

USDA Foods further Processing

1. What is USDA Foods further processing?

USDA Foods further processing allows State distributing agencies and school districts to contract with commercial food processors to convert raw and/or bulk USDA Foods into a variety of convenient, ready-to-use end products.

USDA began further processing in 1958 to provide ordering options that maximize the use of USDA Foods. Most of the USDA Foods processed through the program go to schools participating in the National School Lunch and other Child Nutrition Programs.

State distributing agencies, districts and food processing companies have learned that working together is mutually beneficial to the food industry and program participants and ensures that processed products complement commercial purchases. The processing of USDA Foods provides industry the opportunity to market its finished products while recipient agencies have the opportunity to receive a wider variety of end products that meet individual district needs and local flavor profiles.

2. Who is eligible to participate in further processing?

State distributing and recipient agencies, such as school districts, are eligible.

3. What benefits do further processing participants receive?

Through participating in further processing, State distributing agencies (SDA) and most recipient agencies (RA) find that they can:

- Stretch their USDA Food dollars by ordering lower-cost bulk products;
- Increase food safety by eliminating handling of raw product in school foodservice operations;
- Reduce labor costs and cash outlays for food preparation;
- Reduce storage and delivery costs; and
- Have their bulk USDA Foods delivered directly from USDA vendors to the further processors of their choice.

4. How does further processing currently operate?

Multiple forms of USDA Foods are available as ordering options, one of which is bulk for processing. For example, funds to support the turkey market may be spent on direct-ship, value-added turkey roasts, turkey ham, deli breasts or bulk pack turkeys. The bulk pack is often available at a lower cost per pound and is specifically designed for efficient processing into end products such as sliced deli meat or cooked crumbles. The State coordinates with school districts the best forms in which to order USDA Foods to meet schools needs.

For raw bulk USDA Foods to be further processed into selected end products, the State distributing agency or school district contracts with commercial food processors to have the USDA Foods converted to more ready-to-use products.

This legally binding agreement (or processing agreement) allows the processor to receive USDA Foods like bulk chicken as an ingredient in the production of a finished end product like grilled chicken breast and fajita strips. In turn, the value of the USDA Foods is passed through to the recipient agency in the form of a lower cost for the finished product. USDA purchases and delivers bulk USDA Foods to the designated processing location as ordered by the State. Some State agencies delegate certain processing functions, such as ordering, bidding, and monitoring, to school districts. Others manage these functions themselves.

5. How does the USDA Foods value get passed on to the recipient agency?

Processors entering into these types of agreements must ensure that the full value of the USDA Foods contained in the finished products is returned to the recipient agency. This value can be returned to the recipient agency by:

- (a) discounting the normal commercial price of a product;
- (b) paying a refund to the school, or
- (c) charging a fee for service for converting the USDA Foods.

End products made from meat or poultry are usually produced under fee-for-service agreements. Under this arrangement the end products are sold at a processing fee, which represents the processor's costs for labor, packaging, other ingredients, and administrative overhead. With a fee for service, the value of the USDA Foods in the end products is not included in the price of the product.

6. What is the purpose of a USDA Foods Processing Agreement?

As with any contractual arrangement, the processing agreement is designed to protect

the interests of all parties involved—i.e., the distributing agency, the recipient agency and the processor. Under this agreement, the processor agrees to protect and account for all USDA Foods delivered to them for further processing.

Processors also agree to produce the end products in the specific form requested by the State distributing agency or school.

7. Is there only one type of USDA Foods Processing Agreement?

No. Processing agreements can be between USDA/Food and Nutrition Service (FNS), a distributing agency and a processor, or a school district and a processor. There are four basic types of agreements:

National Processing Agreement (NPA). To reduce costs and paperwork, FNS has taken on the role of holding the agreement with the processor, monitoring the bond and approving all of the end products manufactured under the agreement. Almost all States are participating in some NPA. Beginning in SY 2007 all multi-State processors were required to have a national agreement in place. For additional information on NPA, click here:

www.fns.usda.gov/fdd/processing/national/

State Master Agreement. Under a State master agreement, the distributing agency enters into an agreement with the processor and designated eligible recipient agencies may purchase end products from their processor.

State Agreement. Under a State agreement, the distributing agency negotiates bids/and/or prices, selects the processor and the end products which will be produced, and enters into an agreement with the processor.

Recipient Agency Agreement. Under a recipient agency agreement, the recipient agency or school enters into an agreement with the processor. This kind of arrangement requires the approval of the distributing

agency. Once approved, the recipient agency may purchase end products from that processor. A recipient agency agreement should be used after the agency has completed its procurement process.

8. Who is responsible for the procurement of processing services?

- Under a National agreement, the State distributing agency or recipient agency is responsible for conducting procurement depending on who controls the finished product.
- Under a State agreement, the State is responsible for conducting procurement.
- Under both the State master agreement and the recipient agency agreement, the recipient agency is responsible for conducting the procurement.

Regardless of the type of agreement that is used, processing services must be procured as stipulated in 7 CFR 3016.36.

All procurements are subject to the most stringent procurement thresholds whether that is Federal, State, or local thresholds.

9. What should be included in the Processor Agreement?

It is essential that the processing agreement be accurately completed. The agreement must contain the following:

- State distributing agency information-- State, agency name, agency representative or contact person, address, and telephone number;
- Processor information--company name, company representative, address, and telephone number;
- List of all USDA Foods used by the processor--the processor must be very specific about what USDA Foods will be used;

- Specific information regarding the processor's plant location(s);
- Effective dates of the agreement--both beginning and ending dates must be specified;
- Information regarding the value pass-through system(s) the processor will use—e.g., discount system vs. refund system;
- Debarment certification which states that the processor has not been debarred, suspended, proposed for debarment, declared ineligible, or voluntarily excluded from certain transactions with the Federal or State government;
- Specific information that may be required in a "Special Provisions" article of the agreement, such as subcontracting information, delivery requirements, information regarding by-product credits (particularly for meat and poultry processing), etc.; and
- Names, addresses, titles, and signatures of the authorizing persons who represent the distributing agency and the processor.

10. How many processors participate in USDA Foods Processing?

Over 120 processors.

11. How many processors have processing agreements in more than one State?

Over 100 processors.

12. What is the value of the foods processed under USDA Foods Processing Agreements?

In SY 2012, approximately \$1.3 billion worth of USDA Foods were made available to schools. Of that total, school districts diverted over half for further processing.

13. What foods are available for reprocessing?

At least 70 products are reprocessed. Products that are most often reprocessed are:

<u>Basic USDA Foods</u>	<u>Processed End Products</u>
Pork	Cooked crumbles, shredded pork,
Beef	Charbroiled patties, crumbles, meat balls
Eggs	Egg patties, breakfast burritos
Chicken	Fajita strips, breast strips, nuggets, patties
Turkey	Turkey ham, breast deli slices, turkey crumbles
Flour, mozzarella, tomato paste	Pizza
Tomatoes	Salsa, marinara sauce, meat sauce, ketchup
Potatoes	Oven roasted, dehydrated products
Apples	Fresh slices, applesauce

14. What regulations govern USDA Foods Processing?

USDA Foods Processing is governed by regulations contained in the Code of Federal Regulations at [7 CFR Part 250.30](#). A complete copy of the 7 CFR 250 regulations may be found on the Food Distribution website at:

www.fns.usda.gov/fdd/regs/fd_regulations.htm

15. Who should I contact for more information about USDA Foods Processing?

For more information about USDA Foods Processing, we suggest that you contact your State distributing agency. A list of these State Contacts may be found on the Food Distribution web site at:

www.fns.usda.gov/fdd/contacts/sdacontacts.htm.

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