

# Lesson 5: Managing Revenue in School Nutrition Programs

**OBJECTIVE 5: Interpret, analyze, and use revenue data for program evaluation and improvement.**

## Introduction to Topic

Interpreting and analyzing information about revenue generation can be used for program improvement. The management of the school nutrition program's revenue is critical to its success in meeting the nutritional needs of students in the school district.

## Revenue Management Accountability

### Revenue Accountability

USDA mandates accountability for the management of revenue in school nutrition programs by monitoring

- all revenue received,
- how that revenue is dispersed, and
- the revenue generated is sufficient to sustain a nutrition program that serves food high in quality and nutritional value.

## Revenue Analysis

Three ways to analyze the revenue generated by the school nutrition program are listed below:

- Calculate average revenue per meal or meal equivalent.
- Establish consistent guidelines for pricing meals and other nonprogram food items for sale.
- Comparing revenue generated per meal with costs per meal.

## Revenue Generation per Meal/Meal Equivalent

It is important to compare revenue earned with meal cost. The comparison is useful because it:

- helps determine if and where revenue should be increased,
- allows the director to analyze revenue by source, and
- identifies areas in which revenue should be monitored for revenue loss.

## Activity: Calculating Revenue per Meal Equivalent

Calculating the projected average revenue earned per meal equivalent is important in the management of school nutrition programs.

Instructions: Complete the following activity to determine how much average revenue per meal equivalent is projected from each revenue source. Calculate the amount received from each revenue source four decimal places. If the 5th decimal place is 5 or higher, round UP; if 4 or less, round DOWN.

Given: Formula:  $\text{Revenue} \div \text{Total Meal Equivalents}$

There were 983,810 meal equivalents served

Add all of your answers in the last column to get the Total Revenue per Meal/Meal Equivalent.

Revenue Analysis		
Revenue Account	Dollar Amount Received	Average Revenue Per Meal/ Meal Equivalent
Student Meal Sales	\$ 404,300	\$0.4110
Adult Meal Sales	27,803	0.0283
Nonprogram Food Sales	113,955	
Contract Food Sales	14,200	0.0144
Federal Reimbursement	2,143,150	
USDA Foods	159,094	
State Reimbursement	18,835	0.0191
Interest	3,155	0.0032
Miscellaneous	5,800	0.0059
Total Revenue	\$2,890,292	

Note: For tips on how to use multiple divisors and multipliers in your calculator, see the resource section of your workbook.

## Setting Meal Prices

### Paid Lunch Price

- Healthy, Hunger-Free Kids Act of 2010 legislated rules for setting meal prices
- School districts must provide same level of support as reimbursement received for a free lunch

### Paid Lunch Equity (PLE) Analysis

- Determine the average price for all types of paid student lunches,
- Compare the average paid lunch price with the difference between the free and paid reimbursement rates, and
- Determine if a price increase is necessary.

### Paid Lunch Equity (PLE) Tool

USDA has developed a Paid Lunch Equity (PLE) Tool to help districts complete the calculations.

- Calculations must be done annually
- Tool is updated accordingly
- Tool is available at <http://www.fns.usda.gov/>

### PLE School Year Calculator

- Determines if a price increase is necessary

SY 2014-15 Weighted Average Price Requirement	
Requirement price to the nearest cent	<i>Optional price requirement</i> ROUNDED DOWN to nearest 5 cent
\$ -	\$ -
<i>Note: Above prices are based on adjusting SY 2013-2014 price requirement by the 2% rate increase plus the Consumer Price Index (2.27%)</i>	

SY 2013-14 Weighted Average Price Calculator			
Enter the paid prices and number of paid lunches sold at each price for <b>October 2013</b> .			
Monthly # of Paid Lunches	Paid Lunch Price	Monthly Revenue	SY 2013-14 Weighted Average Price
1.		\$ -	
2.		\$ -	
3.		\$ -	
4.		\$ -	
5.		\$ -	
6.		\$ -	
7.		\$ -	
8.		\$ -	
9.		\$ -	
10.		\$ -	
<b>TOTAL</b>	-	\$ -	\$ -
<i>Note: SY 2013-14 Weighted Average Price equal to or above \$2.65 are compliant for SY 2014-15. \$2.65 is the difference between the Free and Paid reimbursement rates for SY 2013-14.</i>			

Source: USDA Paid Lunch Equity Tool. Available on USDA's website: <http://www.fns.usda.gov/>

## Revenue Increase Options

- increasing paid meal prices
- adding approved non-Federal revenue to the nonprofit school nutrition account
- using a combination of increasing paid meal prices and adding approved non-Federal revenue to the nonprofit nutrition account

## PLE Price Estimation Calculator

- allows you to input totals of paid lunches and suggested prices,
- automatically adjusts the weighted average paid lunch price, and
- allows you to experiment with prices at various grade levels, or in increments to make change making easy for cashiers.

### Step 3 (Optional)

Pricing Estimation Calculator				
Below is a tool allowing users to manipulate prices to achieve the required new weighted average price.				
	Monthly # of Paid Lunches	Paid Lunch Price	Monthly Revenue	Weighted Average Price
1.			\$ -	
2.			\$ -	
3.			\$ -	
4.			\$ -	
5.			\$ -	
6.			\$ -	
7.			\$ -	
8.			\$ -	
9.			\$ -	
10.			\$ -	
<b>TOTAL</b>	-		\$ -	\$ -

Source: USDA Paid Lunch Equity Tool. Available on USDA's website: <http://www.fns.usda.gov/>

This topic is very fluid so it is imperative you stay updated. In addition to guidance and information from the state agency, updated policy information is available on the USDA website, [www.fns.usda.gov](http://www.fns.usda.gov)

## Pricing Adult Meals

An adult meal must be priced to cover all the costs to produce that meal. Meals served to adults cannot be subsidized by Federal reimbursements, student payments or other nondesignated nonprofit foodservice revenues. Prices must be reviewed annually.

### Adult Meal Price Formula

Federal reimbursement for a free student lunch  
+ Per meal value of USDA Foods  
= Minimum Adult Meal Price

If you are receiving the additional 6 cents reimbursement in your district, check with your state agency for guidance as to whether it should be considered when setting adult lunch prices.

### Second Meals to Students

- Not eligible for reimbursement
- Follow same pricing formula as for adults

Refer to your FMIS resource for a discussion about a second approach to pricing adult meals and second meals to students.

## Pricing Nonprogram Food Items

### Definition of Nonprogram Foods

- Foods and beverages sold in a participating school, other than reimbursable meals, and purchased using funds from the nonprofit foodservice account.
- These foods cannot be claimed for reimbursement.
- The *USDA School Lunch and Breakfast Cost Study* found that the average school nutrition program in the study used revenues from reimbursable meals to offset the cost of producing nonprogram food items.

## Requirements of Nonprogram Food Revenue

$$\frac{\text{Total Nonprogram Food Revenue}}{\text{Total Program Revenue}} > \frac{\text{Total Nonprogram Food Cost}}{\text{Total Food Costs}}$$

## Types of Nonprogram Food Items

There are four types of nonprogram foods that may be sold in school nutrition programs during the school day.

- Adult meals
- Sale of a second meal to a student
- Individual components of the reimbursable meal (i.e. milk)
- Other food items not on the menu (à la carte)

## Desired Food Cost Percent Mark-up Method

- Determine the raw food cost of the item offered for sale.
- Identify the desired food-cost percentage for the school nutrition program operation.
- To establish a base selling price, divide the item's food cost by the desired food cost percentage mark-up.



## Activity: Pricing Nonprogram Food Items

Pricing Method: Desired Food Cost Percent Markup Method

The formula for determining a base price using the desired food cost percent markup method is:

Raw Food Cost ÷ Desired Food Cost Percent Markup

Reminder: Convert percent to decimal (i.e., 38% ÷ 100 = .38).

Instructions: Using the formula, determine the base selling price for each of the following nonprogram food items offered for sale if the desirable food cost percentage for a school nutrition program is 38% for the school year.

Calculation Example: If raw food cost is \$0.20 and desired food cost percentage is 38%:  
 $\$0.20 \div .38 = 0.5263$  or 0.53 base selling price.

Recommend a final selling price and summarize how you arrived at the price.

Food	Raw Food Cost	Base Selling Price	Recommended Selling Price	Justification for Recommended Selling Price
Bottled Water	\$0.13			
Pizza Slice	\$0.45			
Fresh Apple	\$0.22			
Ice Cream Cup	\$0.19			
Baked Corn Chips	\$0.16			
Hamburger	\$0.76			
Milk 1/2 pint	\$0.21			
Banquet Meal per Plate	\$3.69			
Catered Meal per Plate	\$3.21			

Question: A school district might charge less for an extra food or à la carte item under certain conditions. What are they?

Answer: Many school districts are encouraging students to consume more fresh fruits and vegetables as part of the wellness policy. In this case, a school district could price extra food items such as the apple or other fresh fruits lower than the approved mark-up because they want to encourage students to consume the food. However, it is important to remember that the loss would need to be covered by selling a popular item at a price higher than the base selling price in order to cover the loss.

Reminder: For more information on methods of pricing nonprogram food items, refer to the *ICN Financial Management Information System (FMIS)* resource.

### **Nonprogram Foods Sold Away from Campus or Outside School Day**

Nonprogram food sales that generally occur either outside the school day or away from the campus include:

- Catered food or meals to outside groups or groups within the school district
- Contract meals served on a regular basis
- Special school function meals such as an athletic banquet

Question: Why is it important for school districts to set prices on nonreimbursable, nonprogram food items so there is NO LOSS to the school nutrition program?

Answer: Federal regulations do not allow the school nutrition program to supplement other food sales outside the reimbursable student meal. Special functions must be priced high enough to cover the entire cost of the food function.

## Implementing Requirements of Section 206 of HHFKA

Total revenue from the sale of nonprogram foods must generate at least the same proportion as they contribute to total food costs. USDA's Nonprogram Food Revenue Tool is used to perform the calculations. The Tool can be found at this web site <http://www.fns.usda.gov/cnd/Governance/Policy-Memos/2011/SP39-2011ar.xls>

### Information for USDA Nonprogram Revenue Tool

- food costs of reimbursable meals
- food costs of nonprogram foods
- revenue from nonprogram foods
- total revenue of the program

### Calculating Compliance

<b>Nonprogram Revenue Calculator</b>		
Enter the cost for reimbursable meal, cost of nonprogram food and total revenue		
<a href="#">Cost for Reimbursable Meal Food</a>		
<a href="#">Cost of Nonprogram Food</a>		
<a href="#">Total Food Costs</a>	\$	-
<a href="#">Total Nonprogram Food Revenue</a>		
<a href="#">Total Revenue</a>		
Minimum portion of revenue from nonprogram funds		0%
Minimum Revenue Required from the Sale of Nonprogram Foods	\$	-
Additional Revenue Needed to Comply	\$	-

Source: USDA's Nonprogram Food Revenue Tool is available on USDA's website: <http://www.fns.usda.gov/cnd/governance/Policy-Memos/2011/SP39-2011ar.xls>

## Revenue Requirement Calculation

Example:

Total Food Costs	\$ 500,000
Nonprogram Food	50,000
Program Food	450,000
Total Revenue	\$1,000,000

$$\frac{\$50,000 \text{ Nonprogram Food}}{\$500,000 \text{ Total food Costs}} = 10\% \text{ Minimum of Revenue Required}$$

$$10\% \times \$1,000,000$$