



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

JUN 24 2010

The Honorable Herb Kohl
Chairman
Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
United States Senate
129 Dirksen Senate Office Building
Washington, D.C. 20510-6026

Dear Mr. Chairman:

Enclosed, as requested by the explanatory statement accompanying the Omnibus Appropriations Act, 2009, is a report titled Supplemental Nutrition Assistance Program (SNAP): Feasibility of Implementing Electronic Benefit Transfer (EBT) Systems in Farmers' Markets. Because all SNAP benefits are issued electronically via EBT, increasing the availability of EBT equipment would improve farmers' markets ability to serve SNAP participants.

The Department of Agriculture (USDA) supports efforts to increase EBT in farmers' markets. Implementing EBT ensures that SNAP customers have access to the nutritious food available at farmers' markets while improving the income of local farm vendors. USDA recently awarded about \$4.5 million in Farmers' Market Promotion Program (FMPP) grants and, by law, at least 10 percent of these grant funds went to new EBT projects. While the FMPP grants are making great progress in implementing SNAP EBT, the enclosed study highlights the fact that the FMPP funds alone are insufficient to equip all farmers' markets. To further reach this goal, the President's Fiscal Year 2011 budget request includes \$4 million to provide additional EBT terminals to farmers' markets.

I trust that you will find the enclosed feasibility study informative. Should you have any questions or would like to discuss further, please do not hesitate to contact me. A similar letter is being sent to Senator Brownback, Congresswoman DeLauro, and Congressman Kingston.

Sincerely,

A handwritten signature in black ink, appearing to read "Tom Vilsack", written over a circular stamp.

Thomas J. Vilsack
Secretary

Enclosure



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The Honorable Sam Brownback
Ranking Member
Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
United States Senate
190 Dirksen Senate Office Building
Washington, D.C. 20510-602

Dear Senator Brownback:

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JUN 24 2010

The Honorable Rosa L. DeLauro
Chairman
Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
U.S. House of Representatives
2362A Rayburn House Office Building
Washington, D.C. 20515-6016

Dear Madam Chairman:

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Office of the Secretary
Washington, D.C. 20250

JUN 24 2010

The Honorable Jack Kingston
Ranking Member
Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations
U.S. House of Representatives
1016 Longworth House Office Building
Washington, D.C. 20515-6016

Dear Congressman Kingston:

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SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM

Feasibility of Implementing Electronic Benefit Transfer Systems in Farmers' Markets

Report to Congress

U.S. Department of Agriculture, Food and Nutrition Service



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Summary

The Department of Agriculture (USDA) has been asked in the explanatory statement accompanying the Omnibus Appropriations Act, 2009, to provide Congress with an assessment of the feasibility of implementing Electronic Benefit Transfer (EBT) systems at all farmers' markets nationwide. Because all Supplemental Nutrition Assistance Program (SNAP) benefits are issued electronically via EBT, increasing the availability of EBT equipment would improve a market's ability to serve SNAP participants. The Food and Nutrition Service (FNS) has a fundamental interest in ensuring that SNAP households have access to the fresh, nutritious foods available at farmers' markets. Moreover, it is a USDA priority to implement SNAP at farmers' markets.

FNS finds that implementing EBT at farmers' markets is technically feasible, especially with the improvements in wireless equipment. However, as long as funding and staffing issues exist, many farmers' markets will continue to experience the barriers that have thus far kept SNAP EBT from being implemented more widely. Current FNS rules do not require SNAP State agencies to pay for EBT equipment and transaction fees, either when the infrastructure to support those terminals is not present (no electricity or land line), or if the amount of EBT business conducted is so little to not justify the equipment. Furthermore, farmers' markets often operate with limited resources and too few trained staff to make the offer of SNAP EBT profitable and sustainable. FNS concludes that the most efficient way to equip farmers' markets with SNAP EBT is to provide one wireless EBT terminal per market. Funding that would support the cost of equipment, staffing, and other miscellaneous costs would help secure the success of SNAP EBT.

USDA is currently conducting research to determine the best methods and circumstances for implementing SNAP EBT and attracting SNAP households to the markets. The USDA Economic Research Service (ERS), Agricultural Marketing Service (AMS) and FNS are all engaged in research that will better inform the Department about best practices and factors that increase the likelihood of the successful markets.

What is a Farmers' Market?

The Federal programs cited in this paper that work with or support farmers' markets have differing definitions. In SNAP, FNS defines a farmers' market, "*as a single or multi-stall market that sells agricultural products to the general public at a central or fixed location, particularly fresh fruit and vegetables.*" This designation applies to any organization that is affiliated with and operates within a farmers' market location. The USDA AMS defines a farmers' market in the grant proposals for the Farmers' Market Promotion Program (FMPP) as, "*a direct marketing operation including two or more farmers/farm vendors who produce and sell their own products through a common distribution channel directly to consumers, and where the sales of these farm products represent the core business of the entity.*" In the FNS regulations for the Supplemental Nutrition Program for Women, Infants, and Children, or WIC, a farmers' market is "*an association of local farmers who assemble at a defined location for the purpose of selling their produce directly to consumers.*"

For the purpose of this paper, we are using the AMS definition to provide general estimates of alternatives that could be considered when determining the best approach for implementing EBT at farmers' markets nationwide. While the SNAP definition of store types is effective for monitoring purposes, FNS recognizes that the current SNAP definition for farmers' markets is not ideal to determine the extent to which SNAP EBT is available in markets nationally. This is because, as explained, a SNAP farmers market may be only one farmer and not a true market. Another complication in determining the scope of the challenge is that numerous farmers markets may exist under one SNAP authorization, referred to as an "umbrella market." An umbrella market exists when several markets are administered or managed by one entity. For instance, a non-profit organization manages five farmers market in a city under one SNAP authorization number. The current SNAP tracking system will only count one market instead of all five markets.

To address this issue, FNS is taking several actions to obtain better data about SNAP authorized farmers' markets. First, FNS and AMS have signed a Memorandum of Understanding and have begun to share market information that allows us to identify individual markets. Second, FNS is reviewing current SNAP authorizations to determine how many markets are authorized under an umbrella market. Finally, FNS is implementing revised definitions for farmers' markets and for individual farmers who market directly to the consumer, and will be coding them differently in order to better track both groups. Taken together, these actions will provide us with more realistic information to determine how best to meet our goal to implement EBT in farmers markets.

Background

EBT implementation has resulted in numerous positive outcomes for SNAP. Program administration and integrity have improved significantly, and the technology has improved customer service for both retailers and participants. However, with the implementation of EBT, farmers' markets experienced a decline in SNAP redemptions. Unlike most authorized SNAP retailers, farmers' markets do not operate in an environment that easily supports EBT. EBT typically requires electricity and a land line phone, and markets are often located in areas without these connections.

Even before the implementation of EBT was completed in 2004, the percentage of farmers' market redemptions and number of authorized markets in SNAP was low in comparison to other store types, as well as in comparison to the number of markets nationwide. In fiscal year (FY) 2009, 936 farmers' markets redeemed \$4,331,888 of the approximately \$50 billion total SNAP redemptions (0.01 percent) for the Program. Historically, the percent of farmers' market redemptions is very small.

The following charts show these trends and comparisons. EBT was pilot tested in the 1980s and began to be implemented by more States in the 1990s. In 1996, legislation required all States to implement EBT and this was accomplished in 2004. While total SNAP redemptions reached a historic high in FY 2009, farmers' markets, after a steady decline, are just beginning to show an increase in redemptions. It is important to note that the definition of retail stores prior to

FY 2002 was different than the current definition of retail stores, resulting in the possibility that retailers other than farmers' markets were included in the total of the farmers' market category prior to FY 2002. As FNS has continually looked to improve its definitions with an eye toward improving data collection and analysis, comparisons of data over time may be suspect.

Table 1: Total SNAP Redemptions

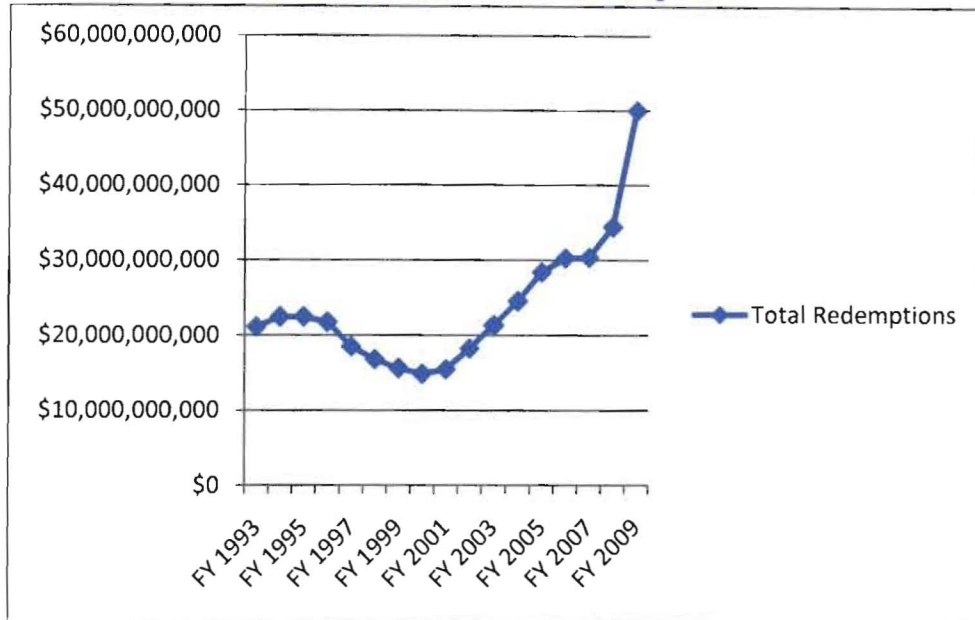
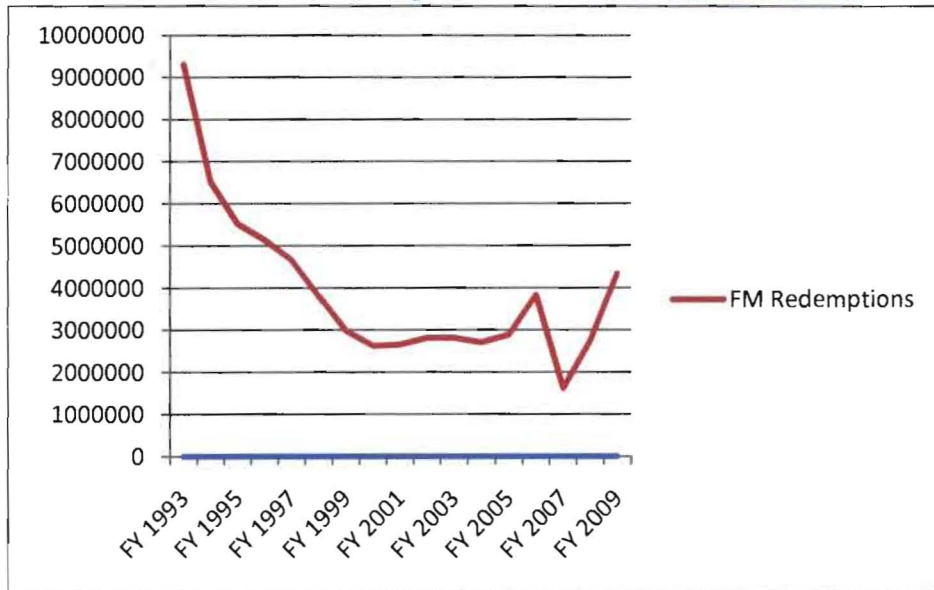
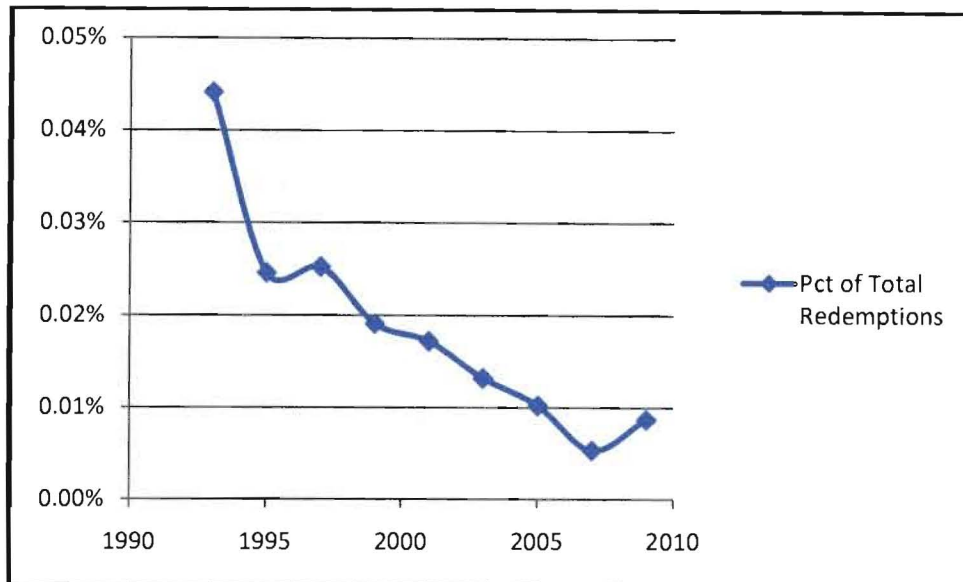


Table 2: SNAP Redemption in Farmers' Markets (FM)



This chart reflects the decline in authorized farmers' markets, possibly in response to EBT, but also the significant turnaround in the past few years.

Table 3: Farmers' Market SNAP Redemptions as a Percent of Total SNAP Redemptions



In the late 1990s, in response to concerns about the decline in farmers' markets, FNS contracted a study entitled, "*Technical and Cost Feasibility of EBT Equipage in Farmers' Markets and Mobile Food Retailers.*" The study, published in 1998, concluded that while it would be technically feasible to implement a wireless EBT system in farmers' markets, the system costs and operational issues would complicate widespread implementation. Most compelling was the expected rejection of such terminals by market managers and individual farmers, who at the time reported that they did not want to deal with delayed transactions or equipment complications. Today, wireless systems are cheaper, the transactions are quicker, and the use of equipment is more manageable. Even so, the degree to which market managers will continue to reject implementing EBT is unknown.

A recent study conducted by AMS looking at the factors of successful markets show some encouraging results that may persuade managers to implement SNAP EBT. AMS and the New York City Greenmarket program, which includes over 40 farmers' markets, collaborated to study the factors driving farmers' market success in low income and mixed income areas. The preliminary results show that markets with EBT in low income areas experience a greater level of success than those that either do not have EBT or manage one with little SNAP participation. If run effectively, the findings suggest the implementation of EBT helps attract a new customer base and is a significant factor in the longer term viability and success of such farmers' markets.

In addition, while still underutilized, EBT is increasingly gaining in markets. AMS data show that the percent of transactions from EBT have increased from 7 percent in 2005 to 14 percent in 2009. As we work with our partners in the farmers' market community, these positive developments will become better known and thus, may dispel some of the discouraging history market managers may have had with EBT.

Feasibility of Implementing SNAP EBT

According to AMS, as of September 2009, there were approximately 5,274 farmers' markets operating across the Nation. At the end of FY 2009, approximately 936 farmers' markets were authorized to accept SNAP benefits. Of those, approximately 688, or 73 percent, had performed an electronic transaction in the past 12 months. The rest participated by using manual vouchers exclusively, did not do any SNAP business despite being authorized, or discontinued offering SNAP EBT in the market.

As part of this review, FNS consulted with farmers' market managers, market consultants, and representatives from State Departments of Agriculture to identify issues that must be taken into account when determining the feasibility of implementing EBT at farmers' markets. These experts caution us not to consider just the financial costs of EBT equipment, but the significant range of factors impacting farmers' markets that are considering implementing SNAP EBT.

These factors include: (1) developing partnerships at the Federal, State and local government levels (e.g., State Departments of Agriculture and Department of Social Services), and with other business entities; (2) obtaining funding to pay staff and other market costs; (3) determining how to manage scrip when only one EBT terminal is in use at the market; (4) training staff and volunteers (e.g., statewide train the trainer); (5) ensuring program integrity; (6) locating the market within low-income communities; and (7) promoting the market through outreach and advertisements. While all these factors are important to success, this paper will focus on three of these issues that are most relevant to the implementation of SNAP EBT nationwide: funding, managing scrip in the market, and staffing.

- **Funding**

Most farmers' markets prefer the advantage of having one terminal in the market for a couple of reasons. First, it is too costly to equip all farm vendors for so few transactions. Second, transactions happen quickly, and running a device slows down the transaction. In a few farmers' markets across the country, each farmer may have their own wireless device. However, that is rare for the reasons just stated.

Under the Food and Nutrition Act of 2008 and corresponding SNAP regulations, all authorized SNAP retailers must be afforded the opportunity to participate in the EBT system at no cost. As such, they must be provided with EBT equipment (unless they opt to use their own equipment) or be provided with an alternative method for processing SNAP transactions (i.e., manual vouchers) for redeeming food sales. For instance, most States have obtained waivers to provide manual vouchers instead of a Point of Sale (POS) terminal for retailers doing less than \$100 a month in SNAP business. Therefore, free government supported EBT equipment is offered to the vast majority of the 193,753 authorized SNAP retailers.

All States enter into a contract with an EBT vendor for SNAP EBT transaction services. FNS reimburses States for 50 percent of the cost of EBT equipment and fees as a part of the administrative cost associated with SNAP benefit issuance. However, while standard EBT equipment, which requires access to electricity and a land line, is provided free to the retailer, there is no Federal requirement that wireless devices be provided free of charge. In fact, the

regulations specifically exempt State agencies from having to provide equipment in such circumstances (7 C.F.R. 274.12(g)). Therefore, for the majority of farmers' markets that operate in an environment without electricity or phone access, SNAP State agencies are not required to provide free of charge the equipment necessary to operate in most farmers' market sites.

As previously mentioned, at the time of EBT implementation from the early 1990s through 2004, wireless technology was expensive and sometimes undependable. The majority of retailers authorized in SNAP had easy access to electricity and land lines, and did not consider using wireless devices. Since then, the cost of wireless devices has declined considerably.

Even so, many farmers' markets using wireless devices have had to obtain funding from a variety of sources, such as State Departments of Agriculture, local governments, or non-profit organizations, to afford the equipment and supporting wireless service. Some SNAP State agencies have amended their EBT contracts to require contractors to provide wireless service to farmers' markets. States offering wireless services at farmers' markets are doing so voluntarily. However, should a State elect to supply retailers with wireless devices, FNS considers this an allowable administrative SNAP expense and reimburses the State 50 percent of the hardware and ongoing monthly charges for wireless technology.

Additional funding is available through Federal grants. Within USDA, the implementation of the AMS' Farmers' Market Promotion Program (FMPP) in FY 2006 provided many markets with funds to overcome many financial concerns. The 2008 Farm Bill increased the amount of grant funds and specified that at least 10 percent of the grant funds must be directed to the establishment of new EBT projects. The law designates that \$5 million be allocated by AMS in FY 2010 for the FMPP grants to support farmers' markets. Funds for FY 2011 and FY 2012 are \$10 million per year. The EBT set aside funds may be used for a variety of EBT-related activities. In addition to purchasing equipment and related fees, a new EBT project can use grant funds for training, personnel, designing script or tokens, outreach and market promotion, and research.

Other grant opportunities exist within USDA, such as those offered by Rural Development Programs and the Farm Service Agency. These opportunities are highlighted under the initiative entitled "Know Your Farmer, Know Your Food." The goals of the "Know Your Farmer, Know Your Food" initiative include supporting local farmers, strengthening rural communities, and promoting healthy eating. The presence of a farmers' market within the community is an important factor in accomplishing these goals. More about these opportunities can be found at: <http://www.usda.gov/wps/portal/knowyourfarmer?navid=KNOWYOURFARMER>.

Finally, the President's 2011 Budget includes a request for \$4 million that would allow FNS to fully fund EBT equipment for farmers' markets currently not accepting SNAP. This would assist USDA in making all farmers' markets accessible to SNAP customers.

- **Managing Scrip, Receipts or Manual Vouchers**

Farmers' markets with access to electricity and a land line receive a free POS device from the State for EBT transactions only. These markets may get one FNS authorization that allows all eligible farmers in the market to accept SNAP benefits using one centralized POS. Other markets may elect to operate a wireless system for SNAP EBT, and may opt to include debit and

credit card services to not only accommodate SNAP customers, but also allow card transactions for all customers. In markets with one terminal serving all the vendors, a method for allowing the customer to make purchases with the individual vendors and for the vendors to be paid must be established.

To address this issue, farmers' markets may use scrip, receipts or manual vouchers to conduct business with SNAP customers. Under a scrip method, a SNAP customer purchases tokens or scrip through the market manager who manages the single EBT device available at the market. The SNAP customer then uses the tokens or scrip to purchase food from individual farmers. The farmer then turns in redeemed tokens or scrip to the market manager, who reimburses the farmer by check or cash.

Under a receipt system, SNAP customers make their purchase selection from an individual farmer. They then go, without their food items, to the central POS device to debit the purchase amount from the EBT account. SNAP customers must then take the transaction receipt back to the farmer as proof of payment before picking up the items they selected.

A last option for markets that do not have EBT is manual vouchers. Retailers using manual vouchers include stationary food stores which opt to make home deliveries, house-to-house trade routes (such as bread and milk routes) and those with less than \$100 in monthly SNAP business where the State has a waiver to utilize manual vouchers for those retailers. A manual voucher is used by writing down the EBT card number and transaction data on a paper manual voucher, which the customer signs, and then obtaining a preliminary or delayed telephone authorization of the transaction. Few farmers' markets use manual vouchers, primarily due to the cumbersome and time consuming nature of completing the vouchers. Also, without access to a land line or wireless phone, preliminary phone verification is not possible, and the delayed authorization presents risk for the retailer because sufficient funds may not be in the account to complete the transaction.

- ***Staffing***

An important factor in whether or not a farmers' market can sustain SNAP redemptions is having responsible staff that is available to operate the EBT terminal, manage scrip exchanges with customers, and reconcile payments with the farmers. FNS is aware of market managers who will not implement EBT even if funding for equipment is offered because staff needed to handle EBT, and the token/scrip and reconciliation processes, are not available. Other markets elect to juggle between market managers and the farm vendors to manage SNAP and other responsibilities in the market. If these responsibilities become overwhelming, the farmers' market may elect to discontinue accepting SNAP benefits.

The 2006 National Farmers' Market Manager Survey conducted by AMS noted that farmers' markets rely heavily on volunteer labor. Only 39 percent of surveyed market managers reported that their markets hired a paid manager, and only 22 percent reported hiring other paid employees to carry out market functions. The AMS survey further emphasizes the differences in markets with paid management. The high-tier markets with monthly sales figures of \$23,000 or more had the highest percentage (48.4) of paid managers. Conversely, the bottom tier of markets with less than \$2,500 per month had only 8.4 percent of markets reporting having paid managers.

Thus, the ability to pay a manager increase as sales increase, and this would apply to having staff available for managing the EBT machine. It may be unrealistic to assume that a small market with low monthly sales without dedicated staff could manage a single EBT system with the necessary scrip and reconciliation responsibilities. It is important for both small and large markets to decide if it is possible, even with the offer of free EBT equipment, to operate SNAP EBT without adequate staff.

Staff familiar with SNAP may also act as a liaison between local markets, the State SNAP agency and FNS. This greatly assists the farmers' markets to understand the steps needed to accept SNAP benefits, to obtain the required retailer authorization, to accept SNAP and to properly obtain required waivers. A waiver is required to issue scrip or to offer financial incentives to SNAP customers. Incentive programs which provide SNAP customers with a bonus whenever SNAP benefits are used have grown in recent years and have provided, not only additional benefits to SNAP participants, but added revenue to farmers' markets. FNS recently amended the waiver process to allow farmers' markets to obtain the waiver directly from the State SNAP agency. This simplification is intended to make the SNAP authorization process simpler for farmers' markets and to reduce the administrative requirements for the SNAP State agencies.

Costs of Implementing SNAP EBT Nationwide

The following cost estimates include the costs necessary to support EBT and transaction fees in two scenarios. These scenarios assume that wireless services exist that would support all markets regardless of where they are located. This has not always been the case and we do not know for certain that it is the case in all locations today.

As discussed before, the SNAP database of 936 farmers' markets includes individual farmers who engage in direct marketing in addition to farmers' markets. FNS estimates that approximately 60 percent of the markets in the database are multi-stall farmers' markets and 40 percent are individual farmers. However, because we know that a substantial number of uncounted farmers' markets exist under umbrella authorizations; we are assuming that the uncounted farmers' markets may equal the number of individual markets. Thus, for the purpose of this paper, FNS is using 936 authorized markets in the following calculations. In the future, FNS expects to have more precise data about the number of multi-stall markets versus the number of individual farmers who are authorized in SNAP to market their produce directly to the customer.

Figure 4 shows the basic EBT wireless costs for a 6 month season. FNS estimates that the cost to purchase and operate a wireless terminal for 1 year, with the farmers' market operating for 6 months, is about \$1,255.

Assuming 5,274 farmers' markets were operating in 2009, and subtracting the 936 that currently have EBT, 4,338 farmers markets need funding for EBT. It is uncertain the amount of EBT equipment that will be purchased under AMS FMPP grants, however, using a conservative

estimate of 40 percent, about \$1 million of the FMPP grants through FY 2012 will support the purchase of new EBT equipment in 797 markets ($\$1,000,000/1,255 = 797$). This leaves 3,541 farmers' markets that will require funding from some other source.

Table 4: Wireless EBT Costs Per Market

Item	Unit	Cost Per Unit	Total
Wireless Machine	1 machine	\$ 850	\$ 850
Monthly Service Fees (includes third party processor and cellular/data service)	6 months	\$ 30	\$ 180
Transaction Fees (for TPP and cellular/data service)	SNAP transactions average 75 per month for 6 months	\$.10	\$ 45
Scrip or Tokens	Average per market		\$ 180
Total Annual Cost Per Market			\$1,255

Cost Estimate Options

Option 1 – One Wireless Terminal per Market

In looking at options for implementing EBT at all farmers' markets nationwide, FNS concludes that the most cost efficient way to equip markets for SNAP is to provide one wireless terminal per market, which can be used to issue tokens or scrip. This method would support those farmer's looking for quick transactions, but would require market organizations to find additional staff resources to support the demands of issuing and reconciling the tokens or scrip.

Equipment costs: 3,541 farmers' markets x \$1,255 = \$4,443,955

Option 2 – Provide a wireless device to all farmers

Another option, providing a wireless terminal for every farmer at the market, would alleviate the need for scrip, receipts, and manual vouchers; however, this is the most expensive option and offers the least amount of program integrity. Moreover, this option would increase the current number of authorized retailers participating in SNAP from 193,753 (FY 2009) to a potential of over 330,000. The amount of resources needed to authorize and monitor this number of retailers is beyond FNS' ability. USDA estimates that 136,817 farmers engage in direct marketing.¹ We used the following to estimate the cost providing wireless equipment to every individual farmer.

Total implementation cost: 136,817 farmers x \$1,255 = \$171,705,335

Conclusion

Farmers' markets play an important role in making fresh healthy produce available to community members of all incomes. Without financial assistance, the majority of farmers' markets will not be able to provide access to SNAP customers. The USDA supports providing additional funding for SNAP EBT in farmers' markets. The President's budget includes \$4 million to equip farmers markets with EBT. In addition, as research that informs us of what factors contribute to the success of farmers' market becomes available within the next few years, USDA grant opportunities can be modified to incorporate and support those findings.

For more information about SNAP EBT in farmers' markets can be found at:
<http://www.fns.usda.gov/snap/ebt/fm.htm>.

ⁱ 2007 Farm Census Report