

To: Authorized Representatives of Child Nutrition Programs (School Nutrition Programs and Child and Adult Care Food Programs)

From: Child and Adult Nutrition Services

Date: August 10, 2017

Subject: Guidance for Determining Farm and Ranch Income Due to Drought Conditions

Memo Number: SNP 215-1
CACFP 215-1
CACFP DCH 215-1

This memo replaces the previous memo on this topic dated August 13, 2012 memo numbers: NSLP-107.1, CACFP-99.1, CACFP DCH-88.1, and SMP-10. The purpose of this memo is to explain how to determine farm and ranch income during drought conditions in the School Nutrition Programs (National School Lunch Program, School Breakfast Program, Afterschool Snack, and Special Milk Program) and the Child and Adult Care Food Program.

This information should be shared with the person who approves applications for free and reduced price meals. Questions about this memo can be referred to a SD Dept. of Education Child and Adult Nutrition Services staff member.

Occasional extreme drought in areas of South Dakota has raised concerns with the process to apply for free and reduced price meals and documentation for verification. Farmers and ranchers often use their Tax Form 1040 from the prior year to demonstrate eligibility for free and reduced price meals. That would not be an accurate indicator this year for those in the drought areas as some will have no or limited income from their usual sale of grain and have had to sell off herds due to the conditions.

Families that have been approved to receive Supplemental Nutrition Assistance Program (SNAP) or Temporary Assistance for Needy Families (TANF) benefits are either directly certified or categorically eligible for free meals or milk in the child nutrition programs. If a notice of direct certification for free meals or milk is not received from your school district, please submit a household application with your SNAP or TANF case number.

When farm and ranch families apply for free and reduced price meals or free milk based on income, they must include income from any outside sources. Income from other sources cannot be offset by losses in farming & ranching. The following guidance applies to determining their income from crop and livestock production and other agriculture activities. As household situations vary greatly, please refer to the current version of the USDA Food and Nutrition Service *Eligibility Manual for School Meals* section 2 "The Basis of Eligibility"

(<https://www.fns.usda.gov/school-meals/guidance-and-resources>) or the Determining Individual and Household Income Eligibility section of the *CACFP Eligibility Guidance for Family Day Care Homes*.

Remember to take a complete household application at face value until it has been chosen for verification or if you have reason to question the information on the application and complete verification for cause. If chosen for verification, the household must provide the school or agency more supporting documentation on how the family estimated their current monthly income. Review section 6 "Verification" in the *Eligibility Manual for School Meals* or the Verification of Provider's Household Income or Categorical Eligibility section on page 11 of the *CACFP Eligibility Guidance for Family Day Care Homes* for more information on both verification processes.

If quarterly tax estimates are not completed, the farmers and ranchers should use their best estimate to calculate their current income - whether it is farming income, rental income, insurance payments, drawing on savings, the sale of farmland, buildings, or equipment to others, etc.

If the household reports a drastic change - such as selling off half of their herd, or a large part or the entire crop was destroyed, one method would be to look at the most recent income tax and have the household identify where the income and expenses that have changed would be listed. For example, if the Schedule F shows income from sale of livestock and they indicate they have now sold half of their herd, take that income by 50%; also look at 50% of their feed, vet, etc. deductions that are directly related to the cattle. It is an estimate but is the best that can be done at this time.

For crop producers, most have revenue based crop insurance that will help pay the crop input costs but often gives them no income for living expenses for the year. The local crop insurance agents would have knowledge of what crop conditions are and what local losses are for their clientele. The agents may be able to write a letter for verification documenting the losses.

If there were any salvageable crop that they can sell off, that would be income. The family would have stubs/receipts from that for verification.

The family could use the producer's proposed cash flow for the affected year. They should all have this in conjunction with their lenders. They would need to subtract the proposed income from crop sales, but then add in the income received from crop insurance. School and agencies should then consider the net farm income from the producer, not their gross. If needed for verification, the school could request a copy of the appropriate section of the proposed cash flow or possibly the lender could write a letter for verification purposes.

Farmers and ranchers who have to sell off part of their livestock base due to the drought (beyond the normal culling of the herd and sale of stock) may elect to defer that as income. Additional information on weather related sale of livestock is available at <http://www.irs.gov/publications/p225/ch11.html>.

If the family receives an insurance payment or another lump sum payment that is not considered income at the time of receipt. Review section two chart of "Examples of Payments

Excluded as Income" in the *Eligibility Manual for School Meals* or the Income Exclusions section on page 32 of the *CACFP Eligibility Guidance for Family Day Care Homes* for more information. If a lump sum payment is put into a savings account and the family draws from that account for living expenses, the amount drawn is counted as income. The stub from the insurance check or a letter from the government or insurance company would document that they received payment for loss for verification. While you are not counting that as income, it could be verification documentation for the reason they have no income or a greatly reduced income.

Some farmers and ranchers may be operating with a loan. This would not count as income. Review section two chart of "Examples of Payments Excluded as Income" in the *Eligibility Manual for School Meals* or the Income Exclusions sections on page 32 of the *CACFP Eligibility Guidance for Family Day Care Homes* for more information.

Some households may report zero income. As noted previously, applications are to be approved at face value. If a household is selected for regular verification or verification for cause and the application indicates zero income, the school or agency must request supporting documentation for how living expenses are met. Outside employment must be reported. Refer to "Section 6: Verification" in the *Eligibility Manual for School Meals* or USDA Food and Nutrition Service memo CACFP 07-2014 (found at: <https://www.fns.usda.gov/cacfp/policy>) for more information.

If a Presidential disaster declaration occurred for the area, disaster relief payments would likely be excluded from consideration as income for determining eligibility for free or reduced price meals as noted in section two chart of "Examples of Payments Excluded as Income" in the *Eligibility Manual for School Meals*.