

# School *Soft Drink* Contracts —Who Benefits?



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**W**ith the numbers of obese and overweight children skyrocketing since the 1980s, childhood obesity has become one of the most pressing public health issues of our time. To reverse the alarming trends, parents, public health advocates, and policy makers at national, state, and local levels are taking a closer look at the nutrition environment in schools. And they're not happy with all the candy, soda, and chips.

Oregon Senator Bill Morrisette called removing sugary drinks and high-fat snacks from schools "no brainer" reform.

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So why, he asked, can't this state pass legislation ensuring healthier choices? Morrisette was referring to a modest, and failed, attempt to set nutrition standards for foods available in Oregon public schools. Introduced in the past two legislative sessions, this seemingly innocuous legislation sparked a contentious debate, with issues of local control, school financing, and most importantly, children's health, at the heart of the controversy.

Although Oregon's bill, along with similar bills across the country, was defeated in 2005, a new federal law requires school districts nationwide to develop local wellness policies to address nutrition and physical activity in schools by the 2006–2007 school year. Yet, as communities begin to craft these policies, they may find that changes to school foods are not solely within the community's control.

In the unenviable position of having to plug school funding holes, school boards and administrators across the country have signed contracts with soda companies. Contract revenues are derived from two main sources: payments to districts made by the companies, often in lump sums at the start of the contract, and revenue generated from the sale of products to students. The effect of these agreements on the ability of schools and parents to make changes will

be a crucial point of discussion as communities develop their local wellness policies. Important questions need to be addressed. What are the details of the contracts? What rights have schools granted companies? How much control do schools have over the beverages offered to students? How much money do the contracts, in fact, generate, and where does it come from? And most importantly, what are the long- and short-term implications for students' health?

These and similar questions motivated our organization, Community Health Partnership ([www.communityhealth-partnership.org](http://www.communityhealth-partnership.org)), to delve into the details of the contracts between Oregon school districts and beverage companies. Of the 25 districts we surveyed statewide, 12 reported contracts with either Coca-Cola or Pepsi or local distributors of these brands. Among the 13 districts that did not have district-level agreements, most identified individual schools that contracted with companies. Because CHP is a small organization, we limited our analysis to district-level contracts.

## Giving with one hand

Based on our review, we found that these agreements are not as lucrative as they appear on first glance. Portland Public Schools' eight-year contract with Coca-Cola, for example, provides \$1.9 million at the beginning of the contract in 2001, with annual installments of \$45,000 until the end of the contract in 2009. These payments may initially appear to be a large sum of money, but they translate into about \$5 per student per year for the 51,000 Portland Public School students covered by the contract. For other districts surveyed, the fees paid by soda companies, what we term "cash advances" in our report, total between \$2 and \$8 per student annually.

In addition to cash advance fees, schools also collect a commission percentage from the sale of beverages to students. Our analysis revealed that most of the money generated for schools through the contracts comes from students purchasing beverages, not from payments made by the companies. Each time a student buys a soda for, say

\$1, a fraction—on average of \$0.32—is channeled back to the school to help compensate for budget shortfalls. The larger share, an average of \$0.68, goes to the soda company. With the commission revenue and company payments combined, districts collect an estimated total of \$12–\$24 per student annually. As a point of comparison, this amount is less than half of a percent of annual district spending per student, which ranges between \$6,000 and \$8,000 for the districts studied.

Although these contracts and their cash advances may appear generous, the companies, in fact, earn far more from these agreements than they pay out. Cash advances range between \$2 and \$8 per student per year, yet companies can expect to collect between \$14 and \$32 per student annually based on revenue from sales. In some cases, districts guarantee companies the sale of a minimum volume of beverages over the life of the contract. For example, Hillsboro's contract with Coca-Cola guarantees the minimum sale of 420,000 cases over the 12-year term of the contract, averaging 45 beverages per student annually. To meet this sales volume requirement, students must not only consume more than 10 million beverages, but also must spend approximately \$10 million over the course of the contract. Based on the contract's commission arrangement, the district will receive \$3 million, while Coca-Cola will collect the remaining \$7 million.

### More than just money

Companies gain more than just money from sales. Of far greater value, companies have the opportunity to build brand loyalty among young people in an educational setting. Exclusive contracts mean competition-free, profuse exposure for their products, name brands, and logos. Vendors also receive explicit rights to advertise and promote their products on school campuses through banners, cups, scoreboards, and more.

Vendor contracts may pose challenges for many school districts wanting to make changes. The agreements we examined last an average of 9 years, with some lasting as long as 15 years. Where schools receive upfront payments, they may find it extremely difficult to terminate an agreement early because of contract provisions requiring schools to pay back fees received in advance. Schools also relinquish their autonomy over nutrition-related decisions. As Portland Public Schools discovered two years ago, for example, the district not only had to ask for Coke's permission, but they also had to pay a \$9,000 penalty for removing sports drinks from middle schools. Companies may be willing to amend contracts and supply healthier products, but this is a decision over which some districts no longer have sole control.

Although the soft drink industry espouses community-minded values of helping schools to “narrow the education funding gap,” our study illustrates that the bulk of the financial gain from these agreements comes from the community's own pockets, not from the donations of the soda companies. Companies are actually taking more money from communities than they're contributing, and they're also gaining a host of rights to control the availability of their products in schools and to instill brand loyalty among

young people. These concerns raise the question: If the fundamental purpose of the contracts is to generate money for under-funded school activities, are these contracts truly helping communities achieve that goal?

### Budgets vs. health

Public reaction to our findings reflects the growing concern about childhood obesity and the role that schools play when it comes to children's health. A *Eugene Register-Guard* editorial, for example, said, “[W]hen a short-term solution to a cash crisis clearly contributes to a health problem that has lifelong—and life-threatening—consequences for students, it's time to take a look elsewhere for money. The Eugene district should find a way to pay the \$160,000 that it would take to terminate its soft drink contracts in 2005.”

As our report reveals, local community control is at the mercy of soda companies when it comes to providing and promoting beverages in schools. This fact is also highlighted in the American Beverage Association's new school vending policy, released in August 2005. Although the voluntary policy emphasizes reducing the proportion of soft drinks stocked in school vending machines, it concludes, “Where school beverage contracts already exist, the policy would be implemented when the contract expires or earlier if both parties agree.” If companies sincerely want to help, they would permit parents and educators to make their own rules, rather than tie them to contracts that conflict with the interest of children's health.

We hope CHP's research catalyzes further dialogue about the role of soda contracts in schools, not only in Oregon but around the country. According to a recent Government Accountability Office report, nearly 75 percent of high schools, 65 percent of middle schools, and 30 percent of elementary schools had exclusive contracts in 2003–2004. As communities shape nutrition-related goals through their local wellness policies, evaluation of the contracts, their role and benefit to schools, and the flexibility of schools already in contracts, will be crucial points of discussion. ■

#### Author

Nicola Pinson, JD, is a public health lawyer and author of the Community Health Partnership report *School Soda Contracts: A Sample Review of Contracts in Oregon Public Schools, 2004*. See the report at [www.communityhealthpartnership.org/publications/reports/reports.html](http://www.communityhealthpartnership.org/publications/reports/reports.html).

#### Resources

American Beverage Association. School partnerships. [www.ameribev.org/schools/](http://www.ameribev.org/schools/).

American Beverage Association. Press Release. Beverage industry announces new school vending policy. August 16, 2005. [www.ameribev.org/pressroom/2005\\_vending.asp](http://www.ameribev.org/pressroom/2005_vending.asp).

Government Accountability Office. *School Meal Programs: Competitive Foods Are Widely Available and Generate Substantial Revenues for Schools*. (GAO-05-563), August 2005.

Institute of Medicine. *Preventing Childhood Obesity: Health in the Balance*. Washington DC, 2005.

*Register-Guard*. Editorial. An unhealthy bargain: Eugene schools should end soft drink contracts. April 21, 2005.