

Texas Department of Agriculture

Food and Nutrition
Industry Task Force Minutes
June 15, 2022

1. Paper Supply Update: Joe McMahon
 - a. Pactiv has elected to do a national K12 school bid this year. Pactiv expects to be able to produce at the bid quantity levels. There is a lot of inventory of 5-compartment school trays, black and some white.

2. USDA Foods Update: Jaclyn Cantu
 - a. TDA will be moving forward with the redistribution process to help manage any excess pounds. TDA will be following the same state processes as the prior years.
 - b. In terms of next year, Texas got about 34 million dollars for the Commodity Credit Corporation of Food (CCC Bonus) and spent all of that initially. Supply chain issues have caused delays for purchasing all items. TDA is working on alternatives to spend the funding.
 - c. TDA is monitoring entitlement very closely. The new rate of assistance has not been determined yet. Texas' meals served appears in good shape.
 - d. Many issues are affecting USDA purchasing: the price of steel, droughts in California, rain in the mid-Atlantic, the war in Ukraine impacting wheat, ongoing issues with the pandemic and labor shortages, and competition in the commercial market.
 - e. Texas is beginning the process of transitioning out of our state system and into USDA's national system, Web-Based Supply Chain Management, or WBSCM. This will be a two-year process. The transition out of TX-UNPS (Jackie): The contract packet will remain in TX-UNPS, but the ordering surveys, weekly commodity bulletin, etc. will move to WBSCM. There is more comprehensive and current reporting in WBSCM that would be more advantageous for the schools. Ordering food from the warehouses will be contracted out for the warehouses to handle and have them use their own system.
 - f. TDA will be encouraging school districts to use their entitlement for direct delivery products if they are not sure they can use their processing. It doesn't benefit the manufacturers to have product that's not drawn down, and it's not benefiting the school districts when they don't use diversions. Districts should maximize USDA foods to realize a 12% cost savings on food.
 - g. ACDA outlined legislation for discretionary funding as well as mandatory funding for the food and nutrition programs. It talked about WIC, SNAP, the child nutrition programs, and TEFAP. The bill will provide \$28.6 billion in funding for child nutrition programs, which is a \$1.7 billion increase from 2022 levels. The funding will also support \$5.6 billion in school lunches and snacks. In addition, the bill provides \$50 million for summer EBT programs, \$40 million for school kitchen equipment grants, \$10 million for the school breakfast expansion grants and \$12 million for the farm to school grants.

3. Menu Planning for Normal Operations: Lena Wilson

a. School Districts Input

i. Donna Woodard-Thomas with Duncanville ISD:

1. Duncanville ISD is planning the same menu as last year
2. Not able to utilize all the processing items this past year because they could not get them
3. Issue transferring pounds to a different chicken producer – the product was reserved for whoever initially requested it
4. Probably won't have as many kids eating this year because some of them will have to pay reduced or pay in full, which may offer some relief
5. Price of ground beef patty went up 200% since last year; reimbursement has gone down
6. Grants and increased reimbursements this year, but will likely be in the negative and having to pull that money out of farm balance at the end of the year because of the grants

ii. Candy Beihl:

1. Biggest barrier to use pounds was the distributor
2. Menu for next year: a lot of the same, difficult to ascertain how many kids will be eating with vouchers going away
3. Trying to help/encourage little districts to use more direct ship
4. Fund balance will be utilized next year due to increases in food prices and salaries

iii. Lena:

1. TDA is having conversations with USDA about manufacturers not allowing you to draw down your pounds because they wanted to sell commercially instead of through the USDA Foods program. State agencies will be monitoring this to ensure districts can get the product that they need.

b. Manufacturer Input

i. Linda Ballas:

1. Not able to keep up with demand on the manufacturer side of things. Worked with districts on redistributing pounds to other manufacturers as much as possible. States that Tyson took new inventory and couldn't keep up with the volume.
2. Anticipate seeing a shift in demand now that universal free feeding is going away to offer some relief
3. Working now to pre-build inventory for back-to-school, so that the inventory will be there when orders start to be placed in July

ii. Keri:

1. Demand vs supply is strained:
 - a. The extreme increase in beef is causing more people to turn to chicken products
 - b. Companies are closing their doors, like Smithfield in California (pork manufacturer), putting more constraints on other pork producers

iii. Stephanie Ewing:

1. Working to...
 - a. manage orders for the first 3 weeks of deliveries

- b. understand exactly what product availability, lead times, etc. looks like and reforecasting accordingly
 - c. implement internal technology solutions to ensure that the available product that we have is allocated to those school districts who place their orders first
 - 2. Having trouble...
 - a. buying products in full truckload quantities and getting orders fulfilled;
 - i. School districts would go direct to manufacturers to get single palettes, and those orders would be fulfilled, circumventing the contract that we have with the school districts. This issue occurred with companies who are dedicated to K12.
- 4. Supply Chain Discussion: Lena Wilson
 - a. Supply Chain Update: Texas had \$111 million that was distributed to the districts who were willing to accept it. Every school district got \$5,000, but the priority was those with free or reduced above 25%, then we redistributed the money again to those who had more than 25% free or reduced. TDA will make one more outreach to districts that declined the funding to ensure they don't need it with increased prices. The remaining balance of \$27M will be redistributed to those willing to accept afterward.
- 5. Procurement Concerns: Lena Wilson
 - a. Lena:
 - i. USDA had a meeting with some of the state agencies, and they were challenging the force major that was used to increase pricing. Awaiting further information and/or action from USDA.
 - b. Keri:
 - i. Experiencing issues with bid price changes. Cooperatives are being flexible and creating new language to mitigate economic instability in the world, while trying to maintain compliance and get firm-fixed bids in place.
 - ii. I'm seeing pricing increases from several processors, and they are submitting all the required documents and using all the proper consumer price indexes required.
 - iii. Difficult to remove an award from a processor with banked pounds. It causes a whole new logistical situation for everyone involved. Forecasting has been submitted to the processors and distributors.
 - c. Jose:
 - i. How do coops ensure it is not the distributor adding that cost to the product? And that the distributor is being very clear to the RAs that they will not bring the product until they get a written acknowledgement from you accepting that price increase? Can you tell us just a little bit of that process?
 - d. Keri:
 - i. When I get all the appropriate documents from a processor requesting a price increase, I send them a spreadsheet from our bid catalog with the

new price. We review that, looking at the percentage increase. I may have questions, such as, why is this increasing so much? The supporting documentation explains it all, but sometimes it produces further questioning. We then update our commodity bid catalog to reflect the pricing increase and calculate the price difference from original bid price to new price. Then we update our commercial distributor catalog with our new bid pricing.

1. So let's say if a case price increased by one dollar per case. We now add that \$1 to our bid price from Labatt, who is our awarded distributor. We then send that information to Labatt letting them know, along with the supporting documentation from the processor, that a processor has requested a pricing increase. We have approved this. Here is our new price with you, Labatt. It does not allow Labatt to take the new processor price and increase their profit margin or their market percentage. They are only allowed to increase that price by what the processor has increased, which is going to decrease their profit margin because they work on percentages. But that is how we do it. We do not allow Labatt to increase their markup.

e. Lena:

- i. Keri's method is a good best practice to be shared with the other coops.

f. Stephanie:

- i. How is it that the school districts can be able to mandate and modify a specific profit margin from their distributor partners, but not from their manufacturer? Especially when the distributor is making the financial commitment that when a price gets raised to us, that is more cash that's out of the distributor's pocket that is upholding that money for a longer period and dictating that they can't make changes in their profit margins? When others are changing their prices, it is not always a good business strategy. There are many factors that go into price increases. The biggest one is the cash outlay, because we still must pay the manufacturer within their payment timelines and the school district may not pay the distributor for up to 75 days. That must be considered by the distributor. We must be able to understand the impact of all of this throughout the entire supply chain.

g. Keri:

- i. They're not really losing out their profit margin percentage, they're just not making any more money on top of what they were already going to make per case. The distributor can increase price if they justify it in their pricing, example is increased pricing for gas. Distributor was able to hold pricing this past school year, even though it was quite volatile.

h. Stephanie:

- i. Supply chain issues are creating other costs that the distributor is experiencing including credit limits that cause less POs and equals fewer trucks. Distributors are borrowing more money from banks to cover the increased price and the overall costs increase for the distributor.
- ii. Hopefully manufacturers are raising their prices only to ensure that they're able to maintain a specific profit margin.

- iii. Any time there's a degradation of that profit margin, there is going to be an impact throughout the entire supply chain, and districts have to think about that impact before dictating what other people's businesses will do because this is, in part, what is causing some of these distributors and manufacturers to exit the business, because they cannot maintain that level of business.

6. Food Shows: Lena Wilson

a. Co-Ops Input

i. Keri:

- 1. The Co-ops are all planning to have our food shows
- 2. We coordinate our food shows so that we don't overlap
- 3. MRPC is open to coming up with better plans to help manufacturers and processors with the cost of the food shows and decrease their expenses to attend. We have the trucks come in with the food banks and pick up what's left over that's usable.

b. Manufacturer's Input

i. Don Strain:

- 1. Interested in collaborating with MRPC for food shows.
- 2. We're open, back in full force and food show mode, but with some changes. Food show participation must get approved, including travel, which is new. Other companies are doing the same thing.

ii. Linda Ballas:

- 1. We are doing food shows but with some changes as well. We've really scaled back in this pandemic based on feedback we received that there's too much food. I think we're down to just sampling 5 products at 2 tables.
- 2. There is a lot more sampling with students, and that's very exciting.

c. Keri:

- i. Processors will be getting something from me in July, asking "What are the top 5 volume products produced nationwide?" And "what are the top 5 in Texas?" That will be what's sampled at our food shows.

d. Jose:

- i. Manufacturers are limiting the number of food shows they will attend in a period of time due to lack of funds. The brokers are managing more booths and many of them have people that don't really know their lines. Asking SNA to do more regional shows in areas with smaller states.

7. Open Discussion: Lena Wilson

- a. Lena: TDA will continue these scheduled meetings if participants want to continue to meet. Next meeting to be before schools starts in August.

- b. Michael Rosenberger: Thanked the task force members for their work during the pandemic. It's been a difficult year for all. Concerned about companies dropping out of the CN marketplace and distributors not wanting to service K 12 accounts and would like that discussion to continue. It's been a hard year, expect this upcoming year will be equally challenged.