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COLORADO'S HEALTHY MEALS FOR ALL PROVES UNHEALTHY FOR THE STATE BUDGET

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After just one year, **the program is expected to reach CSI's budget deficit projection 5 years early.** In the 2022 study, CSI estimated that the "Healthy School Meals for All" program could grow to a \$50 million deficit by 2030 and a \$72.4 million deficit by 2033 and upwards of \$500 million by 2050ⁱ. For context, \$50 million is a larger budget line item than the 2024 temporary rental assistance grant (\$30 million).

If the deficit continues at the same pace, the cumulative cost of the program is at risk of being over budget to the excess tune of \$1 billion by 2039. While the measure was approved by voters under the assumption the new tax increase would fully fund the new spending, more dollars from the state budget are needed to fill the gap.

The Issue: "Healthy School Meals for all Public School Students"

As lawmakers contend with the state budget, the battle over funding priorities is intensifying. At the top of the list is the "Healthy School Meals for all Public School Students" program. As it stands currently, the program is significantly over budget and will require up to \$50 million to fill the funding gap according to the Colorado Department of Education.

In 2022, CSI issued *2022 Colorado State Ballot Proposition FF: "Healthy School Meals for All Public School Students"*. The study foreshadowed the potential budget shortfall. Voters and lawmakers will now face the choice between raising taxes or funding the program from the general fund at the expense of other priorities such as education, transportation, mental health and housing.

About the "Healthy School Meals for all Public School Students"

In 2022 state lawmakers referred Proposition FF to the ballot and voters passed the proposed measure termed "Healthy School Meals for all Public School Students." The measure proposed to provide free meals to all K–12 students within participating districts.ⁱⁱ It also increased wages for school food preparation workers and subsidized the use of Colorado-grown and produced food.

How is “Healthy School Meals for all Public School Students” funded?

To fund the program, the law imposes an income tax increase on Coloradans earning more than \$300,000 a year. The tax was estimated to generate up to \$105.9 million in the first year of the program, \$104.3M in 2024-25, and \$107.5M for 2025-26 under current projections; however, the program is currently underfunded by \$24M in 2023-24 and estimated to be underfunded by \$50M in 2024-25.ⁱⁱⁱ Both the Legislative Council Staff and the Office of State Planning and

Budgeting are projecting less revenue from the measure than was originally anticipated.^{iv}

In the 2022 study, *CSI estimated the program* could be underfunded by -\$1.8 to \$4.2 million in the first year and could grow to a \$50 million deficit by 2030 and a \$72.4 million deficit by 2033 and upwards of \$500 million by 2050^v.

The program is expected to reach CSI’s budget deficit projection 5 years early.

How Much Will the Program Cost? And is it Sustainable?

The fiscal note developed by the State estimated the cost to be between \$71.4 million and \$101.4 million in the first year of full implementation. However, the rate of school participation and the amount of additional federal funding sought under federal programs would impact the overall cost to implement.

CSI estimated the range of projected cost and the range of revenue collected for the program. Assumptions for costs and revenue are detailed in the appendix. By 2050, revenues are estimated to be between \$450 million and \$1.24 billion. Costs range between \$239 million and \$956 million.

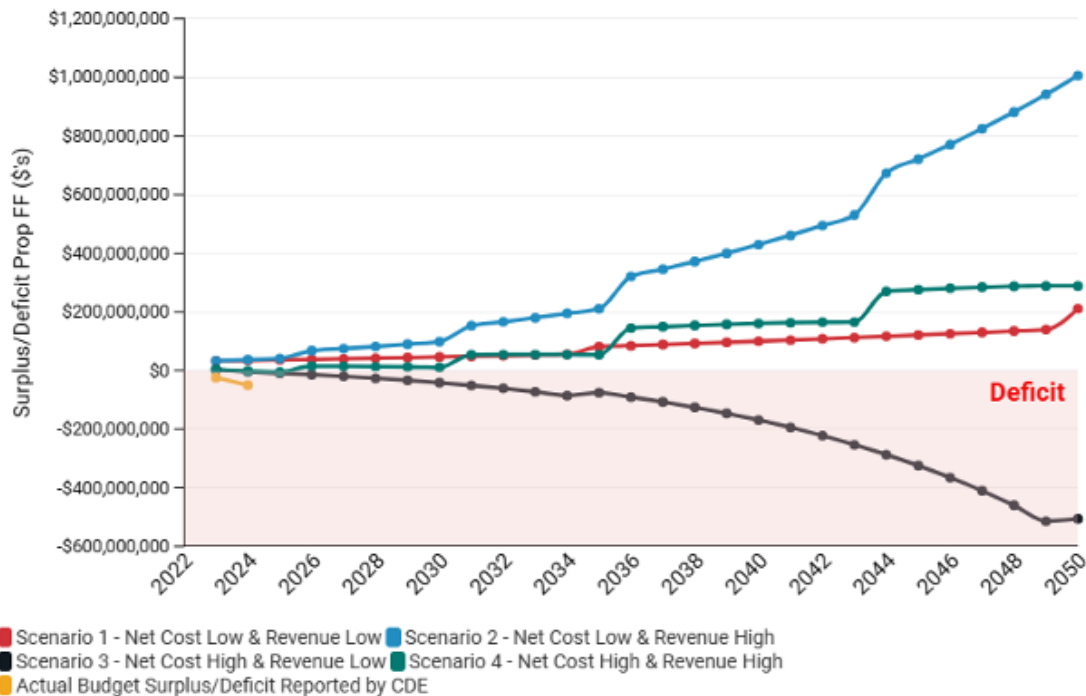
CSI analyzed the budget using the baseline revenue and cost estimates from the proposition in 2023 to calculate net revenue. The four scenarios are based on high and low assumptions of future costs of the program and revenue generated by the new tax using these assumptions:

- **Scenario 1** – Net Cost Low & Revenue Low
- **Scenario 2** – Net Cost Low & Revenue High
- **Scenario 3** – Net Cost High & Revenue Low
- **Scenario 4** – Net Cost High & Revenue High

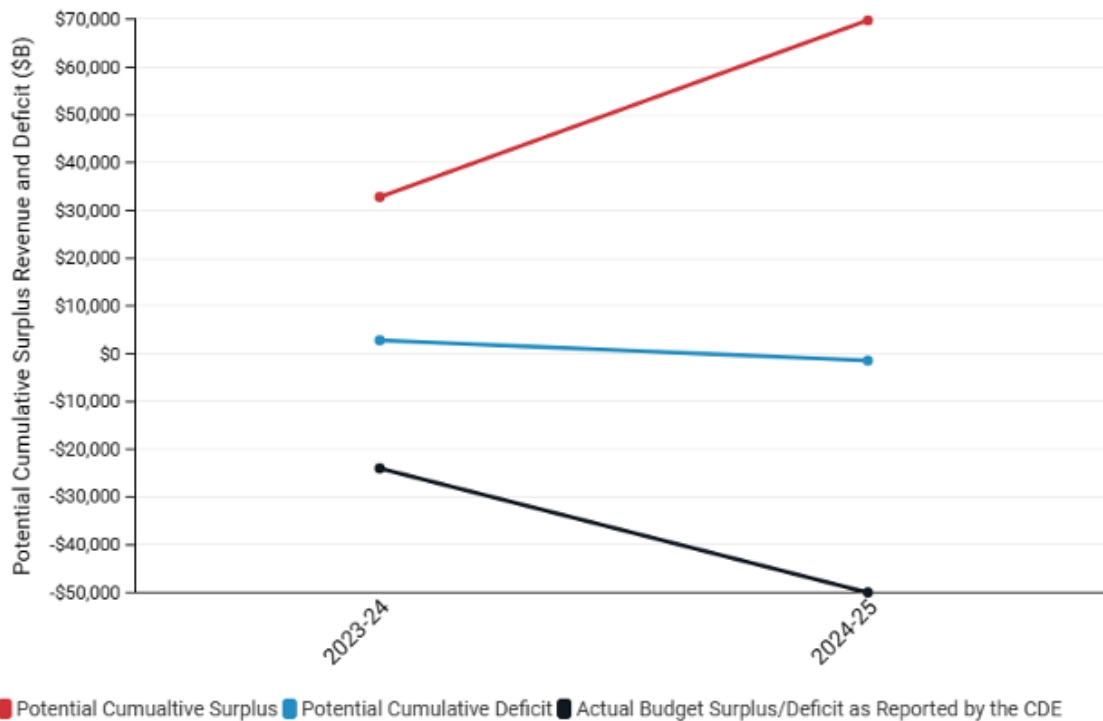
Under the assumptions for scenarios 1 and 2, where costs are low, the program is solvent from the first year going forward. However, under scenarios 1 and 2, and scenario 4, where revenues are high, very large surpluses develop, ranging from \$211.3 million to \$1.0 billion. These surpluses can be transferred to the general fund and used for other programs completed unrelated to the universal free lunch program. In effect, the tax is a combination non-discretionary tax and a discretionary tax.

The program was forecast to be surplus in year one under all scenarios, however, in the second year, 2024, the program is in deficit in scenarios 3 and 4, where the costs are high. Scenario 3 remains in deficit after 2023 over the entire modelling period despite increasing revenue, and in 2050 has increased to -\$506 million. Scenario 4 has a deficit in years two and three and then goes into surplus as more taxpayers are breach the \$300,000 threshold making them subject to the tax.

Budget Projection 2023 -2050 for Colorado's Healthy School Meals for All Program



Healthy Meals for All Program - Actual vs. Potential Cumulative Surplus Revenues and Deficits



CSI OFFERED THESE CONSIDERATIONS:

- If costs are not carefully managed and revenues fall short of projections, the program could run a deficit as early as 2024 (between -\$1.8 million and -\$4.2 million), grow to \$72.4 million in 2033, and deficit could grow as high as -\$506 million by 2050. CSI foresaw this outcome in their initial study, prior to allocating more money to the program, a further analysis of its viability going forward needs to be performed.
- According to the USDA's "School Nutrition and Meal Cost Study," the average school meal program operates at a slight deficit. The study also found that the reported cost of offering school meals generally exceeds the federal reimbursements allotted for those meals.^{vi}
- The inflation rate on food rose 10.4% earlier this year as compared to 2021. Should inflation rates continue to rise, the cost to sustain the free lunch program will escalate beyond current projections.
- **Lack of oversight** - Nationally, according to the Office of Management and Budget, the National School Lunch Program lost nearly \$800 million owing to improper payments in fiscal year 2018, while the School Breakfast Program lost \$300 million. The Office of Management and Budget call these programs 'high-priority' programs because of the misspending. The state will need to ensure accountable and transparent reporting is maintained for such a large program.
- **Wasted food** - According to one PMC study, an estimated \$1.2 billion worth of school food is wasted each year. Skeptics of free meals for all schoolchildren fear that waste will only continue to rise if universally free school meals are an option.^{vii}
- **High costs** - School-made meals generally cost more to prepare than parent-provided meals. If parents who previously prepared their kids' meals opted into the program, the cost per meal borne by the taxpayer would be greater than the money saved by the parent. Because the law will raise wages for school lunch workers and incentivize local sourcing of products, regardless of cost implications, the cost of free school meals will be even higher relative to parent-provided meals than in the past.

Despite the benefits for low- and middle-income families, the Healthy Meals for All program encourages inefficiency. On average, due to administrative costs, employee wages, and ingredient costs, school meals are more expensive than home-packed meals. The Program will drive this price disparity wider by requiring food authorities to purchase more expensive ingredients and increasing overhead costs by raising operating expenses, wages, and state government employment.

REFERENCES

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- iii. https://leg.colorado.gov/sites/default/files/initiative%2520referendum_proposition%20ff%20final%20lc%20packet.pdf
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- vi. <https://www.fns.usda.gov/school-nutrition-and-meal-cost-study>
- vii. <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC3788640/>