

## Section 19

# Meal Pricing

# Section 19, Meal Pricing

## Student and Adult Meals; Equity in Meal Pricing—Paid Lunch Equity and Revenue from Nonprogram Foods

### Update Guide

**December 7, 2023** Removed unnecessary language in the *Pricing for A La Carte Items* subsection.

August 21, 2023 Relocated universal free guidance from Section 20 to Section 19. Updated the following topics:

- Universal Free Feeding – Elimination of Paid Charges
- Universal Reduction in Price
- Elimination or Lowering of Reduced-Price Charges
- Adjusting Paid Lunch Equity with Nonfederal Funds
- Paid Lunch Equity (added weighted average lunch price and inflation factor)

May 19, 2023 Paid Lunch Equity (various charts and examples)  
Updated Paid Lunch Equity Exemption guidance, as authorized by following:

- USDA Memo SP 06-2023, Consolidated Appropriations Act. 2023: Effect on Child Nutrition Programs (Paid Lunch Equity)

Created new *Definitions* and *Contact Information* sections, located at the beginning of the *Administrator's Reference Manual (ARM)*. Removed definitions and contact information from this section.

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# Meal Pricing

## Student and Adult Meals; Equity in Meal Pricing—Paid Lunch Equity and Revenue from Nonprogram Foods

Contracting Entities (CEs) that participate in the National School Lunch Program (NSLP) and School Breakfast Program (SBP) must meet meal pricing requirements for both students and adults. These requirements ensure that nutrition program revenue or income (1) is applied equitably to free, reduced-price, and paid (full-price) students' meals and (2) is not used to subsidize adult meals.

### Responsibility for Establishing the Price of Meals

The CE must set the price of meals for students and adults. A food service management company (FSMC) cannot set the price of meals for the CE.

The guidance in this subsection applies to the following programs:

- Afterschool Care Program (ASCP)
- National School Lunch Program (NSLP)
- Seamless Summer Option (SSO)
- School Breakfast Program (SBP)

## Meal Pricing for Students

CEs must adhere to the following guidance in pricing meals and charging students for meals.

### Meal Pricing for Students

Regulations (1) stipulate the cost of meals, (2) provide flexible pricing for different aged students and varied food items, and (3) specify the ways food costs should be applied to meal pricing.

#### Add-on Meal Service Fees

While documented costs for meal supervision or other services necessary for the operation of nutrition programs may be considered an allowable cost for operating the program, the cost of these services cannot be added to the price a student pays for a meal. Instead, CEs should pay these costs out of their nonprofit school food service account.<sup>1</sup>

#### CE Setting Meal Prices

CEs must establish the prices for meals and meal service options. A contractor, including Food Service Management Companies (FSMCs), cannot set policy to establish the price for meals. The contract may provide the CE useful information to assist them in setting prices.

#### Charging Students Eligible for Free Meals

Students who are eligible for free meals cannot be charged for a reimbursable meal.

#### Charges Related to Fluid Milk

CEs must adhere to the following guidance:

**The following practices are prohibited.**

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<sup>1</sup> See *Administrator's Reference Manual, Section 14, Financial System* for additional information on allowable nutrition program costs.

- Charging extra or an a la carte price for an alternate beverage for those students who accept milk, while giving away an alternate beverage to those students who refuse milk.
- Offering juice at no charge to those students who refuse milk, while charging an a la carte price for another beverage for those students who select milk as part of a reimbursable meal.

These practices are prohibited because they violate the unit pricing requirement and effectively undermine the inclusion of the milk component as an integral part of the reimbursable meal.

**The following options are allowable.**

- Offering milk as a component of the reimbursable meal to all students and charging a separate (a la carte) price for another beverage for those students who take a second beverage.
- Giving away another beverage to all students who request it whether the students take or do not take milk as part of the reimbursable meal as long as students are aware that they may take both the milk and the other beverage.

These options promote the inclusion of the milk component as an integral part of the reimbursable meal. CEs should consider the types of alternative beverages to offer based on the nutrient standard requirements of the students as well as the pricing structure before adopting this option.

#### Comparison of Prices for Reduced-Price and Paid Meals

Reduced-price meals must be priced (1) less than paid meals and (2) never greater than the required maximum price for a reduced-price meal.<sup>2</sup>

#### Credit Card Surcharges or Convenience Fees

When a CE offers a payment system that adds a surcharge or convenience fee (use fee) to credit card transactions, CEs must use the following guidance to determine if a student, parent, or guardian or the school nutrition program is allowed to pay the use fee:<sup>3</sup>

Household payment of use fee—appropriate in the following circumstance:

If a CE accepts credit card payments for meals, the student, parent, or guardian may be asked to pay a use fee if each of the following conditions is met:

1. The student, parent, or guardian has the option to make a payment by a method that does not require a use fee.
2. The CE has clearly communicated to students, parents, and guardians about the option to make a payment by a method that does not require a use fee.
3. Use fees are charged in accordance with state and federal law regulating credit card surcharge and convenience fees.

<sup>2</sup> See the *Pricing Maximum for Reduced-Price Meals* subsection in this section for additional information on this topic.

<sup>3</sup> Texas and federal regulations define acceptable practices for credit card surcharges and convenience fees. CEs should consult the regulatory authority for credit cards to ensure that their credit card surcharge or convenience fee policies and practices are applied in a manner that is consistent with state and federal law.

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SNP payment of use fee—appropriate in the following circumstances:

1. The SNP may pay the cost of a use fee for an online payment system as an allowable cost if the CE has a standard practice for all programs to pay use fees for credit card payments with program funds.
2. If the SNP is the only program taking credit card payments, the use fee for the credit card payment may be paid by the SNP as an allowable cost. However, in this circumstance, the CE is also making a commitment that in the future other programs that accept online credit card payments will pay the fees out of their program funds as a standard practice.<sup>4</sup>

In all circumstances where the SNP pays use fee costs, use fee charges must be consistent with state and federal laws regulating credit card surcharge and convenience fees.

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Non-SNP source payment of use fee—appropriate in the following circumstances:

If the CE does not have a standard practice to pay use fees that applies to all programs, a use fee is not an allowable cost for the SNP. Therefore, costs must be covered by a source other than the SNP.

In all circumstances where the SNP pays use fee costs, use fee charges must be consistent with state and federal laws regulating credit card surcharge and convenience fees.

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### Pricing for A La Carte Items

A la carte pricing should be structured so that the charged price meets the following requirements:

1. Covers the cost of producing the menu item—food cost, labor, and/or indirect costs.
2. Does not create an incentive for students to choose a la carte items because the price is less than a reimbursable meal.

**To prevent promotion of the purchase of an a la carte meal, the unit price for a reimbursable meal should be priced lower than the total of the a la carte prices for the same items.<sup>5</sup>**

### Pricing for Different Ages of Students

The charge for a reduced-price meal may be a higher price for older students than for younger students. However, if different pricing is used, the price must always be lower than the price for a paid or full-price meal and never greater than the required maximum price for a reduced-price meal.

### Pricing for Offer Versus Serve (OVS)

Reimbursable meals served under OVS must be priced as a unit for a reimbursable meal,<sup>6</sup> regardless of which items a student chooses. This includes salad bars which must also be priced as a unit, not by weight.

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<sup>4</sup> See *Administrator's Reference Manual (ARM)*, Section 16, *Financial System* for additional information on the requirement for CEs to consistently process similar expenses across all programs.

<sup>5</sup> A second meal that is also a reimbursable meal cannot be submitted for reimbursement under NSLP. See the *Administrator's Reference Manual (ARM)*, Section 20, *Counting & Claiming* for additional information on this topic.

<sup>6</sup> OVS is not required for all grade levels or for breakfast.

### Pricing for Reimbursable Meals

A reimbursable meal must be priced as a unit regardless of menu items selected by the student. This means that those students eligible for free meals continue to receive meals at no charge; students eligible for reduced-price breakfast pay the current reduced-price charge; and all other students will pay the full price for the meal.

### Pricing for Varied Menus Items

CEs may offer students a choice of reimbursable meals. In these cases, the meals must be priced as a unit. The CE may charge varied paid unit prices for different reimbursable meal choices.

However, any student who is qualified for a free or reduced-price meal must not be required to pay an additional charge if taking a higher priced reimbursement meal.

For Example: If the site offers a special lunch with a larger serving of a meat/meat alternate or other premium item, the CE may price the meal at a higher unit price than other menu choices—the chicken entrée is priced \$0.25 higher for paid students than the ground beef alternative entrée. The special lunch is also available to the free and reduced-price students at no additional charge if these lunches are to be claimed for reimbursement for free, reduced-price, or paid reimbursement.

### Pricing Maximum for Reduced-Price Meals

CEs cannot charge students who are eligible for reduced-price meals more than the following amounts:

- Lunch—40 cents
- Breakfast—30 cents
- Snacks—15 cents

### Universal Free or Universal Reduction in Price Site

Before implementing a universal free or reduction in price program at a site, the CE must indicate on its *Policy Statement for Free and Reduced-Price Meals, Attachment B: Meal Count/Collection Procedures*<sup>7</sup> that the CE is establishing site or CE-wide universal free or reduction in price site.

### Visiting Students, Universal Free Feeding Site

See *Administrator's Reference Manual (ARM), Section 20, Counting & Claiming* for detailed information on meal charges for visiting students.

## Effective Date for Eligibility

CEs have the option to assign the effective date for eligibility as the date applications are received by the CE or the date categorical eligibility is designated as approved in documentation provided by an administering agency.<sup>8</sup> CEs must have a method in place to clear student accounts of any charges or reimburse students for meal payments received while the eligibility determination was processed. Clearing the charges or reimbursing for payments made applies only to the current school year in which the eligibility determination was made.

CEs must indicate the effective date of eligibility in their *Policy Statement for Free and Reduced-Price Meals, Attachment B: Meal Count/Collection Procedures*.<sup>9</sup>

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<sup>7</sup> Web-based form available in the Texas Unified Nutrition Programs System (TX-UNPS).

<sup>8</sup> See the *Administrator's Reference Manual (ARM), Section 4, Eligibility Determination* and *Section 7, Counting & Claiming* for additional information on this topic.

<sup>9</sup> Web-based form available in the Texas Unified Nutrition Programs System (TX-UNPS).

## Students Working for School Nutrition Program (SNP)

Regulations state that students receiving free and reduced-price benefits must not be required to work for those benefits. However, CEs are not prohibited from hiring program students to work in the cafeteria. In these cases, the following guidance applies to students who choose to work in the cafeteria:

### Local or State Student/Youth Employment Regulations

If CEs choose to employ students, they must follow all local and state regulations for the employment of students under the age of 18.

### Notice to Parents

In these cases, the parents of all workers must be informed in writing that their students have been hired to work for pay or other compensation.

- The letter must state that if a student has been certified as eligible for free or reduced-price benefits that the student's eligibility is not dependent upon student's continued employment by the SNP.
- The letter should not be a part of or attached to the free and reduced-price letters to parents, applications, or notices of approval or denial.

### Separation of Work and Program Participation

If a student works for the SNP and the student goes through the meal line as a student, not an employee, the CE has to treat the student served a meal as a student and not an employee of SNP. The student is charged or not charged according to eligibility. If a reimbursable meal is chosen, the CE may claim a reimbursable meal served to the student.

If the student works at a time when other employees would be or are served a meal at no charge, the student/employee may be served a meal with the employees at no charge. In this situation, the meal cannot be claimed because the student is acting as an employee, not a program participant receiving a reimbursable meal.

## Payment and Charging Systems

All payment and charging systems must include a method for payment or charging for meals that makes free and reduced-price meal recipients appear the same as those who have paid full price—avoiding overt identification of a student's eligibility status. CEs are encouraged to use prepayment systems with multiple methods of prepayment to prevent overt identification of a student's eligibility status.

### Medium of Exchange

The medium of exchange is the way students pay for meals. The medium of exchange includes any type of ticket, token, ID, name, verbal identifier, or number that is issued to a student to obtain a meal.<sup>10</sup> The most effective CEs will link the medium of exchange to its coding system for recording the meal served to each student and that student's eligibility status.

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<sup>10</sup> See the *Administrator's Reference Manual (ARM)*, Section 20, *Counting & Claiming* for additional information on coding systems.

## Medium of Exchange Requirements

CEs must meet the following requirements in their medium of exchange, payment, and charging procedures:

### Available to All Students

If certain lines are not made available to all students, including those receiving free or reduced-price meals or free milk, reimbursable meals or free milk served on those lines must not be claimed for reimbursement.

### Charging

If charging is necessary, CEs must notify parents as soon as possible about the charges to prevent the accumulation of large charge balances.<sup>11</sup>

### Change in Status

The medium of exchange system must include a process that allows for daily updates to track the following:

- Transfers
- Withdrawals
- Changes in eligibility status due to verification
- Other eligibility issues

### Distribution of the Medium of Exchange

CEs need to create a system for distributing the medium of exchange that provides the following conditions:

- A common location and time where all students (free, prepaid, reduced-price, and paid) are required to obtain their tickets, tokens, etc.
- Adequate time and area for purchase or pick up of the medium of exchange
- Prevention of overt identification.

### Notice

Information about payment and/or charging of meals should be routinely publicized. Appropriate notice strategies include, but are not limited to, the following:

- Posted signs
- Public announcements
- Printed informational materials sent home with students or directly to households.

### Payment of Cash on the Line

When students pay cash on the line for reduced-price or paid meals, they may be counted in a different manner than those students who prepay or charge. This allows the CE to have a method in place to account for cash received from an individual student at the time of service. In all cases where cash is received for payment, CEs must account for individual payments. A grand total for cash received is not adequate documentation for counting and claiming purposes.

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<sup>11</sup> See *Unpaid Meals, Charged Meals* subsection in this section for additional information on charge policies.

### Change from Overpayment

When a student pays cash for a meal or an a la carte item and is due change, the student must be given the option to receive the change from a cash transaction or to apply the change on his or her account.

- Automatically applying change from a cash transaction to a student's account when the student had no intention to pre-pay for meals is not allowed.
- Automatically applying change from a cash transaction to a student's debt when the student had no intention of applying change toward a debt is not allowed.
- However, a CE may establish a *no check cashing* policy under which any payment by check must be credited onto the student's meal account.

### Payments for Meals When a Student Has a Negative Balance

When a student has a negative account balance, the CE must allow the student to purchase a reimbursable meal with any funds the student has on hand. Additionally, the CE cannot require the student to pay any remaining funds (overpayment) from the meal purchase to the student's existing account balance.

### Online Payment Systems

A CE cannot limit balance inquiries to online systems. The CE must provide an alternate method for any household that does not want to use an online system to check a student's balance.

### Prepayment Incentive

Some CEs offer incentives for prepayment options when cash is also accepted on the serving line. This is an acceptable practice.

For Example: When a \$20.00 prepayment is made, the student receives a \$2.00 bonus to the account.

### Lost, Stolen, or Misused Ticket or ID Requirements

CEs may establish procedures to address the handling of lost, stolen, or misused free, reduced-price, or paid meal tickets<sup>12</sup> which include the guidance described below. However, if a CE (1) does not have procedures in place for lost, stolen, or misused tickets or IDs or (2) does not follow its written procedures for lost, stolen, or misused tickets or IDs, the CE cannot deny a meal to any student without a ticket or ID.

#### Procedure Guidance for Lost, Stolen, or Misused Ticket or ID

CEs must include the following guidance in their procedures related to lost, stolen, or misused tickets or IDs:

#### Notice

- Advance Notice. Parents and students must be advised in writing of the site's policy regarding missing meal tickets and of the student's corresponding responsibility for her or his tickets. This notice must be provided to all households at the time the student begins receiving or purchasing meal tickets or IDs.
- Advance Warning. At least one advance, written warning must be given to the student and the parent(s) prior to the CEs refusal to

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<sup>12</sup> See the *Records Retention* subsection in this section for information on requirements for documentation retention on this topic.

replace a ticket or ID or denial to provide meals without a replaced ticket or ID. The written warning must include the following information:

- Explanation that the student has exceeded the maximum number of replaced tickets or IDs.<sup>13</sup>
- Explanation that each subsequent time the student fails to have a ticket or ID the student will be expected to either bring his or her own meal or pay full price for the meal.

### Replacement

- Replacement. A minimum of three replacements or special meal arrangements must be allowed for each student within each school year—initial ticket or ID plus three replacements. In cases of repeated ticket loss or misuse, the CE may wish to contact an adult household member to arrange a meeting to discuss the problem.
- Charge for Replacement. CEs may establish a procedure for students to pay for lost tickets or IDs after three replacements have been issued (initial plus three replacements). A student cannot be denied a meal for a lost, stolen, or misused ticket unless the CE's procedures for lost, stolen, or misused tickets have been followed.

If the CE is using an ID card for other purposes, there must be an alternate method for students to receive meals if the card is stolen or destroyed. Possible methods include the following:

- Require the student get a temporary meal or milk card.
- Ask the student to go to the end of line, so the staff member has extra time to find the student's name and ID number on a roster and record the meal served manually.
- Assign the student a number code to use to obtain meals.

### Exception

- Students Who Must Be Served Meals With or Without a Ticket or ID. Meals must always be provided to pre-kindergarten, kindergarten, and disabled students who may not be able to take full responsibility for a meal ticket or ID.

## Universal Free Feeding—Elimination of Paid Charges

Universal Free sites offer reimbursable meals at no cost to all students. Even though special provision sites— such as Community Eligibility Provision (CEP) or Provision 2 (P2) sites— provide free meals to all students, universal free feeding refers to situations where the CE has chosen to provide free reimbursable meals to all students, but submits claims based on each student's eligibility as determined each year by application or direct certification.

### Universal Free Lunch

Due to Paid Lunch Equity (PLE) requirements, the CE **must** use funds from outside the food

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<sup>13</sup> The number must be 3 or more.

service account (i.e., nonfederal funds) to offset the revenue lost by not charging students categorized as “paid.” Use of excess program funds to offset these costs is unallowable.

Nonfederal funds include the following:

- General funds
- Any portion of State revenue matching funds that exceeds the minimum requirement
- Cash donations (such as Angel Funds)
- In-kind contributions from outside sources, such as volunteer service

See “Adjusting Paid Lunch Equity with Nonfederal Funds” in this section for more information on nonfederal funding sources.

### **Universal Free Breakfast**

Because breakfast is not subject to PLE requirements, funds from the nonprofit school food service account may be used to cover any expenditures associated with eliminating the paid and reduced-price charges for breakfast.

### **Implementing Universal Free Feeding**

#### **Consistency**

All students with the same eligibility status must receive the same reduction in price. Specially, all reduced-price students must be treated the same; all paid students must be treated the same.

#### **Counting and Claiming**

The CE continues to count and collect reimbursements based on each student’s eligibility status—a reimbursable meal served to a reduced-price eligible student is reimbursed at the reduced-price rate; a reimbursable meal served to a paid eligible student is reimbursed at the paid rate.

#### **Indication of Intent, Policy Statement for Free and Reduced-Price Meals, Attachment B: Meal Count/Collection Procedures and TX-UNPS**

The CE must change its *Policy Statement for Free and Reduced-Price Meals, Attachment B: Meal Count/Collection Procedures*<sup>14</sup> before implementation if the site’s collection or counting and claiming procedures change because of offering universal free feeding meals.<sup>15</sup>

The CE must indicate its use of a universal reduction in price for reduced-price and paid meals in the site application in TX-UNPS.

No other formal approval process is necessary to begin universal free feeding meals.

#### **Residential Child Care Center (RCCI)**

An RCCI may choose to offer universal free meals to non-residential or day students. However, the RCCI must claim non-residential students by the correct eligibility status—free, reduced-price, or paid. The RCCI must not claim all day students as paid in order to avoid making eligibility determinations for these students.

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<sup>14</sup> Available in the Texas Unified Nutrition Programs Systems (TX-UNPS) | Applications | Attachment B.

<sup>15</sup> See the *Administrator’s Reference Manual (ARM), Section 30, Records Retention* for more information on the deadline.

## Universal Reduction in Price

CEs have the option to decrease paid meal charges at non-special provision sites. When a CE implements a universal reduction in price, the CE continues to distribute and collect applications, conduct direct certifications for all categorial programs, and determine eligibility for each student.

### Consistency

All students with the same eligibility status must receive the same reduction in price. Specially, all reduced-price students must be treated the same; all paid students must be treated the same.

### Counting and Claiming

The CE continues to count and collect reimbursements based on each student's eligibility status—a reimbursable meal served to a reduced-price eligible student is reimbursed at the reduced-price rate; a reimbursable meal served to a paid eligible student is reimbursed at the paid rate.

### Program Costs

The CE **must** use funds from outside the food service account (i.e., nonfederal funds like funds from the General Fund) to offset the revenue lost by not charging the full paid lunch price. Use of excess program funds to offset these costs is unallowable.

See “Adjusting Paid Lunch Equity with Nonfederal Funds” in this section for more information on nonfederal funding sources.

### Indication of Intent, Policy Statement for Free and Reduced-Price Meals, Attachment B: Meal Count/Collection Procedures and TX-UNPS

**The CE must change its *Policy Statement for Free and Reduced-Price Meals, Attachment B: Meal Count/Collection Procedures*<sup>16</sup> before implementation if the site's collection or counting and claiming procedures change because of offering universal free feeding meals.<sup>17</sup>**

**No other formal approval process is necessary to begin universal reduction in price.**

### Residential Child Care Center (RCCI)

An RCCI may choose to offer universal free meals to non-residential or day students. However, the RCCI must claim non-residential students by the correct eligibility status—free, reduced-price, or paid. The RCCI must not claim all day students as paid in order to avoid making eligibility determinations for these students.

## Elimination or Lowering of Reduced-Price Charges

CEs have the option to eliminate or lower the reduced-price charges for NSLP and SBP serving sites that are not CEP or Provision 2 sites.

Options	Student Payments CE Collects
Eliminate the price for reduced-price eligible students	CE collects payments from paid students only.

<sup>16</sup> Available in the Texas Unified Nutrition Programs Systems (TX-UNPS) | Applications | Attachment B.

<sup>17</sup> See the *Administrator's Reference Manual (ARM), Section 30, Records Retention* for more information on the deadline.

Lower the price for reduced-price eligible students	CE collects the payments from paid students and the lower payment for reduced-price students.
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### Funding the Elimination or Lowering of Reduced-Price Charges

Funds from the nonprofit school food service account may be used to cover any expenditures associated with eliminating the charge or lowering the price for reduced-price reimbursable meals.

### Counting and Claiming When Eliminating or Lowering Reduced-Price Charges

The CE continues to count and collect reimbursements based on each student's eligibility status—a reimbursable meal served to a reduced-price eligible student is reimbursed at the reduced-price rate and a paid eligible student is reimbursed at the paid rate.

## Unpaid Meals, Charged Meals

CEs must have a written policy related to charged meals that is reviewed and updated as appropriate to the CE's needs.<sup>18</sup> The meal charge policy for public and charter schools must be approved by the CE's board of trustees or governing board. CEs that are not public or charter schools should consider the value of having board approval.

The charge policy may apply the same standards for all grades or may apply different standards for different grades or grade groups. In all cases, the CE's charge policy must be implemented consistently for all students or for the designated grade levels. A CE's policy may include the following:

1. Allow students to charge all available reimbursable meals.
2. Allow students to charge a limited number or type of meals.
3. Provide the lowest cost reimbursable meal available or the lowest cost meal available when the student has a negative balance that has reached the CE's predetermined threshold<sup>19</sup> as long as the meal is offered to all students as a choice on a regular meal service line.

In all cases, a student that qualifies for free meals cannot be denied a reimbursable meal even if the student has accrued a negative balance from other purchases in the cafeteria such as a la carte sales and extra items. However, the CE may limit other purchases such as a la carte sales and extra items for a student that qualifies for free meals when there is an outstanding balance.

### Public and Charter Schools

In Texas, public and charter schools must allow students who use a prepaid meal card or account to purchase meals to have a grace period for each school year before the CE stops providing a meal. The CE's policy must include the following elements:

- A grace period for each school year that allows the student to accumulate a negative balance on the student's card or account or receive an extension of credit for the grace period for that school year.

<sup>18</sup> USDA policy released in July and September of 2016 and May of 2017 for unpaid meal charges aligns with current Texas law on establishing a local charge policy and grace period.

<sup>19</sup> The CE sets the predetermined threshold (number of meals or amount of money that a student may charge during the grace period) policy. See the *Public and Charter Schools* subsection in this section for more information on the CE's charge policy and grace period.

- Notification of the student’s parent or guardian that the student’s meal card or account balance is exhausted and/or has a negative balance for the school year.
- The CE must not apply a fee over the price of the meal or apply interest in connection with meals purchased during the grace period for the school year.

### **Household Management of Student Charges**

- CEs may allow households to establish a limit on the amount of prepaid funds a student may spend each day and whether a student is allowed to purchase a la carte items. This gives the parent greater control of students’ unpaid meal charges.
- The CE must not limit balance inquiries to an online system.
- CEs may include the use of a payment plan in the charge policy.

### **Communicating the CE’s Charge Policy**

The CE must provide the charge policy to each of the following groups:

#### **Students and Households**

The written charge policy must be provided in writing to all households at the start of the school year and to the households of any transfer student at the time of transfer. Posting to the CE or school website is not sufficient notification. Although the CE may use a variety of communication strategies, the following methods are acceptable ways to share the written charge policy:

- Include a letter to households explaining the meal charge policy when sending *back-to-school* packets for student registration.
- Include the policy in the print versions of student handbooks, if provided to parents and guardians annually.
- Include the written policy when using existing notification methods to inform families about applying for free or reduced-price meals, such as distributing household applications at the start of the school year.

#### **CE Staff**

CEs must ensure that the following staff are provided the charge policy:

- School food service professionals responsible for collecting payment at the point of service or other locations
- Staff involved in notifying families of low or negative balances
- Staff involved in enforcing any other aspects of the meal charge policy

CE should provide the charge policy to the following staff:

- School social workers
- School nurses
- Homeless liaison

- Other staff members assisting children in need (or who may be contacted by families with unpaid meal charges)

If the CE uses a food service management company (FSMC), the CE must ensure that FSMC employees are informed of the CE’s charge policy. The CE is also responsible for ensuring that the FSMC implements the charge policy as written.

### **Financial Considerations in Addressing Unpaid Meals, Charged Meals**

No matter how the CE chooses to address unpaid meal charges, the CE should consider the financial implications of its approach when addressing this issue.

- What is the impact of the charge policy on the cost of operating the program?
- What type of lower cost meal (alternate meal) will be provided to those students without funds? Reimbursable? Non-reimbursable?
- Will the charge policy impact the amount of reimbursement the CE receives?
- How will the charge policy affect the accumulated total student debt at the end of the year?
- Does the charge policy create additional costs to the program or the CE?
- Are there ways to prevent additional costs to the CE by changing the charge policy?
- What will be the financial impact on households when the charge policy is implemented?
- Will the charge policy cause students to go without meals?

Because of flexibility USDA has given CEs on this issue, CEs may find that providing a lower cost reimbursable meal is the most financially advantageous option. When utilizing this option, USDA allows CEs to provide students with unpaid meal charges a lower cost reimbursable meal. CEs should consider the amount of reimbursement received when offering a lower cost reimbursable meal. In this case, the lower cost reimbursable meal must also be available to all students during each serving period on a regular lunch line.

### **Lowest Cost Meal Available for Students with Unpaid Meal Charges**

Having a lower cost meal as a menu meal choice that is available every day for all students will ensure that students who are unable to pay will not be the only students eating a lower cost meal. This approach helps to prevent overt identification of students who have unpaid meal charges.

If the CE’s written policy (as described earlier in this subsection) indicates that students with unpaid meal charges will be served the lowest cost meal available to all students, the CE must ensure that students and their parents are given instructions on how to access these meals.

For Example: A CE establishes a Fast Lane service line. The Fast Lane will provide the lowest cost reimbursable meal available each day. Any student may be served a reimbursable meal on this line—i.e., the line is not limited to students with unpaid meal charges. Because the line has pre-plated meals or limited OVS choices, the students will be able to move through the line faster—hence, the name the Fast Lane.

The parents are given notice of the students’ meal account status and informed that the students will be served the lowest cost reimbursable meal available until the student’s unpaid meal charges are paid.

Students who have unpaid meal charges are called to the office to speak to the nurse’s aide and are instructed in private to use the Fast Lane meal line to get a reimbursable meal.

or

A CE that has one service line serves the Blue Plate Special as one its entrée choices every day. The Blue Plate Special is always the lowest cost reimbursable meal available on the line. Any student may be served a reimbursable meal on this line—i.e., the Blue Plate Special is not limited to students with unpaid meal charges.

The parents are given notice of the students' meal account status and informed that the students will be served the lowest cost reimbursable meal available until the student's unpaid meal charges are paid.

Students who have unpaid meal charges are called to the office to speak to the nurse's aide and are instructed in private to select the Blue Plate Special to get a reimbursable meal.

### **Accommodation for a Medical Disability**

For any student who has a medical statement for a meal accommodation, any lower cost meal served to that student must still meet the required accommodations.<sup>20</sup>

### **Lowest Cost Meal Available Options**

CEs have two options in providing a lower cost meal to students who have exhausted the grace period for charging meals:

#### **Option 1: Lowest Cost Reimbursable Meal Available**

If the CE chooses to provide the lowest cost reimbursable meal available (an alternate meal), the meal must be available to all students as a choice on a regular meal service line—that is, lower cost reimbursable meals cannot only be available to students with unpaid meal charges.

The CE may charge the student for a lower cost reimbursable meal or may provide the meal at no charge to the student.

[NOTE: If the CE chooses to provide a lower cost reimbursable meal to students with unpaid meal charges, the CE must establish this practice in its meal charging policy. If the CE does not charge for the lower cost reimbursable meal, the CE must include this practice its charge policy and must publicize that lower cost reimbursable meals are served at no cost to students who have exceeded the meals allowed in the grace period.]

#### **Cost of Preparing the Meal**

If the CE charges for a lower cost reimbursable meal or provides the lower cost reimbursable meal at no charge, the cost of preparing and serving the meal is an allowable cost to the program.

#### **Charge to Student**

Any unpaid charges accumulate to the student's account if the student does not have funds to pay the meal charge.

Any remaining unpaid charges at the end of the charge period must be recovered from a non-federal source of funds.

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<sup>20</sup> See *Administrator's Reference Manual (ARM)*, Section 25, *Meal Accommodations*.

If the CE serves a lower cost reimbursable meal at no charge, the CE must provide this information in its published charge policy as well as in the CE's *Policy Statement for Free and Reduced-Price Meals, Attachment B: Meal Count/Collection Procedures (Attachment B)*.

If the CE does not provide notification to households and does not provide the information in the CE's *Attachment B* form, the meal charge must be paid with non-federal funds by the end of the charge period.<sup>21</sup>

#### Payment for Lower Cost Reimbursable Meals

Payment for all reimbursable meals must be credited to the nonprofit school food service account.

#### OVS Not Used

The CE provides a pre-plated reimbursable meal<sup>22</sup> that provides the full portion size required to be offered for each required component.

The student must have a choice of milk.<sup>23</sup>

#### OVS Used

The CE allows a student to choose the full portion size required to be offered for each required meal component. If the student chooses the required components for a reimbursable meal, the CE may claim the meal.

The student must have a choice of milk.<sup>24</sup>

#### **Option 2: Lowest Cost Non-Reimbursable Meal Available**

When the CE provides a non-reimbursable meal, the CE should still provide a nutritious, well-balanced, and age-appropriate meal to the student. If the CE chooses to provide the lowest cost non-reimbursable meal available (as an alternate meal), the meal must be available to all students as a choice on a regular meal service line—that is, lower cost meals cannot only be available to students with unpaid meal charges.

The CE may charge the student for a lower cost non-reimbursable meal as an a la carte sale or may provide the meal at no charge to the student.

(NOTE: Serving a non-reimbursable lower cost meal is a federal allowance. However, serving a non-reimbursable meal and charging for that meal increases the debt of the student; increases the cost to the food service program for providing the meal; and potentially increases the amount of non-federal funds needed to cover student bad debt.)

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<sup>21</sup> See the *Administrator's Reference Manual (ARM), Section 16 Financial System* for additional information on the charge period for outstanding student debt.

<sup>22</sup> Students have the option to refuse any food item in a pre-plated meal. If the student refuses an item, the meal the student takes must have the required components for a reimbursable meal for the meal to be claimed.

<sup>23</sup> Choice of milk does not apply to the pre-kindergarten meal pattern.

<sup>24</sup> Choice of milk does not apply to the pre-kindergarten meal pattern.

### A la Carte Sale

If the CE chooses to charge for a non-reimbursable lower cost meal, it is an a la carte sale. The price of the meal should reflect the actual cost of the meal, that is, if the meal cost is 40% less than a reimbursable meal, a price that is 40% less than a paid reimbursable meal would be appropriate to charge for the meal.

### Cost of Preparing the Meal

A non-reimbursable lower cost meal is an unallowable cost to the program whether the meal is an a la carte sale or provided at no charge. The cost of preparing and serving the meal must be paid by non-federal funds.

### Charge to Student

Any unpaid charges accumulate to the student's account if the student does not have funds to pay the meal charge.

Any remaining unpaid charges at the end of the charge period<sup>25</sup> must be recovered from a non-federal source of fund.

If the CE serves a lower cost non-reimbursable meal at no charge, the CE must provide this information in its published charge policy as well as in the CE's *Policy Statement for Free and Reduced-Price Meals, Attachment B: Meal Count/Collection Procedures (Attachment B)*.

If the CE does not provide notification to households and does not provide the information in the CE's *Attachment B* form, the meal charge must be paid with non-federal funds at the end of the charge period.<sup>26</sup>

### Payment for Lower Cost Reimbursable Meals

Payment for non-reimbursable meals (a la carte sales) must be credited to the nonprofit school food service account.

### Competitive Food Requirements

If the CE charges for a lower cost non-reimbursable meal, the meal must meet the Competitive Food Nutrition Standards.

### Proportional Program/Nonprogram Revenue and Costs

The cost of preparing the non-reimbursable meal and any revenue from the meal are classified as nonprogram costs and revenue and may be included

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<sup>25</sup> See the *Administrator's Reference Manual (ARM), Section 16 Financial System* for additional information on the charge period for outstanding student debt.

<sup>26</sup> See the *Administrator's Reference Manual (ARM), Section 16 Financial System* for additional information on the charge period for outstanding student debt.

in CE's calculation of program and nonprogram proportion.<sup>27</sup>

### **Special Guidance, Students with Unpaid Meal Charges**

The CE may implement strategies for debt collection. USDA has defined (1) practices that should be discouraged and (2) practices that are prohibited as well as (3) recommended practices to address unpaid meal charges.

#### **Discouraged Practices Related to Students with Unpaid Meal Charges**

- Using hand stamps, stickers, or other physical markers to identify students with meal charge debt.
- Sending clearly marked notices home with students who have an outstanding balance (i.e., overtly identifying a student who has unpaid meal charges).

#### **Prohibited Practices Related to Students with Unpaid Meal Charges**

- Announcing or publicizing the names of students who have free or reduced-price eligibility and who have unpaid meal charges.
- Using a strategy or notification method that overtly identifies the eligibility status of any student.
- Enlisting the assistance of volunteers to request payment from a family with unpaid debt—Only appropriate officials trained on USDA's confidentiality requirements who have a need to access a student's account balance or eligibility information may request payment from families with unpaid meal charges unless the family gives approval for this information to be shared with others.
- Requiring students to work for meals or work to pay back their debt—Any CE employee who is also a student cannot be required to pay for meals out of his or her paycheck.

#### **Recommended Practices Related to Students with Unpaid Meal Charges**

- Communicating privately with individual families about their child's outstanding balance.
- Sending discrete reminders in a plain, white envelope or sending reminders with other communication materials sent to all families.
- Working with families to develop a payment plan to pay back meal charge debt.

CEs may also use other income sources as a temporary measure to cover the cost of unpaid meal charges, including, but not limited to, the following:

- State revenue matching funds in excess of the State revenue matching fund requirement.
- State or local funds provided to cover the price of student meals.

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<sup>27</sup> See the *Administrator's Reference Manual (ARM), Section 16, Financial System* for additional information on this topic.

- Local contributions provided by community organizations or individuals and school fundraisers.<sup>28</sup>

At the end of the school year, CEs may invite any household with excess funds in a student’s account to donate the remaining funds to a special fund to pay for unpaid meals charges. In Texas, a CE cannot automatically take, redistribute, or use excess funds without permission from the household. See the *Student Account Balances* subsection of this section for additional information on this requirement.

- A la carte revenue and profit from foods not purchased using funds from the nonprofit school food service account and funded from an account that is separate from the nonprofit school food service account.
- Revenue from catering or contracting services that operate using an account that is separate from the nonprofit school food service account.

### Special Guidance, Serving Meals to Students with Unpaid Meal Charges

CEs must keep the following practices in mind when serving meals to students with unpaid meal charges:

#### Discouraged Practices Related to Serving Students with Unpaid Meal Charges

- Throwing a student’s meal in the trash if the student is unable to pay for the meal the student has been served.

#### Prohibited Practices Related to Serving Students with Unpaid Meal Charges

- Requiring students who have free or reduced-price eligibility and who have unpaid meal charges to use a different serving line to pick up a lower cost alternate meal.
- Identifying a student’s eligibility status (overt identification).

#### Recommended Practices Related to Serving Students with Unpaid Meal Charges

- Notifying the student ahead of time in private that the student will be served an alternate meal.
- Serving students with unpaid meal charges in the same serving line(s) as all other students.
- Ensuring the lower cost alternate meal is a healthy meal and does not single out students with unpaid meal charges.

## Outstanding Student Debt

Outstanding student debt (also called bad debt) resulting from nonpayment for school meals or milk is not an allowable cost to the nonprofit school food service account and cannot be absorbed by the SNP. For detailed guidance on outstanding student debt, see the *Administrator’s Reference Manual (ARM), Section 16, Financial System*.

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<sup>28</sup> USDA has stated that this type of strategy is not intended to be a long-term solution. CEs should continue to pursue other strategies. Moreover, if a CE chooses to use an alternate funding option, school food service professionals should not be expected to solicit funds or organize fundraisers, as this is beyond the scope of their regular job duties.

## Student Account Balances

If a student account has a balance at the end of the school year, the CE must make every effort to return the funds to the household or the student. If the CE is unable to return the funds to the student (or household, if appropriate), the funds must be accounted for as described in the following guidance:

1. Must not be used to offset other non-SNP debt the student has incurred.
2. Must be recorded as deferred income or revenue<sup>29</sup> (general accounting principle).
3. Must not be donated for any purpose unless the CE has the consent of the parent or guardian.
4. Must be reported to the Texas Comptroller's Office ([www.window.state.tx.us/up/reporting.html](http://www.window.state.tx.us/up/reporting.html)) and handled as required by Texas law if the balance is not returned to the student or donated by consent of the parent or guardian once the student has left the school district.

## Meal Pricing for Adults

Since the expressed purpose of federal assistance is to safeguard the health and well-being of the nation's students, meals served to adults are not eligible for federal cash reimbursement—therefore, the reimbursements CEs receive for serving students must not be used to pay for adult meals.

## Nutrition Program Employees

Employees directly involved in the operation or administration of meal planning, preparation, and service may or may not be charged for their meals at the discretion of the CE. This would include SNP supervisors, managers, cooks, and servers. A meal served at no cost to nutrition program employees is considered to be a fringe benefit that can be counted as an allowable program cost.<sup>30</sup>

## Subsidizing Adult Meals, CE Employees

CEs must also ensure that federal reimbursements, students' payments, and other non-designated nutrition program revenues do not subsidize meals served to nonprogram employees—teachers, administrators, custodians, or other adults.

### Fringe Benefit

A CE may choose to offer its employees a fringe or incentive benefit that covers the cost of the meal. If a CE chooses to offer a free or reduced-price meal as a fringe benefit, CEs must take the following actions:

- Ensure that the funds for the fringe benefit do not come from the nonprofit school food service account and are not funded from the revenue generated from students' paid meals.
- Ensure that the source of funding for the fringe benefit is sufficient to cover the actual cost of the meal, including the value of any USDA Food entitlement or bonus as well as additional reimbursement amounts including performance-based or severe

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<sup>29</sup> Deferred income or revenue is often called *unearned income*. A student's prepayment for meals is considered to be deferred income because the CE *owes* the income to the student until the student *purchases* food or meals.

<sup>30</sup> See *Administrator's Reference Manual (ARM)*, Section 11, *Summer Meals* for additional guidance related to paid meals for security guards.

need for breakfast or lunch<sup>31</sup> payments (reimbursements) awarded to the CE.

- Maintain documentation that clearly illustrates that the funding for the fringe benefit comes from other revenue sources and that the general revenue fund has reimbursed the nonprofit school food service account for this lost revenue.

#### USDA Foods Meal Counts

Meals served to adults do not count toward the CE's award of USDA Foods (Commodities).

#### Price of Adult Meals

The charge for adult meals must, at a minimum, be greater than the amount of total reimbursement received for a free meal plus any other supplemental payments received by the CE plus per-meal value of USDA Foods (Commodities) used for the meal service. The meal price for adult visitors may be higher than the price paid by adult CE employees at the discretion of CE officials.

Total reimbursement includes the following:

- **Standard Reimbursement**—Amount of reimbursement the CE receives for free, reduced-priced, or paid reimbursable meals.
- **Performance-Based Reimbursement**—Additional reimbursement applied to each reimbursable lunch claimed. Additional performance-based reimbursement is currently \$.08 per claimed lunch.
- **Severe Need Reimbursement**—Additional reimbursement based on high economic need.  
For lunch, Severe Need is paid CE-wide for claimed lunches. For breakfast, the reimbursement is paid to eligible sites.
- **USDA Foods Per Meal Value (Reimbursement)**—CE-wide allocation that is based on the number of reimbursable lunches served in the previous year.

This applies whether the program is a pricing or non-pricing meal program. CEs must have a method in place to document income from adult meals.

There are many strategies a CE can use to ensure that the adult meal pricing criteria are met. When calculating a pricing structure, all results should be rounded up. The following methods illustrate two ways of pricing that are acceptable. Pricing programs may use Method 1, Method 2, or another method as long as documentation demonstrates that the method meets the criteria described above. Non-pricing programs must always use Method 2.

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<sup>31</sup> Severe need for lunch reimbursements/payments are also called *two-cent differential*.

**Method 1, Using Paid Reimbursement Rate for Lunch, Breakfast, Snack**

**Lunch**—Charge a price that is greater than the total amount of reimbursement for a student’s paid lunch plus the per meal value of USDA foods plus the highest price paid by a student for lunch.

Adult Price Minimum	<i>must be greater than</i>	Highest Student Price Charged in the District	+	Federal <u>Paid</u> Reimbursement Rate Plus All Other Federal Reimbursement or Payments (This includes, but is not limited to, performance-based reimbursement, lunch severe need reimbursement, and per meal value of USDA Foods, as applicable.)
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**Breakfast**—Charge a price that is greater than the total amount of reimbursement for a student’s paid meal or snack plus the highest price paid by a student for the meal or snack.

Adult Price Minimum	<i>must be greater than</i>	Highest Student Price Charged in the District	+	Federal <u>Paid</u> Reimbursement Rate Plus All Other Federal Reimbursement or Payments (This includes, but is not limited to, breakfast severe need and per meal value of USDA Foods if USDA Foods are used for breakfast meals.)
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**Method 1, Sample Calculating Correct Adult Pricing for Lunch Structure Chart (Using SY 2018-2019 Rates)**

Pricing Information

**The CE proposes to use the following pricing structure.**

Student Lunch Meal Paid Charge	Adult Paid Charge
Cash Payment                      \$2.85	\$3.00

Calculation to Determine Minimal Adult Price

Federal Funds to Include in Calculation		Calculation, Method 1, Adult Lunch Meal Price	
Paid Reimbursement Rate	\$0.31	Student Paid Charge	\$2.85
Performance-Based Reimbursement	\$0.06	Federal Funds	\$0.735
Severe Need Lunch	\$0.02		
USDA Foods	\$0.3450		
<b>Total</b>	<b>\$0.735</b>	<b>Adult Minimum Charge</b>	<b>\$3.585</b>

Calculation Equation:  $(\$0.31 + \$0.06 + \$0.02 + \$0.3450) + (\$2.85) = \$3.585$ , rounded up to \$3.59

Method 1, Questions to Determine If Adult Minimum Meal Price Is Appropriate		
Answers to <u>all</u> questions <u>must be yes</u> for the adult meal price to be appropriate.		
1.	Does the meal price cover the cost of federal funds?	Yes
2.	Is the adult price more than the paid price for a student?	Yes
3.	Is the total adult price more than the total revenue or income received for a paid student’s meal?	No*
<b>Adult Lunch Meal Price Method 1— at least \$3.59</b>		
* While a CE may round up an adult price to a number that is more convenient to collect (i.e., \$3.585 to \$3.60), the CE must not round down to a price lower than the calculated Adult Minimum Price (i.e., \$3.585 to \$3.50).		

**Method 2, Using Free Reimbursement Rate for Lunch, Breakfast, or Snack**

**Lunch**—Charge a price that is greater than the total amount of federal reimbursement for a free student’s lunch plus the per meal value of USDA Foods.

Adult Price Minimum	<b>must be greater than</b>	Federal <u>Free</u> Reimbursement Rate Plus All Other Federal Reimbursement or Payments (This includes, but is not limited to, performance-based reimbursement, lunch severe need reimbursement, and per meal value of USDA Foods, as applicable.)
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**Breakfast**—Charge a price that is greater than the total amount of federal reimbursement for a free student’s meal.

Adult Price Minimum	<b>must be greater than</b>	Federal <u>Free</u> Reimbursement Rate Plus All Other Federal Reimbursement or Payments (This includes, but is not limited to, breakfast severe need reimbursement and per meal value of USDA Foods if USDA Foods are used for breakfast meals.)
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**Method 2, Sample Calculating Correct Adult Pricing for Lunch Structure Chart (Using SY 2018-2019 Rates)**

Pricing Information

**The CE proposes to use the following pricing structure.**

	Student Lunch Meal Paid Charge	Adult Paid Charge
Cash Payment	\$2.70	\$2.75

Calculation to Determine Minimal Adult Price

Federal Funds to Include in Calculation		Calculation, Method 2, Adult Lunch Meal Price	
Free Reimbursement Rate	\$3.31	Federal Funds	\$3.735
Performance-Based Reimbursement	\$0.06		
Severe Need Lunch	\$0.02		
USDA Foods	\$0.3450	<b>Adult Minimum Charge</b>	<b>\$3.735</b>
<b>Total</b>	<b>\$3.735</b>		

Calculation Equation:  $\$3.31 + \$0.06 + \$0.02 + \$0.3450 = \$3.735$ , rounded up to \$3.75

Method 2, Questions to Determine If Adult Minimum Meal Price Is Appropriate		
Answers to <u>all</u> questions <u>must be yes</u> for the adult meal price to be appropriate.		
Does the meal price cover the cost of federal funds?	No	<b>Adult Lunch Meal Price Method 2— At least \$3.735</b>
Is the adult price more than the paid price for a student?	Yes	
Is the total adult price more than the total revenue or income received for a free student’s meal?	No	
* While a CE may round up an adult price to a number that is more convenient to collect (i.e., \$3.735 to \$3.75), the CE must not round down to a price lower than the calculated Adult Minimum Price (i.e., \$3.735 to \$3.70).		

TDA has developed an Excel form to assist CEs in calculating adult meal prices. The *Adult Meal Calculator Worksheet* is available at [www.SquareMeals.org](http://www.SquareMeals.org).

**Paid Lunch Equity (PLE)**

Each year, CEs must evaluate their lunch pricing structure and determine if the cost and income from lunch meals are equitably distributed among free, reduced-price, and paid meals—Paid Lunch Equity (PLE). CEs that determine that their lunch pricing structure is not equitably distributed must take action to remedy the inequity—increase meal prices, provide additional funds from nonfederal sources, or a combination of both.

**Non-Pricing or Universal Free Feeding CEs or Sites**

CEs or sites that have implemented a non-pricing policy that applies to all students are not required to determine if they have equity in lunch pricing—this includes the Community Eligibility Provision (CEP), Provision 2 (P2), or other non-pricing, universal free feeding programs that provide reimbursable meals at no charge to all students.

### **Non-Pricing or Universal Free Feeding CEs or Sites, Returning to Standard Counting and Claiming**

If a CE has sites that are returning to standard counting and claiming after operating a non-pricing program, the CE must apply the PLE requirements to all sites returning to standard counting and claiming.

- In situations where all of a CE's sites operated a non-pricing program in the previous school year, the CE must apply the current weighted average lunch price since there is no pricing history for the previous school year for these sites.
- In situations where some, but not all, of a CE's sites operated a non-pricing program in the previous school year, the CE may use the meal prices from the sites that did not operate a non-pricing program to evaluate and establish pricing for those sites returning to standard counting and claiming.

### **Residential Child Care Institutions with Paid Students**

If an RCCI has students who are not free or reduced-price, the RCCI must determine if it has equitable lunch pricing (PLE).

### **Preparation for Calculating Paid Lunch Equity (PLE)**

Because the calculation for the upcoming year is made at the end of the current school year (SY) and is based on the pricing information from multiple years, the CE needs to have current and prior year meal pricing records on hand to perform this process. The CE will need the following information to determine the appropriate lunch price for the upcoming SY:

- Meal pricing information from previous years. The USDA Paid Lunch Equity Tool uses pricing information from the previous two school years.
- Meal pricing information from SY 2010-2011, the first year PLE calculations were required if CE was active in that SY.
- Nonfederal contribution amounts for the upcoming year and the previous SY.

**Steps for Calculating Paid Lunch Equity**  
CEs should take the following actions to calculate paid lunch equity.<sup>32</sup>

1. Establishing the Minimum Meal Price for Students. When a CE assesses its paid lunch equity, it is determining if the average paid price is less than the difference between the free and paid federal reimbursement rates. The difference between the free and paid federal reimbursement rate is called the weighted average lunch price that is provided by USDA each year.
2. Using the Inflation Factor. If the CE's average paid price is less than the USDA current weighted average lunch price, the CE must increase the average paid price using the inflation factor.
3. Uniform Threshold. There is no uniform threshold for price increases. Each year the amount will be recalculated.
4. Unrounded Adjusted Averaging. CEs are also required to use unrounded adjusted averaging for this process.

**Information Box 1: Example**

**Paid Lunch Equity (PLE) Weighted Average Lunch Price and Inflation Rate for SY 2020-2021**

For SY 2020-2021,\* the PLE weighted average lunch price was \$3.09.

Free Reimbursement Rate	-	Paid Reimbursement Rate	=	Weighted Average Meal Price
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For SY 2020-2021, the inflation factor was 4.68% (.0468).

2% (.20)	+	Annual Inflation Rate (2.94%)	=	4.94% (.0494) (SY 2020-2021)
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CEs that charged less than \$3.09 were required to adjust their average lunch price by the inflation factor, add nonfederal funds to the nonprofit food service account, or do a combination of both.

\* The weighted average lunch meal price is calculated using the previous year's reimbursement rates.

The following chart contains the weighted average and inflation factor for the current and previous years.

<b>Current and Previous Year Weighted Average Lunch Price and Inflation Factor Chart</b>		
School Year	Weighted Average Lunch Price	Inflation Factor
2023-2024	3.56	9.40%
2022-2023	3.31	6.04%
2021-2022	3.18	4.93%
2020-2021	3.09	4.94%
2019-2020	3.00	4.68%
2018-2019	2.92	4.31%
2017-2018	2.86	4.64%
2016-2017	2.78	4.97%
2015-2016	2.70	4.19%
2014-2015	2.65	4.27%
2013-2014	2.59	4.93%
2012-2013	2.51	4.18%
2011-2012	2.46	3.14%

<sup>32</sup> See the *Preparation for Calculating Paid Lunch Equity (PLE)* subsection in this section for additional information on records and documentation needed to prepare for these actions.

## Calculating Weighted Paid Lunch Price

The CE may use USDA’s *Paid Lunch Equity Tool* to calculate PLE. This form is located at [www.squaremeals.org](http://www.squaremeals.org).

Or the CE may calculate PLE manually by performing the following actions:<sup>33</sup>

### Step 1: Determine if the CE needs to adjust its average meal price.

Compare the CE’s average price for a paid lunch	to	the difference between the higher federal reimbursement provided for free lunches and the federal reimbursement provided for paid lunches		
		Free Reimbursement Rate	– Paid Reimbursement Rate	= Weighted Average Price for a Paid Lunch

If the average paid lunch price is *less than* the USDA current weighted average lunch price, the CE must take one of the following actions:

- Adjust the average paid price using the inflation factor.
- Adjust the proportion of nonfederal funding.
- Use a combined adjustment of increasing the average paid lunch price applying the inflation factor and increase the proportion of nonfederal funding to address the difference.

If the CE’s average paid lunch price is more than the USDA current weighted average lunch price, the CE does not need to take further action.

### Step 2: Apply the Inflation Factor

The next step in the process is to apply the inflation factor—two percent plus the annual inflation rate or percentage (*Information Box 1*).<sup>34</sup>

*Unrounded Adjusted Average.* CEs are required to use unrounded adjusted average paid lunch price when calculating paid lunch equity.<sup>35</sup>

Applying the inflation factor is completed in two calculations:

1. Amount of Increase Required. The CE multiplies its average lunch paid price by the inflation factor percentage to determine if the CE needs to increase the price of a paid reimbursable lunch.

CE’s Average Lunch Price	x	Inflation Factor (Example: SY 2020-2021)	=	Amount of Increase Needed (may result in no needed increase)
\$3.00		4.94% (.0494)^		\$0.1482

2. Adjusted Paid Lunch Equity Price. The CE adds the amount of increase, to its average paid lunch price to get the adjusted paid lunch equity price.

<sup>33</sup> See the *Tools to Assist with Paid Lunch Equity Determinations* subsection in this section for information about tools to help with paid equity calculations.

<sup>34</sup> The inflation factor is based on the percentage of change in the Consumer Price Index for All Urban Consumers (CPI), using the 12-month period of May of the previous year to May of the current year. Because of the timing of calculation and issuing the reimbursement rates, the paid lunch equity calculations are based on the inflation factor used for the previous school year’s (SY’s) reimbursement rate. The inflation factor will be recalculated each year by USDA.

<sup>35</sup> CEs were allowed to use rounded averaging in SY 2011–2012 as they transitioned their pricing structures to address the paid equity provision. CEs are now required to use unrounded adjusted averaging.

CE's Average Lunch Price	+	Amount of Increase (if an increase is needed)	=	Adjusted Paid Lunch Equity Price
\$3.00		\$0.1482		\$3.1482 (or \$3.15)*

<sup>^</sup> 4.94% was the inflation factor for SY 2020-2021.

\* In this case, by raising the price to nearest 25 cents (\$3.25), the CE would be able to credit \$.1018 toward the SY 2021-2022 PLE calculation as described Excess Paid Lunch Equity Increase subsection in this section. Formula for credit:  $\$3.25 - \$3.1482 = \$0.1018$ .

## Additional Guidance for Applying Pricing Structure to Achieve Paid Lunch Equity

CEs must adhere to the following guidance as they determine if the CE is required to make an adjustment to achieve equity in lunch pricing:

### Adjustment, Grade Level

A CE may increase the price of meals for varied grade levels at different rates as long as the average price corresponds to the adjustment needed.

For Example: The CE may apply a larger increase for grades 9–12 than it does for grades K–3. If the CE must increase the average price to \$2.95, the CE can charge K–3 students \$2.75, middle school students \$2.90, and high school students \$3.20.

$$\begin{aligned} &\text{Average Lunch Price} \\ &(\$2.75 + \$2.90 + \$3.20) \div 3 = \$2.95 \end{aligned}$$

### Amount of Increase Maximum

A CE is not required to increase its prices by more than \$.10 (10 cents) each year. However, a CE may opt to increase prices more than \$.10.

### Excess Paid Lunch Price Increase

If the CE raised its average paid price above the required amount for the previous year, any excess in paid lunch price increase over the CE's lunch average for the previous year may be subtracted from the current year's paid lunch price increase requirement.

For Example: For SY 2018–2019, the CE was required to raise lunch prices by an inflation factor of 4.31 percent. The average paid lunch price for the CE was \$2.25 which was less than the weighted average lunch price.

$$\begin{aligned} &\text{Percentage of Increase} \\ &(\$2.25 \times 4.31\%) = \$.0969 \end{aligned}$$

Therefore, the CE needs to raise its average price by \$.0969—making the required average lunch price \$2.6077.

$$\begin{aligned} &\text{Required Average Price} \\ &(\$2.25 + \$.0969) = \$2.3469 \text{ or } \$2.35 \end{aligned}$$

However, the CE chose to raise its average lunch price to \$2.50 which created an excess paid lunch price increase of \$0.1531 which can be applied to the next school year.

$$\begin{aligned} &\text{Excess Paid Lunch Price Increase} \\ &(\$2.50 - \$2.3469) = \$0.1531 \end{aligned}$$

The CE may apply the excess paid lunch price increase of \$0.1531 to any increase required in SY 2019–2020.

[NOTE: CEs must retain sufficient records to document the carry forward of the excess average price calculation.]

### New CEs

CEs in their first year of operating the NSLP that do not have a prior meal pricing history should use the current year's weighted average lunch price for paid lunches.<sup>36</sup>

<sup>36</sup> USDA calculates and publishes this price each year.

### New Sites

If a CE opens a new serving site, it will not have a prior meal pricing history. The site should price lunches at the same level or higher as other sites within the CE.

### Non-Pricing or Universal Free Feeding Programs

Non-pricing or universal free feeding CEs should report a \$0 in pricing reports. In CEs that administer Provision 2, Community Eligibility Provision (special provision), or other non-pricing universal free feeding sites as well as non-special provision sites, the CE should report and calculate paid lunch equity for non-special provision sites only.

If a non-pricing or universal free feeding program, including special provision, returns to standard counting and claiming, the CE must charge a paid lunch price at the same level or higher as the current weighted average. If the CE is able to access pricing data from a previous pricing period and calculate pricing data through the current school year, the CE may charge the reconstructed and recalculated lunch meal price.

### Shortfall in Paid Lunch Price Increase

If the CE did not price its meals at the established weighted average amount in the previous school year, the shortfall must be added to the next year's paid lunch adjustment requirement.

[NOTE: CEs must retain sufficient records to document the carry forward of the shortfall in average price calculation.]

## Adjusting Paid Lunch Equity with Nonfederal Funds

A CE that does not want to increase the paid lunch meal price may choose to offset the required increase in meal pricing with nonfederal funds.<sup>37</sup> USDA's *Paid Lunch Equity Tool* includes fields which allow the CE to calculate how much nonfederal revenue is needed to offset a required increase in meal pricing. This tool will auto-calculate the appropriate amount of nonprogram funds to contribute.

Paid Lunch Equity, Revenue from Nonprogram Food Calculation Chart		
Total number of paid reimbursable meals claimed for the previous school year	x	Difference between SY 2018-2019 weighted average <u>paid lunch price requirement</u> and SY 2017-2018 weighted average <u>paid lunch price</u>
		=
		Nonfederal fund contribution

### Allowable Nonfederal Funding Sources

The following sources are allowable nonfederal contributions:

- Any amount that is credited to paid meals—breakfast, lunch, and snack—from direct payments provided by organizations, including state, county, CE, district, city, or other agencies
- Any proportion attributable to paid meals—breakfast, lunch, and snack—from the CE to support the meal service, including prorated shares of general funds

For Example: The CE receives \$1,000 in state and local subsidies. Twenty percent of the lunches served are paid lunches. To calculate the prorated share of the income, the CE multiplies \$1,000 by 20%.

<sup>37</sup> See the *Administrator's Reference Manual (ARM), Section 16, Financial System* for additional information on nonprogram income.

The result—\$200—is the prorated portion of state or local subsidy that contributes toward paid lunches. The rest is applied to free or reduced-price meals.

- Funds from CE-related or community organizations
- Matching funds from state revenues that exceed the minimum requirement<sup>38</sup>

### Unallowable Funding

The following cannot be counted as nonfederal contributions:

- Any federally sourced payment, including additional per-meal reimbursements,<sup>39</sup> provided specifically to support free and reduced-price meals.
- Any revenue from concession stands or other onsite income generating activities if the revenue or income flows through the nonprofit school food service account even if the SNP only gets a portion of the revenue or income<sup>40</sup>
- Revenue from foods sold in competition with reimbursable meals—i.e., competitive foods.
- Any in-kind contributions which includes the following:
  - Janitorial services that were previously provided at no cost to the SNP
  - Prorated share for the salaries of teacher or office staff that serve as cafeteria monitors
  - Supplies, such as office equipment, that were previously provided at no cost to the SNP
  - Prorated share for utilities that were previously paid by the SNP

### Adjusting Paid Lunch Equity by Combining Increased Paid Lunch Price and Nonfederal Funds

The CE may combine an increase in lunch price and a supplement of nonfederal funds. CEs should use the USDA's *Paid Lunch Equity Tool* to calculate the required adjustments when a combined method is used.

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<sup>38</sup> This requirement is established in 7 CFR 210.17.

<sup>39</sup> Performance-based reimbursement and severe need for breakfast and lunch reimbursements.

<sup>40</sup> For this type of income to be nonprogram funds, all operational and financial support for the activities must come from outside of the SNP. There are CEs that provide food service activities that generate income but are not operated by or for the SNP: A culinary arts program that provides food service that is not connected to the SNP or a concession stand. If the funds that support these programs do not come from SNP and if they are operated totally outside of the SNP or the SNP's resources, these efforts would be nonprogram funds.

## Additional Guidance for Applying Nonprogram Funds to Achieve Paid Lunch Equity

When a CE considers whether a source of funds is appropriate or inappropriate, the CE should also consider the following guidance:

### Excess Nonfederal Funds Contribution

If the CE's previous year estimate of required contribution exceeds the actual level needed, the excess contribution may be subtracted from the next year's contribution requirement.

### Excessive Fund Balance

If the CE has an excessive fund balance of more than three months of operating expenses, it cannot decrease its excessive fund balance as a method to reach paid lunch equity.

- Appropriate Use of Excessive Fund Balance. Excessive fund balances must be used to
  1. improve food quality or
  2. other actions designed to improve the school nutrition.<sup>41</sup>
- Lowering Meal Prices. If the CE has an excessive fund balance, the CE

cannot	can
lower prices if it is not exceeding the weighted or minimum paid lunch average for year the adjustment is being made.	lower prices if the price exceeds the weighted or minimum lunch price average for the year the adjustment is being made.

### Insufficient Nonfederal Funds Contribution

If the CE's previous year estimate of required contribution to paid lunch price increase is less than the actual amount needed, the excess contribution must be added to the next year's contribution requirement.

### Large Fund Balance (Not an Excessive Fund Balance)

For this purpose, a large fund balance<sup>42</sup> is the amount of funds remaining in the nonprofit school food service account after all expenses have been paid. This amount cannot be used to offset PLE as nonfederal funds.

### Program Account

If the CE chooses to fulfill the paid equity requirement with a nonfederal source contribution, the funds do not have to be kept in a separate account. The funds may be added at the beginning of the year or at intervals throughout the year. In all cases, the CE must maintain a clear record of the source of funds.

(NOTE: CEs must retain sufficient records to document funds added to the nonprofit school food service account. This includes, but is not limited to, itemized or detailed records showing that a transfer is made for student debt that is separate from transfers to address PLE and adult meals.)

## Paid Lunch Equity Exemption

For School Year (SY) 2023-2024 USDA has provided a PLE exemption that is based on the CE's financial position. CEs with a zero or positive fund balance as of June 30, 2022, have two options:

<sup>41</sup> See *Administrator's Reference Manual (ARM), Section 16, Financial System* for additional information on this topic.

<sup>42</sup> An Excessive Fund Balance is a fund balance that exceeds three months of operating expenses.

1. Complete and apply the SY 2023-2024 PLE calculation to CE's meal pricing structure. If a CE chooses this option, the CE will adjust meal prices as appropriate to the PLE calculation.

Records to Retain: The CE must retain the completed PLE calculation tool and other documentation demonstrating how the CE determined the meal prices to be charged.

2. Choose not to complete and not to apply the SY 2023-2024 PLE calculation. If the CE chooses this option, the CE may increase meal prices, but is not required to do so.

TDA recommends CEs perform the PLE calculation each year and retain all related documentation as information recorded in the calculation tool may be helpful if the CE does not qualify for an exemption in the future.

Records to Retain: The CE must retain financial documentation that demonstrates that the CE has reconciled all costs incurred and income received since the end of the most recent fiscal year and June 30, 2022, and determined that it has a zero or positive fund balance. If the CE chooses to increase meal prices, the CE needs to retain documentation demonstrating the amount of the price increase.

### Special Guidance for Determining a Zero, Positive, or Negative Fund Balance

Whether a CE has a zero, positive, or negative fund balance is based on its financial reconciliation of costs and income as of June 30, 2022.

Did the nonprofit school food service account have a zero, positive, or negative fund balance after accounting for all income and all expenses from the period between the end of the CE's most recent fiscal year and June 30, 2022?

The following definitions will assist the CE in this determination:

- The **fund balance as of June 30, 2022**, covers the period of time between July 1, 2021 and June 30, 2022.
- **Costs incurred** include the costs for products that were delivered and/or cost of services that occurred prior to July 1, 2022, which have been paid or will be paid after June 30, 2022.
- **Income received** includes reimbursement for claimed meals, a la carte sales, catering, and any other income to the School Nutrition Program for activities that occurred prior to July 1, 2022, for which payment has been received or payment will be received after June 30, 2022.

### Special Guidance, When a CE No Longer Qualifies for an Exemption

When a CE no longer qualifies for an exemption, the CE must use their most recently charged paid meal price in the PLE calculation tool to determine the required increase in meal prices. The CE is not required to retroactively apply previous PLE increases for the years in which the CE qualified for a waiver.

## Tools to Assist with Equity in Lunch Pricing Determinations

The USDA and TDA have developed forms that can be used to calculate both parts of the paid lunch equity process. These forms are available at [www.squaremeals.org](http://www.squaremeals.org). CEs are not required to use these forms, but TDA strongly encourages CEs to do so. If a CE uses another form, the CE must ensure that the form collects the same information as the TDA or USDA forms.

## TDA Forms

The following TDA forms will assist CEs in collecting the information required to determine whether the CE is compliant with the revenue from nonprogram foods provision:

- *Adult Meal Calculator Worksheet*
- *Daily Record of Income—National School Lunch Program and School Breakfast Program Form*
- *Income from Food Service Operations Form*
- *Paid Lunch Equity (PLE) Exemption*
- *Record of Program Expenditures Form*
- *Food Service Pro-rata Share of Exclusive Beverage Contract Form*

### Information Box 2

#### Record Retention

Public and charter schools are required to keep documentation related to school nutrition programs for five years.

Private schools, other nonprofit organizations, and residential childcare institutions (RCCIs) are required to keep documentation for three years.

## USDA Form

USDA provides a *Paid Lunch Equity (PLE) Tool*<sup>43</sup> that will automatically calculate paid lunch equity when the CE records current meal pricing information. The form is updated when the inflation factor or reimbursement rates change, so CEs should use the current form for each SY. Instructions are provided with the tool.

## Records Retention

The CE is required to maintain an organized system of record retention that is accessible to appropriate CE staff members and federal or state reviewers. TDA may request documentation for both offsite and onsite administrative reviews. CEs also have the option to maintain records in paper or electronically.

All documentation or records must be kept on file for a minimum of five years for public and charter schools or three years for private schools, nonprofit organizations, and residential student care institutions after the end of the fiscal year to which they pertain. If audit findings have not been resolved, the records must be maintained as long as required for the resolution of the issues raised by the audit.

The records and documentation the CE must be able to produce concerning meal pricing and paid lunch equity include, but are not limited to, the following:<sup>44</sup>

- Daily and cumulative monthly records of prices charged to students for reduced-price and paid meals
- Daily and cumulative monthly records of prices charged to adults for all meals
- Complete record of prices charged for a la carte items sold to students and adults
- Daily and cumulative monthly records for income from all sources, federal and nonfederal
- Daily and cumulative monthly record for costs for program and nonprogram expenses

<sup>43</sup> The *Paid Lunch Equity (PLE) Tool* has the capability of printing a report that can be used to help complete the forms in future years. TDA recommends that CEs take advantage of this feature to facilitate their response to paid lunch equity requirements in succeeding years.

<sup>44</sup> See the *Administrator's Reference Manual (ARM)*, Section 30, *Record Retention* for detailed information on records that must be included in a CE's records retention system.

- Forms demonstrating the CE's efforts to address an excessive fund balance, if applicable
- Documentation of all steps and actions taken to achieve paid lunch equity
- Records of transfers into and out of the nonprofit school food service account for all purposes, but specifically to achieve equity in meal pricing
- Forms and records for PLE and nonprogram/nonfederal revenue and cost calculations
- All records demonstrating the methods the CE used to communicate its charge policy to household and staff, including, but not limited to, the following:
  - Evidence of efforts to collect unpaid meal charges in accordance with the policy
  - Evidence that collection efforts fell within the timeframe and methods established by the policy
  - Financial documentation showing when the unpaid meal charge became an operating loss
  - Evidence that the funds written off as bad debt were restored to school nutrition nonprofit food service account from non-Federal sources

## Compliance

TDA will review documentation submitted through TX-UNPS and during administrative reviews to determine if the CE is compliant with all meal pricing requirements. TDA may require an approvable corrective action plan if the CE does not comply with the meal pricing requirements as well as the paid lunch equity requirement. Noncompliance in these areas may require fiscal action.