



**CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE**

March 23, 2004

**H.R. 3873
Child Nutrition Improvement and Integrity Act**

*As ordered reported by the House Committee on Education and the Workforce
on March 10, 2004*

SUMMARY

H.R. 3873, the Child Nutrition Improvement and Integrity Act, would amend and reauthorize child nutrition programs and the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC). CBO estimates that enacting the bill would increase direct spending by \$278 million over the 2004-2009 period and about \$550 million over the 2004-2014 period. (The bill would increase direct spending by \$226 million over the 2004-2008 period, the five-year period covered by the Concurrent Resolution on the Budget for Fiscal Year 2004.)

In addition, enactment of H.R. 3873 would also affect spending subject to appropriation action. However, CBO has not yet completed an estimate of the potential discretionary spending effects of the bill.

H.R. 3873 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA). Because states and schools have flexibility in how they implement the child nutrition program and because they would receive new financial assistance, the new requirements of H.R. 3873 would not be intergovernmental mandates.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 3873 on direct spending is shown in Table 1. The changes in direct spending fall within budget function 600 (income security).

TABLE 1. SUMMARY OF EFFECTS OF H.R. 3873 ON DIRECT SPENDING

	By Fiscal Year, in Millions of Dollars										
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Estimated Budget Authority	17	64	52	51	52	51	52	53	54	55	56
Estimated Outlays	13	54	55	52	52	52	52	53	54	55	56

BASIS OF ESTIMATE

The following description and Table 2 detail those provisions that have significant budgetary effects. The estimate assumes that H.R. 3873 will be enacted this spring.

Exclusion of Military Housing Allowances

Section 101 would make permanent a provision requiring that the housing allowance of military personnel living in privatized housing units not be counted toward income when determining the eligibility of children for free and reduced-price school meals. This provision was set to expire on September 30, 2003, but was extended to March 31, 2004, by Public Laws 108-84, 108-104, 108-107, and 108-134. Based on the income, housing, and family size data for enlisted military personnel, CBO estimates that benefits for about 7,000 children would increase in 2005 as a result of this provision, eventually rising to 16,000 as more privatized units become available. This provision would take effect upon enactment of the bill. CBO estimates that the increase in direct spending would not be significant (less than \$500,000) for the remainder of the 2004 fiscal year. In 2005, CBO estimates that it would cost \$1 million, rising to an average of about \$4 million a year thereafter.

Eligibility for Severe Need Assistance

Section 103 would eliminate cost accounting for breakfasts served in schools classified as "severe need" schools (defined below) and eliminate the waiting period for new schools to receive the severe need rate. CBO estimates that this provision would increase direct spending by \$1 million annually.

TABLE 2. ESTIMATED DIRECT SPENDING EFFECTS OF H.R. 3873, BY PROVISION

	By Fiscal Year, in Millions of Dollars										
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Title I, Ensuring Access to Child Nutrition Programs											
Exclusion of Military Housing Allowances											
Estimated Budget Authority	*	2	3	4	4	4	4	4	4	5	5
Estimated Outlays	*	1	3	4	4	4	4	4	4	5	5
Eligibility for Severe Need Assistance											
Estimated Budget Authority	0	1	1	1	1	1	1	1	1	1	1
Estimated Outlays	0	1	1	1	1	1	1	1	1	1	1
Reauthorization of Summer Food Program											
Estimated Budget Authority	1	1	2	2	2	2	2	2	2	2	2
Estimated Outlays	1	1	2	2	2	2	2	2	2	2	2
Child and Adult Care Food Program											
Estimated Budget Authority	15	44	45	46	47	48	50	51	52	53	55
Estimated Outlays	12	39	45	45	47	48	49	51	52	53	54
Area Eligibility Demonstration											
Estimated Budget Authority	0	1	1	1	1	1	1	1	1	1	1
Estimated Outlays	0	*	1	1	1	1	1	1	1	1	1
Year-Round Community Child Nutrition Program Pilot											
Estimated Budget Authority	0	7	10	10	10	11	11	12	12	13	14
Estimated Outlays	0	6	9	10	10	11	11	12	12	13	14
Title II, Improving Program Quality and Integrity											
Eligibility and Certification for Free and Reduced Price Lunches											
Estimated Budget Authority	0	1	-16	-17	-19	-20	-21	-22	-23	-25	-26
Estimated Outlays	0	1	-13	-17	-18	-19	-21	-22	-23	-24	-26
Minimum State Administrative Expense Grants											
Estimated Budget Authority	0	1	1	1	2	2	2	2	2	2	2
Estimated Outlays	0	1	1	1	2	2	2	2	2	2	2
Administrative Error Reduction											
Estimated Budget Authority	0	6	6	5	5	3	3	3	2	2	2
Estimated Outlays	0	3	7	5	5	4	3	3	3	3	3
Total Changes in Direct Spending											
Estimated Budget Authority	17	64	52	51	52	51	52	53	54	55	55
Estimated Outlays	13	54	55	52	52	52	52	53	54	55	56

NOTE: * = Less than \$500,000.

Currently, a school participating in the School Breakfast Program (SBP) is classified as a "severe need" school and eligible for a higher reimbursement for free and reduced-price breakfasts if at least 40 percent of the lunches served in the school in the second preceding year were free or reduced-price. Severe need schools are reimbursed for their actual costs incurred in providing breakfast, up to the maximum severe need rate. Based on discussions with the Food and Nutrition Service (FNS), there are some schools that are eligible for the severe need rate but do not receive it because of the paperwork entailed in accounting for per-meal costs. This provision would allow these schools to automatically receive the maximum severe need rate for each breakfast served. Based on data on the number of schools that would meet the severe need eligibility requirements and the number reported to be receiving the higher rate, CBO estimates that about 200 schools would begin receiving the severe need rate under this provision, increasing payments by about \$1,800 per school on average.

In addition, this provision would allow new schools to automatically receive the severe need rate if they drew their student body from schools that already receive the severe need rate. Based on the number of schools that enter the National School Lunch Program (NSLP) each year and the participation rate in SBP, CBO estimates that each year, about 150 additional schools would start receiving the severe need rate earlier than they would have under current law, increasing payments by about \$1,800 per school on average.

Reauthorization of Summer Food Programs

Section 104 would reauthorize the Summer Food Service Program (SFSP) and extend and expand the current Summer Food Pilot Project (known as the "Lugar pilot"). In the SFSP, sponsors are reimbursed for actual costs incurred for providing meals, up to the maximum reimbursement rate. In the current pilot, SFSP sites in 13 states and Puerto Rico, other than those run by private, nonprofit sponsors, automatically receive the maximum reimbursement per meal. This provision would extend the pilot to three additional states as well as allow private, nonprofit sponsors to participate in the pilot. That expansion would result in serving about 300,000 additional meals, for an incremental cost of close to \$1 million a year. By 2007, CBO estimates that roughly six million meals in the SFSP will be reimbursed 16 cents more per meal than under current law. CBO estimates that, taken together, these changes would cost \$1 million to \$2 million a year over the 2004-2014 period.

Child and Adult Care Food Program

Section 105 would expand eligibility for participation in the Child and Adult Care Food Program (CACFP) and reauthorize a management improvement initiative. CBO estimates

that this entire provision would increase direct spending by \$237 million from 2004 through 2009 and \$497 million over the 2004-2014 period.

Section 105(a) would make permanent a provision to allow for-profit child care centers to participate in the CACFP if at least 25 percent of the children served by a center are income-eligible for free and reduced-price school meals. Under current law, the authority expires March 31, 2004. Based on the estimated growth in the number of for-profit centers that have participated in CACFP under this provision since it was instituted, CBO anticipates that about 2,000 for-profit centers would participate in CACFP once this provision is made permanent. Each center would receive about \$21,000 on average in reimbursements from CACFP. CBO estimates that this expansion would cost \$481 million over the 2004-2014 period.

Section 105(f) would increase the age limit for children served in emergency shelters participating in the CACFP from 12 to 18. CBO estimates that about 1,500 additional homeless youth would be served through the increase in the age limit and a small increase in providers participating in the CACFP. This estimate is based on data from the National Survey of Homeless Assistance Providers and Clients on the number and age of homeless youth in emergency shelters. CBO estimates that this provision would cost \$14 million through 2014.

Section 105(d) would reauthorize mandatory spending for the CACFP management support for 2005 and 2006 at \$1 million a year. Under this provision, the Secretary provides management training and technical assistance to state CACFP agencies.

Area Eligibility Demonstration

Section 107 would permanently authorize a demonstration project to lower the area eligibility requirements for the SFSP in rural areas of Pennsylvania. Under current law, organizations are eligible to participate in the SFSP if they are located in a neighborhood where at least 50 percent of the children are eligible for free or reduced-price school meals or if at least 50 percent of the children enrolled in the program meet those income requirements. In this demonstration project, the requirement would be lowered to 40 percent. Based on data on rural schools in Pennsylvania and SFSP participation rates in rural areas, CBO estimates that by 2006, 60 new sites would participate in the SFSP, increasing federal costs by about \$1 million a year.

Year-Round Community Child Nutrition Program Pilot

Section 109 would a pilot program in California to allow private, nonprofit sponsors to serve up to three meals and two snacks on any day during the year, reimbursed at the SFSP rate. CBO estimates that this pilot would cost \$109 million over the 2004-2014 period.

Under current law, sites are limited to serving two meals and one snack or three meals on school vacation days. This provision would allow private, nonprofit SFSP sites to expand their service throughout the school year. It is also likely to induce organizations participating in the CACFP at-risk snack program during the school year and CACFP day care centers in low-income areas to switch to this program because of the higher SFSP reimbursement rate and greater number of meals.

Based on the current distribution of meals served in the SFSP, CBO assumes that only sites that serve the current maximum number of allowed meals will add a snack as a result of the pilot. CBO assumes that about 15-to-20 percent of the SFSP sites that would be eligible for this pilot will expand their services to days when school is in session and serve a snack. We assume that about one-third of current private, nonprofit SFSP sponsors participate in the CACFP at-risk snack program described below in the winter.

Under current law, after-school programs that provide educational enrichment and are located in areas where at least 50 percent of the students are eligible for free or reduced-price meals can receive reimbursement for snacks at the free rate through the CACFP at-risk snack program. CBO assumes that all of the private, nonprofit organizations in California that participate in the at-risk program now would switch to the pilot program because it would offer a higher reimbursement rate and greater flexibility in the number of meals and days of operation. We assume that most of these sites would start to offer a dinner during the school year. This is based on data on the growth of dinners in CACFP at-risk programs in the seven states that allow these programs to serve a snack as well as a dinner. We also assume that about a quarter of these programs would expand to serve meals during the day in the summer.

CBO assumes that virtually all of the private, nonprofit day care centers participating in CACFP that meet the area eligibility requirements would also switch to the pilot program for the higher reimbursement levels and greater number of meals. Under the pilot, these centers would be reimbursed at the free rate for all of their meals offer all of their meals, regardless of income. Under current law, CACFP centers offer meals at the free, reduced, and paid rates. We assume that sites that currently offer three meals and one snack to children will add an additional snack and a small number of centers will add a dinner.

Eligibility and Certification for Free and Reduced-Price Lunches

Section 201 would make changes to the verification requirements for free and reduced-price meal applications and require direct certification, to the extent practical, of students in Food Stamp households. CBO estimates that this entire provision would result in net savings of \$182 million through 2014.

Under current regulations, local school food authorities are required to verify either: 3 percent or 3,000 free and reduced-price meal applications drawn at random from all applications; or the lesser of 1 percent or 1,000 of total applications from non-Food Stamp households with monthly incomes within \$100 of the monthly income eligibility limit for free or reduced-price meals plus the lesser of 0.5 percent or 500 applications from households that provide a Food Stamp, Temporary Assistance to Needy Families (TANF), or Food Distribution Program on Indian Reservations (FDPIR) case number.

This provision would change the verification requirements for local education agencies with high nonresponse rates in their verification procedures. A nonresponse rate is the percentage of applications chosen for verification for which the local education agency is not able to get the required documentation from the household. Districts that are unable to verify at least 75 percent of applications chosen for verification or districts that receive 20,000 or more applications and do not decrease their nonresponse rate by at least 10 percent over the second prior year would be required to comply with the new verification procedures. These districts would be required to verify the lesser of 3,000 or 3 percent of all applications selected from households that report monthly incomes within \$100 of the monthly income eligibility limit.

CBO estimates that about 70 percent of free and reduced-price students are in districts that will be subject to the new income verification procedures. Under the new verification procedures, a slightly greater share of applications will be verified nationwide and a greater share of them will be error-prone (within \$100 of the monthly income limit). The increased verification procedures will increase savings by uncovering more errors in reporting of household income. When the verification process uncovers errors in underreporting household income, the student's meal eligibility status is reduced. In a few cases, however, households may have overreported income leading to an increase in meal benefits. In addition, some students will lose meal benefits because they fail to provide the necessary documents for verification. When a household fails to respond to a verification request, the student loses his free or reduced-price certification. By 2010, CBO estimates that an additional 80,000 students annually will have meal benefits reduced by an average of \$355 as a result of increased verification procedures. This estimate is based on data from FNS on the results of the verification process for both a random and error-prone sample of applications.

Current regulations give school food authorities the option to directly certify children for free meals by obtaining documentation from the state or local Food Stamp, TANF, or FDPIR agency. Students who are directly certified for free meals do not have to complete an application and are not potentially subject to the income verification process. According to a recent report from the U.S. Department of Agriculture's Economic Research Service (ERS), 68 percent of all students were enrolled in a district that used direct certification in the 2001-2002 school year.

This bill would require state agencies, to the extent practical, to enter into direct certification agreements with the appropriate local agencies and would require schools to directly certify eligible children. CBO assumes that about half of the students receiving free and reduced-price meals in districts that do not currently use direct certification would be directly certified as a result of this provision. This assumption is based on data from ERS, that indicate that about half of the districts that do not currently use direct certification cite difficulty in working with the local Food Stamp/TANF/FDPIR agency as a significant factor in why they do not use direct certification.

The overwhelming majority of students who will now be directly certified are students who are already receiving free meals because they have submitted a paper application. Research from ERS on direct certification indicates that direct certification leads to a small increase in participation among students eligible for free meals. By 2010, CBO estimates that meal benefits will increase by about \$340 on average for roughly 25,000 students due to the increase in direct certification.

Minimum State Administrative Expense Grants

Section 206 would add snacks served through the National School Lunch Program to the calculations for state administrative expense grants. Currently, state administrative grants are calculated as 1.5 percent of federal spending in the state for school lunches, breakfasts, and milk in the second preceding fiscal year. This section would also increase the minimum state administrative expense grant by \$100,000 to \$200,000 a year and require that no state shall receive a grant for 2005 through 2007 that is less than the amount it received in 2004. CBO estimates these changes would increase direct spending by about \$1 million a year for 2005, 2006, and 2007. These costs would rise to \$2 million a year beginning in 2008.

Administrative Error Reduction

Section 208 would provide funds for training and technical assistance to reduce administrative error in school meals programs as well as increase the number of

administrative reviews of certain local education agencies' meals programs. Section 208(a) would provide \$3 million in each of 2005 and 2006 and \$2 million a year thereafter for federal training and technical assistance to state and local agencies on best management and administrative practices.

Section 208(b) would require an additional review for a local education agency that the Secretary of Agriculture determines to be at high risk for administrative error. Under current regulations, school food authorities (SFA) are required to have an administrative review at least once every five years and a follow-up review if it fails to meet review standards. If the audit reveals that an SFA has received payments in error, FNS recovers those overpayments. For example, if a student is found to have been incorrectly certified as eligible for free meals when he is actually only eligible for reduced-price meals, FNS recoups those overpayments. This provision also would extend the maximum period of time for which overpayments be collected to 60 days for initial reviews or 90 days in follow-up reviews. Based on data on the amount of money recouped from the current administrative review procedure, CBO estimates that the additional review and the extended period of collection will result in savings of \$1 million to \$2 million annually over the 2004-2014 period.

Section 208(c) would require each state to provide annual training on administrative practices to local school food authority personnel. This provision would provide \$4 million a year to the Secretary to assist states in providing training and conducting additional administrative reviews.

CBO estimates that all of these provisions would increase direct spending by \$40 million over the 2004-2014 period.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

For large entitlement programs like the child nutrition program, the Unfunded Mandates Reform Act defines an increase in the stringency of conditions or a cap on federal funding as an intergovernmental mandate if the affected governments lack authority to offset those costs while continuing to provide required services. H.R. 3873 would alter, and in some cases increase, some of the conditions for receiving assistance under the child nutrition program; however, the bill also would increase federal reimbursements for administrative expenses and would provide funding for some of the requirements. In other cases, schools and school food authorities currently have sufficient flexibility in the program to enable them to comply with the changes and still provide the required services. Consequently, H.R. 3873 contains no intergovernmental mandates as defined in UMRA.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

H.R. 3873 contains no private-sector mandates as defined in UMRA.

ESTIMATE PREPARED BY:

Federal Costs: Kathleen FitzGerald

Impact on State, Local, and Tribal Governments: Leo Lex

Impact on the Private Sector: Samuel Kina

ESTIMATE APPROVED BY:

Peter H. Fontaine

Deputy Assistant Director for Budget Analysis