

FOOD SERVICE PROGRAMS IN WYOMING PUBLIC SCHOOLS

A Review and Analysis of Financial Deficits

Prepared for the
Wyoming Department of Education

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TABLE OF CONTENTS:

I.	Executive Summary.....	4
II.	Contract.....	8
III.	Education and School Nutrition Programs.....	10
IV.	Wyoming School Food Service Financial Status.....	13
V.	Analysis and Description of Problems.....	14
VI.	Child Nutrition Program Actions.....	29
VII.	State Revenues and Funding Models.....	33
VIII.	Table of Exhibits.....	37

I. EXECUTIVE SUMMARY:

There is a strong link between children's health and academic achievement. Children must be well nourished, fit, healthy and ready to learn in order to take full advantage of the educational opportunities offered and achieve their full potential. The United States Congress recognized the link between good nutrition, academic success and future productivity by enacting the National School Lunch Act and Child Nutrition Acts. This legislation was created to assist schools in the establishment, maintenance, operation and expansion of non-profit school lunch and breakfast programs.

The Child Nutrition Programs are complex and influenced by many factors including a myriad of state and federal legislation and regulations; limited funding based on nationally set reimbursement rates; operational and volume considerations and student preferences; availability of high quality, nutritious, food at affordable prices; staffing and labor considerations and rising costs.

Wyoming state policy for food services requires school districts and schools to operate their food service programs on a self-supporting basis thereby requiring no state support. This assumes that all food service costs will be covered by local revenues (meal charges and other income) and federal per meal reimbursements.

Food service programs in a majority of Wyoming school districts have been operating at a deficit for over five years. The deficit will grow to \$5 million in the current school year and state education funds are being used to subsidize the food service deficit.

The Wyoming Department of Education contracted with John Perkins and the Perkins Consulting Group to review food service operations and to determine the factors contributing to and reasons for the financial deficits. The review

included a five-year trend analysis of school food service data and information for all Wyoming school districts and schools.

There are a number of reasons contributing to the food service operating deficits including both internal (state and local) and external (national) factors. Internal factors include the small size of many Wyoming school districts and schools; student demographics; rising food and other costs; local and state policies concerning employee salaries and benefits; and local operational policies which adversely impact food service revenues.

School district size and student demographics are a primary influence in the inability of local food service operations to even break-even. Only six school districts have more than 3,000 students and 27 districts have less than 1,000 students with 13 having less than 500 students. In addition, almost one third (117) of the 361 schools have less than 100 students in attendance. Many districts cover large geographic areas with a number of very remote schools. State wide attendance, e.g. Average Daily Membership (ADM), is continuing to decline.

The number of students determined to be eligible for free and reduced price meals has remained relatively stable since 2001 at approximately 27,000 students, which is 33 percent of enrollment (ADM). However, this represents an actual decline in the number of economically disadvantaged students because the national income eligibility scale for receiving additional meal benefits has increased approximately 30 percent over the same period. This is significant since the amount of federal reimbursement under the Child Nutrition Programs is much higher for meals served to free and reduced price students.

The operation of the Child Nutrition Programs at the local school level is efficient but constrained by regulatory parameters. Student participation in the lunch program at 61 percent of enrollment is a little higher than the national average of

57 percent. However, breakfast participation is low at only 14 percent, below the national average of 22 percent.

The costs of operating local school food service programs have increased dramatically in the last three years. Employee salaries have increased by 17 percent; employee benefits have risen 27 percent, and food cost has grown by over 18 percent (\$2 million per year since the 2003), As a result total food service costs have increased over \$5 million (20%) since the 2002 school year. Wyoming does not distribute Child Nutrition Program required state matching funds (\$436,259) directly to schools as intended by program regulations.

School food service is a business within a non-business environment and, as such, should be operated in accordance with good business practices. Many districts have local policies that adversely impact food service revenues or increase the cost of operation. These policies include providing un-reimbursable free second meals or partial meals to students, free meals to adults, and not establishing or enforcing charging policies.

Summary: Many Wyoming school districts and schools are too small to operate a food service program on a break-even basis. Food service operating costs have increased beyond the ability of most school districts to absorb. Employee salaries, benefits and food cost are factors over which local districts have little control. The majority of meals are served to students who are not eligible for free and reduced price benefits and federal reimbursement is not sufficient to cover the cost of these meals.

Creating additional revenue to offset food service deficits within the operating parameters of the Child Nutrition Programs, e.g. increasing federal reimbursement, is not practical. Increasing the number of meals (students participating) beyond current levels would be difficult. Federal reimbursement is based on the number of meals served and the rates are much higher for free

and reduced price meals than paid meals. Therefore, even if participation could be increased most of the increase would be in the paid meal category which would increase costs not covered by federal reimbursement.

Creating additional revenue by increasing meal prices for paying students is also not feasible since the current charges for paid meals in Wyoming schools is generally considered to be about the maximum that students/families will pay, due to demand elasticity. Raising prices above this rate would probably result in fewer students eating school meals and nullify any potential gain.

Local food service operating costs could be somewhat reduced by adopting policies that would limit wage rates, longevity caps and benefits for new hires. Local policies that adversely affect food service costs should be reviewed and changed. Operating Child Nutrition Program food service in small, remote schools could be discontinued.

The only realistic solution to the food service deficit problem is to create a state revenue stream to assist school districts to fund local food service operations. Since state revenues for education are already being used to subsidize food service this would make more funds available for instructional use. There are a number of funding options which include:

- a) Appropriate and distribute the Child Nutrition Program required State Revenue Matching funds (\$436,259) directly to school districts each year as recommended by the U.S. Department of Agriculture.
- b) Create a per-meal state reimbursement for lunches and breakfasts.
- c) Develop a state cost reimbursement fund to help districts defray all or a portion of their food service deficits.
- d) Create a funding model based on number of students (ADM).
- e) Create a funding model based on food service staffing resources (FTEs).

II. CONTRACT:

The Wyoming Department of Education contracted with John Perkins and the Perkins Consulting Group to conduct a review of food service operations in Wyoming school districts. The purpose was to develop an overview of Wyoming school food service operations to determine the factors contributing to and reasons for financial deficits in a majority of the district programs.

The on-site review portion of the contract took place during the week of August 20-24, 2007 and consisted of a review and analysis of the most recently available federal Child Nutrition Program information and data compiled by the Wyoming Department of Education. The review also included visits to two school districts, Albany County School District # 1 and Laramie County School District # 1.

The review included a five-year trend analysis of the following food service data and information for all Wyoming school districts and schools:

A. Fiscal:

- a) Federal Child Nutrition Program reimbursement amounts,
- b) Available state reimbursement for meals,
- c) National School Lunch Program State Revenue Matching Requirement and method of distribution,
- d) USDA Donated Commodities distribution and usage,
- e) School district subsidy from general education fund,
- f) Indirect cost recovery,
- g) Revenue and expenditure analysis by account (object/source) codes,
- h) Current operating resources (net working capital), and
- i) Profit and loss information.

B. School District Characteristics:

- a) District characteristics: urban vs. rural,
- b) District and school size and student demographics (ADM),
- c) Open vs. closed campuses,
- d) Block scheduling, number of serving periods, meal times, dining capacity,
- e) Administrative philosophy (local control), understanding and acceptance of food service,
- f) Local operations: central kitchens, on-site preparation and/or satellite kitchens,
- g) Food service staffing patterns: FS director or manager, full vs. part time,
- h) Food service labor costs (wage rates, benefits, other factors),
- i) Application of technology and automated systems (meal counting and claiming, point of service systems)
- j) Menu planning systems (traditional or enhanced food based, nutrient standard, other),
- k) Availability of competitive foods (soda and snack foods) and vending,

C. Child Nutrition Program Participation:

- a) Student participation in the Breakfast, Lunch, After School Snack, and other programs,
- b) Number of serving days per program,
- c) Number of approved free and reduced price students,
- d) Average daily participation (ADP) by program and by eligibility category,
- e) Numbers of meals served by program, by eligibility category, and by school district,
- f) School district and state percentage of free and reduced price meals,
- g) Number and percentage of students directly certified for free meals and the method of certification,
- h) Paid student meal prices,
- i) School staff and other adult meal prices,

- j) Schools participating in NSLP Provision 2 or 3,
- k) Schools operating under food service management contracts,
- l) Number Bureau of Indian Affairs (BIA) schools.

D. Other:

- a) Wyoming economic trends, and
- b) Historical funding for education.

The review also included on-site local interviews with the Nutrition Services Program Administrator of the Laramie County School District #1 and the Business Manager of the Albany County School District #1. The findings from these interviews will be discussed in Section IV. C.

III. EDUCATION AND SCHOOL NUTRITION PROGRAMS:

The Wyoming Department of Education's mission is to model the highest possible character, integrity, and leadership focused on the support of continuous academic achievement. The focus of the agency is on the Governor's Goal/Result #5. It is the Department's intent to ensure that all students are successfully educated and prepared for life's opportunities.

There is a strong link between children's health and academic achievement. Children must be well nourished, fit, healthy and ready to learn in order to take full advantage of the educational opportunities offered and achieve their full potential.

A student's physical and mental well being is directly dependent on good nutrition. Children, who are hungry or poorly nourished, cannot succeed in school. Nutritious school meals are just as vital and integral to the education process as the teacher, the classroom, or the textbook, and certainly as important as athletic equipment, a band uniform, and a bus ride to school. The best teacher in the world cannot teach a child who is inattentive, or pre-occupied

with hunger, and will not be heard over the rumbling of an empty stomach. If a child is hungry, or mal-nourished and not prepared to learn – **then all of the dollars spent on education are wasted!**

The United States Congress recognized the link between good nutrition, academic success and future productivity by enacting the National School Lunch Act in 1946. This legislation created the School Lunch Program and the intent of Congress was:

"..... as a measure of national security, to safeguard the health and well-being of the Nation's children and to encourage the domestic consumption of nutritious agricultural commodities and other food, by assisting the States, through grants-in aid and other means, in providing an adequate supply of food and other facilities for the establishment, maintenance, operation and expansion of non-profit school lunch programs."

A new dimension was added to school food services with the enactment of the Child Nutrition Act of 1966 which established the School Breakfast Program and provided free and reduced price benefits for economically disadvantaged children. In its Declaration of Purpose, Congress stated,

"In recognition of the demonstrated relationship between food and good nutrition and the capacity of children to develop and learn, based on the years of cumulative successful experience under the National School Lunch Program with its significant contributions in the field of applied nutrition research, it is hereby declared to be the policy of Congress that these efforts shall be extended, expanded, and strengthened.....to meet more effectively the nutritional needs of our children."

The stated purpose of the Child Nutrition Programs clearly establishes that Congress intends for states to recognize the importance of good nutrition by encouraging and supporting these programs. Students are required to attend school for up to eight hours a day, 175 days each year. The state and local school districts have the responsibility to ensure the safety and well being of

students in their care. A healthy school environment, which includes balanced nutritious meals, healthy food choices, physical fitness and nutrition education, must be considered a basic element of the education process. There have been numerous scientific studies demonstrating the importance of providing nutritious school meals to students' mental and physical well-being and academic success. The relationship between inadequate nutrition, good behavior and the ability to learn is well-substantiated. A few examples of such studies follow:

Example #1:

The Harvard Medical School conducted a study of the psychological and academic impact of school breakfast over an extended period of time. This study found that eating breakfast in school produced significant gains in academic and emotional function with positive effects on grades, attendance, behavior, and psychological test scores. The researchers concluded that, "this relatively simple intervention can significantly improve children's academic performance and psychological well-being." And further, "the students who regularly ate school breakfast had math grades that averaged almost a whole letter grade higher than the grades of students who rarely or never ate school breakfast." Regular breakfast consumption was also linked to "significant decreases in child absenteeism and tardiness."

Example #2:

The results of a three-year study in Minnesota elementary schools found that students who ate breakfast at school were better prepared for learning. Teachers reported that students had increased attention spans, were more energetic, alert and had more positive attitudes. Student's behavior improved and less educational time was loss due to discipline problems. During the study there was a general increase in composite math and reading percentile scores. The school breakfast program was credited with having a positive impact in improving student achievement. The study also found indirect social benefits from students eating school meals such as more frequent and healthier

interaction between students and between students and teachers. Overall, the response to the pilot program was extremely positive – teachers liked the behavior and learning improvements, parents appreciated the safety net it provided them, students received needed nutrition and enjoyed the social aspects. School administrators found that it was easy and important to integrate breakfast into the daily educational routine.

Eating a school breakfast and lunch reduces behavioral problems. Studies show that behavioral and emotional problems are more prevalent among children living in families where hunger is an issue. Teenagers experiencing hunger are more likely to be suspended from school, have difficulty getting along with other children and have fewer friends. In addition, hungry children are more likely to be absent and tardy. Providing nutritious school meals has a positive impact on school attendance and discipline.

The Child Nutrition Programs are administered at the federal level by the U. S. Department of Agriculture (USDA), at the state level by the Wyoming Department of Education (WDE), and at the local level by participating school districts.

IV. WYOMING SCHOOL FOOD SERVICE FINANCIAL STATUS:

The Child Nutrition Programs are complex and influenced by many factors including a myriad of federal and state legislation and regulations; limited funding based on nationally set reimbursement rates; operational policies; student preferences and participation levels; availability of high quality, nutritious food at affordable prices; staffing and labor considerations and rising costs. The federal funding for the Child Nutrition Programs was established to supplement, not supplant, the resources needed for the operation of school food service programs at the local level. School districts are required to establish financial management systems, comply with generally accepted accounting practices and

good business and management standards. Local school food service programs are required to operate on a non-profit basis and are only allowed to accumulate up to a three-month operating surplus. Certainly the goal would be for a district's school food service program to be financially self-sufficient or operate at a break-even point. However, this may not always be possible due to factors beyond the control of local school program administrators.

The Wyoming state policy for food services requires school districts and schools to operate their food service programs on a self-supporting basis thereby requiring no state support. This assumes that all food service costs will be covered by federal per meal reimbursements and local revenues (meal charges and other income). However, in reality, the food service program in a majority of school districts has operated at a growing deficit for the last five school years (2001-2006). (See Exhibit 1) School districts have transferred funds from other state and local revenues to cover (subsidize) these deficits. The amount of subsidy has grown from \$3 million in 2001-02 to \$4.3 million in 2005-06 an increase of over 42 percent during this period. (See Exhibit 2) The subsidy amount is estimated to reach \$5 million for the current school year.

V. ANALYSIS AND DESCRIPTION OF PROBLEMS:

There are a number of reasons contributing to the food service operating deficits including both internal (state and local) and external (national) factors. Internal factors include the small size of many Wyoming school districts and schools; student demographics; local and state policies concerning employee salaries and benefits; and local operating policies which adversely impact food service revenues. External factors include rising food, transportation and other costs; Child Nutrition Program regulatory and structural constraints; and nationally set reimbursement rates.

A. Local and State Demographics:

School district size and student demographics are a primary influence in the inability of local food service operations to even break-even. The following table shows Wyoming school districts and student population (ADM) levels:

<u>School Districts</u>	<u>ADM Range</u>	<u>ADM Percent</u>
2	10,000 +	4.2%
1	5,000 – 10,000	2.1%
3	3,000 – 5,000	6.2%
15	1,000 – 3,000	31.2%
14	500 – 1,000	29.2%
13	less than 500	27.1%

Only six school districts have more than 3,000 students and 27 districts have less than 1,000 students with 13 having less than 500 students. (See Exhibit 3) In addition, almost one third (117) of the 361 schools have less than 100 students in attendance. (See Exhibit 4) Many districts cover large geographic areas with a number of very remote schools. State wide attendance (ADM) has continued to decline from 85,522 in 2001 to 82,484 in 2006, a reduction of 3.5 percent.

The number of students eligible for free and reduced price meals has declined slightly from 2001, but remains relatively stable at approximately 27,000 students, which is 33 percent of membership (ADM). However, this represents an actual decline in the number of economically disadvantaged students because the national income eligibility scale for receiving additional meal benefits has increased approximately 30 percent over the same period. This is significant since the amount of federal reimbursement under the Child

Nutrition Programs is much higher for meals served to free and reduced price students.

The number of students participating in the Child Nutrition Programs in the state has increased slightly in the lunch program (6%) and significantly in the breakfast program (35%) from 2001 to 2006. Wyoming's current student participation in the lunch program is 61 percent of enrollment which is slightly higher than the national average of 56.8 percent. However, breakfast participation at only 14 percent is much lower than the national average of 21.9 percent. Free and reduced price meals in Wyoming schools comprised 40 percent of total lunches and 66 percent of breakfasts served during the 2005-06 school year. The national averages for free and reduced price meals are 59 percent of total lunches and 81 percent of total breakfasts.

In summary, the small size of many Wyoming districts and schools, remote locations of some schools, declining enrollment and a low number of economically disadvantaged students combine to significantly limit the amount of revenue local food service programs can generate.

B. Food Service Operating Costs:

The total annual food service operating costs in Wyoming schools has increased over \$5.5 million in the last five years with \$4.3 million of that increase occurring in just the last three years. This represents an increase of over 22 percent in five years and 17 percent since the 2003-04 school year. (See Exhibit 5)

The areas having the greatest impact on increasing local costs are employee salaries and benefits and food costs. (See Exhibit 6) The statewide total for food service salaries has increased 17 percent from \$9 million in 2002 to \$10.5 million in 2006. Employee benefits have increased 27 percent from

\$3.6 million to \$4.6 million during the same period. Most of the increased costs have occurred during the last two years with salaries rising 14 percent (\$1.3 million) and employee benefits 24 percent (\$896,000). (See Exhibit 7) In most school districts, food service employees are treated the same as other school staff in terms of salary increases based on longevity and benefits. The wage rates of many local food service staff are higher than normal for similarly skilled employees in other industries due to a state initiative providing higher wage rates for “hard to fill positions”. Many school food service operations attempt to limit labor costs and maximize labor efficiency by making extensive use of part time employees. However, in many districts part time employees are granted full employee health benefits. In the 2006 school year food service employee benefits amounted to \$4.6 million which was 44 percent of employee salaries.

Another major factor in the increasing cost of school food service operations is the rising cost of food. The annual food cost in Wyoming schools has increased over \$2.5 million in the last five years with \$1.6 million since the 2004 school year. This represents an overall increase of 24 percent with a 14 percent increase since 2004. The problem of rising food costs is facing schools across the nation and a primary causal factor seems to be the increased cost of transportation due to rising fuel prices. The cost of food includes transportation and delivery fees, plus most food is perishable and requires the use of refrigerated trucks. Delivery fees are based on “drop size” (number of cases delivered) and distance traveled. Therefore, the small size and remote location of many Wyoming schools are major factors influencing rising food costs.

Also affecting the revenue side of local food service budgets is that school districts do not receive a direct appropriation of the required National School Lunch Program State Matching Funds. Wyoming does not distribute these funds (\$436,259 per year) directly to schools as intended by federal program

regulations. Rather than a direct appropriation, WDE identifies in-kind funding from which food service operations may indirectly benefit. The USDA does not recommend this methodology. A direct appropriation would provide financial assistance to districts to help offset the food service operating losses with a true audit trail that demonstrates the proper and intended use of these funds.

C. Local School District Perspective:

Interviews were conducted with local officials in two school districts to gain their perspective and determine what factors they perceived to be causing the food service operating deficit in their districts.

1. Laramie Co. School District #1

Laramie County School District #1, located in Cheyenne, is the largest school district in the state with 31 schools and 12,580 students in attendance (ADM).

The district has experienced declining enrollment for the past several years. The Laramie County School District is composed of the following array of schools:

<u>Schools</u>	<u>Enrollment (ADM)</u>
25 Elementary Schools	6,682 (avg. 267 per school)
3 Junior High Schools	2,963 (1,147, 975, and 841)
<u>3 High Schools</u>	<u>2,935</u> (1,475, 1,194, and 266)
31 Total Schools	12,580 Total Students Enrolled

The Laramie School District food service operations for the 2005-06 school year reflect the following data:

Lunch:

Average Daily Participation (ADP) = 7,206

ADP as a percent of ADM = 57%

4,518 students approved for free and reduced price meals (March 2006)
 Free and reduced price students = 36% of ADM
 Total lunches served = 1,246,714
 47% of total lunches were served as free or reduced price

Breakfast:

Average Daily Participation (ADP) = 2,197
 ADP as a percent of ADM = 17%
 Total breakfasts served = 380,043
 72% of total breakfasts were served as free or reduced price

Food Service Budget:

Total food service expenditures		\$4,475,346
Total federal CNP reimbursement	\$1,834,217	
Total student & adult payments	1,672,938	
Total A La Carte revenues	<u>500,000</u>	
Total food service revenues	\$4,007,155	
Total food service operating loss		(\$468,191)
General Fund transfer in (food service subsidy)		\$536,612
Total per student food service operating loss		\$37.22

Laramie Co. School District #1 participates in the Northern Colorado Purchasing Cooperative. The district offers limited competitive foods but no sodas or candy. The development and implementation of the Child Nutrition Program mandated school wellness policy has lead to very positive results in menu planning, a la carte offerings, and competitive food availability.

The district's food service operation has experienced significant increases in salaries, benefits, food cost and operating losses for the last five years as follows:

<u>Sch Yr</u>	<u>Salaries</u>	<u>Benefits</u>	<u>Food</u>	<u>Operating Loss</u>
2001-02	\$1,174,519	\$629,879	\$1,478,047	(\$ 341,462)
2002-03	1,234,550	681,929	1,479,196	(390,849)
2003-04	1,245,206	674,589	1,599,632	(1,091)
2004-05	1,389,819	836,597	1,691,670	(233,719)
2005-06	1,626,280	879,538	1,861,767	(468,191)

Source: WDE601 Data – School Years 2001-2006

Over five years the annual food service employee salaries increased \$451,761 (38%); benefits increased \$249,659 (40%); food cost increased \$383,720 (26%) and the annual operating loss increased \$456,000 (570%).

According to the Nutrition Services Program Administrator the primary causes for the food service operating losses are as follows:

1. Employee salaries and benefits: LCSD #1 food service staff who work four or more hours per day receive full health benefits. This costs the food service fund over \$1,100 per year (family plan) per benefit-eligible employee. In 2005-06 employee benefits amounted to \$879,538, or 20% of total food service expenditures.
2. The cost of food, which is approximately 45% of their total food service budget, has gone up dramatically in the last few years. This is particularly true for meat and dairy products.
3. The cost of providing food service in small, remote elementary schools is significantly higher than larger urban schools. LCSD #1 has two elementary schools with fewer than 10 students in attendance located several miles outside of the city. The food service department prepares meals in one of their Cheyenne schools and a food service employee delivers and serves ten or fewer meals to these two schools each day.

It is important to note that the Laramie Co. School District #1 administration is very supportive of its food service operation, and the nutrition services administrator has not encountered any significant pressure from the district administration or school board to minimize, or eliminate the deficit. However, there is concern about the future, the growing amount of the deficit and the continuing ability of the district to subsidize food service. They feel that the district's food service operation is efficient and adheres to good management practices and accounting standards but that the deficit is caused by conditions beyond their control.

The Nutrition Services Program Administrator indicated that the most important additional resources needed to make the food service operation financially healthy were:

1. Financial and administrative assistance to manage the impact of the large health benefit expenses.
2. A state supplemental reimbursement is needed since the CNP Federal Reimbursement is inadequate to cover the costs of operating local food service programs.
3. Additional financial resources are needed to fund a long-term equipment replacement plan.
4. Assistance is needed to convince the LCSD#1 administration to adopt and enforce a realistic meal "charging policy" for unpaid full or reduced price meals.

Additional helpful resources or services that the State (WDE) could provide local school district food service operations include:

1. An improved, cost-effective system for distributing USDA donated foods. The WDE is currently in the process of updating and improving its food distribution system.

2. Useful management tools/reports from data supplied to WDE, such as summary reports, bench marks, cost comparisons, operational data trends, break-even analysis, etc.

2. Albany Co. School District #1

Albany County School District #1, located in Laramie, is the fifth largest school district in the state with 18 schools and 3,460 students in attendance. The district has experienced declining enrollment for the past several years. The district is composed of the following array of schools:

<u>Schools</u>	<u>Enrollment (ADM)</u>
13 Elementary Schools	1,903 (avg. 146 per school)
2 Junior High Schools	741 (727 and 14)
<u>3</u> High Schools	<u>816</u> (740, 42, and 34)
18 Total Schools	3,460 Total Students Enrolled

Albany Co. School District #1 food service operations for the 2005-06 school year reflect the following data:

Lunch:

Average Daily Participation (ADP) = 1,578

ADP as a percent of ADM = 46%

1,032 students approved for free and reduced price meals (March 2006)

Free and reduced price students = 30% of ADM

Total lunches served = 290,392

45% of total lunches were served as free or reduced price

Breakfast:

Average Daily Participation (ADP) = 384

ADP as a percent of ADM = 11%

Total breakfasts served = 70,708

68% of total breakfasts were served as free or reduced price

Food service budget:

Total food service expenditures		\$1,228,558
Federal CNP reimbursement	\$ 393,228	
Student and adult payments and other operating income	<u>612,022</u>	
Total food service revenues	\$1,005,250	
Total food service operating loss		(\$223,308)
General Fund transfer in (food service subsidy)		\$ -0-
Estimated meal cost		\$ 3.50
Total per student food service operating loss		\$64.54

The Albany County School District's food service program is operated by Sodexo, a national food service management company. The company provides all management and direct operational oversight of the district's food service operation. The Albany/Sodexo contract is a per-meal rate contract that has been in effect since the 2004-05 school year. A per-meal rate contract charges the district a flat fee per meal or meal equivalent for providing management services. The contract contains an escalation clause that allows the meal rates to be increased based on national indices of the cost of food and other factors. The per-meal rates for each year of the contract term are as follows:

- \$2.10 for 2004-05 at contract inception
- \$2.50 for 2005-06 (19% increase)
- \$2.90 for 2006-07 (16% increase)

As noted the contract rates have increased 38 percent over three years.

Albany School District #1 provides the food service operation with one school staff person (2/3 FTE) for clerical duties. All other food service staff are employees of Sodexo.

The district's food service program deficit is expected to be in the range of \$250,000 to \$300,000 for the current school year. The number of free and reduced price students has remained relatively stable in the 25-30% range.

The ACSD #1 business manager believes the primary causes of the food service deficit are:

1. The very high cost of providing food service in small, rural, remote elementary schools. Six of the twelve elementary schools in the district have fewer than 50 students and three of those have less than 10 students.
2. The district's high school campuses are open settings where students can leave school for lunch. This greatly diminishes the number of paying students who participate in the school meal programs resulting in high food service losses in those schools.
3. Albany Co. School District #1 has experienced the same rising food costs that are impacting school food service operations across the state and nations.

Again it is important to note that the Albany Co. School District administration is very supportive of its food service operation, and the business manager feels no significant pressure from the administration or school board to reduce the deficit at the present time. He is concerned about the future particularly if the food service deficit continues to grow.

The business manager feels that the most important resource needed to reduce food service operating costs and the resulting deficit would be a politically

realistic means to close schools, or cease providing food service in schools that are too small, rural, or remote to be economically feasible. In lieu of closing schools or eliminating food service, there needs to be a way to drastically raise meal prices or provide supplemental funding to cover actual site costs. There continues to be pressure put on the School Board by constituents who see campus closures or program elimination as too draconian.

Additional resources or services that the State (WDE) could provide include:

1. The state should provide supplemental funding to offset losses so that the General Fund does not have to subsidize food service at the expense of other education programs.
2. An improved, cost-effective system for distribution of USDA donated foods. Again, it is noted that the WDE is working on an updated state food distribution system.

The food service operations in both Albany and Laramie school districts appear to be effectively managed and employ good business practices and accounting standards. Both systems provide nutritious, balanced meals and strive to optimize student participation in both the lunch and breakfast programs. School officials feel that their food service deficits are the result of conditions beyond their control, primarily high labor costs (salary and benefits) and increasing food costs. They are concerned about their growing deficits but feel that there are few, if any, viable options to raise revenues or reduce costs.

The interviews conducted with local officials at Albany County School District #1 and Laramie County School District #1 and the WDE nutrition programs supervisor provided very useful insight into the school food service environment in Wyoming and produced conclusions concerning the economic status of the programs.

D. Impact of Local School Policies:

A further discussion of school district food service operations and recent WDE Nutrition Program Section surveys revealed local policies that, although well-intentioned, may further contribute to the food service operating deficits.

A study conducted by the WDE Nutrition Programs Section found that 31 school districts were providing full or partial second meals to students free of charge. The Child Nutrition Program regulations and policies do not encourage the providing of second meals and NO federal reimbursement may be claimed for second meals. Therefore the cost of providing free second meals or portions is an un-reimbursed direct loss to district food service operations.

Another operating policy that adversely impacts food service revenues occurs when a district chooses to provide free meals to adults including food service workers and others. There is NO federal reimbursement for adult meals however the cost of free meals for employees who perform direct food service duties is considered an allowable program cost. The cost of providing free meals for other adults who are not directly involved in food service operations such as teachers, administrators, custodians, bus drivers, athletic staff, etc. is not considered an allowable program cost. The cost of such free adult meals must be borne from funds other than student sales and federal CNP reimbursement. The study reported that during the 2005-2006 school year 40 school districts served more than 135,000 free meals to adults at an estimated cost of \$435,000 and 35,000 free meals to students costing \$108,000.

Many schools in Wyoming do not have a realistic charging policy for students who do not have money to pay for their meals. In many cases, schools with charging policies do not enforce them or make little or no attempt to collect amounts owed from students or parents. A corollary to this problem is that most districts provide full program meals for paying students who do not have the

money to pay for the meal. Again, this is a well-intentioned policy to ensure that children don't have to go hungry all day; however such practices can quickly escalate and result in significant food service losses. Students, particularly at the junior high and high school levels are prone to "testing the system" and will figure out that they can use their lunch money for other purposes and still receive a free meal. This was mentioned as a problem in both the Laramie and Albany districts and the WDE nutrition programs administrator indicated it was prevalent state-wide.

Summary: School district administrators must understand that their food service operation is a business within a non-business environment and as such should be operated in accordance with good business practices. The impact of local policies that adversely impact food service revenues or the cost of operations must be recognized and funded from non-food service sources if the school or district wishes to continue such practices.

E. Conclusions:

It was generally agreed that districts in Wyoming enjoy the beneficial impact of the strong state economy. Funding for education has been readily available, and it is hoped to be sustainable for the future. In addition, it was noted in the two districts interviewed that Child Nutrition programs were generally viewed as an integral part of any child's day at school, and important for cognitive development and educational success. In this environment, both district administrators indicated that the current situation of subsidizing food service operations seems to be working. However, they are both concerned about the growing deficits negatively impacting educational programs, the sustainability of the funding, and their respective school board's continued philosophical support as well.

General concern was expressed regarding certain cost elements inherent to a food service operation that are impacted by external and other factors beyond the control of the nutrition services director or other district administration.

Principal among these is the cost of labor, which can typically account for more than 50% of the cost of producing a meal. For example, food service operations can be adversely impacted by well-intentioned district policies regarding pay levels, salary schedules, and benefit packages. In many cases, these policies may benefit individual employees, apply uniformity among district job classifications, and help to attract and maintain a stable work force. However, such policies may actually be detrimental to the food service enterprise fund in that there may not be a corresponding revenue stream to cover the higher levels of cost.

This was the case in one of the districts interviewed, where a part-time (four-hour) food service employee may select a health insurance package that will cost the food service operation over \$1,100 per month, per employee, to support. In this particular case, it results in health insurance being approximately 23% of the entire food service budget for a year. The value of benefits may exceed the actual pay received for positions in the lower pay ranges,

Additionally, all districts across the nation have been adversely impacted by rising fuel and other related transportation costs. The individuals interviewed at both districts indicated strong agreement with this condition. Food cost is the companion cost to labor, typically accounting for up to 45-50 percent of the meal cost, and is rising dramatically. Wyoming's combination of small district sizes, large geographical distances, and winter weather conditions lead to the conclusion that its districts experience this negative impact more than other areas of the country. Wyoming has fewer distributors willing to bid on school food products due to the relatively small volume, leading to pricing that is not competitive. Other factors include small "drop" sizes (number of cases per

delivery), and long distances between drops. Both districts have taken steps to lessen the impact through participation in cooperative purchasing groups, revising menus and food products offered, and participating in state and national purchasing agreements.

While both districts interviewed were large districts, they share a common situation inherent to many of Wyoming's smaller districts. Both indicated an awareness of the problems of trying to run schools and programs in remote areas with very few children. Food service programs must operate as a business and carefully control revenues and expenditures. Operating programs in very small schools is inherently not feasible, due to the lack of economies of scale. This fact, coupled with the reality of political pressures for keeping such sites open and fully serviced with the programs parents want, bears heavily on district administrators and boards.

When asked what services the state/WDE could provide or improve upon, other than increased funding, there was some consensus that improvements needed to be made to the USDA Donated Foods distribution system in Wyoming. WDE has already taken the initial necessary steps to improve donated foods distribution, and this was acknowledged by both districts. There was also consensus that WDE could provide useful management tools/reports from data supplied to the department, such as summary reports, cost comparisons, trend analysis, break-even analysis, etc.

In summary, many Wyoming school districts and schools are too small to operate a food service program on a break-even basis. Food service operating costs have increased beyond the ability of many school districts to absorb. Employee salaries, benefits and food cost are factors over which local districts have little control. The majority of meals are served to paying students and federal reimbursement is not sufficient to cover the cost of these meals. Local district

and school policies may also contribute to food service deficits by providing free un-reimbursable meals to adults and children.

VI. CHILD NUTRITION PROGRAM ACTIONS:

The federal Child Nutrition Programs were designed to provide supplemental financial assistance to help local school districts provide food service programs for their students. The structure and regulatory provisions of the programs are intended to provide food service in relatively traditional school settings. The reimbursement rates are based on national averages and do not take into consideration state or local participation or cost variances. The program reimbursement is not sufficient to cover all expenses in unique school situations.

Creating additional revenue to offset food service deficits within the operating parameters of the Child Nutrition Programs, e.g. increasing federal reimbursement, in Wyoming schools is not feasible since:

- A. Federal reimbursement is based on the number of meals served and the rates are much higher for the free meals (\$2.47) than paid meals (\$0.23). Additionally, federal reimbursement rates are established as national averages that likely under represent the actual cost of producing a meal specifically in Wyoming, and are indexed to cost indicators that are largely out of date. (See Exhibit 8)

- B. Increasing the number of meals served (students participating) significantly beyond current levels would be difficult to accomplish. The lunch participation rate in Wyoming is already higher than the national average, and further market saturation is unlikely due to a number of factors such as class scheduling, open campuses, competitive food offerings (including lunches from home), school transportation schedules, peer pressure for older students, etc. Even if student participation could be increased most of the

increase would be in the paid meal category which would increase costs not covered by federal reimbursement.

C. Since only about one-third of students are approved for free and reduced meals, most of the non-federal revenue generated by food service comes from the paying students.

D. Creating additional revenue by increasing meal prices for paying students is a possible alternative but probably not a significantly viable solution since:

a) The suggested pricing structure for paid meals would be the current free meal reimbursement rates, \$2.47 for lunch and \$1.35 for breakfast less the paid reimbursement rates, \$0.23 for lunch and \$0.24 for breakfast. This would indicate that schools should charge \$2.25 for a paid lunch and \$1.50 for a paid breakfast.

b) The current charges for paid lunches in Wyoming averages \$1.75 in elementary schools and \$2.25 in secondary schools which is generally considered to be about the maximum that students/families will pay, due to demand elasticity.

c) Raising meal prices above these levels would most likely result in fewer students eating school meals and nullify any potential gain.

E. Local food service operating costs could be somewhat reduced by adopting policies that would:

a) Limit wage rates, longevity caps and benefits for new hires but this may bring about the issue of inequality and might limit the pool of potential employees.

b) Many school districts have small, rural, remote schools. Providing daily food service (breakfasts and lunches) for small, rural and remote schools is extremely expensive in terms of labor and transportation. Food service operating costs could be significantly reduced by exploring alternative methods for providing food service or by discontinuing food service in these schools and asking families to send meals from home. Any alternative food service delivery methods should be carefully studied since they may still be cost prohibitive.

F. The WDE should encourage local school boards and administrators to adopt and enforce policies regarding the provision of meals to students who do not have money to pay for meals, e.g. a more realistic “charging” policy. Many districts are currently providing a full meal to non-paying students, regardless of the number of outstanding charges that are on the books. Families are thus experiencing a disincentive to make good on their debt, leaving the food service fund to cover the cost with no off-setting revenue. Once allowed, such policies can quickly get out of hand.

G. The WDE should encourage local school boards and administrators to review their policies for providing free second meals or meal portions to students and for providing free meals for adults without food-service related responsibilities.

H. The WDE Nutrition Programs administration should consider providing the following additional support services to assist local food service programs:

a) Develop or facilitate the development of a state food purchasing cooperative,

- b) Create state or regional cooperative management centers to provide food service management services in very small districts.
- c) Consider merging the food service operations in small school districts with the nearest larger district.
- d) Develop automated systems to identify and benchmark district and school participation and cost levels.

Summary: Creating additional revenue within the environment of local food service programs is restricted by school district and school demographics (district/school size, low ADM, low free and reduced price percentages) and the regulatory parameters of the federal Child Nutrition Programs. Local policies that would reduce costs might be unpopular and result in disenfranchising some students from food service benefits.

VII. STATE REVENUES AND FUNDING MODELS:

It is the conclusion of this review that the only practical or feasible solution to the growing food service deficit in Wyoming is to create a state revenue stream to assist school districts in funding local food service operations. Since state revenues for education are already being redirected at the local level to subsidize food service, this could potentially make more funds available for instructional uses.

As a minimum first step, it is strongly recommended that the Wyoming Legislature create a direct line-item appropriation for the CNP State Matching Requirement of \$436,259. The Child Nutrition Program regulations require that annually each state must match from state appropriated revenues a portion of the federal funds received. The intent of this State Revenue Matching Requirement is that state revenues will be provided to schools to support the

overall aim of the Program, which is to feed students. These regulations require states to ensure that state revenues have been transferred directly into the food service accounts of participating schools districts. The preferred method that most clearly meets this requirement is a direct annual appropriation (line item) in the state budget of the State Revenue Matching amount. This appropriation should then be distributed to local school districts for food service purposes. There is currently no direct appropriation of the State Revenue Match, and these funds are not being distributed directly to school districts. A State Revenue Matching appropriation and distribution to school district food service operations would enable local managers to budget and utilize these funds as intended by the federal regulations. Such funds must be designated solely for the district's food service account.

The State and the Wyoming Department of Education should recognize and acknowledge the value of the Child Nutrition Programs and their contribution to the health, well-being and academic success of students. Since it is virtually impossible for most local food service programs to be financially self-sufficient or operate at a break-even point, the state must provide a revenue stream in order to continue to provide healthy, nutritious meals in schools. There are a number of options that may be utilized to provide state financial assistance for local food service deficit problems. These include:

- a) Creating a per meal state reimbursement for lunches and/or breakfasts. This method would operate similarly to the federal meals-times-rates system, except state reimbursement is distributed using state-established rates and state revenues as a supplement to the federal dollars. The estimated per-meal state reimbursement rates to subsidize a projected food service operating losses for the 2006-07 school year would be \$0.51 per lunch and \$0.195 per breakfast. (See Exhibit 9)

- b) Developing a state cost reimbursement fund to help districts defray all or a portion of their food service deficits. This funding model would reimburse each participating school district for its annual food service operating loss. A major caveat with this approach is that loss reimbursement funding might be perceived as “rewarding or encouraging inefficiency.” This would be the most complex model to administer since it would require the annual analysis of each school district’s food service revenues and expenditures and computation of operating losses.

- c) Creating a funding model based on number of students (ADM). Developing a per student (ADM) allotment for food service would be the simplest method for distributing state funds to ensure the continued availability of nutritious school meals. Basically, this would involve determining the per student allocation amount each year and distributing this to the food service accounts in each school district. The per student amount needed to fund the estimated food service operating deficit for the 2006-07 school year (\$5 million) would be \$54.37 based on the statewide ADM of 83,937. This assumes that the required NSLP State Matching Requirement of \$436,259 will be distributed directly to school districts. If the state match is not distributed then the per-student allotment would increase to \$59.57. This would be a no-cost option if the state funds already being used to subsidize food service were re-directing into a dedicated budget item. (See Exhibit 10)

- d) Creating a funding model based on food service staffing resources (FTEs). As many of the funding model approaches used by WDE utilize an FTE approach for school finance, this model may lend itself to being the most acceptable, equitable, and understandable. (See Exhibit 11)

A funding model based on food service staff (FTEs) would seem to be the most equitable method, however there are many variables affecting optimal staffing levels that should be considered. The food service staff FTE proposed funding model was developed in conjunction with the WDE Nutrition Programs Supervisor and fairly represents the current level of local staffing. The model is scalable as the size of districts varies with student enrollment and number of schools.

These options all have pros and cons. A per meal or ADM based state reimbursement is equitable, but would tend to reward larger districts that have more students and serve more meals and not provide much assistance to small districts that may have the greatest need and the least ability to absorb deficits. Providing state funds to offset school district food service costs may have the effect of encouraging inefficiencies and poor management.

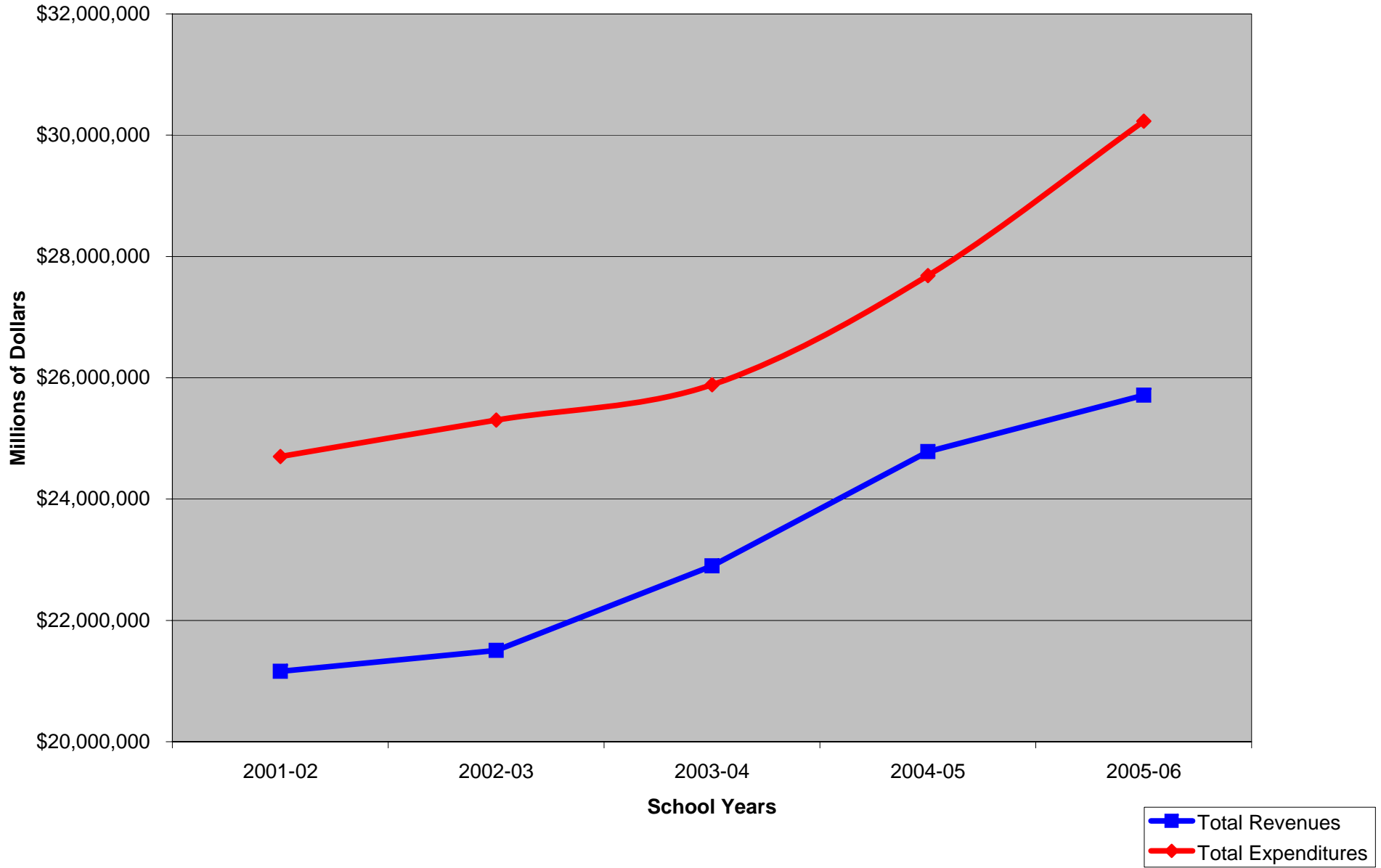
Regardless of the method, state funding for school district food service operations could be indexed to a number of local performance factors such as developing innovative serving systems to increase student participation in the meal programs, particularly breakfast; increasing the efficiency (reducing costs) of local food service programs, etc. Since consuming healthy, balanced meals has been shown to improve student performance, state food service funding could also be based on increasing student academic achievement levels.

VIII. TABLE OF EXHIBITS:

- Exhibit 1: Wyoming School District Food Service Profit and Loss Chart for School Years 2001-2006
- Exhibit 2: Wyoming School District Food Service Profit and Loss Schedule for School Years 2001-2006
- Exhibit 3: Wyoming School Districts by Student Enrollment (ADM)
- Exhibit 4: Percentage of Wyoming School Districts by Student Enrollment (ADM)
- Exhibit 5: Wyoming School Food Service Operating Costs School Years 2001-2006
- Exhibit 6: Wyoming School Food Service Cost Trends Chart for School Years 2001-2006
- Exhibit 7: Wyoming School Food Service Cost Trends for School Years 2001-2006 (Labor and Benefits Combined)
- Exhibit 8: Child Nutrition Programs Reimbursement Rates for 2007-08
- Exhibit 9: Per-Meal State Reimbursement Funding Model for Wyoming School Food Service Programs for School Years 2001-2007
- Exhibit 10: Per-Student (ADM) State Reimbursement Funding Model for Wyoming School Food Service Programs for School Years 2001-2007
- Exhibit 11: Wyoming School Food Service Activity Funding Model Based on Food Service Staffing (FTEs)

EXHIBIT 1

WYOMING SCHOOL DISTRICT FOOD SERVICE PROFIT AND LOSS CHART
for School Years 2001-2006



Wyoming Food Service Profit & Loss 2001-2006

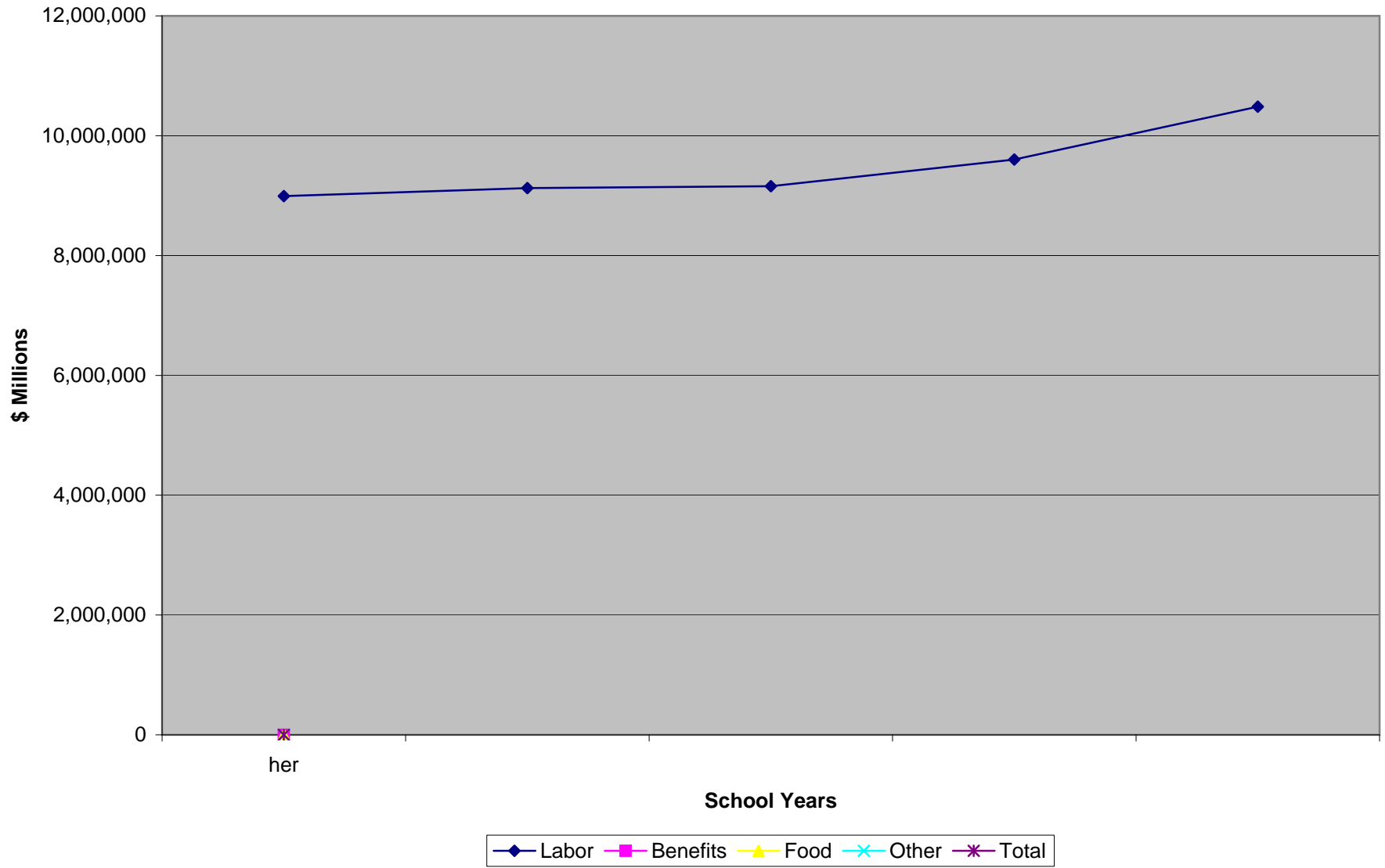


EXHIBIT 3

WYOMING SCHOOL DISTRICTS BY STUDENT ENROLLMENT (ADM)

Small District Subset (Less than 3,000 ADM)

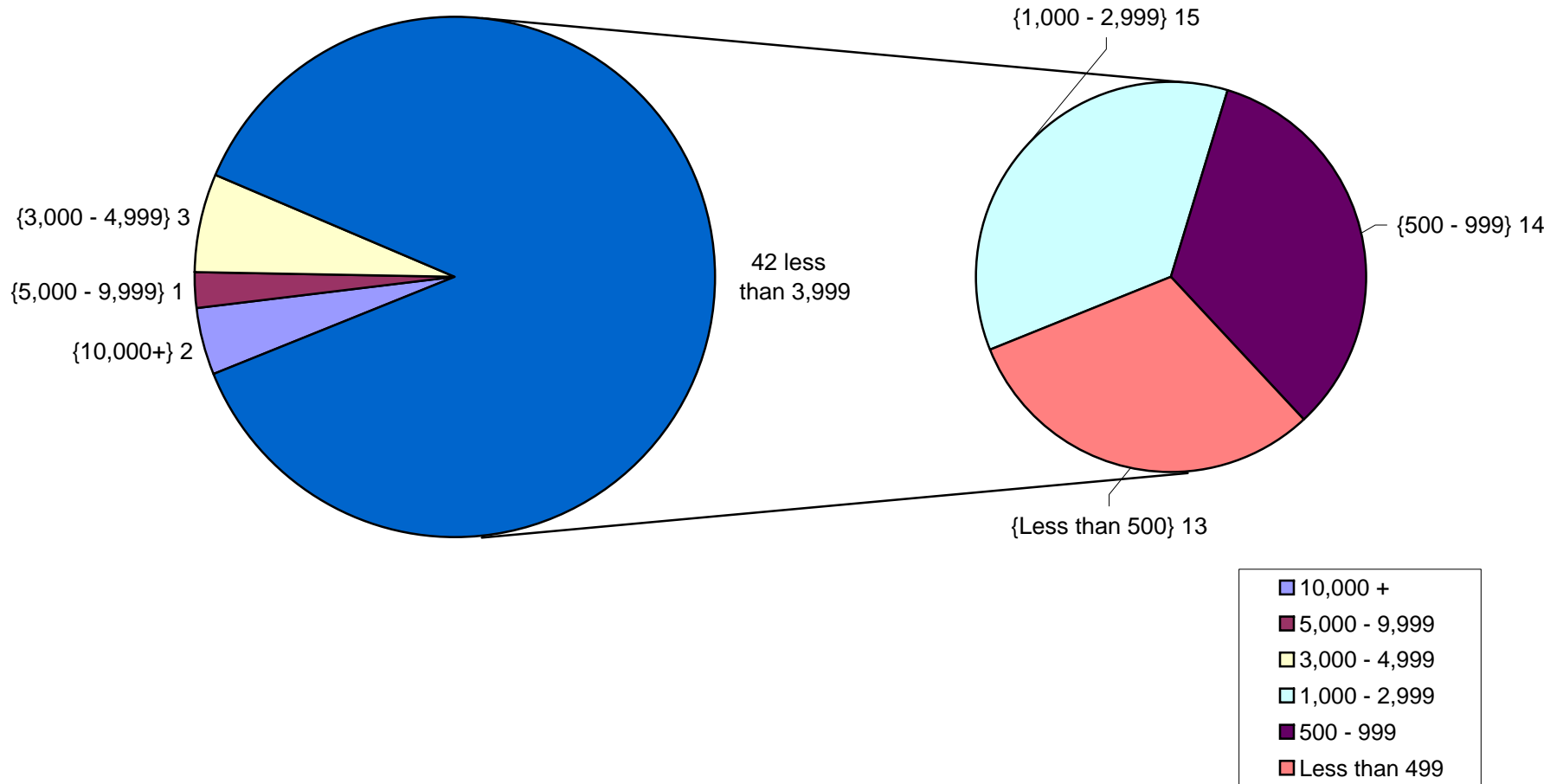


EXHIBIT 4

PERCENTAGE OF WYOMING SCHOOL DISTRICTS BY STUDENT ENROLLMENT (ADM)

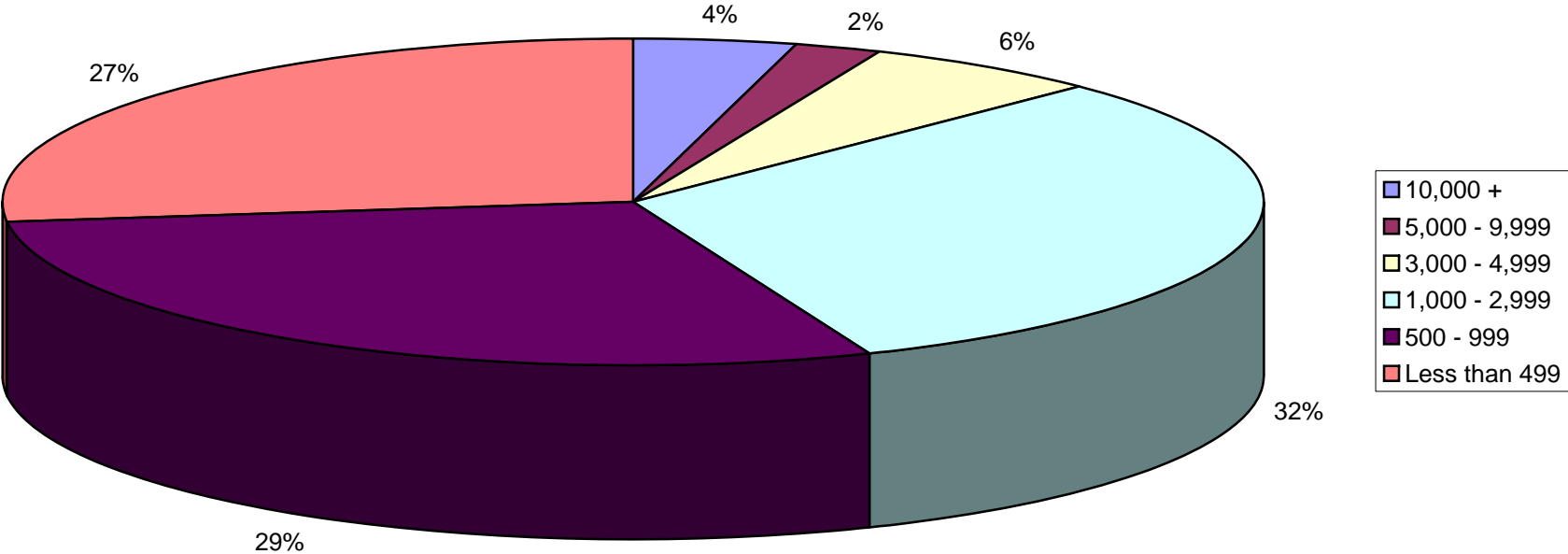


EXHIBIT 5

WYOMING SCHOOL FOOD SERVICE OPERATING COSTS FOR SCHOOL YEARS 2001-2006

School Years	<u>Labor</u>	<u>Benefits</u>	<u>Food</u>	<u>Other</u>	<u>Total</u>	<u>Percent Increase</u>
2001-02	\$8,992,081	\$3,665,189	\$10,746,502	\$1,297,432	\$24,701,204	--
2002-03	\$9,126,912	\$3,658,949	\$11,169,036	\$1,348,516	\$25,303,413	2.4%
2003-04	\$9,157,376	\$3,757,335	\$11,598,477	\$1,373,229	\$25,886,417	2.3%
2004-05	\$9,603,523	\$4,048,946	\$12,354,446	\$1,678,265	\$27,685,180	6.9%
2005-06	\$10,483,720	\$4,653,407	\$13,247,601	\$1,845,157	\$30,229,885	9.2%
				Cummulative increase over 5 years		22.4%

EXHIBIT 6

WYOMING SCHOOL FOOD SERVICE COST TRENDS
FOR SCHOOL YEARS 2001-2006

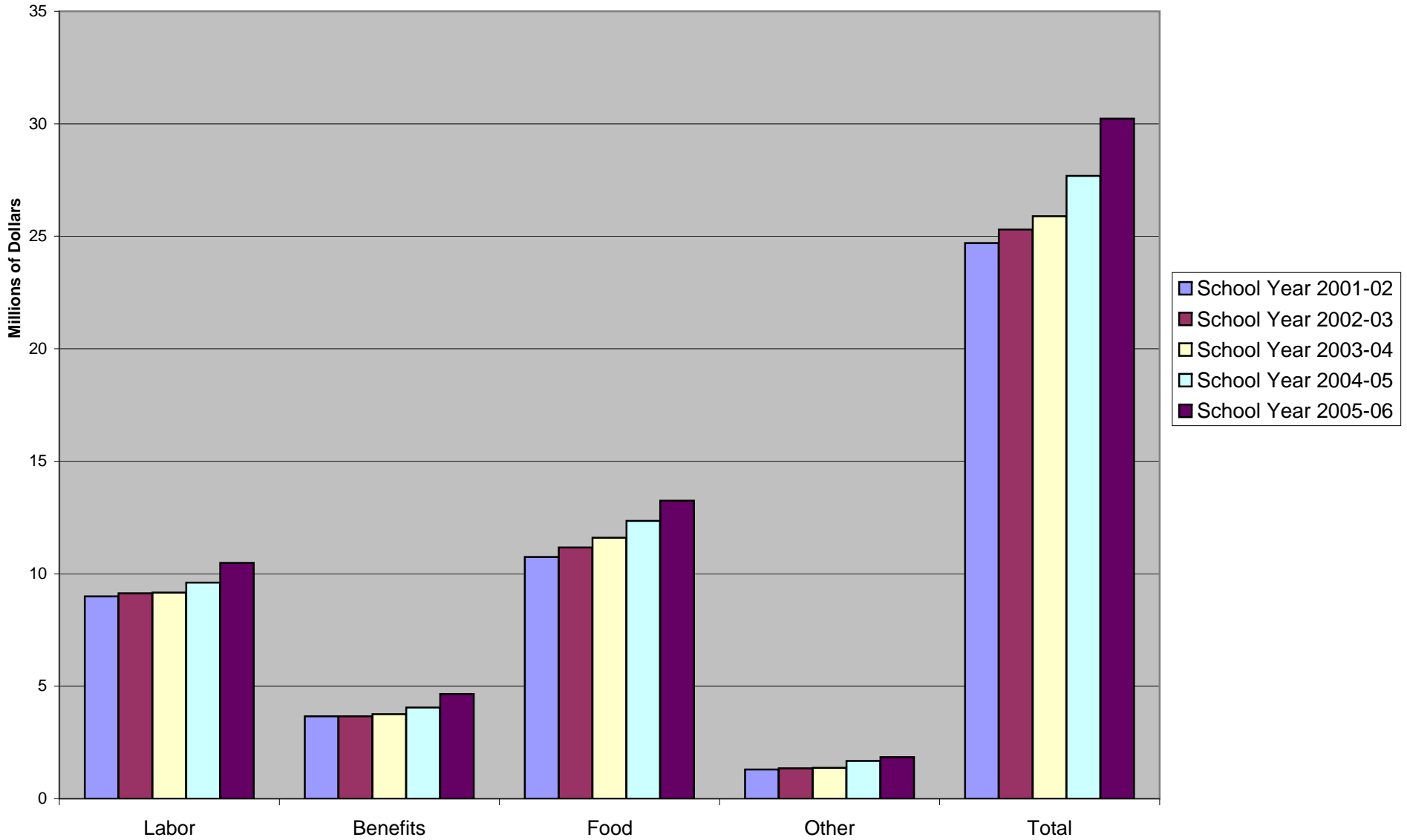


EXHIBIT 7

WYOMING SCHOOL FOOD SERVICE COST TRENDS FOR SCHOOL YEARS 2001-2006 (Labor & Benefits Combined)

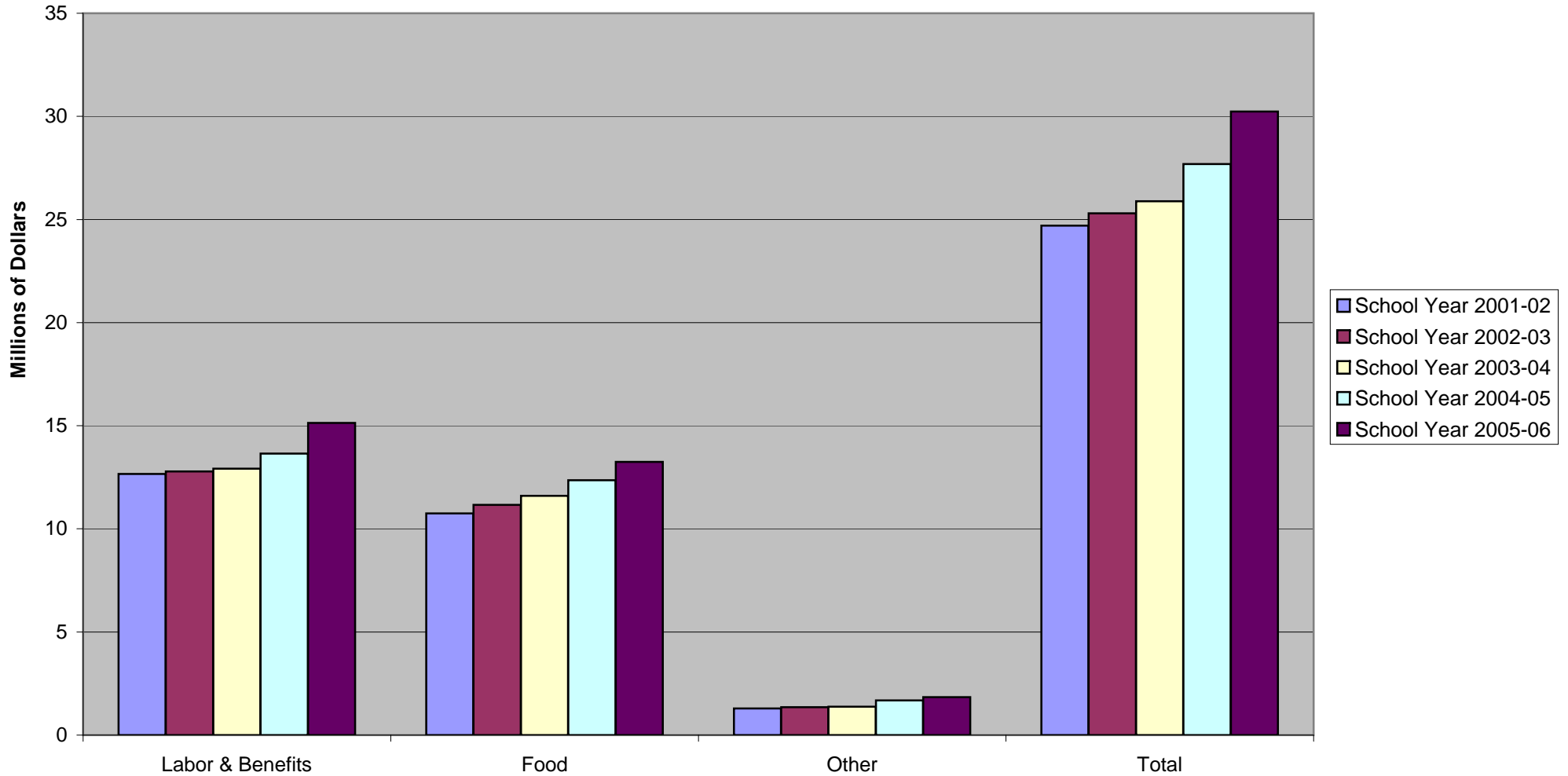


EXHIBIT 9

PER-MEAL STATE REIMBURSEMENT FUNDING MODEL FOR WYOMING SCHOOL FOOD SERVICE PROGRAMS
For School Years 2001-2007

	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>	** Estimated <u>2006-07</u>
Food Service Operating Losses	\$ 3,541,471	\$ 3,798,864	\$ 2,986,533	\$ 2,903,275	\$ 4,517,256	\$ 5,000,000
Less: Required State Revenue Match	NA	NA	NA	NA	NA	\$436,259
Food Service Operating Losses	\$ 3,541,471	\$ 3,798,864	\$ 2,986,533	\$ 2,903,275	\$ 4,517,256	\$ 4,563,741
**Lunches Served	7,500,000	7,678,878	7,737,517	7,992,288	8,194,324	8,200,000
State Reimbursement Rate Per Lunch	\$ 0.45	\$ 0.46	\$ 0.36	\$ 0.34	\$ 0.50	\$ 0.51
State Reimbursement per Lunch	\$ 3,375,000	\$ 3,532,284	\$ 2,785,506	\$ 2,717,378	\$ 4,097,162	\$ 4,182,000
**Breakfasts Served	1,450,000	1,489,727	1,578,965	1,777,137	1,865,115	1,950,000
State Reimbursement Rate Per Breakfast	\$ 0.115	\$ 0.18	\$ 0.13	\$ 0.105	\$ 0.225	\$ 0.195
State Reimbursement per Breakfast	\$ 166,750	\$ 268,151	\$ 205,265	\$ 186,599	\$ 419,651	\$ 380,250
Total State Reimbursement	\$ 3,541,750	\$ 3,800,435	\$ 2,990,772	\$ 2,903,977	\$ 4,516,813	\$ 4,562,250
Difference	\$ (279)	\$ (1,571)	\$ (4,239)	\$ (702)	\$ 443	\$ 1,491

* The number of meals served during the 2001-02 school year was estimated.

** The number of meals served and food service operating losses were estimated based on prior year figures.

EXHIBIT 10

PER-STUDENT (ADM) STATE REIMBURSEMENT FUNDING MODEL FOR WYOMING SCHOOL FOOD SERVICE PROGRAMS
For School Years 2001-2007

	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>	* Estimated <u>2006-07</u>
Food Service Operating Losses	\$ 3,541,471	\$ 3,798,864	\$ 2,986,533	\$ 2,903,275	\$ 4,517,256	\$ 5,000,000
Less: Required State Revenue Match	NA	NA	NA	NA	NA	\$436,259
Food Service Operating Losses	\$ 3,541,471	\$ 3,798,864	\$ 2,986,533	\$ 2,903,275	\$ 4,517,256	\$ 4,563,741
** Total Student Enrollment (ADM) in CNP Participating Districts	86,819	85,051	83,871	83,078	83,338	83,937
State Per-ADM Reimbursement Rate	\$ 40.79	\$ 44.67	\$ 35.61	\$ 34.95	\$ 54.20	\$ 54.37
Total State Reimbursement	\$ 3,541,471	\$ 3,798,864	\$ 2,986,533	\$ 2,903,275	\$ 4,517,256	\$ 4,563,741
Total State Reimbursement without distribution of the State Revenue Matching funds						\$ 59.57

* The estimated food service operating loss for the school year 2006-07 was extrapolated based on prior year figures.

** Source: WDE Report - ADM by grade by district total 1995-96 through 2006-07

Exhibit 11

WYOMING FOOD SERVICE ACTIVITY FUNDING MODEL
Based on Food Service Staffing (FTEs) per School Size (ADM)

Computation of School Districts Food Service FTE Model

<u>Job Titles</u>	Current Staffing (FTEs)			Model Staffing (FTEs)
Food Service Directors	26.03			
1 per School District with more than 500 ADM				35.00
School Food Service Managers	79.5			
1 per School District with less than 500 ADM		1	13	13.00
.20 per school for School Districts with more than 500 ADM		0.20	324	<u>64.80</u>
				77.8
<u>Food Service Production Staff (cooks)</u>	445.8			
.75 per school for School Districts < 500 ADM		0.75	37	27.75
.85 per school for School Districts with 500 - 1000 ADM		0.85	71	60.35
1 per school for School Districts with 1,000 - 3,000 ADM		1.00	124.00	124.00
1.25 per school for School Districts with 3,000 - 5,000 ADM		1.25	43.00	53.75
2 per school for School Districts with over 5,000 ADM		2	86	<u>172.00</u>
				437.85
Total Food Service FTEs	<u>551.4</u>			<u>550.65</u>
Total State-wide Food Service Operating Deficit for SY 2005-06				\$ 4,517,256
Proposed State Food Service Allocation per FTE				\$ 8,203.50