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# Good for Kids Good for the State

The Economic and Fiscal Impact of Increasing Participation  
in the School Breakfast Program

*Prepared for*

California Food Policy Advocates  
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## **Executive Summary**

According to the California Department of Education, the U.S. Department of Agriculture's (USDA) National School Lunch and School Breakfast Programs provide more than 5.2 million nutritious meals at over 36,000 locations in California on a typical day. Despite the large number of meals served daily, school breakfast participation remains low in the state, particularly compared to level of participation in the school lunch program. This low level of participation is concerning because school nutrition programs yield important long-term benefits by improving educational outcomes and enhancing the health of children who participate in the program.

In this report, we estimate the economic and fiscal impact of increased participation in the school breakfast program. School districts and other entities that participate in the School Breakfast Program receive federal and state per-meal reimbursements that vary as a function of the family income of the children participating in the program. Because federal school breakfast reimbursements are substantially greater than the amount contributed by the state General Fund, serving additional breakfasts would have an immediate fiscal benefit as a result of the additional federal funds coming into California.

To illustrate the net General Fund impact of higher participation in the School Breakfast Program, we modeled the fiscal impact of the additional federal meal reimbursements that would be generated by a 10 percent increase in participation. This increase in participation would generate \$40.2 million in additional Federal meal reimbursements, based on 2013-14 reimbursement rates, and an additional state General Fund cost of a little less than \$4.8 million for state reimbursements.

We estimated the extent of increases in payrolls and purchases of goods and services that would result from the influx of federal funds. When services are purchased, school districts and recipient firms use that income to pay employees, buy supplies, and increase profits. When goods are purchased, the purchase itself can trigger a sales tax liability (except for purchases of food), while payments to suppliers become revenue that, once again, goes to pay employees, buy supplies, and increase taxable profits.

Based on available research and discussions with school district nutrition services staff, we estimate that roughly 59 percent of the additional federal funds would be spent for additional staff or staff hours (in school districts, food service management companies and food distribution companies); 34 percent would be spent for food purchases; 4 percent would be spent for equipment; and less than 3 percent would be realized as profit to commercial entities.

We calculated the state revenues that would be generated from this increased economic activity by estimating the effective personal income, sales and corporation tax rates that would be applied to this activity. In addition to these direct economic effects, we estimated the increased indirect economic output created by the expenditure of the federal funds and applied the estimated effective tax rate that would be applied to this output, based on the relationship between state General Fund revenue and total economic output in the state. Table ES below displays the amount of direct and indirect economic activity that would be generated as a result of additional federal meal reimbursements coming in to California, the tax rates that would be applied and the resulting state revenues that would be generated. In total, almost \$2.7 million in General Fund revenues would be generated.

**Table ES**  
**Direct and Indirect Effects of a 10% Increase in School Breakfast Participation<sup>1</sup>**

|                             | <b>Taxable Economic Activity</b> | <b>Effective Tax Rate</b> | <b>General Fund Revenue</b> |
|-----------------------------|----------------------------------|---------------------------|-----------------------------|
| Direct Impacts              |                                  |                           |                             |
| Personal Income             | \$23,829,335                     | 2.0%                      | \$476,587                   |
| Corporate Profit            | \$1,004,864                      | 5.3%                      | \$53,349                    |
| Taxable Sales               | \$1,668,074                      | 4.44%                     | \$74,062                    |
| Indirect and Induced Output | \$42,703,343                     | 4.9%                      | \$2,082,320                 |
| <b>Total</b>                | -                                | -                         | \$2,686,318                 |

Based on these results, our analysis demonstrates that increasing participation in the program by 10 percent would generate economic and fiscal effects that would offset over half of the state General Fund cost of providing additional meal reimbursements. Specifically, the state General Fund cost of higher meal reimbursements (\$4.8 million) would be offset by the General Fund revenues (\$2.7 million) that would be generated as a result of the expenditure of the additional federal meal reimbursements.

In addition, we estimate that the infusion of additional federal meal reimbursements from a 10 percent increase in participation would generate \$42.7 million in increased indirect economic activity in the state and approximately an additional 1,000 jobs.

We did not estimate the long-term fiscal benefits that would accrue from higher participation in the school breakfast program as a result of improving educational outcomes and enhancing the health of children who participate in the program. However, these benefits would be in addition to the fiscal “offset” identified in this analysis.

<sup>1</sup> Note that the total of the direct taxable economic activity from higher school breakfast participation (\$26.5 million) is less than the total of additional federal meal reimbursements (\$40.2 million) because food purchases are not subject to the sales tax. However, food purchases would generate indirect economic impacts.

## Introduction

According to the California Department of Education, the U.S. Department of Agriculture's (USDA) National School Lunch and School Breakfast Programs provide more than 5.2 million nutritious meals at over 36,000 locations in California on a typical school day. In 2011-12, the School Breakfast program provided over 240 million breakfasts to children in California schools.

Despite the large number of meals served daily, school breakfast participation remains low in the state, particularly compared to level of participation in the school lunch program. Whereas 69 percent of low-income students participated in the School Lunch Program in 2010-11, only 30 percent of low-income students participated in the School Breakfast Program, according to the California Food Policy Advocates.<sup>2</sup>

This low level of participation is concerning because school nutrition programs yield important long-term benefits by improving educational outcomes and enhancing the health of children who participate in the program.

In this report, we estimate the economic and fiscal impact of increased participation in the school breakfast program. Because the federal government pays for a large share of the costs of the program, increased participation also results in additional federal funds coming into California. This analysis demonstrates that increasing participation in the program would generate economic and fiscal effects that would offset more than half of the state General Fund cost of providing additional meal reimbursements.

## The School Breakfast Program

National School Lunch and School Breakfast Programs provide reimbursement to school districts, charter schools, nonprofit independent schools, and residential care institutions (such as group homes) for meals provided to qualified students. School districts and other entities that choose to take part in the lunch and breakfast programs get cash subsidies. Participation in the lunch program also earns schools food credits from the USDA for each meal served. In return, schools must serve meals that meet federal nutritional requirements, and they must offer free or reduced price meals to eligible children.<sup>3</sup> There are no set limits on the amount that schools may charge students for a full-price meal; however, participating schools must agree to operate the meal programs on a nonprofit basis.

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<sup>2</sup> 2010-11 School Meal Analysis California State Highlights, California Food Policy Advocates ([http://cfpa.net/ChildNutrition/ChildNutrition\\_CFPAPublications/SchoolMealAnalysis-StateSummary-2010-11.pdf](http://cfpa.net/ChildNutrition/ChildNutrition_CFPAPublications/SchoolMealAnalysis-StateSummary-2010-11.pdf))

<sup>3</sup> National School Lunch Program Fact Sheet, USDA <http://www.fns.usda.gov/sites/default/files/NSLPFactSheet.pdf>

The amount students pay for meals varies as a function of their family income as follows:

- *Full-price meals.* Children from families with incomes above 185 percent of the federal poverty level pay the meal price set by their school.
- *Reduced-price meals.* Children from families with incomes at or below 185 percent but more than 130 percent of the poverty level may not be charged more than 40 cents for lunch and 30 cents for breakfast.
- *Free meals.* Children from families with incomes at or below 130 percent of the poverty level receive their meals free.

Students must be certified by the school in order to be eligible for free or reduced price meals. This can be done by assessing eligibility through an application provided by the family or by linking to eligibility for the Supplemental Nutrition Assistance Program (SNAP, formerly the Food Stamp Program) or the Temporary Assistance for Needy Families (TANF) program, for example. USDA offers schools procedures by which they can certify eligibility for up to 4 years with certain conditions.

In addition to differential pricing based on family income, federal breakfast reimbursements vary depending on the income of students served, as shown in Table 1 below.

**Table 1**  
**Federal and State Reimbursements per School Breakfast Served**

|                                   | Free     | Reduced-Price | Paid   |
|-----------------------------------|----------|---------------|--------|
| <b>Federal Reimbursement</b>      |          |               |        |
| <b>Basic Breakfast</b>            | \$1.58   | \$1.28        | \$0.28 |
| <b>Especially Needy Breakfast</b> | \$1.89   | \$1.59        | \$0.28 |
| <b>State Reimbursement</b>        | \$0.2229 | \$0.2229      | --     |

Schools receive federal reimbursement at a higher Especially Needy Breakfast (aka “severe need”) level for free and reduced-price breakfasts that are served in schools in which at least 40 percent of lunches were free or reduced price two years prior. Meal reimbursement amounts are adjusted annually by the USDA, but, except for Hawaii and Alaska, reimbursements do not reflect differences in the cost of living across states or regions of the country. In addition to providing meal reimbursements, the federal program provides commodity credits for each lunch (but not breakfast) served. These credits can be used to purchase commodity items made available by USDA for either lunch or breakfast foods.

To supplement the federal funding for school meals, the state of California provides additional funding for each free and reduced-price meal served. Unlike the federal funding, the state provides the same reimbursement amount for each breakfast served. If the appropriation for state meal reimbursements is not sufficient to pay schools for all meals provided in a fiscal year, current state law provides for the amount to be prorated. Thus, state funding for the program is not automatic, but rather depends on the funding that is appropriated each year. Nevertheless, state funding has come up short only infrequently, and the Legislature has generally increased the amount of the appropriation to keep up with the number of meals served. In addition to meal reimbursements, just over \$1 million is appropriated annually by the state to provide funding for nonrecurring expenses incurred in initiating or expanding a School Breakfast Program. The Department of Education is authorized to award competitive grants of up to \$15,000 per site for these expenses.

#### Participation in the School Breakfast Program

While participation in the school breakfast program has been increasing somewhat recently – growing by about 5 percent from 2010-11 to 2011-12 – the level of participation is far below participation in the school lunch program. The school lunch program in California served over 3.2 million students in 2011-12, whereas school breakfast participation was only about 1.3 million students, a breakfast participation rate of just over 40 percent of lunch participation.

There are thought to be a number of reasons why breakfast participation is not higher. Eating breakfast in the cafeteria before school means getting to school early, ahead of when classes start. And, to the extent that breakfast is not a family habit, it's easy to skip breakfast altogether. For other families, feeding children breakfast at home is more important than taking advantage of the low cost afforded eligible students for breakfast served at school.

School districts have developed different models to encourage greater participation in the breakfast program, such as “Grab and Go” and “Breakfast in the Classroom,” where it isn't necessary to arrive at school early to get breakfast. However, there is sometimes resistance on the part of teachers or administrators who are concerned about disrupting the academic atmosphere of the classroom or the need to clean up trash from breakfast.

One of the issues related to school districts' willingness to attempt to expand participation relates to the issue of whether a school breakfast program can be financially self-supporting. The most recent national study that compared costs and revenues for school lunch and breakfast programs found that, on average, reported costs for breakfasts slightly exceeded breakfast-related revenues, including federal and state meal reimbursements, student

payments, and “a la carte” food sales.<sup>4</sup> When lunch and breakfast operations were combined, school district revenues slightly exceeded reported costs for both meals, suggesting that lunch programs are financially self-supporting whereas breakfast programs may not be, depending on regional variations in costs and revenues.

One of the important factors relating to the overall cost efficiency of providing meals relates to the scale of the program. Both previous research and discussions with school district food program managers suggests that a key to making breakfast programs break even is attracting a sufficient number of students. That is, because of apparent economies of scale, per-meal costs drop when the number of meals served rises, thereby improving the financial performance of the program overall.

### **The Fiscal Effects of the School Breakfast Program**

Because federal school breakfast reimbursements are substantially greater than the amount contributed by the state General Fund, serving additional breakfasts would have an immediate fiscal benefit as a result of the additional federal funds coming into California. Specifically, for 2013-14 the *federal* reimbursement is almost 8.5 times (for free breakfasts) and over 7 times (for reduced-price breakfasts) the amount of the *state* meal reimbursement for free and reduced-price meals, respectively.<sup>5</sup> This additional federal money generates additional economic activity in California, which in turn increases state revenues.

In addition, school nutrition programs yield long-term fiscal benefits as a result of accomplishing various program goals, such as improving educational outcomes and enhancing the health of children who participate in the program. For example, improved school performance may yield economic benefits once students enter the workforce or health and social service costs may be lower as a result of improved nutrition. Because the effects of infusing additional funds into the economy are widely understood and more immediately experienced, however, we focus in this analysis on these benefits instead of the longer-term benefits of improved student nutrition, which would be in addition to the benefits quantified here.<sup>6</sup>

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<sup>4</sup> School Lunch and Breakfast Cost Study II, April 2008, Prepared for the USDA Food and Nutrition Service, (<http://www.fns.usda.gov/school-lunch-and-breakfast-cost-study-ii>)

<sup>5</sup> These federal reimbursement amounts include an additional \$0.31 per meal reimbursement provided for breakfasts served at severe need sites, which historically have represented about 97 percent of breakfasts served.

<sup>6</sup> There is an extensive literature that demonstrates the benefits associated with improved childhood nutrition and the role that school nutrition programs play. See, for example, Start the School Day Ready to Learn with Breakfast in the Classroom, Food Research and Action Center, November 2013 ([http://frac.org/pdf/frac\\_naespf\\_bic\\_principals\\_report2013.pdf](http://frac.org/pdf/frac_naespf_bic_principals_report2013.pdf))

## Estimating the Fiscal Effects

To estimate the net General Fund impact of higher participation in the School Breakfast Program, we modeled the fiscal impact of the additional federal meal reimbursements that would be generated by increased participation.

To do so, we first estimated the amount of money that would come into California if participation in the school breakfast program increased. It is not possible to predict the extent of an increase in participation in the program. That would depend on various factors such as, for example, whether a public campaign were mounted to encourage school districts to increase participation or additional startup grant funds were provided by the state to initiate school breakfast programs. It is not necessary to forecast future program growth, however, in order to analyze the fiscal effects of increased participation in the school breakfast program. This is because, generally speaking, the relationships among the various financial parameters involved is likely the same regardless of whether participation grows by 2 percent or 20 percent. In other words, as costs increase, state and federal meal reimbursements, and economic and fiscal effects are proportionately larger, regardless of the extent of the increase.<sup>7</sup> For purposes of illustrating the impact of increased participation, we have assumed a roughly 10 percent increase in the number of breakfasts served.

A 10 percent increase in participation would result in approximately 18.9 million additional free, 2.4 million additional reduced-price, and 2.6 million additional paid meals. Federal meal reimbursements would increase by \$40.2 million, based on 2013-14 reimbursement rates. In calculating the increase in reimbursements, we have assumed that the proportion of free, reduced-price and paid meals would be substantially the same as the distribution for the last several years for which data is available.<sup>8</sup> The estimated additional federal reimbursements include the \$0.31 per breakfast provided for meals served at severe needs sites. As discussed earlier, while an increase in the state reimbursement is not automatic and would need to be appropriated by the Legislature, we think it is likely that the state would provide reimbursement for the additional meals. A 10 percent increase in meals served would result in additional state General Fund costs of a little less than \$4.8 million, based on 2013-14 reimbursement rates.

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<sup>7</sup> Increased participation in the program can result from school districts initiating or expanding breakfast programs at new schools in the district or by trying a new approach to providing breakfast, such as moving from providing breakfast in a cafeteria setting to providing breakfast through a “Breakfast in the Classroom” approach, for example. While there are likely differences in terms of the way in which additional meal reimbursements are spent across these different approaches, we assume that the way in which we have modeled this spending reflects, on average, the manner in which these funds would be spent on a statewide basis if participation increased.

<sup>8</sup> Free meals made up 79 percent of total meals, reduced-price meals made up 10 percent, and paid meals made up 11 percent, in 2011-12, according to data from the California Department of Education (<http://www.cde.ca.gov/ds/sh/sn/documents/coproschool1112.xls>)



We then broke down the additional federal reimbursements in terms of the purposes for which they would be used. The additional federal reimbursement funds represent new economic activity to California to the extent that the funds are spent in California. We estimated the extent of increases in payrolls and purchases of goods and services that would result from the influx of federal funds. When services are purchased, school districts and, eventually, recipient firms use that income to pay employees, buy supplies, and increase profits. When goods are purchased, the purchase itself can trigger a sales tax liability (except for purchases of food), while the payments to suppliers become revenue that, once again, goes to pay employees, buy supplies, and increase taxable profits.

We directly calculated the state fiscal impact of the increased federal revenue that would flow to school districts and yield payments primarily in the form of employee wages and food purchases, as well as the payments to private vendors for the same items. We also used IMPLAN to estimate the increased economic output created by the expenditure of these funds, known as the multiplier effect. Finally, we estimated the extent of additional income, corporation, and sales tax revenue that would be generated from this increased economic activity.

To estimate the direct fiscal effects, we identified the wages, profits, and equipment purchases that are taxable, and applied effective tax rates to those amounts. For the indirect economic benefits, we estimated the increase in General Fund revenues that would result from an increase in state economic output based on the historical relationship between economic activity generally and state revenues.

We did not estimate the fiscal impact of additional state meal reimbursements in this analysis because these funds do not generate new economic activity in the state. This is because it is likely that, if school breakfast participation does not increase and higher state meal reimbursements are not appropriated, these funds would be used for some other budgetary purpose (where they would circulate in the economy). In other words, additional state spending for meal reimbursements does not represent new economic activity in the state – only new federal funds and only to the extent that they are spent in California. A similar result obtains from increased payments from families for their share of additional school meals served. That is, while these family expenditures would increase the economic activity associated with school meals (e.g., additional food purchases and payroll expenditures), they would come at the expense of reduced economic activity resulting from the purchases that these families would otherwise have made. Therefore, these additional family expenditures represent a transfer of economic activity from one sector to another, rather than a net increase in economic activity.

### Mapping the Flow of Money

To measure the fiscal impact of the \$40.2 million in new federal funds (based on a 10 percent increase in participation), we talked with a number of school district nutrition services staff and reviewed numerous studies that estimated the cost of implementing breakfast programs.<sup>9</sup> Based on this information, we estimate that roughly 59 percent of the additional funds would be spent for additional staff or staff hours<sup>10</sup> (in school districts, food service management companies and food distribution companies); 34 percent would be spent for food purchases; 4 percent would be spent for equipment; and less than 3 percent would be realized as profit to commercial entities. Our analysis assumes that funds spent for additional staffing and indirect and overhead charges would initially be spent in California.

### Identifying Taxable Amounts

Each type of expenditure discussed above produces a different fiscal effect. The main direct fiscal benefit from the expenditure of these additional federal funds results from increases in school district payrolls and the payrolls of food service management companies and food distribution companies (whether through additional hours for existing employees or as newly-created jobs). Substantially more minor amounts would be spent on the purchase of taxable equipment. The school district employee wages will be subject to income taxes while food service management companies and food distribution companies revenue flows to employee wages and profits that would also be subject to taxation. Food purchases in California are not subject to sales tax, but these purchases will result in indirect spending by various employees and suppliers, and, as a result, would generate taxable economic activity.

We estimate that school district and commercial entity employees will receive \$23.8 million in wages and salaries from the additional federal meal reimbursements associated with a 10 percent increase in breakfast participation. Significantly more minor amounts would be spent on taxable goods or result in corporate income to for-profit vendors from whom school districts purchase goods or services – on the order of \$2.7 million combined. The \$13.7 million remaining portion of the additional \$40.2 million in federal reimbursements would be spent on non-taxable food purchases.

In addition to these first order, or direct effects, the money earned by employees and contractors and the funds spent on food purchases and equipment in California would, in turn,

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<sup>9</sup> See, for example, School Lunch and Breakfast Cost Study II, April 2008, Prepared for the USDA Food and Nutrition Service, (<http://www.fns.usda.gov/school-lunch-and-breakfast-cost-study-ii>) and The Feasibility of Mandating School Breakfast in California's Severe Need Schools, WestEd, January 2008, ([http://www.wested.org/research\\_study/the-feasibility-of-mandating-school-breakfast-in-californias-severe-need-schools-costs-challenges-and-recommendations/](http://www.wested.org/research_study/the-feasibility-of-mandating-school-breakfast-in-californias-severe-need-schools-costs-challenges-and-recommendations/))

<sup>10</sup> This includes salaries for staff funded through additional indirect or overhead charges.

be used to buy goods and services elsewhere in the state's economy.<sup>11</sup> For example, school food service employees might spend their additional earnings at a local retail store or vendors might hire additional workers or increase purchases from their suppliers. Using IMPLAN, an input-output-based model used for state and regional economic, program and project analysis, it is possible to estimate the indirect and induced economic effects of this additional spending. In doing so, IMPLAN estimates the extent to which these expenditures occur in California or outside of the state and the specific sectors that benefit from the initial increase in economic activity. These economic changes are modeled based on the historical economic relationships among firms within each industry in the study region. Thus, for example, funds used to purchase additional breakfast food would be spent both in California and out of state, with the in-state portion producing economic and fiscal benefits for California. While many districts have recently embarked on significant efforts to source food from local suppliers, a significant share of food purchases is from national suppliers that source food from throughout the country. In addition, to the extent that school districts have adopted models for providing breakfast outside of a cafeteria setting (such as Grab and Go or Breakfast in the Classroom), these approaches tend to rely somewhat more heavily on prepackaged foods (a substantial fraction of which is sourced from out of state) than breakfast provided in the cafeteria.

Using IMPLAN, we modeled the flow of the employee compensation, contractor payments, and supplier payments, including food purchases, through the California economy, estimating that these expenditures would create another \$42.7 million in indirect and induced economic activity.

### Estimating Tax Revenue

Based on personal income tax data from 2006 to 2011, the estimated average effective income tax rate for all taxpayers is 4.5 percent.<sup>12</sup> However, because most of the employees who would receive jobs or more hours of work as a result of higher school breakfast participation have modest incomes, their effective income tax rate is likely considerably lower than the average rate for the population as a whole. Based on an analysis of the Franchise Tax Board personal income tax rate schedules, a 2 percent average effective rate is more likely to reflect the effective tax rate that will be applied to the revenues spent on salaries and wages. We applied this rate to the \$23.8 million in school district and vendor wages. In total, we estimate that these wages will generate about \$477,000 in additional state personal income tax revenues. More minor amounts of state sales tax and corporation tax revenue were estimated by applying

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<sup>11</sup> Thus, for example, even if food purchases themselves are not subject to sales taxes, payments for food purchases flow through the economy in the form of additional wages and supplies on the part of the persons and entities from whom the food is purchased.

<sup>12</sup> Based on the relationship between adjusted gross income and total tax liability in Franchise Tax Board Table B-2, 2012 Annual Report—Statistical Appendix Tables  
([https://www.ftb.ca.gov/aboutFTB/Tax\\_Statistics/Reports/2012/2012\\_B-2.xls](https://www.ftb.ca.gov/aboutFTB/Tax_Statistics/Reports/2012/2012_B-2.xls))

the effective state sales tax rate (4.44%<sup>13</sup>) and corporation tax rate (5.3%<sup>14</sup>) to the revenues that would be spent for taxable equipment purchases and corporate profits, respectively. The remaining portion of the additional \$40.2 million in federal reimbursements (\$13.7 million) would be spent on non-taxable food purchases.

To estimate the fiscal benefit of the \$42.7 million in indirect economic activity, we identified the average annual amount of revenue collected by the General Fund for every dollar of economic output. Accordingly, we estimate that 4.9 percent of the \$42.7 million in additional indirect and induced output would come back to the General Fund as \$2.1 million in new tax revenue.

**Table 2**  
**Direct and Indirect Effects of a 10% Increase in School Breakfast Participation**

|                             | Taxable Economic Activity | Effective Tax Rate | General Fund Revenue |
|-----------------------------|---------------------------|--------------------|----------------------|
| Direct Impacts              |                           |                    |                      |
| Personal Income             | \$23,829,335              | 2.0%               | \$476,587            |
| Corporate Profit            | \$1,004,864               | 5.3%               | \$53,349             |
| Taxable Sales               | \$1,668,074               | 4.44%              | \$74,062             |
| Indirect and Induced Output | \$42,703,343              | 4.9%               | \$2,082,320          |
| <b>Total</b>                | -                         | -                  | \$2,686,318          |

In total, the General Fund would experience a nearly \$2.7 million increase in tax revenue from direct and indirect economic activity spurred by a 10 percent increase in the number of school breakfasts provided in California, as shown in Table 2 above.

*The Net Impact on the General Fund*

With the estimate of the fiscal impact of increased school breakfast participation in hand, it is possible to compare this with the cost of the higher state meal reimbursements that would be paid for these meals (assuming the funds are appropriated). Assuming a 10 percent increase in participation, \$2.7 million in additional state General Fund revenues would be generated compared to the \$4.8 million cost of higher state meal reimbursements. Thus, the fiscal impact the additional federal funds would generate would offset more than half of the state cost of higher participation.

<sup>13</sup> This rate reflects the combination of the state General Fund rate (3.94%) plus the 0.5% rate for Economic Recovery Bonds and the 0.5% rate pursuant to Proposition 30. A small additional amount of local sales tax revenue would be generated based on the imposition of local sales tax rates.

<sup>14</sup> Based on an analysis of Franchise Tax Board data regarding the average corporation tax liability as a percent of net income for the period from 2000 through 2009.

Also, as noted earlier, school nutrition programs likely yield long-term fiscal benefits as a result of improving educational outcomes and enhancing the health of children who participate in the program.

In addition to comparing the fiscal benefit of higher school breakfast participation to the direct state cost of providing additional meals, it is worth considering whether the cost to school districts of providing additional breakfasts is likely to result in “encroachment” on district general purpose funds, resulting in pressure on the state for higher general purpose education funding. Unfortunately, because no statewide data is available regarding the extent to which districts’ school meal programs operate in the black or rely on subsidies from district general purpose funds, it is not possible to determine the extent of any encroachment. In the absence of data supporting the extent of any encroachment, it is unlikely that significant pressure to increase general purpose funding would materialize.<sup>15</sup>

### **The Economic Benefits of Increased School Breakfast Participation**

The fiscal benefits presented above stem from the increased economic activity that a 10 percent increase in participation in the school breakfast program would generate. We estimate that the infusion of \$40.2 million in federal meal reimbursements will generate \$42.7 million in increased economic activity in the state and approximately an additional 964 jobs. The majority of these jobs would be in the nutrition services divisions of school districts and related food services industry positions.

### **Conclusion**

The additional federal money that would come into California as a result of higher participation in the school breakfast program would generate additional economic activity in the state. We estimate that this economic activity would result in additional state General Fund revenues that would offset more than half of the increased state General Fund cost of state meal reimbursements. Moreover, the state would experience \$42.7 million in increased economic output and almost 1,000 new jobs. These benefits do not include the fiscal impact of educational or health benefits associated with increasing the number of children who have the opportunity to start their day in the classroom well fed.

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<sup>15</sup> Even if on a statewide basis school nutrition operations are being subsidized by general purpose funding, increased breakfast participation is unlikely to translate into increased general purpose education funding. This is because of the manner in which the level of school funding is determined in California. School district funding is governed by the provisions of Proposition 98. Passed by the voters in 1988, this measure guarantees a minimum funding level for K-14 schools. In its actual operation, the Proposition 98 minimum funding level has acted as a funding ceiling where the required funding level has been only infrequently exceeded by the Legislature. Because of this, even a modest level of encroachment on the part of school nutrition programs, if that were to occur, is unlikely to result in an increase in general purpose funding above the Proposition 98-required funding level.

### **About the Authors**

This report was authored by Tim Gage, with strategic advice and editorial support from Matthew Newman. Tim Gage and Matthew Newman are Co-Founders of the Blue Sky Consulting Group.

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