



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

Summary

Our analysis demonstrates that increasing student participation in the program would generate economic and fiscal benefits that would offset over half of the state General Fund cost of providing additional meal reimbursements.

Background

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. 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.

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.

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. The table below displays the amount of direct and indirect economic activity that would be generated as a result of additional federal meal reimbursements coming into 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.

Direct and Indirect Effects of a 10% Increase in School Breakfast Participation¹

	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
Total	-	-	\$2,686,318

Based on these results, increasing student 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.

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¹ 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.