



State Processing Program

1. What is the State Processing Program?

The State Processing Program allows State distributing agencies and eligible recipient agencies such as school districts to contract with commercial food processors to convert bulk or raw USDA commodities into more convenient ready-to-use end products.

USDA began the program in 1958 to permit agencies to maximize the use of donated commodities. Most of the commodities processed through the program go to schools participating in the National School Lunch Program.

This program has helped expand donated food use from a limited number of commodities to a broader array of nutritionally sound, well-accepted meal items, while keeping labor costs to a minimum. Also, State distributing agencies and food processing companies have learned that working together is mutually beneficial to the food industry and program participants alike.

That is, the program provides industry the opportunity to market its products while eligible states and recipient agencies have the opportunity to receive a wider variety of more desirable table-ready end products.

2. Who is eligible to participate in this program?

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

3. What benefits do program participants receive?

By participating in the State Processing Program, State distributing agencies and recipient agencies find that they can:

- Stretch their commodity dollars by ordering lower-cost bulk products;
- Eliminate back-hauling charges because USDA vendors deliver commodities directly to processors;
- Increase their variety of foods;
- Reduce labor costs and cash outlays for food preparation;
- Provide, with poultry products, more servings per pound of commodity ordered; and
- Arrange to have certain products stored, depending on the processor, then distributed as needed.

4. How does the State Processing Program currently operate?

USDA offers states their fair share of the dollars planned to support a particular commodity. Multiple forms of a commodity are available as ordering options, one of which is bulk for reprocessing.

For example, funds to support the turkey market may be spent on turkey roasts, turkey ham, whole turkeys or bulk pack turkeys. The bulk pack is specifically designed for efficient processing into end products such as sliced deli meat, hot dogs, etc. The state coordinates with school districts the best forms in which to order this commodity to meet schools needs.

For bulk or raw donated foods to be further processed into selected end products, the State distributing agency or recipient agency

contracts with commercial food processors to have the donated foods converted to more useable forms.

This legally binding contract (or processing agreement) allows the processor to receive and utilize USDA donated food like bulk chicken as an ingredient in the production of a finished end product like chicken nuggets or patties. In turn, the value of the donated food is passed through to the recipient agency in the form of a lower cost for the product. USDA purchases and delivers bulk or raw donated 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.

Processors entering into these type of agreements must ensure that the full value of the donated food 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; or
- (b) paying a refund to the school.

5. What is the purpose of the State Processing Program?

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 donated 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 and at the negotiated price stipulated in the processing agreement.

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

6. Is there only one type of processing agreement?

No. Processing agreements can be between either the distributing agency and a processor, or a recipient agency and a processor. There are three basic types of agreements:

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.

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

7. 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 donated foods used by the processor--the processor must be very specific about what donated 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, dollar value of inventory protection provided by the processor, 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.

8. What foods are available for reprocessing?

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

<u>Basic Commodity</u>	<u>Processed End Products</u>
Pork	Rib-shaped patties, cooked sausage patties and links
Beef	Charbroiled patties, taco filling, wafer steaks
Frozen fruit	Fruit pops, turnovers, pies
Chicken	Nuggets, patties, roasted pieces, breaded chicken
Turkey	Hot dogs, bologna, roasted breast deli slices
Flour, mozzarella, tomato sauce, frozen meat products	Pizza

9. How many processors participant in the State Processing Program?

In school year (SY) 2002/2003, nearly all states had some commodities processed.

10. How many processors have agreements with more than one State?

For SY 2002/2003, there were over one hundred multi-state processors.

11. What is the value of the foods processed under the State Processing Program?

In SY 2002/2003, approximately \$1 billion worth of USDA commodities were made available to schools. Of that total, about \$215 million were further processed under the State Processing Program. The value and volume of some of the bulk meat and poultry products ordered in SY 2002/2003 are:

Basic Commodity	Value (\$ millions)	Pounds (millions)
Bulk chicken	42.8	95.1
Bulk turkey	10.6	18.9
Bulk coarse beef	72.6	58.5
Bulk coarse pork	7.4	11.8

12. What legislation and regulations authorize the program?

The State Processing Program is authorized under Section 14 of the National School Lunch Act of 1946. Federal regulations governing the

program's administration are contained in [7 CFR Part 250](#).

13. Who should I contact for more information about the State Processing Program?

For more information about the State Processing Program, we suggest that you contact your [State distributing agency](#).

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