

# FOOD STAMPS

## Follow the Money



Are Corporations  
Profiting from  
Hungry Americans?

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## EXECUTIVE SUMMARY

This report examines what we know (and don't know) about how food manufacturers, food retailers, and banks benefit from the Supplemental Nutrition Assistance Program (or SNAP, formerly known as food stamps). The nation's largest food assistance program, SNAP expenditures grew to \$72 billion in 2011, up from \$30 billion just four years earlier, and is projected to increase even more if the economy does not improve.

Right now, Congress is debating the 2012 Farm Bill—and some politicians are proposing massive cuts to SNAP at a time when more Americans than ever need this important lifeline. Meanwhile, some health experts are raising questions about whether it makes sense to allow SNAP purchases for unhealthy products such as soda and candy. Advocates are also looking for ways to incentivize healthy food purchases. While much attention has focused on how farm subsidies fuel our cheap, unhealthy food supply, SNAP represents the largest, most overlooked corporate subsidy in the farm bill.

Our research found that at least three powerful industry sectors benefit from SNAP: 1) major food manufacturers such as Coca-Cola, Kraft, and Mars; 2) leading food retailers such as Walmart and Kroger; and 3) large banks, such as J.P. Morgan Chase, which contract with states to help administer SNAP benefits.

Each of these sectors has a critical stake in debates over SNAP, as evidenced by lobbying reports, along with important data being kept secret.

### ***Key findings about corporate lobbying on SNAP:***

- Powerful food industry lobbying groups teamed up to oppose health-oriented improvements to SNAP
- The food industry also joined forces with anti-hunger groups to lobby against SNAP improvements
- Companies such as Cargill, PepsiCo, and Kroger lobbied Congress on SNAP, while also donating money to America's top anti-hunger organizations
- At least nine states have proposed bills to make health-oriented improvements to SNAP, but none have passed, in part due to opposition from the food industry
- Coca-Cola, the Corn Refiners of America, and Kraft Foods all lobbied against a Florida bill that aimed to disallow SNAP purchases for soda and junk food

### ***Key findings about how much money retailers gain from SNAP:***

- Although such data is readily available, neither USDA nor the states make public how much money individual retailers make from SNAP

- Congress does not require data collection on SNAP product purchases, despite such data being critical to effective evaluation
- USDA told a journalist in Massachusetts he was not allowed to make public data on retailer redemptions from SNAP—after he received the data
- In one year, nine Walmart Supercenters in Massachusetts together received more than \$33 million in SNAP dollars—over four times the SNAP money spent at farmers markets nationwide
- In two years, Walmart received about half of the one billion dollars in SNAP expenditures in Oklahoma
- One Walmart Supercenter in Tulsa, Oklahoma received \$15.2 million while another (also in Tulsa) took in close to \$9 million in SNAP spending.

#### ***Key findings about how much money banks gain from SNAP:***

- USDA does not collect national data on how much money banks make on SNAP
- J.P. Morgan Chase has contracts for Electronic Benefits Transfer (EBT) in half the states, indicating a lack of competition and significant market power
- Contract terms vary widely among states, indicating a lack of efficiency and standards

- In California, a 7-year contract worth \$69 million went to Affiliated Computer Services, a subsidiary of Xerox
- In Florida, J.P. Morgan Chase enjoys a 5-year contract worth about \$83 million, or \$16.7 million a year
- In New York, a 7-year deal originally paid J.P. Morgan Chase \$112 million for EBT services, and was recently amended to add \$14.3 million—an increase of 13%
- States are seeing unexpected increases in costs, while banks are reaping significant windfalls from the economic downturn and increasing SNAP participation.

#### **KEY RECOMMENDATIONS**

- Congress should not cut SNAP benefits at this time of extreme need
- USDA should make data on SNAP retailer redemptions available to the public
- Congress should require USDA to collect data on SNAP product purchases
- USDA should collect data on SNAP bank fees to assess and evaluate national costs
- USDA should grant states waivers to experiment with health-oriented improvements to SNAP.

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## WHY THIS REPORT RIGHT NOW?

A debate over how SNAP dollars should be spent erupted in 2010 when New York City requested a waiver to conduct a two-year trial to prevent SNAP funds from being used to purchase sugar-sweetened beverages. While the U.S. Department of Agriculture denied New York's request, other state and local policymakers around the country are also seeking more flexibility from the federal government. (USDA denied a similar request from Minnesota in 2004.) Several states have proposed bills similar to New York's approach, to modify SNAP eligible items to promote health. But each time, the food industry fought these bills. To date, none have passed.

Food makers and retailers obviously are huge beneficiaries of SNAP. But the public is not privy to information about exactly how much money these companies are making. Moreover large banks such as J.P. Morgan Chase receive significant fees from electronic benefit transfers or EBT. States bear much of the burden of these administrative costs. Is this the most cost-effective way to administer a critical food assistance program at a time of severe budget cuts? Could we feed more needy Americans with some of the profits these corporations are making?

In this election year, food stamps have been much in the news. In a campaign trail jab, presidential candidate Newt

Gingrich referred to President Obama as the "food stamp president"—even though SNAP enrollment grew more rapidly under the previous administration.<sup>1</sup>

It's true that more Americans than ever are relying on SNAP dollars to help make ends meet during the recession. In fiscal year 2011, both federal expenditures for SNAP (\$72 billion, excluding costs) and the number of participants (45 million) were the highest ever.<sup>2</sup> More than one in seven Americans receives SNAP benefits. This year monthly participation topped 46 million, and a report from the Congressional Budget Office projects these numbers to climb even higher, peaking in 2014 and coming down after that, assuming an economic recovery.<sup>3</sup>

In part because the program has increased so dramatically in recent years, it has become an easy target for some politicians. In current budget and farm bill debates, House Republicans are proposing drastic cuts of \$33 billion over ten years, while the Senate is somewhat less draconian, proposing a \$4.5 billion reduction over ten years. But any cuts to this vital program will only hurt millions of American families.

Meanwhile, despite almost 15 percent of Americans being hungry enough to rely on federal assistance, the nation also suffers from an epidemic of diet-related chronic diseases such as diabetes. Often these two problems are related because

in many areas of the country, people simply do not have access to healthy, fresh, affordable food.

Given the adverse health consequences from overconsumption of unhealthy processed food and beverages, many public health advocates have started to question the wisdom of allowing government funds to be used to purchase such products. In response, groups advocating for anti-hunger programs strongly defend the current policy of allowing participants to purchase (almost) any foods and beverages.

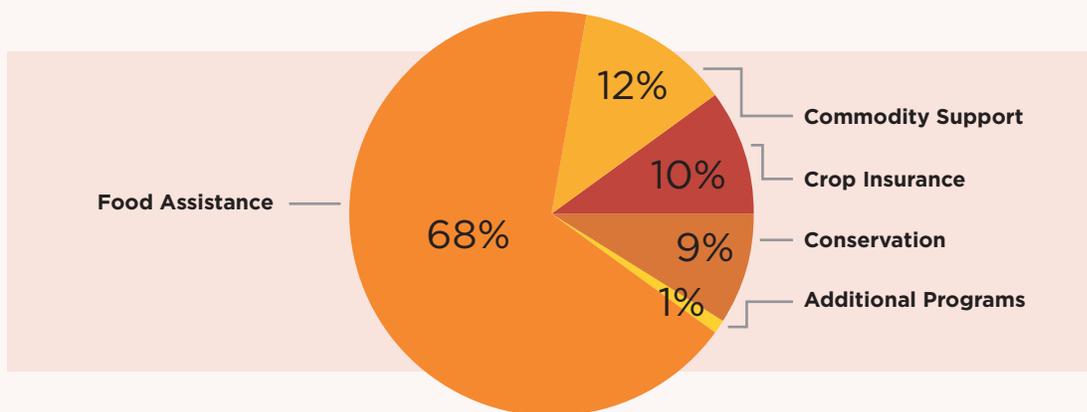
Thus, an unfortunate divide has formed, pitting some public health advocates

against certain anti-hunger groups. Meanwhile, the food industry, along with the banks, have escaped the public limelight of this debate. Given the huge economic stakes—SNAP is projected to top \$80 billion in the next fiscal year—this report examines how much food makers, retailers, and banks benefit from a program that is intended for improving nutrition for those who need it most.

The goal of this report is to provide policy makers, advocates, and SNAP participants with the information needed to develop policies that ensure SNAP resources are used to reduce food insecurity and promote healthier diets, and not to subsidize the profits of the food industry or banks.

### 2008 Farm Bill Budget

Food assistance comprised about 68 percent of the 2008 Farm Bill budget—almost all of it spent on SNAP. The next three largest programs are relatively small wedges of the farm bill pie.<sup>4</sup> The program could be larger because as of 2009, only 72 percent of Americans who qualified for SNAP were enrolled.



## How SNAP works

**Congress**  
*approves Farm Bill  
budget for USDA*



**USDA** administers  
SNAP, shares admin  
costs with states  
50/50



**FEDERAL RESERVE\***  
*pays retailers directly  
per bank authorization*

**States**  
*enroll  
participants*



**States**  
*contract  
with banks  
for EBT  
services*



**Banks** verify requests,  
*authorize payments from  
Federal Reserve*



**Participants**  
*get EBT cards  
and shop at  
authorized  
retailers*

**Retailers**  
*request  
payment  
through  
banks*



**Retailers**  
*buy eligible  
foods  
from food  
makers*

\*Source: U.S Government Accountability Office,  
"Food Stamp Program: Options for Delivering  
Financial Incentives to Participants for Purchasing  
Targeted Foods," July 2008.



**Food  
Makers**

## PROGRAM ORIGINS

The Supplemental Nutrition Assistance Program is the nation's largest and most important food assistance program. The original Food Stamp Program was initiated toward the end of the Great Depression to provide both a new market for farmers' surplus crops and relief for Americans living in poverty.

As an article published in the *Maine Policy Review* explains, the idea of specifying product purchases is not new; from the program's inception, the government placed significant proscriptions on purchases.<sup>5</sup> The idea was to both help those in need, and address the nation's agricultural surplus. It's clear from this history that fresh produce was the main thrust of the program. The article notes:

*In July 1941, at the height of the growing season in many states, all fresh vegetables were placed on the surplus list, while canned and frozen vegetables were excluded. At the same time...[according to a news account at the time<sup>6</sup>] "soft drinks, such as ginger ale, root beer, sarsaparilla, pop, and all artificial mineral water, whether carbonated or not," were removed from the list, and retail food merchants were warned not to sell those items for orange stamps or blue stamps. However, natural fruit juices, "such as grapefruit, orange, grape or prune" were not considered "soft drinks" and could still be sold for orange stamps. Newspaper accounts from that era do not*

*reveal any public or political kerfuffle over the removal of soft drinks from the list of items that food stamps could buy.*

### 1964 Congressional debate over soda

In 1964, Congress took up the issue of whether soda could be purchased with food stamps.<sup>7</sup> Senator Paul Douglas, a liberal Democrat from Illinois, made this impassioned plea for not including soda:

*I do not want to include Coca-Cola or Pepsi-Cola or any of that family. I like them myself, but I do not believe they should be permitted to be substitutes for milk. They are not valuable for the diet. They can be a waste of money especially for young people. Personally, I think it is a great mistake to include them...*

*My suggestion is that the item which is included be not merely soft drinks, but carbonated soft drinks. That would exclude Coca-Cola, Pepsi-Cola, Dr. Pepper, and all the varieties of the family of cola drinks. If we include them, this will be used as propaganda against an otherwise splendid and much needed measure. I want to help the poor and hungry and not sacrifice them for Coca-Cola. The Senator knows that these have no nutritional value—none at all.*

*... Actually, they are bad for kids, rather than good for them. I hesitate to use such language, but the only benefit I can see in the present language is that it will increase the sales of the Coca-Cola and other cola and soft drink companies.*

Senator Douglas lost that vote and that's where things have stood ever since. Then in 1975, Senator Bob Dole (Republican from Kansas) noted the purpose of food stamps: "The program's reason for being presumably is the nutritional enhancement of poor people's diets." He cited a report by the American Enterprise Institute that

criticized the program for its "vast increases in soft drink purchases and other foods of low nutritional value by program beneficiaries" combined with surveys showing how such purchases replaced healthier foods. Dole concluded that such findings "clearly would indict the program," leaving it vulnerable to attack.<sup>8</sup>

## A brief history of food stamps\*

**1939 to 1943**

A pilot version of food stamps begins. Program participants buy orange stamps, to be used for food and household items (including soap and matches, but not alcohol, tobacco or prepared foods); also receive blue stamps for commodity surplus foods, which change weekly and include items such as beans, flour, eggs, pork and fresh produce. As of 1941, soft drinks are excluded from the program.



**1964**

The Food Stamp Program is signed into law as part of a series of policies meant to address poverty. Participants still buy coupons for subsidized food purchases. A proposal to limit the purchase of soft drinks and "luxury" foods is eliminated in the final bill. Alcohol and tobacco are still excluded, as are imported foods.

**1973**

Garden seeds and plants added as approved items. Imported food ban lifted.

**1977**

Participants are no longer required to purchase food stamps. Restaurant meal program begins for seniors, disabled, and homeless people.

**1996**

Welfare reform and changes in food stamp administration making eligibility more difficult contribute to a dramatic decrease in participation.

**2000**

Changes made to streamline program: eligibility re-expanded; re-certification becomes easier; Electronic Benefit Transfer (EBT) card used nationwide, modeled on credit/debit cards, intended to reduce stigma and increase participation.

**2008**

Farm Bill: Program name changes to Supplemental Nutrition Assistance Program (SNAP); Healthy Incentives Pilot authorized to research the effectiveness of subsidizing healthy foods.



**2011**

Record enrollment in SNAP, at 46 million or 1 of every 7 Americans.

\*Sources available from Enough to Eat: Food Assistance and the Farm Bill.

## BIG FOOD LOBBYING AGAINST HEALTH IMPROVEMENTS TO SNAP

Given the huge stakes for the food and beverage industry in the debate over SNAP purchases, lobbying has played a critical role in shaping public policy. Unfortunately, due to reporting rules, it's difficult to paint the entire picture of exactly who lobbied and how much money was spent against any one proposal, such as the New York City waiver application to USDA. Nevertheless, the following sections demonstrate the lobbying muscle the food industry has brought to bear on this issue.

According to an article describing the lobbying strategy in the *New York Times*<sup>9</sup>:

*Some of the big industry groups have signed up lobbying firms. The Duberstein Group, led by Kenneth M. Duberstein, a chief of staff to President Ronald Reagan, reported that it had received \$100,000 in the first quarter of this year to lobby for the Grocery Manufacturers Association on various issues, including proposals to restrict the use of food stamps.*

### National food lobbying groups who teamed up to fight NYC proposal to USDA to remove soda from list of eligible food items for SNAP<sup>10</sup>



**Food Marketing Institute:** *"food retailers and wholesalers"*



**National Grocers Association:** *"retail and wholesale grocers that comprise the independent sector of the food distribution industry"*



**Grocery Manufacturers Association:** *"promotes and represents the world's food, beverage, and consumer products companies"*



**Snack Food Association:** *"international trade association of the snack food industry representing snack manufacturers and suppliers"*



**National Confectioners Association:** *(candy makers: candyusa.com)*



**American Beverage Association:** *"represents the non-alcoholic, refreshment beverage industry"*

Each corporation and trade group lobbying against SNAP reform is politically powerful and spends enormous sums on influencing policy in general. For example, PepsiCo reported it spent \$750,000 lobbying the federal government in just the third quarter of 2011.<sup>11</sup> Coca-Cola spent \$1.15 million in just the fourth quarter of last year.<sup>12</sup> And that's only for federal lobbying, not state or local issues like the New York City fight. Moreover, food lobbyists have several top anti-hunger groups on their side in opposing SNAP changes.

**America's candy companies lobby to "preserve food choice"**

Given policymakers' emphasis on soda, we would expect to see the soda lobby strongly oppose the NYC waiver—but more surprising is how the candy lobby has put its resources into opposing improvements,

presumably because its interests are also at stake. On a page devoted to the issue on the candy lobby's website, one can download several documents including:<sup>13</sup>

- "Preserving food choice" talking points
- "Coalition Statement on Preserving Food Choice in SNAP/Food Stamps"
- USDA document from 2007, "Implications of Restricting the Use of Food Stamp Benefits—Summary" (from which the candy lobby derives many of its talking points).

The candy lobby even worries that children may be deprived. From their "preserving choice" talking points:

*Sometimes good intention goes too far. For example, limiting food choices in SNAP could deny children an occasional treat during the holidays such as Christmas, Halloween, Hannukah, Easter, etc.—and for birthday parties, shouldn't parents be able to make the decision whether treats will be offered?*

**Sampling of Big Food federal lobbying in 2011<sup>14</sup>**

ORGANIZATION	WHO THEY LOBBIED	ISSUE
American Beverage Association	Congress, USDA	"Sugar issues" & SNAP
Cargill	Congress, USDA	SNAP
Coca-Cola	Congress, USDA	SNAP*
Food Marketing Institute	Congress, USDA	SNAP, "preservation of food choice"
Grocery Manufacturers Association	Congress, USDA	"Restrict use" of SNAP
Kellogg	Congress	"SNAP ... in Farm Bill"
Kroger	Congress	"SNAP and WIC funding"
Mars	Congress	"Administration of SNAP"
PepsiCo	House	"Restrictions" on SNAP
Snack Food Association	Congress, USDA	SNAP, Farm Bill
J.P. Morgan Chase	USDA	EBT
Walmart	Congress, USDA, White House	"federal nutrition programs"

\*Coca-Cola reported lobbying on, "ensuring choice and fairness in food assistance programs," demonstrating the challenge of researching which corporations and trade groups are lobbying specifically on SNAP.



## Who is Michael Torrey?

Profile of a lobbyist working to stop improvements to SNAP

Michael Torrey is a lobbyist who knows his way around Washington, as evidenced by his previous employers—in both government and the private sector. According to the *New York Times*,<sup>15</sup> the Food Research and Action Center (a prominent anti-hunger group) led an effort “to assemble a loose coalition of food industry lobbyists and anti-hunger groups opposed to restrictions on the use of food stamps.” This coalition was also coordinated by Michael Torrey.

According to James McCarthy, president of the Snack Food Association, (whose members include Kraft and Frito-Lay), Michael Torrey was “under contract” with the trade group.

In one lobbying report, Mr. Torrey said he had received \$30,000 from the Snack Food Association to lobby Congress and the administration on issues including “the preservation of choice” in the food stamp program.

### Revolving door syndrome?<sup>16</sup>

Prior to becoming a lobbyist in 2005, Michael Torrey’s employers included:



U.S. DEPARTMENT OF AGRICULTURE (2003-2005)



INTERNATIONAL DAIRY FOODS ASSOCIATION (1998-2003)



SENATOR BOB DOLE (1993-1995)



KANSAS GRAIN AND FEED ASSOCIATION (1987-1990)

Torrey was listed as Treasurer for the Crop Insurance Research Bureau PAC<sup>17</sup> (crop insurance is a major issue in the 2012 Farm Bill). His firm’s clients have included:<sup>18</sup>



DEAN FOODS  
Largest U.S. dairy processor



SNACK FOOD ASSOCIATION



GROCERY MANUFACTURERS ASSOCIATION



WHOLE FOODS MARKET

### Big Food donations to anti-hunger groups: conflict of interest?

Among the most vocal opponents of health-oriented improvements to SNAP purchases are several national anti-hunger groups, each of which accepts significant funding from major players in the food industry. For example, Cargill, the Food Marketing Institute, the Grocery Manufacturers Association, Kellogg, Kroger, Mars, PepsiCo, and Walmart have all donated to both the Congressional Hunger Center<sup>19</sup> and Feeding America,<sup>20</sup> two groups that strongly opposed the New York City waiver application to USDA.

While it's not clear exactly how such relationships might influence policy positions, the potential for conflict exists. Other groups that do not take corporate money also oppose SNAP waivers to modify product purchases.

### Yum! Brands' failed attempt to expand food stamps for fast food

In September 2011, Yum! Brands, the owner of KFC, Taco Bell, and Pizza Hut, lobbied to expand SNAP for fast food, but retreated after public outcry and a cool reception from USDA.<sup>21</sup> Currently, states can decide to allow SNAP purchases in restaurants, but only for the homeless, elderly, and disabled populations that may have difficulty preparing meals. To date, only a handful of states utilize this option and Yum! wanted more to come on board. The National Restaurant Association was in favor of the idea but the National Association of Convenience Stores opposed, their lobbyist telling *USA Today*, "I'm not sure that's in the best interest of public health."<sup>22</sup>

Meanwhile, Ed Cooney, executive director of the Congressional Hunger Center defended the move against critics, saying fast food was better than going hungry and that he was "solidly behind what Yum! is doing." *Food Politics* author and New York University Professor Marion Nestle called Cooney's position a conflict of interest, asking: "Want to take a guess at who funds the Congressional Hunger Center? Yum! is listed as a 'Sower,' meaning that its annual gift is in the range of \$10,000. I'm guessing Yum! is delighted that it is getting such good value at such low cost."<sup>23</sup>

### State-level lobbying

In the wake of the New York City waiver request to USDA, a number of states have taken similar interest in how SNAP dollars should be spent, with the aim of improving nutrition. At least nine states have introduced legislation proposing health-oriented changes to SNAP. Because USDA has jurisdiction over how SNAP dollars are spent, states cannot simply mandate changes.

Instead, many state bills have taken a two-step approach: 1) require that the appropriate state agency apply to USDA for a waiver; 2) assuming the waiver is granted, describe how the state would then improve SNAP purchases. The ideas range from using other food assistance programs (such as WIC) as a guide, to specifying certain items that shouldn't be allowed, such as cupcakes.

To date, none of these bills have made it through the legislative process, thanks to heavy pushback from the food industry. For example, in California, State Senator

Michael Rubio encountered a flurry of opposition to his bill, SB 471. The California Restaurant Association (CRA) reported to its members that the bill “would have prohibited the use of food stamps to buy junk food and specified that restaurant food would fall under the definition ‘junk food.’”<sup>24</sup> The restaurant group lobbied forcefully at the beginning of the session and CRA succeeded in securing an amendment from Rubio to exclude restaurants. The California Grocers Association also weighed in, arguing the plan would be “entirely unworkable” for supermarkets.<sup>25</sup>

In Illinois, a bill by State Senator Linda Holmes proposed “a general ban on the use of SNAP benefits to purchase foods of minimal nutritional value.”<sup>26</sup> Due to opposition, the measure, according to Holmes, “did not make it out of the Assignments Committee, which means it is dead.”<sup>27</sup>

Among those opposed were the Illinois Food Retailers Association and the Illinois Retail Merchants Association. “Rather than restricting foods,” a representative of the food retailers explained, they would prefer to “allow and encourage the more frequent purchase of fresh fruits and vegetables. Who determines what is in and what is out? Who stays on top of all these new products? This would be an administrative nightmare for the grocery industry.”<sup>28</sup>

### State focus: Florida

In Florida in early January 2012, Republican State Senator Ronda Storms introduced SB 1658, which proposed “expanding the list of items that may not be purchased,” and “prohibiting the use of benefits in restaurants,” among other provisions.<sup>29</sup> (Florida currently has a pilot program in just one county for SNAP use in restaurants.<sup>30</sup>) Storms probably wasn’t prepared for what happened next.

As the *New York Times*’ Mark Bittman reported, “Soon after Storms proposed the bill, she told me, ‘Coca-Cola and Kraft were in my office hating it.’”<sup>31</sup>

Storms also told Fox News that the biggest opponents she faced were “Coca-Cola, the soda companies, the chip companies, and the convenience store operators. Why is that? Because they know they are raking it in from food stamps.”<sup>32</sup>

### Groups that lobbied against Florida SB 1658<sup>33</sup>

- Coca-Cola
- Corn Refiners of America
- Florida Beverage Association
- Florida Petroleum Marketers
- Florida Retail Federation<sup>34</sup>
- Kraft Foods

## States attempting to pass SNAP improvement bills<sup>35</sup>

**California SB 471** Requires State (to extent permitted by federal law) to “modify the list of allowable food items...so that no CalFresh benefits may be used to purchase sweetened beverages containing more than 10 calories per cup [with exceptions].” (2011)

**Florida SB 1658** Would add to the list of prohibited items: “foods containing trans fats; sweetened beverages, including sodas; sweets, such as jello, candy, ice cream, pudding, popsicles, muffins, sweet rolls, cakes, cupcakes, pies, cobblers, pastries, and doughnuts; and salty snack foods, such as corn-based salty snacks, pretzels, party mix, popcorn, and potato chips.” (2012)

**Illinois HB 1480** Requires State to seek a waiver from USDA “to allow the State to specify certain foods that may and may not be purchased in Illinois... including a general ban on the use of SNAP benefits to purchase foods of minimal nutritional value such as carbonated soft drinks, snack cakes, candies, chewing gum, flavored ice bars, and fried, high-fat chips.” (2011)

**Iowa HF 288** Would request authorization from USDA “to allow the state to restrict the use of food assistance benefits for food items with a low nutritional value.” (2011)

**Oregon HB 3098** Requires State to ensure that SNAP benefits “may not be used to purchase foods that contain high levels of refined sugar, such as candy, soda, energy drinks, cookies, and other similar foods prescribed...” (2011)

**Nebraska LB 267** Requires State to seek a waiver from USDA to limit SNAP beverage purchases “to milk, one-hundred-percent juice, and plain water.” (2011)

**Pennsylvania HR 59 (resolution)** Requests that Congress change SNAP so that it “more closely tracks with the WIC Program in terms of healthy choices for people.” (2011)

**Texas HB 3451** Would seek a waiver from USDA “to restrict the purchase of food items with minimal nutritional value ... by amending the list of allowable food items under the program to better align that list with the allowable food purchases under” WIC and the school lunch program, and cites to the relevant federal statutes. (2011)

**Vermont HJR 13 (resolution)** Urges USDA “to authorize each state to create its own list of foods eligible for purchase” with SNAP funds or “authorize a demonstration project allowing the state of Vermont to develop its own list.” (2011)

## LACK OF DATA ON SNAP PURCHASES

There are two types of data the public currently does not have access to that would give us a much clearer picture regarding SNAP expenditures: 1) retailer-specific; and 2) product-specific.

USDA does not make public how much each store gets reimbursed, although it does have this data (as do the states). We only know totals by category of retailer (see below), or upon request, by zip code. Also, USDA does not currently have legal authority to require retailers to report specific purchase data for products. USDA only knows the dollar amount of each SNAP participant transaction. Such data is critical to evaluating SNAP effectiveness as well as to inform policy discussions on how to encourage healthier SNAP purchases.

### How much SNAP money is spent at which retailers?

In 2010, a journalist in Massachusetts made an information request that caused quite a stir. Michael Morisy, who runs the site MuckRock.com—a service to help reporters and others file public record requests—sent a simple request to the state of Massachusetts: “The four years of food stamp reimbursement data through the Supplemental Nutrition Assistance Program (SNAP) from financial year 2006 through financial year 2009.”<sup>36</sup>

The state honored the request, providing Morisy with the names and addresses of each store, along with the dollar amount of SNAP funds spent at each store. Morisy promptly made the information public on his website. But a few months later, Massachusetts officials sent an email to Morisy warning him that the information on individual retailer redemptions was “posted in violation of federal law” and claimed the data was “erroneously released” by the Massachusetts Department of Transitional Assistance, the agency handing the request. The message, signed by the acting general counsel of the Department of Transitional Assistance cited a federal statute and threatened that “[f]ailure to remove this information may result in fines or imprisonment.”<sup>37</sup> According to the *Boston Globe*, USDA was behind the attempted data recall. The state said they should have known the information was not supposed to be made

### Did You Know...?

Nationwide, there were about 230,000 SNAP-authorized retailers in 2011.<sup>38</sup> Although supermarkets and supercenters make up less than a quarter of SNAP retailers, more than 83 percent of SNAP benefits are spent there; convenience stores make up one-third of all authorized retailers but account for just four percent of expenditures.<sup>39</sup>

public. The *Globe* also tried to ask USDA for further explanation: “Two Agriculture Department officials were unable to answer questions yesterday about why the type of information published on MuckRock cannot be released.”<sup>40</sup> Why indeed? The state, facing outcry from First Amendment lawyers defending Morisy’s right to post the data, soon dropped the legal threat, claiming it was just relaying information from USDA.<sup>41</sup>

The complete Massachusetts dataset can be found in an interesting Google fusion table.<sup>42</sup> In one fiscal year (2009/2010) the nine Walmart Supercenters in Massachusetts received more than \$33 million in SNAP benefits—more than four times the amount spent at farmers markets nationwide in 2010.<sup>43</sup> That figure does not even include the other many Walmart stores in the state.<sup>44</sup>

In his current quest for more SNAP data, this time directly from USDA, Morisy is asking for ten years of food stamp reimbursement data (2000 to 2010) including retailer names, addresses, cities, state, and reimbursement sums broken down by year.

So far, USDA has rejected the request, but Morisy’s appeal of that denial is still pending. USDA says it is “not allowed to release any financial information” and that “redemption amounts, or EBT sales figures, for each store... may [only] be disclosed for purposes directly connected with the administration and enforcement of the Food Stamp Act and these regulations.”<sup>45</sup> The reason for this is unclear. As Tufts University food economics professor Parke Wilde noted at the time of Morisy’s original request:

*“In general, the federal government shares information about the location of SNAP retailers but not the amount of redemptions at each retailer. According to the Boston Globe today, it is possible that the data were released in error, and MuckRock may have to take down the data. This would be too bad. Just as the farm subsidies received by individual farmers are subject to freedom-of-information rules, and can be shared with the public, it seems reasonable to think of SNAP benefit payments to retailers as public information rather than fully private business information. Perhaps a reasonable compromise would be to stipulate a threshold for small retailers below which the exact dollar amount need not be made public.”<sup>46</sup>*

### **Walmart receives half of all SNAP dollars in Oklahoma**

Given the company’s scope, it makes sense that Walmart would be a huge beneficiary of SNAP spending. But just how much remains unclear. Walmart has become the nation’s largest grocery chain, controlling 22-24 percent of food retail, which is the biggest share of any food retailer in history and bigger than the next three retailers combined. In addition, in 29 metropolitan areas, Walmart controls 50 percent or more of the grocery market.<sup>47</sup>

Last year, reporters in Tulsa, Oklahoma were able to access detailed data covering a two-year period from the state health department. This report represents a rare glimpse into how SNAP dollars get spent in one state and begins to paint the picture of Walmart’s significant role. As they discovered, nearly half of all food stamp spending in

Oklahoma was at Walmart. According to the *Tulsa World*:<sup>48</sup>

*Much of the nearly \$1.2 billion in food stamp expenditures went to Walmart stores, which brought in about \$506 million between July 2009 and March 2011, according to data supplied by the Oklahoma Department of Human Services.*

The table below shows the enormity of Walmart’s reach in just this one area compared to several other outlets. The *Tulsa* paper reported that six Walmart stores were among the state’s top-ten recipients of SNAP dollars, and Warehouse Markets (a local chain) held the other four spots.

The paper also reported individual store expenditures. One Walmart Supercenter in Tulsa received \$15.2 million while another (also in Tulsa) took in close to \$9 million. Even a smaller “Walmart Neighborhood Market” received \$6.6 million while a Walmart outside of town

Oklahoma store	SNAP receipts
Wal-Mart	\$506 million
Warehouse Market	\$65 million
Homeland stores	\$67 million
Reasor’s	\$31 million
Dollar General	\$25 million
Save-a-Lot	\$24 million
7-Eleven	\$12 million
QuikTrip	\$10 million

**Source:** *Oklahoma Department of Human Services, mid-2009 to early 2011*

“A very significant percentage of all SNAP dollars are spent in Walmart stores, in some states up to fifty percent”

- **LESLIE DACH**  
**EXECUTIVE VICE PRESIDENT OF CORPORATE AFFAIRS, WALMART<sup>49</sup>**

(Glenpool) received more than \$3 million, all in less than a two-year period.

It’s not surprising so much SNAP money is being spent at Walmart and the retailer does sell a variety of foods. However, the Massachusetts and Oklahoma data raises questions about how much SNAP is subsidizing this huge corporation. Also, without data on product purchases (discussed in the next section), we don’t know if Walmart is contributing to the health of SNAP participants, or potentially undermining the program’s nutrition goals.

**How much SNAP money is spent on soda and other products?**

The Center for Science in the Public Interest reported in 2010 that \$4 billion in SNAP dollars is spent on soft drinks each year<sup>50</sup> and this figure has been repeated many times since,<sup>51</sup> particularly regarding the New York City waiver request.

However, this unpublished data is based on extrapolations from one supermarket chain that shared its data with CSPI anonymously. We should not be making important public policy recommendations and decisions based

on secret anecdotal data. Rather, we should be gathering comprehensive data from the entities that have it or could gain access to it: USDA and retailers.

### **Current USDA contract aims to collect SNAP purchase data?**

Last year, USDA issued a “request for information” apparently to companies who could gather and report SNAP purchase data.<sup>52</sup> Several vendors applied and a company called IMPAQ won the contract for \$739,802.<sup>53</sup> What is this company doing for that much money? USDA officials declined our request to find out, saying they were “not at liberty to discuss any part of the contract.”<sup>54</sup> (The company wouldn’t tell us either.)

From a Q&A on the USDA website, it appears that USDA knows little about

SNAP purchase data: “We are aware of several commercial datasets, but don’t have a firm grasp of the variety, price, and variables available in such datasets.” It seems ironic that in a time of fiscal restraint that USDA needs to pay a third party to find out how to get this data.

Last December, Senator Ron Wyden (D-OR) introduced the FRESH Act (Fresh Regional Eating for Schools and Health), which aims to, among other provisions, “increase accountability” in the SNAP program by requiring corporations receiving more than \$1 million a year “to provide taxpayers with an itemized receipt for their share” of the SNAP program.<sup>55</sup> This seems like a perfectly appropriate proposal, but so far the bill has not moved forward.

## BANKS AND SNAP EBT FEES

In the late 1990s and early 2000s, as part of a larger shift toward privatizing welfare systems and putting benefits on ATM-style Electronic Benefit Transfer (EBT) cards, states across the country began contracting out the administration of food stamp and welfare benefits. (SNAP was required to completely convert to EBT by 2002.) Each state—some teaming up in regional purchasing alliances—pays an outside firm to handle its EBT systems and facilitate SNAP transactions—an apparently profitable market that has attracted several large banks.

EBT is not only used for SNAP but also for other programs such as Temporary Assistance for Needy Families (TANF). The national EBT market is dominated by J.P. Morgan Electronic Financial Services (a subsidiary of J.P. Morgan Chase Bank), which has contracts in 24 states along with Guam and the Virgin Islands. When a single provider has such significant market share, it suggests limited competition and excessive market power.

Other corporations in the EBT market include Affiliated Computer Services (a subsidiary of Xerox) which runs 13 state EBT systems; Fidelity National Information Services, handling 11 states and Washington, D.C.; defense contractor Northrop Grumman operating EBT in Illinois and Montana, and Evertec with the contract for Puerto Rico.<sup>56</sup>

### How much money do the banks make from EBT fees?

In 2010, SNAP EBT operating and equipment costs (split 50-50 between the states and the federal government, as are all SNAP administrative costs) amounted to more than \$314 million, according to USDA data. California incurred the highest costs, topping \$65 million, with the next highest being New York State at more than \$21 million.<sup>57</sup>

However, no national-level data is available on the total value of the states' EBT contracts with the banks. In emails, officials at the USDA Food and Nutrition Service confirmed there is no national monitoring of contracts, other than the counting of total participants and expenditures.<sup>58</sup> So we made public record requests to a handful of states, for both contracts and fee payments.

Each state EBT contract is different, depending on state laws and the contracting company. In general, the companies obtain multi-million-dollar deals over a several-year period, but the terms evolve through change orders and amendments that can increase or diminish the state's payments. The companies are generally paid monthly on a per-participant basis for an array of services including benefits disbursement, customer support, and other services.

In the states we examined, contracts for providing EBT and related services range in term from 5-7 years, often with renewal clauses ranging from 1-3 years. Such relatively long contract and renewal periods suggest limited competition in the market for EBT services.

Although state contracts are public record, they do not clarify exactly how the contracting firms turn a profit from EBT, and what those profits are. Likewise, the Securities and Exchange Commission filings from the publicly-traded corporations in the EBT market, such as J.P. Morgan Chase, do not itemize revenues from EBT business.

In other words, although we were able to obtain several state contracts for this report, information about exactly how much profit the banks make from this large tax-payer program, at a time when Congress is threatening cuts to those in need, remains unavailable.

**J.P. Morgan Electronic Financial Services: Sampling from three states<sup>59</sup>**

**Florida:** 5-year agreement due to terminate June 2013 unless renewed.

For this 5-year period, the estimated cost is \$83.5 million—about \$16.7 million a year. (Note: all contract totals are for all EBT services, but most of this is SNAP.)

Fees from July 2008 to December 2011, covering 3.5 years of the 5 year contract, have already topped \$80 million.

Assuming monthly fees in 2012 and 2013 are exactly the same as in 2011, the total fees for the contract period would top \$123 million, a more than 50 percent increase over the original contract.

**New York** (see table below and appendix): 7-year deal from 2005 through 2012, pays the bank \$112 million; was recently amended (just a few months prior to the contract end date) to add \$14.3 million, upping the total amount to \$126 million. As in Florida, New York is paying more (nearly 13%) than the state budgeted for, and J.P. Morgan is receiving more than the bank anticipated at the outset of the contract.

The New York contract offers a discount based on volume, charging fees ranging from \$1.01 to \$1.32 per case. Due to high volume, the state has been paying \$1.01 per SNAP beneficiary per month, after hitting the top tier of 1.5 million cases.

**EBT fees on the rise: J.P. Morgan in New York and Florida**

STATE	TERM	CONTRACT VALUE*	PROJECTED FEES**	% INCREASE
Florida	5 years	\$83 million	\$123 million	50%
New York	7 years	\$112 million	\$149 million	33%

\* as estimated at the outset of the contract (all programs)

\*\* assuming contract costs continue at current levels until contract expiration

**Washington:** The state's seven-year, \$74.3 million EBT contract with J.P. Morgan expired on April 28, 2012.<sup>60</sup> We received data for monthly payments to the bank for May 2011 to March 2012. Total payments during this 11-month period were \$9.5 million, averaging \$864,439 per month.

### Additional bank contracts

In 2008, **California** signed a 7-year contract with Affiliated Computer Services worth \$69 million, to administer EBT to roughly 900,000 participants.<sup>61</sup>

In **Arkansas**, for 2011, the state paid its EBT contractor, eFunds, \$1.8 million in fees, slightly below the incremental budget provided in the contract amendment of \$1.9 million.

**Montana's** contract with Northrop Grumman, signed in 2010, began as a 9-month arrangement worth \$1.28 million. In 2011 the state agreed to a one-year extension with new terms, totaling \$2.53 million—an increase of \$1.33 million over the initial terms.

Northrop Grumman's contract with **Illinois** is for \$36 million over 5 years, to administer EBT to 600,000 participants.<sup>62</sup>

### Outsourcing call centers to India and Mexico?

Until news reports caused embarrassment over the practice, many states outsourced their support services to international call centers. The arrangements produced widespread ire: outsourcing is controversial generally, with the added

irony of shipping off jobs offshore while administering public benefits.

According to one 2011 news account:

*To save money, J.P. Morgan has been routing benefit card customer service calls to India, where employees reportedly earn no more than three-fifty an hour. Meanwhile, in the U.S. abyss of economic hardship, nearly 14 million Americans are unemployed. J.P. Morgan has refused to say which states dial up customer service centers in India.*<sup>63</sup>

While USDA recently investigated the practice and concluded that most states have either stopped outsourcing overseas or were phasing it out, it's unclear if all states have done so.<sup>64</sup> For example, a document from the Washington State Department of Health and Social Services explains: "The state's seven-year, \$74.3 million EBT contract with JP Morgan ... covers a broad range of EBT services, including customer service assistance through three subcontracted offshore call centers in India and Mexico."<sup>65</sup>

The document further detailed the outsourcing:

*The system transfers most callers who ask for a live operator to India (Pune or Bangalore). Spanish-speaking customers are connected to the customer service center in Mexico (Tijuana).*<sup>66</sup>

In Florida, after outcry over EBT contractor J.P. Morgan Chase outsourcing its support call centers abroad, the state and the bank signed an amended agreement in 2009 stipulating that call centers would be domestic.

## CONCLUSIONS AND RECOMMENDATIONS

The original Food Stamp Program was created to provide both a new market for farmers' surplus crops and relief for Americans living in poverty. However, the current program bears little resemblance to that original vision. As the largest government-funded agriculture program in the nation, SNAP presents a tremendous opportunity to help improve the health of tens of millions of Americans and to reshape our food system in a positive way. And yet many powerful corporations are fighting to maintain the status quo.

### Need for greater transparency

At a time when millions of Americans are in dire financial straits, we should be asking, has this critical food assistance program become a massive corporate subsidy to help rich companies get richer? How can we improve SNAP to maximize government benefits for those in need? And how can we make this large taxpayer-funded program more accountable and transparent?

Instead of debating cuts to food assistance, Congress should be helping people—not corporations—get the most out of this vital program. Some advocates fear that describing SNAP participants' buying habits could present more opportunities to judge and stigmatize. Obviously, this would be counter-productive, especially when cuts to the program are being considered. But fear should not keep us

accurately evaluating the effectiveness of SNAP, particularly given the program's great potential for positive impact. Data gathering would actually benefit program participants by giving us vital information to make improvements, and evaluate nutrition interventions such as SNAP-Ed, the educational arm of the program.

### Make private information public

USDA should be more transparent with the information it has, and should collect and share data on product purchases and bank fees. We need to know how much money is spent, for example, on product categories such as soft drinks, and more specifically, how much money is spent on Coke, Gatorade, Capri Sun, or Poland Spring? While USDA does not have this information, the retailers certainly do. Indeed, such data is a high-priced commodity traded among industry players. The consumer and advertising data mining company Nielson says it processes “2 billion electronic records from 200,000 retail outlets per week.”<sup>67</sup> Why should only private entities with financial interest in SNAP have access to information that significantly impacts public health?

We also need more transparency regarding bank fees. Questions loom about how much of a burden states are bearing from upticks in enrollment during hard times. Are the EBT contracts being negotiated

fairly, or are banks taking advantage? How do bank profits impact public costs and available resources for participants?

### Access to healthy food

Many opposed to removing soda and other junk foods from the list of eligible SNAP products argue that we should instead focus on incentives to encourage healthier food purchases. Initiatives such as New York City's local government-funded Health Bucks program and Double Up Food Bucks in Michigan are innovative approaches to helping SNAP participants eat more healthfully. But because they rely on external funding, their long-term sustainability is uncertain.

The lack of sufficient access to affordable healthy food remains a serious problem. Improvements to other food assistance

programs may be instructive. Requiring healthier foods in the Women's, Infants, and Children's program resulted in more of these foods being made available by retailers.<sup>68</sup> Whether or not such a model makes sense for SNAP is the sort of discussion that merits deeper inquiry.

### Moving forward

The debate over making health-oriented improvements to SNAP purchases is currently at a standstill. On one side are those who insist soda is not a food, while others argue such policy changes only hurt those in need. We must go beyond this rhetoric and examine the extent to which SNAP has become a corporate subsidy. Then advocates should work together to make improvements to SNAP that will truly benefit participants.

## RECOMMENDATIONS

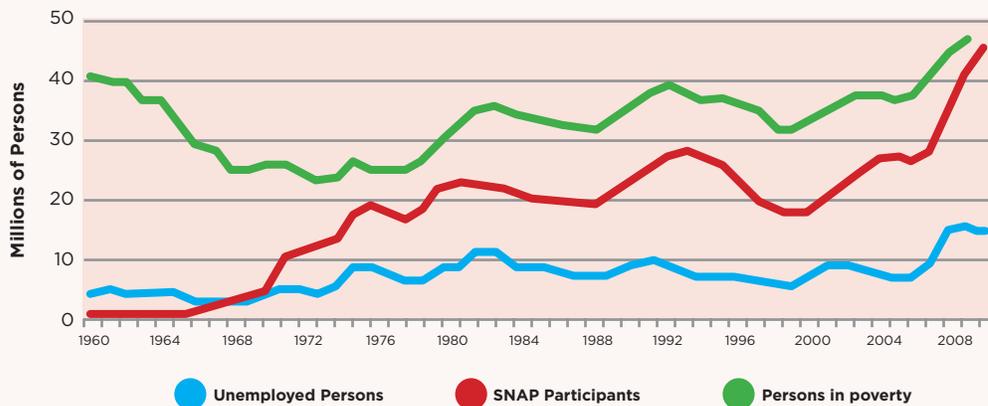
- Congress should not cut SNAP benefits in this time of extreme need
- USDA should disclose retailer redemptions on SNAP; Congress should require that USDA regularly report on these numbers
- Congress should mandate that USDA collect and make public product purchase data; Congress should pass Senator Ron Wyden's bill, which includes such a requirement
- USDA should collect data on bank fees to assess and evaluate national costs and share this data with the public
- USDA should evaluate state contracts to determine if banks are taking undue advantage of taxpayer funds
- USDA should grant waiver requests from states that want to experiment with making health-oriented improvements to SNAP
- Anti-hunger groups should eliminate or disclose potential conflicts of interest when taking a public position regarding SNAP policy.

## APPENDIX

### Quick SNAP facts<sup>69</sup>

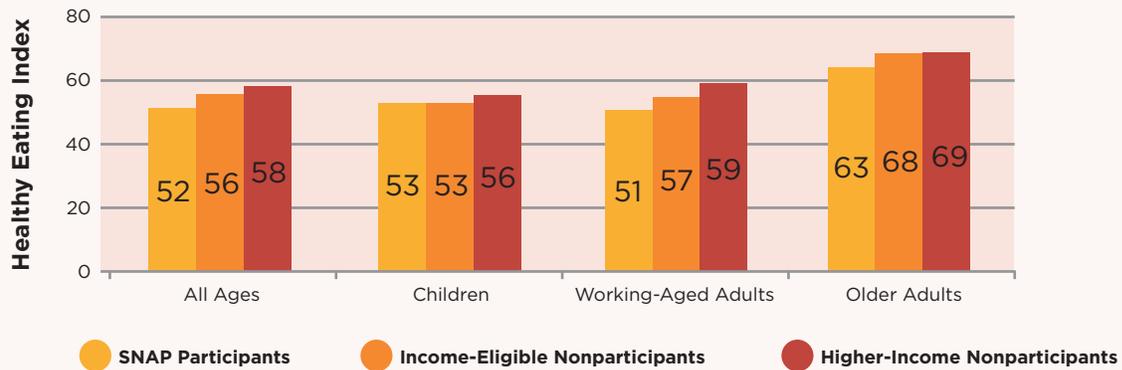
- Nearly half of SNAP participants are children
- One-third of children participating in school lunch also receive SNAP benefits
- About 41 percent of SNAP participants live in households with earnings
- SNAP benefits moved 13 percent of households above the poverty line in 2010
- Participation in SNAP significantly reduces the depth and severity of child poverty
- Half of all new SNAP participants leave the program within 10 months
- In fiscal year 2011, SNAP provided an average of \$134 to 44.7 million people each month
- 230,000 retailers are approved for SNAP redemption nationally
- Administrative costs are shared between states and the federal government

### SNAP participation closely follows poverty and unemployment<sup>70</sup>



### Healthy eating index scores by subgroups: 1999 to 2004

How do SNAP participants' diets compare to other Americans? According to USDA's Healthy Eating Index,<sup>71</sup> they are pretty similar, which is hardly good news.



### New York State EBT fees to JP Morgan Chase over 5 years tops \$100 million<sup>72</sup>

	2007	2008	2009	2010	2011	TOTAL
Total fees (all programs)	\$15.7M	\$18.1M	\$21.5M	\$23.7M	\$25.4M	\$104.4M
% growth over previous year	-	15%	19%	10%	7%	-
SNAP fees	\$12.2M	\$13.1M	\$15.7M	\$18.2M	\$19.5M	\$78.7M
% of total	77%	72%	73%	77%	77%	73%
% growth over previous year	-	8%	20%	16%	7%	-

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