FOOD & HOSPITALITY

Petit Consulting LLC

MARKET RHYTHMS

Facts & Ideas for Campus Dining | June 2008

Protecting Our Planet's Ecosystem

From Boston to Berkeley, there's a push to go "green" in campus dining. Directors at Harvard Medical School, Smith College, and University of California, Berkeley share the key elements of sustainability programs on their campuses.

- **Purchase locally.** It supports local businesses, reduces the impact of transportation, enhances product freshness, and strengthens the institution's relationship to the area community.
- **Leverage "organic."** The word has unusual power to connote good health and environmentally sound farm-to-market practices. Go "organic" as much as possible, and know the difference from "all natural."
- **Live with your waste.** Separate and compost kitchen scraps, post-consumer food discards, and compostable wares.
- **Reduce and recycle.** Good practice is more about the consumption and recycling of resources than it is about foods purchased for resale. Eliminate excess packaging — bottled water, portion control packets, single portion cereals, bags on request only. Reduce food waste — smaller plates, bowls, and cups; portion sizes at attended stations; batch production volumes.
- **Know thy customer.** The current U.S. college student demographic cares deeply about civic and social responsibility. They use consumerism to influence and alter corporate practices. Organizations that show they care for the environment are favored.
- **Cut utility usage.** In renovations and new facilities, choose equipment that needs less energy and ware washing systems that require less water. Bonus: Your utility costs will drop.
- **Inform and educate.** Provide useful knowledge on sustainability to students, faculty, staff and visitors. A strong program involves doing the right thing for the environment while educating the consumer.

Check out page two for more news you can use...

Dining Services that Sell the School

Don't underestimate the importance that students place on eating well. According to Rockville, MD-based *CollegeWise*, a college planning and application service, today's college-bound kids are sophisticated and savvy, with palates to match. They shop at Whole Foods, they eat out often, and they're concerned about maintaining a high quality of life while they're in college. They read the Princeton Review's rankings for Best Campus Food and websites like collegeprowler.com. While colleges have many ways to attract students, *CollegeWise*'s principals observe that on-campus dining options which include smoothie stations, sushi bars and Starbucks really do make an impression on applicants when it's time to make their final decision.

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Tax-free Bond Financing and Management Contracts

At institutions where tax-exempt bond financing is used for construction of buildings containing foodservice facilities – and a management contractor runs dining services – the IRS sets conditions which the management contract must meet. These pertain to management fees, reimbursement of capital investment, and incentive fees. Management fees may have two components, fixed and variable, but cannot be based at all on profits. The proportion of total fees between fixed and variable is dictated by length of the contract, the portion that is fixed increasing as the contract term increases. IRS Revenue Procedure 97-13 describes five categories of "safe harbor" that avoid private business use of the bond-financed facilities, which is prohibited by the IRS. A management contract must satisfy any of the following:

- **15-year contracts –** at least 95% of annual compensation is based on a fixed fee. A one-time incentive award is permitted based on a gross revenue or expense target, but not both.
- **10-year contracts –** at least 80% of annual compensation is based on a fixed fee. A one-time incentive award is permitted based on a gross revenue or expense target, but not both.
- **5-year contracts –** Either at least 50% of compensation is based on a fixed fee or 100% is based on a per capita fee or combination of a per capita fee and fixed fee. The contract term, including renewal options, cannot exceed 5 years. The contract is terminable by the institution without penalty at the end of the third year.
- **3-year contracts –** all compensation is based on a per-unit of service fee or fixed fee. The contract term, including renewal options, cannot exceed 3 years. The contract is terminable by the institution without penalty at the end of the second year.
- **2-year contracts –** all compensation is based on a percentage of total revenues or expenses or a combination of a per-unit service fee and a percentage of revenues or expenses. The contract term, including renewal options, cannot exceed 2 years. The contract is terminable by the institution without penalty at the end of the first year.

Reimbursement of the unamortized portion of a contractor's capital investment is considered a "penalty" to the borrower (the institution) should a 5-, 3-, or 2-year contract be terminated on or before the end of the third, second and first year, respectively.

IRS Rev. Proc. 97-13 does not consider an incentive or productivity reward to cause the contractor's compensation to be construed as a share of profits if it is equal to a stated dollar amount based on increases or decreases in gross revenues or reductions in total expenses, but not both, in any annual period during the contract term.

Sound complicated? It is. Seek the advice of tax counsel. If tax-exempt bond financing will be used to fund new facility construction, a 3- or 5-year management contract will be affected. It's important to know the impact on institutional income and costs and on the contractor's capital investment offer.

Metrics that Matter

Managing a campus dining program takes a lot – energy, experience, intuition, market knowledge, people skills, and time. That last one may be your bugaboo. How to prioritize and focus on what's important? When it comes to measuring department performance, put on your 'A list' only those factors that will quickly reveal patterns or possible problems that warrant attention and action. Here are some:

Productivity

- Revenue $ per cap (student FTE)
- Revenue $ per employee FTE
- Revenue $ per payroll $
- Total payroll to revenues %

Food Safety & Sanitation

The Federal Food Code and applicable state codes define standards that must be met. Periodic inspections should be conducted by a certified sanitation evaluation service. Such a firm will produce a numeric assessment of their observations and testing, resulting in a unit score. Some inspectors grade each non-compliant element in a foodservice unit as:

- Critical red violations – may pose an imminent health hazard and require immediate corrective action.
- Critical black violations – must be corrected immediately.
- Non-critical violations

Customer Satisfaction

Nothing beats customers telling management how they're doing. With a sensitivity to students being "over surveyed," use methods periodically on campus to ask your customers how they like what Dining Services is doing. Keep it brief, focused, and easy-to-respond. Offer prizes for responding. Track trends from one survey period to the next. Survey data from a campus population is enlightening – use it to map change.

Variance of Actual to Budget

Budgets are meant to be guideposts, not irritants. Monitor actual results against budget. Are surprising patterns emerging? Are operational changes warranted? Ideas for what to watch to get the most from the budget process:

- Variances, $ and %: Current period to budget and prior year.
- Variances, $ and %: Year-to-date to budget and prior year.
- Cost of Sales to Revenues %
- Total Operating Expenses to Revenues %
- Repairs & Maintenance expense to Revenues %
- Payroll benefits to direct wages/salaries %
- Utility expense to Revenues %
- Run a forecast in parallel to show adjustments from budget.