

TESTIMONY OF
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DEPUTY UNDER SECRETARY
FOOD, NUTRITION AND CONSUMER SERVICES
U.S. DEPARTMENT OF AGRICULTURE
BEFORE THE
HOUSE EDUCATION AND LABOR COMMITTEE
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Good morning, Mr. Chairman and Members of the Committee. I am Kate Houston, Deputy Under Secretary for Food, Nutrition and Consumer Services (FNCS) at the U.S. Department of Agriculture (USDA). Thank you for the opportunity to join you this morning to discuss the impact of rising food costs on Federal Child Nutrition Programs.

USDA's Food and Nutrition Services (FNS) is responsible for administering 15 Federal nutrition assistance programs, which serve as the Nation's first line of defense against hunger and reach one in five Americans every year. At times when people are facing economic challenges, our programs are there to provide individuals and households with nutrition assistance. The Child Nutrition Programs play a vital role in the Federal nutrition safety net.

This Administration continues to demonstrate strong commitment to the nutrition assistance programs. Since 2001, funding for the nutrition assistance programs increased more than 76 percent to \$60.1 billion in fiscal year 2008, and accounts for over half of USDA's annual budget. In fiscal year 2009, the President's budget requested \$14.5 billion for the Child Nutrition Programs.

The school meals programs are the cornerstone of our Child Nutrition Programs. Each school day, the National School Lunch Program (NSLP) and School Breakfast Program (SBP) serve more than 31 million school children of all economic backgrounds with well-balanced, healthy meals designed to meet the *Dietary Guidelines for Americans*. The school meals programs strengthen our country by safeguarding the health and well-being of the Nation's children.

The school meals programs are largely financed through Federal cash reimbursements and commodity donations. Federal assistance for school meals is an important source of revenue, but is not intended to be the only source of such support to schools. Federal assistance constitutes just over half of the revenue received by school food authorities. Student payments for paid and reduced price meals, revenues from a la carte sales, and State and local funding provide the balance of funds.

In the current environment, the challenge facing school meal service is to ensure that all of these resources are being used to their fullest potential to support the service of healthy school meals. We have, and will continue to, assist schools to make the most

effective use of the full range of available resources. We work with State and school food service authorities to promote the most effective use of Federal commodity dollars. Our commodity support allows schools to take advantage of the Federal government's large volume purchasing power, often allowing the procurement of commodities at a lower unit cost than if a school were purchasing product on its own. We also provide training and technical assistance in procurement and effective contracting practices to assist schools in obtaining quality products and services at the lowest cost.

While much of today's discussion may focus on the Federal support for school meals—and I will now describe how the Federal reimbursement process works – it is important to keep in mind that this is only one of the resources available for supporting the school meal service.

Schools receive reimbursements on a per meal basis. School meal reimbursements are established by law, and as required by law, the payments are adjusted each year to reflect changes in food and labor costs based on the Food Away From Home series of the Consumer Price Index for All Urban Consumers (CPI-U). The CPI-U is a measure of the average change over time in the prices of consumer items—goods and services that people buy for day to-day living, based on data on the prices of thousands of items collected by the Bureau of Labor Statistics. The CPI-U is the accepted index used by a number of government programs to adjust the value of payments they provide to reflect the real cost of goods and services. The Food Away From Home series reflects changes in the cost of commercial meal service and is constructed from meal pricing

data, which include food and labor costs gathered from restaurants and other food service establishments including workplace cafeterias and vending machines. Annual adjustments in the Food Away From Home series of the CPI-U are based on a twelve month cycle ending in May of the current year.

Public and nonprofit private schools and residential child care institutions that participate in the NSLP and SBP receive cash reimbursements from the USDA for each meal served at the free, reduced-price and paid levels. The reimbursement rates or National Average Payments (NAPs) for lunches are adjusted annually pursuant to section 4 and section 11 of the Richard B. Russell National School Lunch Act. The rates for breakfasts are adjusted annually pursuant to section 4 of the Child Nutrition Act of 1966. The National School Lunch Act established a minimum reimbursement rate of 10.5 cents for all lunches served to children as part of the NSLP in 1981. The rate is adjusted annually using the CPI-U for Food Away From Home as prescribed by law, and is 23 cents for school year 2007-2008. This base rate is the full amount for paid meals and a portion of the reimbursement rate for the free and reduced price lunches. Section 11 of the law provides additional funding (Special Assistance) for free and reduced price meals. The rate for free lunches in School Year 2007-2008 is \$2.47. The NAP for each reduced price lunch served is 40 cents less than the reimbursement rate for the free lunch. The statutes also require that the annual adjustment of these rates, which is published in July, be rounded down to the nearest cent.

The reimbursement rates vary depending on a school's economic circumstances and location. Schools with higher proportions of low-income students, or greater than 60 percent of students determined to be eligible for free or reduced price meals, receive higher reimbursement rates at lunch. At breakfast, schools in which 40 percent or more of the students are low-income receive a higher reimbursement rate for meals served. Schools in Alaska and Hawaii receive a higher reimbursement rate because of higher cost of living.

The NAPs for the upcoming school year, July 1, 2008 to June 30, 2009, were published in the Federal Register on July 7, 2008. The reimbursement rates for schools and residential child care institutions for SY 2009 (July 1, 2008 through June 30, 2009) will reflect a 4.272 percent increase in the CPI-U Food Away from Home during the 12-month period May 2007 to May 2008. Most schools with a relatively high proportion of low-income students will receive \$2.59 for each free lunch served and \$1.68 for each free breakfast served in school year 2009 compared to \$2.49 for each free lunch and \$1.61 for each free breakfast served in school year 2008.

Assuming schools serve a comparable number of school meals in the 2009 school year as were served in 2008, about \$400 million in additional reimbursements will be distributed. USDA's budget projections for 2009 reflect this increase in reimbursement as well as expected growth in program participation.

In addition to cash reimbursements, schools participating in the NSLP receive a USDA commodity entitlement for each lunch served. The value of the commodity entitlement that will be provided in school year 2009 is 20.75 cents per meal, an 11 percent increase compared to 18.75 cents in school year 2008. On an average day, the commodity entitlement contributes approximately 15 to 20 percent of the product served on the school lunch line. The remaining 80 to 85 percent is purchased from commercial markets using the cash assistance provided by USDA, funds provided by State and local governments, children's payments for reduced price and paid lunches, proceeds from vending machines, catering activities and other funds earned by or provided to the school food service.

Recent data from a USDA study released in April 2008 indicate that over time combined Federal cash and commodity reimbursements have kept pace with costs accrued by school food service for the production of school meals. According to the study, on average, Federal reimbursements more than cover the costs incurred by school food service to produce school lunches. The annual adjustments in the cash and commodity reimbursement rates help schools deal with rising costs over time; however, near-term cost increases can be challenging to schools.

To address financial pressures resulting from higher costs, individual school districts make a number of decisions that influence the cost of operating the school meals programs. For example, schools may choose to examine procurement practices and other

opportunities to maximize use of available resources, and to gain greater administrative efficiencies in their food service operations.

Decisions by school districts also affect their ability to balance costs with revenue. One facet schools may choose to examine is the amount charged for a paid meal. According to the most recent available research data from the USDA School Lunch and Breakfast Cost Study II, on average, the combination of reimbursements and student charges for paid meals equals only 82 percent of the reimbursement that schools receive to support the service of a free meal. This suggests that in some schools, Federal reimbursement for meals served to low income students are effectively subsidizing meals served to higher income students. Another area schools may choose to review is their charges for a la carte items. Schools establish these prices and can make adjustments as necessary to ensure that a la carte contributes appropriately to the cost of the food service operations.

USDA supports schools with guidance and training to assist them in responding to tight budgets and rising costs without compromising the nutritional quality of school meals. FNS recently released “Meeting the Challenge of Rising Food Costs,” a fact sheet providing practical suggestions for strategies that may be helpful in controlling costs. This fact sheet also contains links to other financial management resources which may be helpful to schools.

Furthermore, schools will benefit from new funding provided in the Farm Bill. The Farm Bill increased the amount of funds for purchases of fruits, vegetables, and nuts from \$200 million in FY 2007 to \$390 million in FY 2008, \$393 million in 2009, \$399 million in 2010, \$403 million in 2012, and \$406 million each year thereafter. A significant portion of the additional purchases of these products will be directed to schools, with the remaining funds used for other domestic nutrition assistance programs.

In conclusion, I want to reiterate USDA's commitment to help ensure that no one in America goes hungry. We recognize that our nutrition assistance programs, especially the NSLP, are critical to ensuring our children get a good healthy meal. State and local agencies play a vital role in ensuring the effective and efficient preparation of nutritious school meals, the healthier alternative, for our children. We will continue to work with our State partners and local school districts to identify creative ways to maximize their resources. I appreciate the opportunity to testify before the Committee today and would be happy to answer any questions.