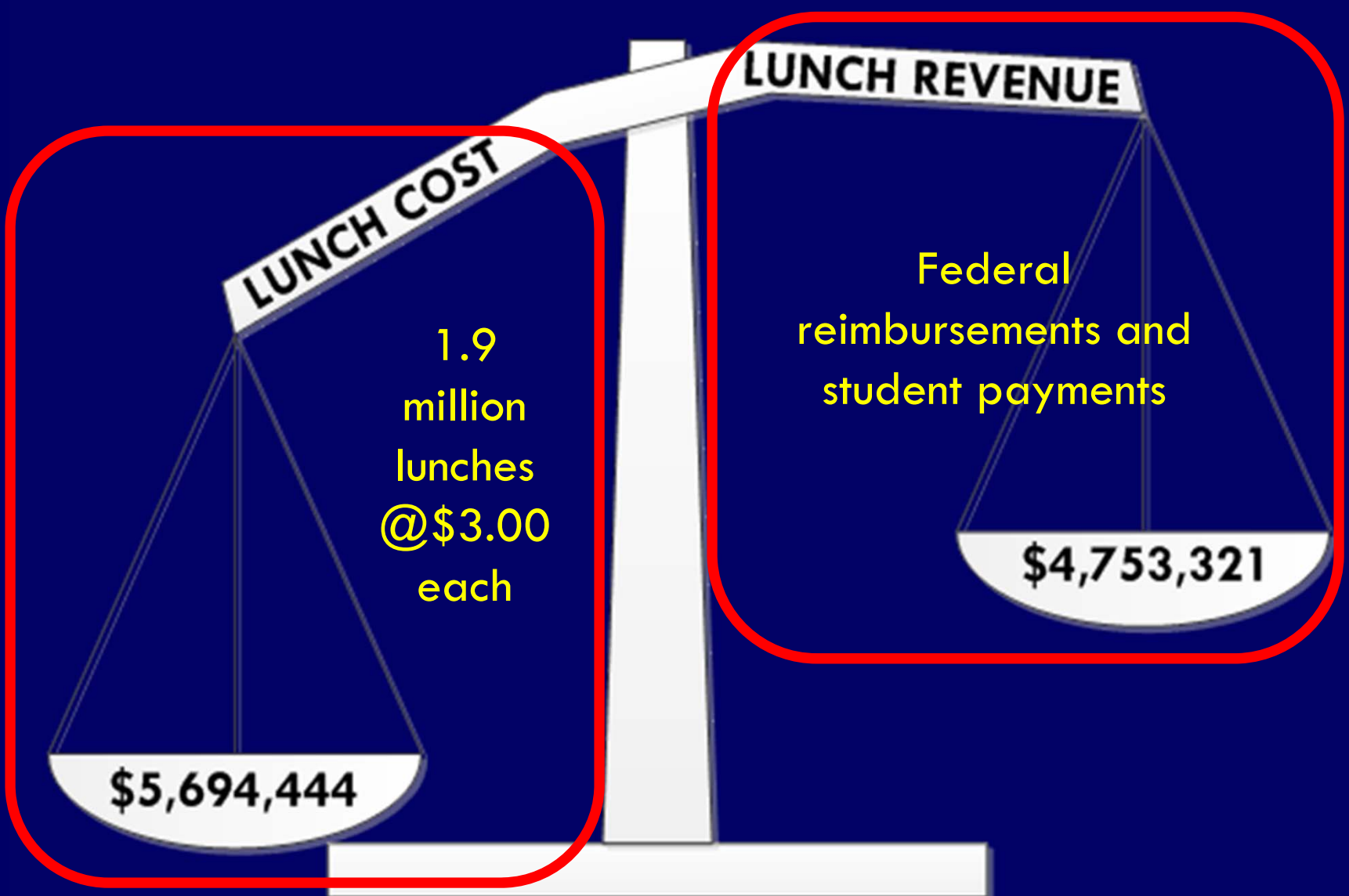


Lunch Cost and Revenue in an Average-Sized District, 2009-10



Loss = \$941,123
(approximately \$69.86 per student)

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(approximately \$69.86 per student)

The Trilemma

- Programs sell à la carte foods to fill the revenue gap
- À la carte items do not have to meet nutrition standards

“We survive on à la carte. Twenty-five percent of our budget comes from à la carte sales.”

- Child Nutrition Director

Nutrition Standards

- School meals must meet federal nutrition requirements
- North Carolina has its own (unfunded, voluntary) standards
- New federal requirements proposed in February 2011 are under review
 - Not yet clear what they will be or when they will be in effect



Nutritious Foods Cost More

Food Item		Cost per Serving	Annual Cost of One Serving per Week (All LEAs)		Annual Cost Difference for Healthier Option	
Tortillas	Whole wheat flour	\$0.51	\$	16,144,838	+\$	11,396,356
	White flour	\$0.15	\$	4,748,482		
Apples	Whole fresh apples	\$0.31	\$	9,813,529	+\$	5,065,047
	Canned applesauce	\$0.15	\$	4,748,482		

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Finding 2.

Research on state efforts to address the trilemma reveals challenges and some promising results



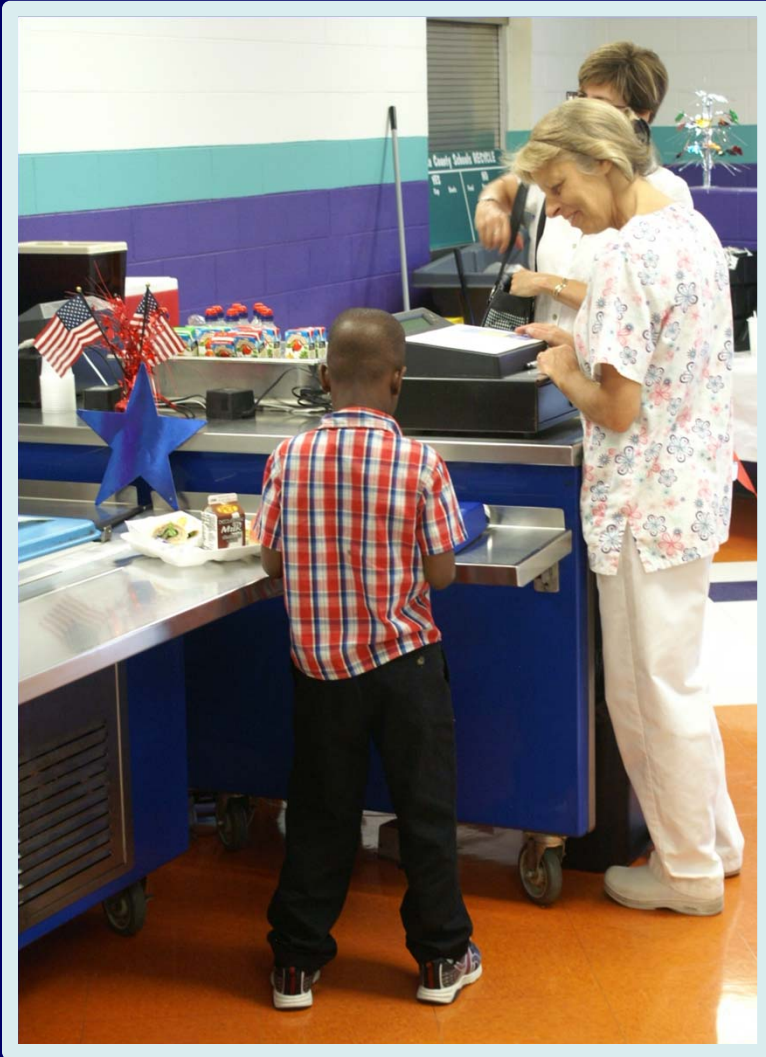
Promising Results

- Research on introducing healthy foods demonstrates the effects of careful implementation
 - Limited loss in participation
 - Can control costs



Challenges

- Data show despite increased revenue, increased costs for healthy foods may outpace revenue
- 2005 pilot of North Carolina nutrition standards in 124 elementary schools led to financial losses and reintroduction of less healthy foods



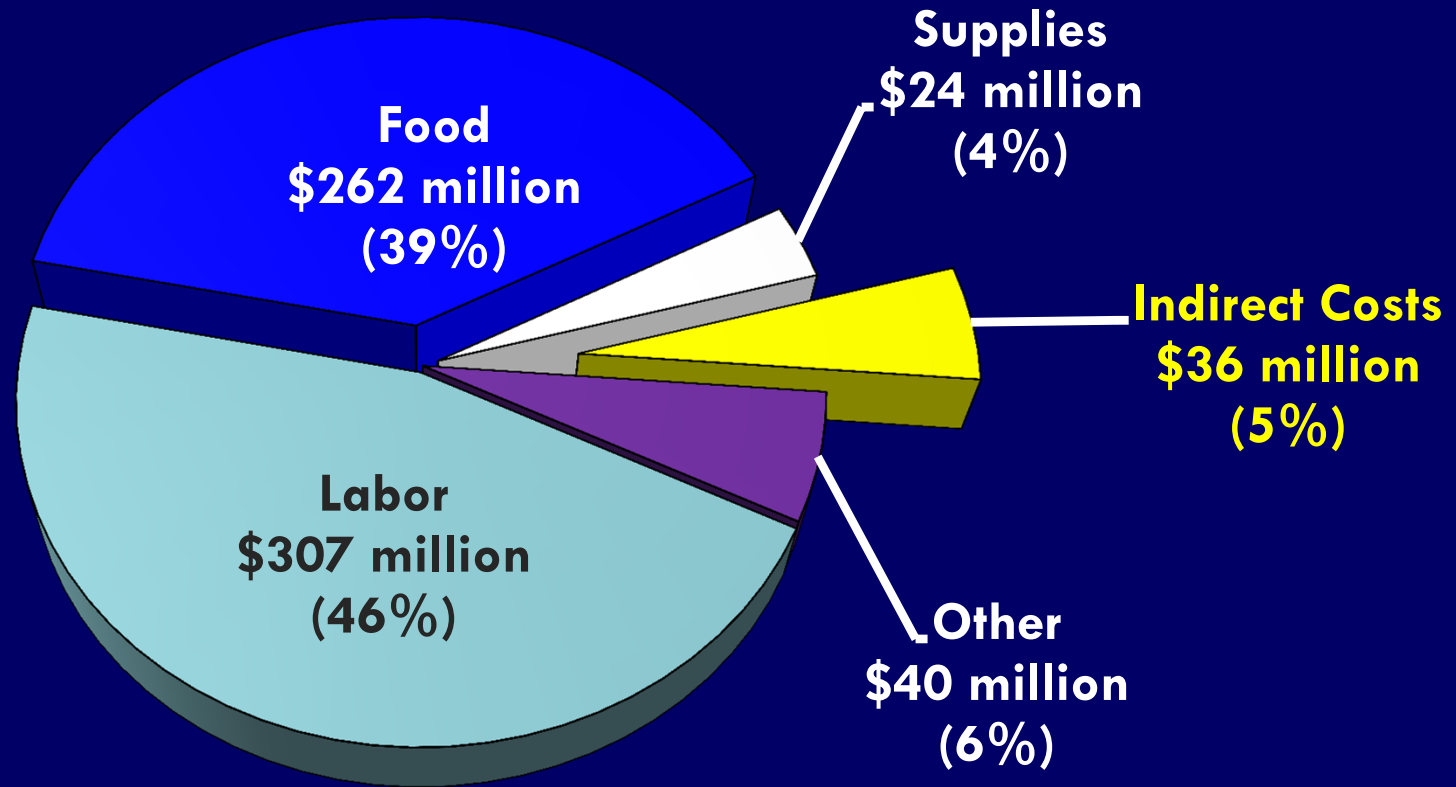
**Finding 3.
The lack of local
guidelines for
indirect cost
assessment
challenges program
solvency and adds
to cost pressure**

Indirect Costs

- Federal grant programs, including Child Nutrition, pay school districts for costs not readily allocable to the program
- Federal rules determine how rates are calculated
- School districts have discretion to assess full, partial, or no indirect costs to Child Nutrition Programs



Indirect Costs Average 5% of Annual Program Expenditures



Total average annual expenditures=\$669 million (FY 2007-08 to 2009-10)

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Indirect Costs

- 55% of programs paid indirect costs in 2010-11
- This rate is down from 95% in FY 2007-08
- Can be an important source of revenue for districts
 - Number of districts assessing indirect costs is likely on the rise



Child Nutrition Program Solvency

- Solvency = at least one month's operating balance
 - Cash on hand
- Operating balance is important because federal reimbursements may take six weeks

Solvency and Indirect Costs

- 60 programs averaged less than 1 month's operating balance from 2007-08 to 2009-10
- More than half of these programs paid indirect costs
 - Average payment = \$184,658
 - Average loss = \$53,266



Finding 4.
North Carolina is among a minority of states that do not supplement federal funding beyond the required state match



State Funding Strategies

- Thirty-two other states supplement funds
- Recurring appropriation of a flat amount (e.g., Georgia)
- Fund Child Nutrition Program labor (e.g., Alabama, West Virginia)
- Provide meal reimbursements (e.g., Florida, Virginia)

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Finding 5.

With limited options to ensure financial viability, programs have adopted other strategies to address the trilemma



North Carolina Procurement Alliance

- Opportunity to achieve economies of scale when purchasing food and supplies
- 84 members (program directors)
- Members have realized an average of 6% savings on food and supplies



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Increasing Fresh Foods in Schools

- USDA Fresh Fruits and Vegetables Program
 - Federal funding
- Farm to School Program
 - Access



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Strategies to Address the Trilemma

- “Nudging” with behavioral economics
 - Cafeteria design
 - Suggesting healthy options
 - Renaming foods
 - Packaging
- Careful implementation of change



Uncertainty About Federal Changes Affects Recommendations

- Directed to estimate the cost of implementing state nutrition requirements
- A well-designed pilot would help determine the cost of expanding existing nutrition requirements while controlling costs and maintaining participation
- However, pending federal nutrition requirements will take precedence over existing state guidelines



Recommendations



Recommendation 1.
Require at least one month's
operating balance before districts
can assess indirect costs

Limit Indirect Cost Assessment

- Despite existing Department of Public Instruction guidelines, data indicate indirect costs are sometimes charged to insolvent Child Nutrition Programs
- Legislation would support the program's mission
- Solvency based on a three-year rolling average operating balance



Recommendation 2.

Fund administrative support for the North Carolina Procurement Alliance



Support the Procurement Alliance

- \$80,000 for administrative support
- Expand items, vendors, and participants
- Remove administrative burden from participating program directors
- Potential \$6 return on each \$1 invested



Legislative Options

- The committee may endorse any of these recommendations for action
- May instruct staff to draft legislation or take other actions



Summary

- Child Nutrition Programs balance cost, nutrition, and student participation
- Increasing nutrition standards increases cost pressures
- Indirect costs alone do not determine solvency but they add financial pressure
- Limit indirect cost assessment and support procurement savings to bolster the program's mission

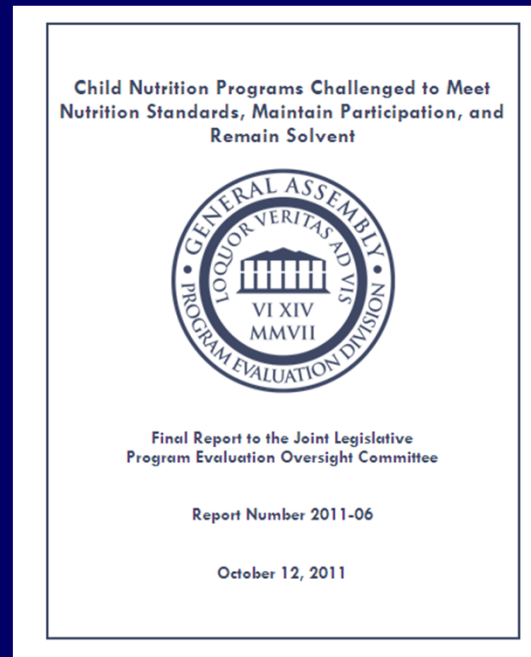


Department of Public Instruction Response

- The department concurs with the findings and agrees with the recommendations in this report
- Suggest internal processes rather than legislation to limit indirect cost assessment



**Report available online at
www.ncleg.net/PED/Reports/reports.html**



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