



**CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE**

July 1, 2004

S. 2507
Child Nutrition and WIC Reauthorization Act of 2004

*As cleared by the Congress on June 24, 2004, and
signed by the President on June 30, 2004*

SUMMARY

S. 2507 amends and reauthorizes child nutrition programs and the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC). CBO estimates that the act will increase direct spending by \$232 million over the 2004-2009 period, and by \$488 million over the 2004-2014 period. The act will not affect revenues.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of the act's effects on direct spending is shown in Table 1. These changes fall within budget function 600 (income security).

TABLE 1. SUMMARY OF EFFECTS ON DIRECT SPENDING OF S. 2507

	By Fiscal Year, in Millions of Dollars										
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
CHANGES IN DIRECT SPENDING											
Estimated Budget Authority	7	66	45	34	40	49	51	51	52	52	52
Estimated Outlays	6	57	41	39	41	48	50	51	51	52	52

BASIS OF ESTIMATE

The following description details those provisions that have significant budgetary effects (see Table 2).

Direct Certification and Household Applications

Sections 104 and 105 will alter the application process for school meals and modify the procedures used to verify the income of participants. Section 104 requires the direct certification of children in Food Stamp households for free meals. This new requirement will be phased in over three years beginning on July 1, 2005. Section 105 will make changes to the verification requirements for free and reduced-price meal applications; those changes will lead to savings because increased verification will likely result in the loss or reduction of meal benefits for some students.

On balance, CBO estimates that sections 104 and 105, will have net savings of \$113 million through 2009 and \$219 million through 2014.

Direct Certification. 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, Temporary Assistance to Needy Families (TANF), or Food Distribution Program on Indian Reservations (FDPIR) agency. Students who are directly certified for free meals do not have to complete an application and are not subject to the income verification process. According to a recent report from the U.S. Department of Agriculture's (USDA's) Economic Research Service (ERS), 68 percent of all students were enrolled in a district that used direct certification during the 2001-2002 school year.

Section 104 requires state agencies to enter into direct certification agreements with the state Food Stamp agency and would require schools to directly certify eligible children. This requirement will be phased in over three years based on district size, starting with the largest school districts.

The overwhelming majority of students who will be directly certified under the act are students who are already receiving free meals because they have submitted a paper application. Research from ERS indicates that direct certification leads to a small increase in participation among students eligible for free meals. CBO estimates that once direct certification is fully implemented, annual costs will increase by about \$340, on average, for roughly 50,000 students.

TABLE 2. ESTIMATED DIRECT SPENDING EFFECTS OF S. 2507, BY PROVISION

	By Fiscal Year, in Millions of Dollars										
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Title I, Amendments to Richard B. Russell National School Lunch Act											
Direct Certification											
Estimated Budget Authority	0	0	10	4	9	17	17	18	18	19	20
Estimated Outlays	0	0	4	7	10	16	17	18	18	19	19
Household Applications											
Estimated Budget Authority	0	0	-39	-42	-44	-46	-48	-50	-52	-54	-56
Estimated Outlays	0	0	-33	-41	-44	-45	-48	-49	-51	-53	-55
Interactions of Direct Certification and Household Applications Provisions											
Estimated Budget Authority	0	0	*	2	4	7	11	12	12	12	13
Estimated Outlays	0	0	*	2	4	7	11	12	12	12	13
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
Summer Food Service Program for Children											
Estimated Budget Authority	0	2	4	3	3	2	2	2	2	3	3
Estimated Outlays	0	1	4	4	3	2	2	2	2	3	3
Child and Adult Care Food Program											
Estimated Budget Authority	6	44	46	46	47	48	50	51	52	54	55
Estimated Outlays	5	37	46	46	47	48	50	51	52	53	54
Fresh Fruit and Vegetable Program											
Estimated Budget Authority	0	9	9	9	9	9	9	9	9	9	9
Estimated Outlays	0	7	9	9	9	9	9	9	9	9	9
Summer Food Service Residential Camp Eligibility											
Estimated Budget Authority	*	1	0	0	0	0	0	0	0	0	0
Estimated Outlays	*	1	0	0	0	0	0	0	0	0	0
Year-Round Services for Eligible Entities											
Estimated Budget Authority	0	*	*	*	*	*	*	*	*	*	*
Estimated Outlays	0	*	*	*	*	*	*	*	*	*	*
Training, Technical Assistance, and Food Service Management Institute											
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

(Continued)

TABLE 2. CONTINUED

	By Fiscal Year, in Millions of Dollars										
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Administrative Error Reduction											
Estimated Budget Authority	0	7	6	5	5	5	3	3	3	3	3
Estimated Outlays	0	7	6	5	5	5	3	3	3	3	3
Information Clearinghouse											
Estimated Budget Authority	*	*	*	*	*	*	0	0	0	0	0
Estimated Outlays	*	*	*	*	*	*	*	0	0	0	0
Title II, Amendments to Child Nutrition Act of 1966											
Severe Need Assistance											
Estimated Budget Authority	*	1	1	1	1	1	1	1	1	1	1
Estimated Outlays	*	1	1	1	1	1	1	1	1	1	1
Local Wellness Policy											
Estimated Budget Authority	0	0	4	0	0	0	0	0	0	0	0
Estimated Outlays	0	0	*	1	1	1	0	0	0	0	0
Total Changes in Direct Spending											
Estimated Budget Authority	7	66	45	34	40	49	51	51	52	52	52
Estimated Outlays	6	57	41	39	41	48	50	51	51	52	52

NOTES: Components may not sum to totals because of rounding.

* = Less than \$500,000.

This provision also provides \$9 million to assist states in implementing the new direct certification requirement. In total, the direct certification provision will increase spending by \$37 million through 2009 and by \$129 million through 2014.

Income Verification. Section 105 expands the requirements for verifying the eligibility of a sample of free and reduced-price applications. Under current regulations, local school food authorities must 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 selected 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, TANF, or FDPIR case number.

Section 105 changes the verification requirements for local education agencies with high nonresponse rates in their verification procedures. The 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 cannot verify at least 80 percent of applications chosen for verification or districts with 20,000 or more students certified by application for free and reduced-price meals that do not decrease their nonresponse rate by at least 10 percent from their rate two years earlier will be required to comply with the new verification procedures. These districts will 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.

In addition, this provision adds two requirements to the verification procedures for all local education agencies. First, prior to verifying an application, an individual other than the one who made the initial eligibility determination, must review the applications to ensure that the correct determination was made. If there is an error, the local education agency must make any necessary adjustments to the student's status. This will lead to an increase in savings. According to a report from the USDA's Food and Nutrition Service (FNS), the majority of administrative errors in eligibility determinations lead to a student being certified for greater benefits than they should be eligible to receive. This requirement may be waived for districts that use a highly accurate, as determined by the Secretary, technology-based process for processing initial eligibility determinations. Second, all local education agencies will be required to follow up at least once with households that do not respond to requests for verification. When a household fails to respond to a verification request, the student loses his or her free or reduced-price certification. An additional follow-up with these households could slightly reduce the nonresponse rate and reduce the amount of savings from income verification.

Based on data from FNS about the nonresponse rates of school districts, CBO estimates that about 85 percent of free and reduced-price students are in districts that will be subject to the new sample-size procedures for income verification. Under the new 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. In many cases, when the verification process uncovers underreporting of household income, the student's meal eligibility status is reduced. In addition, some students will lose meal benefits because they fail to provide the necessary documents for verification. In a few cases, however, households may have overreported income, and the verification process would lead to an increase in meal benefits.

Section 105 also provides \$2 million in FY 2006 to fund an evaluation of the effectiveness of directly verifying applications.

Interaction Effects. Taken alone, CBO estimates that the new verification procedures in section 105 will decrease spending by \$163 million over the 2006-2009 period and \$420 million through 2014. However, these estimated savings will decrease after taking into account the direct certification proposal in section 104. Students who are directly certified are not subject to the verification process. With the increase in direct certifications required by section 104, the pool of applications eligible for verification is smaller, thus reducing the potential savings.

With the direct certification provisions, CBO estimates that by 2010 an additional 100,000 students annually—about 40,000 fewer than without such direct certification—will have meal benefits reduced by an average of \$365 as a result of increased verification procedures. As a result, the gross savings cited above will be lowered by an estimated \$13 million over the 2006-2009 period and by \$72 million through 2014. This estimate is based on data from FNS on the results of the verification process for both random and error-prone samples of applications.

Exclusion of Military Housing Allowances

Section 109 makes 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 has been extended several times, the latest extension is to June 30, 2004, by Public Law 108-211. Based on the income, housing, and family size data for enlisted military personnel, CBO estimates that benefits for about 7,000 children will increase in 2005 as a result of this provision, eventually rising to 16,000 as more privatized units become available. This provision takes effect upon enactment of the act. CBO estimates that the increase in direct spending will not be significant (less than \$500,000) for the remainder of fiscal year 2004. In 2005, CBO estimates that it will cost \$1 million, rising to an average of about \$4 million a year thereafter.

Summer Food Service Program for Children

Section 116 reauthorizes the Summer Food Service Program (SFSP), lowers the area eligibility requirements for the SFSP in the rural areas of Pennsylvania for two years, provides funding for rural transportation grants, and expands and makes permanent the

current Summer Food Pilot Project (renamed as the Simplified Summer Food Program). CBO estimates that, taken together, these changes will cost \$27 million over the 2005-2014 period.

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. Section 116(c) lowers the requirement to 40 percent for two years in the rural areas of Pennsylvania. Based on data on rural schools and SFSP participation rates in rural areas, CBO estimates that by 2006, about 35 new sites will participate in the SFSP, increasing costs by less than \$500,000 a year. This provision also provides \$400,000 in 2005 for an evaluation of the impact of the lower eligibility requirements on participation of both students and sponsoring organizations in the SFSP.

Section 116(d) provides \$2 million in fiscal year 2006 and \$1 million in 2007 and in 2008 for grants to not more than 60 eligible service institutions in five states to provide transportation for children to SFSP sites in rural areas.

Section 116(f) extends and expands the current Summer Food Pilot Project. 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 extends the program to six additional states and allows private, nonprofit sponsors to participate in the program. CBO estimates that this expansion will result in serving about 400,000 additional meals, for an incremental cost of about \$1 million a year. When fully implemented in 2007, CBO estimates that the costs of roughly 12 million meals in the SFSP will be reimbursed at an average of 13 cents more per meal than under current law.

Child and Adult Care Food Program

Section 119 expands eligibility for participation in the Child and Adult Care Food Program (CACFP), lowers the area eligibility requirements for day care homes in the CACFP in rural Nebraska for two years, and reauthorizes a management improvement initiative. CBO estimates that this section will increase direct spending by about \$230 million from 2004 through 2009, and by about \$490 million over the 2004-2014 period.

Section 119(a) makes 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 June 30, 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 will participate in CACFP. Each center receives about \$21,000 on average in annual reimbursements from CACFP. CBO estimates that this expansion will cost \$473 million over the 2004-2014 period.

Section 119(e) lowers the area eligibility requirements for two years for day care homes in the rural areas of Nebraska. Under current law, day care homes in the CACFP are eligible for the "Tier I" reimbursement rate 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 the provider's own household income is at or below 185 percent of the federal poverty guidelines. All other day care homes are classified as "Tier II" and reimbursed at a rate that is, on average, about half that of the Tier I rates. Under this provision, the requirement will be lowered to 40 percent for two years in rural areas of Nebraska.

Based on data on rural schools and CACFP homes, CBO estimates that by 2007, about 500,000 additional meals will be reimbursed at the Tier I rate. Most of these meals will be in day care homes that are currently participating in the CACFP under the Tier II reimbursement and will become newly eligible for the Tier I rate. CBO assumes only a small increase in new homes participating in the CACFP as a result of the demonstration. This provision also provides \$400,000 in 2006 for an evaluation. CBO estimates that this demonstration will cost about \$1 million over the two years.

Section 119(f) reauthorizes 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.

Section 119(g) increases the age limit for children served in emergency shelters participating in the CACFP from 12 to 18. 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 about 1,500 additional homeless youth will be served through the increase in the age limit and a small increase in providers participating in the CACFP. CBO estimates that this change will cost \$14 million through 2014.

Fresh Fruit and Vegetable Program

Section 120 permanently authorizes and provides \$9 million a year for a program to provide free fruits and vegetables to children in 25 schools in each of eight states and three Indian reservations. CBO estimates that this program will cost \$88 million over the 2005-2014 period.

Summer Food Service Residential Camp Eligibility

Section 121 will allow two nonprofit, residential summer camps to be reimbursed for meals under the SFSP in 2004 and 2005. Under current law, a camp can participate in the SFSP if it is located in a neighborhood where at least half of the children are income-eligible for free or reduced-price meals. This provision will allow two residential camps that serve children without charge from area-eligible neighborhoods, but are not necessarily located in the neighborhood itself, to participate in the SFSP. This provision becomes effective on July 1, 2004. Based on data on the number of children and average lengths of stay in a residential camp, CBO estimates that this provision will increase spending by less than \$500,000 in 2004 and about \$1 million in 2005.

Year-Round Services for Eligible Entities

Section 123 will allow public and private nonprofit organizations (other than public schools) in California to be reimbursed for after-school snacks served to children during the school year at the SFSP reimbursement rate. Under current law, organizations that participate in the SFSP can only be reimbursed for meals during the summer months. If they run a program during the school year, they must switch to the CACFP if they wish to be reimbursed for snacks served after school to children. This provision will allow eligible organizations to be reimbursed for snacks through the SFSP during the school year. Based on data from FNS about the number of organizations that participate in the CACFP after-school snack program in California, CBO assumes that the majority of them also operate a SFSP site during the summer. Snacks at these sites will now be reimbursed at the slightly higher SFSP rate and a small share of sites will also add snack service on Saturdays and vacations during the school year. In addition, CBO assumes that a small share of sites that currently participate in the SFSP program only will begin to offer a snack during the school year. CBO estimates that this provision will increase spending by \$1 million over the 2005-2009 period.

Training, Technical Assistance, and Food Service Management Institute

Section 125 increases mandatory funding for the Food Service Management Institute by \$1 million a year. CBO estimates that this provision will increase spending by \$5 million over the 2005-2009 period.

Administrative Error Reduction

Section 126 provides funds for training and technical assistance to reduce administrative errors in school meal programs, as well as increasing the number of administrative reviews of certain local education agencies' meal programs. Section 126(a) will provide \$3 million in each of 2005 and 2006, and \$2 million a year in each of 2007, 2008, and 2009 for federal training and technical assistance to state and local agencies on best management and administrative practices.

Section 126(b) will 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 (SFAs) 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 or she is only eligible for reduced-price meals, FNS recoups those overpayments.

This provision also extends the maximum period of time for which overpayments can be collected if a school food authority fails both an initial and a follow-up review for both the current review system and the additional review added by this provision. Overpayments could be collected for up to 60 days for a failed follow-up review or 90 days in subsequent 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 2005-2014 period.

Section 126(c) requires each state to provide annual training on administrative practices to local school food authority personnel. This provision will provide \$4 million a year, beginning in fiscal year 2005, to the Secretary to assist states in providing training and conducting additional administrative reviews.

CBO estimates that all of these provisions will increase direct spending by \$40 million over the 2005-2014 period.

Information Clearinghouse

Section 128 reauthorizes the Information Clearinghouse and increases the funding to \$250,000 a year through 2009. The Information Clearinghouse provides information on food assistance program to organizations that work with low-income individuals. CBO estimates that this provision will increase direct spending by about \$1 million over the 2004-2009 period.

Severe Need Assistance

Section 201 eliminates cost accounting for breakfasts served in schools classified as "severe need" schools (defined below) and eliminates the waiting period for new schools to receive the severe need rate. CBO estimates that this provision will increase direct spending by \$1 million annually.

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, 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 allows 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 will begin receiving the severe need rate under this provision, increasing payments by about \$1,800 per school on average.

In addition, this provision allows new schools to automatically receive the severe need rate if the Secretary determines that a school would have otherwise met the requirements. Based on the number of schools that enter the National School Lunch Program each year and the participation rate in SBP, CBO estimates that each year, about 150 additional schools will start receiving the severe need rate earlier than they would have under current law, increasing payments by about \$1,800 per school on average.

Local Wellness Policy

Section 204 will provide \$4 million on July 1, 2006, for the Secretary of Agriculture to provide technical assistance to local education agencies and school food authorities on how to establish healthy school environments.

PREVIOUS CBO ESTIMATES

On June 4, 2004, CBO transmitted a cost estimate for S. 2507 as ordered reported by the Senate Committee on Agriculture, Nutrition, and Forestry on May 19, 2004. CBO estimated that version of S. 2507 would increase direct spending by \$232 million over the 2004-2009 period and by \$487 million over the 2004-2014 period. This estimate for the version of S. 2507 cleared by the Congress differs slightly, reflecting funding for a local wellness policy, fewer training funds for administrative error reduction provisions, and some small changes to projects in the SFSP and the CACFP.

On March 23, 2004, CBO transmitted a cost estimate for H.R. 3873, the Child Nutrition Improvement and Integrity Act, as ordered reported by the House Committee on Education and the Workforce on March 10, 2004. CBO estimated that H.R. 3873 would increase direct spending by \$550 million over the 2004-2014 period. The estimate for S. 2507 as signed by the President differs from the estimate for H.R. 3873 because S. 2507 has different requirements for income verification and direct certification, and because it provides mandatory funding for projects not included in the House bill.

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