



# ***MEMORANDUM***

**To:** Representative Del Mcomie, Co-Chair, Joint Education Committee  
Senator Hank Coe, Co-Chair, Joint Education Committee

**From:** Lawrence O. Picus

**RE:** Food Services

**Date:** January 10, 2008

## **Background**

In the November 2005 recalibration report, we assumed that food services programs would operate as a “break even” program and thus would not require additional state funding in a cost based system. Because representatives of a number of Wyoming school districts indicated that food service programs were not self supporting, we also recommended further study of this issue. That recommendation was accepted by the Legislature and the WDE was directed to conduct an analysis of Food Service program costs.

The requested study was conducted by consultant John Perkins who issued his final report on November 13, 2007.<sup>1</sup> The report (hereinafter referred to as the Perkins Report) identified approximately \$5 million in deficits, described the cause of those deficits and proposed options to make up the deficit.

## **Study Findings**

The Perkins Report identified an estimated food service program deficit of \$5 million for the 2006-07 school year across the state’s 48 school districts. The major causes of this deficit were identified as:

1. Diseconomies of scale associated with the small size of many Wyoming schools and school districts leading to relatively high per-meal costs. Those costs were considered to be in excess of the reimbursements received through the National School Lunch Program and what paying students could reasonably be expected to pay for school lunches and breakfasts.

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<sup>1</sup> Perkins, J. (2007). *Food Service Programs in Wyoming Public Schools: A Review and Analysis of Financial Deficits*. Cheyenne, WY: Prepared for the Wyoming Department of Education, November 13 (mimeo).

2. Decisions by some school districts to pay wages and benefits to school food service workers substantially above averages in other states.
3. Not clearly identifying and allocating the required state revenue match. This match is required as part of the National School Lunch program and amounted to \$436,259 for 2006-07. The Perkins Report suggests that the appropriation for this amount should be more explicit than is currently the case in the WDE Food Services operation, and that it be provided directly to the schools.
4. The provision of free meals to adults and children. Many districts provide free meals to adults in the school system. In addition, the Perkins Report suggested that districts often allow children to have second meals for free, and in cases when children do not have money for a meal, the meals are provided, but adequate accounting systems to charge the students for that lunch are not in place. As a result, the Perkins Report estimated that Wyoming School Districts provided 170,000 free meals to adults and children at a cost of \$543,000 in 2006-07.

Based on the estimates contained in bullets 3 and 4, we estimate that the school food services program deficits across the school districts related to diseconomies of scale and higher wages to be approximately \$4 million in the current school year.

The Perkins report offered three potential solutions for closing the deficit, a per meal subsidy, a per pupil subsidy, or the development of a model to estimate the deficit on a district by district basis.

## **Recommendations**

Lawrence O. Picus and Associates recommend that steps be taken in the short term to alleviate the food services deficit. We believe this should be done to ensure that funds allocated through the Wyoming School Funding Model for educational programs are not diverted to food services programs. However, we also think any program to make up this deficit should be designed to discourage inefficient actions on the part of school districts. Our goal is to find a way to compensate districts for deficits resulting from factors over which they have relatively little short term control (scale factors and compensation issues), but at the same time design the reimbursement program to ensure food service programs are operated as efficiently as possible. Thus we seek a way to close the deficit through a combination of payments to the districts and efficiencies in the delivery of food services. Finally we seek to keep this reimbursement program “cost based.”

This can be done through three steps.

1. The state should recognize directly the required state match. According to the Perkins Report, most states allocate the required state match directly to school districts. Wyoming has assumed that since districts use their block grant dollars to fund food services deficits, a small portion of the money in the funding model meets the requirements of the match. We suggest that the required match be allocated directly to the school districts.

We make this recommendation because the recalibration report specifically assumes that food services will break even. To treat part of the funding through the block grant model as the match for food services theoretically takes funds away from the adequate funding for other programs. Thus we recommend appropriation of the required state match directly to the school districts. Given the logic outlined above, a similar reduction in the block grant funding would *not* be appropriate.

This step would fund approximately \$436,000 of the deficit.

2. It is our strong view that the state should not provide revenues to district food services programs to support the provision of free meals or to compensate for inadequate accounting systems that fail to properly bill students for meals they receive. Although the Perkins Report estimates that these meals cost \$535,000 last year, we recognize that is only an estimate and represents a number that is very difficult to compute accurately. Instead, we recommend that the state use as a proxy for the free meals an amount equal to ten percent of the remaining deficit.
3. The remaining deficit would then be allocated to districts on the basis of qualifying meals (i.e. those that were not provided for free to adults, non-paying students and students receiving a second meal). For the 2006-07 year this would have been approximately \$4 million.

We would envision the reimbursement computations would be based on prior year activities and meals served and would operate as follows:

*Step 1, Computation of the Estimated Deficit in Food Services.* This would be done as before, but as recommended above, the required state match would now be distributed directly to school districts and included as revenue to their food services programs. For 2006-07 this means that the estimated deficit would be approximately \$4.5 million rather than \$5 million.

*Step 2, Subtract out free meals:* As suggested above, it is probably impossible to accurately determine the cost of free meals. However we note the Perkins Report was able to determine that approximately 170,000 free meals were provided at a cost of \$535,000. A rough estimate of this cost is 10% of the remaining deficit. Thus the deficit to be funded by the state would be 90% of the deficit reported in step 1.

*Step 3, Allocate the remaining deficit to the districts:* Because the model needs to be “cost based,” and not simply a reimbursement program, a method for allocating the remaining fiscal need of the school districts is needed. We propose that the remaining need, in this example, approximately \$4 million, be allocated on a per meal basis. In 2006-07, the Perkins Report estimated that Wyoming schools served a total of 10,150,000 meals (8,200,000 lunches and 1,950,000 breakfasts). Subtracting out the 170,000 free meals leaves a total of 9,980,000 meals. If the \$4 million figure is divided by 9.98 million meals, the per meal reimbursement would amount to 40 cents per meal. This would then be distributed to the districts on the basis of the number of meals served the prior year.

It is our intent that the example above be just that. To fund this proposal for the 2008-09 school year, the 2007-08 food services deficit (after taking the required state match into account as revenue to the system) would be used. We would compute 90% of that deficit for efficiency

(free lunches). The remaining figure would be divided by the number of (non-free) meals served, and that amount would be distributed per (non-free) meal served to each district in the state.

We believe this approach will achieve the dual goals of ensuring that food services programs are fully funded while at the same time fostering efficiencies in the operation of district food service programs.