

The 2022-23 Budget: School Nutrition

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Summary. This post provides background on various school nutrition programs and requirements, describes the Governor’s school nutrition proposals, and offers associated assessments and recommendations to the Legislature.

Background

State and Federal Government Both Administer Nutrition Programs. California schools that participate in either federal or state school nutrition programs provide eligible children free or reduced-price meals (FRPM) while they attend school. Eligibility is based on whether a child’s household meets certain income requirements. For example, to qualify for a free lunch, students must be from households that have incomes at or below 130 percent of the federal poverty level (\$28,550 for a family of three in 2021-22). Students who do not meet income requirements typically pay full price for school meals. The federal and state nutrition programs then reimburse schools based on the number of meals they serve. For example, in 2019-20, school districts that participated in the federal National School Lunch Program generally received \$3.50 per free lunch, \$3.10 per reduced-price lunch, and 41 cents per paid lunch. (Some schools, representing a small share of public school students, do not participate in the National School Lunch Program.) The state program provided an additional 24 cents per free or reduced-price breakfast or lunch. Both reimbursement rates are adjusted annually for inflation.

Some Schools Provide Free School Lunches to All Students Under Federal Program. Under the National School Lunch Program, schools with significant shares of FRPM-eligible students have several options to serve all students free meals, also known as universal meals. The federal universal meal options aim to reduce administrative burden; streamline meal service; and ensure all students

have access to free, nutritious school meals. For instance, one option allows low-income schools to identify students eligible for free meals through their participation in other income-based state and federal programs (such as Medi-Cal, the state’s health care program for low-income residents), rather than collecting a meal application directly from each student every year. In California, at least 4,249 schools (out of about 10,000 schools statewide) participated in one of the federal universal meal options in 2021-22.

Federal Government Provided Additional School Meal Flexibilities During Pandemic. In response to the COVID-19 pandemic, the federal government issued (then subsequently extended) waivers expanding the flexibility of schools to provide meals safely. The waivers allow schools to provide meals free of charge to all students—not solely low-income students—until June 30, 2022. This change was intended to streamline meal service and reduce potential COVID-19 exposure by eliminating the need to collect meal payments from students. The waivers also increase the federal reimbursement rate schools will receive for these meals for 2021-22 from around \$3.75 to \$4.32 per lunch to account for higher operation costs during the pandemic (such as addressing staffing shortages and higher food costs related to inflation). The 2021-22 state budget included \$54 million ongoing to provide the state rate for additional meals schools anticipate serving under the federal meal waivers.

Starting in 2022-23, All California Schools Will Be Required to Provide Universal Meals. Trailer legislation as part of the 2021-22 budget package requires that, beginning in 2022-23, all schools provide one free breakfast and one free lunch per school day to any student requesting a meal. To increase federal reimbursements, schools that have at least 40 percent of students eligible

for free meals (about 7,000 schools statewide) are required to participate in a federal universal meals option. The state will cover the cost of a meal up to the combined state and free federal rate, resulting in all meals generating the same total reimbursement for schools. For example, based on the 2021-22 rates, a school would receive a total reimbursement of \$3.74 for a lunch served to a student eligible for free lunch—with \$3.50 from federal funds and 24 cents from state funds. The school would also receive \$3.74 for a lunch served to a student who is not eligible for FRPM—with 41 cents from federal funds and \$3.33 from state funds.

Incorporation of Fresh Foods Into School Meals Differs Across Schools. Schools participating in either the state or federal nutrition program must serve meals that meet certain nutritional standards, such as offering daily servings of fruits and vegetables and limiting the amount sodium and fats in meals. The methods districts use to prepare school meals, however, largely vary. Some schools prepare a large portion of their meals using fresh, unprocessed, raw ingredients either on the school site or nearby, also known as “scratch” cooking. Other schools rely on the convenience of processed foods or third-party vendors to supply fully prepared meals, which are then distributed to and warmed up at school sites. Schools can also rely on a mix of both fresh and readily prepared ingredients, also called “speed scratch” cooking. A 2020 survey of 200 California school districts conducted by the Center for Cities + Schools at the University of California Berkeley found that more than half of responding districts (53 percent) fell into this latter category, while 31 percent reported high levels of scratch cooking, and 16 percent reporting little or no scratch cooking.

Typical Practice Is for School Nutrition Revenue to Cover Operational Costs of the Program. A school district’s primary revenue sources for school nutrition programs are federal and state reimbursements, as well as payments received from students who purchase meals. The largest expenses for a food service program include labor, food, and kitchen equipment. School district costs can vary based on staff compensation, quality of food purchased, and how food is prepared and served to students. For example,

a school district that cooks food at each school site has a different model and associated costs compared to a district that processes food in a central kitchen before distributing to school sites. Regardless of the exact structure of the nutrition program, the Fiscal Crisis and Management Assistance Team—a team of fiscal experts who conduct in-depth studies of district budgets and recommend specific steps for improving their fiscal health—recommends labor costs not exceed 45 percent of nutrition revenues, with food and supplies also not to exceed a similar share. Districts also have the option to use their local general purpose funding to cover costs in the nutrition program that exceed school nutrition revenue.

Districts Use Various Funding Sources for Kitchen Equipment and Facilities Upgrades. According to the Center for Cities + Schools report, districts most commonly use local general purpose funding for kitchen equipment upgrades, such as purchasing new refrigerators, ovens, or stoves. (The study included meal reimbursements from the federal nutrition programs as part of local general purpose funding, even though federal nutrition revenue used on equipment must exclusively support food service.) Federal grants, local school bond funds, and recent federal COVID-19 relief funding can also cover kitchen equipment upgrades. For more structural upgrades to kitchen facilities, such as kitchen renovations and expansions, districts are more likely to use local school bonds, local general purpose funding, and state school bond funds.

Federal Law Requires School Food Service Workers Meet Annual Training Requirements. Food service workers are required to complete six hours of training per year if they are employed full time and four hours if they are employed part time. School districts typically provide training to meet this requirement and cover the annual costs within their nutrition program (rather than having employees find training on their own). Districts must offer training that is job related, but have discretion on the exact topics and format of the training. For example, topics can include food safety standards and meal counting procedures. The district could provide this training in person or have its employees watch a prerecorded webinar.

2021-22 Budget Provided \$150 Million for Kitchen Infrastructure Upgrades and Staff Training. The 2021-22 budget provided \$150 million one-time Proposition 98 to local education agencies (LEAs)—school districts, charter schools, and county offices of education—for kitchen upgrades (\$120 million) and training food service staff (\$30 million) to help implement the new state universal meals requirement. Only LEAs participating in the federal school lunch or breakfast program were eligible for funding. For the kitchen upgrades, every LEA was to receive a base grant of \$25,000, with the remaining funds distributed to LEAs where at least half of the students are FRPM-eligible, based on an LEA’s population of such students. The training funds were distributed proportionally based on the number of classified employees. In order to receive funding, LEAs were required to indicate to the California Department of Education (CDE) their interest in receiving the funds. The department collected this information on January 24, 2022. Eighty percent of eligible LEAs (940 out of 1176 LEAs) requested kitchen infrastructure and/or training funds. For kitchen infrastructure funding, most LEAs requested funding to purchase cooking equipment and make associated facility upgrades (91 percent), followed by service equipment (88 percent)—such as mobile carts—and refrigeration and storage (88 percent). By June 30, 2023, CDE is required to collect expenditure reports and narrative responses explaining how these funds were used to improve the quality of school meals or increase school meals participation from each participating LEA.

State Provides Ongoing Funding for School Breakfast and Summer Meal Program Start-Up and Expansion Grants. In 2017-18, the state began providing annual funding for schools to establish or expand nutrition programs to offer breakfast or summer meals. Eligible school sites must have at least 20 percent of students eligible for FRPM. CDE administers these competitive grants and awards grants of up to \$15,000 per school to cover associated costs for kitchen equipment. The 2021-22 budget included \$1 million for school breakfast and summer meal start-up and expansion grants.

Governor’s Proposals

Provides \$596 Million Augmentation to Fund Universal Meals Implementation. The funding would cover the increased state share to reimburse the cost of reduce-priced and paid meals up to the combined state and federal reimbursement for free meals. Including the \$54 million provided in the 2021-22 budget, the state would provide a total augmentation of \$650 million to implement the new state universal meals requirement.

Funds Second Round of Kitchen Infrastructure and Training Grants.

The Governor’s budget provides \$450 million one-time Proposition 98 for additional school kitchen infrastructure grants available through June 30, 2025. LEAs would be required to report how this funding was used to improve or expand their nutrition program by June 30, 2025. The funding would be allocated in three ways:

- **Base Grant.** A \$100,000 base grant for every LEA. Funds could be used for kitchen infrastructure upgrades and staff training.
- **Per-FRPM Student Grant.** After accounting for base grants, half of the remaining funding would be allocated to LEAs where at least 30 percent of students are FRPM-eligible. Funds would be distributed proportionally based on an LEA’s population of students that qualify for FRPM. As with the base grant, these funds could be used for kitchen infrastructure upgrades and staff training.
- **Scratch Cooking Grant.** The remaining funding would be allocated to LEAs based on the number of meals served in October 2022 and could be used for facility improvements and equipment upgrades to increase scratch and speed scratch cooking. To receive this funding, LEAs would have to attest that, beginning in 2023-24, at least 40 percent of meals served will be prepared using scratch and speed scratch cooking methods.

Kitchen Infrastructure Spending Exempt From State Appropriations Limit (SAL). The administration deems the \$450 million for kitchen upgrades to be excluded from the SAL. (The California Constitution imposes a limit on the amount of revenue the state can appropriate each

year. The state can exclude certain capital outlay appropriations from the SAL calculation. In our report, *The State Appropriations Limit*, we cover SAL issues in more detail.)

Includes \$3 Million One Time for Breakfast and Summer Meal Start-Up and Expansion Grants. The Governor’s budget also includes additional funding for school breakfast and summer meal start-up and expansion grants. This proposal is intended to support universal meals implementation.

Assessment

Ongoing Funding Augmentation Is Aligned With Legislative Intent. The proposed \$596 million augmentation is consistent with recent legislative actions to implement universal meals starting in 2022-23. Since paid meals receive the lowest federal reimbursement rates, much of the augmentation would likely go towards providing higher state subsidies for previously paid meals.

New State Universal Meals Requirement Will Impact Districts Differently. Implementing universal meals will result in a statewide increase in the number of daily meals served. The magnitude of this change, however, will vary by district. Some districts—especially those not currently offering breakfast and/or lunch and those with mostly higher-income students paying full price for meals—will likely see student participation increase, as all students can now receive two school meals for free. These schools might need to increase capacity and modify their nutrition program. For example, districts serving significantly more meals will have to manage higher volumes of food at any given time and could benefit from additional food storage and kitchen equipment upgrades. Universal meals will have less impact on districts that already serve breakfast and lunch to most of their students for free or reduced price.

Remaining Need for Infrastructure Upgrades Is Unclear. Although implementing universal meals will require some upgrades, the state currently does not have a clear sense of the total cost of kitchen infrastructure upgrades associated with universal meals. The 2021-22 budget already provided \$150 million for kitchen infrastructure upgrades and staff training and could have addressed many of

the needs associated with universal meals. Trailer legislation for the first round of funding requires LEAs to report on the outcomes of those funds by June 30, 2023. As such, the state cannot yet measure the effect of previous funding on the quality of school meals, LEAs’ capacity to serve more meals, or remaining demand for upgrades—making it difficult for the Legislature to determine the extent to which additional funding for kitchen infrastructure is needed.

Proposal Does Not Target Districts Likely to Significantly Expand Under Universal Meals. The administration intends all of the kitchen infrastructure and training funding to increase capacity to meet the state universal meals requirements. Neither of the proposed formulas for allocating the funding beyond the base grants, however, would target funding to districts needing to either establish or significantly expand their school nutrition programs to meet the universal meals requirement. Rather, one of the proposed formulas excludes LEAs where less than 30 percent of students are FRPM-eligible—a group that is among the most likely to need significant increased capacity to meet the new requirements. Furthermore, since the formula would allocate funding proportional to FRPM-eligible students, more funding would disproportionately go to districts most likely to already operate high-capacity school nutrition programs. We think distributing funding using a measure of anticipated capacity needs could better target funding to districts most affected by the universal meals requirement.

Additional Staff Time and Training Likely Also Required for Universal Meals. In addition to kitchen infrastructure upgrades, universal meals will require additional staff time and training. For universal meals, increasing the number of daily meals served could require kitchen staff to work longer hours or the district to hire additional kitchen staff, food truck delivery drivers, or other workers.

Additional Funding for Scratch Cooking Could Be Premature. Although encouraging more scratch cooking likely has merit, school nutrition programs have to manage various challenges in the near term, including the implementation of universal meals, addressing staffing shortages resulting from the pandemic, and managing increased

costs for food and equipment due to inflation. Furthermore, the state lacks comprehensive data on the kitchen infrastructure upgrades and staffing costs associated with scratch cooking. For these reasons, we believe additional funding for scratch cooking to be premature at this time, but could be revisited in future years.

Recommendations

Approve Funding Augmentation to Implement Universal Meals. We recommend the Legislature approve the proposed funding augmentation to increase the state share for reduce-priced and paid meals as the state implements the universal meals requirement starting in 2022-23. The exact amount of funding likely will need to be updated as part of the May Revision, when the state will have more data on meals served during the 2021-22 school year.

Reduce Proposed Kitchen Infrastructure Funding to \$150 Million, Focus on Universal Meals Implementation. Given the recent funding provided and the uncertainty regarding overall demand, we recommend the Legislature provide \$150 million (one-third of the amount proposed by the Governor) for kitchen infrastructure upgrades and training. This would match the amount provided in 2021-22. Similar to the first round of funding, we recommend setting the base grant amount at \$25,000 per LEA, rather than the proposed \$100,000 per LEA. The remaining funding could be distributed by formula to all LEAs. As we discuss in more detail below, we also recommend the funding be targeted to implementing universal meals, not

encouraging more scratch cooking. The Legislature could revisit both universal meals implementation and scratch cooking and provide additional funding in future years, once more information about demand and the use of 2021-22 grants becomes available.

Consider Modifying Formula to Target Districts Most Impacted by Universal Meals.

Regarding the allocation formula, the Legislature could also consider modifying the formula to provide more funding to LEAs that would need to increase capacity most under universal meals. This would likely provide more funding to districts not currently participating in the federal nutrition programs or with a lower share of students eligible for FRPM. Given that the Legislature committed to implementing universal meals, targeting funding to LEAs most impacted by these new requirements could ensure smoother implementation. One way to allocate funding is based on projections of how many more meals an LEA will need to serve under universal meals compared to a prior baseline level of meals served.

Legislature Could Consider Other SAL-Excludable Expenditures. If the Legislature were to reject or reduce the size of this proposal, it would likely need to replace the associated spending with other SAL-excludable proposals to continue meeting its overall SAL requirement. The Legislature could fund a variety of other options, such as funding for districts to address school facility needs related to climate resiliency or deferred maintenance projects.

LAO PUBLICATIONS

This post was prepared by Amy Li, and reviewed by Edgar Cabral and Anthony Simbol. The Legislative Analyst's Office (LAO) is a nonpartisan office that provides fiscal and policy information and advice to the Legislature.