

Good afternoon. (I'm Peggy Cantfil), Operations Chief-Food Distribution Division and the Food and Nutrition Service. Today I'm going to be discussing some of our program priorities in the Food Nutrition Service.

We are the agency that represents the recipients of the USDA food that's procured. And our focus for the upcoming year and our priorities are the web-based supply chain management system, the image of USDA food, Department of Defense (Fresh) program and processing inventory management and last but not least, buying a lot of food promptly and effectively.

In terms of web-based supply chain management, I know you've heard that we've been going through system development and user training as well as recipient agency and (sda) user training, starting on September - through December 31 which is our goal live date.

With regards to USDA Foods and image improvement, our vision is to increase participation in USDA and additional assistance programs by improving the public perception of USDA Food.

As you know, there are some misconceptions that school lunch and commodities cause obesity, that USDA surplus commodities are the culprit and that commodities are dumped on school districts and are of low quality and low nutrition contribution.

These misconception need to be replaced with the reality that USDA Foods provide healthy choices of American grown products.

They account for approximately 20% of the market value of the school food purchases, that the USDA Foods received at the school district level are request driven, purchase are request driven to meet the needs of our customers and that school districts are not required to accept items that they do not want.

And those are the program realities. We are also presenting the healthier options. These were discussed and shared at the Institute of Medicine and at the American Commodity Distribution Association meetings recently.

Our healthy options include low fat meat and poultry products, 85% lean beef, poultry products, the 97% lean turkey ham. And we have also available reduced fat cheeses, low saturated fat soybean oil, reduced fat bakery mix.

We will be implementing low sodium canned vegetables in the upcoming school year as sodium is being targeting with the IOM recommendation, as well as currently providing unsweetened applesauce, whole grain pasta and parboiled brown rice and providing value added fresh product.

So it's the value added fresh products and whole grain initiatives I'm going to discuss. One, the Farm Bill provided for \$4 million to purchase and study whole grain products for school meals.

We worked with producers and farm service agencies to identify some unique items that a lot of folk might not be exposed to. Those items are whole grain pancakes and whole grain tortillas. Several states, of course, have participated. Most states in the nation did.

And we will be evaluating the impact and keeping our eye on the products and the accessibility of these whole grain items. We've got them in our office and we like them but we to try them on students.

And USDA is going to report the findings to Congress on September 11. Another initiative that we're taking on is the Sliced Apple pilot project. We are searching for methods to distribute additional fresh product to complement and provide an alternative to the Department of Defense purchases.

AMS spends approximately \$4 million on a pilot project with five states participating. And these five states were to identify primarily commercial distributors what were currently piloting this item commercially.

And USDA vendors worked with the distributors to ensure that they were piloted in these destinations and would bid on deliveries for March through June. Participating schools will be surveyed.

Preliminary data shows that in some areas it is very popular, the item is well used and came in good quality and it's being turned quickly. We've had a few bumps trying to figure out the bidding system and ensuring that USDA vendors were slotted as distributors.

But so far on a very small scale, small in scope, it worked well. We also had to fake out our old computer system (PCIMS) because it's not really to delivery in less than carload quantities.

But we managed to get it purchased and we hope to expand maybe into another product, keep it small in scope until we have our new system web-based supply chain management. So we're now facing, you know, more of that product.

Well also a part of USDA's image is complaints. We do have a method of reports, state agencies and recipient agencies to submit complaints. Oddly enough, our complaints have been down significantly this year.

We think our commercial labeling might contribute a little bit to that. At other industry conferences they've noted that recipient agencies, school districts, are contacting the vendors directly with issues and are being dealt with very well.

They're being handled so they have found the need to come through us in the department in most cases. Of the 372 complaints we have received, only about 99% - I mean 9% of that 35 were for livestock items.

The complaints included foreign matter, cooking issues and packaging. A large part is quality. And typically our program support branch worked with AMS and the vendors to deal with quality issues if they need to improve specifications or they need replace the product.

We appreciate your responsiveness and explanation as to how to improve and eliminate issues that cause complaints and look forward to continue to working with you improve our product and eliminate all of the complaints that have showed up.

We don't believe we get complaints on everything that's out there, but again, we are pleased that the number of complaints has been reduced significantly. Another priority as I indicated earlier was to move a lot more food promptly and effectively.

You can see from the slide that our purchases have just about doubled. And this is FY '09 purchases to-date. We are not finished making lot of our entitlement purchase. But we are now at \$2.3 billion almost.

And a significant amount of that, of course, remains on the child nutrition programs in schools. But there have been other increases that I will explain. (TEFAP) of course received an addition \$100 million with the America Recovery and Reinvestment Act of 2009 for food.

In addition, they received \$50 million of admin funds that can be used primarily for storage and transportation of commodities and program administration.

The items that were purchased under the ARRA or stimulus program were turkey deli meat, sliced ham, peanut products, peaches and mixed fruit, (chalets) and reduced fat cheeses, products that were identified to be plentiful that we would successful in buying and providing support to markets as well as food to needy families in need of assistance because of the economy.

Deliveries will be between May and October. And actually, some of that might be extended through December. USDA serves

another thing attributing to our huge increase in product purchased in FY '09, is the significant bonus request.

In past years, we have not had a substantial bonus requests. However, at this stage of the game, these are the products that we have purchased to-date. And we also have some in the pipeline on the next slide.

They were approved in March and April. We just finished purchasing the turkey under an RFP. We purchased some bulk turkey product as well as household product and institutional size product. We're out for pork, as you well know.

And a little lamb. Apple products will be going out with it and dried bagged beans as well as walnuts. These items are available both to (TEFAP) and schools, and will be delivered between the last half of May through about I think it's September.

I think we will have finished up purchases through then. So a lot of food moving in a very short window of time and we hope that this system can handle it. Another priority for the food and nutrition service is inventory management.

Particularly of interest to your group is processing inventory management. The PITs, the processing initiatives team, is monitoring of course the processes inventory on a national level.

The bonus bulk purchases currently going through the pipeline for chicken, turkey and pork have created some management challenges with regards to ensuring that between the inbound deliveries, end of the school year's deliveries, carry-over

inventory and the processor and any new product being ordered into a state's account, that we don't have any more from six months to a year's worth of product that can be used within the school year.

We realize with red meat processes that these items are not 100% fully substitutable and seamless in your production and that it needs to move through your system quickly.

(Dave Brothers) in our office has worked very closely with you all in the states to ensure that the product is being transferred to the states that can use it most effectively and maintain fairness and equity to the state agencies.

Another inventory management initiative that we have completed actually is the national processing web-based training that (Sherry Zachary) worked with, you know, Connecticut, Yukon University of Connecticut in the State of Connecticut has developed.

Very good detailed training for state agencies and processors wanting to understand how to reconcile monthly performance reports and monitoring your monthly performance reports in your inventory.

So we are very pleased that that initiative has been completed. The other USDA food learning opportunities, again I mentioned the web-based processing training for food distribution division as well as the School Nutrition Association.

And their annual national conference in Los Angeles has a USDA tract with information on how school districts can take advantage of their planned assistance level. And receive permeable rate as well States can distribute and deliver commodities more effectively.

So I hope to see you all at the annual national conference. Also other learning opportunities are with the American Commodity Distribution Association with their work sessions and general sessions, a lot of learning and discussion opportunity there.

We also do a processing presentation and training staff that school nutrition needs or state agency needs. This year we posted with the - have worked closely with the National Food Service Management Institute.

Satellite seminars are available on their web and their link from our web, explaining USDA Foods as a part of our commodity image improvement initiative and America's finest.

And in addition to that, there will be web-based supply chain management training on the web. Those of you that are processing with us and have access to (ECOS) might be noticing a lot of information on web-based supply chain management and what the system is going to do on state agencies, school districts and processors and receiving organizations.

And you all will, of course, be working with any AMS as USDA vendors to learn about the upcoming system.

Other issues that are emerging and being resolved in addition to web-based pricing management and food safety recalls department, and FNS is very committed to having a quick and effective notification system.

And there will be a self-registration notification system for food safety recalls in (ECOS). And we will be, of course, carrying this functionality over to the web-based supply chain management.

Another emerging issue that's very much on everybody's radar screen is the Child Nutrition Reauthorization that's coming up. There are some American Commodity Distribution Association recommendations as well as recommendation that have come out of the School Nutrition Association.

And the USDA is working with folks to consider what might alleviate some issues. We hope that we can address and resolve issues related to Child Nutrition Reauthorization.

The other issue that we will be dealing with very shortly that some of you might feel the impact of is our fourth quarter funding limitations.

As you know, we've sent out guidance to state agencies and processors indicating that we do not have sufficient funds in the fourth quarter to allow the purchases early in the school year that people would desire.

While we sent that guidance out indicating that fourth quarter funding was limited to about 35% to 40% of entitlement for school year '09 to '10, we've received orders for over 50% and 60% of the

revenue, especially in the beef area demand through November 15 delivery.

November 15 traditionally is the last delivery of the fiscal year. And we will be cutting back significantly on those orders, probably about 25% to 30% for delivery through November 15 and moving those orders into the last half November, first half December and on forward to be purchased with fiscal year '10 funds.

So (Rhonda Lewis), who manages the beef program, will be working with this data and the processes. You all please keep an eye on the delivery dates and the priority numbers on the bulk order because they will be changing.

And we will be equitable across state agencies and across processes, taking into mind their inventory level. Another upcoming issue is the cost of distribution and delivery of USDA foods and the cost for state agencies to administer the programs.

That cost is of course passed down to school districts in most states. Very few states are 100% subsidized for program administration and storage and transportation of their USDA foods.

With the economy and fuel costs, many have started to question the cost for the privilege of receiving commodities. Several districts out there are paying upwards of \$4, \$5, \$6 a case. And many out in rural areas it can be in between \$5 and \$10 a case to receive commodities.

And that said, we have experienced some requests for cash and letter of credits and offshore sites that where distribution costs have very expensive.

And remote rural areas are being frustrated by the huge increase in costs that the commodities program has experienced and the lack of funds available to support that area.

So stay tuned for reauthorization maybe to address some of these issues. And that kind of wraps up the upcoming issues, our food nutrition service priorities. And I understand that you guys might be submitting some questions to us to respond to.

And then if you're looking for any of this information please visit us at our website at commodityfoods.usda.gov. Have a good day.