

Abstract

This study examines the cost of producing National School Lunch Program (NSLP) and School Breakfast Program (SBP) meals during School Year (SY) 2005-06. It measures both reported costs – costs charged directly to school food service accounts – and unreported costs – those costs paid by school districts in support of School Food Authority (SFA) operations – to estimate the full cost of meal production.

Background

School food services must operate on a nonprofit basis, with all revenue used to support or improve the food service. Nonprofit status is determined by the financial status of the school food service operation as a whole; SFAs are not required to maintain separate cost and revenue records for the NSLP, SBP, and other nonprofit school food service activity.

Federal meal subsidies support the cost of producing school meals. While these payments are not expected to cover all costs for all SFAs, it is expected that the Federal subsidy for a free meal will, on average across all SFAs, cover the costs of producing a reimbursable meal. The regular subsidy rate for free lunches in SY 2005-06 was \$2.495 per meal (\$2.32 in cash reimbursements plus \$0.175 in entitlement commodities), with an extra \$.02 per meal in high-poverty school districts. The regular reimbursement rate for free breakfasts was \$1.27, with a “severe need” rate of \$1.51 in high-poverty schools.

Research Questions

The key research questions this study addresses are:

- (1) What is the national mean reported cost and full cost to produce reimbursable lunches and breakfasts?
- (2) What portion of reported costs and full costs for reimbursable meals is attributable to food costs? To labor costs? To other costs?
- (3) What is the composition of SFA revenues?
- (4) How do the reported costs and full costs to produce reimbursable meals compare with the revenues derived from their sale?
- (5) How has the cost of producing reimbursable meals changed over time?

Data and Methods

To examine these questions, we selected a national probability sample of 120 SFAs, and a representative sample of 356 schools within those SFAs. Schools were stratified by grade level and school kitchen type.

Estimates of the cost of producing reimbursable meals used four basic steps: (1) measuring the full cost of SFA operations including both reported and unreported costs; (2) distributing costs to the direct production of lunches, breakfasts, after-school snacks, and to nonproduction activities (certification, food purchasing, etc.); (3) distributing a share of the cost of nonproduction activities to the production of lunches, breakfasts, and after-school snacks; and (4) distributing the reported and full costs of meals to the production of reimbursable and nonreimbursable lunches and breakfasts.

SFA financial statements, meal production records, recipes, invoices, and other documents for SY 2005-06 were reviewed. Data from interviews with SFA and school district officials were used to calculate unreported costs and allocate labor costs among SFA activities. Samples of meals taken by students were observed to obtain data on menu items sold in reimbursable and nonreimbursable meals.

Key Findings

For most reimbursable lunches and in most SFAs, reported costs were less than the Federal free lunch subsidy. For the average SFA, the mean reported cost to produce a reimbursable lunch was \$2.36, less than the Federal free lunch subsidy of \$2.495. When results are weighted by the total reimbursable lunches served by each SFA, the mean reported cost to produce a reimbursable lunch was \$2.28, reflecting lower per-meal costs in SFAs that produce more meals.

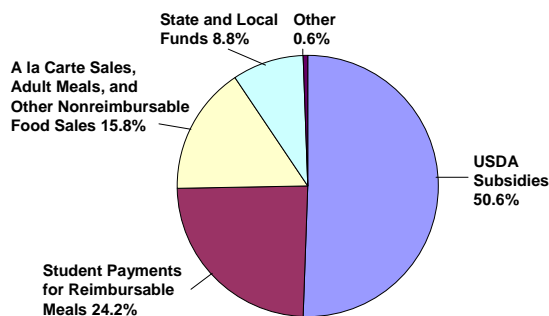
However, full costs to produce reimbursable lunches generally exceeded the free lunch subsidy. For the average SFA, the full cost to produce a reimbursable lunch was \$2.91. When results are weighted by the total reimbursable lunches served by each SFA, the mean full cost to produce a reimbursable lunch was \$2.79.

In most SFAs, average reported and full costs to produce reimbursable breakfasts exceeded Federal subsidy levels. The reported cost for an average SFA was \$1.92, and the full cost was \$2.50 – both greater than the regular (\$1.27) and “severe need” (\$1.51) Federal subsidies for a free reimbursable breakfast.

Per-meal costs are lower in SFAs that prepare a large number of breakfasts, making the overall average cost per breakfast lower than the SFA average cost. The mean reported cost of producing a reimbursable breakfast was \$1.46, and the mean full cost was \$1.81.

Food and labor accounted for the vast majority (90 percent) of the average SFA’s reported costs. Food costs, including donated commodities, accounted for 46 percent of reported costs, while labor costs accounted for 45 percent of reported costs. All other costs (supplies, contract services, capital expenditures, etc.) accounted for the remaining 10 percent.

Composition of SFA Revenues



USDA subsidies, including cash reimbursements and donated commodities, represent the largest single source of SFA revenues, accounting for an average of 51 percent of total revenues. Student payments for reimbursable meals represented about 24 percent of total SFA revenues. Revenues related to the sale of reimbursable meals, including Federal subsidies, State and local subsidies, student payments, and other sources, accounted for an average of 84 percent of total SFA revenues, while a la carte and

other nonreimbursable food sales accounted for 16 percent.

Total revenues from all reimbursable meals exceeded the reported cost of producing those meals for the average SFA. On average, across all SFAs, revenues from reimbursable lunches exceeded the cost of producing them, while revenues from reimbursable breakfasts did not. It appears that the surplus generated from reimbursable lunch revenues cross-subsidize the cost of reimbursable breakfasts and nonreimbursable meals (a la carte, adult meals, and other nonreimbursable meals).

The mean reported cost of producing reimbursable lunches and breakfasts, when adjusted for inflation, has not changed significantly since the last meal cost study conducted in SY 1992-93. However, the *full cost* of the average school lunch and breakfast in SY 2005-06 was significantly less than the inflation adjusted full cost of those meals in SY 1992-93, reflecting a decrease in unreported costs.

Overall Conclusions

On average, SFAs operate at a break-even level with total revenues from all sources about equal to total reported costs. Revenues derived from reimbursable meals account for 84 percent of SFA revenues, with USDA subsidies accounting for over half of total SFA revenues.

While, on average, SFA revenues just cover reported costs, they fall short of covering full costs. On average, SFA revenues covered only 82 percent of their full costs.

There has been little change in the real reported cost of producing reimbursable meals since the last meal cost study. However, it does appear that there has been a decrease in unreported costs, with school food service accounts being charged for more of the support services provided by school districts either as direct charges or through the application of an indirect cost rate.

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