Welcome to part one of the Oregon Department of Education’s three-part Nonprogram Food Revenue training series.

“The purpose of this training is to provide you with:

• A definition of the term ‘nonprogram food;’
• An explanation of the differences between nonprogram foods and competitive foods;
• A brief background on the requirement;
• Information about the requirement;
• Recent guidance from the U.S. Department of Agriculture (USDA);
• Compliance options;
• Information to help you determine your organization’s nonprogram food costs and revenue, and your organization’s total food program costs and revenue; and
• If time allows, an opportunity to ask any questions you may have about this requirement.

“In part two of this training, we will review two worksheets you can use to determine your organization’s nonprogram food costs and revenue, and your organization’s total food program costs and revenue, as well as the USDA’s Nonprogram Food Revenue Tool. We have scheduled a question-and-answer session for part three, during which Sponsors and their representatives can submit questions about the subjects covered during this three-part training series and their work to determine their compliance with the
nonprogram food revenue requirement during a practice week.

[Advance to the next slide.]

“Let’s start by defining what ‘nonprogram foods’ are and then review some examples of nonprogram foods common to most sponsors.

“The USDA has defined the term ‘nonprogram food’ at 7 CFR 210.14(f)(1). Nonprogram foods are those foods and beverages purchased with funds from the nonprofit school food service account, other than reimbursable meals and afterschool snacks served to children in participating afterschool care programs, and sold in a participating school.

“At this point, management wants us to review the phrase ‘funds from the nonprofit food service account’ because our office has encountered situations in which some sponsors were not properly accounting for their nonprofit food service revenues. The nonprofit food service account is a ‘restricted account in which all of the revenue from all food service operations conducted by the school food authority principally for the benefit of school children is retained and used
only for the operation or improvement of the nonprofit school food service. This account shall include, as appropriate, non-Federal funds used to support paid lunches...and proceeds from nonprogram foods...' 7 CFR 210.2.

“What does the USDA mean by ‘revenue from all food service operations?’ It has, for purposes of a nonprofit food service, defined ‘revenue’ as ‘all monies received by or accruing to the nonprofit school food service in accordance with the State agency’s established accounting system including, but not limited to, children’s payments, earnings on investments, other local revenues, State revenues, and Federal cash reimbursements.’ 7 CFR 210.1.

“If a child purchases a breakfast at school or an item off the à la carte line during lunch, or if the child’s parent loads money into a meal plan account is drawn down as the child receives meals or food items, then those funds are revenues from the sponsor’s food service operations, must be deposited into the sponsor’s nonprofit food service account, and can only be used for the operation or improvement of the sponsor’s nonprofit food service program.

“Oh the next slide, we’ll present some common examples of nonprogram foods.”

[Advance to the next slide.]
What are nonprogram foods?

Common examples of nonprogram foods include:
- À la carte items, including crossover items;
- Adult meals;
- Second meals; and
- Catered meals.

“On this slide, we’ve introduced the term ‘crossover item.’ Food items that are available both as part of a reimbursable meal or separately on the à la carte line are called ‘crossover items.’ For example, if a school sells a reimbursable lunch which includes a sandwich, and offers the same sandwich for sale as an individual item on the à la carte line, then that sandwich is a ‘crossover item’ and is a nonprogram food when sold individually.

“Common examples of nonprogram foods include à la carte items and adult meals. Both are typically purchased with funds from a sponsor’s nonprofit food service account, and are not reimbursable. We’ve listed two other common examples of nonprogram foods, second meals and catered meals, on this slide.

“Are competitive foods nonprogram foods? We’ll address the relationship between nonprogram foods and competitive foods on the next two slides.”

[Advance to the next slide.]
“Some of you may be familiar with the term 'competitive foods.' For those who aren't, it refers to foods and beverages that are sold in competition with meals served under the National School Lunch Program (NSLP) or the School Breakfast Program (SBP).

“Competitive foods are those foods and beverages, other than those which are part of a reimbursable meal, available (i) for sale to students, (ii) on the school campus, and (iii) during the school day. The USDA and the ODE have both adopted standards applicable to competitive foods, and those standards are known as Smart Snacks in School and Oregon’s Smart Snacks Standards, respectively.

“In the Healthy, Hunger-Free Kids Act of 2010, Congress established that competitive foods were included within the definition of 'nonprogram foods,' (42 USC 1760(q)(1)(B)); however, the two concepts are not identical.

“Unlike competitive foods, nonprogram foods can be sold to anyone, not just students; can be sold outside of regular school hours, such as at athletic events or school board events; and are purchased with funds from the nonprofit food service account.

“A diagram may better help you understand the difference.”

[Advance to the next slide.]
“As you can see in the displayed Venn diagram, while there is some overlap between competitive foods and nonprogram foods, they are slightly different.

“Two examples may help highlight those differences. Imagine that a sponsor has contracted with Coco-Koala Cola, a beverage distributor, to host a vending machine which offers bottled iced teas, water, flavored water beverages, and fruit and vegetable juices for sale in or near the student cafeteria. Those beverages are purchased and provided by a Coco-Koala Cola franchisee, which also maintains the vending machine. The sponsor receives a percentage of the machine’s annual revenues. Because the beverages offered are not purchased with funds from the sponsor’s nonprofit school food service account, are only available on the school campus during the school day, and sold in competition with reimbursable meals sold by the school, those beverages are competitive foods; they are not nonprogram foods.

“Let’s try another hypothetical. Now imagine that a sponsor’s food service program caters the monthly school board meetings and the quarterly district award and recognition dinners. The food service purchases foods and beverages for those catered meals with funds from its nonprofit food service account. Those catered meals are nonprogram foods because they are served off-campus, outside of normal school hours, and purchased with nonprofit
food service account funds.

“Now that we’ve highlighted the differences, let’s share one final hypothetical to show where these concepts overlap. Imagine that a high school has allowed the student business club to open an on-campus coffee shop which sells coffee, tea, and bagels throughout the school day. To reduce costs, and take advantage of the district’s purchasing power, the shop’s coffee, tea, milk, sugar, bagels, and schmears are purchased with funds from the nonprofit food service account. The coffee, tea, and bagels are competitive foods because they are only available on the school campus, during the school day, and sold in competition with reimbursable meals and milk sold by the school. But they are also nonprogram foods because those bagels and beverages are available for sale to anyone on campus and were purchased with funds from the nonprofit food service account.

“You may have noticed that the primary consideration is whether or not the foods or beverages sold were purchased with funds from the nonprofit food service account. There’s a reason Congress and the USDA have focused on that criteria, which we will discuss as we turn to a brief overview of the nonprogram food revenue requirement.

“Before we do so, now that we’ve gone over what ‘nonprogram foods’ are and are not, some of you may have realized that your organization’s food service program does not offer nonprogram foods for
sale. If that’s the case, you needn’t stay for the remainder of this training. We’ll advance to the next slide to address what you’ll need to do before addressing why Congress and the USDA have focused on whether foods and beverages were purchased with funds from the nonprofit food service account.

[Advance to the next slide.]

“The nonprogram food revenue requirement does not apply to those sponsors which do not offer nonprogram foods for sale. If your organization does not offer nonprogram foods for sale, or if the only nonprogram food item your organization offers is an additional carton of milk, then please send an email to ODE.SchoolNutrition@state.or.us by no later than April 26, 2016.

“The body of that email should include one of the two notes management has provided for you. Include ‘nonprogram foods’ in the subject line of your email.

“This will help our staff when conducting reviews.

“Remember, the information on this slide applies only to those sponsors which do not offer nonprogram foods for sale. Those sponsors may now exit this training. Thank you for attending.

“For those sponsors which do offer nonprogram foods for sale, we’ll resume with our discussion of why
In 2010, the Congress enacted, and the President signed, the Healthy, Hunger-Free Kids Act of 2010, which made numerous amendments to the Richard B. Russell National School Lunch Act and the Child Nutrition Act of 1966. Those amendments included new nutrition standards for foods and beverages served children attending schools and other organizations participating in the various Federal nutrition programs, and the nonprogram food revenue requirement for schools and other organizations participating in the National School Lunch Program. (The nonprogram food revenue requirement can be found at 42 USC 1760(q).)

In 2011, the U.S. Department of Agriculture (USDA) adopted administrative rules to implement the nonprogram food revenue requirement, but it wasn’t until December 23, 2015, that the USDA provided State agencies and sponsors with substantial guidance on complying with that requirement. On December 23rd, the USDA published memo SP 20-2016,
Nonprofit School Food Service Account Nonprogram Food Revenue Requirements, in which it addressed how State agencies were to enforce the nonprogram food revenue requirement, and advised sponsors on ways they can comply with it. A copy of the memo was included with your program materials and has been posted to our website. The URL will be shown at the end of this presentation.

“Does anyone know why Congress enacted a requirement regarding nonprogram food revenue?

“It was, in part, a response to concerns that some institutions participating in the National School Lunch Program were purchasing nonprogram foods with funds intended for program meals and selling those nonprogram foods at a price that was less than their cost. This resulted in meal program funds subsidizing nonprogram foods, reducing the amount of funds available for supporting free and reduced price meals. The nonprogram food revenue requirement, which we’ll discuss in the next slide, is designed to ensure that sponsors participating in the National School Lunch Program and other Federal nutrition programs are not subsidizing nonprogram foods to the detriment of their meal programs, and that Federal funds designated for the support of free and reduced price meals are used for that purpose – maximizing support for free and reduced price meals.”

[Advance to the next slide.]
“The nonprogram food revenue requirement consists, in general, of two parts.

“The first part is that revenues from the sale of nonprogram foods must accrue to the sponsor’s nonprofit food service account. This ensures that those revenues support the sponsor’s nonprofit food service program.

“We’ve taken to calling the second part of the nonprogram food requirement the ‘proportionality requirement’ because the second part involves looking at your organization’s nonprogram and program food costs and revenues, then determining whether the proportion of total food revenues attributable to nonprogram food sales equals or exceeds the proportion of your organization’s total food costs attributable to acquiring nonprogram foods.

“The next slide contains the full text of the second part of the nonprogram food requirement.”

[Advance to the next slide.]
What's required of sponsors?

The proportion of total revenue from the sale of nonprogram foods to the total revenue of the school food service account is equal to or greater than the proportion of total costs associated with obtaining nonprogram foods to the total costs associated with obtaining both program and nonprogram foods from the school food service account.

“Sponsors must ‘determine if the percent of total revenue that is generated from their nonprogram food sales is equal to or greater than the percent of total food costs that are attributable to the [sponsor’s] purchases of nonprogram food.’ So if nonprogram food purchases account for 15% of your organization’s total food costs, then the revenues from the sale of those nonprogram foods must contribute at least 15% towards your organization’s total food revenues.

“You’ve probably noticed that there’s no consideration of labor and other costs associated with obtaining and preparing nonprogram foods for sale. That was intentional. According to the USDA, ‘[r]esearch indicates that the cost of nonprogram foods, as a percent of total food cost, is a reasonable proxy for all costs associated with obtaining foods.’ Also, Congress thought focusing solely on food costs would pose less of an accounting and administrative burden on schools.

“Some sponsors have asked if they
were compliant with this requirement if they priced their nonprogram foods at an amount equal to their cost. The answer is: not necessarily. Simply selling nonprogram foods at a price that is revenue neutral may not satisfy the nonprogram food requirement if the percent of total revenue generated from nonprogram food sales is not equal to or greater than the percent of total food costs that are attributable to the purchases of nonprogram foods.

“This initially posed a problem for those sponsors that only offered a few number of nonprogram foods for sale, such as those sponsors that only offered an extra carton of milk as an à la carte item. Even if those sponsors priced those extra carton of milks to recoup their costs, they might not meet the proportionality requirement.

“Fortunately, in its December 23rd memo, the USDA announced that State agencies, such as the ODE, could provide an exception for those sponsors that offer a limited number of nonprogram foods with ‘an identifiable serving cost…and are not able to accurately perform the assessment,’ such as those which only offer extra milks for sale. This authority was granted after the USDA heard concerns that sponsors which offered limited nonprogram foods for sale were charging the full price or more for the limited nonprogram foods they served, but because they sold so few nonprogram food items, the proportionality assessment overstated any increase that may be
“ODE has not yet developed an exception form, or even a formal exception process. Until such a process is developed, ODE will work with eligible sponsors on a case-by-case basis.

“On the next slide, we'll go over the formula used to determine a sponsor’s compliance with the proportionality requirement.”

[Advance to the next slide.]

“The formula used by the USDA to determine whether the proportion of total food program revenues from nonprogram food sales is equal to or greater than the proportion of total food program costs from acquiring nonprogram food is displayed on this slide.

“IT features two parts. On the left hand side of the slide is the revenue ratio and on the right hand side is the food cost ratio.

“When the revenue ratio is equal to or greater than the food cost ratio, the sponsor is in compliance and nothing further is required.

“When the food cost ratio is greater than the revenue ratio, then the sponsor must take action to ensure compliance. This can include either revising its revenue ratio, such as by increasing the price at which it sells its nonprogram food items, or contributing non-Federal funds in an amount equal to the revenue shortfall.
“Sponsors don’t have to perform proportionality calculations themselves. If you have your organization’s nonprogram food revenues, nonprogram food costs, total program revenues, and total program costs available, you can plug those figures into the USDA’s Nonprogram Food Revenue Tool and it will do the work for you. And if your organization’s food cost ratio is greater than its revenue ratio, the Nonprogram Food Revenue Tool can even tell you the amount of non-Federal funds or additional revenue you need to cover the difference.

“Now that we’ve reviewed the proportionality formula, let’s discuss the information sponsors must collect in order to use it.”

[Advance to the next slide.]

“Before they can calculate their revenue and food cost ratios, sponsors must first know their nonprogram food revenues and costs, and their total food program revenues and costs.

“Previously, sponsors had to report this information using their nonprogram food revenues and costs, and their total food program revenues and costs, from the entire operating year. In its recent memo, the USDA provided some relief by authorizing State agencies, such as the ODE, to either establish a reference period for all sponsors, or allow all sponsors to establish their own reference periods. Reference periods must be at least five
consecutive operating days, or four if your organization has a four-day work week, and represent typical food service operations, and not periods when operations have ceased for holidays or vacations.

“The ODE has elected to establish one reference period for all sponsors: the week of March 14 through March 18, 2016.

“During the reference period, sponsors must collect the following information:

• For nonprogram food revenue, the dollar amount of all nonprogram food sales. This includes, but is not limited to, revenue from sales of à la carte items and adult meals, and any catered meals.
• For total food program revenue, the dollar amount of the sponsor’s program and nonprogram food sales.
• For nonprogram food cost data, an itemization of all nonprogram foods offered during the reference period, the per item or serving cost of each nonprogram food item sold (this includes crossover items – those foods and beverages that are available as part of a reimbursable meal and on the à la carte line), and the number of items or servings sold.
• For total food program cost data, include all nonprogram and program food cost data.”

[Advance to the next slide.]
“When calculating your organization’s total nonprogram food costs, don’t forget to include the food costs of crossover items – those food items that are sold both on the à la carte line and as part of a reimbursable meal.

“In its December 23rd memo, the USDA provided guidance for determining the costs of foods sold as nonprogram foods. For those pre-packaged items that are only sold as a nonprogram food, such as bottled beverages or a bag of whole grain cookies, determine the case cost using invoices or receipts and then divide the case cost by the number of servings or items per case.

“For example, if a case of calorie-free, flavored water bottles costs $15.00, and each case contains 24 bottles, then the cost per item is ~$0.63.”

[Advance to the next slide.]

“But what if you’re selling a nonprogram food item that was made by hand in a school cafeteria, or selling a sandwich à la carte that’s also available as part of a reimbursable meal? Then you need to determine the per serving costs and the servings yield.

“You can determine the per serving costs for a nonprogram food item that’s sold as either a nonprogram food or as a crossover item by:

• Reviewing your recipes and production records. They should clearly lay out how much of each
major ingredient is used in preparing a particular item, and how many servings the recipe yields.

- Reviewing your invoices and prior food orders. They should show the costs of each ingredient used in the recipe.
- Once you know how much of each major ingredient is used in a recipe, you can determine the cost of the ingredients used in the recipe.

“Focus your attention on determining the sum of the major food costs in a particular recipe. The USDA did not define the term “major food costs,” or even offer a description, but ODE’s Child Nutrition Program has interpreted that term as referring to the primary ingredients in a particular food item. For example, the major food costs of an egg white and chicken sausage breakfast sandwich would be the whole-grain bread, egg whites, and sausage patty. If the recipe for that breakfast sandwich called for a dollop of salsa or some shakes of oregano or pepper, we wouldn’t consider the salsa, pepper, or oregano as a primary ingredient. A sponsor could determine the food cost of that dollop of salsa and use that information when establishing prices for the breakfast sandwich.

“If the item is a crossover item, make any necessary adjustments to account for differences in serving sizes between the item when served as part of a reimbursable meal and when served as a nonprogram food item. For example, if a slice of pizza or a salad is served in a larger size
on the à la carte line than when included as part of a reimbursable meal, those à la carte items will have a higher food cost.

“When making nonprogram foods by hand, use the recipe and ingredient costs to develop a reasonable per item cost estimate. To calculate the cost per serving of a particular recipe, divide the total ingredient cost by the total number of servings yielded by the recipe.

“If you need help determining your organization’s food costs, the Institute for Child Nutrition and the U.S. Small Business Administration both have resources that can teach you how to determine your food costs. Local chefs and restaurant managers may also be willing to help you.”

[Advance to the next slide.]

“Your organization must consider the price for each nonprogram food item sold. Those prices should cover the food costs of preparing the item and contribute to the sponsor’s nonprofit food service account.

“Decisions on nonprogram food pricing are left to each individual sponsors’ discretion; however, both the USDA and the Institute for Child Nutrition have recommended that sponsors consider three factors when setting prices for nonprogram foods:

• Their nonprogram food costs;
• How much they need to charge to
cover their nonprogram food costs; and
• How much their customers can afford or absorb.

“The Institute also recommends a sliding scale pricing scheme for nonprogram foods to encourage children to buy healthier items. Under a sliding scale pricing scheme, a sponsor would apply little or no mark-up to items such as fresh fruits and vegetables or milk, a little more to a garden salad or yogurt parfait, and a lot more to a slice of pizza or whole grain breadsticks with dipping sauce.

“Consider adjusting your organization’s prices for adult meals. Because adults generally have more disposable income than children, they typically can afford to pay more – even when the meal they are buying is exactly the same as a reimbursable meal available to students.

“Revenues from the sale of nonprogram foods can support your organization’s nonprofit food service program and reduce the need for contributing non-Federal funds.

[Advance to the next slide.]
“In the Financial Management in School Food Service Worksheets booklet you’ll find worksheets that will help you compare your food costs to revenues, perform a menu-item break-even analysis, convert daily meal counts to dollars, determine your portion costs, and set prices for entire menus or just single food items, among other analyses. The booklet is available on our website, via the Financial Management link.

“We have taken two worksheets out of the booklet – the Portion Cost worksheet (pg. 12) and the Setting Prices for Menus or Single Food Items worksheet (pgs. 17 and 18) – and included them in your training materials. Please use them during your organization’s reference period of March 14 through March 18. Simply fill in the required information regarding your organization’s nonprogram food offerings and return the worksheets to us so we can review the provided information and determine whether your organization has satisfied the proportionality requirement.

“In the second part of ODE’s three-part Nonprogram Food Revenue training series, we’ll go over filling out the worksheets. Between now and the third part in this training series, sponsors are encouraged to take a practice week to assess their nonprogram food costs and revenues. We will answer any questions you may have about the practice exercise and determining your organization’s food costs during the third session.
“Some sponsors may not have information about their food costs or revenues, or both, because they contract with a food service management company to operate or manage their nonprofit food service operations. We have more specific information for those sponsors on the following slide.”

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“In its memo of December 23rd, the USDA announced that it will update the FSMC Guidance Handbooks to address nonprogram foods. For more information, please review the USDA's memo. ODE will provide additional information once the USDA publishes the revised FSMC Guidance Handbooks for State Agencies and sponsors.”

[Advance to the next slide.]
“In its December 23rd memo, the USDA provided guidance for sponsors that contract with other organizations to provide catered meals for meetings or other events. If your organization has a catering service that makes meals for outside customers from foods purchased with funds from the nonprofit food service account, then it must make sure that it is, at the least, recovering the costs of those meals.

“For example, if the food service program at a local high school contracts with the booster club to provide turkey burgers and veggie dogs for the Field Hockey Award Show, then it must make sure that it is recouping all of the costs associated with purchasing and preparing those turkey burgers and veggie dogs.

“If your organization has a standard catering contract, please update it to include the following two provisions: first, that the customer will cover all costs incurred catering the event; and second, that the customer assumes all risk for potential revenue losses.

“That second provision is intended to protect your organization’s nonprofit food service program from losing money if, after buying all those turkey burgers and veggie dogs for the Field Hockey Award Show, the booster club cancels the dinner because the Field Hockey Team, after winning at nationals, is going to Disney World instead. Without this provision, or one like it, your organization’s nonprofit food
service program could experience a loss. For appropriate language, consult with your organization’s contract officer, procurement specialist, or legal counsel."

“Now that we’ve gone over what sponsors need to do to comply with the nonprogram food requirement, let’s discuss how sponsors can report their nonprogram food revenues and costs to the ODE.”

[Advance to the next slide.]

“Sponsors that have calculated their nonprogram food revenues, nonprogram food costs, program food revenues, and program food costs during the reference week of March 14 through March 18, can enter that information into the USDA’s Nonprogram Food Revenue Tool.

“The Tool is an Excel spreadsheet and will calculate for you whether your organization has met the proportionality requirement. If the proportion of total food revenues attributable to nonprogram food sales equals or exceeds the proportion of your organization’s total food costs attributable to acquiring nonprogram foods, then the Tool show that you have met the requirement.

“If the proportion of total food revenues attributable to nonprogram food sales is less than the proportion of your organization’s total food costs attributable to acquiring nonprogram foods, then the Tool shows the amount by which
“Sponsors that did not meet the proportionality requirement must either (i) increase the prices of their nonprogram food offerings, or (ii) make a contribution of non-Federal source funds to their nonprofit food service accounts in an amount equal to the amount indicated by the Tool.”
Resources

The USDA Nonprogram Food Revenue Tool can be downloaded from http://www.fns.usda.gov/sites/default/files/SP39-2011a1.xls

A copy of this training will be available at our training page www.ode.state.or.us/go/snptraining/

Additional questions?

Questions after the webinar:
Contact Matthew Barber at matt.barber@state.or.us

Thank you for participating in the Nonprogram Food Revenue Training for School Nutrition Programs. If you have any questions please contact your assigned Child Nutrition Specialist. We greatly appreciate the work that you do to fuel Oregon’s future.

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