

MEMORANDUM



JOINT BUDGET COMMITTEE

TO Members of the Joint Budget Committee
FROM Amanda Bickel, JBC Staff (303-866-4960)
DATE March 18, 2024
SUBJECT Department of Education - Healthy School Meals for All – Additional Cost Containment Measures

UPDATED STAFF RECOMMENDATIONS

Staff recommends that the JBC add the following provisions to the HSMA legislation currently being drafted, as well as an additional component that might be included in this bill or a separate bill:

- **Make statutory changes to authorize use of the State Education Fund to cover one-time additional costs in FY 2023-24 and FY 2024-25 (if required).** Appropriate State Education Fund to cover costs beyond those available in the HSMA Account for FY 2023-24, as OSPB requests. This is estimated at \$22.8 million, based on the LCS forecast. Both General Fund and State Education Fund are needed over the long-term to cover school finance costs, but reserves in the State Education Fund are still high and better able absorb additional one-time costs in the short-term.
- If the JBC wishes to contain FY 2024-25 costs, staff recommends **removing high school students from the HSMA free meal guarantee for FY 2024-25, which is anticipated to provide \$30.0 million in savings** (on top of \$18.5 million in saving related to delaying grant & wage enhancement programs). Use State Education Fund to cover any small remaining balance between program costs and revenue (estimated to require \$4.0 million based on LCS forecast). Alternatively, the JBC could choose to leave the meals component of the program unchanged and cover the balance of FY 2024-25 costs for meals with State Education Fund (or General Fund), pending further analysis, as reflected in staff's initial recommendation.
- Staff also recommends some **other additions to the bill draft already authorized.** These include:
 - Enhancing reporting requirements previously approved by the JBC. Require the Department to collaborate with school districts, OSPB, and other interested parties to: identify ways to maximize federal reimbursements, reduce costs of the program, review cost-savings options such as minimizing food waste, strengthen long-term resiliency of the HSMA account, and model revenue scenarios. The group would be required to solicit input from stakeholders and the public and would help direct the work of department contractors. LCS and JBC staff would assist by providing technical support. The group would provide an update on its work to the JBC in June and September 2024. A report due December 1, 2024, would be submitted to the JBC, Joint Education Committees, Governor, and State Board of Education and presented to the JBC in December and to the Joint Education Committees as part of SMART Act hearings. Staff anticipates that these efforts would continue through the 2025 legislative session, as necessary to assist the General Assembly in developing changes to the program for FY 2025-26.

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- Authorize the Department to require district modifications to the HSMA program throughout the program year to maximize districts' federal reimbursements as deemed necessary by the Department.

Explanation: At present, Section 22-82.9-204(2), C.R.S., specifies that “A school food authority that chooses to participate in the program must annually give notice of participation to the department as provided by rule of the state board. At a minimum, the notice must include evidence that the school food authority is participating the community eligibility provision...” The Department notes that this language is intended to protect districts from mid-year changes by the Department. The Department concluded that, based on this language, it could make an optional—but not mandatory—opportunity for districts to elect to use of the Community Eligibility Provisions in March 2024 due to changes in federal rules. *Staff feels that it would be better if the Department was on clear legal footing going forward to make adjustments needed mid-year to maximize federal reimbursements.*

- **The JBC may also wish to consider incorporating into this bill draft—or a separate one—a provision to change the current Healthy School Meals for All Program General Fund Exempt Account into a cash fund.** When S.B. 23-221 (Healthy School Meals for All Program Fund) was conceived, there was debate among those involved about whether calling the funds deposited for this program a “General Fund Exempt Account” or a cash fund would be least confusing/most transparent for members and the public. Having watched LCS and JBC staff struggle with reflecting this revenue in General Fund forecast documents, and related confusion for legislators, staff now believes that the decision to call this a “General Fund Exempt Account” was a mistake. Staff believes it will be easier for staff and legislators to classify this fund as a cash fund that is distinct from the General Fund. While the origin of the money is state income tax revenue, the fund is designed to maintain a reserve separate from the General Fund reserve and operates much more like the State Education Fund (which also originates as income tax revenue) than most other forms of General Fund Exempt revenue.
- Regardless of which new options the JBC chooses to adopt, **staff requests permission to adjust figures in the Long Bill and new legislation (if relevant) to reflect the HSMA revenue projected to be available based on the General Fund revenue forecast selected (LCS or OSPB).**

COMMITTEE DECISIONS THUS FAR ON HEALTHY SCHOOL MEALS FOR ALL FUNDING

During figure setting for the Department of Education (dated February 29, presented March 4, 2024), staff highlighted the gap between revenues and expenditures for the Healthy School Meals for All (HSMA) program (Prop FF). Under current law, based on Department of Education expenditure estimates and the OSPB December 2023 forecast, staff anticipated \$56.1 million in *additional* costs in FY 2023-24, of which \$24.5 million would need to be covered by the General Fund because of insufficient HSMA General Fund Exempt revenue, and total program costs of \$156.8 million for FY 2024-25 of which \$46.3 million would have to be covered by the General Fund due to insufficient HSMA revenue. Staff outlined options for reducing this overage, some of which the Committee adopted.

Actions taken during figure setting:

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- **Add General Fund and HSMA General Fund Exempt through a FY 2023-24 Long Bill supplemental to cover the projected cost of meals for the current year under current law. This is estimated to require \$56.1 million more than the original FY 2023-24 appropriation.** (The total FY 2023-24 program, including administration, is now estimated to cost \$171.4 million).
- **Add General Fund and \$ HSMA General Fund Exempt in the FY 2024-25 Long Bill to cover the projected costs of meals, grant programs, wage enhancements, and program administration under current law, at a total cost of \$156.8 million.**
- Include \$100,000 for consulting resources in FY 2023-24 and \$150,000 in FY 2024-25 (part of totals above) to conduct additional analysis of how to maximize federal support through the community eligibility provision and analyze cost containment options.
- **Draft legislation to:**
 - Delay all grant and wage enhancements until at least FY 2025-26 and make these programs subject to available appropriation (reducing costs by \$18.5 million in FY 2024-25)
 - Add greater statutory flexibility on when the Community Eligibility Provision is used (to maximize federal funding)
 - Provide authority for the Department to mandate that districts participating in the HSMA program apply best practices to maximize the collection of free-and-reduced lunch forms
 - Require that a report already due December 1, 2024, be expanded to include recommendations on how to bring program revenues and expenditures back into balance.

During the figure setting presentation, staff highlighted two additional options:

- 1 OSPB's proposal that the Committee use **State Education Fund** in lieu of General Fund to cover the portion of costs that are not anticipated to be covered by revenue to the HSMA General Fund Exempt Account. Staff noted that the School Lunch Protection Program is already funded in part with State Education Fund and that revenue to the State Education Fund was enhanced by the passage of Proposition FF (Healthy School Meals for All), providing some basis for redirecting State Education Fund revenue to support the HSMA program.

The JBC members expressed varying opinions on this option, so *it is not thus far included in the bill draft being prepared for the Committee or in balancing assumptions.*

- 2 Ask staff to explore **additional cost-containment measures** with the Department of Education to take effect in FY 2024-25.

The Committee also expressed its determination that costs be contained in FY 2024-25 and asked staff to return with additional options based on consultation with the Department of Education. This memo provides an update on this effort and additional recommendations.

OSPB PROPOSAL

During **OSPB comebacks** on March 12, 2024, OSPB:

- Reiterated its request that the JBC approve use of the State Education Fund to fully fund the costs of the program on a one-time basis in FY 2023-24.

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- Proposed that the JBC cap the program at FY 2024-25 revenue generated in the Prop FF account, ensuring that State Education Fund is not used again going forward.
- Proposed that, even with FY 2024-25 caps, districts would still be required to cover free school breakfasts and lunches to all public school students.

MARCH 2024 FORECAST OF HSMA GENERAL FUND EXEMPT REVENUE & IMPACT OF HSMA ON THE STATE EDUCATION FUND

As approved by voters, the Healthy School Meals for All Program is to be funded by capping income tax deductions on households earning \$300,000 or more. This money is deposited in the Healthy School Meals for All General Fund Exempt Account. It is important to note that all revenue deposited in the HSMA GFE Account thus far is based on forecasts. Actual revenue will become more clear after April 15, 2024 (when 2023 taxes are paid and many returns are filed) and then after October 15, 2024 (when those who requested extensions file their 2023 returns)

The tables below compare OSPB and LCS Forecasts for the HSMA Account. As shown, **the LCS forecast has remained fairly consistent with prior estimates, while OSPB is now projecting substantially more revenue in the HSMA Account in both FY 2023-24 and future years.** Staff notes that if actual tax receipts for tax year 2023 are lower (or higher) than estimates, *OSPB and the Department of Revenue are required to make adjustments to deposits into the HSMA account to correct errors in the forecast.* Actual receipts will be much clearer by December 2024, once 2023 taxes have been filed.

HEALTHY SCHOOL MEALS FOR ALL REVENUE MARCH 2024 FORECASTS (MILLION \$S)				
	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
LCS Revenue (Forecast of Accrual Basis Revenue)*	\$42.7	\$105.9	\$104.3	\$107.5
OSPB Revenue	42.7	113.3	116.2	121.3
LCS above/(below) OSPB	\$0.0	(\$7.4)	(\$11.9)	(\$13.8)

*Includes an upward adjustment of \$6.0 million for FY 2023-24 based on the assumption that the FY 2022-23 accrual was too low.

The following table shows the portion of total **additional revenue in the State Education Fund** that Legislative Council Staff calculates/projects is due to the passage of Proposition FF. As shown, **the total is \$19.2 million from FY 2022-23 to FY 2024-25 and \$27.3 million if FY 2025-26 is included.**

IMPACT ON STATE EDUCATION FUND OF PROPOSITION FF/HEALTHY SCHOOL MEALS FOR ALL REVENUE (LEGISLATIVE COUNCIL STAFF) (MILLION \$S)				
	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
LCS Forecast	\$3.7	\$7.6	\$7.9	\$8.1

OPTIONS PROVIDED BY THE DEPARTMENT OF EDUCATION FOR ADDRESSING THE HSMA SHORTFALL
Staff has attached a memo from the Department of Education on the options it believes can be considered to address the HSMA shortfall.

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As noted in the memo, while delaying grant programs is guaranteed to reduce expenditures, the impact of other initiatives included in the proposed JBC bill are uncertain. These include providing more flexibility on use of the Community Eligibility Provision (CEP) and improving collection of free-and-reduced lunch forms at non-CEP schools, both of which are intended to maximize federal receipts.

The Department therefore explored options for capping expenditures and asking districts to absorb any costs above what the state pays. CDE notes that in practice this would require significant legislative direction and might include:

- 1 Capping the distributions by creating a revenue-sharing program that prorates Prop FF revenue.
- 2 Capping the distributions by creating a formula-based block grant program that allows districts to determine their own cost-containing measures.
- 3 Capping the program at lunch only.
- 4 Capping the program at elementary and middle school.
- 5 Capping the inflationary increase, so that districts cover this portion of costs.

The Department's memo provides a good picture of the pros and cons of the various options.

- **Staff's primary concern with Option 1, and to a lesser extent Options 2, 4, and 5, is that the districts with fewest resources, whose students are most likely to benefit from the program, are likely to simply opt out of HSMA altogether.** Thus far, all districts have chosen to participate, but if the State shifts financial risks associated with guaranteeing free meals to districts, poorer districts are far less likely to participate at all. *Some of these options might appear to maintain a "universal" program—but if the entire state does not participate, is it really universal?* As outlined in the data provided by the Department, prior to the launch of HSMA, in FY 2022-23, less than 30 percent of districts that were eligible to participate in the Community Eligibility Provision chose to do so, presumably due to cost considerations. *Prior to HSMA, districts that wished to participate in CEP were required to cover costs beyond the federal reimbursement to provide all their students free breakfasts and lunches. Most chose not to.*
- **Staff's primary concern with the Option 2 Block Grant concept is that staff assumes that this, too, will not provide a universal program. What kinds of "cost containment" will districts choose to implement?** Determining the allocation formula is also likely to be challenging.
- **Staff initially believed that Option 3, limiting the program to lunch only, might be a good option, but the savings generated are relatively small--\$11 million—and such an option does not interact well with the Community Eligibility Provision,** which requires all students to receive both free breakfast and lunch. If the State does not cover breakfasts but requires a district to participate in CEP, the district would be liable for breakfast costs. Staff assumes that, facing this, many districts might again chose not to participate.
- **Option 5, not covering inflationary increases, implies that someone would do this—presumably districts.** The savings are estimated at \$5 million. Thus the impact on both state and district finances would be limited, but staff assumes that any requirement for districts to make

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payments could lead some to withdraw. More importantly, this simply doesn't appear to provide enough savings for the state.

- **Given the choices outlined, staff believes limiting the program to elementary and middle school students in FY 2024-25 is the best option.**
 - This is estimated to provide \$30.0 million in savings, which should be sufficient (or nearly sufficient) to avoid expenditures above what comes into the HSMA Account in FY 2024-25. To the extent expenditures and revenues do not fully align, the discrepancy is likely to be small and of a scale that could be covered by a modest appropriation of General Fund or State Education Fund money.
 - Districts would *not* be put at financial risk and thus, staff believes, are more likely to remain in the program.
 - Low income high school students would still have access to free meals through existing federal and legacy state programs.
 - This option can intersect reasonably well with using the Community Eligibility Provision for HSMA, since the community eligibility provision applies to either a school or a group of schools. High schools can be excluded.
 - The estimate of related savings is clear (based on numbers of high schools and high school student meals).
 - From an administrative perspective, it should be relatively easy to exclude high schools from HSMA. As the Department notes, legacy state-funded programs progressively covered additional grade levels each year, so districts have some experience in financially administering nutrition programs that only cover some grade levels.
 - From staff's perspective, this appears to offer something as close to what the voters intended as possible—a universal program—while not requiring more expenditures than revenues allow.
 - If HSMA revenue is ultimately higher than the forecast, this cost containment measure might be adequate to allow the State to begin to create a reserve for the program, which is likely to be needed in a recession, and potentially to allow for grants or other program expansion in FY 2025-26 or beyond.

If this option is adopted, additional options can be explored during FY 2024-25, and an alternative could be implemented for FY 2025-26 as more information on revenue and options becomes available.

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COMPARISON: JBC ACTION TO DATE WITH NEW LCS AND OSPB FORECASTS & IMPACT OF ADDITIONAL RECOMMENDATIONS

The first table below shows a revised staff recommendation for FY 2023-24. This reflects: (1) use of the Legislative Council Staff forecast for March 2023; and, (2) use of the State Education Fund in lieu of the General Fund. **Staff recommends that the JBC authorizes staff to adjust amounts in the Long Bill (and any separate legislation) based on whether the LCS or OSPB forecast is selected.**

Highlighted cells in the tables below are amounts that are changed from staff's original FY 2024-25 figure setting document.

Tables Using Legislative Council Staff March 2024 Forecast

FY 2023-24 APPROPRIATION - UPDATED FOR LCS MARCH FORECAST				
	BASE APPROP	REVISED SUP REC. (CURRENT LAW)*	CHANGE (SUPPLEMENTAL UNDER CURRENT LAW)	CHANGE IN NEW LEG
HSMA Administration, including one-time contract support	268,088	268,088	0	
Contract Support	0	100,000	100,000	
Centrally-appropriated admin	71,019	71,019	0	
Meal Reimbursements	115,017,752	171,017,752	56,000,000	
Total	115,356,859	171,456,859	56,100,000	0
General Fund	0	22,806,859	22,806,859	(22,806,859)
General Fund Exempt (HSMA)*	115,356,859	148,650,000	33,293,141	
Cash Funds - State Ed Fund				22,806,859
*\$42.7M FY 2022-23 and \$105.9 FY 2023-24, LCS March 2024 forecast				

FY 2024-25 APPROPRIATION – UPDATED FOR LCS MARCH FORECAST AND REVISED RECS			
	CURRENT LAW	REVISED LAW (LEG. REQUIRED) - IF JBC APPROVES UPDATED RECS	CHANGE IN NEW LEG
HSMA Administration	737,732	641,824	(95,908)
Temporary Administration Support	150,000	150,000	0
Centrally-appropriated (subject to adjustment)	71,551	71,551	0
Meal Reimbursements	137,483,812	107,483,812	(30,000,000)
Local Food Purchasing Grant	5,000,000	0	(5,000,000)
Local Food TA Grant	5,000,000	0	(5,000,000)
Wage Distributions	8,400,000	0	(8,400,000)
Total	156,843,095	108,347,187	(48,495,908)
General Fund	52,543,095	0	(52,543,095)
General Fund Exempt (HSMA)*	104,300,000	104,300,000	0
Cash Funds - State Ed Fund	0	4,047,187	4,047,187

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FY 2024-25 APPROPRIATION – UPDATED FOR LCS MARCH FORECAST AND REVISED RECS			
	CURRENT LAW	REVISED LAW (LEG. REQUIRED) - If JBC APPROVES UPDATED RECS	CHANGE IN NEW LEG
*LCS Mar 2024 Forecast			

Tables Using Office of State Planning and Budgeting March 2024 Forecast

FY 2023-24 APPROPRIATION - UPDATED FOR OSPB MARCH FORECAST				
	BASE APPROP	REVISED SUP REC. (CURRENT LAW)*	CHANGE (SUPPLEMENTAL UNDER CURRENT LAW)	CHANGE IN NEW LEG
HSMA Administration, including one-time contract support	268,088	368,088	100,000	
Centrally-appropriated admin	71,019	71,019	0	
Meal Reimbursements	115,017,752	171,017,752	56,000,000	
Total	115,356,859	171,456,859	56,100,000	0
General Fund	0	15,456,859	15,456,859	(15,456,859)
General Fund Exempt (HSMA)*	115,356,859	156,000,000	40,643,141	
Cash Funds - State Ed Fund				15,456,859
*\$42.7M FY 2022-23 and \$113.3 FY 2023-24, OSPB March 2024 forecast				

FY 2024-25 APPROPRIATION UPDATED FOR OSPB MARCH FORECAST			
	CURRENT LAW	REVISED LAW (LEG. REQUIRED) - If JBC APPROVES UPDATED RECS	CHANGE IN NEW LEG
HSMA Administration	737,732	641,824	(95,908)
Temporary Administration Support	150,000	150,000	0
Centrally-appropriated (subject to adjustment)	71,551	71,551	0
Meal Reimbursements	137,483,812	107,483,812	(30,000,000)
Local Food Purchasing Grant	5,000,000	0	(5,000,000)
Local Food TA Grant	5,000,000	0	(5,000,000)
Wage Distributions	8,400,000	0	(8,400,000)
Total	156,843,095	108,347,187	(48,495,908)
General Fund	40,643,095	0	(40,643,095)
General Fund Exempt (HSMA)*	116,200,000	108,347,187	(7,852,813)
Cash Funds - State Ed Fund	0	0	0
*OSPB Mar 2024 Forecast			

Note: If the JBC approves the staff recommendation related to changing the Healthy School Meals for All Program Fund from General Fund Exempt Account to a Program Cash Fund, the new bill would also include this adjustment.

Memo:

As requested, this document gives an update on the most recent information available for FY 2023-24 costs and discusses the known options for program implementation in FY 2024-25.

It is important to remember that all of the data for the Nutrition program is lagged. While it is the middle of March, we only have complete data through the end of December and December may not be fully indicative of any evolving trend given the large number of non-school days in the month. Thus, as previously mentioned, there is still insufficient data to ascertain whether or not we have reached a peak on utilization of the new program or if utilization rates will continue to evolve. To emphasize this point, anecdotal data from other universal free meal states indicates Colorado can expect trends to continue to evolve in the second year of the program.

Along these lines, the Department anticipates having a contractor onboard to begin work on creating forecasting models and doing an analysis of the CEP utilization for schools and districts by the week of March 17th. The Department does not anticipate results from this analysis for several weeks but anticipates having the relevant analysis available prior to schools and districts making their CEP elections for next fiscal year, which will happen sometime in June.

The revenue projections appear to be somewhere between \$103 million and \$116 million for FY 2024-25. With current meal expenditure forecasts, which **do not** include additional shifts in student consumption patterns, the cost for FY 2024-25 is estimated to be approximately \$131 million.

There are several mechanisms that have been discussed for bringing expenditures into alignment with projected revenues (given a vote of the people would be required to increase revenue, the Department is assuming there will not be changes to the revenue stream in the short and medium terms).

As has been discussed, there are several proposals that have the potential to impact costs to the state without impacting the universality of the program. These mostly center around maximizing federal funding for meals and include:

- Implement best practices with respect to collecting the FRL forms from families. It is unclear how much this could increase federal funding but any increase in FRL forms in non-CEP schools would reduce overall meal reimbursement costs.
- Analyze if flexibility with respect to implementing CEP at all eligible schools could increase federal contributions to meals. Anecdotal evidence indicates it may be possible to increase federal funding if some schools implement the CEP program while others do not. Again, it is unclear how much in additional federal funds this could produce. A contractor has been procured for an analysis around this work and is anticipated to begin the work in the next few days. With that being said, results of the analysis are not expected for several more weeks.

- Delaying the grant programs included in proposition FF would reduce expenditures while maintaining the universality of the meal program.

These ideas, while potentially beneficial in reducing costs, other than the delaying of the grant programs, do not have any reliable estimates for potential cost savings to the state and cannot be guaranteed to be sufficient to reduce expenditures to be in alignment with revenue projections.

One option that was discussed with the JBC during the OSPB comeback was to simply cap the expenditures and ask the districts to absorb any costs above what the state pays. In theory, this would contain costs however in practice this will require significant direction from the legislature in how they would like CDE to administer such a cap.

There are, essentially, four mechanisms that the Department could implement if given significant statutory direction:

- Capping the distributions by creating a revenue-sharing program that prorates Prop FF revenue.
- Capping the distributions by creating a formula-based block grant program that allows districts to determine their own cost-containing measures.
- Capping the program at lunch only.
- Capping the program at elementary and middle school.
- Capping the inflationary increase.

These capping options are discussed below with listed pros and cons for each:

- Cap reimbursements to districts to a prorated share and have them absorb costs above that which the state can reimburse with HSMA revenue.
 - Pros:
 - Keeps state's costs fixed and aligned with revenue
 - Maintains universality of program for those districts that participate
 - Cons:
 - One argument in favor of this was that districts previously that were CEP schools had to absorb the costs associated with the free lunches given to those that previously would have paid for them. While this is true, these additional costs are likely a big part of the reason that less than half of those schools eligible for CEP have historically opted into the program. The table below shows the schools eligible each year for CEP and those that opted in. Many districts have not absorbed these costs in the past and may not be able to absorb them and thus would potentially opt out of the program if absorbing costs were required.

SY18-19	
Eligible to participate	348
Participated	106
Did not participate	242
SY19-20	
Eligible to participate	344
Participated	103
Did not participate	241
SY20-21	
Eligible to participate	341
Participated	104
Did not participate	237
SY21-22*	
Eligible to participate	414
Participated	5
Did not participate	409
SY22-23	
Eligible to participate	370
Participated	105
Did not participate	265

- Districts would not know how much funding they need to absorb at the beginning of the fiscal year and would have challenges budgeting for the expenditures as participation and revenue would be unknown.
 - Given the two month lag on reimbursement requests, there could be significant delays in letting districts know when they have started to need to absorb costs.
- Cap costs by distributing as a block grant to districts - will, by definition, align expenditures with **projected** revenue and save whatever is needed to align costs with revenue.
 - Pros:
 - Fully aligns expenditures with revenue.
 - Gives funding certainty for districts.
 - Cons:
 - Would likely need to allow flexibility to districts to adjust expenditures by impacting the universality of the program (eliminate breakfast, charge a small copay, or simply absorb the extra costs if they are in position to do so).

- Would have to be based on projections as actual revenue would not be known at the time the block grants are awarded.
 - Would require significant legislative direction in terms of how to equitably distribute the funds, what would be minimum requirements for districts to implement to qualify for the grants, etc.
- Capping the program at Lunch only. - Savings estimated at \$11 million with the elimination of Breakfast
 - Pros:
 - Maintains universality of the Lunch aspect of the HSMA program
 - Cons:
 - Would require CEP schools to cover costs of providing breakfast as CEP schools are federally required to provide free breakfast to all students.
 - While potentially covering a majority of the shortfall, depending on what actual revenue comes in at, this option is likely to not fully cover the expected shortfall in funding.
- Cap program to cover only PK-8 within the HSMA program. HSMA legislation could be adjusted to only cover free meals in certain grade levels. This is in line with the Child Nutrition Lunch Protection Act, which was first passed in 2008 and by 2019 eventually covered the reduced price co-pay for all grade levels. Districts could decide to offer free meals for all to 9-12 grade students and would need to cover the difference with other funding sources. It is estimated that if HSMA only covered PK-8 grades starting in SY 24-25 the annual cost would decline by approximately \$30 million. Given the current revenue forecasts, this is likely to be enough of a reduction to bring the program into alignment with revenues.
 - Pros:
 - Gives certainty to school districts on costs and approach
 - Likely fully aligns expenditures with revenue
 - Keeps the fully universality of the program intact for PK-8 (Breakfast and Lunch)
 - If other cost savings measures are successful, could enable the creation of a reserve to allow for sustaining the program during a recession when the revenue stream is likely to fall.
 - Cons:
 - No longer provides coverage to High School students
 - Some technology and other adjustments will need to be made to accommodate the change

In conclusion, it is important to stress that there is still significant uncertainty with respect to the costs and revenue for the HSMA program in FY 2024-25. Other states with universal free lunch programs report continued increases in utilization in year two of their programs and the state has yet to confirm the first full year of revenue based on actual tax returns. Furthermore, without providing some sort of subsidy from other funding sources, the options generally available to the state to bring expenditures into alignment with revenue will likely impact the

universality of the program. Here is a [link](#) to a potential outline of items that could be included in legislation.

Additional Background on CEP

- Forms
 - One of the administrative benefits to CEP is that schools no longer need to collect F/R applications. CEP schools are allowed to collect a household income application, but it is no longer used for the federal National School Lunch Program or School Breakfast Program; it's for other purposes such as at-risk funding, Summer EBT, etc. These forms are similar to F/R applications, but don't collect all of the same information, such as the last four digits of the social security number like the F/R application does.
 - CDE offers districts the use of three different forms:
 - F/R application at non-CEP schools
 - Combo form (F/R app + FEDS form) at districts that have CEP schools and non-CEP schools, this decreases confusion for families that have multiple children at different schools, they are able to fill out one form vs two and it covers both types of schools
 - Family Economic Data Survey "FEDS" form - this is used by CEP only districts, a district where all of their schools are on CEP
 - JBC must decide if they want CDE to monitor best practices for F/R application collection and household income form collection, or just F/R application collection.
- Historical data on CEP-eligible districts that didn't participate
 - For years, many CEP-eligible districts chose not to participate in CEP due to factors such as, the cost to cover free meals for all via non-federal funding sources, and the concern of not receiving adequate at-risk funding due to families not filling out a household income application when meals are free for all
 - This is important to note because districts are not accustomed to having to fund free meals for all. District budgets would need to be adjusted and generally more time is needed to decide upon such a big change at the local level.
 - Pertinent Data below:

Number of sites that were CEP eligible, but did not opt into CEP:

SY18-19	
Eligible to participate	348
Participated	106
Did not participate	242
SY19-20	
Eligible to participate	344
Participated	103
Did not participate	241
SY20-21	
Eligible to participate	341
Participated	104
Did not participate	237
SY21-22*	
Eligible to participate	414
Participated	5
Did not participate	409
SY22-23	
Eligible to participate	370
Participated	105
Did not participate	265

**Summer Seamless Option was in place due to pandemic so CEP wasn't as advantageous that year (free for all already in place without CEP)*