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Assessing the Child Nutrition State Administrative Expense (SAE) Formula

Final Report

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Executive Summary

The *Assessing the Child Nutrition State Administrative Expense (SAE) Formula* study examines the effectiveness of the formula used for allocations of SAE funds, identifies and examines factors that influence State agency spending, and presents a series of options for consideration by FNS that may improve SAE allocations and procedures. Since the last comprehensive study of SAE in 1985, there have been numerous legislative, regulatory, and policy changes to the programs covered by SAE, and modifications to SAE funding rules that have impacted States' needs for SAE. FNS data on SAE funds usage and informal input from State agencies also indicated in recent years that some State agencies may face challenges with their SAE allocations.

Background and Study Design

The U.S. Department of Agriculture's Food and Nutrition Service (FNS) provides SAE funds to State agencies to support their administration and oversight of five Federal Child Nutrition Programs (CNPs): the National School Lunch Program (NSLP), the School Breakfast Program (SBP), the Special Milk Program (SMP), the Child and Adult Care Food Program (CACFP), and the Food Distribution Program for schools and institutions (FDP). The Child Nutrition Act of 1966 (42 U.S.C. 1776) authorizes SAE funds, and 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 these CNPs.

The allocation formula for SAE funds established in the statute and further specified by FNS in program regulations and policy guidance provides funds for each CNP administered by a State agency. The vast majority of funds (83 percent, or $248.8 million of the $299.0 million in FY 2019) are allocated to State agencies that administer the School Programs (NSLP, SBP, SMP) and CACFP, based on prior program expenditures, through the "nondiscretionary" formula prescribed in the law. Allocation of the remaining funds is governed by program regulations, which distribute funds for each of the programs based on equal shares and/or pro-rata shares determined by certain State characteristics. Regardless of the individual program allocations, State agencies may use the funds across the CNPs they administer for any allowable State-level expense.

This study was conducted in three phases, each phase built upon the findings of the prior one. Under Phase I, we analyzed SAE administrative data that is reported to FNS each quarter. We also utilized extant information to describe the SAE allocation formula, its statutory and regulatory basis, historical evolution and use to provide an overview of how the SAE process works.

Phase II involved in-depth interviews with directors and key staff in 22 State agencies from 12 purposively selected diverse States to learn about their SAE processes and the factors that affect their use of SAE funds, and identify practices and strategies that help States use the funds effectively, as well as feedback on recommendations for changes to SAE funding and processes to improve State administration. These interviews were supplemented with input from 37 stakeholders who provided public comments in response to a Federal Register Request for Information. Finally, in Phase III we conducted in-depth analysis of the most up-to-date FNS allocation and spending data and of data collected in Phase II to develop and test options for possible changes to the SAE formula and processes.

Key Study Findings

1. Initial Allocations

The total dollar value of the initial SAE allocation has steadily increased over time; with recent growth at a slower rate than in the past. Total annual initial allocations of SAE funds increased by an average of 5.3 percent over the 14-year period from FY 2006 to FY 2019.[1] The rate of growth is driven by program participation and annual inflation as reflected in changes in the per-meal reimbursement rates. The largest annual increases occurred between FY 2010 and FY 2012, and again in FY 2015. The slight increase in FY 2019 of 0.1 percent, the lowest increase of all years examined, corresponds to a decrease in total meals served in NSLP, SBP, SMP and CACFP in FY 2017.[2] Rates of growth for individual State agencies varied over this time period based on their levels of program participation.

[1] Initial analyses at the inception of the study were performed using FNS data for the preceding 10-year period beginning in FY 2006. More recent available data through FY 2019 were added for the final report.

[2] Child Nutrition Tables available on USDA.gov.

State agency input indicates that their ability to adequately fund administration of the CNPs with their initial SAE allocation varied. However, the majority (21 of 36 State agencies that were interviewed or submitted public comments) reported that their SAE allocation was not enough to cover the cost of administering the CNPs, or in the near future will be insufficient to allow them to fulfill all of their program duties. Variations in State agency views on the adequacy of their SAE allocations appear to be closely linked to the size of their programs[3] and thus their total allocation levels.

- **The majority (9 of 11) of large State agency respondents reported that their current SAE allocation was sufficient.** Several of these respondents attributed the adequacy of SAE to the fact that all CNPs are administered under one agency in the State, which provides increased flexibility in the use of funds.

- **Conversely, all of the small State agency respondents reported that their SAE allocation fell far below their costs, and medium-sized State agency respondents had mixed perspectives on the adequacy of their allocations.** The most common factors cited as making it more difficult for these State agencies to operate under their current SAE levels include expanded Federal requirements and initiatives; State demographics in States with large territories and low population density; the number and type of SFAs in the State; rising costs for resources such as personnel and Information Technology systems; and State policies and rules such as hiring freezes and State purchasing and bid requirements.

- **Study respondents from State agencies that administer FDP, particularly small agencies that only administer FDP, reported they can not rely on their initial SAE allocation to administer FDP.** Instead, they must seek other funding sources such as SAE reallocation, State-level funds, and fees charged to school food authorities.

2. Carryover

The percent of the total initial allocation carried over by State agencies was generally steady, with a spike in the four-year period surrounding HHKFA enactment in 2010, including the two years State agencies received significant additional funding for implementation. The average amount carried over since FY 2014 was 14.5 percent of the initial allocation, with 13.3 percent carried over in FY 2018. All State agencies carried over SAE funds at least once, and nearly two-thirds carried over funds every year or all but one year that they received SAE. All but one of the 10 agencies that used

[3] For purposes of this study, large sized State agencies are defined as those that received FY 2019 SAE allocations greater than $4 million; medium sized agencies received allocations between $2 million and $4 million; and small sized agencies received less than $2 million.

the carryover option less frequently (five or fewer years during the 13-year period) were single program agencies that administer only the FDP or CACFP, and thus have more limited funds.

3. Reallocation

Reallocation is a critical resource for some State agencies, and particularly stand-alone agencies that administer FDP. The number of State agencies receiving reallocated funds more than doubled from 17 State agencies in FY 2006 to 35 State agencies in FYs 2017 and 2018. During this time period the average reallocation amount per State agency increased by 265 percent, from $127,856 in FY 2006 to $467,223 in FY 2018. Despite the diversity in uses, reallocated funds were used consistently and increasingly to support IT automation projects and infrastructure, and FDP administration. Study interviews with officials from FDP stand-alone agencies confirm this group's relatively greater dependence on SAE reallocation to support their programs.

4. Recoveries

The percent of the total initial SAE allocation recovered between FY 2006 and FY 2018 ranged from a low of 0.6 percent in FY 2008 to a peak of 7.2 percent in FY 2012, which was the first of two years State agencies received additional funds for HHFKA implementation. Recoveries have generally declined since FY 2015, with 3.6 percent of funds recovered in FY 2018. Recoveries were almost two times more frequent among large-size agencies (18.1 percent) than small-size agencies (9.2 percent).

It was uncommon for State agencies to have both received reallocated funds and surrendered recovered funds in the same year: 11 State agencies had both reallocation of funds and recovered funds equal to or greater than 10 percent of their total SAE allocation in the same year once, and four State agencies were in that situation two years.

5. Transfer of Funds

Transfer of SAE funds between agencies within the same State is infrequently used. Each year from FY 2006 to FY 2016, SAE funds were transferred between State agencies in only two to five States. Only one State used this option in FY 2017 and no State did so in FY 2018. In some States transfers are difficult to implement due to internal State requirements or prohibitions, and restrictive timelines on use of funds.

Options for Consideration

Based on analysis of historical data on SAE allocations and usage, and input from stakeholder interviews and public comments, we developed several options that FNS may wish to consider to improve SAE allocations and processes. In considering these options, it is important to note whether the change can be implemented through updates to policy, regulation, or legislation.

1. Options for Revising SAE Allocations to State Agencies

These options target increases to small State agencies, School Program State agencies that need assistance in performing Administrative Review (AR), and FDP agencies (both overall and stand-alone FDP agencies).

- **Increase the current $200,000 minimum allocation for nondiscretionary School Program funding to either $300,000 or $400,000.** This would provide targeted increases in SAE funds for six small-sized State agencies ($300,000 minimum), or nine small-sized State agencies ($400,000 minimum). This option could be more effective long-term if it was accompanied by an annual adjustment to the prior year's minimum grant level, using an appropriate index.

- **Increase the level of discretionary funding for Administrative Review (AR) and allocate the majority of AR funds based on total number of SFAs in each State.** Currently, FNS sets aside $8 million for allocation to State agencies to assist them in implementing the AR process for School Programs. The option for consideration is to increase the total SAE funding targeted to AR and change the formula for its distribution so that 60 percent (instead of 20 percent) are prorated among the State agencies based on the total number of SFAs in each State agency. If the AR funding is increased to $9 million, 38 State agencies would receive increased funding; at the $10 million level, 44 State agencies would receive increased funding. Because either funding increase would result in only a modest median increase in funding for the targeted States, FNS may wish to consider this option in combination with an increase in the minimum grant, to provide greater funding increases to the smallest agencies that administer School Programs.

- **Increase the Base FDP Allocation from $30,000, to either $60,000 or $90,000.** Currently, each State agency that administers FDP receives base minimum funding of $30,000. An increase in this amount would benefit all of the 53 State agencies that administer the FDP.

- **Increase the Base FDP Allocation for Stand-alone FDP agencies to $120,000**. This option would be targeted to the 15 stand-alone State agencies and increase each of their FDP allocations by $90,000. This option could be considered in combination with an increase to all FDP agencies, with a greater increase provided to the stand-alone FDP agencies.

- **Increase FDP Residual Allocations for the 13 States with the Lowest Population Density**. To increase funding for the 13 States with the lowest population density FNS could provide those agencies with a 10 percent or 25 percent premium in SAE residual funding.

2. Options for Other SAE Processes and Supports

The study findings also point to the following procedural options and other changes that could be considered to assist States in administration of the programs and maximize use of SAE allocations.

- **Reallocation**. To maximize States' ability to fully spend their approved reallocated SAE funding, FNS could consider notifying States about their reallocation award earlier in the year, and to exempt the reallocated funds from the 20 percent carryover limit.

- **IT Modernization.** To the extent possible FNS could consider how to provide continued assistance to States with the cost of building and maintaining IT systems to enable more efficient and effective administrative program oversight. This could include additional Technology Innovation Grants, and possibly with targeted assistance to smaller agencies whose IT systems are furthest behind their peers.

- **Require that State agencies that administer multiple CNPs devote all or a specified portion of their FDP allocation to support FDP administration.** This would enhance FDP administration in those State agencies that use a portion of their FDP allocation for the administration of other CNPs, including those that currently charge storage and distribution fees to SFAs.

- **State Option to Convert USDA Foods Funds to FDP Administrative Funds.** To assist State agencies that have shortfalls in SAE funding for the FDP, an option could be considered to permit State agencies to convert up to 10 percent of their annual allotment of USDA Foods to administrative funds —an option which parallels a similar statutory provision that allows States to convert 15 percent of food dollars for The Emergency Food Assistance Program (TEFAP) to TEFAP administrative dollars.

1. Introduction and Study Overview

1.1 Background

The U.S. Department of Agriculture's (USDA's) Food and Nutrition Service (FNS) administers 15 nutrition assistance programs with the dual purpose of strengthening the nutrition safety net of low-income children and families and supporting American agriculture. The focus of this study, *Assessing the Child Nutrition State Administrative Expense (SAE) Formula,* is the SAE allocation provided for five of the Federal Child Nutrition Programs (CNPs): the National School Lunch Program (NSLP), School Breakfast Program (SBP), Special Milk Program (SMP), Child and Adult Care Food Program (CACFP), and the Food Distribution Program for schools (FDP).[4]

These CNPs are operated by a wide variety of local public and private providers that enter into agreements with State agencies. The State agencies include Education, Health, Human Services, Social Services, and Agriculture departments. In FY 2019, there are 81 State agencies in 54 States and territories that administer the programs SAE covers. They are responsible for oversight and administration, including monitoring program operations, providing technical assistance, and distributing Federal cash reimbursements and USDA Foods. The number of agreements State agencies have with local CNP entities varies significantly by type of entity and program, and affects the level of effort needed in State administration.

State agencies receive SAE funds from FNS to help cover the costs of administering the CNPs. For Fiscal Year (FY) 2019, FNS provided nearly $299 million through the initial SAE allocation to State agencies. The funds are appropriated annually to USDA FNS under the authority of Section 7 of the Child Nutrition Act of 1966 (the Act).[5] The Act prescribes the total amount of funds available for SAE and a formula for allocating the majority of the funds to States, and provides FNS with authority to decide how to allocate remaining funds. The Act also sets funds availability at two years, authorizes a reallocation process for unused funds, and requires a State plan for use of the funds. SAE funds can be spent on reasonable, allocable, and necessary expenses incurred by the State

[4] State administrative funds (SAF) for the Summer Food Service Program are provided separately from SAE, in accordance with 42 USC 1761(k); use of these funds is not directly covered by this study.

[5] 42 U.S.C. 1776.

agency including, but not limited to, salary and benefits, staff training, office equipment and technology, warehouse and shipping costs, support services, travel, monitoring, and technical assistance activities. Under the Act's "State Funding Requirement," States must provide funds in an amount that is not less than the level the State provided in Fiscal Year (FY) 1977.

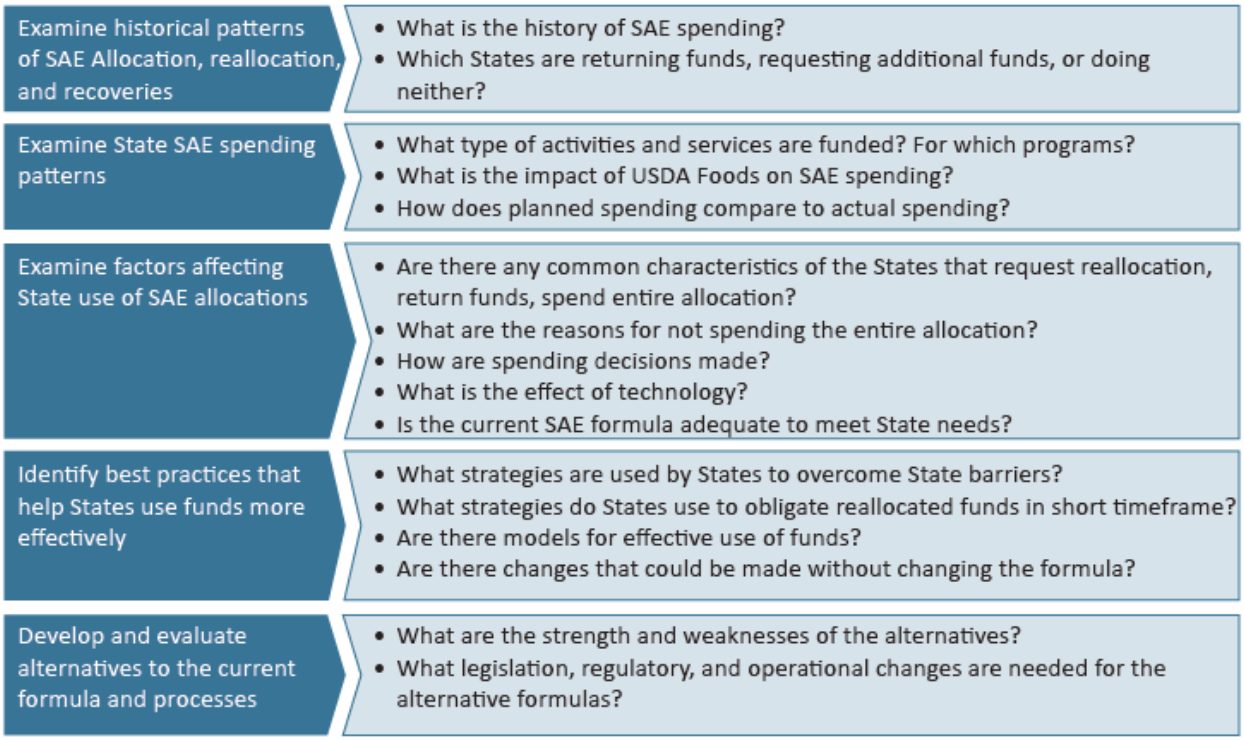
There has not been any comprehensive research conducted on SAE since a 1985 FNS study that included review of national data and case studies in ten States.[6] Although there have been several legislative, regulatory, and policy changes to SAE since the 1985 study, many of the changes were relatively minor, and the allocation formula did not change. In addition, FNS data on use of funds indicates that some State agencies may have challenges with their SAE allocations. SAE allocations are not always meeting the overall needs of the States, as some State agencies return funds, while others routinely request additional funds.

1.2 Study Objectives and Research Questions

This study assesses the effectiveness of the current formula used for SAE allocations, and identifies and examines factors that influence State spending. In addition, the study presents several options that FNS could consider to improve SAE allocations and/or processes. There are five study objectives with key research questions, as shown in Figure 1-1.

[6] USDA, Food and Nutrition Service, An Examination of State Administrative Expense Funding in the Child Nutrition Programs, Alexandria, Virginia, September 1985.

Figure 1-1. Key research questions



1.3 Overview of the Study Design

The study followed a three-phase study design to provide a thorough assessment of SAE, as described below.

- **Phase I: SAE Historical Spending and Allocation Patterns.** We described the SAE allocation formula, its statutory and regulatory basis and historical evolution. Using FNS data, we also examined patterns in SAE allocation, reallocation, and recovery, as well as shifts in State trends over time.

- **Phase II: Case Studies and Other Stakeholder Input.** We conducted in-depth interviews with purposively selected State administrators and collected and analyzed input from other interested stakeholders to determine administrative processes related to preparing budgets and expending funds, examine factors affecting use of funds, and identify practices and strategies that help States use funds effectively.

- **Phase III: Alternative Formulas and Processes.** Based on the results from Phases I and II, we developed and tested a range of possible alternative algorithms to improve the allocation formula. We also identified changes to current processes for consideration.

1.4 Organization of this Report

In the following chapters of this report we describe the study methodology (Chapter 2); provide background on the SAE allocation formula (Chapter 3); present findings from the review of national level data, State case studies, and input from other stakeholders (Chapter 4); and present options for consideration to improve SAE allocations and other processes in response to key study findings (Chapter 5).

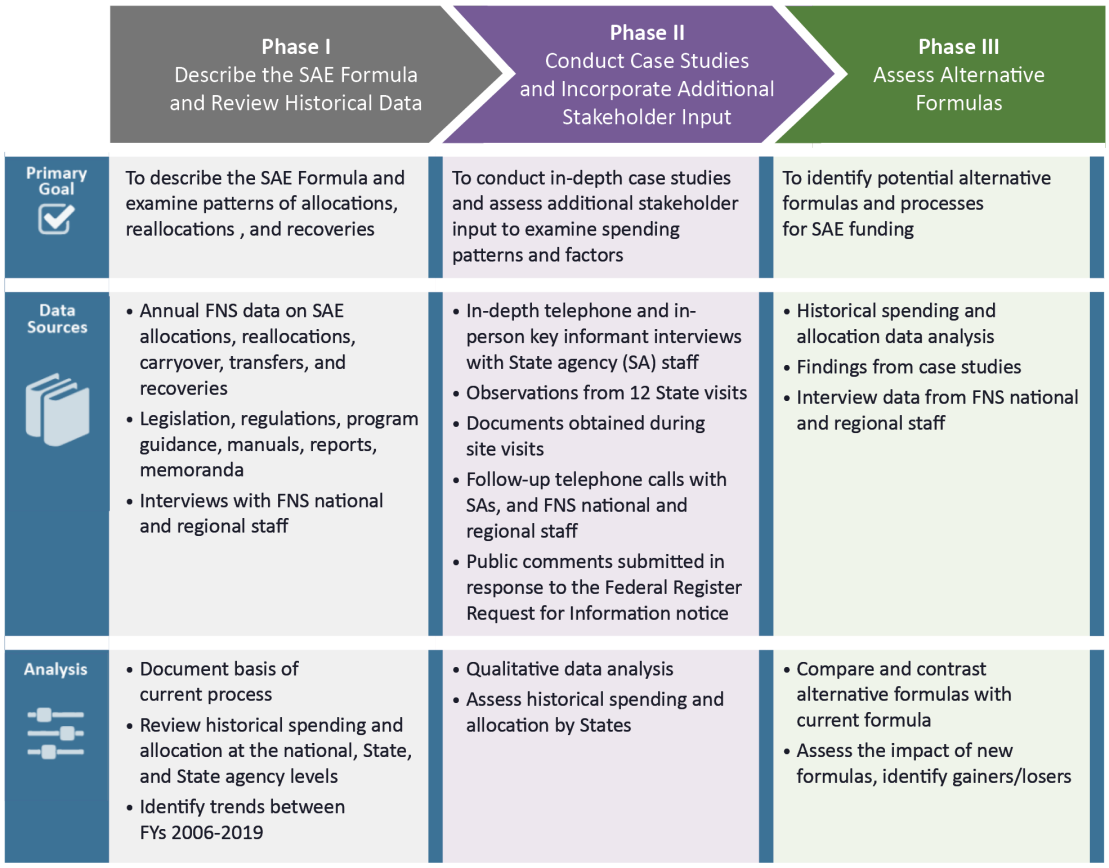
2. Study Methods

2.1 Overview of Study Design

This study was conducted in three phases to provide a thorough assessment of the Child Nutrition SAE. The first phase included a review of legislation, regulations, and policy memoranda related to SAE, and historical spending and allocation patterns at the national and State agency levels. Phase II involved case studies of 12 States, and review and analysis of public comments provided in response to an FNS Request for Information published in the Federal Register on July 30, 2018 (83 FR 36516). In Phase III, we developed options for revisions to the SAE allocation formula and funding processes. The data sources and analysis for Phases I-III are described in more detail below, and the results are summarized in Chapter 4. Chapter 5 presents the options for revising SAE funding allocations and other related processes.

As shown in Figure 2-1, each phase was conducted in sequential order, in which findings from earlier phases informed the activities in subsequent phases. For instance, through a historical review of SAE spending and allocation patterns, we determined the trends in SAE funds usage and provided an initial overview of funding patterns. The findings from Phase I were used to build the criteria for selecting the States for the subsequent in-depth case studies and develop the key informant interview protocols for interviews with State officials in those States. The analysis outputs from Phases I and II cumulatively provided insight on factors that affect the adequacy of State SAE spending and allocations and the data needed to construct options that may be considered for revising SAE funding allocations and the SAE funding processes.

Figure 2-1. Overview of data collection methods, sources, and analysis



2.2 Data Sources

There are four primary data sources used for this study: extant textual materials on SAE legislation, regulations and policies; historical FNS data on State agency SAE allocations, reallocations, and spending; interviews conducted in 2018 with State agency officials from 12 purposively selected States; and public comments to a July 2018 Federal Register Request for Information. The findings in Chapter 4 draw from each of these sources.

2.2.1 Legislation, Regulations, and Child Nutrition Policies

At the onset of the study, we conducted a comprehensive review of Child Nutrition legislation, regulations, policies, studies, and other materials relevant to SAE. We documented the legislative history of amendments to Section 7 of the Child Nutrition Act of 1966 (42 U.S.C. 1776) affecting SAE. The 1985 study on SAE, *An Examination of State Administrative Expense Funding in the Child*

Nutrition Programs, provided information on SAE, the formula, and its history that complemented the legislative research. We also reviewed the SAE regulations at 7 CFR Part 235, as well as current and historical FNS policy memoranda, guidance materials including two FNS-developed PowerPoint presentations on SAE, and SAE-related forms for State reporting to FNS (i.e., FNS Form 525, *SAE Funds Reallocation Report).* This approach allowed us to understand the requirements and evolution of SAE and to fully document the basis—statutory, regulatory or FNS policy—for the allocations made under the formula. In addition, the SAE historical milestones helped inform the analysis of historical SAE spending and allocation patterns described in Section 3.2.2.

To enhance our review of written materials, we conducted a few short telephone interviews with FNS key staff in the Child Nutrition and Food Distribution Programs (national and regional offices) responsible for allocation, reallocation and overall tracking of SAE funds. These interviews provided an opportunity to clarify outstanding questions and solidify areas of focus for the study.

2.2.2 FNS Historical Data for SAE Funds

For the initial historical analysis, FNS provided SAE data, by State agency, on initial allocations for FYs 2006 through 2017, and data on reallocation, carryover, transfers and recoveries for FY 2006 through FY 2016. For reallocations, the agency also provided the FNS memoranda for each fiscal year detailing approvals, including the dollar amounts and purpose of the approved projects, and any disapprovals and returns. The analysis conducted for the study in 2017 focused on identifying spending patterns at the State level over time and provided information to assist in the selection of States for the in-person interviews. We also used historical data as a reference to prepare for each of the State agency interviews, which allowed us to effectively probe to understand reasons behind the spending history. In preparation for this final report, FNS provided additional datasets for FYs 2017 to 2019 that allowed us to update the trends analysis with more recent data.

2.2.3 Interviews with State Agency Officials in 12 States

We collaborated with FNS to purposively select 12 States for in-depth qualitative interviews. Using SAE program allocation and spending data that FNS provided for FY 2006 through FY 2016, we selected a diverse group of States for this phase of the study based on their historical spending patterns, program size, State administrative structure, State match contributions, and FNS region.

Table 2-1 displays each selected State, the 22 State agencies that administer the CNPs in these States, and which programs they administer.

Table 2-1. Selected State agencies and programs administered

State agency	Programs administered
ALABAMA	
Education	All
ARIZONA	
Education	All
COLORADO	
Education	NSLP, SBP, SMP
Health	CACFP
Human Services	FDP
CONNECTICUT	
Education	All
DISTRICT OF COLUMBIA	
State Superintendent of Education	All
FLORIDA	
Agriculture & Consumer Services	NSLP, SBP, SMP, FDP
Health	CACFP – children
Elder Affairs	CACFP – adults
INDIANA	
Education	All
NEBRASKA	
Education	NSLP, SBP, SMP, CACFP
Social Services	FDP
NEW MEXICO	
Public Education	NSLP, SBP, SMP
Children, Youth, and Families	CACFP
OKLAHOMA	
Education	NSLP, SBP, SMP, CACFP
Human Services	FDP, private schools
Human Services	FDP
RHODE ISLAND	
Elementary and Secondary Education	NSLP, SBP, SMP, CACFP
Corrections	FDP
WEST VIRGINIA	
Education	NSLP, SBP, SMP, CACFP
Agriculture	FDP

The in-depth interviews with 22 State agencies were conducted over a four month period from late May through September 2018. The first stage of data collection consisted of reviewing each State's most recent SAE Plan. Next, telephone interviews were conducted to collect general background information and identify the key staff who should be interviewed from each agency based on their engagement in the planning and monitoring of SAE spending. Follow-up one-to three-day site visits

were then conducted to collect the in-depth information needed to answer the study research objectives.[7]

A two-person research team conducted the interviews with each study State using a tailored, semi-structured interview guide that addressed the broad research purposes shown in Figure 2-2. Immediately following each agency interview, the research team completed a summary of key findings to highlight the themes that arose during the interview, based on interview summary notes. Each interview was also taped by digital recorder and then transcribed verbatim for the structured qualitative analysis described below.

Figure 2-2. Objectives of State interviews

- **Determine the processes and strategies each agency uses to manage its SAE budget and spending.**
- **Identify what works well about SAE for each agency.**
- **Assess the perceived adequacy of each agency's SAE allocation.**
- **Examine the external and internal factors affecting the agency's use of SAE funds.**
- **Obtain recommendations for how the SAE allocation formula and other aspects of SAE funding processes could be improved to help States administer the CNPs most effectively.**

2.2.4 Additional Input from Federal Register Request for Information (RFI) Comments

To gain broader input on the availability and use of SAE funds, on July 30, 2018, FNS published a Request for Information (RFI) in the Federal Register. The RFI was designed to elicit information similar to the case study interviews of State agencies, to analyze the factors that affect the adequacy of current SAE allocation levels and spending patterns of diverse State agencies as well as to obtain further recommendations for improving the allocation and use of SAE funding to meet State needs for administering the CNPs.

FNS received comments from 37 organizations and individuals in response to the RFI. These included 22 State agencies that receive SAE allocations, of which 16 were from an identified agency and six were anonymous. Another three commenters were from national associations. Eight commenters were from local education agencies, and one comment was submitted by a State

[7] In-depth in-person interviews were conducted with 18 of the State agencies. Due to logistical issues, in-person interviews planned for staff from the two State agencies in West Virginia, one State agency in Connecticut, and one of the two State agencies in Rhode Island were conducted by telephone.

cooperative that helps with storage and distribution of USDA Foods for the local education agencies in the area. One comment was from a State Department of Agriculture that receives a small amount of SAE funding for the Farm to School Program from a State agency but does not receive an SAE allocation directly from FNS. Finally, two commenters were people responding as interested individuals.

Key characteristics of the 16 State agencies that provided non-anonymous responses to the RFI are shown in Table 2-2. It is interesting to note that 11 of the 16 non-anonymous State agency commenters were from the only or the largest Child Nutrition agency in their State (i.e., they administer all of the CNPs or administer the school programs along with the FDP and/or CACFP), while comments were received from only two State agencies that administer a single CNP.[8] Additionally, eight of these commenters were from small-sized State agencies that received less than a $2 million initial SAE allocation in FY 2019.

[8] These two commenters were also among the 22 interviewed in person by the study team during summer 2018.

Table 2-2. Characteristics of State agency RFI respondents

State	FNS region	State agencies	SAE administered in single or multiple agencies		Types of CNP administered		
			Single	Multi	Schools	CACFP	FDP
Large State Agencies*							
California	WRO	Department of Education	✓		✓	✓	✓
Georgia	SERO	Department of Education		✓	✓		✓
Illinois	MWRO	State Board of Education		✓	✓	✓	✓
Minnesota	MWRO	Department of Education	✓		✓	✓	✓
Wisconsin	MWRO	Department of Public Instruction	✓		✓	✓	✓
Medium State Agencies							
Iowa	MPRO	Department of Education	✓		✓	✓	✓
Nevada	WRO	Department of Agriculture	✓		✓	✓	✓
Oregon	WRO	Department of Education	✓		✓	✓	✓
Small State Agencies							
Arkansas	WRO	Department of Education	✓		✓	✓	✓
District of Columbia	MARO	State Education Office	✓		✓	✓	✓
Idaho	WRO	Department of Education	✓		✓	✓	✓
Montana	MPRO	Office of Public Instruction		✓	✓		✓
New Mexico	SWRO	Children, Youth, and Families Department		✓		✓	
Oklahoma**	SWRO	Department of Human Services		✓			✓
Vermont	NERO	Agency of Education	✓		✓	✓	✓
Wyoming	MPRO	Department of Education	✓		✓	✓	✓

*For purposes of the study, large State agencies are defined as those that received more than $4 million in SAE funding; medium State agencies received between $2 million and $4 million; and small State agencies received less than $2 million in FY 2019.

**OK DHS primarily administers the FDP but receives a small amount of SAE to administer CNPs in a small number of private schools.

2.3 Analytic Approach

This section provides an overview of the process we used to analyze the quantitative FNS historical data on SAE funds allocation and usage, and the qualitative information obtained from State agency interviews and stakeholder comments in response to the Request for Information.

2.3.1 Descriptive Analysis of Historical SAE Spending Patterns

We began analysis of the historical data at the national level, to determine trends in the total amount of funding available year-to-year, and how much was carried over, reallocated, returned, and transferred. We also looked at the historical data at the State level, to examine each State's total SAE

allocation level compared to other States, and the average increase in SAE allocations by State over the period. We obtained extant data on each State's population of children under the age of 18, the number of children eligible for free and reduced price meals, and total number of SFAs, and examined the relationship between these data and the State SAE allocation.

At the State agency level, we examined trends on all aspects of the SAE funding process: initial allocation, carryover, reallocation, returns/recoveries, and transfers. In analyzing these data, we also examined differences based on State agency size and the various State agency types, to identify factors affecting the trends. For size comparisons, we divided the State agencies into three categories, based on their FY 2019 SAE allocations. For these purposes, we defined "large" State agencies as those that received more than $4 million in SAE funds through the initial FY 2019 allocation. "Medium" sized State agencies received between $2 million and $4 million, and "small" State agencies received less than $2 million. In analysis of agency types, we looked at whether the State administered the CNPs in one agency or multiple agencies, as well as whether particular State agencies administered multiple CNPs, or only School Programs, CACFP, or FDP.

2.3.2 Qualitative Analysis of State and Other Stakeholder Input

Each of the 22 interview transcripts and the text from the 37 RFI commenters was imported into NVivo Version 11 Plus qualitative analysis software. The text responses were coded and analyzed in broad categories organized around the key research questions of the site visits and questions FNS asked in the RFI. Numerous specific subcodes were then identified based on an initial team review of the transcripts and the key findings summary documents prepared by the site visit research teams after each interview. From coded text, common themes were identified and analyzed. A respondent classification system was also entered into the database and each transcript and comment was categorized according to respondent type. The State agencies were further categorized by location, program size, and the number and type of CNPs they administer. This classification allowed for qualitative analysis using data queries to identify similarities and differences in responses by State agency type where relevant.

The qualitative data were utilized to more closely examine how State agencies spend their SAE funds across the CNPs and the activities and services that these funds are spent on, including State and Federal policy priorities and modernization initiatives. These data also provided insights including

what stakeholders report works well about the SAE funding process and how State agencies vary in their perceptions of the adequacy of their SAE funding levels.

The interview responses also included rich data on the factors affecting State use of SAE allocations and strategies that help States plan their SAE budgets and spending more effectively. Through examination of the factors affecting State use of SAE allocations and analysis of the qualitative data by respondent characteristics, we were also able to investigate whether there are identifiable geographic, demographic, economic, or other characteristics of States that affect their views on the adequacy of the SAE allocation level and requests and ability to utilize reallocation funds.

Among the study States that had large recovered funding, the analysis also examines the reasons States provided for not spending their entire SAE allocation and the role State government plays in agencies' ability to spend funds, whether there is competition within the States to fund different programs, and reasons for use or non-use of the funds transfer option. Finally, the analysis of respondent recommendations includes several recommendations for making the SAE allocation formula more responsive to States' current or changing administrative needs. Their comments about other sources of CNP administrative funds and experience with the SAE funding process also identified other changes that could be made to allow for more effective use of funds, without changing the current allocation formula.

The findings from the qualitative analysis are summarized in Chapter 4.

2.4 Study Limitations

Given the study design, the qualitative data presented in this report is valuable but has limitations. Although the 22 State agencies interviewed as part of the study and the 37 commenters who provided input through the RFI are diverse, they are not representative of all State agencies that administer the CNPs and receive SAE Funds. As noted in Section 2.1 of this chapter, States were purposively selected for study interviews based on a variety of factors to reflect wide-ranging experiences and input. In addition, the Federal Register RFI served an important purpose in helping to ensure that all State agencies and other interested stakeholders had an opportunity to provide input to the study.

3. Background on the SAE Allocation Formula

This chapter provides contextual information important for understanding the State Administrative Expense (SAE) allocation formula, funds usage over time, and findings from State agencies and other interested stakeholders. In addition to a description of the current allocation formula, this chapter includes an overview of the programs covered by SAE, the State agencies that administer the Child Nutrition Programs (CNPs) and receive SAE funds, SAE funding levels and rules on allowable use of funds, and the history of SAE funds.

3.1 Programs Covered by SAE

The U.S. Department of Agriculture's (USDA's) Food and Nutrition Service (FNS) provides SAE funds to State agencies to support their administration and oversight of five Federal CNPs. The largest of these five programs—the National School Lunch Program (NSLP)—provides nutritionally balanced meals and snacks to an average of 30 million children per day in nearly 98,000 public and private non-profit schools and residential child care institutions (RCCIs). Operating similarly to the NSLP, the School Breakfast Program (SBP) provides breakfasts consistent with the current *Dietary Guidelines for Americans* in over 89,000 schools and institutions. Since the SBP was made permanent in 1975, participation has steadily increased from just under 2 million children to about 14.7 million children per day. The Special Milk Program (SMP) provides free and low-cost half-pints of milk to children who do not have access to other CNPs such as NSLP and SBP in the schools or institutions they attend. About 3,500 schools, RCCIs, and camps participate. USDA also procures and distributes about 1.3 billion pounds of commodities (USDA Foods) annually to schools participating in the NSLP, through the Food Distribution Program (FDP) for schools and institutions. While specific foods vary each year, available choices include high quality vegetables, fruits, dairy products, whole grains, lean meats, and other protein options. The total Federal cost of the NSLP, SBP, SMP, and FDP in Fiscal Year (FY) 2017 was about $17.9 billion.[9]

The Child and Adult Care Food Program (CACFP) improves both the quality of day care and its affordability for low income children. Through CACFP, over 4.5 million children per day receive

[9] FNS data for FY 2017 accessed at Child Nutrition Tables available on USDA.gov.

nutritionally balanced meals and snacks in child care centers, family day care homes, afterschool care programs, and emergency shelters. In addition, about 134,000 adults receiving care in nonresidential adult day care centers receive CACFP meals and snacks.[10] The Federal cost of CACFP in FY 2017 was about $3.5 billion.

The CNPs for which SAE funds are allocated are operated by a wide variety of local public and private providers that enter into agreements with State agencies. These State agencies are responsible for oversight and administration, including monitoring program operations and distributing Federal cash reimbursements and USDA Foods. Local organizations that have agreements with the State agency to operate NSLP, SBP, and SMP–collectively referred to in this report as the School Programs—are referred to as school food authorities (SFAs). SFAs are public and private nonprofit local entities that operate the programs in schools and RCCIs under their jurisdiction. The number of SFAs across States varies widely, often dependent on the educational structure of local educational agencies in the State (e.g., county-based school systems compared to town or city-based systems). Under the FDP, USDA accepts food orders from State agencies and purchases food for State agencies to provide to SFAs for use in their meal service (USDA Foods). State agencies are responsible for the ordering, storage, and distribution of the USDA Foods to the local "recipient agencies," i.e., SFAs.

In CACFP, State agencies enter into agreements with "institutions," which include independent (i.e., single-site) child care centers, adult care centers, and sponsoring organizations of family day care homes and/or centers. Similar to SFAs in the School Programs and FDP, the number of CACFP institutions across States varies widely, based on a variety of factors such as the popularity of family day care homes vs. centers, and the number of afterschool care programs. The adult care component of CACFP is very small; the majority of meals are served in a few States.

The State agencies that administer the CNPs include Education, Health, Human/Social Services, Agriculture, and other agencies. In total as of FY 2019, there are 81 State agencies[11] in 54 States and Territories that administer the programs receiving SAE funds. As shown in Figure 3-1, in 32 States

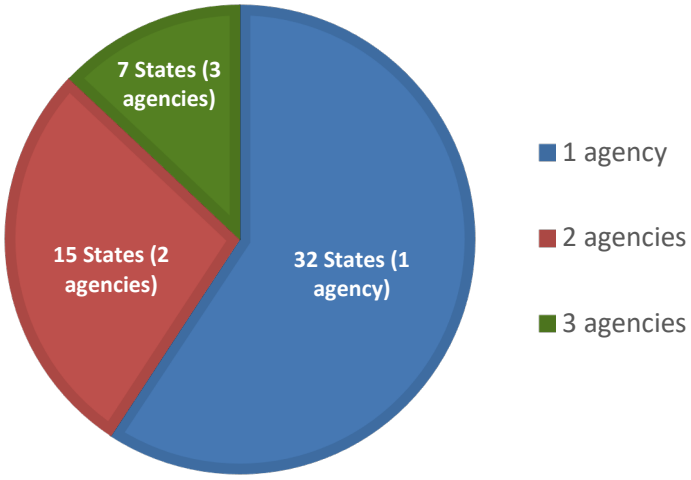
[10]FNS Keydata Report accessed at Program Information Report (Keydata), U.S. Summary, FY 2018-FY 2019, published by the Food and Nutrition Service, available on USDA.gov.

[11]In addition to the 81 State agencies, the FNS Mountain Plains Regional Office administers part of the School Program in Colorado and receives SAE funds.

there is one agency administering all CNPs; 15 States have two agencies; and the remaining seven States have three agencies. State agency administration of the CNPs has changed over time in some States. For example, some States have transferred administration of the programs from one type of agency to another (Education to Agriculture); some States have consolidated administration from multiple to a single State agency; and others have expanded the number of agencies administering the programs.

A listing of all State agencies that received SAE in FY 2019 is provided in Appendix A.

Figure 3-1. Number of agencies administering CNPs in 54 States



3.2 SAE Funds Overview

Given the scale and operational complexity of the programs, State agencies have significant administrative costs. Federal SAE funds cover some of these costs. Almost $299 million in SAE funds were allocated among State agencies for the initial allocation in FY 2019.

SAE funds are authorized under Section 7(a) of the Child Nutrition Act of 1966 (42 U.S.C. 1776(a)) for costs incurred in the State-level administration of the CNPs. Under this authority, Congress appropriates SAE funds on an annual basis to FNS. Funds are allocated to State agencies based on an allocation formula in quarterly increments through letters-of-credit. Funds must be expended in accordance with the State agency's approved SAE Plan and the requirements of the cost principles

set forth in regulations at 2 CFR Part 200.[12] Allowable costs may include such items as salary and benefits, staff development, office equipment, support services, training, technical assistance, travel, and monitoring. SAE funds may also be used for allowable costs for storage and distribution of USDA Foods such as warehouse expenses, vehicles, and shipping costs.

State agencies have two fiscal years to obligate and expend SAE funds; however, only 20 percent of the initial allocation may be carried over for use in the second year. Unused SAE funds exceeding the 20 percent carryover limit for one State agency may be transferred to another agency within the same State that receives SAE funds, or be returned to FNS for reallocation to State agencies with a demonstrated need. The annual reallocation process 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 or special one-time expenditures that will increase the integrity, effectiveness, and/or the efficiency of the administration of the CNPs.[13]

As specified by the allocation formula, each fiscal year State agencies must identify and account for multiple SAE funding streams. Using FY 2019 as an example, the funding streams are:

1. Federal FY 2019 initial allocation;
2. Federal carryover funds from FY 2018;
3. Federal FY 2019 funds designated for carryover to FY 2020;
4. Federal FY 2019 excess funds to be returned to FNS;
5. Federal FY 2018 reallocated funds to spend in FY 2019;
6. Federal FY 2019 reallocated funds to spend in FY 2019 and FY 2020; and
7. State funds available for obligation in Federal FY 2019.

Each of these funding streams must be allocated among the supported CNPs and tracked separately for reporting to FNS. This funding complexity repeats each fiscal year for each State agency receiving SAE funds. Figure 3-2 depicts the various funding streams that a State agency may receive, using FY 2019 as an example.

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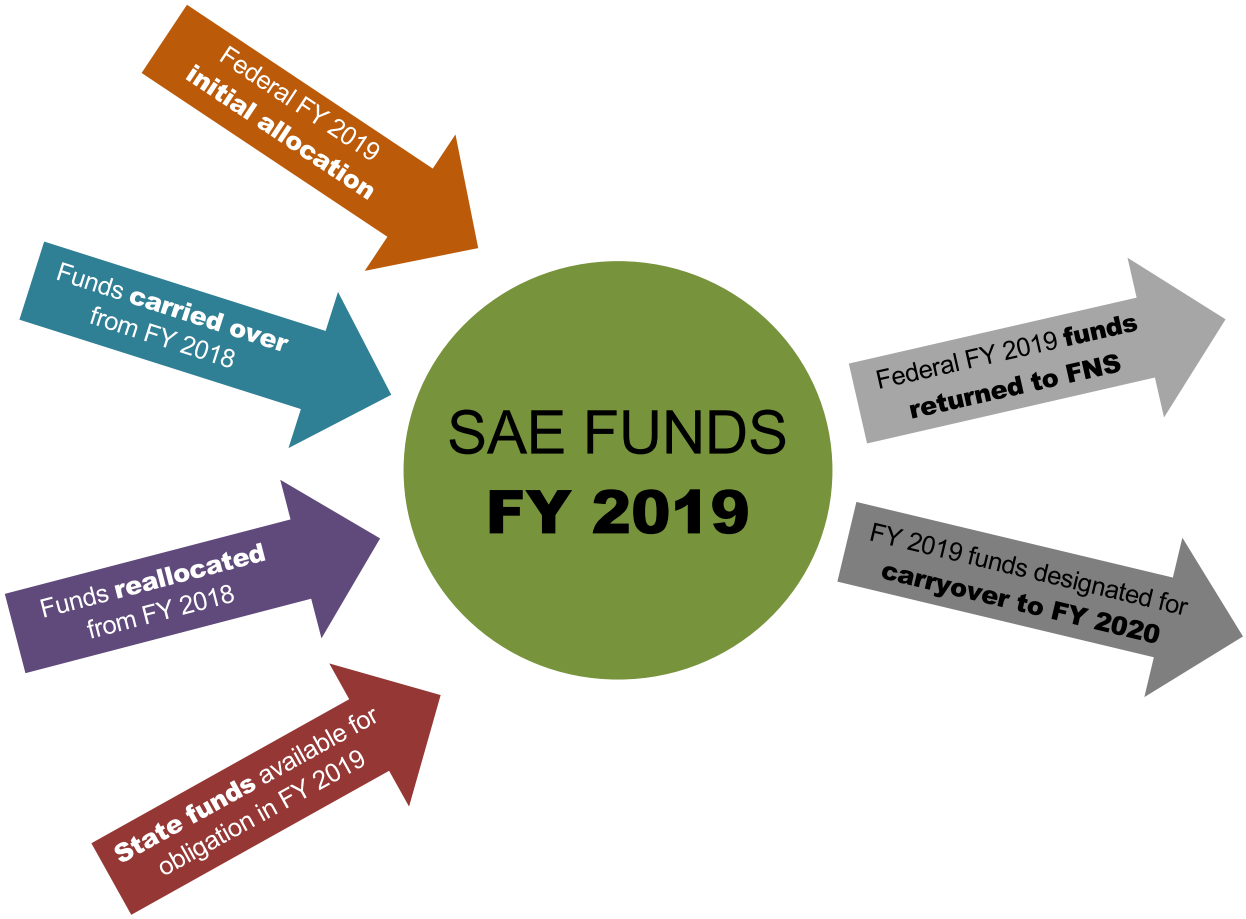
[12] *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.*

[13] SP 13-2018, CACFP 05-2017, *Fiscal Year 2019 Reallocation of State Administrative Expense Funds in Child Nutrition Programs,* March 5, 2019.

Figure 3-2. SAE Funding Streams



3.2.1 Historical Perspective

Administrative payments to State agencies, like the CNPs themselves, have evolved over time. In 1946, Section 6 of the National School Lunch Act of 1946 (P.L. 396, 79th Congress, 60 Stat. 231) authorized the USDA Secretary to use up to 8.5 percent of the annual appropriation for administrative expenses. States had to provide detailed justifications for any requested funds for administrative expenses.

In the following years, feeding programs expanded to more schools and children, especially in low-income areas, which required more resources from States. In many States, however, staffing was inadequate to administer existing programs.[14] During this time, efforts to start school breakfast, child care, and summer food programs, especially in low-income areas, were successful through pilot

[14] http://www.fns.usda.gov/nslp/history_6.

projects authorized in the Child Nutrition Act of 1966 (P.L. 89-642). Congress recognized States' growing need for administrative funding and, in Section 7 of the Child Nutrition Act of 1966, provided the authority for SAE funds to be appropriated. Congress intended SAE funds to supplement, rather than replace, State funding because they included a maintenance of effort requirement in the Act to ensure that State funding for the programs was not reduced.

SAE funds were first appropriated by Congress in 1969, in a fixed amount based on USDA's estimates of State need.[15] State agencies were allocated funds based on two factors determined by USDA: (1) the number of staff years related to the specific CNPs operated by the State agency; and (2) the number of low-income children in the State. There was no minimum State grant amount, and funds had to be expended by the State agency during the fiscal year in which the funds were appropriated or funds would lapse and need to be returned. State agencies were required to submit a detailed plan to USDA on how funds would be used.

Formula-Based Funding

Significant program expansion and growth occurred in the years following the Child Nutrition Act of 1966. With the growth, State responsibilities increased, but not all States were able to provide adequate staff and other resources to administer the programs. The National School Lunch Act and Child Nutrition Amendments of 1977 (P.L. 95-166) restructured SAE funding by establishing a formula-based appropriation for the funds tied to prior program expenditures. This ensured an increase in SAE funds commensurate with growth in the programs over time. The 1977 Act also instituted a minimum grant amount for States of $75,000. In addition to a minimum grant amount for States, other key provisions included in the 1977 Act that are still in place today include the reallocation of unused funds to State agencies with a demonstrated need; explicit authority to use SAE funds to support administrative costs for warehousing and distribution of USDA Foods; and ongoing State support for the CNPs through a maintenance of effort requirement that States provide State funding for administration of CNPs in an amount not less than what they provided in FY 1977.

[15] 1985 An Examination of SAE Funding, p. 14.

To address some of the disparities encountered when State allocations were first made under the new statutory formula, the Child Nutrition Amendments of 1978 (P.L. 95-627) increased the total SAE funding available, raised the minimum State grant amount to $100,000, and most significantly, established a share of the SAE funds for what was then known as the Child Care Food Program (now CACFP). State flexibility in managing the funds was increased through the Omnibus Budget Reconciliation Act of 1981 (P.L. 97-35), which allowed State agencies to carry over their initial grants to a second year, and transfer up to 10 percent of available funds among programs for which the funds were received without approval from USDA.

1985 SAE Study – State Factors Affecting Funds Usage

- State legislative limits on amount of SAE that could be used
- State appropriation process
- Visibility of CN programs in the State
- Differing State and Federal fiscal years
- Administrative efficiency
- Philosophy on proper State role in programs

The 1985 SAE Study

The carryover authority granted by the Child Nutrition Amendments of 1978 resulted in a substantial amount of unused funds being saved by State agencies for the second year. This raised concerns about the adequacy and use of SAE funds. In 1985, USDA released a study, *An Examination of State Administrative Expense Funding in the Child Nutrition Programs,* which focused on four key questions: (1) how State agencies budgeted and incurred administrative costs; (2) why State agencies deferred the use of over 40 percent of their SAE allocations; (3) why the level of State-provided funding varied widely; and (4) whether the SAE allocation formula was responsive to the needs of most State agencies. For the study, USDA examined a combination of existing national data and case study data from 15 agencies in ten States. The States were selected to represent a range of characteristics such as the percentage of funds they carried over, level of State support, demographic and geographic characteristics, and program size.

The 1985 study found that State experiences with SAE were varied and individualized. No consistent pattern emerged from the research, although several factors related to a State's environment made a difference in how SAE was used and whether or not State agencies could manage the resource in an effective way. Findings of the report by the three key policy issues included the following:

1. **Carryover.** The timing of Federal funding availability was perceived as limiting States' flexibility to plan for and expend SAE funds. Actual SAE allocations might not be known until six months before the beginning of the fiscal year. In addition, Congressional continuing resolutions and delayed Federal appropriations exacerbated the timing challenge. State opportunities to request reallocated funds were perceived as limited because the request, approval, and expenditure had to occur within a short period. State agencies also used carryover to wait-out State hiring freezes or spending moratoriums, or to plan for long-term expenditures. These circumstances created incentives for State agencies to rely on carryover funds, which allowed them to have funds at the beginning of the next fiscal year to compensate for any delays in funding availability.

2. **Maintenance of Effort (MOE).** The State investment in the administration of CNPs was varied, and MOE was perceived as inequitable. Assessing this concern was also complicated by the fact that States used different definitions for counting their contribution amounts (e.g., some States did not count indirect services as MOE while others did). Among the ten States in the study, there was consensus among State directors that the MOE policy was arbitrary in requiring that a specific year's dollar level (FY 1977) be provided by States.

3. **Adequacy of Allocation.** State directors who were interviewed indicated that there were differences across CNPs of comparable participation and cost that made some programs more difficult to administer than others. These differences included the number of local agencies to monitor, the frequency of turnover in those agencies, and differences in the training of local staff. These qualitative differences affected the level of attention required by the State agency. The 1985 study did not measure these differences but recommended further investigation and discussion on the topic.

Further Changes to SAE

Many of the legislative changes made to SAE following the 1985 study remain in place today. The Child Nutrition and WIC Reauthorization Act of 1989 (P.L. 101-147) established a limit on the amount of funds States could carry over from the initial fiscal year allocation of 25 percent in FY 1991, and 20 percent each year thereafter. The 20 percent carryover limit still applies. The 1989 Act also required USDA to develop regulations and each State to ensure that the State agency that administers USDA Foods is provided "an appropriate amount of funds" for administrative costs.

The next program reauthorization, the Healthy Meals for Healthy Americans Act of 1994 (P.L. 103-448), did not make substantive changes to SAE but did provide authority for USDA to withhold SAE funds from a seriously deficient State agency that fails to make corrections to be in compliance with program requirements within a specified period. This provision had previously been included in annual appropriations acts, but was now incorporated into the authorizing statute.

To lessen the burden on State agencies, the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (P.L. 104-193) required SAE plans from States for the initial fiscal year of the two-year funding cycle, another provision that remains in effect today. State agencies are only required to submit changes to their SAE Plans for approval by USDA if such changes are substantive. The William F. Goodling Child Nutrition Reauthorization Act of 1998 (P.L. 105-336) provided States additional flexibility in managing SAE funds by eliminating the 10 percent funds transfer limit that was established in 1981. Under this current provision, States have the authority to use SAE funds without regard to the basis on which the funds are earned or allocated, for any allowable expense for any CNP.[16]

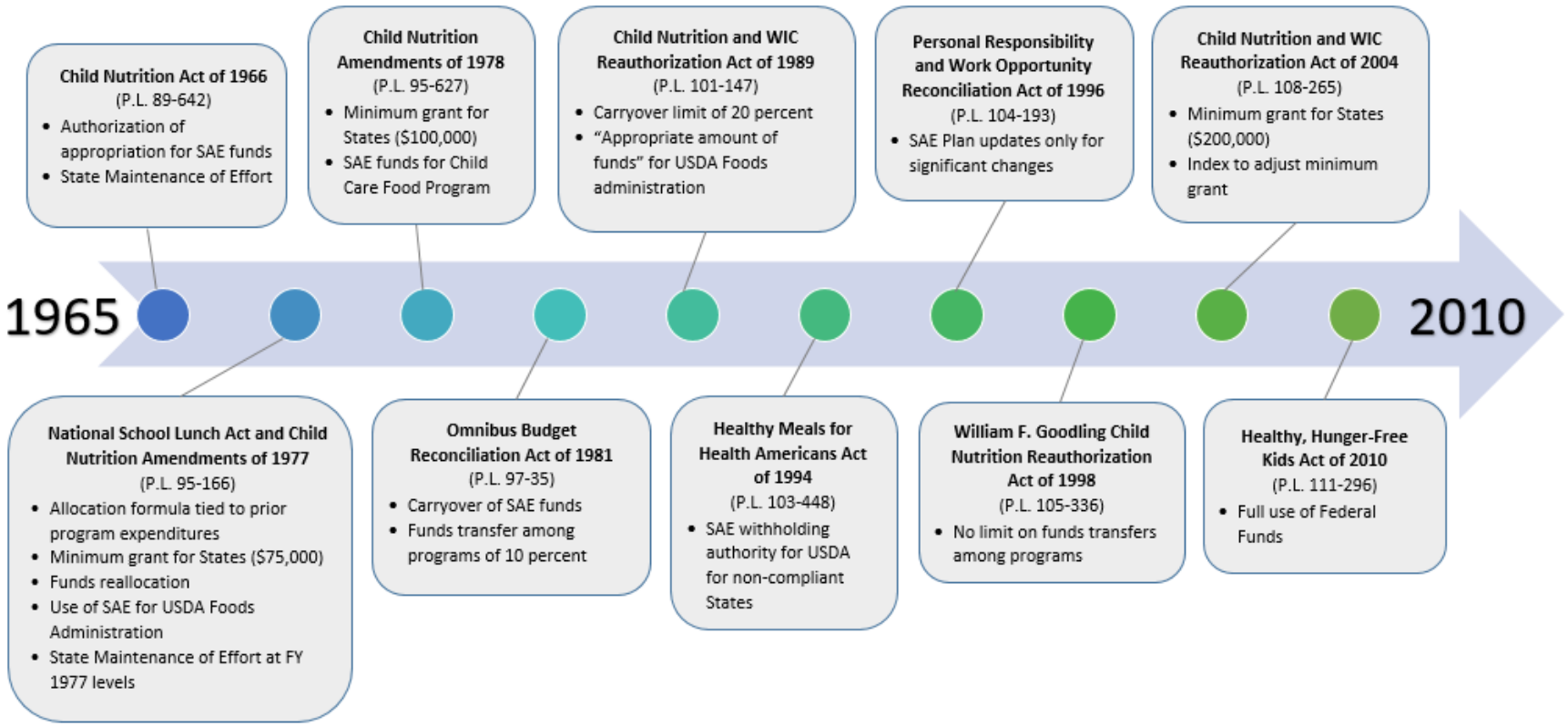
The Child Nutrition and WIC Reauthorization Act of 2004 (P.L. 108-265) raised the minimum State grant amount for School Programs from $100,000 to $200,000. This was the first increase in the minimum grant level in more than 25 years. The Act also added a provision to annually adjust the minimum grant level by the annual change in the Index of State and Local Government Purchases from the Department of Commerce's Bureau of Economic Analysis.

The next reauthorization, the Healthy, Hunger-Free Kids Act of 2010 (P.L. 111-296) required State agency agreements with USDA to support the "full use of Federal funds." The provision requires that Federal funds (i.e., SAE) must not be subject to State budget restrictions or limitations including hiring freezes, work furloughs, and travel restrictions. This provision is intended to help State agencies that have been unable to fully utilize their Federal SAE allocations due to restrictions imposed by Governors across all agencies of a State government to save State funds.

Figure 3-3 provides a timeline of key legislative events for SAE.

[16]Although separate administrative funding is provided to State agencies for administration of the Summer Food Service Program, States may also use SAE funds to cover allowable costs in that program.

Figure 3-3. Historical timeline of key legislative milestones for SAE



3.3 SAE Allocation Formula

As previously indicated, Section 7 of the Child Nutrition Act of 1966 authorizes the funding available for SAE and sets parameters for allocations to State agencies. The total funding available for SAE is "not less than 1½ percent of the Federal funds expended" for the NSLP, SBP, SMP, and CACFP in the second preceding fiscal year.[17] For FY 2019, this was nearly $299 million.

Section 7 explicitly prescribes part of the allocation formula, and provides authority to USDA to allocate the remaining available funds "among the States in amounts the Secretary determines necessary for the improvement in the States of the administration of the programs…included but not limited to, improved program integrity and the quality of meals served to children."[18] The SAE allocation process and requirements for the use of SAE funds and reallocation of funds are codified by USDA in program regulations at 7 CFR Part 235. These regulations include the requirements for SAE established in the Child Nutrition Act, as well as additional rules and processes developed by USDA through the Federal rulemaking process to ensure proper use of the funds. For example, the regulations at 7 CFR 235.4 detail the formula and procedures used by USDA to allocate funds to States, including the allocation formula in the Child Nutrition Act and the allocation process established by USDA. In addition to the Federal regulations, USDA routinely issues policy memoranda to support the SAE process and further clarify requirements for State agencies.

The following sections describe each part of the SAE allocation formula. Appendix B provides a summary of the provisions with legislative, regulatory, and policy memoranda source references. Figure 3-4 shows the breakdown of each part of the SAE allocation formula for FY 2019. Please note that the formula allocates funds to State agencies by program administered. However, State agencies that operate multiple CNPs have flexibility in how they expend their SAE funds, as they may use funds for any allowable cost regardless of the allocation amount for that program.

[17] 42 U.S.C. 1776(a)(1)(A).

[18] 42 U.S.C. 1776(a)(4).

Figure 3-4. Breakdown of SAE allocation formula for FY 2019

<table>
<tr><td colspan="2">SAE Allocation, FY 2019:
Total = $ 298,994,414</td></tr>
<tr><td>Nondiscretionary Funds:
$248,782,670

Includes:
A. School Programs: The greater of 1% of the second preceding fiscal year's program expenditures for NSLP, SBP, and SMP OR the amount of nondiscretionary funds received for FY 1981 but not less than $200,000:

$163,172,977 for School Programs

B. CACFP: based on the second preceding fiscal year's CACFP expenditures:
• 20% of expenditures up to $50,000
• 10% of expenditures between $50,000 and $150,000
• 5% of expenditures between $150,000 and $400,000
• 2.5% of expenditures over $400,000

$85,628,490 for CACFP</td><td>Discretionary Funds:
$50,211,844

Includes:
A. $30,000 share for each State which administers CACFP;

$1,620,000 for CACFP (54 states)

B. $30,000 share for each State which administers FDP in Schools;

$1,590,000 for FDP (53 states)

C. $8,000,000 for Administrative Reviews

D. Residual (remaining funds split between CACFP and FDP)

$39,001,744 (25% for CACFP, 75% for FDP)

$9,750,436 for CACFP[19]
$29,251,308 for FDP[20]</td></tr>
</table>

3.3.1 Nondiscretionary Allocations

The portion of the allocation formula that is explicitly prescribed by the Child Nutrition Act is commonly referred to as the nondiscretionary allocation. The nondiscretionary allocation is

[19]The amount for CACFP is prorated among States administering the CACFP based on the amount of CACFP nondiscretionary funds the State received.

[20]The amount for Food Distribution is prorated among States administering the Food Distribution Program in schools and institutions based on the value of donated commodities for the second preceding fiscal year.

performed in two parts. First, for the School Programs (NSLP, SBP, and SMP), each State agency that administers these programs receives **the greater of** the following amounts:

- One (1) percent of the funds expended by the State agency in NSLP, SBP, and SMP in the second preceding year;[21]
- The amount of nondiscretionary funds received by the State agency in FY 1981; or
- $200,000.[22]

The second part of the nondiscretionary allocation is for costs associated with administration of the CACFP. Based on CACFP funds expended in the second preceding fiscal year, each State agency that administers CACFP receives:

- 20 Percent of the first $50,000 in expenditures;
- 10 Percent of the next $100,000 in expenditures;
- 5 Percent of the next $250,000 in expenditures; and
- 2.5 Percent of any remaining expenditures.

For FY 2019, the total nondiscretionary allocation provided $248.9 million of the $299.0 million allocated for SAE, or about 83 percent.

3.3.2 Discretionary Allocations

Once the nondiscretionary allocation is completed, FNS allocates the remaining funds through the "discretionary allocations" detailed below and in regulations at 7 CFR 235.4(b). For FY 2019, the discretionary process allocated $50.2 million to State agencies, representing about 17 percent of the total SAE allocation.

- A $30,000 share for each State agency that administers the CACFP;
- A $30,000 share for each State agency that administers the FDP in schools;

[21]Section 7(a)(2) of the Child Nutrition Act of 1966 provides for "not less than 1 percent and not more than 1½ percent" of second preceding year funds. SAE program regulations at 7 CFR 235.4(a)(1) specify the amount as 1 percent.

[22]This is the minimum grant amount in the Child Nutrition Act. This minimum grant amount is adjusted annually by the Index of State and Local Government Purchases from the Bureau of Economic Analysis.

- An amount determined by FNS for school program administrative reviews,[23] allocated to State agencies administering the NSLP using the following formula:
  - 40 Percent distributed equally among State agencies;
  - 20 Percent prorated among State agencies based on the number of free and reduced-price meals served in the State in the second preceding year, compared to the number in all States;
  - 20 Percent prorated among State agencies based on the number of large school food authorities (SFAs)[24]; and
  - 20 Percent prorated among State agencies based on the total number of SFAs in the State in relation to all SFAs.

Any funds then remaining are divided between the CACFP and FDP:

- The amount for CACFP is prorated among State agencies administering the CACFP proportionally based on the amount of CACFP nondiscretionary funds the State has already received; and
- The amount for FDP is prorated among State agencies administering the FDP and CACFP proportionally based on the value of USDA Foods for the second preceding fiscal year.

3.3.3 Other Allocation Provisions

For any State agencies that operate the adult care component of the CACFP out of a separate State agency from the rest of CACFP, FNS provides a pro rata share of the State's CACFP allocation (nondiscretionary and discretionary) to the alternate agency. Currently this applies to Florida and Illinois.

If FNS administers a program on behalf of a State—called a Regional Office Administered Program or ROAP—FNS may receive administrative funds under both the nondiscretionary and

[23]For FY 2019, FNS allocated $8 million for school program administrative reviews.

[24]Large SFAs are defined in 7 CFR 235.2 as all SFAs with enrollment of 40,000 or more; or if there are not two SFAs with 40,000 students or more, the two largest SFAs in the State with enrollments of 2,000 or more.

discretionary allocations, based on the programs administered. The number of ROAPs has declined over time; as of FY 2019, there is only one ROAP[25].

When allocation calculations are completed, typically in September, the FNS national office notifies the FNS regional offices of the amounts allocated to each State agency within the region. Allocations are made by State agency, with amounts based on application of all or parts of the nondiscretionary and discretionary formulas depending on the program(s) administered by the State agency. FNS regional offices inform their State agencies of the amounts, and load the Federal letters of credit for use by State agencies.

See Appendix B for a summary of the formula with source references for each part of the formula to distinguish requirements established in statute, regulations, or FNS policy memoranda.

3.3.4 Additional Requirements

Provision of SAE funds is dependent on approval by the FNS regional office of the State agency's initial or "base year" SAE Plan for use of the funds; approval is expected by October 1 of each year. At a minimum, each SAE Plan must include:

- A staffing pattern for State-level personnel;
- A budget for the forthcoming fiscal year showing projected amounts (combined SAE and State funds) by cost category;
- The total amount of budgeted funds to be provided from State sources;
- The total amount of budgeted funds from Federal SAE Funds;

[25]The FNS Mountain Plains Regional Office (MPRO) administers a portion of the NSLP/SBP (for private schools) on behalf of the State of Colorado.

- The State agency's estimate of the total amount of budgeted funds (combined SAE and State funds) attributable to the administration of the School Programs (NSLP, SBP, and SMP), CACFP, and/or FDP, and to each of the major activity areas of the State agency (see below for activity areas); and

- The State agency's estimate of the total CACFP audit funds[26] to be used for the forthcoming fiscal year.

State agencies define activity areas in accordance with guidance issued by FNS, which may include activities such as program monitoring, technical assistance, Federal reporting and claims processing, policy implementation, and distribution of USDA Foods to recipient agencies.

SAE funds may be spent on reasonable, allocable, and necessary State-level expenses incurred by the State including, but not limited to, salary and benefits, staff training, office equipment, support services, travel, monitoring, and technical assistance activities. SAE funds may not be used to cover local-level costs. State agencies must follow the Federal regulations on cost principles at 2 CFR 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards. To the extent possible, State agencies are expected to implement the plans as they were approved. FNS may monitor State agency implementation of plans through management evaluations, reports submitted by State agencies, audits, and through other means. FNS may expand plan requirements for individual States in order to address specific administrative deficiencies that affect compliance with program requirements and have been identified by FNS through its monitoring activities.

State agencies may carry over up to 20 percent of their SAE allocation to obligate and expend for allowable costs in the second fiscal year of the grant. The maximum amount that may remain available for carryover is based on the initial allocation.

3.3.5 Reallocation of Funds

Section 7(a)(5)(B) of the Child Nutrition Act requires the reallocation of unused funds by FNS. The annual reallocation process allows State agencies to (1) request additional SAE funds above their

[26]CACFP audit funds are provided by FNS to State agencies administering the CACFP under the authority of Section 17(i)(2) of the Richard B. Russell National School Lunch Act. Each State agency receives between 1½ percent and 2 percent of CACFP funds expended in the second preceding fiscal year to conduct audits and other similar oversight of institutions participating in CACFP.

initial authorized funding level; or (2) return SAE funds they are unable to obligate.[27] Each year on a date specified by FNS (between March 1 and May 1), each State agency submits Form FNS-525, State Administrative Expense Funds Reallocation Report, to detail its use of SAE funds. The FNS-525 allows State agencies to indicate funds that were allocated, reallocated, or transferred to it that are not needed to implement its approved plan. These funds become available for reallocation to other State agencies with a demonstrated need, along with any funds carried over from the prior year that will not be used.

State agencies that wish to receive additional funds through reallocation must indicate the amount of funds requested on the FNS-525, as well as any amount of SAE funds that will be carried over into the second fiscal year of the grant. In addition, State agencies must submit:

- A description of how the funds will be used including a timeline and itemized budget estimate;
- A justification statement explaining how the requested activities or items will help improve the administrative integrity, effectiveness, and/or efficiency of the CNPs;
- Documentation of the SAE Plan Assessment that includes explanation of how it was determined that other funding sources are not available;
- The fiscal year in which the requested funds will be obligated; and
- If the activities in the request will continue beyond the grant period, an explanation of how they will be funded after the grant period ends.

State agencies that request reallocated funds must ensure that the total amount of SAE funds (initial allocation plus reallocation and transfers) that will be carried over into the next fiscal year does not exceed 20 percent of the initial allocation. FNS regional offices review reallocation requests from their respective State agencies, ensure they meet all requirements including carryover limitations and allowable use of funds, and forward them to the FNS national office for review. The FNS national office reviews all requests forwarded from regional offices and, based on funds availability, makes decisions about approval or denial.

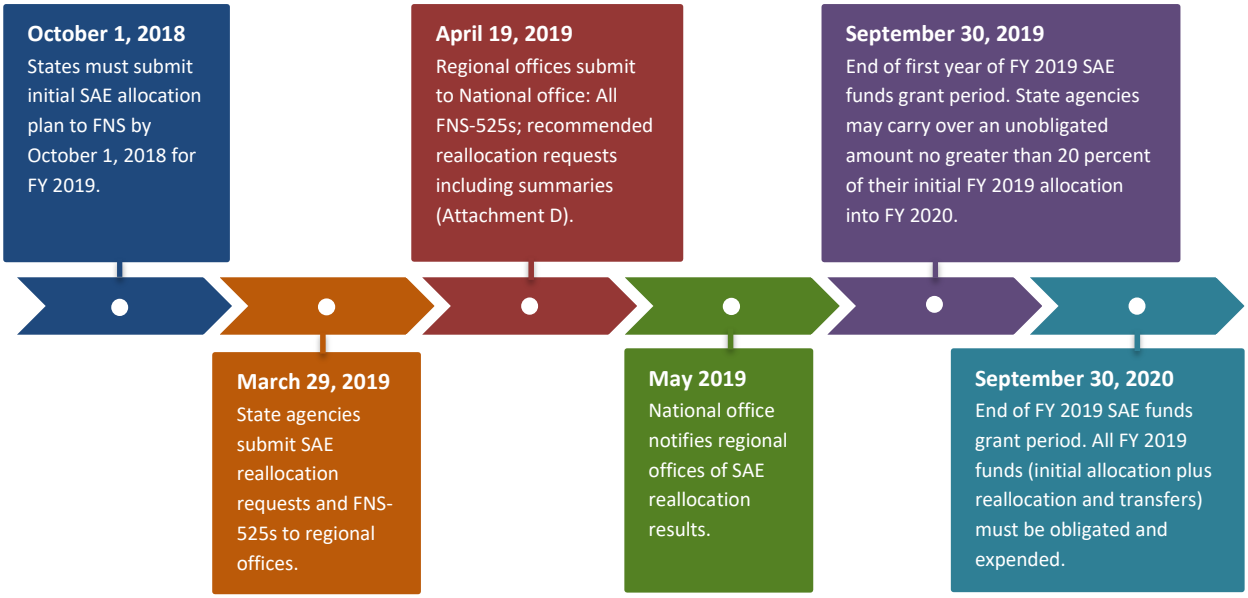
[27]SP 13-2019, CACFP 05-2019, *FY 2016 Reallocation of SAE Funds in the Child Nutrition Programs*, March 5, 2019.

3.3.6 Transfer of Funds

Under regulations at 7 CFR Part 235.6(a), a State agency may transfer SAE funds that are not needed, to another agency within the State that is eligible to receive SAE funds. Additionally, 7 CFR Part 235.6(c) specifies that nondiscretionary and discretionary SAE funds allocated for the school programs and CACFP may be used to assist in the administration of the FDP when that program is administered by the same agency or another State agency that is responsible for administering all or part of the State's FDP. FNS encourages State agencies to work together to make these transfers when one agency has more SAE funding than needed and another agency could put the funds to effective use for administration of the programs, consistent with their SAE Plan. Beginning in FY 2015, FNS's annual memorandum to State agencies on the reallocation process has included a statement that State agencies should notify and obtain approval from the applicable regional office before returning SAE funds, to ensure that the State agency has first explored the transfer of funds to other agencies within the State with a need.[28]

Figure 3-5 is a timeline showing the SAE process for FY 2019.

Figure 3-5. Illustrative timeline of SAE process, Fiscal Year 2019



[28] See FNS memorandum SP 22-2015, CACFP 06-2015, FY 2015 Reallocation of SAE Funds in Child Nutrition Programs, February 19, 2015.

4. Findings

This chapter provides the results of the analyses of historical SAE spending patterns from Fiscal Year (FY) 2006 through FY 2019, input and recommendations from State agency officials who participated in in-depth interviews, and input from other interested stakeholders who responded to the *Federal Register* Request for Information. Note that the total number of State agencies receiving SAE funds fluctuated slightly from year-to-year over this period as States consolidated or expanded the number of agencies administering the Child Nutrition Programs (CNPs). This impacts the number agencies included in analysis for a given year and over time.

4.1 Historical SAE Spending Patterns

In this section, we review State Administrative Expenditure (SAE) historical spending and allocation patterns to describe trends in SAE funding and usage between FY 2006 and FY 2019. We analyzed data provided by the Food and Nutrition Service (FNS). The descriptive analysis presented below summarizes changes at the national level and describes national trends and the range of State or State agency level SAE allocations and spending characteristics. The discussion starts with examination of the SAE allocation patterns at the aggregate U.S. total and at the State levels. We then review trends in carryover, reallocation, and recovery of funds at the State agency level. Analysis of these data were conducted at the State agency level because in many States the responsibility for CNP administration is split among multiple agencies so SAE carryover, reallocation, and return or recovery of funds are carried out at the agency and not at the State level. Additionally, analysis at the State agency level allows us to analyze variation in spending patterns by State agency type, which was important in crafting the suggestions that may be considered for changes to allocations and processes for SAE funding presented in Chapter 5.

4.1.1 SAE Allocation Patterns

Figure 4-1 presents the growth in SAE funding expressed in terms of initial allocation of SAE funds, by FY. The total initial allocation of SAE funds increased by 95 percent (in nominal dollars, not adjusted for inflation) from FY 2006 to FY 2019, from $153.6 million to $299.0 million. The average annual increase in SAE funds during this period was 5.3 percent.

Figure 4-1. Allocations: Total $, U.S. total: FY 2006-2019

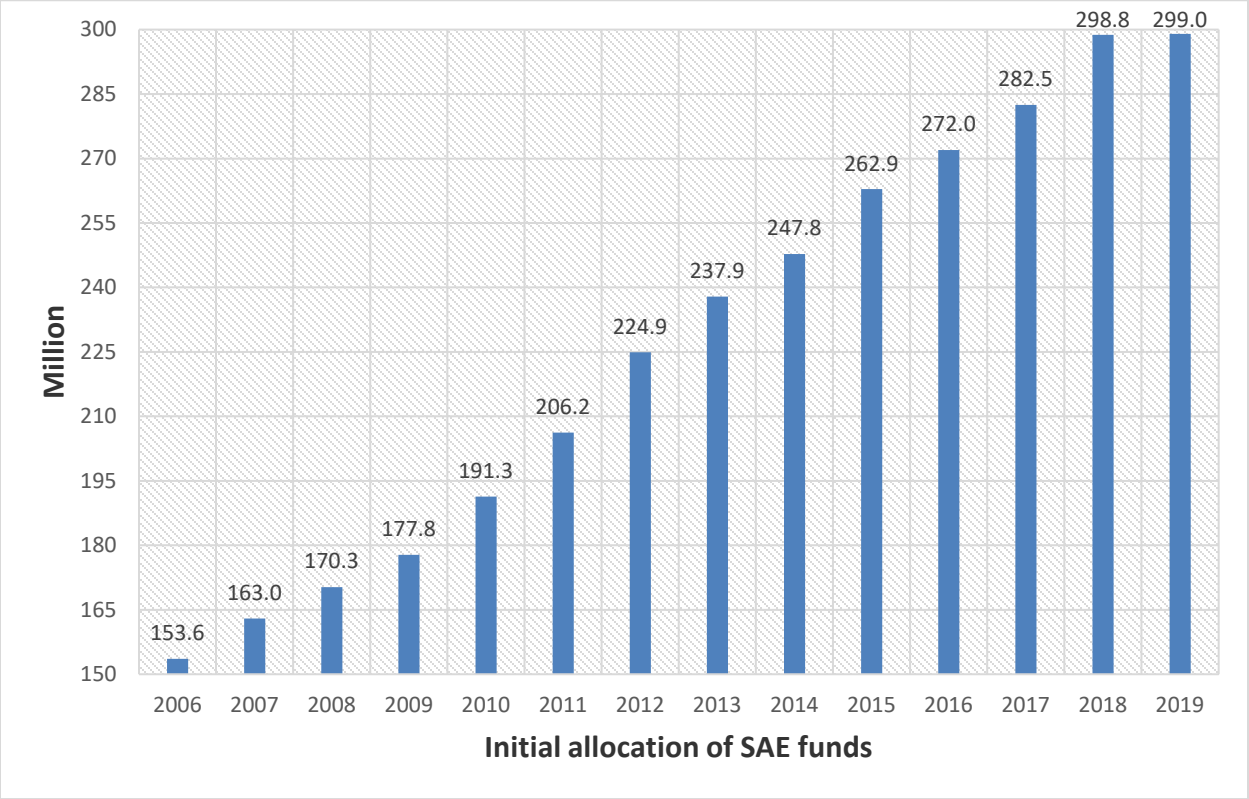


Table 4-1 shows that the annual increases in the allocations were greatest between FY 2010 and FY 2012, with the greatest increase (9.1%) between FY 2011 and FY 2012. Because the SAE allocation formula provides funding to State agencies based on second-prior-year program expenditures, initial allocations each year are impacted both by program participation and annual inflation as reflected in changes in the per-meal reimbursement rates. The greatest annual allocation increases occurred in the two years following the economic recession (December 2007 to June 2009) when the number of free and reduced price meals increased.[29] In addition, the bump in FY 2015 is likely attributable in part to the additional 6 cents per lunch that school food authorities (SFAs) certified as meeting the updated meal patterns began receiving in FY 2013.

The total dollar value of the initial SAE allocation has increased steadily over time, with recent growth at a slower rate than in the past.

[29] Average free meal participation rose from 15.0 million in FY 2007 to 16.3 million in FY 2009. During this time period, reduced-price meal participation also rose from 3.1 million in FY 2007 to 3.2 million in FY 2009. See National School Lunch Program: Participation and Lunches Served as of September 6, 2019, published by the Food and Nutrition Service, available on USDA.gov.

Table 4-1. Initial allocations of SAE funds: Fiscal Years 2006-2019 (U.S. Total)

Fiscal year	Initial allocation*	Percent change from previous year
2006	$153,599,785	—
2007	$162,929,658	6.1
2008	$170,300,816	4.5
2009	$177,842,409	4.4
2010	$191,308,524	7.6
2011	$206,194,551	7.8
2012	$224,915,807	9.1
2013	$237,868,869	5.8
2014	$247,751,290	4.1
2015	$262,898,493	6.1
2016	$271,952,153	3.4
2017	$282,467185	3.9
2018	$298,831,250	5.8
2019	$299,019,924	0.1

*These figures do not include SAE funds distributed directly to regional offices for administration of CNPs for some States.

Table 4-2 presents the average amount of SAE allocated to each State over FYs 2006-2019, ranked from largest to smallest. The analysis shows that the average State-level SAE allocation over this period was $4.22 million, ranging from a low of $349,043 in Guam to a high of $26.8 million in California. For comparison purposes, rankings are also shown for the number of children under the age of 18, the number of students eligible for free and reduced price school meals, and the number of SFAs in each State. When compared with the ranking by the number of students eligible for free and reduced price school meals, which is very similar to State ranking by the population under 18, we observe that the initial SAE allocation ranking is closely correlated with these counts. While some States' allocation rank is the same as their rank in the number of SFAs, the overall relationship between the initial allocation averages and the number of SFAs is not consistent.

Table 4-2. Initial States' SAE allocations, with rankings compared to State demographic and School Program Data, fiscal years 2006-2019

State	Average initial SAE allocation from FY 2006-2019	State rank by size of initial State SAE allocation	State rank by number of children under age 18*	State rank by number of children eligible for free and reduced price meals**	State rank by number of SFAs***
California	$26,790,528	1	1	1	1
Texas	$25,117,031	2	2	2	2
New York	$13,958,739	3	3	4	4
Florida	$13,489,530	4	4	3	19
Georgia	$9,179,684	5	9	6	24
Illinois	$8,933,053	6	5	5	5
North Carolina	$7,139,156	7	10	9	29
Ohio	$6,898,105	8	7	7	3

Table 4-2. Initial States' SAE allocations, with rankings compared to State demographic and school program data, fiscal years 2006-2019 (continued)

State	Average initial SAE allocation from FY 2006-2019	State rank by size of initial State SAE allocation	State rank by number of children under age 18*	State rank by number of children eligible for free and reduced price meals**	State rank by number of SFAs***
Pennsylvania	$6,864,715	9	6	8	6
Michigan	$5,627,025	10	8	10	7
Tennessee	$4,956,936	11	17	15	31
Louisiana	$4,922,572	12	25	26	36
New Jersey	$4,840,279	13	11	11	9
Arizona	$4,722,207	14	16	16	14
Indiana	$4,447,732	15	15	14	13
Missouri	$4,098,438	16	18	18	8
Alabama	$3,941,029	17	23	24	32
Minnesota	$3,864,848	18	21	21	11
Oklahoma	$3,819,001	19	28	27	12
Massachusetts	$3,804,098	20	14	17	15
Virginia	$3,782,816	21	12	12	38
Washington	$3,701,115	22	13	13	20
Kentucky	$3,597,957	23	26	25	30
South Carolina	$3,518,750	24	24	23	39
Mississippi	$3,375,084	25	32	34	34
Maryland	$3,346,382	26	19	20	48
Wisconsin	$3,288,590	27	20	22	10
Arkansas	$3,131,792	28	33	32	21
Puerto Rico	$2,508,654	29	29		51
Oregon	$2,389,718	30	27	29	22
Colorado	$2,389,508	31	22	19	35
New Mexico	$2,348,606	32	37	36	25
Iowa	$2,149,477	33	31	31	16
Kansas	$2,094,511	34	34	33	17
Utah	$1,987,889	35	35	28	40
Nebraska	$1,789,987	36	39	37	18
Connecticut	$1,717,958	37	30	30	33
West Virginia	$1,515,386	38	38	39	42
Nevada	$1,379,232	39	36	35	50
Idaho	$1,008,683	40	40	38	37
Delaware	$892,724	41	46	45	49
Maine	$867,130	42	42	42	26
Hawaii	$832,437	43	41	40	52
Montana	$770,914	44	45	43	23
Alaska	$762,963	45	48	47	45
South Dakota	$749,240	46	47	46	27
Rhode Island	$734,936	47	44	44	44
North Dakota	$703,082	48	49	48	28

Table 4-2. Initial States' SAE allocations, with rankings compared to State demographic and school program data, fiscal years 2006-2019 (continued)

State	Average initial SAE allocation from FY 2006-2019	State rank by size of initial State SAE allocation	State rank by number of children under age 18*	State rank by number of children eligible for free and reduced price meals**	State rank by number of SFAs***
District of Columbia	$612,514	49	51	51	46
New Hampshire	$566,921	50	43	41	41
Vermont	$528,986	51	50	50	43
Wyoming	$520,079	52	52	49	47
Virgin Islands	$377,999	53			54
Guam	$349,043	54			53
U.S. Average	4,216,773				
U.S. Total	3,187,880,714				

*U.S. Census Bureau, 2010 Census: 2010 Census Summary File 1, Tables P12 and P13. Accessed May 17, 2019 at Age Groups and Sex: 2010, United States and Puerto Rico, 2010 Census Summary File 1 available on Census.gov. Data are not available for Virgin Islands and Guam.

**Rankings based on 2016 data from: National Center for Education Statistics. "Digest of Education Statistics: Digest 2017, Table 204.10." Number and percentage of public school students eligible for free and reduced price lunch by State, selected years, 2000-2001 through 2015-2016. (Accessed on May 6, 2019 at: Table 204.10. Number and percentage of public school students eligible for free or reduced-priced lunch, by state: Selected years, 2000-01 through 2015-16 available on the National Center for Education Statistics website) Data are not available for U.S. Territories.

***Data on number of SFAs in each State obtained from the FNS FY 2019 SAE allocation workbook.

Next, we look at the trend in annual percentage change in initial allocation at the State level between FYs 2006-2019. Figure 4-2 shows a gradual increase in the annual change in initial SAE allocations averaged across all States between FYs 2008 and 2012, followed by a decrease from FYs 2012 to 2015. The years of highest average annual increases were from FY 2010 to FY 2011, and FY 2011 to FY 2012, when they increased by 7.8 percent and 9.1 percent respectively. As noted above, because the SAE formula allocates SAE based on funds expended for meals by the State agencies during the second preceding fiscal year, it is reasonable to expect this higher than average growth in the SAE allocations after the recession began and then again after the enactment of the Healthy, Hunger-Free Kids Act (HHFKA). In the last years of the study period, the SAE allocation levels grew more slowly, down to a low 0.1 percent growth from FY 2018 to FY 2019.

Figure 4-2. Average Increase in SAE Allocations, Fiscal Years 2006-2019: U.S. Total

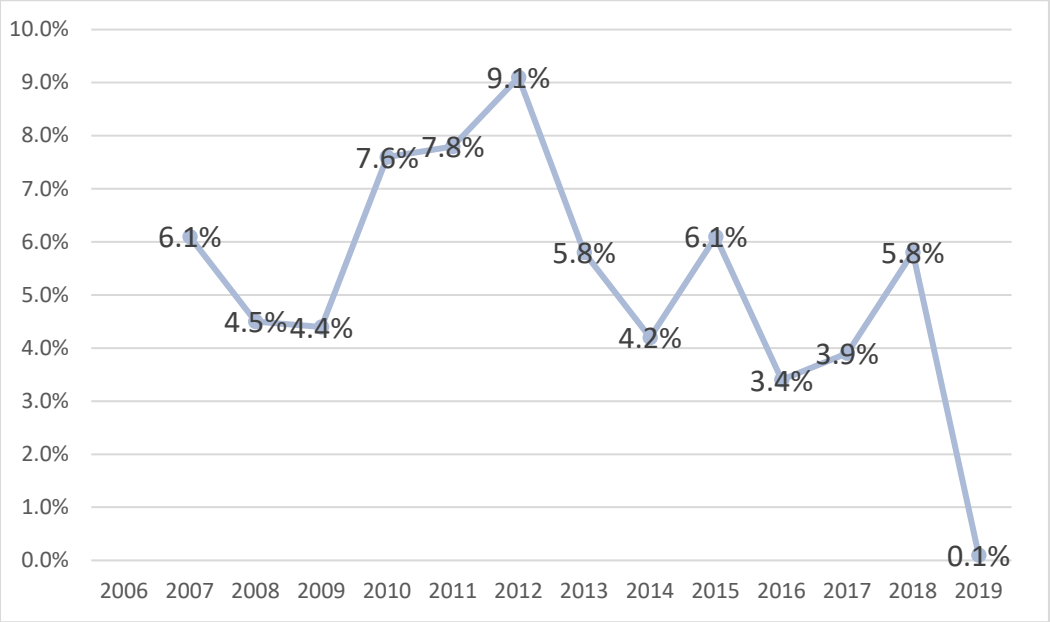
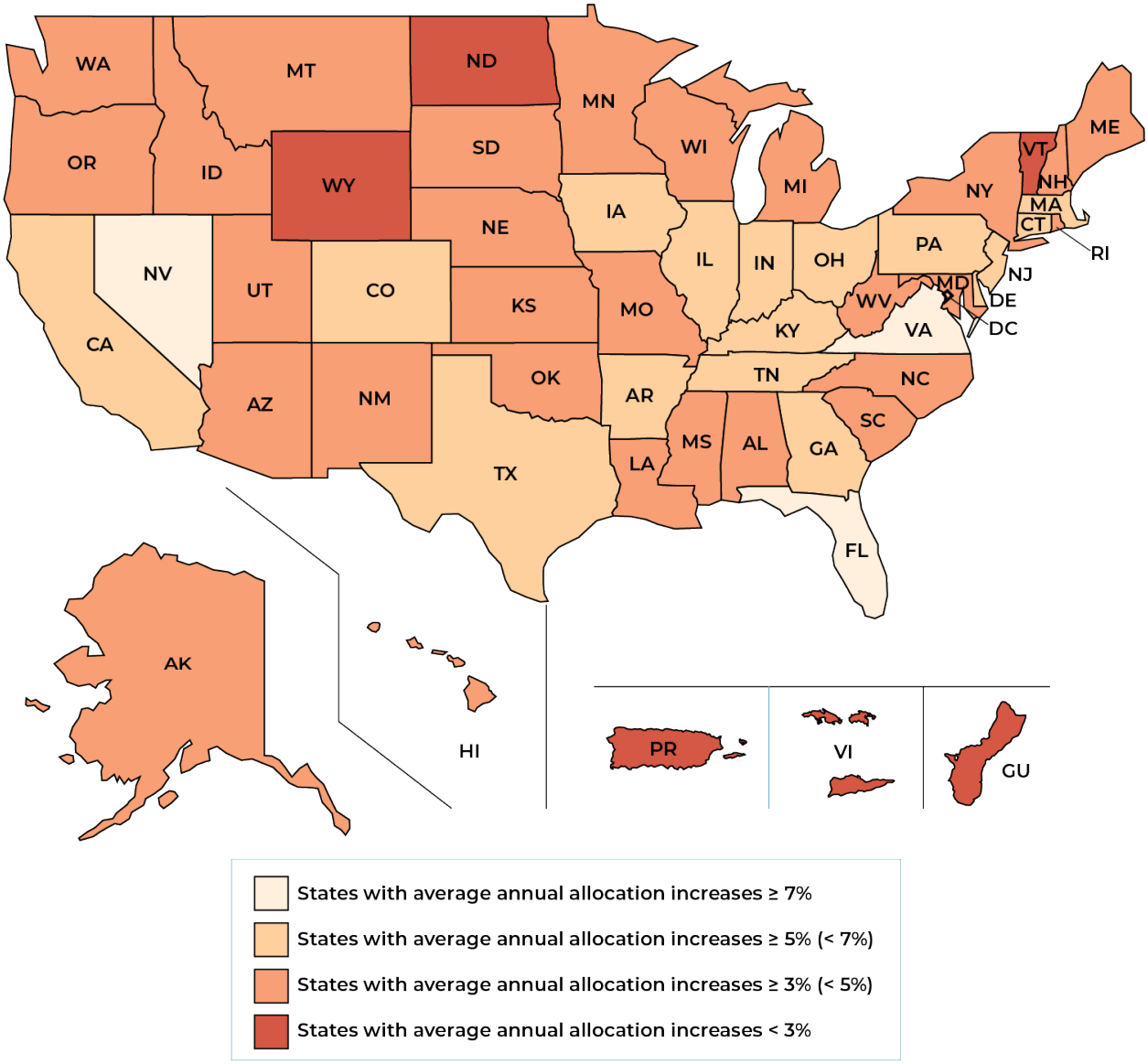


Figure 4-3 displays the average annual increase in allocations at the State level across the 14-year period. The States with a 7 percent or greater average annual increase in their SAE allocations were Virginia (9.4%), Nevada (8.4%), and Florida (7.1%). The States with the lowest average annual increase over the same period were Puerto Rico (1.0%), Virgin Islands (1.2%), Wyoming (1.3%), Guam (1.6%), Vermont (2.4%), and North Dakota (2.5%).

Figure 4-3. Average State Increases in SAE Allocations, Fiscal Years 2006-2019



4.1.2 Carryover Patterns

Up to 20 percent of SAE funds allocated to State agencies may remain available for obligation and expenditure in the second fiscal year of the grant.[30] Carryover can be an important tool for State agencies to more effectively manage SAE funds, providing them additional flexibility to plan for future known expenditures

The percent of the total initial allocation carried over by State agencies was generally steady, with a spike in the years surrounding HHFKA enactment. The average amount carried over since FY 2014 was 14.5 percent of the initial allocation.

[30]The carryover authority began in 1978 and the limit of 20 percent was set in 1992.

and handle unanticipated delays at the State level, which may prevent full use of the funds in the first year of the grant.

Analysis of the FNS data show that every State agency used the carryover option at least one year and the majority of State agencies routinely carried over SAE funds. Of all of the State agencies that received SAE at least one year from FY 2006-2018, nearly two-thirds (58 of 88) carried over funds every year or all but one year that they received SAE funding, and 19 used the carryover option in at least half (50%) of the 14 years examined. In contrast, as shown in Table 4-3, 10 State agencies used the carryover option five or fewer years between FY 2006-2018. All but one of these agencies administered only a single type of CNP, including six that only administered the FDP, two that only administered the relatively small adult portion of the CACFP, and one that only administered the CACFP for both the adult and child populations.

Table 4-3. Number of years State agencies carried over SAE funds in Fiscal Years 2006-2018 (among State agencies that carried over less than half of the years they received SAE funding)

State agencies that used the carryover option 5 or fewer years	Type of State agency (programs administered)	Number of years used carryover option
Florida Department of Elder Affairs	Single Program Agency (adult CACFP)	5
Illinois Department of Aging	Single Program Agency (adult CACFP)	5
South Dakota Department of Education	Multi-Program Agency (all CNPs)	4
Louisiana Department of Agriculture and Forestry	Single Program Agency (FDP)	3
Oklahoma Department of Human Services*	Single Program Agency (FDP)	3
New York Office of General Services	Single Program Agency (FDP)	2
Vermont Department for Children and Families	Single Program Agency (FDP)	2
Montana Department of Public Health and Human Services	Single Program Agency (CACFP)	1
New Mexico Human Services Department	Single Program Agency (FDP)	1
Rhode Island Department of Corrections	Single Program Agency (FDP)	1

*This State agency also administers a very small number of private school programs.

We also examined the SAE data to determine the size of SAE carryover amounts relative to their initial SAE allocations. Table 4-4 provides the total dollar value of carryover funds and the percentage of the initial SAE allocation for the U.S., by FY. The annual average carryover rate over this period was 15.3 percent. The three years with the highest carryover were FY 2010 through FY 2012, when States carried over an average of 16.9 to 17.4 percent of their initial allocations. These years coincide with the three years that SAE allocations grew the most. One possible explanation for the increase in the carryover rate during this period is that in FY 2010 and FY 2011, State agencies may have carried over more funding to prepare for program changes based on the HHKFA. In addition, in FY 2012 it may have been difficult for some States to effectively expend in one year both their SAE allocations and the first of two allocations of additional funds from Section 201 of the HHFKA provided to States to help them implement new meal patterns for schools.[31] The carryover rate steadily declined as the HHFKA were expended, and reached a low of 13.3 percent in FY 2018. The average carryover rate for the last five years, from FY 2014 through FY 2018, was 14.5 percent, which is comparable to the period prior to HHKFA.

Table 4-4. Total carryover and percentage of initial SAE allocations carried over in Fiscal Years 2006-2018: U.S. total

Fiscal year	Total U.S. carryover	Percent initial allocation carried over
2006	$21,635,442	14.1
2007	$23,919,566	14.7
2008	$25,321,084	14.9
2009	$27,757,707	15.6
2010	$32,648,984	17.1
2011	$34,833,549	16.9
2012	$39,136,589	17.4
2013	$38,621,172	16.2
2014	$37,737,155	15.2
2015	$40,379,723	15.4
2016	$39,471,708	14.5
2017	$40,511,445	14.3
2018	$39,848,393	13.3
13-Year Average	$33,988,232	15.3
Average of Last 5 Years	$39,589,685	14.5

[31]Section 201 of the HHFKA provided $94 million ($47 million in each of FYs 2012 and 2013) to State agencies administering school programs to assist with "State activities related to training, technical assistance, certification, and oversight activities" in implementing the updated meal patterns. The funds were allocated to States proportionally based on the SAE allocation formula for school programs.

4.1.3 Reallocation Patterns

State agencies with a demonstrated need may request additional SAE funds above their initial allocation level through the annual reallocation process conducted by FNS.[32] In addition to submitting the Form FNS-525, *State Administrative Expense Funds Reallocation Report,* State agencies must detail and justify their request in writing and ensure that the total amount of SAE funds (their initial allocation plus reallocation and any funds transfers) that will be carried over into the next fiscal year does not exceed 20 percent of the initial allocation (the carryover limit). In this section we examine the change in reallocated funding over the study period, reallocation by State agency type, and the kinds of activities that State agencies requested and FNS approved for reallocation funding.

As shown in Table 4-5, the total dollar value of funds and percentage of SAE allocations that were reallocated to State agencies increased over the period from $2.17 million in FY 2006 to $16.4 million in FY 2018. For the first few years of this period, from FY 2006 through FY 2008, reallocation was fairly stable, with FNS distributing between 1.4 and 2.19 percent of the total initial SAE allocation annually. There was a steady decline each year from FY 2009 through FY 2011 when approximately $1.9 million or only 0.91 percent of the initial allocation nationwide was reallocated. In contrast, a significant increase in reallocation began in FY 2014 and continued through FY 2018 when it reached $16.4 million, representing 5.5 percent of the initial SAE allocations. This may be explained, at least in part, by the FNS policy change in FY 2014 that permitted reallocated funds to be used for general administrative expenses of the State agency. Prior to FY 2014, allowable reallocation expenses were restricted to one-time only projects designed to increase the integrity, effectiveness, and efficiency of the administration of the CNPs.

[32]The reallocation process also allows State agencies to return SAE funds that they do not need. State agencies document this via the FNS-525. For purposes of this report, due to the availability of data, we classify funds returned by State agencies during reallocation the same as "recovered" funds.

Table 4-5. Reallocation of funds in Fiscal Years 2006-2018: U.S. total

Fiscal year	Reallocation amount	Reallocation as percent of initial SAE allocation
2006	$2,173,555	1.4
2007	$3,076,501	2.0
2008	$2,956,348	2.1
2009	$2,877,515	1.8
2010	$2,581,676	1.4
2011	$1,868,600	0.9
2012	$3,504,904	1.6
2013	$3,947,394	1.7
2014	$6,359,714	2.8
2015	$9,056,408	3.4
2016	$8,471,596	3.1
2017	$13,139,192	4.7
2018	$16,352,800	5.5

Examining reallocation patterns at the State agency level, we find that the number of State agencies approved to receive funds through reallocation also increased during this period. As shown in Table 4-6, the number of State agencies receiving reallocated SAE funds increased from 17 in FY 2006 to 35 in FYs 2017 and 2018. In addition, the average reallocation amount per State agency increased by 265 percent from $127,856 in FY 2006 to $467,223 in FY 2018. While it was not the year when reallocation amounts were highest, in FY 2013 the proportion of State agencies receiving reallocated funding was the largest of any year. That year, 44 percent (38 of 87) of State agencies received reallocated SAE funding, though the average amount of reallocated funding these State agencies received that year was only $107,155, the lowest average reallocation amount of any year during the study period. Of the 38 State agencies funded, 36 received small amounts of funding to assist with costs of attending a USDA Foods training hosted by FNS.[33] Removing the 21 agencies that only received funding for the USDA Foods training leaves 17 agencies with reallocation requests averaging $225,171 in the fiscal year, which is more in line with the trend at that time. See the discussion later in this section for more information on the types of activities typically funded through reallocation.

The number of State agencies receiving reallocated funds more than doubled from 17 State agencies in FY 2006 to 35 State agencies in FYs 2017 and 2018.

[33]State agencies received $2,000 per staff person attending the training. State funding for this purpose ranged from one to nine staff, with most agencies receiving funds for 3 staff or less.

Table 4-6. Number of State agencies receiving reallocation funds, and average amount of reallocations, Fiscal Years 2006-2018

Fiscal year	Number of State agencies receiving reallocation funds	Average reallocation amount per State agency that received reallocation ($)
2006	17	127,856
2007	16	192,281
2008	20	177,817
2009	23	135,979
2010	18	151,760
2011	13	143,738
2012	19	184,469
2013	38	107,155
2014	21	329,004
2015	23	393,757
2016	26	325,831
2017	35	375,405
2018	35	467,223

Looking at the pattern of SAE reallocation by State agency type shows an increasing amount of reallocated funding among all four State agency types over the study period. However, as shown in Table 4-7, the stand-alone agencies that only administer FDP stand out as having the greatest number and percent of agencies receiving reallocations. The frequency of reallocations for the FDP stand-alone agencies was highest in FY 2009 and FY 2013, when FNS prioritized FDP-related projects in the reallocation process.[34] Over time, however, the percent of all FDP stand-alone agencies receiving reallocated funds in a given year was significantly higher than other types of State agencies. The 13-year average percentage for FDP stand-alone agencies was 48.1 percent, compared to 24.7 percent for State agencies that administer multiple programs, 20.6 percent for agencies that only administer CACFP, and 2.1 percent for agencies the only administer school programs.

Stand-alone FDP agencies had the greatest number and percent of agencies receiving reallocated funds.

Table 4-7. Reallocation of SAE funds in Fiscal Years 2006-2018, by State agency type

	Number (percent) of State agencies receiving reallocated SAE*			
Fiscal year	Agencies that administer multiple CNPs	Agencies that only administer school programs	Agencies that only administer CACFP	Agencies that only (or primarily) administer FDP
2006	8 (17.0%)	0	2 (15.4%)	7 (36.8%)
2007	6 (12.8%)	0	4 (30.8%)	6 (31.6%)
2008	11 (23.4%)	0	3 (23.1%)	6 (31.6%)
2009	9 (19.1%)	0	2 (15.4%)	12 (63.2%)

[34]In FY 2009, FNS gave priority to reallocation requests to support implementation of the Web-Based Supply Chain Management (WEBSCM) system for the FDP. In FY 2013, FNS gave priority to requests to support State travel to USDA Foods training.

Fiscal year	Number (percent) of State agencies receiving reallocated SAE*			
	Agencies that administer multiple CNPs	Agencies that only administer school programs	Agencies that only administer CACFP	Agencies that only (or primarily) administer FDP
2010	8 (17.0%)	0	2 (15.4%)	8 (42.1%)
2011	7 (14.9%)	1 (12.5%)	2 (14.3%)	3 (15.8%)
2012	9 (19.1%)	0	1 (7.1%)	9 (47.4%)
2013	21 (43.8%)	0	1 (7.1%)	16 (88.9%)
2014	9 (18.8%)	0	2 (14.3%)	10 (62.5%)
2015	12 (25.0%)	0	2 (14.3%)	9 (56.3%)
2016	13 (27.1%)	0	5 (35.7%)	8 (53.3%)
2017	21 (43.8%)	0	4 (28.6%)	10 (66.7%)
2018	19 (39.6%)	1 (14.3%)	6 (46.2%)	9 (60.0%)
13-Year Average %	24.7	2.1	20.6	48.1

*The denominators used for calculating the percentages vary by year because the number of State agencies changed from year to year. In addition, during the 13-year period, four State agencies changed the number and types of CNPs that they administered, so their agency type classification changed during the study period.

Turning to how States use reallocated funds, we reviewed FNS memoranda that communicated the annual results of reallocation to regional offices to examine the types of projects funded. In general, funds were used for a variety of projects in support of program administration. A few trends emerged. Throughout the period, reallocated funds were used consistently and increasingly to support automation/Information Technology (IT) projects. The IT projects included new automated systems, updates or upgrades to existing systems, feasibility studies, and purchase of hardware including servers and computers. In many cases, funding amounts for these IT projects were relatively high compared to other funding requests, helping to explain why the average reallocation amount and total funds reallocated increased over time. All FNS annual SAE reallocation guidance to State agencies since FY 2007 included a statement that reallocation funds may not be available to the same extent in future years to ensure ongoing funding of IT projects. Since FY 2010, there has also been a separate attachment to the guidance with guidelines for State agencies to follow if they are seeking funds for IT procurements. This assists States in planning, and FNS in reviewing, the State requests for these projects.

Another key purpose for reallocation funds has been to support storage and distribution of USDA Foods. Many of the USDA Foods-related approvals over the years have funded warehouse equipment such as pallet jacks, trucks, refrigeration and freezer systems, and other vehicles. USDA Foods IT automation projects are also common. In FY 2009, FNS prioritized reallocation proposals from State-distributing agencies to support implementation of USDA's Web Based Supply Chain

Management System (WBSCM) for USDA Foods ordering. As a result, of the 23 reallocation approvals that year, all but two included WBSCM implementation projects.

In addition, since FY 2013, there has been an increase in the share of approvals for USDA Foods projects. In FY 2013, FNS hosted a USDA Foods training for State FDP agencies, and developed a streamlined SAE reallocation process for State agencies to receive funds for travel to the training sessions. In that year, all but two of the 38 approved requests included funding to attend the training. In addition, beginning in FY 2013, FNS made a concerted effort to emphasize the availability and allowable uses of SAE funds for USDA Foods costs, to encourage their use to improve State agency program administration.[35] Since then, from FY 2014 through FY 2018, almost half of the State agencies that received reallocated funds (69 of 140) included funding for costs related to administering FDP. This included funding for equipment, funding to defray State charges to SFAs for storage and distribution of USDA Foods,[36] and funding to support the general administrative expenses of the FDP State agency (as allowed beginning in FY 2014). In the most recent fiscal year (FY 2018), six of 35 State agencies received funds specifically to help cover storage and distribution of USDA Foods. Funding amounts ranged from approximately $44,000 to more than $1.4 million, with an average request of about $715,000. In that same period, seven stand-alone FDP agencies received reallocated funds every year, and two additional stand-alone agencies received these funds in four out of the five years.

Our review of the FNS memoranda also revealed some instances when FNS denied a State's reallocation request. In three years, FYs 2014, 2016, and 2017, there were no denials documented in the memoranda. In other years, there were between one and three denials of part or all of a State's request. When requests were denied, they were typically deemed unallowable by FNS, meaning they did not meet the test of being "necessary, reasonable, and allocable" to a program covered by SAE. Examples include unnecessary or unreasonable travel or equipment expenses, costs requested for future years, and costs associated with administration of The Emergency Food Assistance Program (TEFAP). Other denials were of requests that could be covered with other funding sources, such as

[35]For example, see FNS guidance memorandum FD-131, Questions and Answers Regarding the Use of SAE Funds and SAE Reallocation Funds in the Food Distribution Program for Child Nutrition Programs, issued August 30, 2013.

[36]When SAE is insufficient to cover the costs of storing and distributing USDA Foods, many State agencies charge fees to SFAs.

CACFP Audit Funds.[37] Documented denials were often made based on the recommendation of the FNS regional office during their initial review of the State requests before forwarding to the FNS national office. It is also possible that some State requests were never forwarded to the national office because the regional office was certain they were unallowable and could not be funded.

4.1.4 Funds Recovered

FNS recovers SAE funds if a State agency has unexpended funds in excess of the allowed 20 percent carryover at the end of the grant period. Funds are also recovered from any State agency that fails to expend the approved amount of the SAE reallocated funds on the approved project or activities by the end of the grant period. In this case, the amount of the recovery is the difference between the amounts of the reallocated funds approved minus the approved project or activity expenditures.

We examined recovery data from FY 2006 through FY 2018. As shown in Table 4-8, the total dollar value and percentage of total allocated funds recovered from State agencies increased over the period. In FY 2006, $2.2 million (equivalent to 1.5% of allocated SAE) was recovered. This amount increased nearly fivefold to $10.8 million in FY 2018, with fluctuations over time. From FY 2006 through FY 2009 the amount of annual recovered funds was fairly stable, at approximately 1 to 2 percent of the initial allocation. From FY 2010 onward, the percentage of initial allocations that were recovered increased significantly. In FY 2018, 3.6 percent of the initial allocation of SAE funds were recovered. The highest recovered amount occurred in FY 2012, when $16.3 million or 7.3 percent of SAE allocations were recovered. It is likely that the availability of an additional $47 million in HHFKA Section 201 funds for State implementation of updated meal patterns in FY 2012 and again in FY 2013 affected some State agency returns of their "regular" SAE allocations. Though State agencies were focused on implementing the significant program changes of the HHFKA in the years following the 2010 enactment, the availability of the additional funds for implementation seems to have affected SAE recoveries.

The percent of the initial SAE allocation recovered between FY 2006 and FY 2018 ranged from a low of 0.6 percent in FY 2008 to a peak of 7.2 percent in FY 2012. Recoveries are generally lower since FY 2015, with 3.6 percent of funds recovered in FY 2015.

[37] Under Section 17(i)(2) of the Richard B. Russell National School Lunch Act (42 U.S.C. 1766[i][2]), FNS provides States between 1.5 and 2 percent of a State's CACFP program expenditures in the second preceding year for audits and similar oversight activity in CACFP.

Table 4-8. SAE funds recovered, Fiscal Years 2006-2018: U.S. total

Fiscal year	Recovered amount	Recoveries as percent of initial allocation
2006	$2,240,740	1.5
2007	$3,383,757	2.1
2008	$1,003,979	0.6
2009	$2,671,786	1.5
2010	$8,211,718	4.3
2011	$7,721,045	3.7
2012	$16,283,401	7.2
2013	$14,631,305	6.2
2014	$14,171,623	5.7
2015	$15,498,058	5.9
2016	$10,456, 533	3.8
2017	$8,125,566	2.9
2018	$10,803,400	3.6

As shown in Table 4-9, both increases in the number of State agencies returning funds each year and large increases in the amounts they returned were the drivers of the total national increase in SAE recovery. First, from FY 2009 to FY 2010, the number of State agencies returning a portion of their SAE allocations increased from 14 to 25, and the average returns increased from $190,842 to $328,469. The number of State agencies returning SAE funds remained stable at 24 to 27 for the next four years, while the amount returned per agency was increasing. Subsequently, when the number of State agencies returning SAE funds dropped to only 16 in FY 2014, the average recovery from those agencies increased substantially from $585,252 in FY 2013, to $885,726 in FY 2014. There is no clear-cut policy or program-operational reason to help explain the trends in recovered funds. It is possible that the availability of special program grants such as those for Direct Certification and Administrative Review and Training affected some States' capacity to expend SAE funds. State hiring restrictions may also have left staff positions funded by SAE vacant, resulting in unplanned excess funds.

Table 4-9. Number of State agencies and annual average funds recovered per agency, Fiscal Years 2006-2018

Fiscal year	Number of State agencies with funds recovered	Average amount of recovery among State agencies with funds recovered
2006	11	$203,704
2007	17	$199,045
2008	13	$77,229
2009	14	$190,842
2010	25	$328,469
2011	24	$321,710
2012	27	$603,089
2013	25	$585,252
2014	16	$885,726
2015	22	$704,457
2016	19	$550,344
2017	18	$451,420
2018	22	$491,064

Table 4-10 shows that a minority of the State agencies returned SAE funds each year during this period, with one minor exception: the agencies that only administer school programs. In FY 2010 and FY 2018 the majority of these school-program-only agencies had SAE funds recovered. At the same time, SAE recovery was least common among the group of State agencies that only receive SAE for administration of the FDP, with zero to four (out of a total of 15 to 19) of these agencies having SAE recovery in any one year. This finding is not surprising since the SAE formula provides the smallest proportion of SAE to fund the FDP.

Table 4-10. Recovery of SAE funds in Fiscal Years 2006-2018, by State agency type

Fiscal year	Number of State agencies with SAE recovery*			
	Agencies that administer multiple CNPs (N ranges from 47 to 49 during this period)	Agencies that only administer school programs (N ranges from 6 to 9 during this period)	Agencies that only administer CACFP (N ranges from 13 to 14 during this period)	Agencies that only (or primarily) administer FDP (N ranges from 15 to 19 during this period)
2006	4	4	3	0
2007	8	4	2	3
2008	6	3	3	1
2009	7	2	3	2
2010	13	5	6	1
2011	13	4	6	1
2012	13	4	6	4
2013	12	3	7	3
2014	9	3	3	1
2015	11	2	6	3
2016	9	3	5	2
2017	10	2	5	1
2018	10	5	5	2

* During the 13-year period, four State agencies changed the number and types of CNPs that they administered; therefore, their agency type classification changed during the study period.

When we looked at both the reallocation and recovery data from each State agency over the FY 2006 through FY 2018 period, we found that it was very uncommon for agencies to have both received reallocated funds and surrendered recovered funds in the same year, though it did occur among a small number of agencies. Specifically, 11 State agencies had both reallocation of funds and recovered funds equal to or greater than 10 percent of their total SAE allocation (initial plus reallocated funds) in the same year once, and four State agencies were in that situation two years (see Table 4-11). Since this does not happen often, it indicates effective planning and accounting of funds across most State agencies. It is likely that in at least some cases when a State agency had reallocation and return in the same fiscal year that they encountered unanticipated delays in the State procurement process that did not allow them to obligate funds by September 30. The two-year availability of funds may also be a factor in State agencies' managing of the funds.

Table 4-11. State agencies that both received reallocation and returned at least 10 percent of their total SAE allocation in the same fiscal year, Fiscal Years 2006-2018

Number of years	State agencies
2	Alabama Department of Education Indiana Department of Education Oklahoma Department of Human Services Rhode Island Department of Education
1	Colorado Department of Human Services Delaware Office of Management and Budget Illinois Department of Agriculture Kentucky Department of Agriculture Maine Department of Education New Hampshire Department of Administrative Services Virginia Department of Education Vermont Department for Children and Families Vermont Agency of Education Wisconsin Department of Public Instruction West Virginia Department of Agriculture

When we next examine the SAE recovery pattern by State agency size, we find that in most years the portion of large agencies that returned funds was much higher than the small agencies.[38] This indicates that as a group, large agencies more often could not use all of their SAE allocation, even with their 20 percent carryover allowance. Conversely, small agencies as a group used at least 90 percent of their SAE allocations. The spending data show that on average between FY 2006 and FY 2018, only 9.2 percent of small agencies returned at least 10 percent of the amount in their SAE allocation, whereas the occurrence of recoveries was almost two times more frequent among large agencies (18.1%). The annual frequency of recoveries for medium agencies usually fell between those of the large and small agencies, with an average of 12.8 percent of this group returning at least 10 percent of their SAE allocations each year. If we look only at recovery data for FY 2010 through FY 2018 when State SAE allocations began to increase for all agency sizes and overall total dollar recoveries also began increasing, the differences by agency size become larger. Over that period, only 10.6 percent of small agencies had recoveries of 10 percent or more of their SAE allocations, compared to 23.5 percent of large agencies. Table 4-12 presents this data.

Large State agencies have higher rates of recovery than medium or small-sized agencies.

[38]For purposes of the study, large State agencies are defined as those that received more than $4 million in initial SAE allocations in FY 2019; medium State agencies received between $2 million and $4 million; and small State agencies received less than $2 million.

Table 4-12. Percentage of State agencies with recovery of 10 percent or greater of SAE allocation, by State agency size, Fiscal Years 2006-2018

Fiscal year	Agencies by size (%)		
	Large agencies	Medium agencies	Small agencies
2006	14.3	5.0	3.3
2007	10.0	10.0	10.3
2008	0.0	0.0	7.1
2009	0.0	14.3	3.6
2010	18.2	27.3	9.3
2011	28.6	21.1	5.5
2012	37.5	15.8	17.0
2013	23.5	15.8	11.8
2014	25.0	6.3	6.1
2015	30.0	11.8	12.5
2016	23.8	5.9	8.7
2017	9.5	17.6	13.0
2018	15.4	15.4	11.4
13-Year Average	18.1	12.8	9.2
Last 9 Years (2010-2018) Annual Average	23.5	15.2	10.6

Finally, we looked at recoveries in the context of State population density. Specifically, we examined the State agency FNS recovery data for FY 2006-2018 to test for differences in the rate of SAE recoveries among the State agencies located in the 13 States with the lowest population density (lowest quartile) versus the rate in the remaining higher population density States. This analysis found that only one of the 20 current State agencies in the 13 lowest population density States returned more than 10 percent of their SAE allocation in more than two years—this agency returned SAE funds in five years. In contrast, nearly one of five (13 of 67) current State agencies in the other 41 States returned at least 10 percent of their SAE allocation during the FY 2006-2018 period. And these agencies returned SAE funding from three to ten times during this period.

4.1.5 Transfer of Funds

Our analysis of funds transfers, shown in Table 4-13, found that this option was used a total of 42 times between FY 2006 and FY 2018. Each year it was used by zero to five States, for an average of three States per year. Transfers were most frequent in FY 2014 when five of the 24 States with multiple State agencies used this option. A closer look at the FNS data reveals that in all but one of the 42 instances that SAE funds were transferred, the funds were moved

Transfer of SAE funds between agencies within the same State is infrequently used.

from the largest State agency that administers the school programs to a smaller agency that administers the FDP or CACFP.

Table 4-13. Percent and number of States with multiple agencies that transferred SAE funds between agencies: Fiscal Years 2006-2018

Fiscal year	Number of states with multiple agencies administering the CNPs	Percent (number) of states that transferred SAE
2006	27	14.8% (4)
2007	27	11.1% (3)
2008	26	15.4% (4)
2009	26	19.2% (5)
2010	26	15.4% (4)
2011	26	7.7% (2)
2012	26	11.6% (3)
2013	26	11.6% (3)
2014	24	20.8% (5)
2015	24	12.5% (3)
2016	23	20.8% (5)
2017	23	4.4% (1)
2018	22	0% (0)

As shown in Table 4-13, each year from FY 2006 to FY 2018 there were 22 to 27 States that had multiple agencies administering the CNPs. Yet, over that period, an average of only 12.7 percent or just over one-eighth of States that could have transferred SAE funds did so. Table 4-14 lists the counts of transfer occurrences by State. Six States used the option only once and four States used it in two or three years. The States that used this option more often were Florida (5 years), North Carolina (8 years), and Virginia (12 years).

Table 4-14. Number of years SAE funds transferred between State agencies, by State of occurrence: Fiscal Years 2006-2018

State	Number of years
Virginia	12
North Carolina	8
Florida	5
Colorado	3
Kentucky	3
Tennessee	3
Nebraska	2
Missouri	1
New York	1
Pennsylvania	1
South Carolina	1
Texas	1
West Virginia	1

4.2 Stakeholder Interviews and RFI Comments

In addition to analysis of historical data on SAE funds, we also obtained input for the study from interviews with officials from 22 State agencies across 12 States, and 37 public comments from stakeholders submitted in response to a Federal Register Request for Information.

4.2.1 Overview of Qualitative Findings

While State agency spending patterns for SAE vary considerably across States and over time based on their allocation level and needs, the majority of interviewees and RFI commenters reported that, under the current formula, SAE allocations do not fully meet the overall needs of State agencies. Several 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. At the same time, many other State agencies—most commonly, the small-size multi-program agencies, the single-program agencies, and the States that have SFAs spread out over large geographic areas—reported that their base SAE allocation is not enough to cover their costs, or will be insufficient in the near future to allow them to fulfill all of their program duties. They provided details on why they feel that their SAE allocation level is not sufficient, as well as how reallocated SAE funds and special Child Nutrition grants have helped them to continue to administer the programs effectively.

When asked about the factors that affect the adequacy of their SAE allocations, study respondents, particularly State agency directors, consistently made the case that their responsibilities for oversight and administration of the programs have increased in recent years, as have their costs for personnel, travel, and updated or new IT systems. The majority of respondents highlighted the cost burden that many new Federal CNP initiatives and requirements have placed on their SAE budgets, while FNS has only provided temporary special grants to help States cover those higher costs. Many State agencies operating school programs expressed concerns about having to use a portion of their SAE funds for administration of other programs that were not intended to be funded by SAE, such as the Summer Food Service Program, Farm to School initiatives, and the Fresh Fruit and Vegetable Program. When asked about factors within the States that are making it harder to stretch their SAE budgets, three were most often mentioned: large geographic distances that staff must travel to oversee, review and train schools and child care and summer meals program sponsors and sites; the

number and size of the SFAs in their State; and State policies that hinder or delay spending of Federal SAE dollars.

While many State agencies expressed concerns with the increasing costs of administering the CNPs, citing factors such as those described above, two types of State agencies reported that they increasingly do not have enough to adequately administer the CNPs or their SAE funding is stretched to its limit.

- **Small Agencies.** Single State agencies in States with smaller populations, and the "stand-alone" agencies that only administer the FDP, most commonly reported shortfalls in SAE funding. Due to their smaller program size, these agencies receive relatively lower SAE allocations, though they do not benefit from economies of scale as larger agencies do, resulting in higher per capita SAE costs.

- **Agencies in States with Low Population Density.** Officials from geographically large States also commonly reported that they do not receive sufficient SAE funding for the FDP because the formula only considers the value of USDA Foods that schools and other Child Nutrition institutions in each State receive, but not the higher transportation costs that are required to travel long distances to serve remote communities.

The sections below provide more detailed summaries of the key findings from the analysis of the interviews and RFI comments. The findings are organized in the following broad topic areas:

- What works well about SAE;
- Adequacy of SAE allocation levels;
- How States manage their allocations to remain within their budgets;
- Primary factors affecting State SAE spending and budgets;
- The interaction between SAE and other Federal sources of funds for administration of the CNPs; and
- State agency recommendations for revisions to the SAE allocation formula and SAE funding processes.

The key findings, noting similarities and differences by State agency size and type when relevant, are summarized below. Selected quotes from respondents are integrated throughout this summary analysis to help illustrate the findings.

4.2.2 What Works Well About SAE

Across the board in interviews and RFI comments, State officials pointed out that they are dependent on SAE funding as the primary source of funding to administer and oversee the Federal CNPs. In the words of one State official that administers multiple CNPs:

> *SAE pays for everything related to monitoring and supporting and doing technical assistance with the sponsors of all our programs. It just wouldn't be possible without (SAE funds).*

When asked how SAE funding is used, State officials expressed appreciation for the flexibility to spend SAE funds on "reasonable, allocable, and necessary expenses." Respondents uniformly expressed appreciation that they can identify their spending priorities for SAE to fit how each State structures administration of the CNPs and can allocate staff and other resources in ways that best serve the demographic characteristics and needs of their customers.

> *So to me, what works really well is that it's flexible. So we then have that autonomy to say, 'This is what works for our State… If SAE were a lot more pigeonholed as to how you could spend your money, I think that you would not have as much of that ability to work with your staff to say, 'Come up with some new, creative ideas.'…*

State officials also emphasized how much they like the flexibility States have to use their allocations as needed by program area. All respondents from the medium- and large-sized State agencies that administer two or more CNPs said they appreciate this flexibility because it recognizes that each State agency has different organizational needs and costs based on how they administer the CNPs, and the flexibility of the SAE spending rules encourages States to use the SAE funds in an efficient and timely manner for all the CNPs.

The majority of site visit respondents expressed appreciation for the rule that allows State agencies to carry over up to 20 percent of their unobligated SAE funds into the next fiscal year. According to the SAE carryover data available for FY 2016 through FY 2018, 12 of the 22 State agencies visited for this study had used the carryover provision in each of those years and most carried over between 10 and 20 percent of their initial allocation. Officials from agencies that usually have unobligated SAE funds from their initial allocation explained that SAE carryover is an important tool that they use to effectively manage SAE funds, providing them additional flexibility to plan for uneven program expenditures throughout the year and a cushion to handle unanticipated budgetary issues

such as procurement delays, or an inability to spend all funds obligated through contracts. In the words of two State agency commenters:

> *Allowing SAE to be budgeted for a 2-year timeframe with a 20 percent carryover allowance works well and allows us to plan for a 1-year budget but provides the grace for budget adjustments throughout the year.*
>
> *We usually fall within that 20 percent and have some carryover. We build that little bit of cushion in from the beginning. If you spend down to zero and an extra expense comes along, you've got big problems... We try to budget down somewhere between zero and the max carryover.*

In further explaining why they used carryover so often, many State agency officials interviewed said that the timing of Federal funding availability was perceived as limiting States' flexibility to plan for and expend SAE funds and necessitated depending on carryover from year to year. Reasons they cited for needing to build carryover into their budget planning included the fact that actual SAE allocations are not known until a few months before the beginning of the fiscal year and the frequent occurrence of delayed funding due to delayed Federal appropriations. A few States also gave examples of past use of the carryover to wait-out State hiring freezes or spending moratoriums, or to plan for long-term expenditures. These circumstances together provided strong incentives for States to rely on carryover funds, which allowed them to have funds at the beginning of the next fiscal year to compensate for any delays in funding availability.

4.2.3 Adequacy of SAE Allocations

As described in Section 4.1 of this chapter, State agency spending patterns for SAE vary considerably across States and over time. Among the study States, a few large State agencies routinely had excess funds and returned them to FNS for reallocation to other States, though some of these States anticipate returning fewer SAE funds in the coming years. As discussed below, many other States routinely request additional SAE funds. Twenty-one of the 36 State agencies that submitted RFI comments and/or participated in the site visit interviews reported that their current SAE allocation level is not enough to cover the current cost of administering and monitoring the CNPs or will be insufficient in the near future to allow them to fulfill all of their program duties.

Variations in State agency perceptions of the adequacy of their SAE allocation are closely linked to the size of their programs and thus their allocations. The majority of the large State agencies

reported that their SAE allocation is sufficient; medium-sized agencies had mixed experiences with the adequacy of their allocation, and all of the small-sized agencies reported that the allocation falls far below their costs. The common themes from the interviews and RFI comments regarding the adequacy of the SAE allocation are described separately for large-sized, medium-sized, and small-sized State agencies.

Large State Agencies

Nine of the 11 State agencies with large SAE allocations that were visited or submitted RFI comments said that their current SAE allocation level is sufficient. When asked what factors help make the allocation funding level adequate, the multi-program large agencies said having all of the programs administered under one agency provides the flexibility to budget more efficiently and to move funds from one program area to another if needed. A few of the single State agencies said that they had even returned SAE funding in the past, but in recent years, as they have been allowed to reimburse schools and sponsors for the costs of handling, storage and distribution of commodities, they are using a larger share of their SAE allocation. Two large State agencies reported their SAE allocation is not sufficient to cover program growth and staff required, with the largest shortfalls in these States being for administration of the FDP.

Medium State Agencies

Respondents from four of the nine medium-sized State agencies said their SAE allocation was sufficient; four reported that their current allocation levels do not cover allowable and necessary expenses and are increasingly failing to keep up with their rising program costs.[39] The anticipated increased costs for the latter group were primarily due to the continued increase in personnel costs for administrative reviews after the Administrative Review and Training (ART) grant funding period ends, as well as the need for new investments in IT systems to purchase, develop, or update a system and fund any start-up costs for a new system, including staff and customer training. One RFI commenter from a medium-sized State agency explained:

[39]One of the nine medium-sized State agency respondents explained its SAE budget and plans for its primary State agency (Education) were in transition at the time of the study because the agency had just come out of a period of long-term vacancies in the director and other key staff positions. As a result, the agency has underspent and returned funds from their allocation and reallocation in those years but that might not continue into the future.

Our ability to fulfill responsibilities defined by federal regulations is stretched to nearly a breaking point. We have experienced a funding shortfall for several years and we do not receive enough funding to meet needs and administer all the programs, which results in critical positions remaining vacant. The current levels do not cover allowable expenses and personnel and program costs, nor do the funding levels keep pace with rising costs in these areas.

Small State Agencies

All of the 15 small-sized State agencies that provided input concurred that their SAE allocation has in recent years been stretched to the limit. They also noted that without adequate SAE funding, they have to use other resources to fund the program or cut corners in staffing and other areas that might negatively impact program integrity and compliance. For example, RFI commenters from two small State agencies that administer all of the CNPs explained how the SAE allocation level has increasingly become inadequate to meet their basic resource needs and administer all the programs well:

This funding is truly becoming inadequate to maintain the integrity and compliance of the Child Nutrition Programs.

The SAE formula … allows us to conduct the absolute minimum required by USDA. We are able to keep up with required monitoring requirements and conduct minimal training, but the SAE allocation establishes us as a reactive State agency with little ability to fund staffing and travel at a level to provide high quality technical assistance and training needed to see program excellence.

Within the group of small-sized State agencies, those that only administer the FDP uniformly reported funding shortfalls and the greatest dependence on non-Federal resources. There are 15 States nationwide that fit into this group,[40] of which six were interviewed for the study and one also submitted RFI comments. To adequately fund their FDP, these officials reported that they depend on a combination of sources, including reallocated funds, fees charged to SFAs, significant contributions from State general revenue funds, and in some cases, in-kind use of State-owned warehouse space and staff that are shared with The Emergency Food Assistance Program (TEFAP). One of these officials reported that their SAE allocation covers less than one-fourth of their annual costs for operating the FDP, with the remainder being funded by State contributions, fees to SFAs, and reallocated SAE funds that they use to replace outdated warehouse equipment and trucks. In

[40]Colorado, Delaware, Kentucky, Louisiana, Nebraska, New Hampshire, New Mexico, New York, North Carolina, Oklahoma, Pennsylvania, Rhode Island, Tennessee, Virginia, and West Virginia.

another small State, the stand-alone FDP agency reported that the allocation covers only one FDP staff person's salary, while all USDA Foods storage and distribution costs are paid for by State general funds. In another small State agency, the respondent calculated that they would need a 15 to 20 percent increase in the allocation just to cover part of another full-time-equivalent (FTE) to help run the program. This would not cover their warehousing and distribution costs, which they hope would continue to be paid upfront by the SFAs and reimbursed at the end of each year using reallocated SAE funds.

4.2.4 State Strategies for Use and Management of SAE Funds

A review of the SAE Plans for the 22 State agencies interviewed revealed similarities across the States in the cost categories they fund with their SAE allocation. Foremost, the majority of the SAE allocation in all States is budgeted for salaries and benefits for the State agency personnel who administer the CNPs. In the small-sized State agencies, personnel costs comprise more than two-thirds and as much as 90 percent of the agency's SAE budget. When asked to explain their line item spending for SAE, State officials reported that staff are the key resource for implementing all aspects of monitoring, training, and oversight of the CNPs.

> *A good chunk (of the SAE budget) is personnel, and the work that we pay people for with SAE is driven by programmatic requirements that we have to fulfill, as well as strategic priorities to improve the program, improve access to the program, make the program easier for our customers to operate.*

IT systems comprise the second largest component of most States' SAE budgets, with steady annual costs for hosting and maintaining the systems and extra expenses budgeted periodically for enhancements, and when a new contract is required to go out for bid. The third major category of expenses in States' SAE budgets are travel costs. States' travel costs for administration of the CNPs include in-State travel to conduct training and on-site reviews, costs of trucking USDA Foods to schools, and out-of-State travel for conference attendance for professional development. The States with larger geographic areas reported that their travel costs are a growing portion of their SAE budgets, whether they pay for the travel themselves or pay contractors who deliver USDA Foods to their SFAs. A few States also reported fixed line items in their budgets to cover consultants who provide specialized training to their SFAs and sponsors on cooking healthy meals or buying local foods, and consultants who developed promotional materials for the SFAs to use to increase

program participation. Finally, an increasing proportion of SAE budgets of the FDPs is used to reimburse schools for the fees that they pay out for commodity storage and delivery (in some cases accounting for more than $1 million of their SAE budget).

When State agency staff were asked what strategies and tools they use to manage their SAE budgets, they most often mentioned the importance of a strategic plan that engages all of the program leadership and sometimes key partner organizations, and the staff who work directly with the schools and sponsors.

> *We do strategic planning every year as a team with the program supervisors. We look at our goals and objectives for the following year, where we feel that our strong points are, where we have some deficiencies and some gaps in the things that we do, then we go ahead and see what we can do in the next year's budget to make sure those areas are addressed.*

> *You can't take SAE planning lightly. I mean we need to do it every year and figure out how are we going to spend what we have, look at where are we now, what are we carrying over and how are we best going to spend what we have.*

The director of a CACFP single program agency explained that their strategic planning process also involves development and monitoring specific performance metrics (such as desired targets for at-risk afterschool meals participation and provider adherence to program standards) that they monitor annually to make decisions about how to invest their Federal and State resources.

When asked about best practices in managing SAE funds, several State agency directors noted that close communication and a relationship of trust with their State finance or comptroller's office is key to being excellent stewards of their SAE, though having an experienced finance person within the department was also mentioned as key. Several directors of small and large agencies recommended reviewing the SAE budget and spending on a quarterly or monthly basis so that funds can be transferred from one budget line to another if necessary.

> *I would say that having support from and good communication with the State budget bureau is key. We look at the numbers quarterly… You need to be able to know what your expenditures are on an ongoing basis.*

These same directors and other State agency interviewees also acknowledged that one of their best tools for managing SAE funds is their use of historical spending data in specific cost categories to forecast their next year's budget, considering both ongoing and one-time expenditures.

Another director emphasized that, while he pays close attention to monitoring his agency's SAE budget, it is his staff's dedication to the CNP goals and the children they serve that ensures the program is well managed and does not waste any funding. During his interview, this official explained:

> *I think that the people that you have in these positions have a buy-in to those programs and they see the need out in the community. The program is budgeted well because of that dedication and their wanting to make sure that the money's getting spent and that we're using as much as we can.*

4.2.5 Factors Impacting State Agency Budgeting, Costs, and Spending

All of the State agencies and the national associations that responded to the RFI discussed how current SAE funding does not adequately take into account the factors that affect the cost to States for administering the CNPs. The factors noted as most affecting States' SAE budgets, costs, and spending fall into six broad areas: (1) expanded Federal requirements and policy initiatives; (2) State demographic factors; (3) the number and type of SFAs each State serves; (4) major resource needs; (5) cost factors specific to the FDP; and (6) State policies and rules.

1. Expanded Federal Requirements and Policy Initiatives

Respondents that administer the school programs and/or CACFP felt strongly that the many new Federal CNP policies and program requirements that were implemented in the last few years have increased their costs, suggesting that the current formula for SAE allocation is outdated and FNS reconsider ways to increase SAE funding, including how it determines SAE funding for the States. Officials from one State agency that administers the school programs and CACFP explained:

> *When there are new requirements or changes in requirements that increase the burden to States, then increased SAE funding should follow.*

Respondents' most common criticism of the formula is that it places too much emphasis on the number of reimbursed meals in a State and not enough on other variables that determine the cost of administering the programs, regardless of size. In the words of one State agency official:

> *The amount of money that gets paid out for number of meals is kind of an indicator of the size of the program. I think it's a good baseline. But it's not a really good way to gauge the cost of what it takes to run the program well.*

One-half of the 26 State agencies that administer the school programs and provided feedback through interviews or RFI comments cited one or more other Federal CNP initiatives as having put pressure on their SAE budgets.

> *There are a variety of issues affecting and draining our funding, including new meal pattern requirements; unfunded mandates and increased program oversight requirements; staff training; the required schedule and number of program reviews... We have a number of additional duties and tasks that must be completed and if these changes continue we may not have enough funding to perform the necessary reviews and training.*

While most State agency officials applauded the recent changes implemented as a result of the HHFKA, they also characterized them as "unfunded mandates" because while they received additional initial increased funding for implementation of some of the Act's new provisions, they noted that the increase in SAE funding was not sustained and increased sufficiently to match the resulting increased workload for States.

> *All of the new unfunded mandates, the increase in program oversight including procurement, and the new meal patterns; software requirements, training, and the amount of program reviews are overwhelming [STATE's] funding. If changes continue, it will just be a matter of time when [we] will no longer have enough funding to perform all of the necessary reviews and trainings.*

The change in Federal policy that was most often cited as affecting the States' SAE budgets was expansion of the breadth and frequency of the administrative review (AR) process that States must conduct for the school programs (previously referred to as the Coordinated Review Effort, or CRE). While some State agencies that administer the school programs reported they were able to absorb the costs of training their staff to implement the new ARs, the majority (16 of 26) of this group of respondents explained that the expanded AR requirements put pressure on their SAE budgets and in some cases required cutbacks in other areas of program administration. They explained that the AR process requires personnel to have new skill sets (e.g., to carry out resource management reviews), must be conducted more frequently (every three years instead of five years), and involves more pre-review training and intensive oversight of each SFA and selected school sites. A few officials mentioned that they also had or plan to purchase new software to meet the new AR requirements to reduce costs of training and reporting, to improve the identification of error prone areas, and to improve program integrity overall. Quantifying the effect of the AR on their SAE budget, the director of one small-sized State agency that administers all of the CNPs said the AR changes resulted in a 43 percent increase in the number of reviews they need to conduct for the

school programs in a given year. Another agency director noted that to implement the new AR, this State purchased new software for online trainings, and said this was very successful, but "*a huge hit on our budget.*" A third respondent from a medium-sized State agency reported that the required use of the new Procurement Review Tool for the ARs alone added 116 staff workdays to her SAE budget.

The other Federal CNP requirements and priorities most often cited as affecting State administrative costs were: implementation of the Community Eligibility Provision (CEP); the data exchanges required for direct certification; review of professional standards documentation; managing compliance with meal pattern requirements, including the additional six cents certification; establishing Provision II base years; monitoring local wellness policies; assuring compliance with the Smart Snacks rule, non-program food revenue and paid lunch equity; Farm to School staffing and travel costs; the Fresh Fruit and Vegetable Program; and promoting Smarter Lunchrooms. Officials from several other State agencies that administer the Summer Food Service Program along with other CNPs explained that due to the success of their summer meals program expansion efforts, also encouraged by FNS, they had to dip into their SAE budget for reviewing the new sponsors and sites, and as a result, reduce funds that could otherwise have been used for administration of the other CNPs intended to be funded with SAE funds.

2. State Demographic Factors

State agency respondents from eight states in three different FNS regions reported that their travel costs are not adequately considered in the formula because it places most of the weight on the number of meals served; this reflects a State's population and program participation, but not its geographic size or population density. These officials described in detail the long distances and difficult terrain that staff must travel to visit a school or sponsor. While the geography of each of these States is unique, their concerns about the formula and rising transportation costs to implement training, the more frequent ARs, and distribution of USDA Foods were similar. The following are examples of their specific concerns:

> *So in a rural State like this there could be a lot of distance between you and the next review. So there's a lot of travel involved with doing those reviews because there's so many of them and you've got to travel so far sometimes to get to them. And sometimes you end up staying a night or two nights just to do one or two reviews. So–that's where a lot of the funding goes. Also training is a little more expensive in our State for the same reason.*

> [State] *is a large, sparsely populated State. It can take review staff an 8-hour day to reach a school district for a review.*

> [State] *is considered one of the last large frontier States, with multiple isolated, remote and sparsely populated counties, providing unique challenges in access to services...This also provides challenges for staff [to] travel to remote areas because there are few interstates and limited public transportation, including airports and flights; it is difficult and expensive.*

3. Number and Type of SFAs Served

Several respondents from small-, medium- and large-sized State agencies administering the school programs pointed out that their administrative program costs are tied to the number of agreements they have, not simply the number of meals that are served. They suggested that nearly the same level of effort is required to train and review each of the organizations they have an agreement with, regardless of the number of sites or number of meals they serve.

> *…the same amount of needs go into supporting all of these sponsors with their program applications, claims, technical assistance, training, and administrative reviews. Even though less sites are visited (for small SFAs), we still need a fair number of employees to complete reviews when all the same forms are required to be completed.. Some of the work is still the same with 70 SFAs whether they have one site or 100.*

> *We have no SFAs that meet the definition of "large" districts. While our SFA population is primarily mid-level, we proportionately have a high number of small sponsors and sites. Since the review process happens at the sponsor and site level, we have high administrative expenses.*

Officials from several States with large rural populations noted that their costs per SFA are higher because the large number of small SFAs in their States creates greater needs for training and hands-on support. They indicated that the staff in these agencies often require more intensive State oversight and support because they have less capacity for managing their programs due to high turnover and because they are more isolated and less able to specialize their work functions; for example: one person may be the cook, meal planner, and financial administrator for the school district.

> *Agency type is a strong driving factor in the workload and the resources that a State agency expends to support CNP agencies. Small agencies require more interventions such as additional training, technical assistance, and monitoring, and overall staff resources compared to medium and large agencies. [STATE] routinely supports small agencies at a higher level than the average program operator.*

> *Over 100 school districts in [STATE] have 1,000 or less students, and they're mostly small rural. Big conferences and online trainings, was just not as effective, especially for our small rural districts because they need a lot more hand-holding because of the complexities of the program. And [the directors] have five other jobs and they're cooking the meals for the kids.*

Agency officials from two States remarked that it is important for USDA to consider that State agencies may not be able to spend all allocated funds for reasons that are beyond their control. Specifically, State-level funding processes take place well before FNS notifies States of the funding levels of SAE (and SAF and CACFP audit funds), making it difficult to ensure State agency budgets for the upcoming school year include the total level of Federal funding that the State can draw down for the next fiscal year. Without full State budget authorizations matching Federal funding, State agencies cannot ensure full use and expenditures of Federal funds as required.

4. Major Resource Needs

Given that program staffing costs (including State salaries and benefits and contracted personnel) comprise the largest component of States' SAE budgets, it is not surprising that State agency respondents reported that rising personnel costs outpaced their SAE allocation. In addition, States reported difficulties having enough budget to hire qualified staff (e.g., with expertise in nutrition, resource management, legal contracting, or accounting). In the words of a director from one of these State agencies:

> *We need more staff but cannot afford to hire more staff, or afford raises and are barely keeping our heads above water.*

Respondents from several States with higher costs of living commented that the SAE formula does not take into account variance in States' cost of living and how it affects their SAE needs. The following remarks from officials in two different States illustrate the concerns expressed by this group of States:

> *…Wages have risen faster than the increases the USDA has been giving for the meal reimbursement rates. In essence, [STATE] is outpacing any growth of SAE funds due to its inflation compared to other States.*

> *The current model does not take into consideration the high cost of living that [STATE] experiences, which is in the top three in the country. To get high quality, experienced staff that we can retain, and based on [STATE] pay scale standards. We likely pay the most of any other State in the country.*

Several State agency respondents also reported that their ability to hire qualified staff to meet new program regulatory requirements is limited because new staff positions require new skills and can cost more than existing staff, including for health insurance and other benefits. Further, if they have a lengthy vacancy in a position, the agency may lose the position in their State budget, and it may be more expensive to hire and maintain a contractor to do the needed work.

After personnel costs, technology solutions were the most common State resource needs reported to be driving up States' SAE budgets. In fact, all but a small number of the State agency respondents, regardless of program size, said that IT modernization was their largest new area of cost growth. These respondents described current activities and plans for building a new in-house system or purchasing a system and software from a contractor, along with increasing costs for system maintenance and routine updates to integrate changes in program rules. These respondents explained how the increased scrutiny on meal claims, data matching for direct certification, program integrity reviews, and various other strengthened CNP integrity functions have made the move to more sophisticated online, computerized systems a necessity.

Several respondents acknowledged that receiving SAE reallocation funding and/or an Administrative Review and Training (ART) grant from FNS has been critical to their ability to enhance or build IT systems. However, they also emphasized that IT costs should be built into the annual SAE allocation because they need ongoing resources to maintain, update, and train around the new systems that are built. As explained by a respondent from one large-sized State agency:

> *We are going out to bid in November...and so that's where we're not sure what it will look like moving forward or how much it will cost. And because for a transition period to really work between one system and another, we're going to have to pay for two systems for over a year. We are going to have to depend on grant funds or reallocated funds to actually pay for that. Our SAE allocation just can't cover it, but we need to do it.*

While concerns about the growing strain that IT systems are placing on their SAE budgets were mentioned by respondents from all types and sizes of State agencies, the greatest cost concerns were expressed by respondents from State agencies in small- or medium-sized States that administer two or more of the CNPs. The following comments from two such agency officials reflect similar input from the larger group of State agency commenters in this challenging area.

> *SAE funding does not take into account the high cost of technology necessary to administer the Child Nutrition Programs; grants may be written to secure technology, but*

our State agency has found annual maintenance fees to be a deterrent to software solutions that may ease some of our administrative oversight.

[STATE] *has had a hard time keeping up with new technology systems due [to] its small SAE budget, which mostly goes to support staffing salaries and benefits... We are not able to purchase expensive systems or think creatively as other large States. If an online application system costs $3 million, that is four times the total amount of our annual SAE budget.*

5. Cost Factors Specific to the FDP

States' ability to maintain the FDP appears to depend in large part on what non-SAE funding they receive, including State general revenue funding, SAE reallocated funding, and the fees that the large majority of States charge their SFAs to help offset storage and distribution costs. In 10 of the 12 study States, the SFAs are charged a fee to offset some of their State's FDP costs. In the majority of these cases, the State uses a part of their initial SAE allocation or approved reallocated SAE funding to repay the SFAs based on the actual fees they incurred during the school year.

Regardless of whether they own their own warehouse for FDP or pay a contracted warehouse for storage and distribution, respondents from a majority of the agencies that administer the FDP reported similar factors that result in FDP costs ranging from 20 percent to 400 percent higher than their SAE allocation for FDP. Officials from agencies that use a State-owned warehouse for the FDP reported that although their agency pays for the warehouse space, they still have high and rising costs for wages, facility and equipment upkeep, and transportation, which makes it harder to run the FDP on the relatively small SAE allocation that FNS provides States for this program.

Basically, we have to order equipment every year. I mean, when you're distributing $23 million in commodities, there's a lot of wear and tear, not only on the trucks and the tractors but you got warehouse equipment like the forklifts, the pallet jacks, just different things like that.

It's really been a struggle for the department in trying to properly staff the [FDP] program, because we do not have enough money to pay salaries to get the type of people we need…they can go to trucking companies and make three times what we can pay.

When you start looking at actual cost, the warehouse is quite a bit. There's a lot of costs involved because you've got equipment, and you've got trucks, you've got trailers. And, if they don't have their own State warehouse, then they're still paying somebody that cost.

A program director from a State agency that only administers the FDP and pays a private contractor to store and distribute the USDA Foods explained that, because there is only one contractor willing

to run the FDP in her mountainous State, they have little control over the contractor's prices. She explained that for the SFAs that do not have direct delivery of USDA Foods, the agency passes down the storage and distribution costs to their SFAs. In this State, the contractor raised its rate by 13 percent in FY 2018. Luckily, from this respondent's perspective, in recent years this State agency has received enough reallocated SAE funds to reimburse the SFAs for 100 percent of the upfront FDP-related fees that they pay to the State.

Another key factor impacting States' FDP cost is the distance and time it takes to transport the foods to the recipient agencies. Officials from eight diverse States with large geographic territories, including those in FNS' Mountain Plains, Southwest, and Western Regions, reported that their geographical terrain is a critical cost factor for their administration of FDP. As explained by several respondent States with wide, expansive territories that include many small, rural SFAs, their State or contracted drivers must sometimes deliver only partial truckloads to many small communities that are far from one another. As described by the FDP director from one agency that only administers the FDP in a State with a large geographic territory but relatively low population density:

> *We are going to a lot of sites and dropping off very little at each one. The truck costs about the same regardless of how much we are delivering and our sites are far from each other. We may have 30 sites we have to deliver across the State, so we're having to go all the way down to the southeast side and all the way to the northwest side of the State—it's a lot of manpower, time, and fuel without a lot of funding.*

Without reallocated SAE funding, a dedicated staff, and State general revenue funding, this director also said that their FDP program would not be able to continue to operate.

6. State Policies and Rules

Interviewees consistently said that once their legislature gives them an approved budget for administration of the CNPs, they have broad leeway to plan their budgets and spend SAE dollars. However, many State officials noted that State purchasing and bid requirements were factors that have at times delayed their obligations of SAE funds, resulting in returned SAE funding at the end of a grant period.

> *Sometimes we run into issues like if we wanted to use SAE funds for a contract, there could be delays in getting our contract signed… Contract negotiations with vendors on IT systems delays things.*

A few interviewees highlighted past instances when their State Board of Education or Governor imposed restrictions on State personnel hiring and/or spending for travel that also impeded spending of their SAE dollars.

Additionally, a few State officials in the study States highlighted the affect that their recent State Child Nutrition or anti-hunger initiatives were having on the SAE budgets. These interviewees described how school breakfast, at-risk after school, or summer meals expansion initiatives by their Governor or State Superintendent of Education have increased their outreach, training, and monitoring costs. These officials pointed out that while they support these executive-level initiatives, their State legislatures did not provide sufficient administrative funding to accompany the expansion directives. Further, they explained that their SAE allocations did not increase sufficiently to cover the expansion costs, because States' SAE funding is based on program participation in the year that is two years prior to the allocation year.

4.2.6 Interaction Between Other Federal Funding for CNP Administration and SAE

When asked about how the availability of other Federal funding for administration of the CNPs affects the States' abilities to support the overall administration of the CNPs, the large majority of respondents emphasized how critically important it is to have the CACFP audit funds and Summer Administrative Funding (SAF) as dedicated funding sources for the administration of CACFP and SFSP. They also greatly appreciated the availability of the Direct Certification and ART grants for large technology projects, Team Nutrition grants, and Technology Improvement Grants, and applauded FNS for recognizing the importance of providing supplemental funding to begin work on new program initiatives. At the same time, several respondents recommended the limitations of each of these other Federal funding sources for administration of the CNPs and suggested changes that could allow State SAE allocations to go further to carry out other required CNP administrative functions.

1. CACFP Audit Funds

Several respondents noted the limitations in the allowable uses of the CACFP audit funds. For example, a respondent from a national association recommended that the guidance be broadened so that some CACFP Audit Funds could, for example, support the monitoring of CACFP and the

National School Lunch Program for an SFA that participates in both programs. Two State agency officials recommended that the rules for the CACFP Audit Funds be revised to allow States to use these funds not only to conduct audits but also to provide the supports that are needed to help prevent negative findings. They thought, for example, that States cannot use CACFP Audit Funds for training for child care sponsors and institutions.

2. Summer Administrative Funds (SAF)

Nearly all of the 26 State agency respondents that administer the SFSP reported that their SAF allocations are insufficient. They explained that without SAE they could not administer the SFSP. As succinctly described by one of these respondents:

> *SFSP is severely underfunded through the SAF and necessitates the use of SAE to properly operate the SFSP to maintain minimal integrity, which stretches the SAE even further.*

When asked about the interaction of SAF and SAE funding, officials from several agencies reported that SAF only funds a small portion of their costs to administer the SFSP. The director of a medium-sized State agency explained that their SAF supports only one FTE. The director of another medium-sized State said that SAF covers just one-half of an FTE in their State. Another State official from a small-sized agency reported that SAF funds less than 30 percent of her agency's SFSP costs. Another official from a large State agency explained that, due to the limited SAF funding, rising costs for all of the CNPs, and the fact that SFSP participation is not taken into account in the SAE formula, this State agency had to discontinue its effective SFSP marketing campaign that had been funded with both SAF and SAE dollars.

3. Special Child Nutrition Grants

Officials who had received one or more of the special Child Nutrition grants in recent years greatly appreciated how these funds have helped them get new initiatives started or fund sustainable infrastructure for CNP administration. Yet the majority of the grant recipients also said that the grants do not replace States' need for sustained increased SAE support. When asked about the utility of the special grants, two respondents explained:

> *Large increases in administrative monitoring regulations and tools, yet only short-term monetary assistance was made available to address this. We need a more sustainable funding source to meet the added Federal regulations.*

Without that (ART) grant, we probably wouldn't have had the extra funds to hire (contracted) staff to focus on areas of concern for the reviews and have the capacity to send staff out into the field. The SAE doesn't necessarily cover a lot of the training and technical assistance that I think USDA wants us to do, but we need sustained staff and money for staff to make that happen.

4.2.7 State Agency Recommendations for the SAE Funding Formula

In both interviews and RFI comments, State agencies provided recommendations for ways the SAE allocation could be revised to better reflect factors driving State SAE costs. The most common recommendations are presented below.

1. **Increase the Minimum Funding Level in the Formula to Ensure SAE Increases to the States with the Smallest Populations.** State agencies that receive the minimum funding for administering school programs uniformly recommended that the minimum funding for SAE be raised significantly from $200,000. The recommended increased minimum ranged from $300,000 to $1 million.

2. **Increase Formula Weighting for Number of SFAs and Recognize Higher Costs of Serving Small SFAs.** Many State agencies administering the school programs suggested that the portion of the SAE formula that now gives more weight to agencies serving large SFAs be changed to give equal weight to all of the agreements that State agencies have, regardless of SFA size. These officials explained that it is the number, rather than the size, of each State's Child Nutrition institutions that primarily drives their SAE costs for reviews, monitoring, training, and even food distribution.

3. **Include a Factor in the Formula to Increase Funding for State Agencies with Large Geographic Territories.** Several respondents from States that cover large geographic territories in the Mountain Plains, Southwest, and Western Regions recommended that the SAE formula be changed to take into consideration the greater distance and time that it takes to serve large geographic areas, particularly in States with lower population density that have to visit SFAs and institutions in many diverse, small rural communities that may serve as few as 50 children.

4. **Increase FDP Funding, Particularly for Agencies that Only Administer FDP.** As noted above, respondents from State agencies of all sizes reported many reasons for large shortfalls in SAE funding for their FDPs, despite the fact that many have in recent years received increased reallocation funding for their FDPs. In fact, while 13 of the 15 FDP stand-alone State agencies requested and received reallocated SAE funds in at least one of the past four years and eight of these received reallocated funds in each of these years, many of the FDP stand-alone agency directors expressed concern regarding their increasing reliance on reallocated SAE funds. These State officials recommended that FNS consider ways to significantly increase the initial SAE allocations for the FDP, particularly for States where a single agency administers the FDP, and States that have higher costs due to the long distances they have to travel to bring the USDA Foods to their schools.

5. **Other Formula Recommendations.** The following are additional recommendations for revisions to the SAE formula, each mentioned by one to three respondents:

   – **Make Adjustments to the Formula Based on the State and Regional Cost of Living.** Several respondents suggested that the formula include adjustments for State and regional variations in their cost of living or wages.[41]

   – **Incorporate Factors Related to States' SFSP in the Allocation Formula.** One State agency director suggested that, since her agency and many others use SAE to help fund SFSP, and SAF funding has not increased sufficiently to keep up with these costs, that the SAE funding base and formula be increased to allocate SAE funding specifically for not only the school programs, CACFP and FDP, but also for SFSP.

4.2.8 Recommendations for Other SAE Funding Rules and Processes

1. SAE Reallocations

State agency officials and the national organizations that represent them uniformly expressed appreciation for the reallocation process by which State agencies can request additional SAE funds above their initial allocated funding for State-level allowable costs. Twenty of the 42 State agencies that were visited or provided RFI comments said that the SAE reallocation process is very important to their program funding and reported receiving this funding in at least two of the past four years. As explained by one State agency official:

> *The State agency has requested and received reallocated SAE funds each year for the past five years. The reallocated funds have been used for updates and maintenance of the State's Child Nutrition Programs application, claims and payments system. Funds have also been requested to pay for the warehousing and transportation of USDA Foods.*

Across the State agencies that received reallocated SAE funding, State officials provided many examples of how they used these welcome additional dollars. Many highlighted the importance of reallocation funding to support IT projects such as new automated systems, a web-based tool for AR, updates or upgrades to existing systems, feasibility studies, and purchase of hardware including new servers and computers. State agencies that administer the FDP provided a variety of examples of their use of reallocated SAE funds to maintain their administration of this program, including: purchase of a forklift or vehicle, repair of a State-owned warehouse facility, costs associated with

[41] Alaska also requested special compensation in the SAE formula to consider its uniquely difficult terrain and economic conditions, as it is considered for some other aspects of Federal funding for CNPs.

non-routine staff development, improvement of a State-owned electronic ordering system, and reimbursement of SFAs for the fees they are charged for storage and distribution of USDA Foods. One director of a stand-alone FDP agency mirroring the sentiments of all of these respondents, explained:

> *We got a huge amount, for us as a small State anyway, of reallocation money this year to hire staff to help us move forward with some work. Without the reallocation funding we could not have done that. But we don't know if it will be there every year.*

While they valued the reallocation funding and the increasing availability of these funds in the last few years, the majority of respondents whose agencies have received reallocated funding expressed concerns regarding how the reallocation process had been operationalized to date. Specifically, they said that the late arrival of these funds (in the last quarter of the fiscal year) and the fact that the agency's carryover limit does not increase if they receive large amounts of reallocated funds, hampers their ability to plan for and utilize these funds, although they are badly needed. As explained by an official from a small Mountain Plains State:

> *This year, the 20 percent carryover amount for [STATE] is $110,383. We received an FY 2018 reallocation of $343,695. So we must spend or obligate $233,312 of the reallocated funds we received in July by the end of September. It is almost impossible to go through the RFP and contracting process in a two-month period.*

To address this concern, the majority of the single program agencies that now receive SAE reallocated funds suggested that FNS remove the reallocated funds from the 20 percent carryover limit that applies to each State's initial SAE allocation.

Several respondents proposed changing the initial funding allocations based on the history of returns across States. For example, one State agency director suggested that FNS consider moving funds out of the allocations for State agencies that have a repeat history of large amounts of recovered SAE funds and transferring those funds either to another agency in the State or in the same FNS region. Several officials recommended that FNS reduce the initial allocations for larger agencies that have a history of unspent funds and know they cannot use their full allocation and increase the allocations of other agencies that can document a need for more SAE funding. Below are the specific recommendations for how this could be implemented:

> *I encourage [FNS] to look at SAE money unspent each year from a regional perspective and use this as the basis for distributing the money more equitably.*

Well, maybe it would make sense to have a request driven SAE system … States that need more ask for it. And then the ones that cannot use it, it's turned back immediately and reallocated at the beginning of the performance period versus at the end.

After the formula comes in, up front at the beginning of the year, FNS should look at all the [SAE] plans and see if there's clearly some States that are not going to be able to spend and other States that need the funding.

2. SAE Funds Transfer

As is the case nationwide, only a small number of the study States have used the option to conduct interagency transfers of SAE funds. According to FNS recent historical spending data, only two of the States that were interviewed or provided comments transferred SAE funding any year in the last six years, and as expected these were from large agencies that routinely return some SAE funding to a partner agency that only administers the FDP or the adult portion of CACFP. When asked how useful they think the transfer provision is in their States, the two single program agencies that received transferred SAE funds said that this funding was critical to maintaining their program operations, but they did not receive transfers every year and would rather be assured higher base funding levels that take into account their program's budgetary needs. The majority of the small agencies that have not received transferred funds from their larger partner agencies reported that they have good communication and collaboration with their larger partner agencies on programmatic topics like joint trainings for their common customers; however, they also said that either procedural barriers or State regulations have prevented or prohibited the transfer of funds between agencies. Two officials noted that even if their partner agency did initiate an allowable budget transfer of funds, the monies would likely arrive too late in the year to effectively incorporate the transferred funding into their SAE spending plan.

To address the barriers to States' use of the SAE funds transfer option, some respondents suggested that FNS use its authority and relationships with the State agencies to encourage the transfers. Several officials from States with multiple agencies administering the CNPs suggested a change similar to the reallocation recommendation noted above. These officials said it would be easier for all parties if FNS would carry out the transfer of funds at the time of the initial allocations and before the letters of credit are issued to their agencies, assuming prior agreement on the transfer terms from the donor and recipient agencies.

3. Allowable Use of SAE Funds

As noted above in Section 4.2.2, the State agency directors uniformly said that they appreciate the flexibility they have in spending SAE funds and the broad definition of allowable use of funds. A few respondents also requested some changes to the guidance on allowable use of funds to allow funding activities that are now funded solely by the State agencies or SFAs. For example, one State agency requested that FNS allow States to use SAE funds for Statewide processing of USDA foods. Another suggestion was to allow use of SAE funds for marketing of the school programs.

Respondents from many State agencies that administer the FDP praised FNS for its recent policy change that allows the use of SAE funds to reimburse SFAs for fees that may be charged by their State agencies for distribution and sometimes storage of USDA Foods. However, nine RFI commenters from one State raised the concern that the current language regarding this allowable use of SAE funds is too narrow. Each of these commenters requested that FNS revise the language to allow SAE funds to be used to reimburse SFAs that contract directly for FDP storage and distribution costs using "State-approved methods," in addition to SFAs that are paying their State agencies for similar costs they pay to State-contracted warehouses.

One RFI respondent provided a unique recommendation to FNS regarding allowable uses of SAE. This national organization applauded FNS for a memorandum issued clarifying that SAE can be used to pay for Farm to School staff and activities, but it also called on FNS to further encourage State agencies to use this option to help bring local foods into the schools.

4. Timing and State Notification of SAE Allocations

Several State agency officials expressed concerns about the late timing of the notification of their annual SAE allocations. One of these respondents said that it is hard to plan and budget for the year when States do not know how much money they will have until the start of the fiscal year. Another two respondents remarked that they seek budget authority from their State legislature almost eight months before their agency finds out their SAE allocation level for the coming school year. As a consequence, in some years they have had to return SAE funds because their budget authority is below their actual allocation. State officials from four different State agencies recommended that FNS consider options for helping States to better forecast their future SAE allocations, either providing the estimated SAE allocation in writing earlier in the year or giving States more training on the formula and a sample methodology to better forecast how much SAE funds they will receive.

To ensure effective utilization of SAE funds, another State official recommended that FNS provide one-half of the SAE allocation funds in the first letter of credit near the beginning of the school year. He explained that aside from predictable quarterly expenditures, such as those for personnel and indirect costs, State agencies plan their SAE spending around the school year. By providing more SAE spending authority in October, FNS would provide States with the authority to pay for special projects that need to be purchased or encumbered early in the school year.

5. State Minimum Contribution/Maintenance of Effort

When asked about the State Maintenance of Effort (MOE) requirement for SAE,[42] most officials said that their agency had no problem with funding this amount, and some provide much more than the minimum or rely on the schools to help fund the gap in SAE funding for the FDP. Only two respondents had suggestions for the MOE. One State official suggested that each State's MOE level be increased since it has been at the same level for many years. Another suggested that the requirement be removed because in tough budget times the MOE has forced the agency to make cuts in other aspects of the CNPs that are not considered SAE.

6. Dedicated and Separate Funding for State IT Modernization

State agencies' IT systems are at various stages of automation for their claims, sponsor applications, USDA Foods ordering, and AR. State agencies have welcomed reallocation funding and TIG and ART grants that have been provided in recent years to some State agencies for this purpose, but they also indicated that these funds were primarily for planning and implementing new IT solutions and they highlighted the need for continued support to help them sustain and update the systems and train staff to use them.

> *Increase the level of funding designated for technology. TIG and ART grants are great for planning and implementing new technology but they don't help with ongoing maintenance and enhancement costs of systems to support sustainability.*
>
> *There should be separate pots of funds, like reallocated SAE funds, for technology purposes.*

[42]Per Section 7(f) of the Child Nutrition Act of 1966 (42 U.S.C. 1776(f)), States must maintain the level of State funding for administrative costs that they provided in FY 1977.

7. Other Recommendations for Supporting State Administration of the CNPs

Several respondents suggested that FNS consider a different approach that moves away from a formula-driven allocation of SAE funding. One of these respondents recommended a consultative process for allocating SAE funds, in which the FNS regional office would review the State SAE plans each year and approve an allocation level based in part on their documented needs, within available funding limits. The following additional recommendations were each mentioned by one or two interviewees and RFI commenters:

- **Provide Training to State Agencies on Best Practices for SAE Budgeting.** Two respondents recommended that FNS provide training for State agencies on how best to budget SAE spending, sharing examples from States that are similar in structure and size.

- **More Strongly Enforce the Federal Prohibition on State Freezes on Federally Funded Positions.** One State agency requested that FNS strengthen its enforcement of Section 361 of the HHFKA, which prohibits States from imposing budget restrictions, such as hiring freezes, on the use of Federal funds for the administration of the CNPs.

- **Re-Establish a Separate Funding Stream for the Nutrition Education and Training Program.** The separate authorization and funding that was designated for Nutrition Education Training (NET) should be re-established to provide more technical assistance and thus likely decrease negative findings in ARs.

5. Options for Revising SAE Funding Allocations and Processes

This chapter presents several options for FNS to consider to revise SAE funding to better assist State agencies in their administration of the Child Nutrition Programs (CNPs). The options include funding increases targeted to the types of State agencies that the data indicate need it most, changes to the SAE allocation formula, as well as other options for changes to SAE funding processes and supports. Each option was developed to address the key findings from our descriptive analysis of SAE historical spending patterns and qualitative analysis of the State agency input and experiences described in the study interviews and Federal Register Request for Information (RFI) comments.

In considering various alternatives, we selected those that met the following general criteria:

1. Directly benefit the program areas and types of State agencies with the largest reported SAE funding shortfalls;
2. Reflect the most commonly reported State administrative and demographic factors affecting SAE spending and costs;
3. Do not significantly negatively affect the predictability of State-level funding from one fiscal year to the next, but could still respond over time to program changes, such as new program initiatives, that affect State agency needs; and
4. Would have a limited net cost, and generally do not reduce funding to any individual agencies.

5.1 Options for Revising SAE Allocations to State Agencies

In this section, we describe nine options for targeted increases in SAE funding. For each option, we present: a description of the option, including the rationale for the change and whether it would require legislative, regulatory, or operational changes by FNS; a tally of the number of States that would gain SAE funding and the resultant net cost; key strengths and any weaknesses of the proposal; and a description of similar options considered but not recommended. Net cost was determined by calculating the difference between the FY 2019 base allocations and proposed increases that would result under each option.

Our calculations assume that SAE allocations would be held constant for all of the State agencies that are not directly targeted for increased SAE funding; with this approach, the total amount of SAE funds would have to increase. As is detailed below, the cost of each of the options represents a small percentage of the total SAE funding level. We note that each of the funding options described in this chapter could be modified to be budget neutral. However, requiring budget neutrality would result in SAE funding losses of varying degrees for some State agencies. Therefore, suggestions are limited to options that provide modest increases for targeted programs and targeted State agency types.

It is also important to note that FDP State agencies would be particularly impacted by budget-neutral changes to the allocation formula, because FDP State agencies receive their entire allocation through the discretionary part of the formula. Therefore, when a change is made that allocates more of the available SAE funds through the nondiscretionary part of the formula, the total funding available for discretionary allocations (and thus, FDP State agencies) decreases. In addition, changes within the discretionary allocation may also negatively impact FDP State agencies, to the extent the changes reduce the "residual" funding that is distributed, as this is where the majority of funds are allocated to FDP State agencies.

5.1.1 Options 1a and 1b: Raise the Minimum Allocation for Nondiscretionary School Program SAE Funding

Description of Options

As described in Chapter 3, for the major component of the SAE allocation formula, each State agency administering the school programs receives the greater of 1 percent of the agency's second preceding fiscal year's program expenditures for the National School Lunch Program (NSLP), School Breakfast Program (SBP), and Special Milk Program, or at least the amount of nondiscretionary funds received for FY 1981 but not less than $200,000. In FY 2019, three States with a single agency administering all of the CNPs received only the minimum of $200,000 for this component of the SAE allocation formula. Six other State agencies administering school programs receive more than the minimum but less than $400,000. Among all of these nine State agencies the analysis of past spending and recovery data shows a very low rate of SAE recovery. For the 13-year period from FY 2006 through FY 2018, only two of these agencies had SAE funding recovered.

SAE reallocations were also more common for this group, reaching their highest level in FY 2018 when seven of these nine agencies received reallocated SAE. Officials from many of these nine States also submitted RFI comments explaining the cost pressures they are facing in trying to effectively administer the programs under their current SAE allocations and requesting that FNS raise the minimum SAE funding level.

To provide greater support targeted to these small agencies, FNS could consider increasing the minimum grant level from $200,000, to $300,000 or $400,000, and adjust the minimum grant level annually using a recognized inflator that reflects State agency costs, such as the Consumer Price Index for State and Local Government Purchases of Goods and Services.[43] The base amount for calculating each year's minimum grant should be the prior year's grant amount, so that the minimum grant increases over time. If this option is implemented as part of the SAE allocation formula, it would require a statutory change to Section 7(a)(2)(B)(i) of the Child Nutrition Act.

Number of States That Would Receive Increases and Cost

Increasing the school program nondiscretionary minimum allocation to $300,000 would result in SAE increases for six States and Territories and require a total increase of $440,516 in SAE funds. Increasing the minimum to $400,000 would result in funding increases for nine States and Territories and require a total increase of $1.1 million.

Key Strengths

- Either of these options would provide a significant increase in the baseline SAE funding for State agencies with the lowest population size that now have the lowest SAE allocations for administering the school programs.
- Raising the minimum funding with an annual inflation adjustment would result in a more sustainable funding level for the small State agencies, allowing for more effective administration of the programs.

Key Weakness

- Raising the minimum funding level would require a legislative change and thus would take more time to accomplish than other options.

[43]This index is calculated by the U.S. Department of Commerce (DOC), Bureau of Economic Analysis (BEA), as a part of the National Income and Product Accounts (NIPA) series used to estimate U.S. Gross Domestic Product (GDP).

Similar Options Considered

We also considered raising the minimum level for nondiscretionary school program funding to $500,000. When we tested this option, two additional States would have received increases and the other nine would have received larger increases. However, it is not clear that this option is an efficient use of resources because the two additional States that currently receive more than $400,000 and less than $500,000 in SAE for school programs each had large SAE recoveries in two of the last four years, and thus may not need or be able to spend a larger SAE allocation.

5.1.2 Options 2a and 2b: Increase Total Discretionary AR Funds and Allocate the Majority Based on Total Number of SFAs in Each State

Description of Option

Since FY 2013, FNS has provided a supplemental $8 million of SAE discretionary funds for allocation to State agencies administering the school programs to support Administrative Review (AR).[44] Under current regulations at 7 CFR Part 235.4(b)(3), these funds are divided up among State agencies as follows:

- 40 Percent is distributed equally among State agencies administering NSLP;
- 20 Percent is prorated among State agencies based on the number of free and reduced-price meals served in each State two years prior;
- 20 Percent is prorated among State agencies based on the number of large SFAs (enrollment of 40,000 or more)[45] in each State agency; and
- 20 Percent is prorated among the State agencies based on the total number of SFAs in each State agency.

Several State officials in interviews and RFI comments suggested that the current SAE allocation formula overall and specifically for the allocation of the AR funds, places too much weight on program size (number of reimbursed meals) and the number of large SFAs in a State. These officials

[44]Prior to the updated AR process in SY 2013-14, FNS typically allocated $4 million for State agency oversight under the previous version of the administrative review process, the Coordinated Review Effort (CRE).

[45]If a State does not have two SFAs with an enrollment of 40,000 or higher, the two SFAs with the highest enrollment in the State are considered "large SFAs." Similarly, if a State only has one SFA, regardless of size, it is considered to have one "large SFA." See 7 CFR Part 235.4(b)(3)(iv).

explained that the total number of SFAs that an agency serves is a major factor affecting their State costs for training, monitoring, and other oversight functions associated with implementing and conducting the AR process, and should be given more weight in the SAE allocation formula.

Therefore, in response to the above recommendation from State agency officials, FNS could consider increasing the amount of the funding provided for AR to $9 million (Option 2a) or $10 million (Option 2b) and changing the AR allocation formula so that 40 percent of these funds are still equally distributed among all State agencies administering NSLP, and the remaining 60 percent of these funds are prorated based on the total number of SFAs in each State agency. Its implementation would require a regulatory change to 7 CFR Part 235.4(b)(3).

Number of State Agencies That Would Receive Increases and Cost

Option 2a with the AR allocation formula change and an increase in the total amount FNS provides to all States for AR funding from $8 million to $9 million would require a $1 million increase in SAE funding. Under this option 35 State agencies (out of 56 that receive allocations for AR) would receive a net increase in AR funding. Option 2b with the AR allocation formula change and an increase in the AR funding to $10 million would require a $2 million increase in SAE funding. The resultant impact would be that 38 State agencies would receive a net increase in total funding.

Given the modest median increase that would result for each of the targeted State agencies under either of these options, because the total amount of additional funding is so small, FNS may wish to consider them in combination with Options 1a or 1b above.

Key Strengths

- This option directly addresses input from several State agency study respondents who emphasized that there is a fixed cost for States based on the number of SFAs they serve in addition to the total meals served by the SFAs.
- While the total number of SFAs in a State may fluctuate from year-to-year based on the participation of small, private, and/or charter schools, the total pot of funding affected by this formula change is proportionally small enough compared to total SAE funding that the impact of the fluctuation would not be significant.

Key Weakness

- While the changes in funding that result from either of these options may be meaningful to the State agencies that receive increased funding, their increases would be modest. Therefore, as noted above, this option could be combined with the increase in the minimum funding level for State agencies administering the school programs.

Similar Options Considered

We considered and tested an option to allocate all of the AR discretionary funds based on the number of SFAs served by each State agency administering school programs. However, deletion of the minimum allocation of AR funds to each State agency would likely reduce AR funding for most States and potentially disproportionately reduce AR funding for States with small populations whose SAE budgets are reportedly most constrained.

We also considered modifying the allocation formula for distributing the nondiscretionary school program funding so that one-fourth of those funds would be allocated to State agencies proportionately, based on the number of SFAs they serve. However, preliminary analysis of the effect of this change in the allocation formula found that it would potentially result in a net loss of SAE funding as high as 10 to 19 percent for many States.

5.1.3 Options 3a, 3b, 3c, 4a and 4b: Increase Discretionary SAE Funding for FDP

Across the U.S., 53 different State agencies receive SAE funding to administer the FDP in schools and institutions.[46] State agencies' SAE allocations for FDP come from two components of the discretionary portion of the allocation formula: each State that administers FDP receives a $30,000 share (pursuant to 7 CFR Part 235.4(b)(2)) and a portion of the discretionary "residual" funds (pursuant to 7 CFR 235.4(b)(4)) (See Chapter 2). In FY 2019, FNS split the residual funds so that 25 percent was allocated to the State agencies administering CACFP, and 75 percent allocated to the State agencies administering FDP. Within the residual FDP portion of SAE funds, the regulations

[46]There are 54 States and Territories that receive SAE funding and one of these (Kansas) does not receive the FDP portion because it does not participate in the FDP for schools. Thirty-eight States administer the program in the same agency that administers the school programs, and 15 States have a separate agency (two of which also administer the school program for a very small number of private or charter schools). This last group of 15 States are what we are defining as the stand-alone FDP agencies.

specify that this funding be prorated to each State agency administering the FDP based on the value of USDA Foods for that State for the second preceding fiscal year.

Following, we suggest three different options that may be considered for increasing FDP funding for all or a targeted subgroup of the State agencies that administer this program.

5.1.3.1 Options 3a and 3b: Increase the Base FDP Allocations to All States

Description of Options

State officials from various size agencies that administer the FDP expressed concern about the relatively small amount of funds that are available from the SAE formula for administration of this important program. Further, according to the most recent data, 40 of the 53 State agencies that administer the FDP charge their SFAs to offset the costs of storage and distribution of USDA Foods.[47] In addition, the analysis of historical SAE spending data presented in Chapter 4 shows that a large portion of reallocated SAE funding goes to support FDP activities and purchases that State agencies could not support from their initial SAE allocations. Therefore, FNS could consider increasing the amount of the base funding for FDP for all States from its current level of $30,000 to $60,000 or $90,000.

Number of State Agencies That Would Receive Increases and Cost

Under either of these options, all 53 State agencies that administer the FDP would receive increased funding. Increasing the FDP base funding to $60,000 (Option 3a) would require a $1.59 million increase in SAE, and increasing it further to $90,000 (Option 3b) would require $3.18 million in additional SAE funding.

[47] *USDA Foods State Distribution and Assessment Fees in School Year 2016 – 2017*, published May 2017.

Key Strengths

- This option would provide needed support for the FDP to all States equally.
- The increase to the FDP base funding may allow States to eliminate or reduce the fees they are charging their SFAs.

Key Weakness

- Not all State agencies that administer the FDP have the same level of need for additional funds.

5.1.3.2 Option 3c: Increase FDP Allocations for Stand-Alone FDP Agencies

Description of Option

There are 15 States where the State agency that administers the FDP is separate from the larger multi-program agencies that administer the school programs and/or CACFP, of which five States were visited for the study. Analysis of historical SAE spending data by State agency show that these 15 agencies nearly always fully utilize their initial SAE allocations and often request more funding. Specifically, each year from FY 2006 through FY 2018, zero to four of these agencies had SAE funds recovered; whereas the comparable numbers for all other State agency types were much higher every year. Further, while recovery rates were increasing among other types of State agencies during this period, the number of FDP State agencies with SAE recovery remained fairly constant and low. Analysis of the historical spending data also show that throughout this period the portion of stand-alone FDP agencies that received SAE reallocated funds was nearly two times that of other State agency types. As previously described in Chapter 4, interview and RFI comment input from a few directors of these agencies support the quantitative data analysis. These officials reported that to adequately fund their FDP each year, they depend on a combination of sources, including reallocated funds; fees charged to SFAs; significant contributions from State general revenue funds; and in three States, in-kind use of State-owned warehouse space and staff that are shared with The Emergency Food Assistance Program (TEFAP) in the State or the prison system. According to the most recent information on States use of fees to SFAs for FDP administration, 11 of these 15 States

impose fees on their SFAs to offset the costs of commodity distribution, and in some cases, storage costs that they cannot cover with their initial SAE allocation.[48]

To address the special needs of these stand-alone FDP agencies, FNS could consider increasing the base allocation for these agencies to $120,000. Implementing this option would require a regulatory change to 7 CFR Part 235.4(b). This option could be considered in combination with Options 3a or 3b so that all agencies receive an increase in FDP base funding but the stand-alone FDP agencies receive a greater increase.

Number of State Agencies with Increases and Cost

This option would increase FDP base funding from $30,000 to $120,000 for each of the 15 State agencies that receive SAE funding only or primarily for administration of the FDP and would require a total increase of $1.35 million in SAE funding.

Key Strength

- This proposed change is targeted to increase funding for the State agencies that currently have the smallest amount of SAE allocations because they only or primarily receive SAE allocations for the FDP.

Key Weakness

- None noted.

5.1.3.3 Options 4a and 4b: Increase FDP Residual Funds for the 13 States with the Lowest Population Density (Option 5)

Description of Option

As noted in Chapter 4, analysis of the FY 2006 through FY 2018 historical SAE spending patterns by State agency type shows that SAE recovery was a rare occurrence among the 13 States with the lowest population density.[49] Only one State agency in these 13 States had SAE recovery greater than

[48] *USDA Foods State Distribution and Assessment Fees in School Year 2016 – 2017*, published May 2017.

[49] According to the U.S. Census Bureau's calculations of States' 2010 population density (found at Population Density Data table available on Census.gov), the following 13 States are in the lowest quartile of State population density: Alaska, Colorado, Idaho, Maine, Montana, Nebraska, Nevada, New Mexico, North Dakota, Oregon, South Dakota, Utah, and Wyoming.

10 percent for more than two years in this 13-year period. Respondents from several of these low-population density States said that their current SAE allocation does not adequately cover their higher per pound transportation and staffing costs, resulting from the fact that their staff or contractors must travel long distances, sometimes over difficult terrain, to deliver USDA Foods to many varied-sized SFAs that are far from one another and often require less than a full truckload per drop off. Furthermore, according to the most recent information available, all but one (12 of 13) of these States charge their SFAs fees to offset the costs of distribution, and in some cases, storage costs that they cannot cover with their initial SAE allocation.[50]

To address the SAE funding needs of agencies in States with low population density in acknowledgment of their higher costs, FNS could consider increasing the amount of residual FDP allocations for the State agencies that administer the FDP in the 13 States with the lowest population density. Specifically, FNS could provide those agencies a 10 percent (Option 4a) or 25 percent (Option 4b) increase in SAE residual FDP funding. This proposed revision would maintain the basis of the current allocation formula for FDP residual funds, which is calculated based on the value of USDA Foods each State distributes, while providing targeted increases to the low population density States. Implementing this option would require a regulatory change to 7 CFR Part 235.4(b). FNS could also consider implementing this option in combination with one or both of the other FDP-related options.[51]

Number of State Agencies That Would Receive Increases and Net Cost

Thirteen State agencies would receive increased SAE funding. The option to increase FDP residual funding for these agencies by 10 percent would require $227,050 in additional SAE funding . Increasing it by 25 percent would require $567,625.

[50] *USDA Foods State Distribution and Assessment Fees in School Year 2016–2017*, published May 2017.

[51] When considering implementing more than one option for FDP State agencies, FNS should note that there is some overlap in affected State agencies in the options. For example, Colorado and New Mexico administer the FDP in a stand-alone agency and are two of the 13 States with the lowest population density.

Key Strengths

- This proposed change would increase funding for low population density States that reported that they have higher costs for transporting USDA Foods across long distances to reach schools in remote areas.
- The change targets the residual funds for FDP State agencies, which are typically a larger share of their total allocation.

Key Weakness

- None noted.

Similar Options Considered

Early in the development of formula change options, we considered changing this part of the formula to increase funding to States that contract out their commodity storage and distribution functions, given that many of these States have to charge fees to SFAs to pay for these services. However, the site visit findings indicated that several States with their own warehouses (including New Mexico, Oklahoma, and Rhode Island) are experiencing growing overhead costs and their SAE allocations are also increasingly insufficient. It appears that many stand-alone FDP agencies, regardless of their food storage and distribution arrangements, depend each year on SAE reallocation funds to pay for such necessities such as storage and refrigeration equipment, forklifts, or repair and purchase of new vehicles.

5.2 Other Options for Improving SAE Funding Rules and Processes

Based on the analysis of State agency input during the site visit interviews and RFI comments, there are several options for FNS to consider to assist States in their administration of the programs and full use of SAE allocations, beyond changing the funding allocations or formula. These options fall into the following main categories: (1) changes to the rules for SAE reallocation funding, (2) changes to support transfer of SAE funds between agencies when needed, (3) continued enhanced support for modernizing States' Child Nutrition Information Technology (IT) systems, and (4) allowing States to convert a portion of USDA Food Funds to cover FDP administrative costs.

5.2.1 Reallocation: Timing of State Notification, Exemption from Carryover Limit, and Priorities

Each year, pursuant to Section 7(a)(5)(B) of the Child Nutrition Act and regulations at 7 CFR Part 235.5(d), FNS must reallocate, as it determines appropriate, any SAE funds that are expected to be unused by State agencies. Each year the total amount available for reallocation is based on State agencies' expected unspent SAE funds as reported in March on their Form FNS-525, *SAE Funds Reallocation Report*. According to FNS data on allocations, reallocations, carryover and recovery, in FY 2014 through FY 2017, an amount ranging from $6.4 million to $13.1 million in SAE funds was reallocated annually. Interviewees and RFI commenters from agencies that have received SAE reallocation funding indicated that they are appreciative of this needed boost in SAE funding and are increasingly dependent on this funding provided to them in the last quarter of the fiscal year. Upon application and approval from FNS, and because of the short timeframe allowed for obligating these funds, they typically use the reallocated funds to make large one-time expenditures such as payments to contractors for program staffing or IT support, to make IT purchases, for FDP warehouse equipment and trucks, or to reimburse SFAs (in part or in full) after the school year for the fees they pay for storage and distribution of USDA Foods.

Overall, the majority of study respondents concurred that SAE reallocation funding has been key to support States for a broad range of allowable short-term costs. At the same time, the majority of the respondents who found reallocation funds to be critically important to support program administration also expressed concerns about how the reallocation funding process is operationalized. Several respondents discussed problems they have had obligating their allocated funds in the usual three-month time period that is required, in some cases causing them to return reallocated funds that had been approved because they could not complete the obligation of funds to purchase important equipment or contracts. Several State officials interviewed during site visits remarked that they would prefer not to rely on SAE reallocations, and instead prefer to receive higher initial SAE allocations because of the unpredictability of the SAE funds and the short timeframes for spending these funds. In addition, State agencies with relatively small total SAE allocations expressed concern that sometimes they need and receive more SAE funds through reallocation than through the initial SAE allocation, but the reallocated funds are subject to the 20 percent carryover limitation for SAE, calculated based on the initial allocation.

To address these concerns we propose a two-part solution for consideration. First, to the extent possible, FNS could aim to finalize and communicate SAE reallocation decisions to State agencies before the end of the third quarter of the FY, and ideally no later than late May or early June. Second, FNS could explore whether they can exempt reallocation funds from the 20 percent carryover limitation.

5.2.2 Changes to Processes for Transfer of SAE Funds Within States

Under regulations at 7 CFR Part 235.6(a), a State agency may transfer SAE funds that are not needed to another State agency within the State that is eligible to receive SAE funds. Additionally, 7 CFR Part 235.6(c) specifies that nondiscretionary and discretionary SAE funds allocated for the school programs and CACFP may be used to assist in the administration of the FDP when that program is administered by the same agency or when another State agency is responsible for administering all or part of the State's FDP. FNS encourages State agencies to work together to make these transfers when one agency has more SAE funding than needed and another agency could put the funds to effective use for administration of the programs, consistent with their SAE Plan. Additionally, while the regulations encourage transfers of allocations to the FDP agencies within States, examination of historical State SAE spending patterns from FY 2014 through FY 2018 reveals that among the 24 States with more than one agency eligible to receive SAE funding, very few actually transferred SAE funding: in FY 2014, only five agencies transferred part of their SAE allocations to a stand-alone FDP agency; three agencies transferred SAE funds this way in FY 2015; five did so in FY 2016; one agency did so in FY 2017; and no agencies did so in FY 2018.

As noted above, study input on the FDP stand-alone agencies revealed that these smaller agencies consistently report that they do not have enough SAE funding. Interviewees from these agencies explained that they depend on State general revenue funding and fees charged to SFAs to support needed personnel, storage, and distribution costs. Despite reporting a good relationship with their sister State Child Nutrition agencies, the stand-alone FDP agencies we interviewed noted that in some years their sister agencies returned SAE funds to FNS through the reallocation process but did not transfer SAE funds to them primarily because of procedural barriers within their States. These officials said that transferring budget authority between agencies can be difficult and time consuming and sometimes not politically practical. They further explained that even if one agency

initiates a budget transfer of Federal funds, the monies were not likely to arrive in their agency budget until very close to the end of the year, when it could be too late to effectively incorporate the funding into their SAE Plan and budget, and not exceed their 20 percent SAE carryover limit. We are also aware that some States have regulations prohibiting transfer of Federal funds between agencies.

To address study respondents' concern about the SAE transfer process, FNS could consider two options. First, FNS could more actively encourage interagency SAE transfers, particularly between the large agencies administering the school programs and the agencies administering FDP. This could be done through the FNS Regional Offices under current transfer authority. To allow more effective use of SAE funds, potentially reduce State returns, and address the concerns about transfers coming late in the year, FNS could work with States under its current authority to ensure that the transfers occur in the first or second quarter of the FY to the extent possible.

As a second option in this category, FNS could seek legislative authority to permit FNS to transfer funds between agencies in the same State as part of the initial SAE allocation process, as long as there is written consent of both agencies. This could help the State agencies that have challenges with their internal State budget processes.

5.2.3 Support for State IT Modernization

State agencies are at varying stages for automation of claims, sponsor applications, and the activities required for AR. The majority of State agency interviewees and 14 RFI commenters highlighted the fact that their SAE allocation is inadequate to fund the systems they need to build or update to provide needed automation capabilities to local entities via web-based software, interfaces, or other innovative IT modernization solutions. Several State officials highlighted that IT modernization is no longer a luxury, but a necessity for various program functions, including not only program applications and meal claims, but also data matching for direct certification, ARs, and other program integrity functions. While concerns about SAE funding not being sufficient to support IT costs associated with program administration were mentioned by respondents from all types and sizes of State agencies, they were most commonly reported to be straining SAE budgets in the smaller States. In recent years, FNS has made grant funding available to States to supplement SAE funding for IT enhancement and building or purchasing new systems through several different types of grants such

as: the Administrative Review and Training (ART) grants, Direct Certification grants, and multi-year Technology Innovation Grants (TIG). In November 2018, FNS announced the availability of new competitive TIG grants, with a total of $15 million available for IT modernization for up to eight States.[52] Study respondents discussed the importance of these types of grants in helping them build new capacity to implement new Federal program requirements and enhance compliance and integrity.

To the extent possible, FNS should continue to assist States with the cost of building and maintaining IT systems to enable more efficient and effective administrative program oversight. When possible, FNS could support more State agencies with TIG grants, including targeted assistance to those smaller agencies whose IT systems are furthest behind their peers.

5.2.4 Requirement for FDP State Agencies to Devote a Minimum Specified Portion of their FDP Allocation to Support FDP Administration

Although State agencies have the flexibility to use SAE funds across programs regardless of the program-specific allocation levels, some State agencies allocate a lower amount for administration of FDP and then charge fees to their SFAs for storage and distribution of USDA Foods. Requiring that all of a specified portion of their FDP allocation be devoted to FDP administration would enhance the FDP in many States and could reduce SFA storage and distribution fees. This would require a legislative change.

[52]See November 28, 2018, Grants Notice for USDA-FNS-TIG-2019 available at Grants.gov website.

5.2.5 State Option to Convert USDA Foods Funds to FDP Administrative Funds

To assist State agencies that have shortfalls in SAE funding for the FDP, FNS could consider permitting States to convert up to 10 percent of the value of their annual allotment of USDA Foods for the school programs to administrative funds for USDA Foods storage and distribution.[53] This option parallels a similar statutory provision that provides States the option to convert 15 percent of TEFAP food dollars to administrative dollars.[54] Implementing this new State option would require FNS to seek new statutory authority. It would require a legislative change to be accomplished either through the annual appropriations process or as part of the reauthorization of the Child Nutrition Act. Making this change through appropriations would potentially provide less consistency for State agencies, since a decision would need to be made by Congress annually about whether to include it.

5.3 Summary of Proposed SAE Funding Change Options

The options presented for consideration by FNS in this chapter are designed to assist State agencies in meeting the challenges of administering the CNPs. If adopted, they would require a wide range in complexity of actions on the part of FNS, from legislative changes to operational changes that the agency could implement under current legal authority. None of the options would alter the underlying structure of the SAE funding allocation formula, which is designed to primarily allocate administrative funding to States proportionately based on the number of meals they serve to program participants.

Table 5-1 summarizes the type of action that would be required to implement each option, the types and number of State agencies that would gain SAE funding or be otherwise affected, and, where relevant, the cost to achieve the targeted SAE funding increases suggested.

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[53]The total value of donated commodities (USDA Foods) allocated to States for the school programs was $1.35 billion in School Year 2018. Thus, this option could provide a substantial increase in FDP administrative funding in States. (Total value of commodities was obtained from the FNS' June 2018 FNS Fact Sheet on the "Schools/Child Nutrition USDA Foods Programs," available at: June 2018 FNS Fact Sheet on Schools/Child Nutrition USDA Foods Programs, published by the Food and Nutrition Service, available on USDA.gov.

[54]The legislative authority providing States the option for converting TEFAP food funds into TEFAP administrative funds is summarized in an FNS Memorandum dated April 27, 2018, found at: Fiscal Year (FY) 2019 Food and Administrative Funding for The Emergency Food Assistance Program (TEFAP) memo, published by the Food and Nutrition Service, available on USDA.gov.

Table 5-1. Key characteristics of alternatives to SAE allocations and processes

Proposed change	Type of action required to implement	Type of State Agency (SA) that could benefit	Effect of change on State Agencies (SAs)	
			# of States that would receive increased SAE	Cost (above FY 2019 SAE allocations)
Changes to SAE Allocation				
Option 1a: Increase minimum nondiscretionary School Program funding to $300,000	Legislative	SAs that administer School Programs	6	$440,516
Option 1b: Increase minimum nondiscretionary School Program funding to $400,000	Legislative	SAs that administer School Programs	9	$1,104,332
Option 2a: Increase Total Funding for Administrative Reviews from $8 million to $9 million and allocate 60 percent of these funds based on total # of SFAs per State	Regulatory	SAs that administer School Programs	35	$1 million
Option 2b: Increase Total Funding for Administrative Reviews from $8 million to $10 million and allocate 60 percent of these funds based on total # of SFAs per State	Regulatory	SAs that administer School Programs	38	$2 million
Option 3a: Increase FDP base allocation to $60,000 per State	Regulatory	All SAs that administer FDP	53	$1,590,000
Option 3b: Increase FDP base allocation to $90,000 per State	Regulatory	All SAs that administer FDP	53	$3,180,000
Option 4: Increase FDP base allocation to $120,000 for each of the State agencies that only administer the FDP	Regulatory	SAs that only or primarily administer FDP	15	$1,350,000
Option 5a: Increase FDP residual funds by 10 percent for the States in lowest quartile of population density	Regulatory	SAs that administer FDP	13	$227,050
Option 5b: Increase FDP residual funds by 25 percent for the States in the lowest quartile of population density	Regulatory	SAs that administer the FDP	13	$567,625

Table 5-1. Key characteristics of alternatives to SAE allocations and processes (continued)

Proposed change	Type of action required to implement	Type of State Agency (SA) that could benefit	Effect of change on State Agencies (SAs)	
			# of States that would receive increased SAE	Net cost of the increases (above FY 2019 SAE allocation)
Changes to Processes for SAE Reallocation				
Provide earlier notice to SAs	Operational	Any SA that requests reallocated funds	NA	NA
Changes to Processes for Transfer of SAE Funds Within States				
FNS consultation	None	SAs in States with multiple agencies	NA	NA
Authority for FNS to transfer SAE allocations between SAs, at State option	Legislative	SAs in States with multiple agencies	NA	NA
Other Operational Program Changes to Support State Administration				
Increase funding to SAs for IT discretionary grants	Legislative	Any SA	NA	NA
Require SAs to devote a minimum specified portion of the FDP allocation to FDP administration	Legislative	Any SA that administers FDP	NA	NA
State Option to convert up to 10% of funding USDA Foods into funding for FDP administration	Legislative	Any SA that administers FDP	NA	NA

Appendix A

State Agencies that Received SAE Funds, FY 2019

Appendix A
State Agencies that Received SAE Funds, FY 2019

State agency	Programs administered (School Programs, CACFP, FDP, or ALL)
Alabama Department of Education	ALL
Alaska Department of Education	ALL
Arizona Department of Education	ALL
Arkansas Department of Education	School Programs
Arkansas Department of Human Services	CACFP, FDP
California Department of Education	ALL
Colorado Department of Education	School Programs
Colorado Department of Public Health and Environment	CACFP
Colorado Department of Human Services	FDP
Connecticut State Department of Education	ALL
Delaware Department of Education	School Programs, CACFP
Delaware Office of Management and Budget	FDP
District of Columbia Office of the State Superintendent of Education	ALL
Florida Department of Agriculture and Consumer Services	School Programs, FDP
Florida Department of Health	CACFP
Florida Department of Elder Affairs	CACFP
Georgia Department of Education	School Programs, FDP
Georgia Department of Early Care and Learning	CACFP
Hawaii Department of Education	ALL
Idaho State Department of Education	ALL
Illinois Department of Aging	CACFP
Illinois State Board of Education	ALL
Indiana Department of Education	ALL
Iowa Department of Education	ALL
Kansas Department of Education	School Programs, CACFP
Kentucky Department of Agriculture	FDP
Louisiana Department of Agriculture and Forestry	FDP
Louisiana Department of Education	School Programs, CACFP
Maine Department of Education	ALL
Maryland State Department of Education	ALL
Massachusetts Department of Elementary and Secondary Education	ALL
Michigan Department of Education	ALL
Minnesota Department of Education	ALL
Mississippi Department of Education	ALL
Missouri Department of Elementary and Secondary Education	School Programs, FDP
Missouri Department of Health and Senior Services	CACFP
Montana Office of Public Instruction	School Programs, FDP
Montana Department of Public Health and Human Services	CACFP
Nebraska Department of Education	School Programs, CACFP
Nebraska Department of Health and Human Services	FDP
Nevada Department of Agriculture	ALL
New Hampshire Department of Education	School Programs, CACFP
New Hampshire Department of Administrative Services	FDP
New Jersey Department of Agriculture	ALL
New Mexico Public Education Department	School Programs
New Mexico Children, Youth, and Families Department	CACFP
New Mexico State Government Human Services Department	FDP

State agency	Programs administered (School Programs, CACFP, FDP, or ALL)
New York State Education Department	School Programs
New York Department of Health	CACFP
New York Office of General Services	School Programs, FDP
North Carolina Department of Agriculture and Consumer Services	FDP
North Carolina Department of Public Instruction	School Programs
North Dakota Department of Public Instruction	ALL
Ohio Department of Education	ALL
Oklahoma Department of Education	School Programs, CACFP
Oklahoma Department of Human Services	School Programs, FDP
Oregon Department of Education	ALL
Pennsylvania Department of Agriculture	FDP
Pennsylvania Department of Education	School Programs, CACFP
Rhode Island Department of Education	School, CACFP
Rhode Island Department of Corrections	FDP
South Carolina Department of Education	School Programs, FDP
South Carolina Department of Social Services	CACFP
South Dakota Department of Education	ALL
Tennessee Department of Agriculture	FDP
Tennessee Department of Education	School Programs
Tennessee Department of Human Services	CACFP
Texas Department of Agriculture	ALL
Utah State Office of Education	ALL
Vermont Agency of Education	ALL
Virginia Department of Agriculture and Consumer Services	FDP
Virginia Department of Education	School Programs, CACFP
Virginia Department of Health	CACFP
Washington Office of Superintendent of Public Instruction	ALL
West Virginia Department of Education	School Programs, CACFP
West Virginia Department of Agriculture	FDP
Wisconsin Department of Public Instruction	ALL
Wyoming Department of Education	ALL
Guam Department of Education	ALL
Puerto Rico Department of Education	ALL
Virgin Islands Department of Education	ALL

Appendix B

SAE Funding: Source of Requirements

Appendix B
SAE Funding: Source of Requirements

Provision	Child Nutrition Act of 1966, 42 U.S.C. 1776	Federal regulations, 7 CFR Part 235	FNS policy memoranda
Initial Allocation			
Nondiscretionary Allocation for School Programs (NSLP, SBP, SMP) Each State receives the greater of: • 1 percent of the funds expended by each State in NSLP, SBP, and SMP in the second preceding year; and • The amount of nondiscretionary funds received by the State for FY 1981; or $202,007.	Section 7(a)(2)	235.4(a)(1)*	
Nondiscretionary Allocation for CACFP • 20 percent of the first $50,000 in second preceding year expenditures; • 10 percent of the next $100,000; • 5 percent of the next $250,000; and • 2.5 percent of any remaining expenditures.	Section 7(a)(3)	235.4(a)(2)	
Discretionary Allocation for CACFP • A $30,000 share for each State that administers the CACFP.		235.4(b)(1)	
Discretionary Allocation for FDP • A $30,000 share for each State that administers the FDP in schools.		235.4(b)(2)	
Discretionary Allocation for School Program Administrative Reviews An amount determined by FNS, allocated using the following formula: • 40 percent distributed equally among States administering NSLP; • 20 percent prorated among States based on the number of free and reduced-price meals served in the State in the second preceding year, compared to the number in all States; • 20 percent prorated among States based on the number of large school food authorities (SFAs); and • 20 percent prorated among States based on the total number of SFAs in the State in relation to all SFAs.		235.4(b)(3)	

Provision	Child Nutrition Act of 1966, 42 U.S.C. 1776	Federal regulations, 7 CFR Part 235	FNS policy memoranda
Initial Allocation			
Discretionary Allocation of Any Remaining Funds[55] • **CACFP.** Amount prorated among States administering CACFP based on the amount of CACFP nondiscretionary funds the State already received; and • **FDP.** Amount prorated among States administering the FDP in schools, institutions, and CACFP proportionally based on the value of USDA Foods for the second preceding fiscal year.		234.4(b)(4)	
Separate Agency for Adult Care in CACFP[56] • FNS provides a pro rata share of a State's total CACFP allocation to any State agency separately administering the adult care component of CACFP.		235.4(c)	
FNS Regional Office Administered Programs • FNS receives a share based on the formulas for programs operated on behalf of State agencies.	Section 7(a)(7)	235.4(f)	
Limit on carryover amount • States may carry over not more than 20 percent of their initial allocation into the second fiscal year.	Section 7(a)(5)(A)	235.5(e)(1)	SP 13-2019, CACFP 05-2019
Reallocation			
Timing of process • Annually on an FNS-specified date between March 1 and May 1, each State agency submits FNS-525, SAE Funds Reallocation Report, to return funds or request additional funds. This begins the reallocation process.		235.5(d)	SP 13-2019, CACFP 05-2019
FNS approval of reallocation of funds to State agencies with a demonstrated need	Section 7(a)(5)(B)(ii)	235.5(d)	
Allowable use of reallocation funds • Funds may be requested for any allowable expense associated with CNP administration, including general expenses and one-time-only projects.			SP 13-2019, CACFP 05-2019

*Section 7(a)(2) of the Child Nutrition Act provides for between 1 and 1½ percent of second preceding year funds for this part of the allocation. Program regulations set the amount at 1 percent.

[55]For FY 2019, 25 percent of the remaining funds were provided to CACFP and 75 percent to FDP.

[56]Currently the Florida Department of Elder Affairs and the Illinois Department of Aging.