Food and Nutrition Service August 2020

Assessing the Child Nutrition State Administrative Expense (SAE) Formula (Summary)

Background

The U.S. Department of Agriculture's Food and Nutrition Service (FNS) provides State administrative expense (SAE) funds to State agencies to support administration and oversight of Federal child nutrition programs (CNPs) in their State. The Child Nutrition Act of 1966 (42 United States Code1776) authorizes SAE funds, establishes requirements, and provides direction to FNS on their allocation and use. In Fiscal Year (FY) 2019, FNS provided nearly $299 million in the initial allocation of SAE funds to the 81 State agencies that administer CNPs. These funds are available for 2 years, but State agencies may only carry-over 20 percent of funds into the next year.

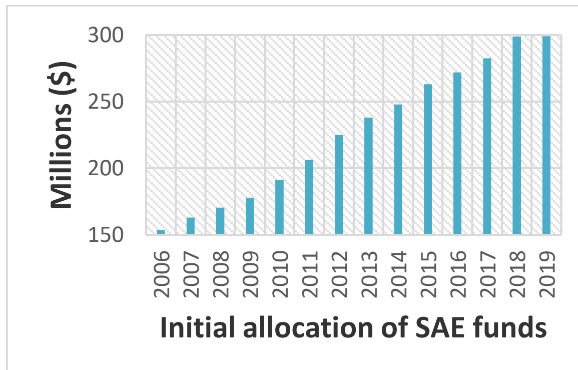
There is an annual reallocation process that allows State agencies to request additional SAE funds above their initial authorized level or return funds that they do not need. Reallocated funds may support general administrative expenses.

This study examines the formula used for allocations of SAE funds, identifies factors that influence State agency spending, and presents a series of options for consideration to potentially improve SAE allocations and procedures.

Key Study Findings

- **State agency perceptions of the adequacy of their SAE allocation are closely linked to the size of their programs.** The SAE formula allocates funds based on program size and the number of programs administered by individual State agencies.
- **State agencies that administer multiple CNPs in large-population States reported that SAE funding is sufficient**. These States have had excess funds and returned them to FNS for reallocation to other States.
- **The small-size multi-program agencies and the single-program agencies reported that their base SAE allocation is not enough to cover their costs.** These State agencies are allocated less funds due to the structure of the SAE formula.
- **The total dollar value of initial SAE allocations has steadily increased over time** with recent growth at a slower rate than in the past. Initial allocations of SAE funds increased by an annual average of 5.3 percent from FY 2006 to FY 2019. Annual increases are due to participation changes and inflation.

State Administrative Expense (SAE) Allocations: U.S. Total (Fiscal Years 2006-2019)



- **Small agencies that only administer the Food Distribution Program (FDP) reported they are unable to rely exclusively on their initial SAE allocation to administer the program fully.** Instead, they must seek other funding sources such as fees charged to SFAs, SAE reallocation, and State-level funds.
- **Smaller State agencies that administer only the FDP or the Child and Adult Care Food Program (CACFP) were less likely to carry over funds into the next FY.** These smaller State agencies receive less SAE funds through the allocation formula compared to larger State agencies that administer multiple child nutrition programs.
- **The number of State agencies receiving reallocated funds more than doubled,** from 17 in FY 2006 to 35 in FYs 2017 and 2018. Reallocated funds were typically used to support Information Technology (IT) automation projects and infrastructure, and FDP administration.

Options for Consideration

Based on analysis of historical data on SAE allocations and usage, and input from stakeholder interviews and public comments, the report identifies options to consider to improve SAE allocations and processes. It notes whether each change would require updates to policy, regulation, or legislation, and whether they affect the nondiscretionary or discretionary parts of the SAE formula. NOTE: Due to the statutorily set amount of SAE, any increase listed below will directly reduce the amount of residual SAE funds. Residual SAE constitutes the overwhelming majority of funds provided for FDP administration.

Nondiscretionary option:

- **Increase the current minimum levels in the allocation formula.** Part of the allocation formula is based on previous program expenditures (a reflection of program size). To provide greater support for State agencies with smaller program size, the minimum grant level could be increased and an annual inflator added to better reflect State agency costs. Such an increase would require a statutory change to Section 7(a)(2)(B)(i) of the Child Nutrition Act.

Discretionary options:

- **Increase discretionary SAE funding for FDP.** As evidence to the need for funds for FDP, 40 of the 53 State agencies that administer the FDP charge fees to their SFAs to offset the costs of storage and distribution of USDA Foods. Implementation would require a regulatory change to 7 CFR Part 250.13(b)(2).
- **Increase the base allocation.** This would provide support for FDP to all States equally and may allow States to eliminate or reduce the fees they are charging to SFAs. Implementation would require a regulatory change to 7 CFR Part 250.13(b)(2).
- **Increase FDP allocations for stand-alone FDP agencies**. The 15 stand-alone agencies nearly always fully utilize their initial SAE allocations and often request more funding. Implementing this option would require a regulatory change to 7 CFR Part 235.4(b).
- **Increase FDP residual funds** for the 13 States with the lowest population density that have higher costs related to higher per pound transportation and staffing costs. Implementing this option would require a regulatory change to 7 CFR Part 235.4(b).
- **Increase the level of discretionary funding for the Administrative Review (AR).** FNS could accomplish this by increasing the total amount of SAE funding targeted to the AR, and target larger States by prorating 60 percent of these funds (instead of 20 percent under the current formula) to State agencies based on the total number of SFAs in each State agency. Implementation would require a regulatory change to 7 CFR Part 235.4(b)(3).

Other potential options include exempting reallocated funds from the 20 percent carryover limit, providing continued assistance with IT modernization, requiring State agencies to devote all of their FDP allocation to support FDP administration to avoid charging storage and distribution fees to SFAs, and converting USDA Foods funds to FDP administrative funds.

Methodology

This study analyzed administrative data for all 81 State agencies and collected qualitative data through in-person interviews with respondents in 22 State agencies from 12 purposively selected diverse States based on their historical spending patterns, program size, administrative structure, State match contributions, and FNS region. Respondents in each State included State directors and key staff. These interviews were supplemented with public comments from 37 stakeholders who responded to a Federal Register Request for Information. This study was conducted during school year (SY) 2018-2019.

For More Information

U.S. Department of Agriculture, Food and Nutrition Service, Office of Policy Support. *Assessing the Child Nutrition State Administrative Expense (SAE) Formula*, by Melissa Rothstein, Vivian Gabor, Chris Manglitz, Shaima Bereznitsky. Project Officer: Jinee Burdg. Alexandria, VA, August 2020.

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