



Food and
Nutrition
Service

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Alexandria
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SUBJECT: Unpaid Meal Charges: Guidance and Q&A

TO: Regional Directors
Special Nutrition Programs
All Regions

State Directors
Child Nutrition Programs
All States

This Question and Answer (Q&A) memorandum is designed to provide an overview of policies related to unpaid meal charges and to address common questions from State agencies, school food authorities (SFAs), and local Program operators. This Q&A supplements recently issued policy memoranda related to unpaid meal charges, which include the following:

- SP 46-2016: *Unpaid Meal Charges: Local Meal Charge Policies*, July 8, 2016, <http://www.fns.usda.gov/unpaid-meal-charges-local-meal-charge-policies>
- SP 47-2016: *Unpaid Meal Charges: Clarification on Collection of Delinquent Meal Payments*, July 8, 2016, <http://www.fns.usda.gov/unpaid-meal-charges-clarification-collection-delinquent-meal-payments>

As a reminder, SFAs are required to have a local meal charge policy in place no later than July 1, 2017. More information and best practices may be found on the Unpaid Meal Charges webpage: <http://www.fns.usda.gov/school-meals/unpaid-meal-charges>.

State agencies are reminded to distribute this information to Program operators immediately. Program operators should direct any questions regarding this memorandum to the appropriate State agency. State agencies should direct questions to the appropriate Food and Nutrition Service Regional Office.

Original Signed

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MEAL CHARGE POLICIES

1. Must the required meal charge policy be developed at the school food authority (SFA) level?

State agencies and SFAs have discretion in developing the specifics of individual meal charge policies, including the level at which the policy is developed. State agencies may develop a State-level meal charge policy to be implemented by all SFAs throughout the State. Alternatively, State agencies may choose to outline a general policy, giving SFAs discretion to tailor the policy based on local conditions. In the latter case, a combination State/SFA-level policy is allowable, as long as the SFA-level policy does not contradict the overarching State-level policy.

If the State agency does not develop a State-level policy, SFAs must develop and implement an SFA-level policy. This is intended to avoid inconsistent or varying policies within an SFA that create confusion for families, especially when children transition to a new school or families have students attending different schools within the SFA. SFAs do have discretion, however, to vary the policy based on student grade level. For more information, please see “Meal Charge Policy Considerations” on page 2 of SP 46-2016: *Unpaid Meal Charges: Local Meal Charge Policies*, July 8, 2016, <http://www.fns.usda.gov/unpaid-meal-charges-local-meal-charge-policies>.

2. Are SFAs permitted to adopt a standard practice about how to handle meal charges instead of establishing a formal policy?

SP 46-2016 requires all SFAs operating the Federal school meal programs to have in place a written and clearly communicated system to address meal charges. The Food and Nutrition Service (FNS) will refer to this as a policy, but whether this is referred to as a “policy” or “standard practice” is at the discretion of the State agency or SFA. Whichever terminology is used, the policy or standard practice must consist of a written document explaining how the SFA will handle situations where children eligible to receive reduced price or paid meals do not have money in their account or in hand to cover the cost of their meal at the time of service. The policy or standard practice must be implemented throughout the SFA.

3. Are SFAs required to obtain school board approval for their meal charge policy?

Although there is no Federal requirement for school board approval of the local meal charge policy, SFAs should consult with local administrators about any additional local requirements for the establishment of an SFA-level meal charge policy.

4. What are the communication requirements for the meal charge policy?

Whether developed at the State or SFA level, SFAs must ensure the policy is provided in writing to all households at the start of each school year and to households transferring to the school or school district during the school year. Additionally, SFAs are encouraged to include the policy in student handbooks and/or on online portals that households use to access student accounts. While not required, SFAs are encouraged to provide the written policy again to the household the first time the policy is applied to a specific child (e.g., by mail, email, or a note home).

SFAs also must provide the written meal charge policy to all school or SFA-level staff responsible for policy enforcement. This includes school food service professionals responsible for collecting payment for meals at the point of service, staff involved in notifying families of low or negative balances, and staff involved in enforcing any other aspects of the meal charge policy. School social workers, school nurses, the homeless liaison, and other staff members assisting children in need (or who may be contacted by families with unpaid meal charges) also should be informed of the policy. In addition, FNS strongly encourages SFAs to provide information about the policy to principals and other school or district administrators to ensure they are familiar with and supportive of the policy.

5. May an SFA simply post the meal charge policy on its website to meet the policy communication requirement?

Beginning in school year (SY) 2017-2018, and each year thereafter, the meal charge policy must be communicated in writing to all households at the start of each school year and to households transferring to the school during the school year. While posting the policy online is helpful, it will not ensure the information reaches all households, particularly those households without access to a computer or the internet. Therefore, SFAs must have a method in place to ensure the policy is provided in writing to all households at the start of each school year and to households transferring to the school during the school year.

The following are methods SFAs could use to communicate the policy to families:

- Include a letter to households explaining the meal charge policy when sending “back-to-school” packets with student registration materials;
- Include the policy in the print versions of student handbooks, if provided to parents and guardians annually; and/or
- Include the written policy when using existing notification methods to inform families about applying for free or reduced price meals, such as distributing household applications at the start of the school year.

SFAs also are encouraged to redistribute the policy to the family the first time the policy is applied to a specific child and mention the charge policy on reminder calls or in written notices of low or negative account balances.

6. How often should SFAs revise or update their policy?

Although it is not required, SFAs are encouraged to revise their policy on a regular basis (e.g., annually). Regularly reviewing the policy, assessing its effectiveness, and incorporating new feedback will allow the policy to evolve to better meet the needs of schools, families, and children.

7. Are SFAs required to maintain records related to the meal charge policy?

Yes. Policies developed at the SFA level must be maintained and provided to the State agency during the Administrative Review. SFAs also must maintain documentation of the methods used to communicate the policy to households and school or SFA-level staff responsible for policy enforcement. If a State-level policy is implemented, the SFA must maintain records to demonstrate how the policy was implemented and communicated to households by the SFA.

STUDENT ELIGIBILITY FOR FREE OR REDUCED PRICE MEALS
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8. How early may schools begin the school meal application process?

To prevent students who are eligible for free or reduced price school meals from accruing unpaid meal charges, schools should ensure families are aware of the application and return their application prior to the first day reimbursable meals are offered. According to 7 CFR 210.2, the official start of the school year is July 1. As long as an application is submitted on or after this date, it is considered current for the new school year.

9. May schools accept applications after the school year begins?

Families may submit, and schools may accept, applications at any point during the school year. Schools must inform families of this, and remind families their child may become eligible for free meals at any time during the school year if the household experiences a change in financial circumstances. Schools also are encouraged to reach out to families experiencing an acute financial setback, such as a job loss or long-term illness, which may result in a change in eligibility status for the child.

Because of the year-long duration of eligibility, households certified for free or reduced price school meals are not required to report changes in their household income or categorical eligibility status. Once a child is approved for free or reduced price school meals, their eligibility status remains in effect for the duration of the

school year. Additionally, children carry over their eligibility status for 30 operating days into the following school year, or until a new eligibility determination is made, whichever comes first.

10. Are schools permitted to eliminate the reduced price category as a strategy to prevent children eligible for reduced price meals from accruing unpaid meal charges?

Yes. At the discretion of the SFA, schools participating in the National School Lunch Program (NSLP) and School Breakfast Program (SBP) may offer meals at no cost to children who would otherwise qualify for reduced price benefits. SFAs also could choose to lower the cost of reduced price meals below the maximum cost permitted. This is an allowable use of funds in the non-profit school food service account (NSFSA). SFAs electing to take advantage of this flexibility continue to receive reduced price Federal reimbursement based on meals claimed for children in the reduced price category.

SFAs considering this option are advised to conduct a thorough analysis of their current and projected operating costs to ensure they will be able to maintain operations and meal quality without children's payments for reduced price meals. For more information, please see SP 17-2014: *Discretionary Elimination of Reduced Price Charges in the School Meal Programs*, January 22, 2014, available at: <http://www.fns.usda.gov/discretionary-elimination-reduced-price-charges-school-meal-programs>.

11. If a child graduates or moves to a new school district, may the SFA use funds remaining in the child's account to cover meal charge debt accrued by other students?

When a child leaves the district or graduates, SFAs must attempt to contact the child's household to return any funds remaining in the student's account. However, SFAs may encourage families that are not approved for free or reduced price meals to donate the funds remaining in their account rather than receiving a refund when their child leaves the school. These funds then could be used to cover unpaid meal charges that were uncollectable.

Households approved for reduced price meal benefits, however, must receive a refund. There is a Federal requirement that children eligible for reduced price meals pay a maximum of 40 cents per lunch; retaining the unused funds would result in the per meal lunch price exceeding this amount.

12. What alternative counting and claiming procedures are available to local educational agencies (LEAs) and schools struggling with unpaid meal charges?

The Community Eligibility Provision (CEP) is a meal service option for schools and school districts operating the school meal programs in high-poverty communities. CEP allows these schools to provide breakfast and lunch at no cost to all enrolled children without the need to collect applications or establish individual eligibility for a four-year period, thereby increasing access to school meals and eliminating unpaid meal charges. To learn more about CEP, please visit the CEP Resource Center: <http://www.fns.usda.gov/school-meals/community-eligibility-provision-resource-center>.

Provisions 2 and 3 also reduce the application burden and simplify counting and claiming procedures and eliminate unpaid meal charges by allowing low-income schools to serve meals to all enrolled children at no charge for a four-year period. Under Provision 2, reimbursement is determined by applying the percentages of free, reduced price, and paid meals served during the first year, or base year, to claims during subsequent years. Provision 3 is similar to Provision 2, except, each year, schools receive the level of Federal cash and commodity support paid to them during the base year adjusted to reflect changes in enrollment, inflation, and operating days. To learn more, see: <http://www.fns.usda.gov/school-meals/provisions-1-2-and-3>.

PAYMENT OPTIONS AND PAYMENT REMINDERS
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13. What should schools consider when implementing a pre-payment system for reimbursable meals?

Encouraging families to pre-pay for meals at the reduced price or paid rate can help to ensure children have consistent access to healthy, reimbursable meals without accruing unpaid meal charges. Some SFAs even provide incentives, such as prize drawings, for families opting to pre-pay for their children's reimbursable meals. Any incentives involving offering discounts for families who pre-pay for reimbursable meals, however, must meet paid lunch equity (PLE) pricing requirements. For more information, see SP 09-2016: *Paid Lunch Equity: School Year 2016-2017 Calculations and Tool*, November 13, 2015, <http://www.fns.usda.gov/paid-lunch-equity-school-year-2016-2017-calculations-and-tool>.

If a pre-payment system is established, children and families must continue to have a method to add funds on the day of service. For example, families could make cash payments to the school office on the day of service.

SFAs also may wish to allow parents and guardians to limit the amount of funds that a student could use daily, particularly for à la carte purchases. The pre-payment system could include a feature to allow for parental restrictions at the point of service.

Finally, pre-payment systems for children approved for reduced price meals must ensure that all meals paid for are actually received or that the funds are carried over or are refunded. Federal regulations are clear that reduced price lunches may not exceed 40 cents and reduced price breakfasts may not exceed 30 cents. Therefore, payment for any meals not received by a student approved for reduced price meals must be refunded to the household.

For example, a household pre-pays \$8 for one month of lunches (20 lunches x \$0.40). If at the end of the month the household did not receive all 20 lunches, the remaining funds must be carried over into the next month or the money must be refunded to ensure that the student did not pay more than 40 cents per lunch.

14. May SFAs establish long-term payment plans for households struggling to pay back a negative balance?

Yes, SFAs may work with families to establish long-term repayment plans. Repayment plans may be especially helpful for households with income just above the threshold for free or reduced price meals or where income is sporadic. SFAs also are reminded that unpaid meal charges may be carried over at the end of the school year (i.e., beyond June 30) as a delinquent debt and collection efforts may continue into the new school year. For more information, see SP 47-2016: *Unpaid Meal Charges: Clarification on Collection of Delinquent Meal Payments*, July 8, 2016, <http://www.fns.usda.gov/unpaid-meal-charges-clarification-collection-delinquent-meal-payments>.

15. May schools enlist volunteers to assist with communicating payment reminders?

LEAs may disclose individual student eligibility information only to those persons (and organizations) who require the information in order to carry out an activity specifically authorized by the Richard B. Russell National School Lunch Act (NSLA, 42 USC 1751). Therefore, LEAs and schools may not enlist the assistance of unauthorized persons, such as parent volunteers, to follow up with payment reminder or debt collection efforts related to unpaid meal charges. For example, if a school calls families with unpaid meal charges to remind them to replenish their accounts, only authorized persons may make those phone calls. For more information, please see SP 16, CACFP 06, SFSP 10-2016: *Disclosure Requirements for the Child Nutrition Programs*, December 7, 2015, <http://www.fns.usda.gov/disclosure-requirements-child-nutrition-programs-0>.

16. Are SFAs permitted to move the point of service (POS) to prevent the identification of children with unpaid meal charges?

Yes. There is no Federal policy regarding the specific location of the POS as long as reimbursable meals are identified and claimed appropriately. To prevent the

unfortunate situation of having to take away or replace a child's reimbursable meal, SFAs may move the POS to the beginning of the lunch line. This helps the cashier determine which children, if any, are unable to pay for their meal, and allows the cashier to address the issue discretely before the child has selected a meal.

However, as part of the State agency agreement outlined in 7 CFR 210.9(b)(9), SFAs must count the number of free, reduced price, and paid reimbursable meals served to eligible children at the POS, or through another counting system if approved by the State agency. SFAs moving the POS to the beginning of the lunch line must have a monitor or other assurance to verify that students have the required components for a reimbursable meal after passing through the lunch line. 7 CFR 210.7(c)(2) explains the requirements for use of an alternate POS.

SFAs also must check with their State agency before moving the POS, as the State agency may have a specific State-level policy regarding its location. SFAs must comply with any State-level requirements for alternative POS locations.

17. Are SFAs required to prevent the overt identification of children through the method of payment used to purchase a meal?

Yes. According to 7 CFR 245.8, meal cards, tickets, tokens, or other methods of payment cannot be coded or colored in a manner which overtly identifies children based on free or reduced price eligibility status. Instead, SFAs are encouraged to use pre-payment systems to limit the exchange of money in the cafeteria. Publicizing pre-payment systems and encouraging their use by families can help prevent the charging of meals. For more information, see SP 45-2012: *Preventing Overt Identification of Children Certified for Free or Reduced Price School Meals*, August 24, 2012, <http://www.fns.usda.gov/preventing-overt-identification-children-certified-free-or-reduced-price-school-meals>.

Allowing families to check their account balance and add money electronically from a computer or mobile device also limits the exchange of money in the cafeteria. Often, even families who do not opt to pay using an online system can use the system to check their children's balance. However, SFAs cannot exclusively use an online system. SFAs using an online payment system must provide an alternative option to meet the needs of families who do not have access to a computer or who prefer to make their payment in person. For more information, see SP 02-2015: *Online Fees in the School Meal Programs*, October 8, 2014, <http://www.fns.usda.gov/online-fees-school-meal-programs>.

SFAs must include at least one method of payment that is free of charge. Because it is allowable to use NSFSFA funds to pay usage fees, SFAs may consider covering any fees associated with using an online system for low-income families. Families must be notified about all payment systems used at the school, including any fees associated with specific payment options.

ALTERNATE MEALS

18. Are SFAs that opt to serve an alternate meal to children with unpaid meal charges required to meet FNS' meal pattern requirements?

SFAs seeking reimbursement for an alternate meal must meet the meal pattern requirements. SFAs not seeking reimbursement for an alternate meal, however, are not required to ensure those meals meet the meal pattern requirements. Schools providing a non-reimbursable alternate meal should aim to offer an economical meal that reflects FNS' nutritional goals. The costs of non-reimbursable alternate meals may be absorbed by the NSFSA, the general fund, or other community donations.

However, FNS encourages schools to provide a reimbursable meal to all children who want one. Providing children with a "regular" reimbursable meal prevents the singling out of children with unpaid meal charges, provides children with the nutritional benefits of a reimbursable meal, and ensures the school receives the applicable Federal reimbursement for the meal.

To claim an alternate meal that limits choices to lower cost entrées and other components, schools must offer children at least two different types of fluid milk. In addition, a school participating in the offer versus service (OVS) provision must allow children to select up to five food components for the NSLP and four items for the SBP. Alternate meals that allow children to select only three components are not reimbursable.

19. May SFAs charge students for an alternate meal?

Yes. While many SFAs providing alternate meals to children with unpaid meal charges choose to provide those meals for free, SFAs have discretion to charge children for alternate meals. If the SFA charges for a non-reimbursable alternate meal, then the meal is subject to the Smart Snacks requirements (7 CFR 210.11) and the requirements for revenue from non-program foods (7 CFR 210.14(f)), as the alternate meal is considered an à la carte item for sale in the school. These requirements are not applicable to alternate meals provided free of charge.

20. Are SFAs opting to provide alternate meals expected to accommodate special dietary needs when a child's disability restricts their diet?

Yes. SFAs must make substitutions for children who are considered to have a disability under 7 CFR 15b.3 and whose disability restricts their diet. SFAs opting to provide alternate meals to children with unpaid meal charges are still required to provide reasonable accommodations for such children when the restriction is supported by a medical statement signed by a State licensed healthcare professional. This requirement is included in Federal regulation at 7 CFR 210.10(m)(1).

DEBT COLLECTIONS

21. What should State agencies and SFAs consider when developing a policy regarding the collection of delinquent debt arising from unpaid meal charges?

In establishing policies regarding collection of delinquent debt, State agencies and SFAs should ensure their efforts do not have a negative impact on the children involved, and instead focus primarily on adults in the household responsible for providing funds for meal purchases. State agencies and SFAs also are encouraged to consider whether the benefits of potential collections outweigh the costs which would be incurred to achieve those collections. Policies regarding the collection of unpaid meal charges should be included in the written meal charge policy, which is required for SFAs no later than July 1, 2017.

22. At what point are unpaid meal charges classified as “delinquent debt”?

Unpaid meal charges are considered “delinquent debt” when payment is overdue as defined by State or local policies. The debt is classified as delinquent as long as it is considered collectable and efforts are being made to collect it. SFAs must make reasonable efforts to collect unpaid meal charges classified as delinquent debt; the cost of such collection efforts is an allowable use of NSFSA funds. A debt owed to the NSFSA remains on the accounting documents until it is either collected or is determined to be uncollectable and written off. For more information, see SP 47-2016: *Unpaid Meal Charges: Clarification on Collection of Delinquent Meal Payments*, July 8, 2016, <http://www.fns.usda.gov/unpaid-meal-charges-clarification-collection-delinquent-meal-payments>.

23. May unpaid meal charge debt be carried over into a new school year?

Yes. Unpaid meal charges may be carried over at the end of the school year (i.e., beyond June 30) meaning collection efforts may continue into the new school year. This allows SFAs to work with individual families to establish longer repayment plans and to continue pursuing collection efforts when children change schools within the district or move to a new school outside the district.

24. At what point is delinquent debt considered “bad debt”?

When local officials determine further collection efforts for delinquent debt are useless or too costly, the debt must be reclassified as “bad debt.” Once a delinquent debt is reclassified as a bad debt, it must be written off as an operating loss. NSFSA resources may not be used to cover costs related to the bad debt, such as continued legal and collection costs. Instead, these losses must be restored using non-Federal funds. These funds may come from the school district’s general fund, special funding from State or local governments, or any other non-Federal sources.

25. What non-Federal funding sources may be used to restore operating losses from bad debts?

Allowable sources of non-Federal revenue include:

- State revenue matching funds in excess of the State revenue matching fund requirement,
- State or local funds provided to cover the price of student meals,
- Local contributions provided by community organizations or individuals,
- Revenue from adult meals prepared using resources outside the food service and not funded through the NSFSA,
- À la carte revenue and profit from foods not purchased using funds from the NSFSA and funded from an account separate from the NSFSA, and
- Revenue from catering or contracting services that operate using an account separate from the NSFSA.

If a revenue source is funded through NSFSA, then all revenue from the source must return to the NSFSA and may not be used to cover operating losses resulting from bad debts.

26. What are the requirements for SFAs using revenue from catering, vending, and other contracting services to restore operating losses?

In arrangements where school food service labor is used to prepare goods for an outside entity (e.g., catering and vending), the school food service must ensure all costs are covered by the entity served by the school food service operations. For example, an SFA may use NSFSA funds to purchase and prepare hamburgers for a Parent Teacher Association (PTA) that runs a high school concession stand during football games. In this example, if the cost associated with purchasing and preparing the hamburgers is \$2 per hamburger, the SFA must recoup at least \$2 per hamburger from the PTA; the PTA then may sell each hamburger for \$3 and keep the \$1 profit per burger.

When entering into arrangements with outside entities, the school food service is best served having an agreement in place regarding costs and all other terms and conditions, including a stipulation that all risk relating to revenue losses must be covered by the outside entity and not the NSFSA. For more information, see SP 13-2014: *School Food Service Account Revenue from the Sale of Non-Program Foods*, December 12, 2013, <http://www.fns.usda.gov/school-food-service-account-revenue-sale-nonprogram-foods> and SP 20-2016: *Nonprofit School Food Service Account Nonprogram Food Revenue Requirements*, December 23, 2015, <http://www.fns.usda.gov/nonprofit-school-food-service-account-nonprogram-food-revenue-requirements>.

27. Are revenues from the sale of competitive foods purchased using the general fund also restricted?

Revenue earned from the sale of competitive foods purchased with funds outside of the NSFSA (i.e., the general fund) may be used to cover bad debt.

28. If a child has money to purchase a meal but has outstanding meal charge debt, can the SFA require repayment and refuse to provide the child a meal?

No. If a child has money to purchase a reduced price or paid meal at the time of the meal service, the child must be provided a meal. SFAs may not use the child's money to repay previously unpaid charges if the child intended to use the money to purchase that day's meal.

29. Are SFAs required to maintain records related to bad debt?

Yes. According to SP 47-2016, once delinquent meal charges are converted to bad debt, records relating to those charges must be maintained in accordance with the record retention requirements in 7 CFR 210.9(b)(17) and 7 CFR 210.15(b).

Types of records that should be maintained to document establishment and handling of bad debt include:

- Evidence of efforts to collect unpaid meal charges in accordance with the policy,
- Evidence that collection efforts fell within the timeframe and methods established by the policy,
- Financial documentation showing when the unpaid meal charge became an operating loss. and
- Evidence that the funds written off as bad debt were restored to NSFSA from non-Federal sources.