



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2025 Biennium

Bill information:

HB0863 - Fund school meals for all students (Romano, Melissa)

Status: As Introduced

- Significant Local Gov Impact
 Needs to be included in HB 2
 Technical Concerns
 Included in the Executive Budget
 Significant Long-Term Impacts
 Dedicated Revenue Form Attached

FISCAL SUMMARY

	<u>FY 2024</u> <u>Difference</u>	<u>FY 2025</u> <u>Difference</u>	<u>FY 2026</u> <u>Difference</u>	<u>FY 2027</u> <u>Difference</u>
Expenditures:				
General Fund	\$22,368,227	\$22,413,773	\$22,532,996	\$22,611,006
Revenue:				
General Fund	\$0	\$0	\$0	\$0
Net Impact-General Fund Balance:	<u>(\$22,368,227)</u>	<u>(\$22,413,773)</u>	<u>(\$22,532,996)</u>	<u>(\$22,611,006)</u>

Description of fiscal impact: HB 831 requires the Superintendent of Public Instruction to administer a program to distribute replacement funds to school districts electing to provide school lunch or breakfast or both to all students at no cost to the student. There is a state general fund appropriation in the bill for \$22.0 million per year beginning in FY 2024 and to be included in the ongoing base. Actual projected expenses are slightly higher than the appropriation amount.

FISCAL ANALYSIS

Assumptions:

1. HB 863 creates a program that would direct the state to pay all non-federally paid costs for school lunch or breakfast should a school district choose to participate in the program.
2. The bill defines replacement funds as “the difference between the federal reimbursement for a student for a school meal and the full cost of that meal under a national or federal program.”
3. HB 863 directs the superintendent to adopt rules necessary to administer the program.

4. In Montana, the Office of Public Instruction (OPI) administers the federal school nutrition program where free and reduced-price lunches and breakfasts for K-12 students is based upon family income and regional poverty measures.
5. The following table shows a five-year history of the statewide revenues recorded on Trustee Financial Summary (TFS):

	School Year 2017-2018	School Year 2018-2019	School Year 2019-2020	School Year 2020-2021	School Year 2021-2022
Local	18,920,695	19,567,227	16,323,443	5,365,724	4,411,715
State	328,957	266,771	338,159	404,126	1,154,714
Federal	<u>40,196,029</u>	<u>40,945,894</u>	<u>41,531,308</u>	<u>65,119,744</u>	<u>88,287,459</u>
Total	59,447,699	60,781,910	58,194,929	70,891,615	93,855,911

6. During the COVID pandemic, school lunch statistics were distorted by school closures and federal assistance designed to pay for all lunches and breakfasts at K-12 schools.
7. For purposes of estimating the cost of this bill, the 2018-2019 school year is used as the base year to mitigate the distortions in the last three years.
8. The state cost per meal for this program is defined as the difference between the federal reimbursement rate for free meals and the federal reimbursement rate for reduced price and paid meals. The 2022-2023 school year reimbursement rates are as follows:

School Breakfast Program

Category	Student Cost	Federal Reimbursement per meal	State Reimbursement per meal
Non-Severe	Paid	\$0.50	\$1.76
	Reduced	\$1.96	\$0.30
	Free	\$2.26	\$0.00
Severe	Paid	\$0.50	\$2.17
	Reduced	\$2.37	\$0.30
	Free	\$2.67	\$0.00

National School Lunch Program

Category	Student Cost	Federal Reimbursement per meal	State Reimbursement per meal
Less than 60%	Paid	\$0.77	\$3.56
	Reduced	\$3.93	\$0.40
	Free	\$4.33	\$0.00
Less than 60% + 8 cents	Paid	\$0.85	\$3.56
	Reduced	\$4.01	\$0.40
	Free	\$4.41	\$0.00
60% or more	Paid	\$0.79	\$3.56
	Reduced	\$3.95	\$0.40
	Free	\$4.35	\$0.00

60% or more + 8 cents	Paid	\$0.87	\$3.56
	Reduced	\$4.03	\$0.40
	Free	\$4.43	\$0.00

9. This fiscal note assumes the number of lunches and breakfasts are proportional to total enrollment. The following table shows yearly enrollment and the calculation of estimated breakfasts and lunches projected for the next four years using 2018-2019 as the base year:

	School Year 2018-2019	School Year 2023-2024	School Year 2024-2025	School Year 2025-2026	School Year 2026-2027
Enrollment	146,963	151,461	152,280	153,090	153,620
Enrollment Ratio to 2019	100.00%	103.06%	103.62%	104.17%	104.53%
Total Breakfasts	6,486,010	6,684,523	6,720,668	6,756,417	6,779,808
Breakfasts per student	44	44	44	44	44
Total Lunches	13,003,121	13,401,099	13,473,563	13,545,231	13,592,125
Lunches per student	88	88	88	88	88

10. The 2018-2019 school year data on the number of meals served by category was used as the basis for estimating the number of meals served, by category, in future years as shown in these tables:

Breakfast Breakdown							
	Student Cost	School Year 2018-2019	% of total	School Year 2023-2024	School Year 2024-2025	School Year 2025-2026	School Year 2026-2027
Non-Severe	Paid	\$364,741	5.60%	\$375,904	\$377,937	\$379,947	\$381,263
	Reduced	\$64,577	1.00%	\$66,553	\$66,913	\$67,269	\$67,502
	Free	\$326,576	5.00%	\$336,571	\$338,391	\$340,191	\$341,369
Severe	Paid	\$1,207,301	18.60%	\$1,244,252	\$1,250,980	\$1,257,634	\$1,261,988
	Reduced	\$323,092	5.00%	\$332,981	\$334,781	\$336,562	\$337,727
	Free	\$4,199,723	64.80%	\$4,328,261	\$4,351,666	\$4,374,813	\$4,389,958
Total Breakfasts		\$6,486,010	100.00%	\$6,684,523	\$6,720,668	\$6,756,417	\$6,779,808

Lunch Breakdown							
	Student Cost	School Year 2018- 2019	% of total	School Year 2023-2024	School Year 2024-2025	School Year 2025-2026	School Year 2026-2027
All Categories	Paid	\$5,022,452	38.60%	\$5,176,171	\$5,204,160	\$5,231,842	\$5,249,955
	Reduced	\$932,897	7.20%	\$961,450	\$966,648	\$971,790	\$975,155
	Free	\$7,047,772	54.20%	\$7,263,479	\$7,302,755	\$7,341,599	\$7,367,016
Total Lunches		\$13,003,121	100.00%	\$13,401,100	\$13,473,563	\$13,545,231	\$13,592,126

11. The cost of the program is determined by multiplying the number of meals in each category by the calculated replacement funds in assumption 8. The total cost by year and category are:

Breakfast Breakdown

	Student Cost	State Cost per Meal per HB 831	School Year 2023-2024	School Year 2024-2025	School Year 2025-2026	School Year 2026-2027
Non-Severe	Paid	\$1.76	\$661,592	\$665,169	\$668,707	\$671,022
	Reduced	\$0.30	\$19,966	\$20,074	\$20,181	\$20,251
	Free	\$0.00	\$0	\$0	\$0	\$0
Severe	Paid	\$2.17	\$2,700,027	\$2,714,627	\$2,729,066	\$2,738,515
	Reduced	\$0.30	\$99,894	\$100,434	\$100,969	\$101,318
	Free	\$0.00	\$0	\$0	\$0	\$0
Total Breakfasts			\$3,481,479	\$3,500,304	\$3,518,923	\$3,531,106

Lunch Breakdown

	Student Cost	State Cost per Meal per HB 831	School Year 2023-2024	School Year 2024-2025	School Year 2025-2026	School Year 2026-2027
All Categories	Paid	\$3.56	\$18,427,168	\$18,526,810	\$18,625,357	\$18,689,838
	Reduced	\$0.40	\$384,580	\$386,659	\$388,716	\$390,062
	Free	\$0.00				
Total Lunches			\$18,811,748	\$18,913,469	\$19,014,073	\$19,079,900

Grand Total Breakfasts & Lunches **\$22,293,227** **\$22,413,773** **\$22,532,996** **\$22,611,006**

12. The OPI uses an information system to collect meal data from schools and process federal payments to schools. The OPI estimates it will cost \$75,000 to modify the system in FY 2024 to also make payments from state funds.
13. In the 2022 school year, with COVID policies, including universal free breakfast and lunch paid by federal funds, the number of breakfasts served were 18% above 2019 and the number of lunches served were 26% above 2019. It is not clear if the increase can only be attributed to free meals, but if a similar effect were to occur by this bill providing universal free lunch with state funds, the cost to the state would be approximately \$6.5 million per year higher than estimated in this fiscal note.
14. The federal reimbursement rate for all categories was raised during the COVID pandemic and is still in effect. There has been some consideration at the federal level of returning to pre-COVID rates. If reimbursement rates were to return to 2019 levels, the cost of this bill would be reduced by approximately \$3.5 million per year.
15. HB 863 appropriates \$22.0 million for each year of the 2025 biennium. The legislature intends that the appropriation be considered part of the ongoing base for the next legislative session.
16. The \$22.0 million appropriation is \$368,227 less than the projected costs of the program in FY 2024 and \$413,773 less in FY 2025.

	<u>FY 2024</u> <u>Difference</u>	<u>FY 2025</u> <u>Difference</u>	<u>FY 2026</u> <u>Difference</u>	<u>FY 2027</u> <u>Difference</u>
<u>Fiscal Impact:</u>				
<u>Expenditures:</u>				
Operating Expenses	\$75,000	\$0	\$0	\$0
Distribution to Schools	\$22,293,227	\$22,413,773	\$22,532,996	\$22,611,006
TOTAL Expenditures	<u>\$22,368,227</u>	<u>\$22,413,773</u>	<u>\$22,532,996</u>	<u>\$22,611,006</u>
<u>Funding of Expenditures:</u>				
General Fund (01)	\$22,368,227	\$22,413,773	\$22,532,996	\$22,611,006
TOTAL Funding of Exp.	<u>\$22,368,227</u>	<u>\$22,413,773</u>	<u>\$22,532,996</u>	<u>\$22,611,006</u>
<u>Revenues:</u>				
General Fund (01)	\$0	\$0	\$0	\$0
TOTAL Revenues	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	(\$22,368,227)	(\$22,413,773)	(\$22,532,996)	(\$22,611,006)

Technical Notes:

1. The definition of “participating school district” should include a reference to 20-6-101, MCA, which defines elementary and high school districts.

 _____ Sponsor's Initials	<u>3-27-23</u> _____ Date	 _____ Budget Director's Initials	<u>3-24-23</u> _____ Date
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