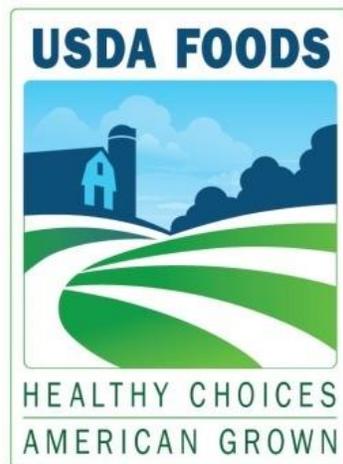


WHITE PAPER

USDA FOODS IN THE NATIONAL SCHOOL LUNCH PROGRAM



FOOD AND NUTRITION SERVICE
USDA

Updated February 2016

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Introduction

The United States Department of Agriculture (USDA) administers the National School Lunch Program (NSLP), which provides two types of support for school meals:

- cash reimbursement, and
- USDA Foods.

From its inception in 1946, the school lunch program has been making nutritious meals available to school children. Today, about 30 million children receive a nutritious lunch each school day in over 100,000 participating public and private nonprofit schools and residential child care institutions. USDA plays an important role in this effort by providing high-quality domestic agricultural products (USDA Foods) to schools for use in these meal programs.

The authorizing statute, the Richard B. Russell National School Lunch Act (P.L. 79-396, the NSLA) envisioned a dual mission for the school lunch program:

“It is hereby declared to be the policy of Congress, 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 foods and other facilities for the establishment, maintenance, operation, and expansion of nonprofit school lunch programs.”

The NSLA’s dual mission for the school lunch program is to:

- strengthen the Nation’s nutrition safety net by providing nutritious meals to school children, and
- support American agricultural markets by providing USDA Foods for use in school lunches.

USDA Support for School Meals

Cash Reimbursement

To assist States in providing low cost or free meals, USDA provides States with cash assistance for each lunch served to school children. States are reimbursed based on the number of lunches served to children at participating schools. Reimbursement rates are set annually based on the change in the Bureau of Labor Statistics’ “Consumer Price Index for all Urban Consumers” and vary according to family need. Current reimbursement rates can be found [here](#).

USDA Foods

In addition, USDA provides States with USDA Foods for use in preparing school lunches. These foods can also be served in school breakfast, school snack programs, and other child nutrition programs. The value States receive in USDA Foods is based on a formula that multiplies the number of lunches claimed during the previous year by a per meal rate, which is adjusted annually for inflation. The per meal rate is based on the Bureau of Labor Statistics' "Producer Price Index for Foods Used in Schools and Institutions" and is updated annually in the Federal Register. The current rate can be found [here](#).

Every dollar's worth of USDA Foods used in a school menu frees up money that would otherwise be spent on commercial food purchases. As school districts face ever-tightening budgets, USDA Foods have become a valuable resource to keep local food service budgets in the black. The Federal government's large volume purchasing power is an important factor in maintaining school foodservice budgets because it may allow the procurement of food at a lower unit cost than if a school were purchasing equivalent commercial foods on its own.

On an average day, USDA Foods make up between 15 and 20 percent of the products served as part of the school lunch. The remaining 80 to 85 percent is purchased from commercial markets using the cash assistance provided by USDA, funds provided by State and local governments, student payments for reduced price and paid lunches, and proceeds from a la carte sales, catering activities, and other funds earned by or provided to the school food service.

Procurement and Distribution of USDA Foods

USDA's Food and Nutrition Service (FNS) and Agricultural Marketing Service (AMS) work together to purchase and provide USDA Foods in the quantities and varieties requested by schools to help them provide nutritious meals.

FNS is responsible for the general oversight, regulation, and administration of the domestic USDA Foods programs. The agency acts as the primary liaison between USDA and the administering State agencies. FNS determines the list of available USDA Foods, develops the nutrition attributes, calculates and tracks State entitlements, takes food orders from States, monitors the flow of USDA Foods, and provides policy guidance on program issues.

AMS serves as the primary purchasing agent for USDA Foods. AMS works in consultation with FNS to develop product specifications, issue product solicitations, accept bids from manufacturers, purchase products, and ensure delivery to State-designated locations.

USDA Foods Available to Schools

USDA Foods for use in NSLP are procured by AMS. States and school districts can also use their entitlement to purchase fruits and vegetables through the Department of Defense

(DoD) Fresh Fruit and Vegetable Program and the Pilot Project for the Procurement of Unprocessed Fruits and Vegetables.

USDA Foods: AMS purchases include beef, pork, fish, poultry, egg products, fruits, vegetables, grains, nuts, seeds, dairy products, and oils. The majority of these products are purchased under USDA's authority to support agricultural markets, purchased commercially, or obtained by the Commodity Credit Corporation under USDA's price support authority. Purchases that are made under USDA's price support authority are limited to products that support farm income and help maintain a balanced supply of agricultural commodities. Under this authority, USDA makes planned purchases that support the market while providing its customers, such as schools, the products they need.

DoD Fresh Fruit and Vegetable Program: In 1994, USDA pioneered a pilot project, in partnership with DoD, to purchase and deliver \$3.2 million in high quality fresh produce to schools in eight States. Schools and some State agencies ordered produce directly from DoD up to the dollar amount they were allocated in the pilot. The pilot was very successful and quickly expanded into a program providing \$25 million of produce to 32 States by 1999. The Agricultural Act of 2014 (P.L. 113-76) requires that, through 2018 and consistent with prior law, at least \$50 million be used each fiscal year (FY) to purchase fresh fruits and vegetables for distribution to schools. USDA is currently utilizing DoD as the procurement agent for these purchases. States are permitted to set aside any amount of entitlement funding they choose for purchases through the DoD Fresh Fruit and Vegetable Program. FY 2015 DoD Fresh purchases totaled \$158 million for schools in 48 States, the District of Columbia, Puerto Rico, the Virgin Islands, and Guam.

Pilot Project for Procurement of Unprocessed Fruits and Vegetables: The Agricultural Act of 2014 authorized a Pilot Project for Procurement of Unprocessed Fruits and Vegetables. States applied through a competitive process in September 2014 based on criteria outlined in the Agricultural Act of 2014, which required the selection of (1) not more than eight States receiving funds under Section 6 of the NSLA; and (2) at least one project in a State in each of the Pacific Northwest, Northeast, Western, Midwest, and Southern Regions. Consistent with statutory requirements, California, Connecticut, Michigan, New York, Oregon, Virginia, Washington, and Wisconsin were selected for participation in the pilot, with six of the eight States receiving deliveries in FY 2015 and spending over \$800,000 in USDA Foods entitlement funds. The remaining two States began receiving deliveries in early FY 2016.

The pilot provides selected States with additional flexibility in the procurement of unprocessed fruits and vegetables using existing USDA Foods NSLP entitlement funds. AMS approves vendors on an ongoing basis and districts, not AMS, competitively procure the produce, allowing districts to use geographic preference or other methods of targeting produce from local producers. States and school food authorities can use pre-existing commercial distribution channels and develop new relationships with growers, produce wholesalers, and distributors to procure these items. Vendors, including food hubs, farmers and distributors, invoice AMS for the produce delivered and AMS pays the vendor directly.

USDA Foods Available List

The [USDA Foods Available List](#) is published annually to show which foods may be offered to State Distributing Agencies (SDA) and school districts during the upcoming school year. However, which items will actually be ordered depends on State Agency decisions and available entitlement funding. SDAs, in consultation with school food authorities in their state, make the final decisions about which USDA Foods will be offered. USDA is continuously evaluating and revising specifications to provide USDA Foods that support schools in meeting the meal pattern requirements.

Listed below are descriptions of the types of USDA Foods available:

Direct Delivery: USDA purchases nutritious, domestically produced food products, ranging from ingredients to finished end products, which can be used in preparing school meals.

Bulk Ingredients for Further Processing: States can also request that USDA Foods in bulk form (e.g. chicken, apples, and sweet potatoes) be sent to a commercial manufacturer to be made into a variety of end products. Over 40 percent of USDA Foods, representing more than 30 different raw materials, are diverted for further processing.

USDA requires that State agencies enter into processing agreements with approved manufacturers to allow USDA Foods to be received and used in the production of end products. USDA has established *National Processing Agreements* with over 100 manufacturers to provide further processed products across multiple States, the District of Columbia, and the Virgin Islands to relieve States and schools of much of the administrative burden associated with managing processing contracts. Participating manufacturers that provide processed end products across multiple States are also relieved of the burden of establishing contracts and bonds with individual State and local entities. Some States also enter into state-specific processing agreements with in-state processors. In all processing agreements involving USDA Foods, the manufacturer must ensure that schools receive credit for the value of the USDA Foods in the processed end-products they provide. This is achieved through various types of value-pass-through systems. Common value-pass-through systems include manufacturer discounts and rebates to schools, and distributor discounts to schools.

Federal Funding Sources

The authorities for the purchase of USDA Foods for the school lunch program are found in:

- Section 6 of the NSLA (P.L. 79-396), as amended;
- Section 32 of the Agricultural Adjustment Act of 1935 (P.L. 74-320), as amended; and,
- Section 416 of the Agricultural Act of 1949 (P.L. 81-439), as amended.

The combined authority in these three Acts permits USDA to make “entitlement” and “bonus” products available to participating schools and institutions. The USDA Foods entitlement is the dollar value of product that States are entitled to each year under Section 6 of the NSLA. The dollar value each State receives is based on the lunches served in the previous year. Each State can order product from USDA against its entitlement until the dollar balance is depleted. Bonus products, when available, are products purchased by USDA to relieve agricultural market surpluses and are in addition to those received as part of the State’s calculated entitlement and offered to States on a fair-share basis.

Section 6 of the NSLA mandates that, in each school year, not less than 12 percent of the total cash reimbursements and USDA Food assistance provided in the NSLP is in the form of USDA Foods. When total USDA Foods support for the NSLP does not meet the 12 percent “floor” required in Section 6 of the NSLA in any given year, USDA uses Section 32 funds to purchase additional product in the amount of the shortfall.

Section 6 Funds

Section 6 of the NSLA established a guaranteed level of assistance for USDA Foods at 11 cents per meal, to be adjusted annually for inflation, which is called the State’s USDA Foods entitlement. The law mandates use of a formula that multiplies the number of lunches claimed during the previous year by a per meal rate, which is adjusted annually for inflation. The per meal rate is based on the Bureau of Labor Statistics’ “Producer Price Index for Foods Used in Schools and Institutions.” This Index averages the price of specific foods (grains, dairy products, meats, fish, fruits, vegetables, and oils) over a three-month period. The per meal rate for USDA Foods is announced annually through a Notice published in the Federal Register. The current rate can be found [here](#).

Section 6 funds are made available to FNS for the purchase of food products to address nutritional concerns and to help schools implement the nutrition standards established by USDA for school meals. Since Section 6 funds are not required to be spent on direct intervention in agricultural markets, USDA has flexibility in the type of products it can buy with these funds. Purchases made with these funds aim to provide a variety of nutritious food options and accommodate school preferences.

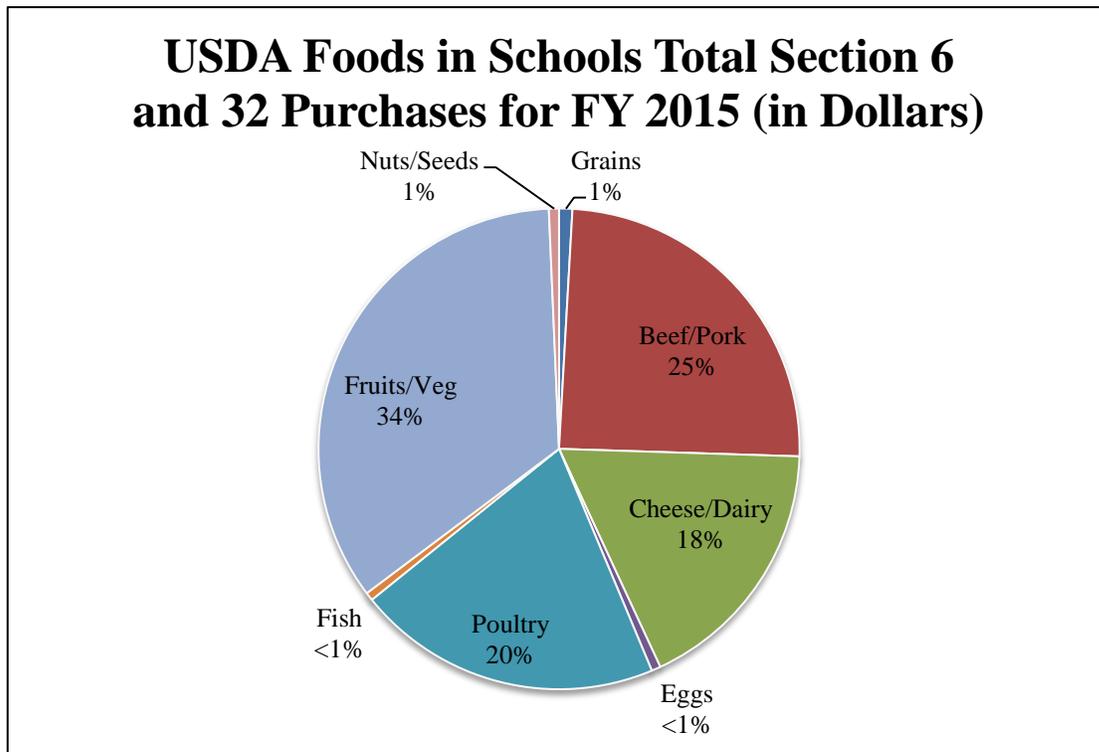
Significant quantities of entitlement products are purchased using Section 6 funds. In FY 2015, \$1.02 billion worth of USDA Foods were purchased for Child Nutrition Programs using Section 6 funds. FY 2015 Section 6 purchases included \$108 million for DoD Fresh.

Section 32 Funds

Section 32 of the Agriculture Act of 1935 authorizes the equivalent of 30 percent of annual customs receipts to support the farm sector through a variety of activities. The Secretary of Agriculture is required to use a portion of Section 32 funds to support the domestic agricultural market. Section 32 funds for purchases of USDA Foods are set aside into two basic accounts, one for entitlement purchases and the other for bonus purchases.

- In planning for the required entitlement purchases, USDA devises a purchase plan for the school year based on stakeholder needs, expectations of available funds, and other market conditions in the coming year. The plan is updated as the year progresses. These funds are used to purchase a portion of the USDA Foods requested, consistent with the purchase plan. The Agricultural Act of 2014 extended the requirement through 2018 that not less than \$50 million of Section 32 entitlement funds be used each year to purchase domestic fresh fruits and vegetables for distribution to schools and service institutions. USDA is currently utilizing the DoD as the procurement agent for these purchases.
- In order to relieve rapidly developing market surpluses, funds must be available to purchase products on short notice. AMS uses Section 32 funds to purchase bonus products for this purpose. These purchases are made, often at the request of industry groups, after USDA has conducted a careful analysis of the need to provide market assistance for a specific product. Each purchase with these funds must be approved by the Secretary of Agriculture. Products purchased with bonus funds may be provided to USDA domestic nutrition programs. From time to time, such foods will be available to the NSLP. No bonus products were made available to NSLP in FY 2015.

The figure below shows the breakdown of Section 6 and 32 purchases by food type.



Section 416 Funds (bonus purchases)

The Commodity Credit Corporation is a semi-autonomous federal corporation within USDA. It was established during the Great Depression for the purpose of influencing agricultural production, prices, supplies, and distribution in support of America's farmers. Section 416 of the Agricultural Act of 1949, as amended, grants the Commodity Credit Corporation authority to donate USDA Foods that are acquired under its price support activities to domestic nutrition assistance programs. In recent years, such products have not been available to the NSLP.

Sites Receiving Cash/Commodity Letters of Credit

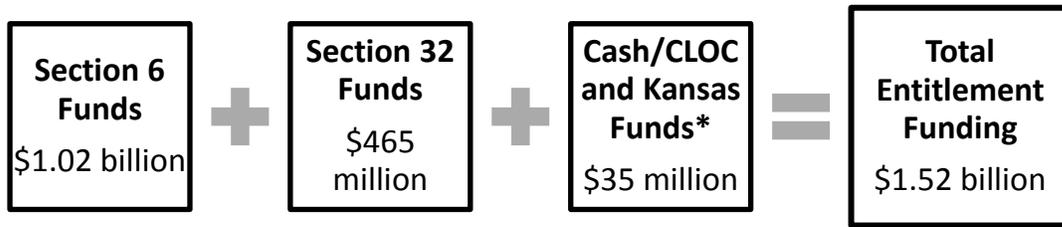
In 1981, Congress mandated that USDA conduct a three-year demonstration project to look at alternatives to USDA Foods. The alternatives piloted were Cash in Lieu of Commodities (Cash) and Commodity Letters of Credit (CLOC). These alternatives were tested in a nationwide sample. The Cash alternative gave money instead of "commodities" to school districts. Districts could use the money for any school food program expenditure. The CLOC alternative also gave money instead of commodities to school districts. However, districts were required to spend the money to support specific agricultural markets and were able to receive "bonus" USDA Foods. The CLOC program was designed to reflect the commodity program in terms of agricultural support and surplus removal with CLOCs being issued to coincide with the purchase cycle of the commodity program. Payments for both programs were based on the same school year entitlement rate as the commodity program. Fewer than 100 school districts nationwide were involved in the pilot.

At the end of the demonstration, USDA recommended that the alternatives be discontinued because neither model adequately demonstrated that it supported American agriculture better than the traditional model. However, the demonstration sites were allowed to continue operating under the alternatives based on Congressional decision. In 1994, Congress authorized the demonstration sites to choose to continue with CLOC and Cash permanently but prohibited additional schools from being added to these programs. \$18.5 million was provided in FY 2015 in the form of Cash and CLOC.

Cash Payments to Kansas

In 1975, the NSLA and the Child Nutrition Act of 1966 (P.L. 89-642) were amended to make Kansas permanently eligible to receive cash payments in lieu of USDA Foods. This is a unique situation applicable only to the State of Kansas. In FY 2015, Kansas received over \$16 million in cash payments.

USDA Foods Funding for Child Nutrition Programs in FY 2015



USDA Foods Purchasing

Buy American

All USDA Foods must be of domestic origin, consistent with the intent of Section 32 of the Agricultural Adjustment Act of 1935. Such purchases strengthen the Nation's nutrition safety net by providing nutritious USDA Foods to individuals in need, while supporting American farmers and the domestic agricultural market.

USDA Specifications

AMS develops product specifications for each product in consultation with FNS. These specifications address product attributes such as nutrient content, flavor, color, texture, size, weight, labeling, and inspection requirements. USDA Foods specifications include strict requirements for nutrient quality and food safety that make these products equal to or better than their commercial counterparts.

Purchasing of USDA Foods

AMS purchases USDA Foods by inviting vendors and producers to participate in a formally advertised competitive procurement system. The agency issues solicitations that describe USDA's needs in terms of the product, volume, delivery destination, and delivery window. AMS uses two types of solicitations: Invitations for Bids and Requests for Proposals. AMS receives offers, conducts evaluations based on offer prices and other factors, and awards contracts to achieve the best value to the Government.

Procedures for Ordering and Delivering USDA Foods

FNS provides States with a catalog of product offerings each school year and information about the specific dollar value of each product. States may place orders for products until the dollar value in their entitlement balance is depleted. States place orders based on local school district input, or allow the districts to place orders for available products directly into USDA's online food ordering system.

As States place orders with FNS, they also identify where they want the products delivered. Deliveries may go to warehouses under contract with the State or owned by the State and the State further distributes the product stored in the warehouses to the school districts. In other cases, States order product to be delivered directly to large school districts, commercial distributors, or to manufacturers for USDA Foods processing. Once product is delivered to the location designated by the State, it becomes the responsibility of the State to handle and to distribute the USDA Foods to school districts safely, efficiently and equitably.

Improved Quality and Variety of USDA Foods

USDA is continuously working to improve the nutrition profile of USDA Foods and increase the variety of its offerings. USDA explores ways to improve its products to align with the recommendations from the *Dietary Guidelines for Americans*, the *MyPlate* food guidance system, the Institute of Medicine recommendations for school meals, and the NSLP meal pattern requirements and dietary specifications. The dietary specifications set limits for calories, saturated fat, sodium, and artificial trans-fat over the course of a weekly menu cycle. Many significant improvements have been made to the USDA Foods products provided to schools, including the following:

More Whole Grains:

- To align with the school meal pattern requirements, USDA only offers whole grain or whole grain-rich options to schools for direct delivery.
- USDA offers a variety of whole grain and whole grain-rich options to help schools meet the meal pattern requirements, including pastas, brown rice, rolled oats, flour, tortillas, and pancakes.
- In recent years, USDA added new pasta options that are made from a blend of whole grain-rich flours to help schools meet the whole grain-rich pattern requirements.

More Fruits and Vegetables:

- USDA continues to support nutritious school meals through its fruit and vegetable purchases. USDA's entitlement purchases of canned, fresh, frozen and dried fruits and vegetables for schools totaled \$513 million in FY 2015, including DoD purchases.
- States and school districts can use their entitlement funds to purchase a wide variety of fresh fruits and vegetables through regionally-based produce vendors through the DoD Fresh Fruit and Vegetable Program. These purchases have increased from \$3.2 million in 1994 to \$158 million in FY 2015.

Lower Sugar:

- All USDA canned fruits are packed in extra light syrup, frozen fruits are unsweetened or packed in extra light syrup, and juice is 100 percent fruit juice.

Lower Fat:

- USDA offers a wide variety of lean meat and poultry products, such as 97 percent lean ham, 95 percent lean beef patties, diced chicken, and lower fat turkey taco filling.
- Artificial trans-fats are not permitted in any USDA Foods products.
- USDA offers lower fat options, such as fully-cooked, oven-roasted chicken and low fat, minimally seasoned chicken strips.
- USDA offers reduced-fat options for all types of cheese, such as reduced-fat cheddar, lite mozzarella, and blended American cheese.

Lower Sodium:

- All USDA Foods frozen and canned vegetables and beans are low-sodium or no salt added.
- USDA reduced the sodium in many of its cheese products, including mozzarella cheese and American cheese. These changes have led to sodium reductions of up to 50 percent in some USDA Foods cheese products.
- USDA reduced the sodium in many of its meat and poultry products including deli ham and turkey, pre-cooked chicken items, canned meats, and pre-cooked beef and pork items. USDA continues to work with industry to make further reductions to ensure USDA Foods will help schools meet the sodium requirements.

Greater Variety:

- USDA has worked with its partners and stakeholders to develop a customer-driven, value-added system designed to provide schools with the products they need to support their meal programs.
- USDA offers more than 200 products to schools (see [USDA Foods Available List](#)), including more than 40 meat and fish products, 40 fruit products, 50 vegetable products, 30 grain products, and 50 meat alternates for School Year 2015-16.
- Products are offered in a variety of package sizes and forms, from ready-to-eat to bulk for processing, to accommodate the varying needs of school districts across the country. Additionally, products are available in basic forms to allow school districts to customize their recipes to provide foods that meet the regional and cultural preferences in their area.
- Schools can use the USDA Foods processing program to purchase food items that meet the specific needs of their district. USDA foods in bulk form that can be sent to processors to be made into popular menu items served in the schools. Schools receive a credit for the value of the USDA Foods used in the end products.

Disaster Feeding with USDA Foods

When a disaster occurs, disaster feeding organizations, such as the Red Cross and Salvation Army, may ask a State to make USDA Foods available to feed those impacted by the event. This is particularly true when the normal retail food distribution infrastructure has been disrupted (due to a lack of electricity, impassable roads, destroyed buildings, etc.) making it difficult for the Disaster Supplemental Nutrition Assistance Program to operate effectively. USDA Foods are used for both congregate feeding and, in limited circumstances, distribution to households for home preparation and consumption. USDA does not maintain specific warehouse stocks of product for disaster feeding. When a disaster occurs, products are most often borrowed from existing inventories of USDA Foods stored in State and local warehouses for the child nutrition programs and other domestic nutrition assistance programs.

FNS can donate USDA Foods for use during Presidentially declared disasters/emergencies and situations of distress.

- Presidentially Declared Disasters/Emergencies: The Robert T. Stafford Disaster Relief and Emergency Assistance Act (P.L. 100-707) authorizes the Secretary of Agriculture to make USDA Foods available to help survivors in Presidentially declared disasters and Presidentially declared emergencies. Section 32C (Contingency) funds are usually used to pay for these products. USDA is authorized to spend as much Section 32C funding as necessary to adequately feed survivors. Funds for Presidentially declared disasters and emergencies can also be authorized under Section 4(a) of the Agriculture and Consumer Protection Act of 1973 (P.L. 93-86). This money, however, is limited to the level of annual appropriation, typically around \$500,000.
- Situations of Distress: “Situations of distress” are natural catastrophes or other events that have not been declared a disaster by the President, but which, in the judgment of the State or FNS, warrant the use of USDA Foods. These are usually more localized events. Examples include small-scale floods, landslides, snowstorms, ice storms, fires, etc. Funding for USDA Foods purchased in situations of distress is limited to the funds appropriated under the authority of Section 4(a) of the Agriculture and Consumer Protection Act of 1973 (P.L. 93-86).

Conclusion

USDA Foods are an essential component of the NSLP and other domestic nutrition assistance programs and also serve as a significant outlet for stabilizing and supporting agricultural markets. USDA is continually responding to the needs of schools participating in the NSLP by making more fruits and vegetables available to schools, substantially improving the quality and nutrition profile of products provided, and better accommodating schools’ needs by offering a wide variety of nutritious options to schools from direct-delivered USDA Foods to bulk USDA Foods for processing. As the world economy becomes more competitive, USDA Foods will continue to be an important resource for schools and an effective tool for supporting U.S. agriculture.

List of Acronyms and Abbreviations

AMS	Agricultural Marketing Service
DoD	Department of Defense
FNS	Food and Nutrition Service
NSLA	Richard B. Russell National School Lunch Act (42 U.S.C. 1751 et al)
NSLP	National School Lunch Program
SDA	State Distributing Agency
USDA	United States Department of Agriculture

Nondiscrimination Statement

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To file a program complaint of discrimination, complete the [USDA Program Discrimination Complaint Form](#), (AD-3027) found online at: http://www.ascr.usda.gov/complaint_filing_cust.html, and at any USDA office, or write a letter addressed to USDA and provide in the letter all of the information requested in the form. To request a copy of the complaint form, call (866) 632-9992. Submit your completed form or letter to USDA by:

- (1) mail: U.S. Department of Agriculture
Office of the Assistant Secretary for Civil Rights
1400 Independence Avenue, SW
Washington, D.C. 20250-9410;
- (2) fax: (202) 690-7442; or
- (3) email: program.intake@usda.gov.

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