

Testimony of Richard De Burgh
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INNOVATING COOPERATIVE IDEAS

Chairwoman McCarthy, Ranking Member Platts and Members of the Subcommittee on Healthy Families and Communities, everything a food service director buys, except commodities, is what they want, from whom they want, when they want it, delivered where they want it, by whom they want to deliver it.

Why is it *except* commodities?

As examples, in California we would receive frozen chicken from Arkansas and pay to have it sent back to Arkansas to be made into chicken nuggets and sent back to us. In Michigan and Ohio they would receive cheese from Wisconsin and pay to have it sent to Minnesota to be made into pizza and returned to them. Twenty years ago I led a group of 11 other directors and we fought for 3 years and with the help of members of Congress were able to form a cooperative and receive direct delivery of our commodities. We now help over 1,000 school districts serving almost 2,000,000 lunches a day. The districts range in size from 37,575 lunches a day to as small as 21.

In many states, even today, the directors have no choice of where their commodities are processed. One state does not even allow processing. The

commodities are delivered once a month to one location and each district must provide warehouse space and delivery to school locations. Directors are forced to develop menus based on commodities rather than menus that customers want.

The cooperative system changes all of that. Because of the changes in the farm bill several years ago and changes in industry we are now providing choices that are both healthy and customer friendly. By April of each year, our member districts know where 95% of their commodities for the next school year are being delivered. They choose what they want and when they are getting it.

As an example, USDA offers chicken in at least 8 different ways. Our members can receive deliveries directly at each school or have it processed by any of over 7 processors into over 150 different items. The same is true of beef, cheese and many other commodities. In other words, USDA offers as many chicken choices as Starbucks does coffee!

Our purchasing contracts ask each vendor to agree to sell to our districts for the lowest price offered in the state. All except one have agreed and that one filed for bankruptcy this school year. Because we make the purchasing contracts easier for the manufacturers, we provided over \$1,000,000 in volume discounts to our members this past school year. This is on top of the lowest prices in the state. In fact many of our members receive more money from us in volume discounts than they pay us to coordinate their commodities.

We can provide fresher more nutritious commodity items. This past year with, excellent support from USDA, we were able to implement a pilot project offering fresh, sliced apples in individual packets to our districts. Pavel Matustik (who has testified before this committee) and I worked for over 2 years to replicate the commercial delivery system used for fresh produce using entitlement dollars. The program was an overwhelming success and hopefully will be expanded to include carrots, oranges and grapes.

The districts in the co-op can trade with other districts in the co-op. When menus are changed, food orders can also be changed.

Stephen Ambrose in his book on the construction of Transamerica railroad made an interesting observation. In the 19th century railroad barons were the wealthiest people in America. Today they do not exist. The railroad barons should have considered themselves transportation innovators not railroad barons. We need to do the same rethinking in commodity food purchasing and distribution. Business as usual should become an unusual practice.

I am hopeful that this committee will assist us in allowing more innovation. How? I'm glad you asked. USDA has been innovative in allowing better business practices. These practices such as allowing districts to form cooperatives and arrange direct delivery by their commercial distributors should be permitted in all states.

All states receive federal money for state administrative expenses. Some of this money is earmarked for commodity distribution but states use it for other purposes. USDA delivers the commodities by the truckload for free. If a state does not distribute the commodities there should be no charge. In California this charge amounts to five million dollars taken from local school districts.

Continue to encourage substitutability. When a distributor or processor can certify to USDA that an item is of the same quality as the USDA specifications and is of American origin substitution should be allowed.

USDA is implementing new technology in WEBSCAM to simplify and improve purchasing and distribution. When this is up and running a review of current business practices should be implemented from the federal to the state to the district level to see what improvements and innovations could be made.

In closing I would like to say our customer has changed. When I was growing up there were no chicken nuggets, there were no happy meals, families ate at home. Today more than 50% of the family food budget is spent on food prepared outside the home. When a parent today says dinner is ready many children do not know if they should run to the kitchen or the car! We need innovation in the national school lunch program so that when the child is asked where they want to go for dinner their answer is school!