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**IN THE UNITED STATES DISTRICT COURT  
FOR THE DISTRICT OF NEW JERSEY**

GAYNELA PRICE, ATALANTA PIERRE-LOUIS, and JAMIE DANNELLY, on behalf of themselves and all others similarly situated,

Plaintiffs,

v.

PAMS Lunch Room LLC; PCS Revenue Control Systems, Inc., d/b/a PayPAMS; and DOES 1-10,

Defendants.

**Case No.**

**CLASS ACTION COMPLAINT**

**DEMAND FOR JURY TRIAL**

## INTRODUCTION

1. Each day, over 20 million at-need children receive free and reduced lunches in this country.<sup>1</sup> Those meals provide disadvantaged children a chance to focus on learning, instead of hunger.

2. The hope is that one day those children will live out the American dream and use their education to seize better opportunities for themselves and their families.

3. However, when children are hungry at school, they cannot focus. They cannot learn. They fall behind their peers, and their odds of success later in life drops off dramatically. Hungry children are more likely to experience decreased academic performance, lower levels of concentration, behavioral issues, and illness.<sup>2</sup> School lunch programs help close the gap between children living with food insecurity and their peers.<sup>3</sup>

4. Unfortunately, bullies still steal lunch money in American schools to this day. Over the past decade, the bullies have become more sophisticated, and evolved into payment processing companies like Defendants PAMS Lunch Room LLC and PCS Revenue Control Systems, Inc. (together, “PayPAMS”).

5. Like the bullies of old, the payment processors take lunch money away from kids, and particularly low-income kids, by charging “convenience” and “service” fees at the school lunch counter (hereafter, “Junk Fees”).

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<sup>1</sup> School Nutrition Association, *School Meal Statistics*, <https://schoolnutrition.org/about-school-meals/school-meal-statistics/> (last visited Oct. 29, 2024).

<sup>2</sup> No Kid Hungry, *How Does Hunger Affect Learning?*, <https://www.nokidhungry.org/blog/how-does-hunger-affect-learning> (April 24, 2023).

<sup>3</sup> *Id.*

6. What those Junk Fees really are, however, is a means for the payment processors to inflate their bottom lines at the expense of children because, in many circumstances, *the school districts already pay these companies for their services.*

7. Not only do the Junk Fees allow PayPAMS and other payment processors to “double dip” by charging both the school district and families, the Junk Fees also prevent many children who are entitled to free and reduced lunches from being able to receive the full benefit these programs.

8. As detailed in a July 2024 study by the Consumer Financial Protection Bureau (“CFPB”), the transaction fees that PayPAMS and others charge “may send \$0.60 to payment processors for each \$1 [that low-income families] spend on school lunch.” Ex. A at p. 4.<sup>4</sup>

9. Not only do the Junk Fees disproportionately harm the working poor, the aggregate cost of Junk Fees are staggering, with the CFPB putting school lunch Junk Fees at around \$100 million each year.<sup>5</sup>

10. The \$100 million in Junk Fees represents money that could have gone to buy students food; money that parents could have kept for other expenses; or money that school districts could have redeployed for other educational purposes.

11. Junk Fees take an economic toll on American families who are just trying to pay for basic school expenses, including school lunch for kids.<sup>6</sup>

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<sup>4</sup> Exhibit A is a copy of the CFPB’s July 2024 Study *Costs of Electronic Payments in K-12 Schools* (the “CFPB Study”).

<sup>5</sup> *Id.*

<sup>6</sup> Consumer Financial Protection Bureau, *CFPB Report Highlights Junk Fees Charged by School Lunch Payment Platforms*, <https://www.consumerfinance.gov/about-us/newsroom/cfpb-report-highlights-junk-fees-charged-by-school-lunch-payment-platforms/> (July 25, 2024).

12. As President Biden explained in a recent State of the Union address, “Junk Fees may not matter to the very wealthy, but they matter to most other folks in homes like the one I grew up in, like many of you did. They add up to hundreds of dollars a month. They make it harder for you to pay your bills[.]”<sup>7</sup>

13. PayPAMS’s Junk Fee practices ensnare parents and students. Parents and caregivers cannot choose their payment platform. Fee-free options may not be meaningfully available to all families. The Junk Fees add up for families with lower incomes, and payment processors like PayPAMS face little competition.<sup>8</sup>

14. PayPAMS’s Junk Fee practices are not only wrong. They are also illegal.

15. Plaintiffs and others similarly situated paid PayPAMS’s Junk Fees. Plaintiffs Gaynela Price, Atalanta Pierre-Louis, and Jamie Dannelly bring this Class Action Complaint on behalf of themselves and all others similarly situated to obtain redress and prevent future harm.

16. Plaintiffs state the following based on personal knowledge as to facts pertaining to Plaintiffs, and based upon the investigation of counsel and information and belief as to all other matters.

### **JURISDICTION AND VENUE**

17. The Court has subject-matter jurisdiction over this action pursuant to the Class Action Fairness Act (“CAFA”), 28 U.S.C. § 1332(d), because there are at least 100 class members in the proposed class; the combined claims of the proposed class and the matter in controversy

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<sup>7</sup> The White House, *President Biden’s State of the Union Address*, <https://www.whitehouse.gov/state-of-the-union-2023/> (Feb. 7, 2023).

<sup>8</sup> Ex. A at 10.

exceeds \$5,000,000, exclusive of interest and costs; and at least two-thirds of the Class members are citizens of states different from PayPAMS's state of citizenship.

18. Minimal diversity exists for CAFA jurisdiction. Plaintiffs Gaynela Price and Jamie Dannelly are domiciled in Texas and are citizens of Texas. Plaintiff Atalanta Pierre-Louis is domiciled in Washington and is a citizen of Washington. Class members are domiciled in and citizens of various states. Defendant PAMS Lunch Room LLC ("PayPAMS LLC") is a New Jersey limited liability company with its principal place of business in New Jersey. PayPAMS LLC is a subsidiary of PCS Revenue Control Systems, Inc. ("PCS"), also a citizen of New Jersey.

19. Venue is proper in this District under 28 U.S.C. § 1391 because Defendants' headquarters are in this district, Defendants conduct business in this District, and the contract between the parties contains a choice of venue provision requiring the claims set forth herein to be litigated in this District. *See* Ex. B.<sup>9</sup>

20. PayPAMS's TOS contain a governing law provision that requires "that the laws of the State of New Jersey excluding conflict of law provisions will govern this Agreement" and that the "sole and exclusive forum for any dispute arising out of or in connection with your visit to the Site, using the services offered on the Site, our Privacy Policy or otherwise, shall be the state courts of New Jersey located in Bergen County, New Jersey or the Federal Courts for the district of New Jersey. You and PayPAMS consent to exclusive jurisdiction and venue in such courts and waive any and all claims of inconvenient forum and immunity." Ex. B (emphasis removed).

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<sup>9</sup> Exhibit B is a true and correct copy of the PayPAMS current Terms of Use ("TOS"), which were downloaded from <https://paypams.com/TermsOfUse.aspx> (last updated July 16, 2024).

**PARTIES**

21. Plaintiff Gaynela Price is a natural person living in Texas, and a citizen of Texas.

22. Plaintiff Atalanta Pierre-Louis is a natural person living in Washington, and a citizen of Washington.

23. Plaintiff Jamie Dannelly is a natural person living in Texas, and a citizen of Texas.

24. Defendant PayPAMS LLC is a New Jersey limited liability company with a principal office at 560 Sylvan Avenue, Englewood Cliffs, New Jersey 07632.

25. Defendant PCS is a member of PayPAMS LLC. PCS is a New Jersey corporation with its principal place of business in Englewood Cliffs, New Jersey.

26. Defendant PCS, according to its website, provides a “complete and fully integrated line of products and services to the K-12 market” in the area of “school food and nutrition technology.”<sup>10</sup> PayPAMS LLC is one of the “solutions” offered by PCS.

27. Does 1-10 are individuals and/or entities who operate and/or assist PayPAMS with their unlawful scheme detailed in this Complaint. Plaintiffs presently do not know the identities of Does 1-10, but will amend this pleading once their identities are learned.

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<sup>10</sup> PCS Revenue Control Systems, <https://pcsrcs.com/> (last visited Oct. 29, 2024).

## FACTUAL ALLEGATIONS

### A. **America's Free and Reduced Lunch Programs Are a Cornerstone of the American Dream, Allowing Children to Focus on Education, Not Hunger.**

28. Each day, over 20 million at-need children receive free and reduced-price lunches in this country.<sup>11</sup> And another 12 million free and reduced-price breakfasts are served each day in America's schools.<sup>12</sup>

29. Those meals provide disadvantaged children a chance to focus on learning, instead of hunger.

30. The country's free and reduced lunch program and other school meal programs began in the wake of World War II with the passage of National School Lunch Act in 1946.

31. The program, which is run by the United States Department of Agriculture ("USDA"), has been repeatedly renewed and updated over the past 78 years and plays a crucial role in reducing food insecurity among children and improving academic performance.

32. That improved academic performance gives low-income children a chance to live out the American dream and use their education to rise above the financial circumstances of their upbringing.

33. Given the critical role that these programs play in early childhood development, since at least 2010, the USDA has required that children participating in school nutrition programs "not be charged any additional fees" for the services provided in conjunction with the delivery of school lunch benefits.<sup>13</sup> Through its policy, the USDA specified "by charging fees in addition to

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<sup>11</sup> School Nutrition Association, *School Meal Statistics*, <https://schoolnutrition.org/about-school-meals/school-meal-statistics/> (last visited Oct. 29, 2024).

<sup>12</sup> *Id.*

<sup>13</sup> U.S. Department of Agriculture, Food and Nutrition Services, *Fees for Lunchroom Services*,

the regular reduced price or paid meal charge, a school is limiting access to the program and imposing an additional criterion on participants.”<sup>14</sup>

**B. The CFPB’s Bombshell Report Details How Corporate Bullies Have Infested the American School System, Taking Money Away from Kids.**

34. On July 25, 2024, the CFPB issued a report titled *Costs of Electronic Payments in K-12 Schools* that exposed the hundreds of millions of dollars in Junk Fees that payment processors have charged—and continue to charge—parents so that their kids can eat at school. A copy of the CFPB Report is attached to this Complaint as Exhibit A.

35. The CFPB found that payment processors like PayPAMS shake down over \$100 million each year from American families.<sup>15</sup>

36. The CFPB’s findings are based on data from the 300 largest school districts (covering 25,000 schools) in the United States, interviews with school officials, and interviews with representatives of the payment processor companies.<sup>16</sup>

37. The CFPB Report found that on average, families pay at least 8% of their school-lunch dollars to payment processors.

38. Critically, the CFPB Report found that the burden of these Junk Fees is not born equally *with families eligible for free and reduced-price lunch spending as much as sixty cents of every school-meal-dollar on payment processing fees.*<sup>17</sup>

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<https://www.fns.usda.gov/cn/fees-lunchroom-services> (June 14, 2021).

<sup>14</sup> *Id.*

<sup>15</sup> Ex. A at 4.

<sup>16</sup> *Id.* at 3.

<sup>17</sup> *Id.* at 25-26.



39. These payment processors market platforms that allow families to electronically load funds into an account that students can draw from to pay for school meals and other school-related expenses.

40. Districts contract with third-party payment processors with the expectation that the companies will lower school district processing costs and increase administrative efficiency.<sup>18</sup>

41. But payment processors actually increase costs to families by charging far more than their processing cost—up to nine times more, according to the CFPB<sup>19</sup>—to inflate their own profits.

42. While any individual Junk Fee may seem small, the impact on families—particularly low-income families—is significant. The profits school lunch payment processors alone make are massive, collectively costing families over \$100 million each year.<sup>20</sup>

43. Processors also generally unilaterally control fee levels and retain the ability to change them at any time. Since families can only use the payment platform their district has chosen, families cannot shop around for lower fees.

44. School meal costs can be a challenge for families; the national average meal debt for public school students is \$180.60 per child, per year.<sup>21</sup> Junk Fees imposed by payment processors increase the burden on families who may rely on low-cost school meals to satisfy their children's nutritional needs during the day.

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<sup>18</sup> *Id.* at 4.

<sup>19</sup> *Id.* at 15.

<sup>20</sup> *Id.* at 4.

<sup>21</sup> *Id.* at 20.

45. While some schools also offer free options, they often require, for example, that parents bring a check or cash to the cafeteria during working hours—without an option for families for whom visiting school during the workday is not an option. Other districts limit the use of cash, personal checks, or both, effectively forcing parents to rely on the electronic option or risk their kids going hungry during the school day.

46. Low-income families are disproportionately impacted by Junk Fees charged in connection with school meal accounts. Flat fees in particular have a regressive impact on lower-income users—particularly where the same fees are charged regardless of whether a student receives a free or reduced-price lunch. Flat transaction fees are also much more expensive for families who make deposits more frequently, compared to those who can afford to make higher deposits less often.<sup>22</sup>

**C. The United States Senate Demands an End to Junk Fee Practices.**

47. Following the CFPB Report, on September 18, 2024, eight United States Senators wrote to the Secretary of the Department of Agriculture demanding that the department “act quickly to address exorbitant school lunch fees charged by payment processors.” Ex. C.<sup>23</sup>

48. The Senators called for an end to the practice because, through these Junk Fees, payment processors “snatch[] dollars meant to pay for kids’ school lunches in order to pad their profits,” calling it “unacceptable that parents face exorbitant fees just so their children can eat school lunch.”<sup>24</sup>

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<sup>22</sup> *Id.* at 24.

<sup>23</sup> Exhibit C is a true and correct copy of the Senators’ letter and is available online at [https://www.warren.senate.gov/imo/media/doc/warren\\_fetterman\\_etc\\_letter\\_to\\_usda\\_on\\_school\\_lunch\\_payment\\_processing\\_fees\\_091824.pdf](https://www.warren.senate.gov/imo/media/doc/warren_fetterman_etc_letter_to_usda_on_school_lunch_payment_processing_fees_091824.pdf)

<sup>24</sup> *Id.* at 1.

**D. PayPAMS Continues to Exploit American Families at the School Lunch Counter.**

49. PayPAMS is one of the largest payment processors in the country, covering over 1,500 schools and over one million students.

50. PayPAMS also engages in each of the industry-wide problematic practices described in Paragraphs 1 to 45, above.

51. Despite the USDA's, CFPB's and the Senate's warnings, PayPAMS continues to charge school districts for its services while double dipping by collecting Junk Fees from families across the country.

**1. PayPAMS Sets the Fee Amounts and Decides How to Describe Those Fees.**

52. PayPAMS enters into Services Agreements with individual school districts to provide a user-facing payment portal for parents to prepay for their kids' school food services. Often this is for lunch, but other times—including for children on otherwise free and reduced lunch programs—it is so that kids can buy items that are in addition to lunch, such as breakfast, snacks, or a drink.

53. In the Services Agreements with schools, PayPAMS contracts to operate a website through which parents can make prepayments to the school for meals.

54. In the Service Agreements, school districts generally agree to pay PayPAMS set amounts for its services. For example, since at least 2016, PCS has charged California's Sweetwater Union High School District approximately \$22,000 per year just to provide technical support for its processing systems, including PayPAMS.

55. Additionally, the Service Agreements also authorize PayPAMS to charge parents fees on a per-transaction basis. However, PayPAMS maintains unilateral control over the parent-facing fee structure and disclosures, and in practice, this discretion is abused to inflate prices.

56. For example, the CFPB found that, at the time it was conducting its research, PayPAMS charged consumers fees of between approximately \$1.95 to \$2.40 per transaction regardless of transaction amount or type, when in general, the cost to a payment processors on a credit, debit, or prepaid card transaction is around 1.53% of the transaction, and between \$0.26 to \$0.50 per transaction for an ACH transfer.<sup>25</sup>

57. In concrete terms, this means that if a low-income single parent wanted to add \$25 to her child's lunch account at a \$1.95-per-transaction-school, that the transaction would cost PayPAMS about \$0.38 cents but would net PayPAMS about \$1.57 on top of its costs on the transaction or a profit rate of over five times the cost of the transfer.

58. In many instances, PayPAMS's school specific contracts are even worse than what the CFPB Report found. For example, PayPAMS's Services Agreement with Texas's Arlington Independent School District ("Arlington ISD") provides that it can charge a 5.6% fee per transaction, but that it "reserve[d] the right to modify the above compensation provisions at any time."

59. This would mean that on a \$50 transaction, PayPAMS would charge about \$2.80 in Junk Fees and make about \$2.42, or more than seven times its costs.

60. PayPAMS charges inflated Junk Fees in other school districts, too.

61. In Florida's Miami-Dade County Public Schools and Oregon's Multnomah Education Service District, for example, PayPAMS charges per-transaction fees of \$1.95.

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<sup>25</sup> Ex. A at 15.

62. In parts of Texas's Tarrant County, for example, PayPAMS charges \$2.40 to \$2.95 per transaction. These fees far outstrip PayPAMS's costs of providing a payment platform and processing transactions, generating profit for PayPAMS out of families' school-lunch dollars.

63. The profits are not limited to fees. PayPAMS can also earn interest accumulated on funds that parents pay to PayPAMS while those funds remain in the child's PayPAMS account, including after the child is no longer enrolled in the school district.

64. Despite the CFPB's and the Senate's calls to eliminate these Junk Fees, PayPAMS continues to exploit parents and children to this day.

**2. PayPAMS's Contracts with Parents Only Authorizes PayPAMS to Charge for the Actual Costs of the Service.**

65. Parents whose schools contract with PayPAMS are strongly encouraged, if not required, to use the PayPAMS system for payments to the school to participate in any school lunch program.

66. Districts direct parents to the PayPAMS website to create an account, and as part of the account setup process, parents are forced to agree to the PayPAMS TOS. A copy of the current PayPAMS TOS is attached as Exhibit B.

67. The TOS is an agreement solely between the parents (like Plaintiffs) and PayPAMS. The school district is not a party.

68. The TOS state that parents "may be required to pay a fee," which PayPAMS represents "covers the *cost* of processing the payment transactions, including third party payment processors' fees, our *costs* to operate and maintain the Site, and related *costs* we incur to provide the services." (Emphasis added.)

69. This statement is misleading because, as detailed in Paragraphs 34 to 64, above, the actual cost to PayPAMS to process electronic transactions is well below the amount of the Junk

Fee charged, and PayPAMS retains the profit for itself, instead of providing it to the school district to fund other educational expenses.

**3. The PayPAMS-to-Parent Payment Interface Also Falsely Describes the Junk Fees as “Costs.”**

70. The user interface PayPAMS displays to parents replicates the deceptive statements regarding the Junk Fees being “costs.”

71. For example, PayPAMS’s site for Arlington ISD states that the “service fee” of \$2.95 per transaction “covers the *cost* of processing the payment transactions and maintaining the website.” (Emphasis added.)

72. PayPAMS’s site for Miami-Dade County Public Schools, for example, states in English and Spanish that the \$2.95 per-transaction fee “covers the cost of maintaining the website.”

73. In fact, as described above, the Junk Fees charged by PayPAMS far exceed the indicated costs, instead creating a profit center that generates tens of millions of dollars each year for PayPAMS.

**E. Plaintiffs’ Experiences with PayPAMS.**

**1. Plaintiff Gaynela Price**

74. From about 2007 through 2023, Plaintiff Gaynela Price had a child attending school in Texas’s Arlington Independent School District.

75. Plaintiff Price created an online account with PayPAMS in or about 2010.

76. As a condition to create her account, PayPAMS required Plaintiff Price to agree to PayPAMS’s standard TOS.

77. At that time, PayPAMS’s TOS stated that PayPAMS’s fee “cover[ed] the cost of processing the payment transactions,” or included substantially similar language.

78. From about 2010 through May 2023, Plaintiff Price regularly used PayPAMS to prepay for school meals for her children.

79. Each time Plaintiff Price used PayPAMS to prepay for school meals, she paid a fee to PayPAMS.

80. Based on their household income, at certain times, Plaintiff Price's children were eligible to receive school lunch at a reduced price while attending elementary school and junior high school.

81. The fee charged by PayPAMS increased throughout her childrens' enrollment in Arlington Independent School District schools. When her youngest child graduated high school in or about May 2023, the fee was approximately \$2.95 per transaction.

82. At that time, Plaintiff Price used PayPAMS approximately every one to three weeks to prepay in amounts ranging from \$20 to \$30.

83. Plaintiff Price understood the PayPAMS fee to be mandatory.

84. Plaintiff Price did not know that the fees PayPAMS charged her far exceeded PayPAMS's costs to process the transactions.

**2. Plaintiff Atalanta Pierre-Louis**

85. Within the past six years, Plaintiff Atalanta Pierre-Louis's two children attended Washington's Seattle Public School District.

86. When Plaintiff Pierre-Louis created her online account with PayPAMS, PayPAMS required Plaintiff Pierre-Louis to agree to PayPAMS's standard TOS.

87. At that time, PayPAMS's TOS stated that PayPAMS's fee "cover[ed] the cost of processing the payment transactions," or included substantially similar language.

88. Until approximately May 2024, Plaintiff Pierre-Louis regularly used PayPAMS to prepay for school meals for her children.

89. Plaintiff Pierre-Louis used PayPAMS approximately every two weeks to prepay in amounts generally ranging from \$20 to \$40 per child.

90. Each time Plaintiff Pierre-Louis used PayPAMS to prepay for school meals, she paid a fee to PayPAMS.

91. The fee charged by PayPAMS increased throughout her children's enrollment in the Seattle Public School District.

92. Plaintiff Pierre-Louis understood the PayPAMS fee to be mandatory.

93. Based on PayPAMS statements in its TOS and in the online payment processing interface, Plaintiff Pierre-Louis understood that the fees she was being charged were for the actual costs of the service and did not know or understand that in reality, the fees primarily consisted of large margins of profit for PayPAMS.

### **3. Plaintiff Jamie Dannelly**

94. Plaintiff Jamie Dannelly's two children both currently attend school in the Arlington Independent School District.

95. Plaintiff Dannelly created an online account with PayPAMS in about 2022.

96. As a condition to create her account, PayPAMS required Plaintiff Dannelly to agree to PayPAMS's standard Terms of Use.

97. When she created her account and while using PayPAMS, PayPAMS's Terms of Use stated that PayPAMS's fee "cover[ed] the cost of processing the payment transactions" or included substantially similar language.

98. Since about 2022, Plaintiff Dannelly has regularly used PayPAMS to prepay for school meals for both of her children.



99. Beginning about January 2024, Plaintiff Dannelly has used PayPAMS to automatically transfer funds from her bank account via ACH about every two weeks to prepay for school meals for her son.

100. Each time Plaintiff Dannelly uses PayPAMS to prepay for school meals, she pays a fee to PayPAMS.

101. The fee charged by PayPAMS has increased since she initially created the account. In October 2024, PayPAMS has charged her approximately \$2.95 per transaction.

102. Plaintiff Dannelly understood the PayPAMS fee to be mandatory.

103. Plaintiff Dannelly understood that the fees she was being charged were for the actual costs of the service and did not know or understand that in reality, the fees far exceeded PayPAMS's costs to process the transactions.

#### **CLASS ACTION ALLEGATIONS**

104. Pursuant to Federal Rule of Civil Procedure 23(a), (b)(2), and (b)(3), Plaintiffs bring this class action on behalf of themselves and the following Class (hereinafter, the "Class"):

All persons who paid a transaction related fee to PayPAMS in the six years preceding the filing of the Complaint.

105. Excluded from the Class are PayPAMS; any entity in which PayPAMS has a controlling interest; PayPAMS's legal representatives, officers, directors, employees, assigns, and successors; the judge to whom the case is assigned, his or her court staff and law clerks, all members of the judge's immediate family, and Class Counsel.

106. PayPAMS's TOS dictate that New Jersey law applies. The statute of limitations is six years for the New Jersey Consumer Fraud Act ("NJCFA"), the New Jersey Truth-in-Consumer Warranty and Notice Act ("TCCWNA") and for Breach of Contract.

107. The Class members can be identified and ascertained from PayPAMS's business records, which will reflect which customers were charged and paid fees to PayPAMS. PayPAMS's records are computerized and will reflect which customers were charged and paid a Junk Fee to PayPAMS. Thus, Plaintiffs' proposed class is ascertainable.

108. **Numerosity.** The members of the Class are so numerous and geographically diverse that joinder would be impracticable. Plaintiffs do not know the exact size of the Class because this information is exclusively within PayPAMS's control. However, based on the nature of the commerce involved and the size and scope of PayPAMS's business, Plaintiffs believe the Class likely numbers in the hundreds of thousands.

109. **Typicality.** Plaintiffs' claims are typical of the other Class members' claims because they were all subject to a standard form Terms of Use agreement and were charged the same unlawful Junk Fee by PayPAMS. They seek identical legal remedies under identical legal theories. Plaintiffs' claims do not conflict with the interests of any other members of the Class.

110. **Commonality and Predominance.** Common questions of law and fact exist and predominate across the Class, including, among others:

- a. Whether PayPAMS's description of its Junk Fees are unfair and deceptive;
- b. Whether PayPAMS's Junk Fees are mostly profit;
- c. Whether the aforementioned violations of the NJCFA constitute violations of the New Jersey Truth-in-Consumer Contract Warranty and Notice Act, N.J.S.A. § 56:12-14 *et seq.*, specifically N.J.S.A. § 56:12-15;
- d. Whether PayPAMS violated New Jersey law by concealing that its fees were not reasonably related to its costs;

- e. Whether the contracts between PayPAMS and the parents (including Plaintiffs) was breached;
- f. Whether PayPAMS's actions have proximately caused an ascertainable loss to Plaintiffs and member of the Class and, if so, the proper measure of damages; and
- g. Whether Plaintiffs and the Class are entitled to injunctive relief.

111. **Adequacy.** Plaintiffs will fairly and adequately represent and protect the interests of the Class members because they possess no interests antagonistic to other Class members and the adjudication of their claims will decide identical issues. Plaintiffs have retained competent and experienced counsel to represent Plaintiffs and the proposed Class. Whether the NJCF and TCCWNA were violated and PayPAMS breached its contract with parents involve predominating common issues that will be decided for all consumers who agreed to PayPAMS's similar or identical Terms of Use. There is nothing peculiar about the Plaintiffs' situations that would make them inadequate class representatives.

112. **Superiority.** A class action is superior to other methods for the fair and efficient adjudication of this controversy because the damages suffered by each individual Class member are modest, compared to the expense and burden of individual litigation. It would be impracticable for each Class member to seek redress individually for the wrongful conduct alleged. It would be difficult, if not impossible, for Class members to find counsel and recover damages on an individual basis for such small claims. There will be no difficulty in the management of this litigation as a class action as the legal issues affect a standardized pattern of conduct by PayPAMS and class actions are commonly used in such circumstances. Practically speaking, a class action is the only viable means of adjudicating their rights. Further, since joinder is impracticable, a class

action will allow for orderly and expeditious administration of the Class’s claims and will foster economies of time, effort, and expense.

113. PayPAMS also acted and refused to act on grounds generally applicable to the Class, thereby making appropriate declaratory and injunctive relief for the Class as a whole. Separate actions would create the risk of inconsistent or varying adjudications with respect to individual Class members.

**COUNT I**  
**Violation of the New Jersey Consumer Fraud Act**  
**N.J.S.A. § 56:8-2.1, *et seq.***

114. Plaintiffs restate Paragraphs 1 through 113 as though set forth in full herein.

115. Plaintiffs brings this claim on behalf of themselves and the Class.

116. The NJCFA prohibits the act, use, or employment by any person of any commercial practice that is unconscionable or abusive, deception, fraud, false pretense, false promise, misrepresentation, or the knowing concealment, suppression, or omission of any material fact with intent that others rely on such concealment, suppression or omission, in connection with the sale or advertisement of any merchandise.

117. N.J.S.A. § 56:8-2 declares:

The act, use or employment by any person of any unconscionable commercial practice, deception, fraud, false pretense, false promise, misrepresentation, or the knowing, concealment, suppression, or omission of any material fact with intent that others rely upon such concealment, suppression or omission, in connection with the sale or advertisement of any merchandise or real estate, or with the subsequent performance of such person as aforesaid, whether or not any person has in fact been misled, deceived or damaged thereby, is declared to be an unlawful practice; [...].

118. Plaintiffs and Class members are both “persons” and “consumers” pursuant to N.J.S.A. § 56:8-1(d), as they and all Class members are natural persons as defined therein.

119. PayPAMS is a “person” within the meaning of N.J.S.A. § 56:8-1(d).

120. PayPAMS's payment Platform is "merchandise" within the meaning of N.J.S.A. § 56:8-1(c) because it is offered directly or indirectly to the public for sale as defined therein.

121. PayPAMS engages in the sale of merchandise under N.J.S.A. § 56:8-1(e), as it offers its services directly or indirectly to the public for sale.

122. PayPAMS engaged in an unconscionable, unfair, deceptive, fraudulent and/or misleading pattern and practice by making misleading or false statements regarding fees charged to Plaintiffs and the putative Class members.

123. PayPAMS violated the NJCFA when it misrepresented the purpose of the fees it charges to use its platform. PayPAMS represents that its fees cover the "cost" of processing payment transactions and running its website. That statement is a false and deceptive misrepresentation because the cost of processing payment transactions is well below the amount of the fee charged. Thus, the Junk Fees it charges for electronic transactions is mostly profit, which PayPAMS keeps.

124. PayPAMS also violates the NJCFA when it fails to disclose and conceals from Plaintiffs and Class members material facts including that (1) the amount of the fees it charges bear no reasonable relationship to the costs it incurs to provide electronic payment processing services and maintain its website, and are far in excess of the cost, if any, incurred by actual services performed in processing deposits into Plaintiffs' and the Class members' accounts; (2) that the fees it charges parents are primarily for profit; and (3) that it also charges the school districts for its services.

125. PayPAMS's omissions were knowing and willful because PayPAMS knows its own costs and profits.

126. PayPAMS’s omissions were material because reasonable consumers would not choose to pay fees knowing that they are well in excess of cost, contrary to PayPAMS’s representations. PayPAMS intended that Plaintiffs and the Class rely on its material omissions.

127. The scheme perpetrated by PayPAMS in the way it assessed its Junk Fees was deceptive and unfair, and its explanation for the Junk Fees it charged was false and/or misleading. PayPAMS’s conduct lacks honesty in fact, fair dealing, and good faith and has the capacity to and did mislead consumers like Plaintiffs that were acting reasonably.

128. PayPAMS’s junk fees are also unfair and unconscionable under the NJCFA because they violate federal policy as articulated by the USDA.

129. USDA is responsible for administering the National School Lunch Program under the Richard B. Russell National School Lunch Act, 42 U.S.C. § 1751 *et seq.* (“National School Lunch Act”). USDA regularly issues policy memoranda, regulations, and other guidance materials relating to National School Lunch Act requirements.

130. In 2010, USDA issued guidance stating that “[c]hildren participating in School Nutrition Programs shall not be charged any additional fees for supervision or other services provided in conjunction with the delivery of benefits under these programs. . . . By charging fees in addition to the regular reduced price or paid meal charge, a school is limiting access to the program and imposing an additional criterion for participation,” in violation of the National School Lunch Act.<sup>26</sup>

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<sup>26</sup> See U.S. Department of Agriculture, Food and Nutrition Services, *Online Fees in the School Meal Programs*, <https://fns-prod.azureedge.us/sites/default/files/cn/SP02-2015os.pdf> (Oct. 8, 2014).

131. USDA updated that guidance in 2014 to state that School Food Authorities, i.e., school districts, could “charge a fee for these types of services” so long as the School Food Authorities offer a method to add money to the account that does not incur fees.<sup>27</sup>

132. Under USDA regulations, a “School Food Authority” is “the governing body which is responsible for the administration of one or more schools.” 7 C.F.R. § 210.2.

133. PayPAMS is not a “School Food Authority.”

134. While the 2014 Guidance allows a School Food Authority to charge a fee, nothing in the 2014 Guidance extends that permission to third party service providers like PayPAMS.

135. PayPAMS’s Junk Fees are not charged by a School Food Authority, nor are they passed on to or retained by a School Food Authority. PayPAMS brazenly admits that it keeps its Junk Fees for itself. This practice violates USDA policy stating that children participating in school nutrition programs “*shall not* be charged” additional fees, because such fees limit access to the program and impose additional criteria for participation.

136. An “unconscionable act” under the NJCFA lacks good faith, honesty in fact, and observance of fair dealing, and encompasses conduct more expansive than deception alone. Charging Junk Fees in violation of federal policy is an “unconscionable commercial practice” in violation of the NJCFA. This is particularly so because PayPAMS does so under the imprimatur of the school districts, giving consumers the false impression that its Junk Fees are permissible, when in fact, they violate federal policy.

137. PayPAMS’s fee practices described above contravene the New Jersey Consumer Fraud Act, N.J.S.A. § 56:8-1, *et seq.*

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<sup>27</sup> *Id.*

138. Plaintiffs and the Class members were damaged and suffered ascertainable losses when they paid fees to PayPAMS without full knowledge of the relevant facts. Had PayPAMS not misled Plaintiffs and the Class as to the true nature of its fees, and concealed material information from them, Plaintiffs and the Class would not have paid PayPAMS's fees.

139. Plaintiffs and the Class members are entitled to "a refund of all moneys acquired by means of" the above-described practices. N.S.J.A. §§ 56:8-2.11, 2.12.

140. As a result of PayPAMS's above-mentioned violations, Plaintiffs suffered an ascertainable loss of an amount no less than the amount of their payments of fees to PayPAMS.

141. But for PayPAMS's unconscionable acts and misrepresentations in violation of the NJCFA, Plaintiffs would not have suffered any damage. Said another way, Plaintiffs' damages are the direct and proximate result of PayPAMS's violations of the NJCFA, in that their loss flowed directly from PayPAMS's acts.

142. Plaintiffs and the Class seek all damages available under law, including actual damages, treble damages, as well as attorneys' fees and costs. N.J.S.A. § 56:8-19; § 56:12-17.

## **COUNT II**

### **Violation of the New Jersey Truth-in-Consumer Contract, Warranty and Notice Act, ("TCCWNA") N.J.S.A. § 56:12-14 *et seq.***

143. Plaintiffs restate Paragraphs 1 through 142 as though set forth in full herein.

144. Plaintiffs bring this claim on behalf of themselves and the Class.

145. The New Jersey Truth in Consumer Contract, Warranty and Notice Act ("TCCWNA"), N.J.S.A. § 56:12-14 *et seq.*, prohibits sellers from "offer[ing] to any consumer or prospective consumer or enter[ing] into any written consumer contract, or giv[ing] or display[ing] any written consumer warranty, notice, or sign . . . which includes any provision that violates any



clearly established legal right of a consumer or responsibility of a seller . . . as established by State or Federal Law.” N.J.S.A. § 56:12-15.

146. Plaintiffs and Class members are “consumers” within the meaning of TCCWNA.

147. PayPAMS is a “seller” within the meaning of TCCWNA.

148. PayPAMS’s Terms of Use is both a written “consumer contract” and a notice within the meaning of TCCWNA.

149. PayPAMS gave, displayed, offered, and/or entered into the PayPAMS Terms of Use with Plaintiffs and the Class members.

150. PayPAMS violated the TCCWNA when it misrepresented the purpose of the fees it charges to use its platform. PayPAMS represents that its fees cover the cost of processing payment transactions and running its website. That statement is a misrepresentation because the cost of processing payment transactions is well below the amount of the fee charged. Thus, the Junk Fees it charges for electronic transactions is mostly profit, which PayPAMS keeps.

151. PayPAMS also violated the TCCWNA when it failed to disclose and concealed from Plaintiffs and the Class members material facts including that (1) the amount of the fees it charges bears no reasonable relationship to the costs it incurs to provide electronic payment processing services, and was far in excess of the cost, if any, incurred by actual services performed in processing deposits into Plaintiffs’ and the Class members’ accounts; (2) that the fees it charges parents are primarily for profit; and (3) that it also charges the school districts for its services.

152. By violating the TCCWNA, PayPAMS violated Plaintiffs’ and the Class members’ clearly established rights. PayPAMS has a clearly established responsibility under the TCCWNA to provide clear and accurate disclosures of its fees and not to intentionally withhold or conceal material information.

153. Plaintiffs and the Class members suffered harm as a result of PayPAMS's inclusion of prohibited language by PayPAMS in its TOS, misrepresentations and omissions, and therefore they are "aggrieved consumers" within the meaning of N.J.S.A. § 56:12-17.

154. Specifically, Plaintiff Price is an aggrieved consumer because she repeatedly incurred monetary damages in loss of approximately \$2.95 each time she deposited funds into her children's school lunch accounts using PayPAMS, as a consequence of PayPAMS's inclusion of prohibited provisions in the TOS and other writings offered to and entered into by Plaintiff.

155. Plaintiff Pierre-Louis is also an aggrieved consumer because she repeatedly incurred monetary damages in loss in the amount of fees charged by PayPAMS each time she deposited funds into her children's school lunch accounts using PayPAMS, as a consequence of PayPAMS's inclusion of prohibited provisions in the TOS and other writings offered to and entered into by Plaintiff.

156. Plaintiff Dannelly is also an aggrieved consumer because she repeatedly incurred monetary damages in loss up to about \$2.95 each time she deposited funds into her children's school lunch accounts using PayPAMS, as a consequence of PayPAMS's inclusion of prohibited provisions in the TOS and other writings offered to and entered into by Plaintiff.

157. As a result of PayPAMS's violations of TCCWNA as alleged herein, Plaintiffs and the putative Class members are entitled to damages pursuant to N.J.S.A. § 56:12-17 which include statutory damages of not less than \$100 per violation, together with reasonable attorney fees and costs.

158. Plaintiffs and the Class members also seek an order enjoining PayPAMS from continuing to misrepresent the nature of its fees and withhold material information from consumers. Plaintiffs and the Class are "interested person[s]" entitled to seek injunctive relief

because they suffered harm when PayPAMS entered into a written consumer contract with them that contained language in violation of the TCCWNA.

**COUNT III**  
**Breach of Contract**

159. Plaintiffs restate Paragraphs 1 through 158 as though set forth in full herein.

160. Plaintiffs bring this claim on behalf of themselves and the Class.

161. Plaintiffs and the Class members contracted with PayPAMS for use of its electronic payment platform. A copy of the applicable contract is attached as Exhibit B.

162. Plaintiffs and the Class members gave consideration and performed all conditions precedent to filing this action.

163. PayPAMS promised Plaintiffs and the Class members that all fees paid to PayPAMS in connection with electronic transactions went to the costs of processing payments and maintaining its website. *Id.* By retaining any portion of the fees as profit, PayPAMS breached its contracts with Plaintiffs and the Class members.

164. As a direct and proximate result of PayPAMS's material breach, Plaintiffs and the Class members were harmed. Plaintiffs and the Class members suffered actual damages as a result of PayPAMS's breach. Plaintiffs and the putative Class are entitled to a refund of the amount paid as "Service Fees," "Convenience Fees," and similarly denominated fees.

165. Plaintiffs and the Class members seek all damages available under law.

**COUNT IV**  
**Unjust Enrichment**

166. Plaintiffs restate Paragraphs 1 through 165 as though set forth in full herein.

167. Plaintiffs bring this claim on behalf of themselves and the Class.

168. Plaintiffs assert this unjust enrichment claim in the alternative to the breach of contract claim alleged in Count III.

169. PayPAMS received benefits from Plaintiffs and the Class in the form of fees paid to PayPAMS.

170. It would be unjust to allow PayPAMS to retain the benefits received from Plaintiffs and the Class because PayPAMS misrepresented the nature and purpose of the fees it charged and received.

171. At most, PayPAMS is entitled to receive only the portion of any fee that was actually used to cover processing costs (far less than the amount of the fees) and the cost of maintaining its website. Any excess must be returned to Plaintiffs and the Class members.

172. Plaintiffs and the Class members seek restitution of the benefits unjustly retained by PayPAMS.

### **PRAYER FOR RELIEF**

WHEREFORE, Plaintiffs pray that the Court enter an order:

173. Certifying this case as a class action under Federal Rule of Civil Procedure 23, appointing Plaintiffs as Class Representatives, and appointing Plaintiffs' counsel as Class Counsel;

174. Declaring PayPAMS responsible for notifying all Class members;

175. Imposing injunctive relief prohibiting PayPAMS from future violations of the NJCFA and the TCCWNA and requiring PayPAMS to comply with these statutes and regulations;

176. Declaring that PayPAMS is in breach of its contracts with Plaintiffs and the Class members and awarding compensatory damages;

177. Awarding disgorgement of all the Junk Fees collected and retained from Plaintiffs and the Class members; awarding actual damages, punitive damages, treble damages pursuant to

N.J.S.A. § 56:8-19; actual and statutory damages pursuant to N.J.S.A. § 56:12-17; awarding reasonable attorneys' fees and costs of under N.J.S.A. § 56:8-19, N.J.S.A. § 56:12-17;

178. Awarding pre-judgment and post-judgment interest as available under law; and

179. Awarding any other relief as the Court deems equitable and just.

### **DEMAND FOR JURY TRIAL**

Plaintiffs on behalf of themselves and the putative class hereby demand a trial by jury of all issues so triable.

Dated: October 30, 2024

/s/ Esther Berezofsky

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# **EXHIBIT A**

CONSUMER FINANCIAL PROTECTION BUREAU | JULY 2024

# Costs of Electronic Payments in K-12 Schools

Issue Spotlight



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# 1. Executive Summary

As of Fall 2023, more than 52 million students were enrolled at public schools throughout the United States.<sup>1</sup> Over a school year, students incur a series of expenses for school meals, bus passes, after-school programs, and technology and materials needed for class, among other costs. As the broader payments ecosystem continues shifting towards more digital options in the wake of the COVID-19 pandemic, school districts are increasingly contracting with payment processing companies to provide an avenue for families to pay school-related expenses online. While convenient for both families and school districts, electronic payment options present new costs and challenges for the families using them.

For example, in many schools, families can electronically load funds into an account that students can draw from to pay for school meals. Although federal policy specifies that schools must provide a fee-free option for school lunch payment, many payment processors charge a transaction fee each time a user electronically adds money to a student's school cafeteria account.<sup>2</sup> Payment processing companies have broad control over fee rates, though payment companies maintain that school districts have the opportunity to negotiate these rates during the contracting process. Some districts cover part or all of this fee, but it is frequently paid by the families who make electronic payments. Over the course of a school year, transaction fees for electronic payments in and outside of the lunchroom can significantly increase a family's total spending on school-related costs and may disproportionately impact families with lower incomes.<sup>3</sup>

To better understand the emergence of electronic payment processors in K-12 schools, the CFPB analyzed publicly available information from the 300 largest public school districts in the U.S. and held unstructured interviews with public school officials and companies offering these payment platforms. The sample of school districts covers more than 16.7 million students across more than 25,000 schools. This spotlight highlights average costs and potential risks for families using electronic payment platforms to add money to their child's school lunch account and

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<sup>1</sup> U.S. Department of Education, Institute of Education Sciences, National Center for Education Statistics, *Enrollment in public elementary and secondary schools*, (retrieved April 2024), [https://nces.ed.gov/programs/digest/d13/tables/dt13\\_203.20.asp](https://nces.ed.gov/programs/digest/d13/tables/dt13_203.20.asp).

<sup>2</sup> The requirement extends to schools participating in the U.S. Department of Agriculture's National School Meal Program. As of February 2024, the National School Lunch Program served 30 million students daily in public and nonprofit private schools, and residential child care institutions, *See* U.S. Department of Agriculture, Food and Nutrition Service, National School Lunch Program, (retrieved June 2024), <https://www.fns.usda.gov/nslnp>; *See* U.S. Department of Agriculture, Food and Nutrition Service, Child Nutrition Tables, (last updated February 2024, retrieved February 2024), <https://www.fns.usda.gov/pd/child-nutrition-tables>.

<sup>3</sup> Consumer Financial Protection Bureau, *Supervisory Highlights: Junk Fees Update Special Edition, Issue 31, Fall 2023* (Oct. 2023), <https://www.consumerfinance.gov/data-research/research-reports/supervisory-highlights-junk-fees-update-special-edition-issue-31-fall-2023/>, at 15.

reviews the market size and landscape of companies offering them, building upon initial observations referenced in the Fall 2023 edition of Supervisory Highlights.<sup>4</sup>

## Key Findings

- **School districts are increasingly shifting to cashless operations.** This shift is partly to prioritize administrative savings and efficiency and partly due to a larger shift towards digital payments. Many schools, including 87 percent of sampled school districts, contract with payment processors to enable electronic payments for expenses like school lunch costs.
- **School lunch payment processors typically charge fees to add money to a student's school lunch account, which collectively can cost families upwards of \$100 million each year.** The CFPB observed that school lunch payment processors within the sample levy transaction fees of \$2.37 or, separately, 4.4 percent of the total transaction, on average, each time money is added into a payment account. Families may also incur similar transaction fees when paying for other school-related expenses online. Previously, the CFPB's Fall 2023 edition of Supervisory Highlights noted that payment processors have maintained payment platforms on which consumers may have paid fees that they would not have paid had the consumers understood that they were entitled to free options.
- **Over the course of a school year, families with children eligible for means-tested reduced price lunch programs may send \$0.60 to payment processors for each \$1 they spend on school lunch.** Families making online payments every other week, an industry-estimated frequency that CFPB interviews indicate may be conservative in some cases, can incur as much as \$42 in transaction fees over the course of a school year. For families paying full price for lunch, every \$1 they spend to pay for their child's lunch incurs \$0.08 in transaction fees. For those paying reduced price for lunch, this ratio grows to \$0.60 for every \$1 spent. Additional fees may further increase the cost of using electronic payment platforms.
- **Fee-free options may not be meaningfully available to all families, leading to fees that can be burdensome and difficult to avoid, particularly for low-income families.** These fees, which are most often a flat amount, may be disproportionately burdening lower-income families making smaller payments more frequently, compared to families who can afford to load a substantial amount into their child's account at one time. Both school districts and processors frequently fail to post the availability of free payment methods, and further, free options may be more burdensome than electronic options.

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<sup>4</sup> Ibid.

- **Three companies (MySchoolBucks, SchoolCafé, and LINQ Connect) dominate the school lunch payments market.** While more than 20 unique companies offer these services to school districts nationwide, 67 percent of enrolled students in the sample are served by just three market leaders.
- **Complex payment processor company structures and contracts may insulate companies from competition and make school districts less likely to negotiate fees for these services.** For school districts considering contracts, payment platforms may be just one element of a larger contract for back-end school nutrition or information management services.
- **Consumers cannot choose their payment platform.** Because contracts are determined at a school-district level, families have no choice over which company they must use to add funds into online student lunch accounts. As a result, it may be especially difficult for them to avoid harmful practices, including those that may violate federal consumer protection law.

## 2. Background

As digital payments have become increasingly popular across sectors, more and more school districts around the country are offering parents and caregivers the ability to pay school-related expenses, including for field trips, athletics, and school lunches, online.<sup>5</sup>

Families can typically access online payment portals through a link on their school district website, or through the company's own webpage or app. Depending on the district, schools may partner with one payment processor for all electronic payments or may have one platform for school meal payments, for example, and another for other school-related payments.

School districts contract with third-party payment processing companies with the expectation that they will lower school district processing costs and increase administrative efficiency, accuracy, and security.<sup>6</sup> For example, digital payment information can automatically be integrated with student information, potentially minimizing errors from manually applying funds to a student's account balance. Many payment processors also offer electronic solutions that purport to lessen administrative burden on school district staff, such as automated messaging features to parents and caregivers about unpaid academic fees or negative lunch account balances.

Despite these perceived benefits, there are also risks related to accepting electronic payments. For example, families typically have to pay fees to make electronic transactions or may have difficulty accessing timely refunds of unspent funds. Some school districts may also limit their acceptance of other payment methods like cash, even though the ability to make cash payments may remain preferable or necessary for some families.<sup>7</sup>

Due to both the administrative efficiencies offered by online payment platforms and the high volume of daily transactions, school lunch programs present a clear opportunity to explore online payments in K-12 schools. This issue spotlight primarily focuses on the companies

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<sup>5</sup> Sometimes school districts will partner with multiple companies, often having one contract with a payment processor that covers school lunch and other food-related payments and a separate contract with a different payment processor that covers other academic or extracurricular fees.

<sup>6</sup> The CFPB conducted a series of unstructured interviews with school district officials around the country from February through March 2024. In these interviews, school district officials mentioned consistently choosing to contract with payment processors that enable online payments for school lunches due to the perceived increase in efficiency, accuracy, and security online platforms would provide. School districts officials indicated they may contract with payment processors to alleviate the need for employees to handle cash or checks and mitigate the perceived risk of fraud or theft.

<sup>7</sup> Federal Reserve Bank of Boston, *A fatal cash crash? Conditions were ripe for it after the pandemic hit, but it didn't happen*, Lindsay, Jay, (November 2, 2023), <https://www.bostonfed.org/news-and-events/news/2023/11/cash-crash-pandemic-increasing-credit-card-use-diary-of-consumer-payment-choice.aspx>.

processing electronic payments for school lunches and the potential risks they pose to school districts and families.

## 2.1 School Lunch Payments

Most public schools participate in the National School Lunch Program (NSLP) and the School Breakfast Program (SBP), which are both federally assisted meal programs from the U.S. Department of Agriculture (USDA) that provide low-cost, or free meals to K-12 students.<sup>8</sup> Each day, on average, 19 million students participate in the free lunch program, 1.1 million in the reduced price lunch program, and 8.5 million in the full-price lunch program at public and private schools throughout the country.<sup>9</sup> Families with incomes at or below 130 percent of the federal poverty line are eligible for free lunch, and those with incomes between 130 and 185 percent are eligible for reduced price lunch.<sup>10</sup>

Participation in the free and reduced price meal programs may not always fully reflect a student's ability to afford food or cover the number of meals needed in a day.<sup>11</sup> As such, students who need lower-cost lunch options but do not participate in the free or reduced price meal programs as well as those who receive free or reduced price meals may still need to pay for food at school, potentially using a payment platform.

Nationwide, the average price of a middle school lunch is \$3.00, or \$0.40 for those participating in the reduced price lunch program.<sup>12</sup> A family with two children paying full price for lunch at

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<sup>8</sup> 88 percent of public schools in the country participate in the USDA School Meal Program, as of October 2022, estimated by the U.S. Department of Education's National Center for Education Statistics in their School Pulse Survey. The same survey found that 69 percent of public schools report a majority of their students as participating in the USDA School Meal Program. See National Center for Education Statistics, *School Pulse Panel*, (retrieved February 2024), <https://ies.ed.gov/schoolsurvey/spp/>; U.S. Department of Agriculture, Food and Nutrition Service, *National School Lunch Program (NSLP) Fact Sheet*, (last updated April 2023, retrieved February 2024), <https://www.fns.usda.gov/nslp/nslp-fact-sheet>.

<sup>9</sup> As of 2022, around 90,000 schools participated in the National School Lunch Program and/or the School Breakfast Program, with many schools participating in both. Of participating schools, 4% of those participating in the NSLP are private schools and 3% of those participating in SBP are private. See U.S. Department of Agriculture, Food and Nutrition Service, *Child Nutrition Tables*, (last updated February 2024, retrieved February 2024), <https://www.fns.usda.gov/pd/child-nutrition-tables>; Congressional Research Service, *School Meals and Other Child Nutrition Programs: Background and Funding*, (accessed Jun. 12, 2024), <https://crsreports.congress.gov/product/pdf/R/R46234>.

<sup>10</sup> U.S. Department of Agriculture, Economic Research Service, *Child Nutrition Programs: National School Lunch Program*, (accessed Mar. 4, 2024), <https://www.ers.usda.gov/topics/food-nutrition-assistance/child-nutrition-programs/national-school-lunch-program/>.

<sup>11</sup> By some estimates, eligibility requirements may fail to account for families' complex socioeconomic realities, such as debt burdens, health and medication costs, and the high cost of living in many urban areas. See Pearce, Allie; Alleyne, Akilah; Neal, Anona, *5 States Addressing Child Hunger and Food Insecurity With Free School Meals for All*, <https://www.americanprogress.org/article/5-states-addressing-child-hunger-and-food-insecurity-with-free-school-meals-for-all>.

<sup>12</sup> School Nutrition Association, *School Meal Statistics*, (accessed Mar. 2024), <https://schoolnutrition.org/about-school-meals/school-meal-statistics>.

school every day can expect to spend, on average, \$1,080 on school lunches over the course of a school year.<sup>13</sup> Given these averages, and daily participation in the NSLP, the CFPB estimates that participating schools across the country are paid approximately \$26 million every day and \$4.68 billion every year by families purchasing their child’s first lunch.<sup>14</sup> Schools may be collecting more as students purchase additional meals or *a la carte* items.

The school district’s “school food authority” (SFA) manages its school nutrition program and determines what payment options are available to facilitate these transactions.<sup>15</sup> While there is no official market-wide estimate, one payment processor estimated that as many as a third of students at school districts with an online payment processor pay for lunch using funds electronically loaded to their account.<sup>16</sup> Interviews with school district administrators suggest that online payment options are popular among both families and school districts for their perceived security and convenience.<sup>17</sup>

## 2.2 Relevant Federal Authorities

Nonbank covered persons, including online payment processors, are generally subject to the CFPB’s regulatory and enforcement authority and must comply with federal consumer financial protection laws.<sup>18</sup> Particularly relevant is the Consumer Financial Protection Act’s prohibition of unfair, deceptive, and abusive practices.<sup>19</sup> The CFPB’s Fall 2023 edition of Supervisory

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<sup>13</sup> The average cost estimate is based on the length of an average school year, which is 180 days. See U.S. Department of Education, Institute of Education Sciences, National Center for Education Statistics, *Average number of hours in the school day and average number of days in the school year for public schools*, (last updated 2007-08, retrieved May 2024), [https://nces.ed.gov/surveys/sass/tables/sass0708\\_035\\_sis.asp](https://nces.ed.gov/surveys/sass/tables/sass0708_035_sis.asp).

<sup>14</sup> Based on averages, 8.5 million students paying full price (\$3.00) for school lunch spend about \$25.5 million daily on school lunch. 1.1 million students paying reduced price (\$0.40) for school lunch spend about \$440,000 daily on school lunch. Together, this amounts to just over \$25.9 million. This estimate does not include any costs for additional lunches purchased or *a la carte* items, which are generally not reimbursable for schools participating in the USDA School Meal Program and are not counted in daily participation totals.

<sup>15</sup> A “school food authority” is the governing body responsible for the administration of one or more schools and has the legal authority to operate the schools’ nutrition program(s). In this report, “school district” and “school food authority” or “SFA” may be used interchangeably when describing the relationship between school district entities and the companies they contract with to provide online payment capabilities. See 7 C.F.R. § 210.2 “School food authority,” (accessed Feb. 2024), <https://www.ecfr.gov/current/title-7/subtitle-B/chapter-II/subchapter-A/part-210/subpart-A/section-210.2>.

<sup>16</sup> In a March 2024 CFPB market monitoring meeting with a payment processor, company officials indicated that as many as a third of students pay for lunch using funds electronically loaded to their account.

<sup>17</sup> The CFPB conducted a series of unstructured interviews with school district officials around the country from February through March 2024.

<sup>18</sup> See 12 U.S.C. 5481(15)(A)(vii). 12 U.S.C. 5481(6) defines “covered person” as (A) any person that engages in offering or providing a consumer financial product or service; and (B) any affiliate of a person described in subparagraph A if such affiliate acts as a service provider to such person.

<sup>19</sup> CFPA section 1036(a)(1)(B), 12 U.S.C. 5536(a)(1)(B). In CFPA section 1031, Congress prohibited covered persons and service providers from committing or engaging in unfair, deceptive, or abusive acts or practices in connection with the offering or provision of consumer financial products or services. CFPA sections 1031(c) & (d) set forth the general standard for determining whether an act or practice is unfair or abusive. See 12 U.S.C. §§ 5531(c) & (d).

Highlights noted that certain covered persons maintained online school lunch payment platforms, and that certain practices related to the platforms may not comply with federal consumer financial protection laws.<sup>20</sup> Although local rules and state laws may govern types of school-related purchases, other aspects of federal law are also relevant to school lunch payments.

The U.S. Department of Agriculture (USDA) has long established that children participating in school nutrition programs “shall not be charged any additional fees” for the services provided in conjunction with the delivery of school lunch benefits.<sup>21</sup> In this policy, the USDA specified, “by charging fees in addition to the regular reduced price or paid meal charge, a school is limiting access to the program and imposing an additional criterion for participation.”<sup>22</sup> In 2014, the USDA published a policy memorandum that specifically addressed online fees in school meal programs, stating that school food authorities can charge a fee for online services, but only if they also offer a method for households to add money to the account that doesn’t incur any additional fees. In the policy, the USDA suggests that schools accept money at the school food service office or cash payments at the point of service as fee-free options.<sup>23</sup> In 2017, the USDA issued another policy reiterating this requirement and stating that school food authorities cannot exclusively use online payment systems.<sup>24</sup> The 2017 guidance also requires school food authorities to notify families of all available payment options, including any associated fees. In the last seven years since the USDA published this guidance, the popularity of digital payments has grown significantly across sectors.<sup>25</sup>

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<sup>20</sup> Consumer Financial Protection Bureau, *Supervisory Highlights: Junk Fees Update Special Edition, Issue 31, Fall 2023* (Oct. 2023), <https://www.consumerfinance.gov/data-research/research-reports/supervisory-highlights-junk-fees-update-special-edition-issue-31-fall-2023/>, at 15.

<sup>21</sup> FNS Instruction 782-6 Rev. 1, Fees for Lunchroom Services (U.S.D.A. 2010), <https://www.fns.usda.gov/cn/fees-lunchroom-services>.

<sup>22</sup> *Ibid.*

<sup>23</sup> U.S. Department of Agriculture, Food and Nutrition Service, *Memo SP02-2015: Online Fees in the School Meal Programs*, (Oct. 8, 2014), <https://www.fns.usda.gov/cn/online-fees-school-meal-programs>.

<sup>24</sup> U.S. Department of Agriculture, Food and Nutrition Service, *Memo SP23-2017: Unpaid Meal Charges: Guidance and Q&A*, (March 23, 2017), <https://www.fns.usda.gov/cn/unpaid-meal-charges-guidance-qas>.

<sup>25</sup> While cash remained the third-most-used payment instrument in 2023, its use as a payment instrument has dropped 48 percent since the first iteration of the Federal Reserve’s Diary of Consumer Payment Choice in 2016. In 2023, consumers continued to increase the share of payments made online or remotely. See The Federal Reserve, *2024 Findings from the Diary of Consumer Payment Choice*, Bayeh, Berhan; Cubides, Emily; and, O’Brien, Shaun, <https://www.frb-services.org/binaries/content/assets/crsocms/news/research/2024-diary-of-consumer-payment-choice.pdf>.



### 3. Market Overview

The market of K-12 payment processors overlaps with two related industries: general payment processing and student information management software. Broadly, the top K-12 payment platforms are offered by subsidiaries of large financial institutions and by companies specializing in comprehensive student data management software. Among companies that specialize in school lunch payments, the same parent holding company may operate multiple payment platforms (see Figure 1). In recent years, many smaller companies offering the same services have been acquired by larger firms or have begun offering compatible products.

Many school payment processors, which may appear to occupy a niche industry and may lack broader name recognition, are owned by, or serve, significantly larger institutions with robust revenue streams and compliance capabilities.<sup>26</sup> Eight of the 20 K-12 payment processors identified by the CFPB are affiliated with larger companies that offer multiple school lunch payment products, creating a potentially misleading sense of product variety and market competition.<sup>27</sup> Generally, the leading K-12 payment platforms are well connected to large companies in the payments and financial services sectors. For example, five are operated by independent sales organizations<sup>28</sup> that provide payment processing services and generate revenue for Wells Fargo, a company that is also dominant in the higher education payments market.<sup>29</sup>

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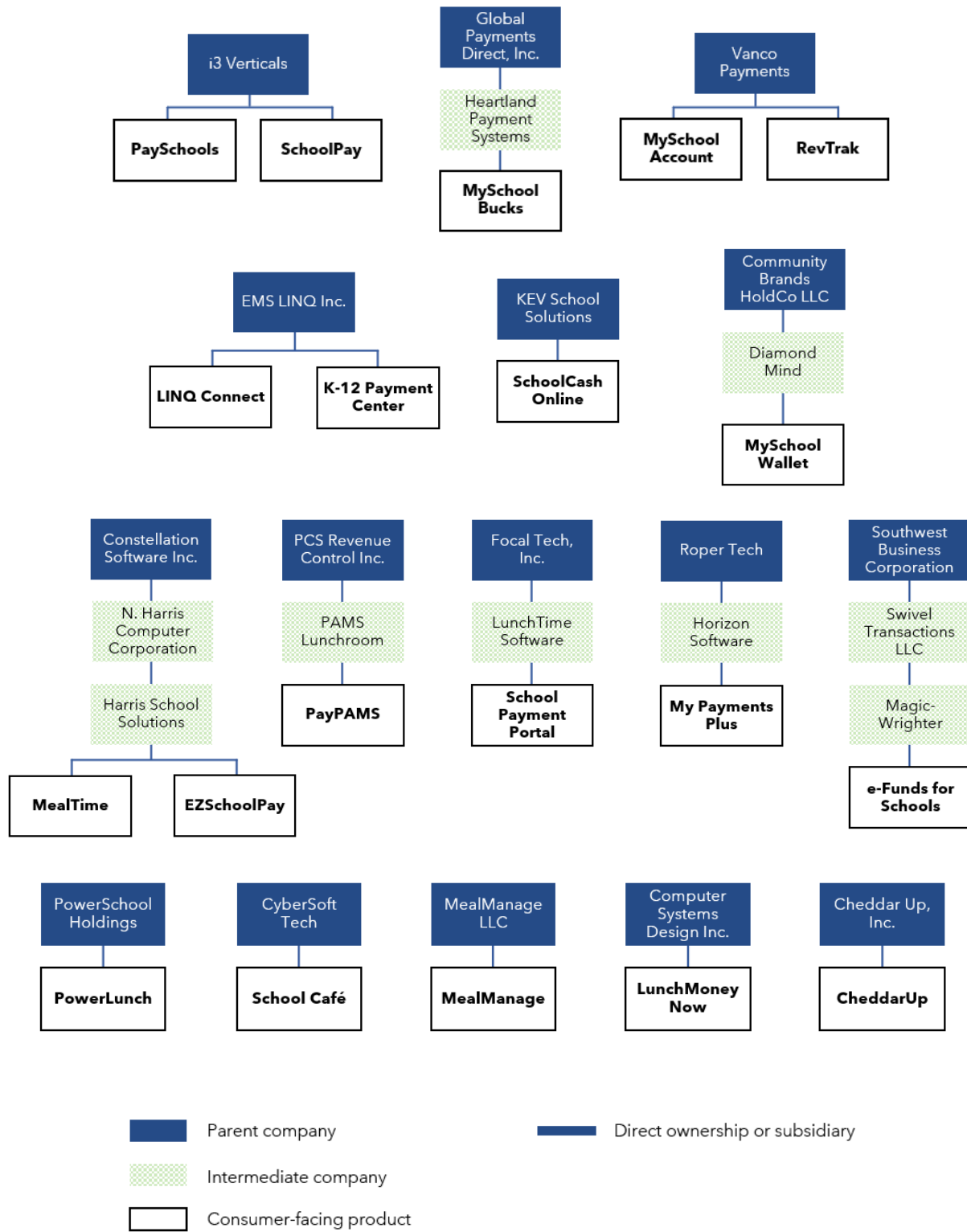
<sup>26</sup> See Appendix B for additional information on company ownership structures.

<sup>27</sup> For example, EMS LINQ, Inc. operates both LINQ Connect and K-12 Payment Center. I3 Verticals operates both PaySchools and SchoolPay. Vanco Payments operates both MySchoolAccount and RevTrak. Harris School Solutions, which is a subsidiary of Constellation Software Inc. (a large holdings conglomerate), operates both MealTime and EZSchoolPay. See Appendix B for additional information on company ownership structures.

<sup>28</sup> Independent Sales Organizations (ISOs) provide payment processing services on behalf of a financial institution that acquires funds from a transaction. ISOs help the financial institutions they serve generate revenue through acquirer mark-ups, ACH transaction fees, and other fees charged for facilitating a transaction. ISOs are also called Merchant Service Providers (MSPs). For more information, see U.S. Department of the Treasury, Office of the Comptroller of the Currency, *Comptroller's Handbook: Merchant Processing, Safety and Soundness (Version 1.0)*, (Aug. 2014), <https://www.occ.treas.gov/publications-and-resources/publications/comptrollers-handbook/files/merchant-processing/pub-ch-merchant-processing.pdf>.

<sup>29</sup> MySchoolBucks is a product of Heartland Payment Systems, which is a registered ISO of Wells Fargo and the Bancorp Bank, and a subsidiary of Global Payments Direct, Inc., which is an ISO of Wells Fargo and BMO Harris Bank. Wells Fargo also has payment relations with four other platforms: PaySchools and SchoolPay, which are products of i3 Verticals, a registered ISO of Wells Fargo and several other banks; and MySchoolAccount and RevTrak, which are products of Vanco Payments, a registered ISO solely of Wells Fargo. (See Appendix B for more information). Wells Fargo is also a significant player in the higher education payment processing space, generating revenue from ISOs that help colleges embed tuition payment plan processing functions into student portals such as Nelnet, TouchNet (Heartland), and ECSI (Heartland). See Consumer Financial Protection Bureau, *Tuition Payment Plans in Higher Education*, (Sep. 2023), [https://files.consumerfinance.gov/f/documents/cfpb\\_tuition\\_payment\\_plan\\_report\\_2023-09.pdf](https://files.consumerfinance.gov/f/documents/cfpb_tuition_payment_plan_report_2023-09.pdf).

**FIGURE 1: THE MARKET FOR SCHOOL LUNCH PAYMENT PROCESSORS**



### 3.1 School District Contracts

School districts enter into contracts with payment processors to help manage a number of financial and administrative responsibilities. In addition to providing user-facing payment portals, many payment processors also provide back-end services like point-of-sale software for school cafeteria systems, HR management systems, and student information systems for collecting applications for free or reduced price lunch. All these services are typically acquired under one contract, which determines what the school district pays for the services provided.

User-facing payment platforms are governed by these contracts, which also set the rates for fees charged to end users. Unlike other elements of these larger contracts, school districts typically do not have to pay to enable electronic transactions via an affiliated payment platform. Since payment processing companies have a fee-based revenue model, much of their revenue comes in the form of transaction fees.

Although school districts may experience cost savings or efficiencies of their own when contracting with processors, those financial benefits are not usually passed directly to families. Transaction fees are sometimes fully paid by a school district.<sup>30</sup> The USDA has a policy explicitly allowing school districts to cover transaction fees on families' behalf using the funds in their nonprofit school food service account.<sup>31</sup> However, transaction fees are more commonly paid in part or full by families themselves.<sup>32</sup> The CFPB did not encounter any examples of school

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<sup>30</sup> District of Columbia Public Schools partners with LINQ Connect to enable families to make school lunch-related payments without transaction fees. The school district subsidizes the full fee that would otherwise be paid by individual families. See District of Columbia Public Schools, "Meal Prices and Payment," (accessed March 2024), <https://dcps.dc.gov/page/meal-prices-and-payment>; The 2018-2019 contract between the School District of Escambia County, FL and Heartland Payment Systems, LLC provides two "fee model" options in the contract: "District Absorbed" or "Parent Paid." This contract uses "Parent Paid." See The School District of Escambia County Purchasing Department, *Online Payment Processing for Hosted School Nutrition and Point of Sale Software*, (accessed Apr. 2024), [https://www.escambia.k12.fl.us/board/PDF%2018/June/06\\_19\\_18\\_regmtg/V\\_b\\_2\\_E\\_13.pdf](https://www.escambia.k12.fl.us/board/PDF%2018/June/06_19_18_regmtg/V_b_2_E_13.pdf).

<sup>31</sup> USDA policy memoranda *SP 02-1015: Online Fees in School Meals Programs*, and *SP 23-2017: Unpaid Meal Charges: Guidance and Q&A*, allow school food authorities to pay fees associated with using an online system on behalf of families as an alternative to charging parents fees for such services. See U.S. Department of Agriculture, Food and Nutrition Service, *Memo SP02-2015: Online Fees in the School Meal Programs*, (Oct. 8, 2014), <https://www.fns.usda.gov/cn/online-fees-school-meal-programs>; U.S. Department of Agriculture, Food and Nutrition Service, *Memo SP23-2017: Unpaid Meal Charges: Guidance and Q&A*, (March 23, 2017), <https://www.fns.usda.gov/cn/unpaid-meal-charges-guidance-qas>.

<sup>32</sup> The Minneapolis Public Schools website describes how the district uses funds to subsidize part of the transaction fee for online lunch payments: "LINQ Connect charges a processing fee of \$2.60 for each online payment transaction, no matter the amount. MPS pays \$1.60 of this fee and the family pays \$1." See Minneapolis Public Schools, *Eating at School*, (accessed Feb. 2024), <https://www.mpschools.org/departments/cws/menus/eating>;

districts paying for payment processing services, except through these transaction fees, nor any examples of school districts receiving revenue from the fees that payment processors charge.<sup>33</sup>

For many districts, the back-end software may be the main consideration when choosing a company to contract with. When this happens, a user-facing payment platform comes as part-and-parcel of a larger school nutrition program management system, insulating payment processors from competition based on transaction fees and negotiation that could lower fees assessed on end-users. Since payment platforms are typically provided without any up-front costs for school districts when included as part of a larger contract, school districts are not incentivized to prioritize low rates on fees that they will typically, in part or whole, pass on to end users. Families are only able to use the payment platform that their district has chosen, making it impossible to shop around for lower fees.

School districts that try to minimize fees charged to families may also run into challenges. Many districts may be limited in which payment options they can provide, due to cost or resource constraints that incentivize choosing providers who ultimately charge fees to families. Negotiating with payment companies may also be difficult for school districts. Although two school districts published information online about successfully negotiating with a payment company to offer a lower fee rate,<sup>34</sup> in interviews school officials at several districts across the country expressed that they were unaware that they could negotiate fee rates or otherwise felt that fee rates were non-negotiable.<sup>35</sup> Negotiating power may also vary by school district, as large districts may have additional leverage with payment processing companies or may benefit from fee discounts based on higher overall transaction volume. Smaller districts may not have the same advantages.

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<sup>33</sup> The 2015 contract between Stamford, CT Public Schools and Heartland School Solutions notes that the line-item cost of “MySchoolBucks Payment Services” is \$0.00 for the school district, see Stamford Public Schools Purchasing Department, *BID/RFP/Contract Award – Recommendation*, (accessed May 2024), <https://stamfordapps.org/boecontracts/Docs/Contracts/VENDOR%20CONTRACTS/FY20-21/181105%20Heartland%20School%20Solutions%20TIPS%20contract.pdf>; The 2022 contract between Chapel Hill-Carrboro, NC Public Schools and EMS LINQ also shows a line item charge of \$0.00 for “K12 Payment Center Meals & Fees,” see Chapel Hill-Carrboro City Schools Board of Education, *Agenda Abstract*, (accessed May 2024), [https://chccs.granicus.com/MetaViewer.php?view\\_id=2&clip\\_id=550&meta\\_id=36302](https://chccs.granicus.com/MetaViewer.php?view_id=2&clip_id=550&meta_id=36302).

<sup>34</sup> In 2018, Hawaii Public Schools stated that they “negotiated a \$0.13 convenience fee with the new vendor, saving parents \$0.67. With the new meal payment system, the transaction fee is also lower at 1.99 percent. The previous transaction fee was 5 percent.” According to reporting, the Hawaii State Department of Education switched from SchoolCafé to EZSchoolPay in 2018, when their contract with the former payment company lapsed. See Hawaii State Department of Education, *Hawaii public schools to launch new online lunch payment system*, (May 2, 2018), <https://www.hawaiipublicschools.org/ConnectWithUs/MediaRoom/PressReleases/Pages/2018-eTritition-online-payments.aspx>; In 2017, Charles County Public Schools stated that they “recently negotiated an agreement with My Payments Plus to eliminate fees for system users” after charging a 3.75% service fee per transaction with the same platform. See Charles County Public Schools, *CCPS Eliminates Service Fees for My Payments Plus*, (December 22, 2017), <https://www.cchoe.com/about/public-info-media/details/-/board/press-releases/post/ccps-eliminates-service-fees-for-my-payments-plus>.

<sup>35</sup> The CFPB conducted a series of unstructured interviews with school district officials from around the country from February through March 2024.

## 3.2 Payment Platform Features and Fees

### 3.2.1 Product Features

Most companies that enable electronic school lunch payments advertise additional features for users, including scheduling automatic payments, sending low balance alerts, sharing account balance and meal purchase information, and processing payments. Some payment processors also provide a space in their user portals for schools to upload monthly lunch menus or post other announcements for caregivers to review. For many districts, families also use these online portals to submit applications for the free and reduced price lunch programs. Apart from making electronic payments, companies promote many of these features as free with the creation of an account.<sup>36</sup>

### 3.2.2 Product Fees

Payment processors typically charge transaction fees each time an electronic payment is made. Companies that process school lunch payments may also charge other fees like convenience fees, which may include a fee for transferring funds between student accounts, or annual program fees that increase the cost of making online payments.<sup>37</sup>

As previously discussed, fee rates are determined by each school district's contract with the payment processor. Interviews with school district officials and information published on school district websites suggest that companies have broad control over fee rates.<sup>38</sup> Payment processors' terms of service also establish the company's unilateral control over fee levels and its ability to change them at any time.<sup>39</sup> School districts that cover all transaction fees on behalf of

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<sup>36</sup> For example, "Registering online with MyPaymentsPlus allows you to view your student's account balances, purchase history, and payment history online, and even be notified by email when account balances fall below a designated amount. You do not have to make prepayments to use these features." See Cobb County School District, "Food and Nutrition Services," (accessed Mar. 2024), <https://www.cobbk12.org/foodservices/page/45098/paying-for-meals>; "Myschoolbucks.com is an online payment portal specially designed to allow parents to make quick and easy online payments to their children's school accounts. The system allows parents to manage their children's lunch accounts, including viewing food selection." See Coconut Creek Elementary (Broward County Public Schools), "Set Up Your Child's Online Meal Payment Account via MySchoolBucks," (accessed Mar. 2024), <https://www.browardschools.com/site/default.aspx?PageType=3&DomainID=27&ModuleInstanceID=3466&ViewID=6446EE88-D30C-497E-9316-3F8874B3E108&RenderLoc=0&FlexDataID=235479&PageID=47>.

<sup>37</sup> Some payment processors use different names to distinguish fee types. This report refers to any fees that are processed on a per-transaction basis as "transaction fees." Other fee types are explained in Section 4.2.2.

<sup>38</sup> The CFPB conducted a series of unstructured interviews with school district officials from around the country from February through March 2024.

<sup>39</sup> "LINQ may charge a fee in connection with the Services and/or transactions processed through the Services. The Fee will apply to each one-time, automated, and scheduled payment." See EMS LINQ Inc., *LINQ Connect Terms of Service*, (accessed Feb. 2024), <https://linqconnect.com/main/terms>; "If you use MySchoolBucks to add funds to your

their users may pay more favorable fee rates compared to individuals. At least one school district entering into a contract with MySchoolBucks received certain fee discounts after indicating that the district planned to cover all transaction fees.<sup>40</sup>

### 3.2.3 Costs of Electronic Transactions

Electronic transactions incur costs for payment processors. These costs differ depending on which payment mechanism is used. On their online portals, payment processors typically offer credit, debit, and prepaid cards, and, in fewer cases, Automated Clearing House (ACH) transactions.<sup>41</sup> Typically, processor's payment processing costs fall around 1.53 percent of a total transaction for credit, debit, or prepaid cards,<sup>42</sup> and between \$0.26 and \$0.50 per transaction for ACH transfers.<sup>43</sup> Nonetheless, even the lowest transaction fees assessed by payment processors in school districts observed in the CFPB sample (\$1.00 or 3.25%)<sup>44</sup> are significantly higher than the payment processors' costs of processing electronic transactions.

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child's account, you may pay a program fee for the convenience of using our online service." See MySchoolBucks, *Terms of Service*, (accessed Feb. 2024), <https://login.myschoolbucks.com/users/etc/getterms.action?clientID=schoolbucks>; "SchoolCafé imposes a convenience fee on every payment made using the Service. The convenience fee, an amount or a percentage of the payment, is set solely at the discretion of SchoolCafé and can be changed at any time without notice." See SchoolCafé, *Terms of Service*, (accessed Feb. 2024), <https://www.schoolcafe.com/>.

<sup>40</sup> "We [Heartland Payment Systems, Inc.] understand that instead of passing the convenience fees along to the parents, FCPS plans to absorb those fees directly. In light of that, we are able to offer more favorable pricing than what was contained in our original proposal...When compared to our original pricing, we reduced the number of volume-based tiers and lowered the fee for each tier." See Fairfax County Public Schools, *Acceptance Agreement Attachment D*, (Aug. 12, 2014), <https://www.fairfaxcounty.gov/cregister/DownloadPDF.aspx?AttachmentID=926546c7-25aa-4447-a696-885977c7f569>.

<sup>41</sup> Information on payment processing websites suggests that available payment methods ultimately depend on the contract between the payment processor and school district.

<sup>42</sup> A recent *The Nilson Report* notes that the weighted average of processing fees that merchants paid in 2023 was 1.53 percent of purchase volume on all credit, debit, and prepaid general purpose and private label cards. Fees related to debit card transactions are typically lower. Since 2011, debit card fees are capped by the Federal Reserve at \$0.21 plus 0.05% of the transaction value for covered issuers. According to data from 2022, average interchange fees for all debit transactions (both exempt and covered) were \$0.34 or 0.73% of the average transaction value. See *The Nilson Report, Issue 1259* (Mar 2024); The Federal Reserve, *Regulation II (Debit Card Interchange Fees and Routing)*, (accessed April 2024), <https://www.federalreserve.gov/paymentsystems/regii-average-interchange-fee.htm>.

<sup>43</sup> The 2022 Payments Cost Benchmarking Survey found the median cost of initiating and receiving an ACH payment for all businesses to be between 26 cents and 50 cents. See Nacha, *ACH Costs are a Fraction of Check Costs for Businesses, AFP Survey Shows*, (accessed April 2024), <https://www.nacha.org/news/ach-costs-are-fraction-check-costs-businesses-afp-survey-shows>.

<sup>44</sup> For example, Poudre School District, (accessed May 2024), <https://www.psdschools.org/schools/student-fees-charges/pay-feescharges-online>; For example, Plano School District, (accessed May 2024), <https://www.pisd.edu/Page/3841>.

## 4. Sample Findings

In a sample consisting of the 300 largest public school districts in the United States,<sup>45</sup> 261 school district websites disclosed a partnership with a payment processor for school lunch payments. Once a partnership was identified, the CFPB recorded a number of variables including information about associated fees, fee types, and amounts (see Appendix A).

### 4.1 Sample Market Composition

Three providers, MySchoolBucks, SchoolCafé, and LINQ Connect, are the largest school payment processors in the sample according to the number of school district partnerships, school partners, and related total enrollment (see Table 1). In the sample, these three providers served more than 9.2 million students across more than 13,500 schools and 181 public school districts. MySchoolBucks is the largest across all three metrics, with almost 100 school district partnerships and more than 5 million enrolled students within the sample.

**TABLE 1:** TOP 5 PAYMENT PROCESSORS IN CFPB SAMPLE

Payment Processor	Number of School Districts in Sample	Number of Schools in Sample	Enrollment (Fall 2021)	Sample Market Share by Enrollment
MySchoolBucks	95	7,675	5,246,339	38.1%
SchoolCafé	47	3,315	2,335,896	17.0%
LINQ Connect	39	2,514	1,652,533	12.0%
MyPaymentsPlus	20	1,661	1,272,791	9.3%
PayPams	14	1,573	1,043,069	7.6%
<b>Sample Total</b>	<b>261</b>	<b>19,996</b>	<b>13,756,050</b>	<b>100%</b>

<sup>45</sup> The sample constructed by the CFPB is based on the 300 largest school districts in the United States by enrollment during the 2021-2022 school year. Enrollment data is from the National Center for Education Statistics. See Appendix A: Methodology for more information.

## 4.2 Fee Rates

### 4.2.1 Transaction Fees

While USDA guidance requires that families are notified about available payment methods and associated fees, many school districts do not publish information related to fees on their websites.<sup>46</sup> Across the 63 school districts in the CFPB sample that do publish fee specifics, average transaction fees were \$2.37 for flat fees, and 4.4 percent for percentage fees. Median fees were \$2.49 and 4.5 percent. Since these figures are from only the 21 percent of school districts in the CFPB sample that publicly report fee amounts, they may misestimate the true market average.

In the CFPB sample, payment processors at more than 70 percent of the districts that publish fee information charge flat transaction fees. At around 25 percent of these school districts, payment processors charge percentage fees, and a much smaller portion have a transaction fee model that incorporates both a flat per transaction fee and a percentage fee that varies based on deposit size.<sup>47</sup> Overall, fee levels vary widely between providers, and for the same provider across different school districts (see Table 2).

**TABLE 2: FEE RANGE AND AVERAGE FEES FOR TOP 5 PAYMENT PROCESSORS IN CFPB SAMPLE**

Payment Processor	Flat Fee		Percentage Fee	
	Fee Range	Average Fee	Fee Range	Average Fee
MySchoolBucks	\$1.00 - \$3.25	\$2.55	4.50%	4.50%
SchoolCafé	\$1.95 - \$2.95	\$2.38	3.25% - 5.00%	4.58%
LINQ Connect	\$1.00 - \$2.60	\$2.13	3.50%	3.50%
MyPaymentsPlus	NA	NA	3.99% - 4.75%	4.33%
PayPams	\$1.95 - \$2.40	\$2.31	NA	NA

NA appears where fee data was not observed.

<sup>46</sup> U.S. Department of Agriculture, Food and Nutrition Service, *Memo SP23-2017: Unpaid Meal Charges: Guidance and Q&A*, (March 23, 2017), <https://www.fns.usda.gov/cn/unpaid-meal-charges-guidance-qas>.

<sup>47</sup> For example, “There is an additional fee of 2.9% + \$0.25 per transaction (for debit or credit card).” See Indian Prairie School District #204, *PushCoin*, (accessed March 2024), <https://www.ipisd.org/Page/2623>.



Flat fees observed in the CFPB sample ranged from \$1.00 to \$3.25 per transaction.<sup>48</sup> The highest flat fees observed were from school districts partnering with MySchoolBucks (\$3.25)<sup>49</sup> and EZSchoolPay (\$3.00).<sup>50</sup> Percentage fees ranged from 3.25 percent to 5 percent of the total deposit. The highest percentage-based transaction fees were observed at school districts partnering with SchoolCafé (5 percent).<sup>51</sup>

## 4.2.2 Other Fees

In addition to transaction fees, some school district websites also mention other fees that may increase the total cost for families using these services. It is unclear whether school districts are able to negotiate these fees in their contracts.

- Though many payment processors advertise free account membership, one leading payment processor is also starting to roll out a **one-time program fee** to be paid when a new account is opened. The CFPB has observed this fee type costing \$2.50 per account.<sup>52</sup>
- Instead of paying a fee for each transaction, some payment processors offer **annual fees** that cover certain electronic transactions for a full year. The CFPB has observed this fee type costing \$12.95 per year for a single student or \$26.95 per year for a family.<sup>53</sup>

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<sup>48</sup> Most payment processors charge one fee regardless of payment method, others have fees that vary. For example, Chandler Unified School District has information on their website that specifies, “When using MySchoolBucks.com platform to fund student accounts, the following fees will be charged to the user: Funded by credit card/debit card: \$3.25 per transaction; Funded by e-check/bank account transaction: \$2.75.” See Chandler Unified School District, “Online Student Meal Payment Account,” (accessed April 2024), <https://www.cusd80.com/Page/118077>.

<sup>49</sup> For example, Pinellas County Schools, (accessed Mar. 2024), <https://www.pcsb.org/Page/40505>.

<sup>50</sup> For example, Deer Valley Unified School District, (accessed Mar. 2024), <https://www.dvUSD.org/studentaccounts>.

<sup>51</sup> For example, Virginia Beach City School District, (accessed Mar. 2024), <https://www.vbschools.com/families/food-and-nutrition-services>; Omaha School District, (accessed March 2024), <https://www.ops.org/Page/319>; Beaverton 48J School District, <https://www.beaverton.k12.or.us/departments/nutrition-services/student-account>; Douglas County School District, (accessed Mar. 2024), <https://www.dcsd.net/departments/nutrition-services>.

<sup>52</sup> “Beginning next week, some parents in your district will see a Fall 2023 Program Fee of \$2.50 at their next transaction on MySchoolBucks.” See Escambia County Public Schools, *Food Services*, (accessed Mar. 2024), <https://www.escambiaschools.org/Page/802>.

<sup>53</sup> “My School Bucks now has an option available to pay an annual, one-time flat fee of \$12.95 for a single student or \$26.95 for a family. The “OnePay” option gives you unlimited transactions for 12 months, instead of the per-transaction fee of \$2.75 for individual transactions.” See McKinney ISD, *Meal Prices & Payments*, (accessed March 2024), <https://www.mckinnevisd.net/school-nutrition/meal-prices-payments/>; Chandler Unified School District, *Online Student Meal Payment Account*, (accessed March 2024), <https://www.cusd80.com/Page/118077>.

- Another payment processor charges a **convenience fee** for users to transfer funds between student accounts within the same family. The CFPB has observed this fee type costing \$2.99 for a full year of transfer capabilities.<sup>54</sup>
- Some payment processors also set a **maximum deposit amount** limiting how much a user can upload to their student’s lunch account in one transaction. For example, with a cap of \$200 per transaction, a family would have to make at least three deposits a year per student to cover the average cost of school lunches, with each transaction incurring its own fee.<sup>55</sup>

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<sup>54</sup> “If you are only transferring funds between siblings enrolled in CCSD, you have the option of doing so online via MyPaymentsPlus.com for any registered students on your account. There is a \$2.99 convenience fee for this service for a full year of access to transfers.” See Cobb County School District, *Food and Nutrition Services*, (accessed March 2024), <https://www.cobbk12.org/foodservices/page/45098/paying-for-meals>.

<sup>55</sup> The average cost of a middle school lunch nationwide is \$3.00. Over the course of 180-day school year, this would amount to \$540 per year. Adding \$540 to an account with a per-transaction cap of \$200 would take three separate transactions, each incurring its own transaction fee.

## 5. Costs and Difficulties for Consumers

Online payment platforms offer convenient solutions for school districts and families, but they also present potential negative implications for consumers. School lunch costs can be a challenge to families across the country, in part illustrated by the national average meal debt of \$180.60 per child, per year.<sup>56</sup> Families, particularly those that are struggling to cover the cost of lunch itself, may find it difficult to avoid fees and may face other difficulties exacerbated by the use of payment platforms.

### 5.1 Inaccessible Fee-Free Options

Although payment platforms often perform a variety of services for school districts, including certain functions that help enable compliance, companies leave it to school districts alone to create and, in many cases advertise or disclose, any fee-free payment methods. Some school district websites note that families can add funds in person or by sending cash or check with a student.<sup>57</sup> Other school districts have policies that limit the use of cash, personal checks, or both,<sup>58</sup> which may raise questions regarding the districts' conformity with USDA policy.<sup>59</sup> Even if families are aware of alternative options for paying school-related expenses, they may also

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<sup>56</sup> Education Data Initiative, "School Lunch Debt Statistics," Hanson, Melanie, (accessed June 2024), <https://educationdata.org/school-lunch-debt>; U.S. Department of Agriculture Economic Research Service, *Cost of school meals and households' difficulty paying for expenses: Evidence from the Household Pulse Survey*, Toossi, S., (accessed June 2024), <https://www.ers.usda.gov/webdocs/publications/106915/eh-37.pdf?v=64311>.

<sup>57</sup> "Of course, meal payments can also be made by sending cash or checks (payable to the school cafeteria) to school with your child." See Forsyth School District, *Food & Nutrition Services*, (accessible Mar. 2024), <https://www.forsyth.k12.ga.us/page/401>; "Meals may still be prepaid by depositing cash into student accounts." See Spring ISD, *Online Payment Option Available for Meals*, (accessed Mar. 2024), <https://www.springisd.org/page/online-payments>; "Families without credit/debit cards can add money to their students' account by bringing a check to the cafeteria staff at the school. There is no processing fee charged for these transactions." See Minneapolis Public Schools, *Eating at School*, (accessed Mar. 2024), <https://www.mpschools.org/departments/cws/menus/eating>.

<sup>58</sup> "This school year (SY2023-24) students will be able to purchase items a la carte, such as milk. To do so, they need to have money loaded onto their MySchoolBucks account. No cash will be accepted." See SDU46, *School Breakfast & Lunch Menus*, (accessed Mar. 2024), <https://www.u-46.org/Page/9190>; "Meals may be purchased with cash or by using the online payment system, [SchoolCafe]...The Pasadena Independent School District Nutrition Services will not accept personal checks." See Pasadena Independent School District, *Meal Price & Online Payments*, (accessed Mar. 2024), [https://www.pasadenaisd.org/13013\\_4](https://www.pasadenaisd.org/13013_4).

<sup>59</sup> According to USDA guidance, SFAs cannot exclusively use an online system for payment. Those that do use an online 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. See U.S. Department of Agriculture, Food and Nutrition Service, *Memo SP 23-2017: Unpaid Meal Charges: Guidance and Q&A*, (March 23, 2017), <https://www.fns.usda.gov/cn/unpaid-meal-charges-guidance-qas>.

potentially come with their own costs and limitations, in the form of transportation costs or difficulty accessing financial services.<sup>60</sup>

Even where school districts allow fee-free payment options, free methods may not be meaningfully available to all families. Although school districts are required by USDA to provide fee-free methods and to inform families of their options to pay for school lunch,<sup>61</sup> not all school districts make the information readily available to families on their website. School districts are also not required to provide comparable online payment options that do not incur fees. As a result, other payment methods may be less well-known and less accessible than online payments. For non-meal-related expenses, the CFPB did not encounter any examples of similar requirements, so families may not have any fee-free options for paying these other expenses.

It may also be difficult for families to predict the total cost of using an electronic payment option. In many cases, the first time a caretaker will see how much they must pay to use an online payment platform is at the point of sale, which obscures the total cost until near the end of the transaction. Only 21 percent of sampled school districts explicitly disclose the fees associated with online transactions and no payment processors in the sample include specific information about potential fees on their website.

In some cases, families may be paying fees for electronic payments without knowing that they are entitled to fee-free options. The CFPB's Fall 2023 edition of Supervisory Highlights noted that payment processors have maintained payment platforms on which consumers may have paid fees that they would not have paid had the consumers understood that they were entitled to free options. As a result, the CFPB observed that the payment processors' practices may not have complied with consumer financial protection laws.<sup>62</sup>

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<sup>60</sup> For example, one school district specifies that they do not accept cash but will accept cashier's checks or money orders to pay for school lunch. These banking services may be difficult to access for some families, making it more expensive to avoid fees. See Atlanta Public Schools, *Nutrition Pre-Payment Options*, (accessed Mar. 2024), <https://www.atlantapublicschools.us/domain/14255>; "Many types of bill payments incur costs for consumers... Some payment instruments can be costly to obtain, such as money orders and checks, while others can be costly to use, such as some credit cards. Consumers usually incur the highest costs when paying a bill in person (regardless of payment instrument) due to transportation costs and the lowest costs when paying over the phone or online; paying through the mail, which incurs postage costs, is somewhere in between." See also Federal Reserve Bank of Kansas City, *When Paying Bills, Low-Income Consumers Incur Higher Costs*, (accessed Mar. 2024), <https://www.kansascityfed.org/research/payments-system-research-briefings/when-paying-bills-low-income-consumers-incur-higher-costs/>.

<sup>61</sup> U.S. Department of Agriculture, Food and Nutrition Service, *Memo SPO2-2015: Online Fees in the School Meal Programs*, (Oct. 8, 2014), <https://www.fns.usda.gov/cn/online-fees-school-meal-programs>.

<sup>62</sup> Consumer Financial Protection Bureau, *Supervisory Highlights: Junk Fees Update Special Edition, Issue 31, Fall 2023* (Oct. 2023), <https://www.consumerfinance.gov/data-research/research-reports/supervisory-highlights-junk-fees-update-special-edition-issue-31-fall-2023/>, at 15.

## 5.2 Difficulty Canceling Automatic Payments

Many payment processors allow users to turn on automatic payments at scheduled intervals or when school lunch account balances fall below a certain threshold. Conversations with school district officials described certain issues faced by families who set up autopay and then had difficulties canceling or otherwise forgot to cancel it when no longer needed.<sup>63</sup> Excess funds can quickly accrue in a student’s school lunch account if automatic payments are accidentally left on.<sup>64</sup> Each automatic transaction still incurs a per-transaction fee assessed by the payment processor, so families using automatic payments may be paying additional per-transaction fees to add unnecessary funds. Families are instructed to go directly to their child’s school for refunds, so any extra funds paid into a student’s school lunch account create additional administrative tasks for school district staff and may further delay when a refund is ultimately received.

## 5.3 Difficulty Accessing Timely Refunds

At the end of an academic year, funds in a student’s lunch account generally roll over for use when the school year resumes in the fall. There may be times, however, when families need to request a refund of the funds paid into their student’s lunch account. Terms and conditions of payment platforms generally note that if a caregiver is seeking a refund from a student’s account, they must contact their child’s school directly.<sup>65</sup> Payment processors do not hold on to

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<sup>63</sup> The CFPB conducted a series of unstructured interviews with school district officials around the country from February through March 2024.

<sup>64</sup> For example, The Lewisville ISD website includes information warning caregivers that they must turn off auto-replenish and low balance alerts on their RevTrak payment platform before requesting a refund from the school district. See Lewisville ISD, *Refunds, A la Carte Policy, and LISD Employee Accounts*, (accessed April 2024), <https://www.lisd.net/Page/22806>.

<sup>65</sup> “If you are not satisfied with any good or service purchased using the Services, you agree to resolve the issue exclusively with the Student’s School... You agree that you will not seek and are not entitled to a refund from LINQ.” See EMS LINQ Inc., *LINQ Connect Terms of Service*, (accessed Feb. 2024), <https://lingconnect.com/main/terms>; “You agree that you will not seek and are not entitled to a refund from HPS. If you would like a refund of any kind from you Student’s school or school district, you must contact your student’s school or school district.” See MySchoolBucks, *Terms of Service*, (accessed Feb. 2024), <https://login.myschoolbucks.com/users/etc/getterms.action?clientID=schoolbucks>; “All issues relating to unused funds on a student account should be addressed directly with the students’ school districts SchoolCafé cannot be held liable to the Users for any unused funds.” See SchoolCafé, *Terms of Service*, (accessed Feb. 2024), <https://www.schoolcafe.com>.

student lunch account funds, as funds are directly transferred to school district bank accounts once a payment is made. Each school has its own process for distributing refunds.<sup>66</sup>

At some school districts, the refund process can be complicated, requiring additional paperwork for families,<sup>67</sup> and may take weeks for the money to be returned.<sup>68</sup> Families using these payment platforms may be less willing to add a substantial amount to their accounts, due to the difficulty of accessing refunds, which may result in incurring additional per-transaction fees.

## 5.4 Fee Burden

Fees charged by payment platforms affect all families, though low-income families may be disproportionately impacted depending on the fee type and how often they make deposits over the course of a school year. Based on sample averages, school lunch payment processors nationwide may be collecting more than \$100 million each year in transaction fees alone.<sup>69</sup> The total fee revenue collected by payment processors could be higher, after including revenue from other fees or additional lunchtime expenses. For families paying for their child's lunch, these fees may pose a significant additional expense.

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<sup>66</sup> On their website, MySchoolBucks specifies that "Payments placed through MySchoolBucks are quickly expedited to your school's bank for deposit. All funds are housed by your district office." See MySchoolBucks, *Top Support Questions*, (accessed March 2024),

<https://www.myschoolbucks.com/ver2/etc/getcontacts.action?clientKey=ZZHKFGWNS605S8L#:~:text=All%20funds%20are%20housed%20by,department%20to%20obtain%20a%20refund>.

<sup>67</sup> For example, caregivers seeking a refund for school lunch account balances are required to submit a W-9 form to the Albuquerque Public Schools. See Albuquerque Public Schools, Food and Nutrition Services, (accessed April 2024), <https://www.aps.edu/food-and-nutrition-services/school-menus-and-prices>.

<sup>68</sup> For example, information on the Spring Branch Independent School District website says that refunds can take 2-3 weeks to process. See Spring Branch ISD, *Payments and Refunds*, (accessed April 2024),

<https://www.springbranchisd.com/about/departments/finance/school-nutrition-services/payments-and-refunds>;

Since refunds at Prince William County schools are sent in the form of checks via mail, they take between 4 and 6 weeks to process. See PWCS Nutrition, (accessed April 2024),

<https://www.pwcsnutrition.com/index.php?sid=0408101731444083&page=prepaidacct>.

<sup>69</sup> Estimates are made based on national averages, including average cost of school lunch (\$3.00 or \$0.40), length of a school year (180 days), and sample averages of flat fee prevalence compared to percentage fee prevalence (74 percent and 26 percent, respectively), average fee rates (\$2.37 or 4.4 percent), and the proportion of schools in the sample that enable electronic payments through a payment platform (87 percent). Using USDA data describing daily participation in the National School Lunch program (8.5 million for full-priced lunch and 1.1 million for reduced price lunch) and insight from a payment processing company estimating that as many as a third of students paying for lunch do so using funds added to their account electronically, the CFPB estimated that 315,810 students pay for reduced price lunch and 2.4 million students pay for full price lunch using online payment methods. Using these estimates, as well as the annual fee costs for a student paying for full or reduced price lunch every school day, and the relative prevalence of flat and percentage fees in the CFPB sample, the CFPB estimates that companies collect between \$28 million and \$92 million in fees from students paying for full-priced lunch and between \$1.9 million and \$10.2 million from students paying for reduced price lunch in transaction fees each year. The lower end of the estimated fee range is based on families making just 3 payments per year. The higher end of the range is based on families making payments every other week, or 18 deposits a year. This estimated range in transaction fee revenue is just for transaction fees incurred while paying for a student's first lunch, without including any transaction fees for additional meals or a la carte purchases.

Flat transaction fees, as opposed to percentage fees, are much more prevalent among sampled school districts. By nature, flat fees have a regressive impact on lower-income users. Payment platforms appear to charge the same transaction fee for all users, regardless of whether a student receives free or reduced price lunch. Flat transaction fees are also much more expensive for users who make deposits more frequently, compared to those who can afford to deposit more money less frequently.<sup>70</sup> An industry-sponsored survey found that 60 percent of users on online school payment portals make two or more deposits per month, amounting to approximately 18 deposits per year.<sup>71</sup> Conversations with school district administrators suggested that some families may be using these online services much more often, up to once a week.<sup>72</sup> Although some families are able to deposit significant amounts into their child's account at the beginning of a school year, that option might not be available for families living paycheck to paycheck. Frequent deposits can exacerbate the regressive effect of flat fees for families who do not have the financial flexibility to pre-load hundreds of dollars into their child's lunch account at one time.

Table 3 shows three scenarios of potential fee burdens associated with full-priced school lunch costs. The below scenarios are based on two different levels of deposit frequency (twice per month, or biweekly, and three times a year), the average flat and percentage fee rates from the CFPB sample (\$2.37 and 4.4 percent), the average full-price cost of a middle school lunch (\$3.00),<sup>73</sup> and the average length of a school year (180 school days).<sup>74</sup>

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<sup>70</sup> Consumer Financial Protection Bureau, *Supervisory Highlights: Junk Fees Update Special Edition, Issue 31, Fall 2023* (Oct. 2023), <https://www.consumerfinance.gov/data-research/research-reports/supervisory-highlights-junk-fees-update-special-edition-issue-31-fall-2023/>, at 15.

<sup>71</sup> EMS LINQ, Inc., *2023 K-12 Payments Survey Report* at 9, (accessed Feb. 2024), <https://www.linq.com/report/2024-k12-payments-survey-report/>.

<sup>72</sup> The CFPB conducted a series of unstructured interviews with school district officials around the country from February through March 2024.

<sup>73</sup> School Nutrition Association, *School Meal Statistics: School Meal Prices and Unpaid Meals*, (accessed Mar. 4, 2024), <https://schoolnutrition.org/about-school-meals/school-meal-statistics/>.

<sup>74</sup> U.S. Department of Education, Institute of Education Sciences, National Center for Education Statistics, *Average number of hours in the school day and average number of days in the school year for public schools*, (last updated 2007-08, retrieved May 2024), [https://nces.ed.gov/surveys/sass/tables/sass0708\\_035\\_sis.asp](https://nces.ed.gov/surveys/sass/tables/sass0708_035_sis.asp).

**TABLE 3:** SAMPLE COSTS FOR FAMILIES PAYING FULL PRICE FOR SCHOOL LUNCH WITH ONLINE PAYMENTS

Scenario	Annual Lunch Cost Paid to School	Annual Fees Paid to Company	Ratio of Fees to Annual Lunch Cost Paid to School	Total Amount Paid (including fees)
\$2.37 fee, paid <i>biweekly</i> for a school year	\$540	\$42.66	7.9%	\$582.66
\$2.37 fee, paid <i>three times</i> a school year	\$540	\$7.11	1.3%	\$547.11
4.4% fee, paid over the course of a school year	\$540	\$23.82	4.4%	\$563.82

Families who pay full price for school meals and make two deposits a month into their child's lunch account would incur over \$42 in fees over the course of a school year. For these families, for every \$1 they spent on school lunch, they paid \$0.08 to the company processing their payments. Families who instead make just three payments a year end up paying much less in fees, around \$7. In this case, for every \$1 spent on school lunch, they paid just over \$0.01 to a payment processor.

Table 4 shows three scenarios of potential fee burdens associated with reduced priced lunches, which cost \$0.40 per lunch on average.<sup>75</sup> Since transaction fees appear to be the same across the board regardless of whether a student is eligible for free or reduced price lunch, families who pay for reduced price lunch pay more in fees relative to their school lunch costs during a school year.

<sup>75</sup> School Nutrition Association, *School Meal Statistics: School Meal Prices and Unpaid Meals*, (accessed Mar. 4, 2024), <https://schoolnutrition.org/about-school-meals/school-meal-statistics/>.



**TABLE 4:** SAMPLE COSTS FOR FAMILIES PAYING REDUCED PRICE FOR SCHOOL LUNCH WITH ONLINE PAYMENTS

Scenario	Annual Lunch Cost Paid to School	Annual Fees Paid to Company	Ratio of Fees to Annual Lunch Cost Paid to School	Total Amount Paid (including fees)
\$2.37 fee, paid <i>biweekly</i> for a school year	\$72.00	\$42.66	59.3%	\$114.66
\$2.37 fee, paid <i>three times</i> a school year	\$72.00	\$7.11	9.9%	\$79.11
4.4% fee, paid over the course of a school year	\$72.00	\$3.18	4.4%	\$75.18

Families who pay for reduced price lunch and make two deposits a month into their child's school lunch account would still incur over \$42 in fees over the course of a school year. For these families, every \$1 spent on school meals for their child corresponds to \$0.60 that was paid to a payment processor. Families who can afford to make just three payments a year still pay \$7 in fees, which amounts to about \$0.10 for every \$1 paid for school lunch.

## 6. Conclusion

Every day, families of school-aged children across the country spend millions of dollars on school lunch. Many caregivers opt to use online platforms to deposit money into their children's accounts, incurring average fees of \$2.37 or 4.4% of the total deposit per transaction. These fees are widespread, regressive, and may be burdensome for families and districts, who have little control over fee rates and few opportunities to shop around.

School food authorities participating in the USDA's National School Lunch Program are required to provide fee-free avenues to pay for school lunch and inform families about all available payment methods, including associated fees. However, these fee-free options are not always well advertised or accessible. Despite requirements from the USDA, families may be paying more in fees than they would choose to if they had access to comparably convenient payment options with lower or no fees. Although school districts are able to negotiate fees while contracting with payment platforms, payment processors appear to have broad control over the fees they charge. Few school districts have been successful in ultimately lowering fees for families.

School districts face limited options. The market for school-related payment processing is dominated by a few market leaders and school food authorities may be locked in to using a certain payment platform due to its connection to the back-end service managing their school nutrition program. In turn, families have little choice in the payment platform offered by their school district and may be particularly vulnerable to harmful practices, including those that may violate federal consumer protection law.

## APPENDIX A: METHODOLOGY

# Sample Construction

This report analyzed data from the 300 largest public school districts by enrollment according to Fall 2021 data from the National Center for Education Statistics (NCES).<sup>76</sup> The CFPB examined the website of each school district in the dataset to identify publicly available information on lunch payment processor partnerships and fees. The CFPB also searched the websites of associated payment processors. This research was conducted between December 2023 and April 2024.

## Variables

Once a school district was identified, the CFPB recorded the URL for the relevant district website, whether a payment processor is used for online school meal payments, whether the district offered free lunch for all students during the 2023-2024 school year, whether there is a fee associated with online payments, the fee category (e.g., flat fee or percentage), the fee amount, and relevant URLs. School districts within the sample that use only alternative channels to inform families of online lunch payment options, such as direct-to-family newsletters or printed resources distributed at the beginning of the school year, are not adequately captured in this dataset. Only cases where a payment processor for school lunch payments could definitively be identified are observed in the sample.

The CFPB also included descriptive statistics for each school district in the sample, including public high school graduation rates, total number of English language learners, the share of students eligible for free or reduced price lunches, the poverty rate of 5-to 17-year-olds within

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<sup>76</sup> National Center for Education Statistics, *Digest of Education Statistics*, “Table 215.10 – Selected statistics on enrollment, staff, and graduates in public school districts enrolling more than 15,000 students in fall 2021 (1990 through 2021),” [https://nces.ed.gov/programs/digest/d22/tables/dt22\\_215.10.asp](https://nces.ed.gov/programs/digest/d22/tables/dt22_215.10.asp), “Table 215.20 – Revenues, expenditures, poverty rate, and Title I allocations of public school districts enrolling more than 15,000 students in fall 2021,” [https://nces.ed.gov/programs/digest/d22/tables/dt22\\_215.20.asp](https://nces.ed.gov/programs/digest/d22/tables/dt22_215.20.asp).

the district, and the number of schools for each district. For the sample of the 300 largest districts, this data comes from the National Center for Education Statistics.<sup>77</sup>

Table 5 contains a comparison between descriptive statistics of the CFPB sample and public school districts nationwide.

**TABLE 5: COMPARISON BETWEEN NATIONAL AND CFPB SAMPLE DESCRIPTIVE STATISTICS**

Metric	CFPB Sample	Nationwide <sup>78</sup>	Sample Percentage
Total enrollment	16,734,497	46,395,290	36%
Number of K-12 schools	25,345	99,239	26%
Number of school districts	300	13,318	2%
Average school district enrollment	55,782	3,484	NA
Average school size	660	512	NA
Average share of students eligible for free and reduced price lunch program	48.5%	48.6%	NA

NA appears where a calculation is not applicable.

The CFPB sample, which includes data from the 300 largest school districts by fall 2021 enrollment, is not representative of the full population of public schools across the country. The CFPB dataset overrepresents large school districts, with the sample average school district size (55,782) far exceeding the national average (3,484). According to data from the National Center for Education Statistics, 71 percent of school districts in the U.S. had fewer than 2,500 enrolled students in the fall of 2021. However, these schools serve just 16.7 percent of the total number of enrolled students nationwide. The CFPB sample captures 36.1 percent of total student enrollment, while featuring only 2.25 percent of school districts. The CFPB dataset reflects nationwide trends for the percent of students eligible for free and reduced price lunch at about 48.5 percent.

<sup>77</sup> National Center for Education Statistics, *Digest of Education Statistics*, “Table 215.10 – Selected statistics on enrollment, staff, and graduates in public school districts enrolling more than 15,000 students in fall 2021 (1990 through 2021),” [https://nces.ed.gov/programs/digest/d22/tables/dt22\\_215.10.asp](https://nces.ed.gov/programs/digest/d22/tables/dt22_215.10.asp), “Table 215.20 – Revenues, expenditures, poverty rate, and Title I allocations of public school districts enrolling more than 15,000 students in fall 2021,” [https://nces.ed.gov/programs/digest/d22/tables/dt22\\_215.20.asp](https://nces.ed.gov/programs/digest/d22/tables/dt22_215.20.asp).

<sup>78</sup> Nationwide statistics are from Tables 204.10, 214.20, and 214.40 of the most recent edition of the *Digest of Education Statistics* from the National Center for Education Statistics. All statistics are from the 2021-2022 academic year. See National Center for Education Statistics, *Digest of Education Statistics*, (accessed February 2024), [https://nces.ed.gov/programs/digest/current\\_tables.asp](https://nces.ed.gov/programs/digest/current_tables.asp).

In addition to the sample of the 300 largest school districts, the CFPB also analyzed data from a sample of 50 rural<sup>79</sup> public school districts, selected randomly from all U.S. counties with a nonmetro 2023 Rural-Urban Continuum Code (RUCC),<sup>80</sup> then subsequently matched with a corresponding district.<sup>81</sup> This rural sample was used to verify that smaller school districts, serving fewer students, also use these payment products for school lunch costs. Figures from the rural sample were not used to generate fee ranges or averages reported in the body of this issue spotlight. Among 50 rural school districts, 29 disclose a partnership with a third-party payment processor. MySchoolBucks is also the largest provider in the rural sample with 8 district partnerships. The rural sample is not large enough to analyze other information, such as fee averages.

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<sup>79</sup> In this report, “rural” is used interchangeably with “nonmetro” as classified in the Rural-Urban Continuum Codes documented by the USDA.

<sup>80</sup> The 2023 Rural-Urban Continuum Codes distinguish U.S. metropolitan counties by the population size of their metro area, and nonmetropolitan counties by their degree of urbanization and adjacency to a metro area. The division of counties as either metro or nonmetro, based on the 2023 Office of Management and Budget (OMB) delineation of metro areas, is further subdivided into three metro and six nonmetro categories. Counties with an RUCC of greater than or equal to 4 are considered nonmetro, with counties classified as a 9 exhibiting the least urbanization. All told, the 2023 Rural-Urban Continuum Codes include 1,186 metro counties and 1,958 nonmetro counties in U.S. States and the District of Columbia. See U.S. Department of Agriculture, *Rural-Urban Continuum Codes Documentation*, (accessed Feb. 2024), <https://www.ers.usda.gov/data-products/rural-urban-continuum-codes/documentation/>.

<sup>81</sup> The random sampling was performed using the RAND function in Microsoft Excel. Each county with an RUCC of equal to or greater than 4 was assigned a random string of numbers, which was then ordered from Smallest to Largest. The first 50 counties in this randomly assigned order were chosen and matched with a school district in that county. For more information about the RAND function in Excel, see Microsoft, *Excel: RAND Function*, (accessed Mar. 4, 2024), <https://support.microsoft.com/en-us/office/rand-function-4cbfa695-8869-4788-8d90-021ea9f5be73>.

## APPENDIX B: OWNERSHIP STRUCTURES OF PAYMENT PROCESSORS

To generate Figure 1, the CFPB identified 20 lunch payment processing platforms in use at public schools in the United States. The CFPB gathered an initial list of platforms by searching for key words and phrases (including “online school lunch payment,” “lunch payment platform,” and “pay lunch online”) and examining the first five pages of search results. Platforms discovered through the construction of the school district sample (see Appendix A) were added to the list. The CFPB initially identified 26 platforms through these data collection methods. The CFPB then validated the list by, for each platform: (1) noting any public marketing statements by the processor or related companies confirming that they serve U.S. public schools; (2) finding U.S. public school districts that confirm usage of the platform on their websites; and (3) identifying any mergers or acquisitions with other platforms. The CFPB removed platforms that were not confirmed to serve U.S. public schools or have been merged into other existing platforms, paring the list down to 20 platforms. The CFPB then analyzed the ownership structures of the payment platforms to identify their parent and affiliate companies, both through examining their websites and the public securities filings of related entities.

EMS LINQ, Inc. owns two payment platforms that the CFPB identified—LINQ Connect, the third largest platform in the CFPB sample, and K-12 Payment Center.<sup>82</sup> The CFPB additionally found two lunch payment processors that have been consolidated into LINQ Connect: Titan, which EMS LINQ acquired in a \$75 million leveraged buyout in 2020; and MealsPlus, which was previously marketed as a “LINQ solution” but merged into LINQ Connect in 2021.<sup>83</sup> Some school district webpages and public resources continue to use these older product names, and as of February 2024 the website of MealsPlus continues to exist, though most of its buttons redirect to LINQ Connect. In its public marketing materials, LINQ claims to serve 30 percent of U.S. school districts through its suite of K-12 business products.<sup>84</sup>

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<sup>82</sup> EMS LINQ, Inc., *LINQ Connect: Online Portal for K-12*, (accessed Feb. 2024), <https://www.linq.com/solutions/nutrition/district-nutrition/front-of-house/online-portal/>; K-12 Payment Center, *About Us*, (accessed Feb. 2024), <https://www.k12paymentcenter.com/Home/AboutUs>; MealsPlus, *Site Banner*, (accessed Feb. 2024), <https://www.mealsplus.com/welcome-to-meals-plus/>.

<sup>83</sup> Globe Newswire, *LINQ & TITAN School Solutions Announce Merger*, (Nov. 10, 2020), <https://www.globenewswire.com/en/news-release/2020/11/10/2123594/0/en/LINQ-TITAN-School-Solutions-Announce-Merger.html>; Stradling Law, *TITAN School Solutions Completes \$75 Million Acquisition by EMS LINQ*, (accessed Feb. 2024), <https://www.stradlinglaw.com/experience/titan-school-solutions-completes-dollar75-million-acquisition-by-ems-linq.html>; MealsPlus, *Site Banner*, (accessed Feb. 2024), <https://www.mealsplus.com/welcome-to-meals-plus/>; @MealsPlus, Twitter/X (Dec. 18, 2020), <https://twitter.com/MealsPlus/status/1339933615807971329>.

<sup>84</sup> EMS LINQ, Inc., *Home Page*, (accessed Feb. 2024), <https://www.linq.com/>.

Additionally, Constellation Software Inc., a Canadian conglomerate, owns N. Harris Computer Corporation, which owns Harris School Solutions, which operates two platforms: MealTime and EZSchoolPay.<sup>85</sup>

Five of the payment platforms identified by the CFPB are registered ISOs of Wells Fargo. These platforms include: MySchoolBucks, (a product of Heartland Payment Systems and a subsidiary of Global Payments Direct, Inc.),<sup>86</sup> PaySchools and SchoolPay (products of i3 Verticals), and MySchoolAccount and RevTrak (products of Vanco Payments).<sup>87</sup> Heartland Payment Systems is an ISO of Wells Fargo and the Bancorp Bank, and Global Payments Direct, Inc. is an ISO of Wells Fargo and BMO Harris Bank. i3 Verticals is an ISO of Wells Fargo, RBS Worldplay, Deutsche Bank, Merrick Bank, BMO Harris Bank, and Fifth Third Bank.<sup>88</sup> Vanco Payments is an ISO solely of Wells Fargo.<sup>89</sup>

The remaining 11 platforms identified by the CFPB do not appear to belong to companies offering multiple K-12 lunch payment processors, but many are owned by subsidiaries of large, publicly traded holding companies or marketed as part of a suite of K-12 information management products. Cybersoft Technologies owns SchoolCafé.<sup>90</sup> Roper Technologies, a publicly traded software and technological holding company, owns MyPaymentsPlus.<sup>91</sup> PCS Revenue Control Systems, a tech company specializing in K-12 nutrition software, owns PayPAMS.<sup>92</sup> Community Brands HoldCo LLC, a cloud-based software conglomerate, owns

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<sup>85</sup> Harris School Solutions, *MealTime: School Nutrition Program Management Software*, (accessed Feb. 2024), <https://harrisschoolsolutions.com/products/mealtime-elementor/>; Harris School Solutions, *EZSchoolPay: Your Digital, Full-Cycle School Payment Software*, (accessed Feb. 2024), <https://harrisschoolsolutions.com/products/mealtime-elementor/>; Harris Computer, *Public Sector Solutions*, (accessed Feb. 2024), <https://www.harriscomputer.com/public-sector/>; Constellation Software, Inc., *Our Companies*, (accessed Feb. 2024), <https://www.csissoftware.com/our-companies>.

<sup>86</sup> MySchoolBucks, *Site Banner*, (accessed Feb. 2024), <https://www.myschoolbucks.com/>; Heartland Payment Systems, *Site Banner*, (accessed Feb. 2024), <https://www.heartland.us/about/about-us>; Global Payments Direct, Inc., *Site Banner*, (accessed Feb. 2024), <https://www.globalpayments.com/>.

<sup>87</sup> i3 Verticals, LLC, *Education Products and Site Banner*, (accessed Feb. 2024), <https://www.i3verticals.com/education/>; MySchoolAccount, *Site Banner*, (accessed Feb. 2024), <https://www.myschoolaccount.com/>; Vanco Payments, *RevTrak: Vanco's Online School Payment System and Site Banner*, (accessed Feb. 2024), <https://www.vancopayments.com/education/online-payment-processing>.

<sup>88</sup> i3 Verticals LLC, *Site Banner*, (accessed Feb. 2024), <https://investors.i3verticals.com/>.

<sup>89</sup> Vanco Payments, *RevTrak: Vanco's Online School Payment System and Site Banner*, (accessed Feb. 2024), <https://www.vancopayments.com/education/online-payment-processing>.

<sup>90</sup> Cybersoft Technologies, *About*, (accessed Feb. 2024), <https://www.cybersoft.net/about/>; SchoolCafé, *About*, (accessed Feb. 2024), <https://SchoolCafé12.com/about/>.

<sup>91</sup> MyPaymentsPlus is a product of Horizon Software, which operates as a unit of Roper Technologies (ROP: NYSE). See MyPaymentsPlus, *Site Banner*, (accessed Feb. 2024), <https://www.mypaymentsplus.com/welcome>; Horizon Software, *Online Payments: MyPaymentsPlus*, (accessed Feb. 2024), <https://horizonsoftware.com/online-payments>; Horizon Software, *About*, (accessed Feb. 2024), <https://horizonsoftware.com/about-us>.

<sup>92</sup> PCS Revenue Control Systems, *PayPAMS Family Portal*, (accessed Feb. 2024), <https://pcsrccs.com/pcs-solutions/parent-account-portal/>.

MySchoolWallet.<sup>93</sup> FocalTech, Inc., an information technology and e-commerce services provider, owns School Payment Portal.<sup>94</sup> Southwest Business Corporation, a diversified financial services company, owns e-Funds for Schools.<sup>95</sup> Computer Systems Design, Inc., a food and nutrition management software provider, owns LunchMoneyNow.<sup>96</sup> KEV Group, an international school activity fund management company, owns SchoolCash Online.<sup>97</sup> Two separate, independent companies named after their products own MealManage and CheddarUp.<sup>98</sup> Finally, PowerSchool Holdings, a publicly traded comprehensive K-12 software company, owns PowerLunch.<sup>99</sup>

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<sup>93</sup> MySchoolWallet is a product of Diamond Mind, which is part of Community Brands HoldCo LLC. See Diamond Mind Inc., *Introducing MySchoolWallet*, (accessed Feb. 2024), <https://www.diamondmindinc.com/resources/product-videos/introducing-myschoolwallet/>; Community Brands, *Solutions: School Accounting*, (accessed Feb. 2024), <https://www.communitybrands.com/solutions/school-accounting/>; Community Brands, *Our Brands*, (accessed Feb. 2024), <https://www.communitybrands.com/company/our-brands/>.

<sup>94</sup> School Payment Portal is a product of LunchTime Software, which is an affiliate of Focal Tech Inc. See Focal Tech Inc., *Contact Us*, (accessed Feb. 2024), <https://www.focaltechinc.com/Contact-Us#contact>; School Payment Portal, *Site banner*, (accessed Feb. 2024), <https://www.schoolpaymentportal.com/Default.aspx>.

<sup>95</sup> e-Funds for Schools is a product of Magic-Wrighter, which was acquired by SWIVEL Transactions LLC in 2023, which is a subsidiary of Southwest Business Corporation (SWBC). See e-Funds for Schools, *About Us*, (accessed Feb. 2024), <https://efundsforschools.com/about-us/>; Magic-Wrighter, *About Us*, (accessed Feb. 2024), <https://www.magicwrighter.com/about-us/>; SWIVEL, *SWBC's SWIVEL Acquires Magic-Wrighter, Inc.* (Dec. 5, 2023), <https://www.getswivel.io/press-releases/swbcs-swivel-acquires-magic-wrighter-inc/>; Southwest Business Corporation, *Payment Solutions*, (accessed Feb. 2024), <https://www.swbc.com/payment-solutions>.

<sup>96</sup> Computer Systems Design, Inc., *Lunch Money Now*, (accessed Feb. 2024), <https://systemsdesignusa.com/SDwp/sd/software/lunch-money-now/>.

<sup>97</sup> KEV Group, *Products*, (accessed Feb. 2024), <https://kevgroup.com/products/>; SchoolCash Online, *Home page*, (accessed Feb. 2024), <https://www.schoolcashionline.com/>.

<sup>98</sup> MealManage, *About*, (accessed Feb. 2024), <https://www.mealmanage.com/about.php>; CheddarUp, *About*, (accessed Feb. 2024), <https://www.cheddarup.com/about-cheddar-up/>.

<sup>99</sup> PowerSchool offers K-12 information management portals that integrate other lunch payment processors. The CFPB identified many lunch payment processors that offer software integrations with PowerSchool's online portal (for which they must pay an annual fee proportionate to their user base). PowerLunch is the user-facing name of the portal's lunch payment module. See PowerSchool Holdings, Inc., *Investor Relations*, (accessed Feb. 2024), <https://investors.powerschool.com/home/default.aspx>; U.S. Securities and Exchange Commission, "Letter from PowerSchool Holdings, Inc., re: Draft Registration Statement on Form S-1, CIK No. 0001835681," *EDGAR Archives*, (Dec. 22, 2020), <https://www.sec.gov/Archives/edgar/data/1835681/000095012321000843/filename1.htm> at p. 12.



**EXHIBIT B**



MENU

# Terms Of Use

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Last Updated July 16, 2024

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- Identification of the material that is claimed to be infringing or to be the subject of infringing activity and that is to be removed or access to which is to be disabled and information reasonably sufficient to permit PayPAMS to locate the material;
- Information reasonably sufficient to permit PayPAMS to contact the complaining party, such as an address, telephone number and, if available, an electronic mail address at which the complaining party may be contacted;
- A statement that the complaining party has a good faith belief that use of the material in the manner complained of is not authorized by the copyright owner, its agent, or the law; and
- A statement that the information in the notification is accurate, and under penalty of perjury, that you are authorized to act on behalf of the owner of an exclusive right that is allegedly being infringed.

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You may be required to pay a fee for the convenience of paying amounts by using the service ("Service Fee"). If you are required to pay a Service Fee, you will be notified of the exact amount of the Service Fee prior to making your payment through our payment portal.

The Service Fee covers the cost of processing the payment transactions, including third party payment processors' fees, our costs to operate and maintain the Site, and related costs we incur to provide the services. The School or School District receives the proceeds of all payments less any Service Fees associated with the transaction, as described in this Agreement.

### Refunds Only From School/School District

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In connection with the services, you may not attempt to "double dip" during the course of a refund or payment dispute

by receiving or attempting to receive funds from both PayPAMS, the participating School or School District and/or the participating credit/debit card company or financial institution/bank;

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We reserve the right, to disable, without prior notice, any account if we:

- Detect unauthorized or unusual use of your credit card or bank account
- Observe transfers or receipt of fraudulent or suspected fraudulent funds
- Detect excessive payment disputes or reversals
- Detect "kiting" type attempts
- Do not receive your full cooperate in an investigation regarding your account or disputes, or you provide additional requested information when requested
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- If your payments are rejected for insufficient funds, returns, or reversals of any kind related to your payment account.

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- Distribute or post junk mail, chain letters, spam or any other similar solicitation;
- Distribute viruses or any other technologies that may harm PayPAMS or any other Site user; or
- Harvest or otherwise collect information about other Site users, including e-mail addresses, without their express consent.

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**Delayed Updates:** As noted above, because of the delay that may occur as to when the School or School District and/or its third party provider transmits to our services transaction and account activity, there may be a delay in triggering automatic payments, submission of applications for meal subsidies, posting updated meal account balances and cafeteria purchases, email reminders, or processing applications for free meal programs and/or subsidized. The updates are provided by third parties – whether the School itself, or other third parties providing services to the School.

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**EXHIBIT C**

# United States Senate

WASHINGTON, DC 20510

September 18, 2024

The Honorable Thomas J. Vilsack  
Secretary  
Department of Agriculture  
1400 Independence Ave SW  
Washington, DC 20250

Dear Secretary Vilsack,

We write to request that the United States Department of Agriculture (USDA) act quickly to address exorbitant school lunch fees charged by payment processors. Every day, greedy payment processing companies are ripping off working families, snatching dollars meant to pay for kids' school lunches in order to pad their profits. It is unacceptable that parents face exorbitant fees just so their children can eat school lunch, and USDA should prohibit these sham fees.

A July 2024 report by the Consumer Financial Protection Bureau (CFPB) found that payment processors were collecting more than \$100 million in fees annually from families buying school lunches<sup>1</sup> and that this burden fell disproportionately on low-income families.<sup>2</sup> These fees are outrageous, and we were pleased to see your commitment that "USDA will review its policies and work with schools, state oversight agencies and the payment processors to ensure that all families have a clear and readily-available fee-free payment method."<sup>3</sup> We urge you to act quickly to do so to support children, families, and schools across the country.

For years, it has been USDA's stated view that students participating in federal nutrition programs "shall not be charged any additional fees," based on the widespread understanding that, "by charging fees in addition to the regular reduced price or paid meal charge, a school is limiting access to the program and imposing an additional criterion for participation."<sup>4</sup> Yet, in 2014, USDA created an exemption for online payment processors, which were permitted to levy

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<sup>1</sup> Consumer Financial Protection Bureau, "CFPB Report Highlights Junk Fees Charged by School Lunch Payment Platforms," July 25, 2024, <https://www.consumerfinance.gov/about-us/newsroom/cfpb-report-highlights-junk-fees-charged-by-school-lunch-payment-platforms/>.

<sup>2</sup> Consumer Financial Protection Bureau, "Costs of Electronic Payments in K-12 Schools," July 25, 2024, <https://www.consumerfinance.gov/data-research/research-reports/issue-spotlight-costs-of-electronic-payments-in-k-12-schools/>.

<sup>3</sup> Consumer Financial Protection Bureau, "CFPB Report Highlights Junk Fees Charged by School Lunch Payment Platforms," July 25, 2024, <https://www.consumerfinance.gov/about-us/newsroom/cfpb-report-highlights-junk-fees-charged-by-school-lunch-payment-platforms/>.

<sup>4</sup> Food and Nutrition Service, "Fees for Lunchroom Services," June 14, 2021, <https://www.fns.usda.gov/cn/fees-lunchroom-services>.

fees as long as schools offered alternative fee-free payment methods alongside any payment method that involved fees.<sup>5</sup> In 2017, USDA further clarified that school districts “cannot exclusively use an online system” for school lunch payments and that “families must be notified about all payment systems used at the school, including any fees associated with specific payment options.”<sup>6</sup>

However, in the years since USDA issued this guidance, cashless payment methods have become much more common, which has allowed payment processors to funnel ever more money into their own pockets, instead of the school lunch accounts parents are trying to replenish. In its report, CFPB found that parents and students are predominantly at the mercy of three large payment processing firms that dominate the market and are “insulate[d] from competition.”<sup>7</sup> As a result, fees levied by these firms represent a growing share of school lunch payments. In most school districts, families must pay a flat fee each time they deposit money into their child’s school lunch account, and “lower-income families making frequent small payments” shoulder this burden disproportionately.<sup>8</sup> CFPB found that, “over the course of a school year, families with children eligible for means-tested reduced price lunch programs may send \$0.60 to payment processors for each \$1 they spend on school lunch.”<sup>9</sup> These fees represent usurious profiteering by payment processors and must be stopped.

While USDA requires school districts to offer “at least one method of payment that is free of charge,”<sup>10</sup> this does not adequately mitigate the harms of exorbitant payment processing fees. Many school districts do not notify families about alternative payment methods, and some school districts only offer alternative payment methods that can be difficult to access – such as cashier’s checks or money orders.<sup>11</sup> And despite claims from payment processing companies that school districts can negotiate fees during the contracting process, individual school districts have little to no power to negotiate a fair contract when three companies control 67%<sup>12</sup> of the payment

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<sup>5</sup> Food and Nutrition Service, “Online Fees in the School Meal Programs,” October 8, 2014, <https://www.fns.usda.gov/cn/online-fees-school-meal-programs>.

<sup>6</sup> Food and Nutrition Service, “Unpaid Meal Charges: Guidance and Q&A,” March 23, 2017, <https://www.fns.usda.gov/cn/unpaid-meal-charges-guidance-qas>.

<sup>7</sup> Consumer Financial Protection Bureau, “Costs of Electronic Payments in K-12 Schools,” July 25, 2024, <https://www.consumerfinance.gov/data-research/research-reports/issue-spotlight-costs-of-electronic-payments-in-k-12-schools/>.

<sup>8</sup> Consumer Financial Protection Bureau, “CFPB Report Highlights Junk Fees Charged by School Lunch Payment Platforms,” July 25, 2024, <https://www.consumerfinance.gov/about-us/newsroom/cfpb-report-highlights-junk-fees-charged-by-school-lunch-payment-platforms/>.

<sup>9</sup> *Id.*

<sup>10</sup> Food and Nutrition Service, “Unpaid Meal Charges: Guidance and Q&A,” March 23, 2017, <https://www.fns.usda.gov/cn/unpaid-meal-charges-guidance-qas>.

<sup>11</sup> Consumer Financial Protection Bureau, “CFPB Report Highlights Junk Fees Charged by School Lunch Payment Platforms,” July 25, 2024, <https://www.consumerfinance.gov/about-us/newsroom/cfpb-report-highlights-junk-fees-charged-by-school-lunch-payment-platforms/>.

<sup>12</sup> Consumer Financial Protection Bureau, “Costs of Electronic Payments in K-12 Schools,” July 25, 2024, <https://www.consumerfinance.gov/data-research/research-reports/issue-spotlight-costs-of-electronic-payments-in-k-12-schools/>.

processing market. It's therefore unsurprising that CFPB reported that payment companies "have broad control over fee rates."<sup>13</sup>

Following the CFPB's report, USDA made a commitment to "crack[] down on junk fees that are raising meal costs for families," including by "review[ing USDA] policies and work[ing] with schools, state oversight agencies and the payment processors to ensure that all families have a clear and readily-available fee-free payment method."<sup>14</sup>


As millions of students head back to school this month, we urge you to act on these commitments and stand up to greedy payment processors by withdrawing USDA's 2014 guidance permitting payment processing fees on school lunch purchases. We also urge you to work with state departments of education to empower individual school districts to secure fair payment processing contracts, rather than leaving community schools at the mercy of corporate greed. USDA should not permit payment processing companies to simply shift the burden of these fees from working families onto struggling school districts – the solution must be to address this market dysfunction directly. Together, these steps will lower costs for families who are already facing higher costs at the checkout counter due to corporate price-gouging and ensure that greedy payment processors cannot continue to rip off American families.

Thank you for your consideration of this important matter.

Sincerely,



Elizabeth Warren  
United States Senator



John Fetterman  
United States Senator



Sherrod Brown  
United States Senator

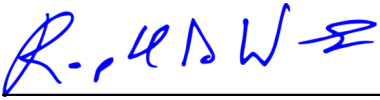


Debbie Stabenow  
United States Senator

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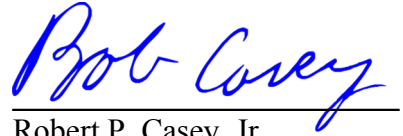
<sup>13</sup> *Id.*

<sup>14</sup> Consumer Financial Protection Bureau, "CFPB Report Highlights Junk Fees Charged by School Lunch Payment Platforms," July 25, 2024, <https://www.consumerfinance.gov/about-us/newsroom/cfpb-report-highlights-junk-fees-charged-by-school-lunch-payment-platforms/>.



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Raphael Warnock  
United States Senator



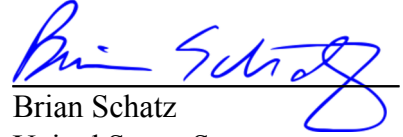
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Robert P. Casey, Jr.  
United States Senator



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Bernard Sanders  
United States Senator



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Brian Schatz  
United States Senator