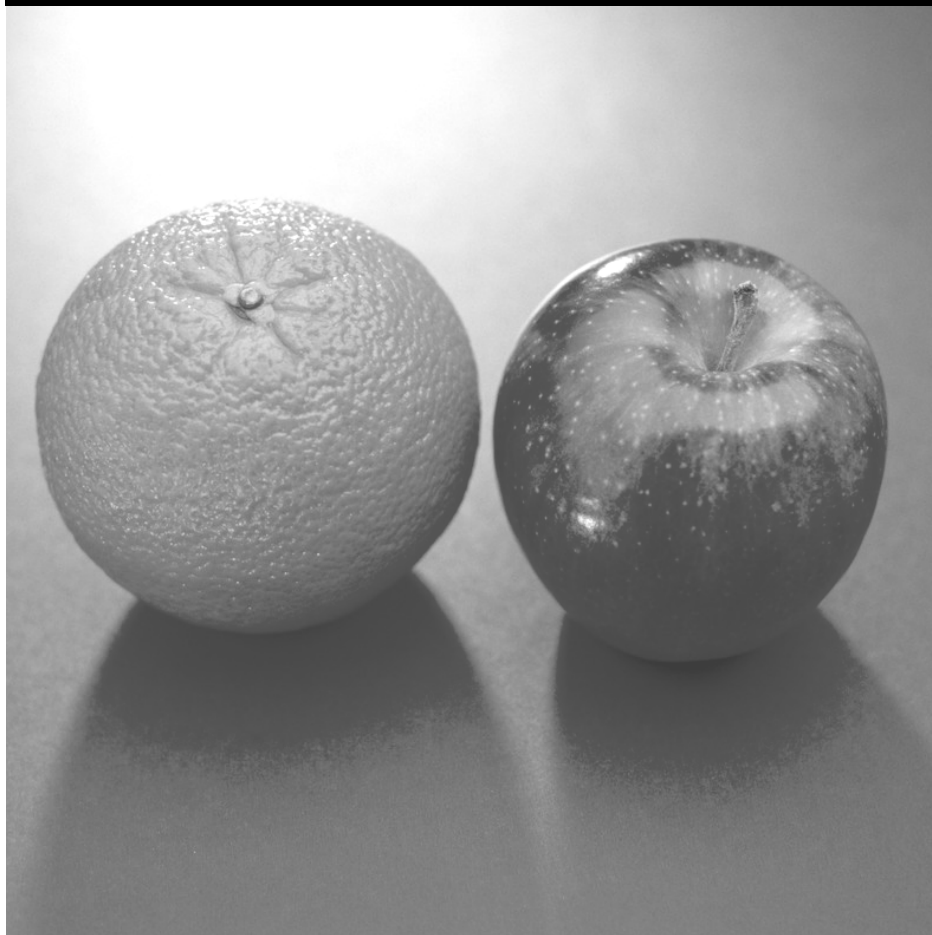


Commodity Foods and the Nutritional Quality of the National School Lunch Program: Historical Role, Current Operations, and Future Potential



Executive Summary

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Executive Summary

What is the School Lunch Commodity Program?

The U.S. Department of Agriculture purchases agricultural commodities (unprocessed or partially processed foods) and, based on their selections and the numbers of meals they serve, provides these foods to schools participating in the National School Lunch Program. Thus, the school lunch commodity program acts as a supplement to the per meal cash reimbursements these schools receive.

Purpose of the Report

Because of growing national concerns about the poor nutritional quality of children's diets and increasing rates of childhood obesity, the public's interest in the positive role child nutrition programs can play in helping to solve these problems has increased. This also has led to greater interest in the foods provided through the school lunch commodity program. Yet, the commodity program is a kind of "black box," one of the least understood nutrition programs among the public, anti-hunger advocates, public health professionals, and children's health advocates.

The purpose of this report is to:

1. Examine the school lunch commodity program and how it operates;
2. Sort myths about the program from facts;
3. Call attention to the school lunch commodity system's "Nutrition Critical Control Points" (a term developed by FRAC to describe the points at which key nutrition-related decisions are made in the system - intentionally or unintentionally - at the federal, state and local levels);
4. Highlight barriers to improvement in the nutrition profiles of the commodity-derived foods that are offered to children in the school nutrition programs; and
5. Make recommendations about how to move the decisions made at Nutrition Critical Control Points in a positive direction.

Importance of Commodity Foods to the National School Lunch Program

The contribution of commodities to the resources available for providing school lunches, while relatively small compared to the cash reimbursement provided, is significant. In school year 2007, the list of agricultural commodities offered to school districts by the U.S. Department of Agriculture consisted of more than 200 products. The monetary value of agricultural commodities made available to school districts makes up a minimum of 12 percent of the total federal funding that the National School Lunch Program provides to pay for the cost of preparing and serving lunches to students. According to estimates, when only expenditures on food (as opposed to personnel and other costs) are included in the calculation, the value of commodities makes up about one-fifth of federal resources spent on food for school lunch.

Commodities also are valuable to schools in other ways. Often, USDA-provided commodities are less expensive to schools than their counterpart products purchased on the open market by school districts because USDA can take advantage of national bulk purchases and is watching the marketplace all year for good buys. In addition, commodities may be relatively safer from a food safety perspective than their marketplace counterparts because of more stringent specifications

and inspection procedures. Moreover, commodities are a “safe” funding source for local school lunch programs, since they are supported by politically powerful agricultural interests. Finally, the financial contribution of commodities to the economic feasibility of offering school lunches is especially crucial in today’s world of rising food costs, rising labor costs, decreasing local and state financial support for “non-essential” education-related school district costs, and increasingly limited federal resources.

Origins and Current Status of School Lunch Commodities and the National School Lunch Program

During the Great Depression, rural farmers were producing food crops that they could not sell because much of the nation’s population did not have sufficient money to buy the food they needed. Many children were suffering from severe undernutrition. A logical solution to the combination of bankrupt farmers and undernourished children was to provide these unsold products to schools so that they could produce lunches for children. Congress passed a law in 1935 creating a separate fund for the Secretary of Agriculture to use, in part, to provide surplus foods for school lunch programs. Through the distribution of these foods, the incomes of farmers went up, and thousands of school children received at least one decent meal a day.

At the end of World War II, the Surgeon General of the Armed Forces spoke passionately to Congress about the poor physical condition of many of the young men who had reported for duty during the war and recommended the creation of what became the National School Lunch Program - providing a combination of cash and commodities to schools. Since then, the program has been recognized as serving a dual purpose - to provide nutritious meals to children and to support the nation’s agricultural producers. Today, more than 100,000 schools offer the National School Lunch Program to nearly 30 million children each day, at a cost of \$8 billion in cash reimbursements and about \$1 billion in commodities. Of the 30 million children eating school lunches each day, 17.4 million are low-income and receive free or reduced-price meals.

A number of developments over the last 20 years have made it financially challenging for many school lunch programs to operate in the black. In the early 1980s, Congress reduced the funding for school lunch reimbursements (and has never restored the reduction), and eliminated the food service equipment assistance program, which had helped low-income schools to purchase, repair and replace school kitchen equipment. Moreover, in the past, expenses associated with producing and serving meals were shared with the school district, but now school boards with very tight education budgets are demanding that the federal reimbursement and family payments for lunch together pay for all costs of the program.

Nutrition Standards and the National School Lunch Program

One of the major strengths of the National School Lunch Program is the requirement that the content of the meals meet national nutrition standards based on nutrition research. This ensures that foods essential to children’s health are served and that important nutrient needs of children are met. Currently, regulations require that school lunches provide at least one-third of the Recommended Dietary Allowances for key nutrients, and they do. In addition, schools are supposed to provide lunches with no more than 30 percent of calories from fat and less than 10 percent of calories from saturated fat, and they must reduce sodium levels in lunches and

increase their fiber content. According to the most recent USDA report on the content of school meals, schools have not made significant progress in reducing the fat content of lunches, and much room for nutritional improvement remains. Like any other foods that are part of a school meal, school lunch commodities, whether as individual commodities (such as canned peaches) or as parts of manufactured end products that are served (such as cheese in pizza), should contribute toward meeting the standards.

How the School Lunch Commodity Program Works

Within USDA there are four agencies that have some level of responsibility for the commodity program. The primary agency is the Food Distribution Division (FDD) of the Food and Nutrition Service (FNS), an agency within USDA that governs the federal nutrition programs. FNS determines the total monetary value of commodities that each school district can receive (called “commodity entitlement dollars”), consolidates all the commodity orders (which generally are based on what schools have asked for through their state agencies), and directs USDA’s Agricultural Marketing Service (AMS) and the Farm Service Agency (FSA) to buy the requested foods. AMS is responsible for buying red meats (primarily beef and pork), poultry and eggs, fish, fruits, vegetables, and tree nuts, and FSA buys peanut products, grains, oils, and dairy products, including cheese and dry milk. The Food Safety and Inspection Service (FSIS) ensures food safety through standards and specifications on the handling of commodities.

The state agencies responsible for commodities are known as Distributing Agencies (DAs), and they give out commodities to local school districts, which are called Recipient Agencies (RAs). These RAs ultimately serve the food to students as part of meals.

FNS determines the schools’ share of commodity funds, and then discusses with AMS and FSA which commodities these purchasing agencies plan to buy in the coming year, based on historical demand and market and yield projections. Next, FNS informs the state DAs of the projected amounts and kinds of available items, and the states are supposed to survey their school districts about what they would like, in what quantities, and on what delivery schedule. This information is aggregated in the form of a procurement request to AMS and FSA from the FDD at FNS. USDA (through AMS and FSA) purchases commodities from both growers and packers, which are known in the commodity world as vendors.

Finally, a key part of the USDA commodity program is processing. Commodity processing is a large and complex program whereby commodity foods purchased by USDA for RAs are converted from raw input into an end product more usable at the school level - by freezing or cooking and/or through the addition of other ingredients. Processing occurs at two levels - to a limited extent at the federal level under USDA’s auspices, and to a much larger extent at the national, state and local levels by food processing companies. School districts decide where to send any of the products for additional processing, e.g., tomato sauce, whole grain flour, and light mozzarella cheese to make a pizza. Companies sign agreements to be allowed to process commodities and they write detailed specifications for their products so that school districts know what they are ordering.

Commodity foods are categorized as “entitlement” commodities or “bonus” commodities. Entitlement commodities are called this because RAs are entitled to a certain value each year based on the total number of school lunches (not breakfasts) they serve times a commodity reimbursement rate. USDA buys bonus commodities when there is a severe surplus for a particular commodity. Much of the bonus commodities they buy is distributed through The Emergency Food Assistance Program (TEFAP) and the Commodity Supplemental Food Program (CSFP). However, schools also are an outlet for these foods. State distributing agencies ask schools whether they need them, and schools can order as much of these bonus commodities as they can use.

Nutrition Critical Control Points (NCCPs): A Way to Pinpoint Critical Decision Points in the School Lunch Commodity Program

In order to purchase, distribute and process commodities for use in the National School Lunch Program, key decisions must be made at the national, state and local levels by federal officials and state agencies; producers, processors and distributors; and school districts and school food service managers. These decisions can have a significant impact – intended or unintended – on the nutrition profiles of the commodity foods and commodity-derived foods served to National School Lunch Program participants. For the purposes of this report, we have created a new term for these points in the process – Nutrition Critical Control Points (NCCPs).

Pinpointing and understanding these NCCPs is a useful way to think about and discuss which changes in decisions about school lunch commodities can result in more healthful meals for schoolchildren. The ways in which the commodity system works varies considerably from state to state. Applying the concept of NCCPs to the commodity system at the federal level, in a particular state, or in a school district can be useful in diagnosing problem points and suggesting ways to change decision-making in order to improve the nutrition profiles of food products.

The first and most obvious example of a federal NCCP is when USDA makes decisions about what it plans to buy (i.e. which commodities) from growers and packers at the national level. In order to do this, the agency must make some preliminary decisions about the types, amounts, proportions, and specifications (descriptions) of the foods to be purchased. USDA also develops plans to buy some processed foods at the federal level. Decisions about which foods they decide to buy in processed form, and the specifications for the contents of these products, also are critical NCCPs.

State Distributing Agencies (DAs) make decisions about which products from the list of items offered by USDA to bring into the state. States base this determination, to a greater or lesser extent, on school district orders and/or their perceived preferences. States may offer all the choices or only some of them. They may depend on individual school districts to order, or cooperatives made up of school districts, or even a commodity advisory committee made up of several local school food service managers. In some states, the DA also enters into agreements for further processing on behalf of the districts in the state. In most states, the DA uses multi-state national processing agreements, which include specific end products, as a vehicle to invite companies into a state to solicit orders from school district school food service personnel, and may also develop contracts with state-specific companies. All of these state-level decision points are NCCPs.

Local districts order commodities against their entitlement dollars and make decisions about further processing and desired end products. According to federal law and regulations, school districts are under no obligation to choose particular foods or amounts of foods in their commodity orders. Their decisions about which commodities to order and how much; which commodities to have processed; which companies to do business with, and which and how much of their products to order; and the nutritional content and specifications of the end products they want as a result of further processing, all are NCCPs.

Last, but not least, the companies that create and/or distribute food products for the local school lunch market also make crucial decisions about the kinds and contents of foods they offer, based on their sense of market demand, feasibility, potential profits, and costs. These decisions also are NCCPs.

The Role of Commodity Foods in the Other Child Nutrition Programs

Commodity foods play the same dual role - providing a stable market for food producers and providing additional resources to meet the nutritional needs of children – in the Summer Food Service Program (SFSP) and the Child and Adult Care Food Program (CACFP). (Regular commodities, and bonus commodities when available, both are obtainable by SFSP and CACFP.) Commodity foods currently are not available in the School Breakfast Program. However, regulations do allow the use of the commodities that are allocated on the basis of lunches served to be used in other aspects of schools' nutrition programs – including in the School Breakfast, Summer Nutrition and Afterschool Snack and Meals Programs, and in a la carte foods offered for sale by schools.

In addition, other commodity programs – The Emergency Food Assistance Program (TEFAP), the Food Distribution Program for Indian Reservations (FDPIR), and, to a lesser extent, the Commodity Supplemental Food Program (CSFP) – include children among their household recipients. These programs also play the dual role of agriculture support and of helping to meet the nutritional needs of low-income people. However, none of these programs receive a volume of commodities or monetary value comparable to the commodities provided to the Lunch Program.

Beyond School Lunch: Nutrition Critical Control Points in the Other Commodity Programs

Clearly, there are potential Nutrition Critical Control Points (NCCPs) in all of the commodity programs. In the case of CACFP and SFSP, the NCCPs are quite similar to the ones at the national, state and school district levels in the National School Lunch Program. That means that positive changes in the National will also have a direct impact on the nutrition profiles of foods offered in these programs. Positive changes in school lunch also will indirectly affect other nutrition programs provided by the school. As for TEFAP, FDPIR and CSFP, changes at the federal level in National School Lunch Program commodities may have some influence on the quality and kinds of foods available in these programs. However, individuals desiring to take full advantage of the NCCPs in these three programs will need to do a separate review of commodity choices and specifications in the programs, keeping in mind the desirability of achieving diets that match the Dietary Guidelines, and, at the same time, taking into consideration practical household storage issues, and cultural and generational preferences.

Fresh Fruits and Vegetables in the School Lunch Commodity Program

A common complaint that is voiced about the traditional school lunch commodity program is that it does not offer fresh fruits and vegetables. It actually does, but the amounts and types available are relatively small. Canned and frozen fruits and vegetables are more often available as commodities. There are actually four sources for obtaining fresh fruits and vegetables in the National School Lunch Program: through direct purchase with the school lunch cash reimbursements and children's payments (i.e. what children pay for reduced-price and "paid" meals); the selection of the fresh fruits and vegetables offered in the regular school lunch commodity program; taking advantage of bonus commodity fruits and vegetables when they are available; and participation in the DOD-Fresh Program (Department of Defense Fresh Fruit and Vegetable Program).

The reason that the regular school lunch commodity program does not offer a wider variety of fresh fruit and vegetables is that its ordering, purchasing, storage and transportation methods generally lend themselves to shelf-stable products, and not fragile perishables. However, the Department of Defense (DOD), because of base closings, had a nationwide system to purchase and distribute a wide variety of high quality fresh produce to military installations, federal prisons and veterans' hospitals that was not being fully used. In the mid-1990s, USDA and DOD worked together to develop a program in which the DOD distribution system was used to supply fresh fruit and vegetables directly to school districts along with deliveries to military sites. DOD was not able to bring this service to all school districts because of limitations in federal funding, but school food service managers able to participate generally have been very happy with the program, the distribution and delivery system, and the wide selection, quality, and cost of the produce received. By 2002, the program was so popular that the Farm Bill in that year included \$50 million in funding over five years for its continuation and future growth, and the 2008 Farm Bill continued this funding level through 2012.

This program has proved the enormous demand for and popularity of fresh produce in the National School Lunch Program and the attainability of a well-operated perishable procurement and distribution system tied to the school lunch commodity system. Major issues facing this program are: whether the recent development of "new" DOD-Fresh commercial distributors can live up to the high quality standards DOD-Fresh has set; the sustainability of DOD-Fresh for schools and whether there is a more sustainable procurement and distribution system that could become an integral part of USDA's regular school lunch commodity program; the need for more funding so that all schools in all states have the potential to participate and order as much produce as they want; the possibility of intentionally including local growers in the system; and the development of means to ensure that smaller school systems can gain access to this source of fresh produce.

Modernization of the School Lunch Commodity Program

Over the last two decades, USDA has made significant and successful changes in the school lunch commodity program in response to complaints from school lunch managers and state child nutrition agencies.

By the mid-1990's, criticisms were mounting about the way the whole system worked – ordering, processing, delivery, etc. – and the roles and control by agencies at different levels of the system. USDA's Commodity Improvement Council, which was put together in 1994 and whose members included the Under Secretaries for the Food and Nutrition Service (FNS), the Agricultural Marketing Service (AMS), the Food Safety and Inspection Service (FSIS) and the Farm Service Agency (FSA), requested in 1998 that a major project be started under the auspices of USDA to find solutions to problems in the commodity program. USDA worked with private contractors in the areas of reengineering, strategic planning, change management and business transformation to modernize the program systems, and these contractors worked with local, state regional and federal school food service and government stakeholders to develop and begin to implement a plan to modernize and improve the commodity system, called BPR (the Business Process Reengineering project, or Food Distribution 2000).

In 2006, almost all of the resulting desired changes in the school lunch commodity program were embodied in proposed regulations. Two major goals of this revised system are: more efficient, simpler, and more predictable management of ordering, processing and distribution systems, and a focus on full involvement of, and meeting the real needs of, local school food service operations in state and federal decision-making.

Currently, the school lunch commodity program is in transition to a system that will be driven much more by the choices of local school districts than by unilateral state agency determinations. This forces state agencies to approach their leadership roles more creatively - fully informing school districts of their choices and potential consequences, and taking school district selections into account to the greatest extent possible. Moreover, these changes place much more responsibility on the school districts themselves to make it their business to understand their full range of choices, to learn more about each of the choices available, and to take into consideration the fiscal, nutritional and health consequences of those choices. The food industry, both processors and distributors, also plays a powerful role, and has an opportunity and a responsibility to attend to children's nutritional and health needs in the business decisions it makes.

The concerns raised in this decade about the school lunch commodity program are intertwined with health experts' and the public's alarm about increasing childhood obesity, its potential negative health consequences, and children's overall poor nutrition habits. Attitudes about commodities both reflect and affect experiences and beliefs about the National School Lunch Program. As a result, USDA is making major changes in the foods that it purchases and makes available at the federal level. For example, in school year 2007-2008, the agency has added the following items to the commodity list: quick-cook brown rice; whole grain spaghetti, rotini, and macaroni; dry kernel corn for further processing; frozen potato products without trans fats; applesauce without added sugar; and canned vegetables with lower sodium levels.

Using Nutrition Critical Control Points to Strengthen the School Lunch Commodity Program: Recommendations for Change at the National, State and Local Levels

Stakeholders interested in improving the nutritional quality of school meals should take full advantage of potential Nutrition Critical Control Points (NCCP) in the school lunch commodity

system at the federal, state and local levels. There are areas in the school lunch commodity system where critical decisions are made or strategies implemented that can affect, positively or negatively, the nutrition profile of foods served to students in the National School Lunch Program.

Federal Level NCCPs

- USDA's current efforts at the national level to improve the school lunch commodities they purchase should be lauded and made more visible. USDA should do more to promote these changes to states and local school districts, and continue to expand its efforts to improve the nutrition profile of the commodities purchased. As part of this effort, USDA should continue its systematic review of all federal-level product specifications, and revise them when appropriate with the Dietary Guidelines for Americans in mind.
- USDA should support legislation to increase significantly the proportion and amount of fruits and vegetables purchased by the federal government for use in the school lunch commodity program. In addition, it should support increased funding for the fresh produce available to school districts through DOD-Fresh, or through a new or revised USDA vehicle for the distribution of perishable produce that is associated with the current school lunch commodity program. All school districts should have the opportunity to participate in this program.
- USDA should support legislation creating a national funding mechanism to leverage resources for the purchase and repair of equipment, as well as for access to adequate storage facilities, so that more schools can use commodities in their original form to develop their own products
- USDA should support legislation to increase reimbursements for school meals so that schools can afford the increased cost of labor required to prepare foods using commodities that are closer to their original form.

State Level NCCPs

- State agencies should allow each school district, or school district coop, to choose from all the commodity choices that USDA offers.
- State agencies should take advantage of their leadership role in child nutrition by assisting school districts in making wise nutrition choices among the commodity-based food products offered by processors doing business in the state.
- States should work together with school districts and processors to develop plans for the development, introduction, promotion and transition to new and more healthful commodity-based food products.

Federal/State NCCPs

- State agencies and/or USDA should develop voluntary "Gold Standard" model specifications for certain products made with commodities for the use of local school

districts in food product analysis and ordering, and for the use of food processors in food product development for the National School Lunch Program.

- USDA and state agencies should work together to find effective ways to promote the use of underutilized, nutritionally desirable commodities, and more healthful versions of commodities, by school districts and food processors.
- USDA and state agencies should work together to provide all school districts with the training, or other means, to understand and/or write food product specifications and to be able to influence them more effectively.
- USDA and state agencies should work together to develop new ideas for smaller-scale commodity transportation systems that will allow smaller school districts to receive the more healthful commodity foods they desire.

District Level NCCPs

- More small and medium-size districts should consider banding together to pool their resources in order to: increase the chances of being able to receive the commodities they desire; improve their buying power; gain access to expertise in food product specification writing and/or review; and, most important in the context of this report, maximize their ability to influence manufacturers to develop new products according to school district nutrition needs.
- Large school districts should take full advantage of their greater buying power in order to improve the nutritional profiles of the products they order.

The Role of Stakeholders in Making Change Happen

The recommendations in this report need to be a part of any efforts to improve the overall quality of school meals. Those who are working to influence USDA's upcoming proposed school lunch and breakfast regulations on nutrition standards for school meals; or working at the state level on state legislation, supplemental funding, or state agency directives related to improved nutrition in school meals; or working with concerned school food service personnel and community members to improve the healthiness of school meals at the local level, also should be looking at the potential uses of commodity foods for quality improvements. In addition, coalitions of stakeholders, such as federal officials and state agency leaders; local school food service directors; food producers, processors and distributors; and nutrition and children's advocates, should work together to develop effective national, state and local transition plans, including changes in the school lunch commodity system, that will lead to the purchase, production, ready availability, promotion, and acceptance of the kinds of healthful school lunch foods all of us would like our children to be eating and enjoying at school every day.