

CHAPTER 3

USDA DOMESTIC FOOD PROCUREMENT: PROGRAMS AND EXPENDITURES

Introduction

USDA purchases and distributes food commodities through 13 food assistance programs. Purchase and distribution activities are essentially the same for each program, but spending authorities, target populations, and program goals differ. The collective goals of the programs are to provide needy people with access to a more nutritious diet, to improve the eating habits of the Nation's children, and to stabilize farm prices through the distribution of surplus foods. This chapter summarizes USDA's food procurement programs, identifies their authorizing legislation, and details the recent history of annual expenditures under these programs.

Programs and Supporting Legislation

Table 3-1 lists the 13 programs, identifies their target populations, links them to their supporting legislation, and shows the amounts spent on food procurement in fiscal 1996. The column headed "Section of public law" lists numbers that refer to the sections of the original legislation that authorize each program's procurement activity; those numbers are common references for program administrators.

The 13 programs spent a total of \$849 million on food procurement in fiscal 1996. The four largest programs—the National School Lunch Program (NSLP), the Food Distribution Program on Indian Reservations, the Commodity Supplemental Food Program, and Soup

Kitchens and Food Banks—purchased more than 95 percent of the total, about \$811 million. The NSLP alone accounted for almost 77 percent of the 1996 total, or \$652 million.

The 13 programs are authorized under several different statutes, which create a variety of funding sources and funding constraints for USDA. The first three programs in table 3-1, including the NSLP, are primarily supported by two separate congressional laws and subsequent amendments to these laws.

Section 32 refers to that section of the Agricultural Adjustment Act of 1935. The Section authorizes USDA to support prices of commodities in surplus by purchasing them in the marketplace, and also authorizes USDA to distribute commodities domestically. The legislation authorizes the funding of these activities with money collected from customs receipts; this funding is primarily administered by AMS to purchase meat and livestock, fruit and vegetable commodities, usually about \$400 million annually.

Funds used under section 32 are designed to support agricultural markets. As a result, the funds are to be applied to the purchase of relatively unprocessed food products that are close to agricultural commodities in the distribution chain. That is, the funds can be used to purchase pork but not frozen sausage pizza, and they can be used to purchase chicken but cannot be applied to paying for processing the chicken into chicken nuggets. In addition, section 32 money is intended to be

spent on products in surplus, reflecting the surplus removal goal under which USDA programs operate. Hence, those products must be designated as being in abundant supply. Because section 32 money can only be spent on surplus commodities, the legislation can lead to substantial year-to-year fluctuations in expenditures and in the mix of commodities purchased.

Section 6 refers to the National School Lunch Act of 1946, and authorizes USDA to purchase food products for distribution to the Nation's school children. Commodities purchased with Section 6 funds do not have to be in surplus because there is no requirement for supporting prices, but the available funds can vary with annual Congressional appropriations to FNS.

Under current procedures for the NSLP, schools receive a cash reimbursement of \$1.89 for each free meal served, \$1.49 for each reduced-price meal, and \$0.18 for each paid meal. In addition to cash, schools are entitled under Section 6 to receive 15 cents worth of commodity foods (those procured by AMS and FSA) for each meal served as well as Section 32 "bonus" com-

modities, as those commodities (and the funds to purchase them) become available. In total, about 17 percent of the dollar value of the food served in school lunch programs comes from USDA commodity purchase programs.

Free meals are offered to students from families with incomes that are no more than 130 percent of the poverty line income (or \$20,865 in 1996 for a family of four), while reduced-price meals are offered to those from families with incomes between 130 percent and 185 percent of the poverty line. About 25 million children, in 92,000 schools, participate in the NSLP, and more than half receive a free or reduced-price meal.

Two relatively small programs for the elderly, the Nutrition Program for the Elderly and Area Agencies on Aging, are authorized under Section 311 of the Older Americans Act of 1965. The U.S. Department of Health and Human Services administers these programs, while USDA purchases food products for them. Nearly 1 million meals a day are served under these programs.

Table 3-1: Domestic food assistance programs for which USDA purchases food products

Program acronym	Expenditures (million dollars ¹)	Section of public law	Name and target population
NSLP	652 (76.80)	32 - 6E	National School Lunch Program - schools
CACF	5 (0.61)	32 - 6E	Child and Adult Care Feeding Program - child care centers and special need adult care centers
SFSP	1 (0.14)	32 - 6E	Summer Food Service Program - summer meal service for needy children during the day
NPE	4 (0.51)	311	Nutrition Program for the Elderly - congregate feeding sites for elderly people (State option)
AAA	1 (0.18)	311	Area Agencies on Aging - congregate feeding sites for elderly people (State option)
FDPIR	74 (8.71)	4A	Food Distribution Program on Indian Reservations - food packages for needy Indian families
CSFP	48 (5.61)	17	Commodity Supplemental Food Program - food package for pregnant or postpartum women and children up to age 6
TEFAP	16 (1.93)	104	The Emergency Food Assistance Program - food for homeless or needy people/households
SKFB	37 (4.34)	110	Soup Kitchens and Food Banks - food for meal service at soup kitchens and food bank networks
CI	9 (1.01)	416	Charitable Institutions - nonprofit institutions
SC	<1 (0.01)	416	Summer Camps - nonprofit summer camps for children
FBDP	<1 (0.01)	32C	Food Bank Demonstration Projects - food banks in high-need areas
DF	1 (0.16)	32C	Disaster Feeding - food provided to or used to prepare meals for disaster victims

¹Numbers in parentheses show percent of total food spending accounted for by the program.

Sections 4A and 17 refer to those sections in the Agriculture and Consumer Protection Act of 1973. This law authorizes the Food Distribution Program on Indian Reservations and the Commodity Supplemental Food Program. Each distributes food packages; about 115,000 people participate in the first, and about 400,000 in the second. These programs received the second and third largest amounts spent for commodity and product in fiscal 1996, over \$120 million.

Two programs were authorized through the Hunger Prevention Act of 1988. Section 104 authorizes USDA to distribute surplus commodities to needy individuals or households, while Section 110 authorizes USDA to purchase and distribute commodities and food products to soup kitchens and food banks.

Section 416 of the Agricultural Adjustment Act of 1949 authorizes the Commodity Credit Corporation (CCC) to make available CCC-owned commodities for distribution. FSA administers the CCC—a public corporation that supports the prices of commodities through nonrecourse commodity loans and manages commodities acquired by the agency. The commodities provided under Section 416 may be in private stocks or in public stocks that were acquired through forfeiture of nonrecourse commodity loans. Commodities donated under this legislation are known as bonus commodities, and

may be used in any of these programs.

Section 32C also refers to Section 32 in the Agricultural Adjustment Act of 1935. Section 32C funds are funds set aside by the Secretary for use in extreme surplus or to provide for disaster relief. These funds also come from customs receipts, and may also be used in any of the other programs in table 3-1. They are the primary source for the Food Demonstration Projects and Disaster Feeding Programs. Section 32C funds are used primarily for purchasing and distributing AMS commodities.

Program Expenditures

FSA and AMS purchase different products. AMS is responsible for purchasing “Group A” commodities, which include poultry, red meat, fish, eggs, and fresh and processed fruits and vegetables. FSA purchases “Group B” commodities, which include dairy products (primarily cheese but also including butter and evaporated milk), grain-based products (such as wheat flour, corn products, pasta and ready-to-eat cereal), peanut products, honey, vegetable oil, rice, and infant formula. Most Group B products are derived from agricultural products that are or have been subject to agricultural support programs also administered by FSA.

Figure 1

USDA food purchases for domestic feeding programs, 1979-96

Million dollars

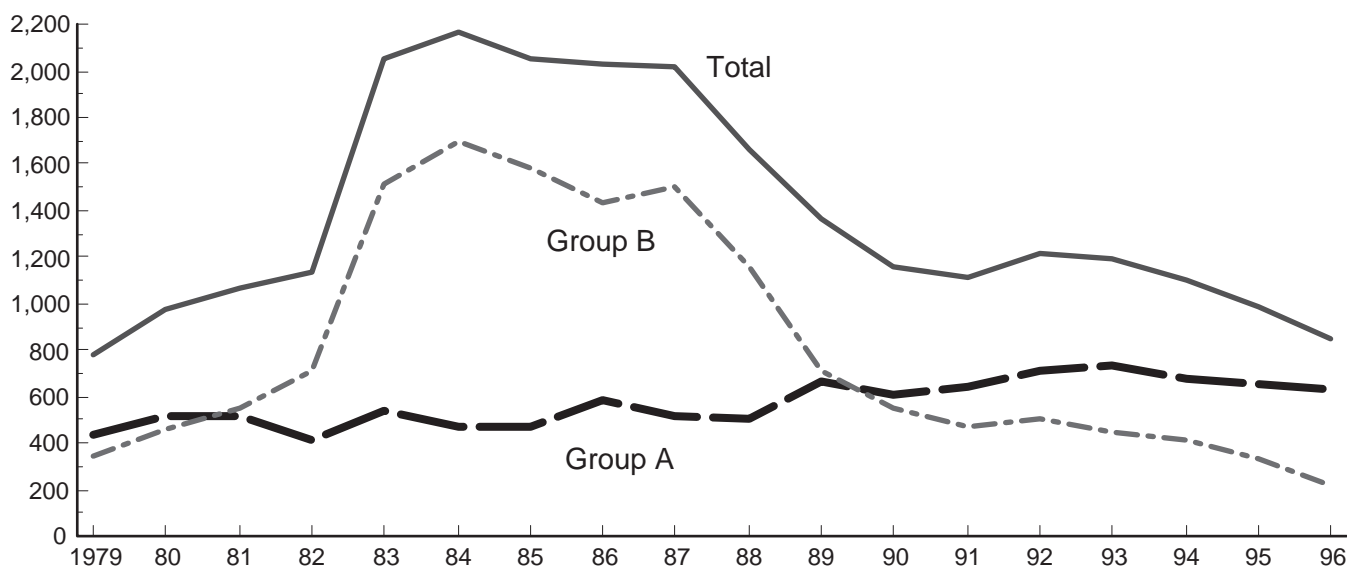


Figure 3-1 displays annual USDA expenditures, in current dollars, for domestic food procurement for a period starting in 1979 and ending in 1996. The data display a distinct pattern, with total expenditures rising steadily from \$785 million in 1979 to a peak of \$2.16 billion in 1984. After remaining just above \$2 billion through 1987, annual expenditures began a steady decline, to \$849 million in 1996.

The sharp post-1987 decline is driven by declines in Group B expenditures. Group A commodities show a modest upward trend, starting at around \$437 million in 1979 and reaching a peak of \$736 million in 1993, before declining to around \$629 million in 1996. But Group B commodities purchased by FSA show a far more dramatic cycle. Expenditures on those commodities rose from \$348 million in 1979 to a peak of \$1,692 million in 1984 (a 386-percent expansion in 5 years). Expenditures remained between \$1.4 billion and \$1.7 billion between 1983 and 1987, before beginning a steady and precipitous decline to \$220 million in 1996.

The sharp expansion in the early 1980's, and the subsequent contraction, reflected developments in agricultural commodity markets and USDA support programs. Falling world commodity prices, when set against relatively high USDA support prices, led to large USDA purchases through the CCC and an enormous increase in commodities available for the programs. Because the

expanded purchases largely went to programs other than school lunches, the importance of the NSLP in USDA purchases also varied through time, as figure 3-2 shows. In 1979, NSLP purchases accounted for 73 percent of total USDA purchases and 78.7 percent of FSA (Group B) purchases. At the peak expenditure year, in 1984, the NSLP share fell to 38 percent of total USDA purchases and just 26 percent of FSA purchases; by 1996, school lunch purchases were back to 78 percent of the total and 60 percent of FSA purchases.

Table 3-2: FSA purchases by commodity group, 1993-95

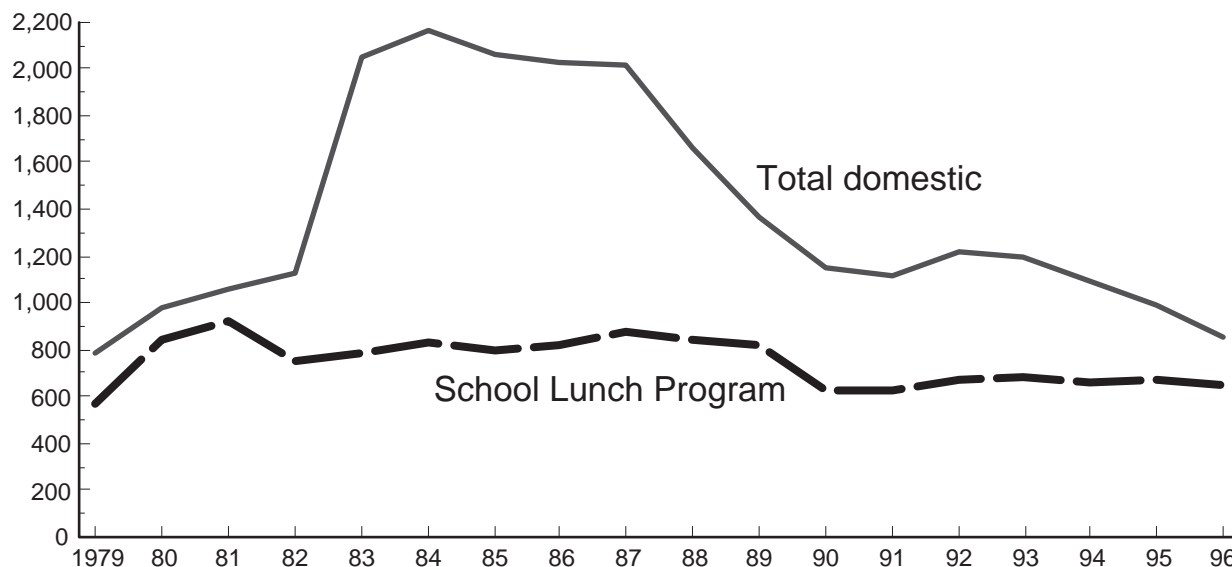
Commodity	Expenditures			1995 NSLP share of expenditures
	1993	1994	1995	
	— Million dollars—			Percent
Dairy	287.0	240.6	202.5	63.4
Flour	20.4	16.2	15.3	90.8
Peanut products	65.1	54.0	21.1	40.2
Pasta	9.5	11.5	11.5	28.7
Vegetable oil	34.8	43.2	21.2	95.1
Rice	11.4	16.6	12.3	18.4
Corn	9.5	17.0	1.2	44.5
RTE cereal ¹	6.3	4.3	4.7	0.0
Processed cereal	4.4	5.0	3.1	12.6
Honey	0.5	1.1	3.6	0.0
Total	448.8	409.5	296.5	59.6

¹RTE cereal is ready-to-eat cereal.

Figure 3-2

National School Lunch Programs account for a growing share of USDA food purchases

Million dollars



At present, FSA purchases of Group B commodities are increasingly concentrated on one major program, and are also concentrated on a major commodity group. Table 3-2 shows that dairy purchases now account for over 68 percent of FSA purchases, and for nearly two-thirds of the agency's NSLP purchases. In turn, cheese accounts for the major share of dairy purchases.

U.S. agricultural policy, as set in 1996 farm legislation, has moved away from a reliance on price supports for program commodities. If that policy continues, then procurement of bonus commodities under Section 416 legislation will become a less important driver of USDA procurement. In turn, annual entitlement appropriations will become more important, and the NSLP will continue to be the primary recipient of USDA foods.