

## CHAPTER THREE

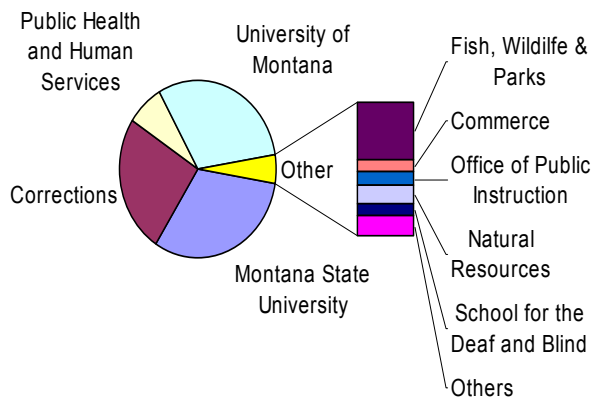
### Public Sector Food Procurement

#### 3.1 Introduction

Food procurement levels within Montana’s public sector are largely defined by the number of consumers residing at or attending public institutions (for example children eating at schools, or patients in hospitals). They are also influenced by the number of people employed in education, healthcare and other institutions that to some extent rely on workplace meals.

The Montana Department of Administration suggests that public institutions spent approximately \$11 million on food in 2005 (as discussed in Chapter One). Information collated using Montana Department of Administration data presented in Figure 3.1 illustrates that The University of Montana (main campus, Helena College of Technology, Montana Tech and Western Montana College), Montana State University (main campus, MSU-Northern, MSU College of Technology, MSU-Billings) and the Department of Corrections accounted for 87% of total food purchases. This data does not include K-12 school food expenditures. Information presented later in this chapter illustrates that in total, Montana’s public institutions spend approximately \$32,710,000 on food each year.

**Figure 3.1: Value of Food Purchases with Department of Administration Funds**



*Source: Montana Department of Administration (2005)*

It is important to distinguish between the various public departments or institutions involved in food procurement. Each has its own approach to purchasing and accredits different significance to the role that food plays in the overall functioning of the

institution. In this chapter the food procurement behavior of public institutions is examined. Specifically this analysis covers:

- K-12 schools (Section 3.2);
- universities (Section 3.3);
- prisons (Section 3.4);
- hospitals and associated facilities (Section 3.5); and
- other organizations with significant food purchases (Section 3.6).

Interviews were carried out with several food directors at each type of institution. A summary of the results of these interviews, the value of food purchased by each type of institution<sup>1</sup>, and the opportunities and challenges relating to purchasing food produced in Montana is provided in the sections that follow. This report relies on data for the 2004/2005 financial year.

## 3.2 K-12 Schools

### 3.2.1 Introduction

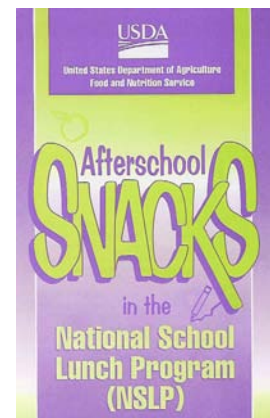
The Directory of Montana Schools indicates that there were 146,705 students enrolled in Montana public schools (K-12), at 860 individual schools in 438 school districts in the 2004-05 school year. Food purchases are usually made by school districts rather than individual schools and most school districts have a central kitchen at one school that services other schools in that area. Consequently, school food purchasing behavior is often influenced by the size of the school, the district in which they reside, policies of the School Board, the schools location, kitchen facilities and income levels of parents (and consequently the commitment to the National School Lunch and other programs).

The level of school commitment to the SNP is often a critical issue in determining how food is sourced hence; the next section starts with a brief overview of the program.

### 3.2.2 Montana's School Nutrition Programs

In Montana, the School Nutrition Program (SNP) is administered by the Office of Public Instruction, Health Enhancement and Safety Division (OPI). The SNP *reimburses schools for meals served to children, distributes donated (commodity) foods and attempts to ensure that children have full access to healthy meals and snacks that nourish bodies and minds*<sup>2</sup>.

Public schools, private/non-public schools and nonprofit residential childcare institutions with children of high school age or under may participate in any, or none the programs offered. The types of



<sup>1</sup> When kitchens are managed by private entities, this information was not always available.

<sup>2</sup> Office of Public Instruction. "Division of Health Enhancement and Safety 2004 Annual Report." Montana School Nutrition Programs July 1, 2003-June 30 2004. March 2005. The rest of this section also draws heavily on this report.

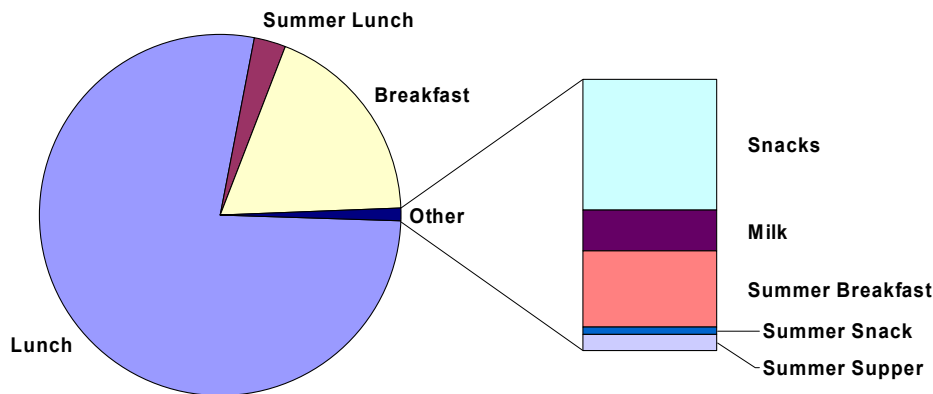
organizations participating in the SNP are presented in Appendix 3.1.

The total cost of School Nutrition Programs in Montana was approximately \$44 million in 2003-04. Table 3.1 provides a detailed breakdown of expenditures, which includes the labor and administration costs of running the program as well as food costs. An interview with Sofia Janik (OPI Program Officer - Accountant) indicates that these numbers are an accurate reflection of total expenditures for the entire Montana School system. Discussions with her revealed that 37% of total school expenditures (\$44,317,282) are for food (labor accounted for 54% and others 9%). Therefore, total food expenditures are \$16,397,386 (37% of \$44 million) plus \$2,536,698 for commodities which equals approximately \$19 million in 2003/04.

A breakdown of the percentage of the \$19 million across various categories is provided in Figure 3.2. The largest levels of expenditures are lunches and breakfasts, with the summer program accounting for a smaller \$666,263. Other programs, such as school milk, snacks and other summer programs account for a very small proportion of the total.

**Table 3.1: Funding for the SNP in Montana**

**Figure 3.2: Reimbursement for the School Nutrition Program (2003-2004)**



In 2004, 278 Montana School Food Authorities (groups of schools) participated in at least one of the following programs that are administered by the SNP and run by the OPI:

- ❑ National School
  - Lunch Program
  - Breakfast Program
  - After School Snack Program
  - Special Milk Program
  - Summer Food Service Program
- ❑ Montana Cooperative Bid Program
- ❑ The USDA Food Distribution Program (Commodity)
- ❑ The USDA Food Distribution Program (Fresh Fruit and Vegetable)

Subject to state procurement law, a school can opt out of some or all of these programs and choose to source their own food requirements. The next section investigates the variety of ways in which schools satisfy their total food requirements through the School Nutrition Program and other sources.

### **3.2.3 Sourcing K-12 School Food**

Most schools receive their food supplies from a number of sources and programs. The large number of options or alternatives available, and complexity of the K-12 food purchasing structure, means that selling food to schools is often confusing for local producers. Montana based food suppliers need to try to find the best program and fit for their products. In the sections that follow, an overview of the value, volume and types of food purchased through various programs as well as through other alternatives, is presented. Specifically these are:



- i. Office of Public Instruction Cooperative Bid Program
- ii. USDA Food Distribution Commodity Program
- iii. Department of Defense and USDA Fresh Fruit and Vegetable Program
- iv. Individual negotiation of contracts
  - Buying directly from local retailers and wholesalers;
  - Buying directly from processors or farmers/growers, and
  - Purchasing from Sysco, FSA or local food distributors.
- v. Working with private group purchasing organizations (for example the BOCES program)
- vi. Entering into contracts with food service management companies like Sodexo who will manage their total food service experience.

#### **i. Office of Public Instruction Cooperative Bid Program**

Montana's Cooperative Bid Program was implemented in 1980 to assist schools in purchasing food at a reasonable price. By combining purchase orders, all participating schools are able to receive high quality, low cost items at the same price regardless of size or location. Schools are charged an administrative fee of 2.5% as part of the program.

OPI suggests that in comparison to operating as individuals the program allows small schools to save an average of 25% on food costs (in comparison to ordering directly from Sysco or FSA). The bid is customized for Montana schools, with a cooperative bid committee meeting three times a year to provide feedback on the program. Foods offered on the cooperative bid are analyzed by school nutrition experts for palatability, appearance and quality. Exhibit 3.1 is an extract from an OPI flyer promoting the cooperative bid program

#### **Exhibit 3.1: OPI Cooperative Bid Program Promotional Literature**

<p><b>Benefits</b> of the Cooperative Bid Program</p> <ul style="list-style-type: none"> <li>• Money spent in this program <b>stays in Montana</b> and supports Montana industry.</li> <li>• Foods offered on the bid are <b>25-40% less expensive</b> than the vendor's regular prices.</li> <li>• Every school gets the <b>same price</b>, regardless of location or amount ordered.</li> <li>• Allows schools the <b>flexibility</b> to purchase as much or as little as needed. There are no requirements to spend a certain percentage of the school's food budget or minimum size orders.</li> <li>• The program can be used as a school's primary purchasing plan, or in conjunction with other purchasing plans. There are no "mutually exclusive" agreements.</li> <li>• Food ordered is <b>delivered directly</b> to any school in Montana, with no added surcharges.</li> <li>• Every school is offered <b>personalized service</b> directly from the bid coordinator.</li> <li>• All items offered on the Cooperative Bid are procured in <b>compliance</b> with U.S. Department of Agriculture (USDA) regulations for the School Nutrition Programs.</li> <li>• The bid is <b>customized for Montana</b> schools. A Cooperative Bid Committee meets three times a year to provide feedback.</li> </ul> 	<p><b>Comments from Schools using the Cooperative Bid</b></p>  <p>"... in Montana, we are such individualists. You meet the needs of a great variety of programs, and I know you put a tremendous amount of effort into making sure you are offering what we want."</p> <p>"Everyone did a good job and the deliveries came on time."</p> <p>"We're tickled we can order smaller amounts, as our enrollment isn't what it used to be."</p> <p>"Everything went very smoothly. Thank you!"</p> <p>"We very rarely have any problems ... Kennie is very helpful if we need her."</p> <p>"[The bid is] a great savings for our school."</p> <p><b>Results from a Cooperative Bid Survey:</b></p> <p>Total survey size: 171 (all schools using the bid in Fall 2004)</p> <p>Total number of respondents: 139</p> <p>96 percent found the savings they received from the bid worthwhile.</p> <p>95 percent said the quality of the goods received were what they expected.</p>	<p><b>The Cooperative Bid</b> Program Description</p> <p>The Cooperative Bid Program was implemented in 1980 to assist schools in purchasing high-quality nutritious foods at reasonable prices. By combining purchase orders, all participating schools are able to receive bid items at the same price regardless of size or location.</p> <p>A competitive bid is conducted twice a year in accordance with USDA regulations. The items (food, supplies, and customized products) included on the bid are determined by Montana schools.</p> <p>Through the development of a new committee during the 2002-03 school year, the Cooperative Bid Program improved the items available. The committee consists of state agency staff and 30 school food service personnel from schools representing various sizes and locations in the state.</p> <p>Nutrition information for all products on the Cooperative Bid is maintained and available to schools to ease menu planning activities.</p> <p>Purchasing assistance is offered to schools through daily telephone contact and state or regional training sessions.</p>
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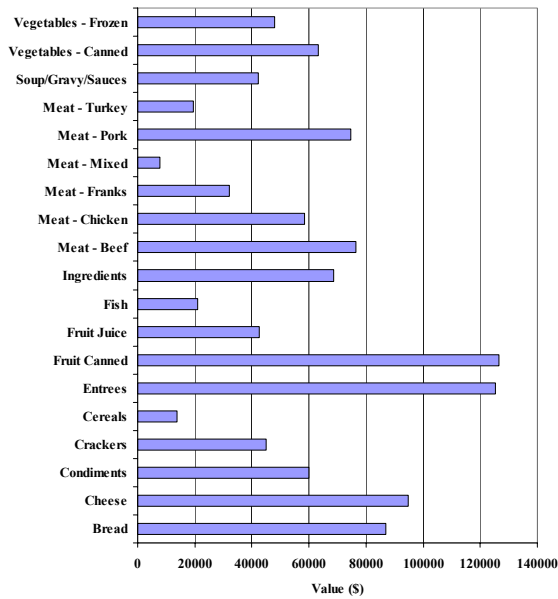
There are two bids a year (winter and spring) with two deliveries per bid for a total of four food deliveries per year. The cooperative bid is not a mandatory program. Schools may participate in either or both of the bids, and may order as much or as little as they desire or are able to store. The program can be used as a schools primary purchasing plan, or in conjunction with other purchasing plans. According to discussions with the Office of Public Instruction (OPI)<sup>3</sup>, 81% of public schools in Montana are working with the cooperative program for staple food requirements.

During the 2003-04 school year, Montana schools purchased 138,740 cases of food worth \$2,716,532. In Appendix 3.2, a five year history of the bid is illustrated. A successful bid is awarded based on total costs rather than line items. In others, words, the distributor with the lowest total costs proposal will win even if some line items are more expensive than those quoted by competitors.

In order to illustrate to Montana based producers and processors the types of products that are typically supplied to schools through the Cooperative Bid Program an in depth analysis of the 2005/06 bid was undertaken. By combining pricing information from the successful Sysco bid and total cases supplied it was possible to breakdown food supplies into a number of line items. The nature of the bid and the number of deliveries per year necessitate that food products are non-perishable (canned, frozen or dehydrated) and can be easily stored. Product categories are illustrated in Figure 3.3. From this figure the leading purchases are ready made entrees (e.g. pizzas), canned fruit, cheese and bread.

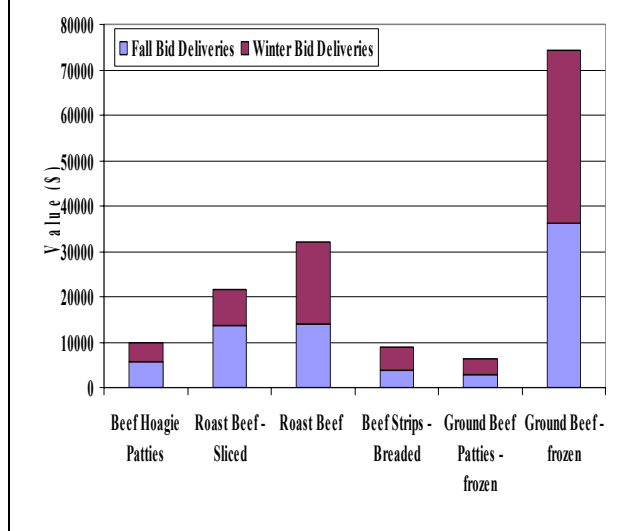
<sup>3</sup> Personal interview with Kenadine Johnson (Cooperative Food Purchase Coordinator) Tuesday 15<sup>th</sup> November 2005.

**Figure 3.3: Cooperative Purchase Program – Value of Fall Bid by Category Items (2005)**



Although cereals, condiments, cheese and bread are produced in Montana, they are not price competitive for the OPI bid. In other major categories, such as canned vegetables, Montana could potentially produce the raw vegetables and transform them into canned products but a processing infrastructure does not currently appear to exist (more details are provided in Chapter Four). Ground beef purchases dominate the value of beef purchased, accounting for almost 50% of the category (see Figure 3.4). Beef products used in schools are almost always cooked and are lower value cuts and processed products<sup>4</sup>. In order to reach this market, Montana would need to further develop the processing infrastructure to supply cooked meat products. In the future there may also be opportunities to work with the OPI and encourage them to consider nutrition and freshness as well as price in their bidding criteria which may “open the door” for more Montana food producers.

**Figure 3.4: Cooperative Purchase Program – Value of Beef (2004/05)**



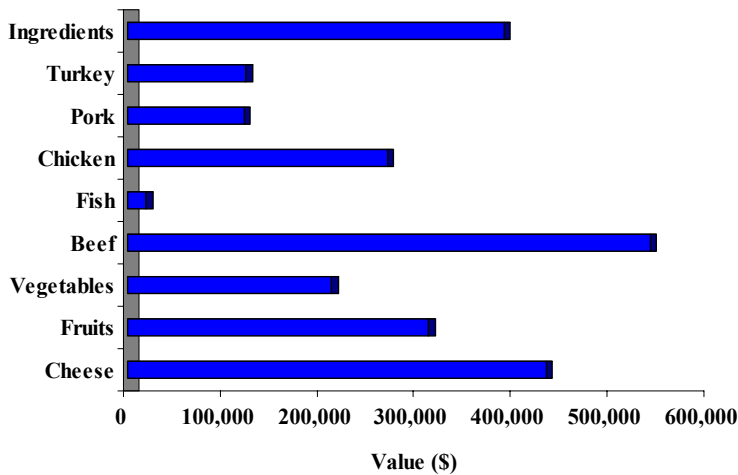
**ii. The USDA Food Distribution Commodity Program**

<sup>4</sup> A breakdown of the types and values of canned fruit and vegetables is presented in Appendix 3.2

The Food Distribution Division of the USDA’s Food and Nutrition Service coordinates the distribution of food commodities to more than 94,000 public and private nonprofit schools throughout the U.S. Donated commodities must be of domestic origin, and nearly 60 percent of the foods purchased for the Child Nutrition Programs are determined by the Department to be in surplus at the time of purchase. During this period schools received an entitlement of 15.75 cents per student per day to spend on commodity food, totaling \$2.5 million or 98,000 cases of food.

The types of food delivered as part of the program are illustrated in Figure 3.5<sup>5</sup>. Although the program can deliver products that may be grown and processed in Montana such as beef, most commodities are donated to the program or are surplus products that can be sold at a very low price. This program therefore does not offer significant opportunities for Montana growers and processors seeking to sell to K-12 institutions. When schools receive free food through the USDA Food Distribution Commodity Program, they are highly unlikely to buy the same food from Montana producers. Therefore, the USDA Commodity Program provides no marketing opportunities for Montana producers as it is impossible to out-bid competition for certain types of food. More details of this program are presented in Appendix 3.3.

**Figure 3.5: Total Value of USDA Commodity Program by Category (2004/05)**



*Source: Developed from OPI purchasing statistics (2004-05)*

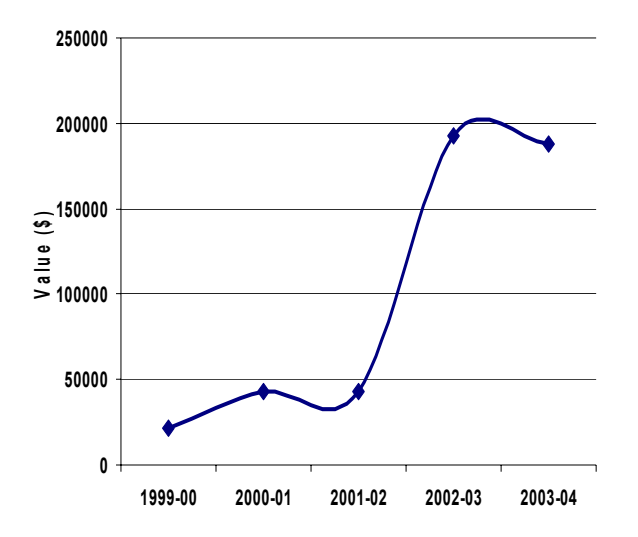
**iii. Department of Defense and USDA Food Commodity Distribution Program (Fresh Fruit & Vegetables)**

Montana participates in the Department of Defense and USDA’s Fresh Fruit and

<sup>5</sup> Interview with Judy Wilson (Commodity Food Purchase Coordinator)

Vegetable Program<sup>6</sup>. This program offers schools a wider variety of fresh produce than would normally be available through USDA commodity purchases. During the 2003-04 school year, \$188,239 was allocated for the program and 189 school districts participated. Five year trends in the total value of fresh fruit and vegetables purchased through the program is illustrated in Figure 3.6.

**Figure 3.6: DOD Fresh Fruit and Vegetable Program**



The initial philosophy of this program was to allow smaller, local businesses to deliver the fresh fruit and produce. Hence, George’s Foods and Spokane Produce became the distributors of choice. One downside of this policy was that these companies lacked the capacity to distribute to the entire state. As subsequent food entitlements as part of this program have been built on historic trends, the 2006 entitlement for this program will be 97 cents per student. This is well below the national average. Food Services of America (Billings and Spokane) has subsequently been added as an additional distributor; however, this program is still not reaching all the schools in Montana<sup>7</sup>. A copy of an order form that lists fruit and vegetables that can be purchased through the program via George’s Foods is presented in Exhibit 3.2.

**Exhibit 3.2 USDA Fruit and Vegetable Program Order Form**

<sup>6</sup> A portion of the total entitlement for the State’s Food Distribution Program is set aside for the Fresh Fruit and Vegetable Program.  
<sup>7</sup> According to Kenadine Johnson, 89% of Montana schools want to be included in the Fresh Fruits and Vegetable Program. “There are still a few schools that can not get service so I am still trying to get more competition going for the delivery of this program. Also we have found that having only one major vendor ok’d for this program makes for problems in the attitude towards the customers and unreasonable demands for further purchasing to ensure deliveries. This should and must be addressed in contract negotiations with vendors.”

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GEORGE'S FOODS				DB 18	
Name:				Del Date:	
YMT-				U.S. Grown	
Code	Item	wt	Availability		
14P26	Apple Gala Xfey 113's	40			
14P22	Apple Granny Xfey 113's	40			
14P01	Apple R/D WXFCY 113's	40			
14M10	Apple Red 12Set	40			
16R95	Broccoli Florets 3#	3			
16P02	Cabbage Green 24CT	50			
16P48	Cabbage Red 24CT	50			
14P02	Cantaloupe 9-12 CT	35	May-Nov		
16P03	Carrot 25#	25			
16P05	Carrot Baby 5# Bag	5			
16B58	Carrot Baby 8/5#	40			
16P04	Carrot Sticks 5# Bag	5			
16B60	Carrot Sticks 4/5# Case	20			
16D89	Carrots Baby 20/1#	20			
16P26	Cauliflower 12 CT Dole/TA	18			
16D90	Cauliflower Florets 3#	3			
16P06	Celery 2 DZ Dole/TA	50			
16W25	Celery Stalk 3ct	5			
16P07	Celery Sticks 5# Bag	5			
16B59	Celery Sticks 4/5# Case	20			
16P51	Coleslaw Mix 5#	5			
16P08	Corn on Cob 4DZ	35			
16P98	Cucumber 5#	5	May-Sep		
16P09	Cucumber S/S	45	May-Sep		
14P03	Grapes Green Sdls	18	Mid May-Oct		
14P19	Grapes Red Sdls	18	Mid May-Oct		
14P20	Grpfrt Red Fancy 36 CT	30			
14P04	Honeydew 5-6 Ct.	25	May-Dec		
14J63	Kiwi 36ct 1-Layer	10	Mid Oct-May		
14M02	Lemons 10# 24ct	10			
16P32	Lettuce Cello 24CT Dole/TA	35			
16V47	Lettuce Chopped 5# Bag	5			
16P11	Lettuce Chopped 4/5# Case	20			
16C77	Lettuce Green Leaf 6 ea	5			
16B71	Lettuce Mix 5# Bag	5			
16P29	Lettuce Mix 4/5# Case	20			
16V30	Lettuce Red Leaf 24ct	15			
16P33	Lettuce Romaine 24ct	25			

GEORGE'S FOODS				DB 18	
Name:				Del Date:	
YMT-				U.S. Grown	
Code	Item	wt	Availability		
16W03	Lettuce Taco Shred 5# Bag	5			
16P34	Lettuce Taco Shred 4/5# Case	20			
16P10	Lettuce Unwrapped 24 Ct	35			
14P07	Limes 10# Bag	10			
16P35	Mushrooms Medium	10			
14P08	Nectarines 50-60ct	18	May-Sep		
16W63	Onion Red 5#	5			
16P13	Onions Diced 5#	5			
16P12	Onions Yellow jumbo	50			
16V32	Onions Red	25			
16P49	Onions Yellow 5# Bag	5			
14F10	Oranges Fancy 88's	35			
14P10	Oranges Fancy 113's	35			
16P59	Parsley Curly 1 Dz	2			
14P11	Peaches 50-60ct	18	May-Sep		
14F15	Pear 120-125ct	44			
14P12	Pears 100 ct	44			
16P14	Pepper Green 5#	5	Mar-Sep		
16P38	Peppers Green LG	25	Mar-Sep		
14P21	Pineapple 10-12 CT Hawaiian	30			
14P13	Plums Black 50-60 CT	25	May-Sep		
16P17	Potato Bkg 100 CT	50			
16B56	Potato Red Sz B	50			
16P21	Pumpkins 10-15# Avg	15	Sep-Dec		
16B54	Pumpkins Large	25	Sep-Dec		
16P41	Radish Clean/Trim 5#	5			
16P42	Spinach "2" - 2.5# Bags Case	5-lb			
14P14	Strawberry Loose Premium	10			
14P16	Tangerines 100CT	35	Mid Oct-Apr		
16W31	Tomato 10#	10			
16P18	Tomato 2 1/2" Min	20			
16P19	Watermelon Each	18	May-Oct		

Interviews with Georges Foods indicated that the only Montana fruit and vegetables they distribute as part of the DOD program are mushrooms. FSA (Spokane) does not purchase any Montana fruit and vegetables through the program<sup>8</sup>. Both organizations indicated that if Montana could produce and package significant volumes of produce at a competitive price they would be willing to purchase them, but expressed doubts about the economic feasibility of increasing production. A teleconference with Department of Defense procurement staff in Denver indicated that they would be happy to work with more Montana companies that have adequate volume, distribution and logistical capabilities<sup>9</sup>. However, they have only rarely been contacted by Montana growers seeking to participate in the program, suggesting Montana growers may not be aware of this marketing opportunity. They also indicated that prices paid to growers, volumes required, and a lack of distribution capabilities may also present barriers for Montana grower/processors. However, there does seem to be the demand within schools for additional fresh fruit and vegetables.

**iv. Individual Negotiation of Contracts**

Many of the larger school districts do not participate in the Cooperative Purchasing Program as they are in a position to individually negotiate contracts with national distributors. Food Services of America (FSA) or Sysco are typically involved in the distribution of products because of the size of orders, however school districts can choose

<sup>8</sup> Interview with Jerry Jacobson, FSA Purchasing Manager

<sup>9</sup> Flathead apple growers seeking to participate in this program were told that the volumes they could supply were too low to be considered for the program.

to operate with local suppliers or distributors, or direct from growers. A comprehensive survey of all schools in Montana or access to the sales records of distributors would be necessary to accurately gauge the types of food purchased through these channels. However, the value is likely to be considerable and account for a large proportion of food purchased by K-12 institutions. An example of a school district that does not participate in the OPI's Cooperative Bid Program and has other unique characteristics is provided in Exhibit 3.3.

**Exhibit 3.3: Example of a School that does not participate in the OPI Cooperative Bid Program**

Bozeman school district has one central kitchen serving 11 schools<sup>10</sup>. The kitchen prepares cook-and-chill meals based on historic consumption trends. Meals are delivered from the central kitchen 24 hours in advance to be finished, prepared and served the following day. FSA supplies 80% of the district's food needs. In addition, Montana-based distributors and local suppliers of milk (Darigold) add to total food requirements. In practice the district is infrequently approached by Montanan growers/processors to use local products. However, the school has used local lamb, spices and honey. In addition, they supply barbeque sauce and salad dressing to MSU through their commercial kitchen.

**v. Group Purchasing Organizations**

Group purchasing organizations work in a similar manner to the Cooperative Bid Program, pooling resources in order to achieve price discounts on high volume purchases. The most frequently observed alternative to the OPI Cooperative Bid program is the Wyoming based BOCES program. Their current Montana client base includes:

- ▣ **Montana Members:** Gallatin Gateway #35, Bainville, Fosyth, Frenchtown, Scobey #1, Frazer, Canyon Creek #4, Belgrade, Custer #15, Savage, Ekalaka, Rosebud, KG Schools, Baker Public, Blue Sky Schools, Manhattan Christian, Turner, and Brockton School District.

The BOCES program uses FSA to deliver school food requirements.

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<sup>10</sup> Bozeman school district operates a commercial kitchen that supplies proprietary items to MSU (Barbeque sauce and ranch dressing) and some local restaurants. This creates additional funds that can be used to improve the quality of food used in school meals and enables the district to operate outside many of the OPI run programs.