

LEGISLATIVE FISCAL ESTIMATE
ASSEMBLY, No. 5573
STATE OF NEW JERSEY
220th LEGISLATURE

DATED: JUNE 26, 2023

SUMMARY

- Synopsis:** Requires schools with lunch programs to provide free lunch to gradually increasing numbers of income-eligible students and, after five-year phase-in period, to provide free lunch to all students, regardless of income or federal eligibility.
- Type of Impact:** Annual State expenditure increase from the General Fund. Annual local expenditure and revenue increases.
- Agencies Affected:** Department of Agriculture, Department of Education, school districts.

Office of Legislative Services Estimate

Fiscal Impact	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>	<u>FY 2028</u>	<u>FY 2029 and Thereafter</u>
State Expenditure Increase	\$54.5 million	\$102.9 million	\$147.9 million	\$186.3 million	\$518.9 million
Local Expenditure Increase	\$54.5 million	\$102.9 million	\$147.9 million	\$186.3 million	\$518.9 million
Local Revenue Increase	\$54.5 million	\$102.9 million	\$147.9 million	\$186.3 million	\$518.9 million

- The Office of Legislative Services (OLS) estimates that annually raising, and eventually eliminating, the income threshold for free school lunches will increase annual school district expenditures for the meals by the following amounts:
 - FY 2025 – \$54.5 million
 - FY 2026 – \$102.9 million
 - FY 2027 – \$147.9 million
 - FY 2028 – \$186.3 million
 - FY 2029 and thereafter – \$518.9 million

- Because the State will reimburse school districts for these expenditures, the bill would result in annual State expenditure increases and annual local revenue increases for the same amounts.
- The OLS notes that the United States Department of Agriculture (USDA) estimates that the actual costs to schools of providing school lunches is greater than the federal reimbursement rate. This difference is usually compensated for by the revenue generated by paid lunches, so that school lunch programs are revenue neutral. However, this would not be practicable under the provisions of the bill, and once the income threshold for free lunch is eliminated, the State reimbursement rate may need to be higher than the federal reimbursement rate (\$4.87 per lunch) in order to ensure that schools break even, resulting in a larger State expenditure increase.

BILL DESCRIPTION

This bill would require schools with lunch programs to provide free lunch to gradually increasing numbers of income-eligible students over a five-year phase-in period and, at the end of that five-year phase-in period, to provide free lunch to all enrolled students, regardless of each student's household income or federal eligibility for free or reduced price school meals. Specifically, under the bill's provisions, school lunches offered under a district's school lunch program are to be made available, free of charge, to enrolled students who are federally ineligible for free or reduced price meals, in accordance with the following schedule:

(1) during the 2023-2024 school year, and consistent with the provisions of the "Working Class Families Anti-Hunger Act," to each enrolled student who is federally ineligible for free or reduced price meals, but who has an annual household income that is not less than 186 percent, and not more than 199 percent, of the federal poverty level;

(2) during the 2024-2025 school year, to each enrolled student who is federally ineligible for free or reduced price meals, but who has an annual household income that is not less than 186 percent, and not more than 249 percent, of the federal poverty level;

(3) during the 2025-2026 school year, to each enrolled student who is federally ineligible for free or reduced price meals, but who has an annual household income that is not less than 186 percent, and not more than 299 percent, of the federal poverty level;

(4) during the 2026-2027 school year, to each enrolled student who is federally ineligible for free or reduced price meals, but who has an annual household income that is not less than 186 percent, and not more than 349 percent, of the federal poverty level;

(5) during the 2027-2028 school year, to each enrolled student who is federally ineligible for free or reduced price meals, but who has an annual household income that is not less than 186 percent, and not more than 399 percent, of the federal poverty level; and

(6) during the 2028-2029 school year, and during each school year thereafter, to each enrolled student who is federally ineligible for free or reduced price meals, regardless of the student's annual household income.

The bill would require the State to provide funding to each school district, as may be necessary to reimburse the costs associated with the district's provision of free lunches to expanding groups of State-eligible students who are federally ineligible for such meals under the National School Lunch Program or federal School Breakfast Program. The bill would also require any school districts with school lunch or breakfast programs to take steps to minimize or offset program costs, to the extent that such costs can be minimized or offset without compromising the district's ability to comply with minimum nutritional standards and other program requirements.

FISCAL ANALYSIS

EXECUTIVE BRANCH

None received.

OFFICE OF LEGISLATIVE SERVICES

The OLS estimates that raising and eventually eliminating the income threshold for free school lunches will increase annual school district expenditures for the meals by the following amounts:

- FY 2025 – \$54.5 million
- FY 2026 – \$102.9 million
- FY 2027 – \$147.9 million
- FY 2028 – \$186.3 million
- FY 2029 and thereafter – \$518.9 million

Because the State will reimburse school districts for these expenditures, the bill would result in annual State expenditure increases and annual local revenue increases for the same amounts. Please note that these figures use the 2022-23 school year as a baseline and that the cumulative nature of the cost increases has already been included in the figures. Thus, the figure provided for FY 2028, for example, represents the expected cost increase for that year, as compared with FY 2023, and it is not necessary to add the figures for the previous fiscal years.

This estimate assumes: (1) that each family in the State has 0.68 children enrolled in a public school, (2) that each student that utilizes the free lunches will consume 180 lunches per year, and (3) that the State will reimburse schools at the rate of \$4.87 per lunch. In addition, the estimate uses the following figures, partially derived from United States Census Bureau data and partially derived from National School Lunch participation data found in Volume 3 of the "School Nutrition and Meal Cost Study," published in 2019 by the USDA:

Income bracket (percentage of federal poverty level)	Number of families in income bracket	Estimated participation rate of students in income bracket	Cost per income bracket
2.00 to 2.49	128,866	0.71	\$54,538,988.11
2.50 to 2.99	128,866	0.63	\$48,393,750.01
3.00 to 3.49	137,174.5	0.55	\$44,972,440.35
3.50 to 3.99	137,174.5	0.47	\$38,430,994.48
4.00+	1,430,558	0.39	\$332,567,998.27

Multiplying the numbers given in items (1) through (3) in the paragraph above and the numbers in the second and third columns in the table above yields the dollar amount in the "Cost per bracket" column. This represents the estimated costs of providing free school lunches for one year

to all participating students whose family income lies within a given income bracket. Under the bill, these costs would cumulatively increase for each fiscal year, as an additional income bracket becomes eligible to receive free school lunches. Summing the costs in this cumulative fashion leads to the total cost estimate provided at the top of this section.

To estimate the participation rate (i.e. the number of eligible students that choose to receive free school lunches), the OLS assumed that the participation rate for students in the 1.85-1.99 FPL bracket would be 79 percent. This is the same as the nationwide participation rate for students that are federally eligible to receive free or reduced price lunch. Next, the OLS assumed that the participation rate for students whose family income is 4.00 times the FPL or more would be 39 percent. This is equivalent to the nationwide participation rate for students that are not federally eligible to receive free or reduced price lunch. The rationale here is that, for these students and parents, the cost of the lunch is not a significant factor in their decision about whether to utilize the school lunch, and thus the enactment of the bill would not affect their behavior. The OLS then assumed a negative, linear correlation between the participation rate and the income bracket of the student's family. This meant that the participation rate would decrease by eight percent for each increase in the income bracket covered under the bill.

The OLS notes that the USDA estimates that the actual costs to schools of providing school lunches is greater than the federal reimbursement rate. This difference is usually compensated for by the revenue generated by paid lunches, so that school lunch programs are revenue neutral. However, this would not be practicable under the provisions of the bill, and once the income threshold for free lunch is eliminated, the State reimbursement rate may need to be higher than the estimate provided above (\$4.87 per lunch) in order to ensure that schools break even, resulting in a larger State expenditure increase. This expenditure increase may be mitigated by the provisions of the bill that require school districts to take steps to minimize the costs of their school lunch programs.

The bill may also result in State and local annual expenditure increases as a result of the greater administrative workload associated with processing an increased number of school lunch reimbursement requests.

Section: Environment, Agriculture, Energy, and Natural Resources

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This legislative fiscal estimate has been produced by the Office of Legislative Services due to the failure of the Executive Branch to respond to our request for a fiscal note.

This fiscal estimate has been prepared pursuant to P.L.1980, c.67 (C.52:13B-6 et seq.).