



USDA Foods further Processing

1. What is USDA Foods further processing?

USDA Foods further processing allows State distributing agencies (SDA) and recipient agencies (RA) such as 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.

SDAs, RAs, and food processing companies collaborate to ensure 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 preferences.

2. Who is eligible to participate in further processing?

State distributing and recipient agencies are eligible.

3. What benefits do further processing participants receive?

By participating in further processing, SDAs and most RAs find that they can:

- Stretch their USDA Food dollars by ordering bulk products at lower-cost;
- Help ensure food safety by limiting 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 their contracted processor(s).

4. How does further processing currently operate?

For raw, bulk USDA Foods to be further processed into selected end products, the SDA or RA competitively procures the services of commercial food processors to have the USDA Foods converted to more ready-to-use products.

In addition to the contract between the processor and the SDA or RA, a legally binding agreement (i.e., processing agreement) with FNS or the SDA, as appropriate, 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.

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End products made from meat or poultry are usually produced under fee-for-service contracts. 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.

Regardless of the type of agreement that is used, processing services must be procured as stipulated in 2 CFR 200. A competitively procured contract must be in place in addition to an appropriate processing agreement.

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

6. What should be included in the Processor Agreement?

It is essential that the processing agreement be accurately completed, and must contain:

- SDA information--State, agency name, agency representative or contact person, address, and telephone number;
- Processor information--company name, company representative, address, and telephone number;
- Formulation of all end products to be produced under the agreement including the yield of the USDA Foods utilized--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 must 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); and

- Names, addresses, titles, and signatures of the authorizing persons who represent the distributing agency and the processor.

7. How many processors participate in USDA Foods Processing?

Participation varies from year to year with an average of 100 processors participating in more than one State.

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

In SY 2017, approximately \$1.4 billion worth of USDA Foods were made available to schools. Of that total, school districts diverted over half for further processing.

9. What foods are available for reprocessing?

There are 38 items that are available for further processing. USDA Foods that are most often further processed and examples of end products are shown below.

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

10. 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](#).

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

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

<https://www.fns.usda.gov/fdd/food-distribution-contacts>

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