

**U.S. Department of Agriculture
Food and Nutrition Service
Administrative Review Branch**

Kal's Mart, LLC,

Appellant,

v.

Case Number: C0214286

Retailer Operations Division,

Respondent.

FINAL AGENCY DECISION

The U.S. Department of Agriculture (USDA), Food and Nutrition Service (FNS), finds that there is sufficient evidence to support the determination by the Retailer Operations Division to deny the application of Kal's Mart, LLC (hereinafter "Appellant") to participate as an authorized retailer in the Supplemental Nutrition Assistance Program (SNAP). As a result, the firm may not reapply for SNAP authorization for a period of six months from the date of denial.

ISSUE

The issue accepted for review is whether or not the Retailer Operations Division took appropriate action, consistent with Title 7 Code of Federal Regulations (CFR) Part 278, in its administration of SNAP when it denied the application of Kal's Mart, LLC to participate as a retailer.

AUTHORITY

7 U.S.C. § 2023 and its implementing regulations at 7 CFR § 279.1 provide that "[A] food retailer or wholesale food concern aggrieved by administrative action under § 278.1, § 278.6 or § 278.7 . . . may file a written request for review of the administrative action with FNS."

CASE CHRONOLOGY

In a letter dated November 5, 2018, the Retailer Operations Division denied the Appellant's application to participate as an authorized retailer in SNAP. This denial action was based on observations made during a store visit on November 2, 2018, as well as information provided as part of the firm's application. On the application, the Appellant reported that around 38 percent of its gross retail sales were from the sale of staple foods. The Appellant also reported that the

firm carries three different varieties of staple foods in the four staple food categories, with a depth of three stocking units for each variety.

The Retailer Operations Division determined that the firm did not meet eligibility requirements under Criterion A or Criterion B pursuant to SNAP regulations at 7 CFR § 278.1(b)(1). The denial letter stated the Appellant failed to meet the requirements of Criterion A because it did not offer for sale on a continuous basis a variety of foods in all four staple food categories. It also stated that the Appellant failed to meet the requirements of Criterion B because staple food sales did not comprise more than 50 percent of its total retail sales. Additionally, the letter indicated that FNS considered the firm's eligibility under the Need for Access provision of the regulations found at 7 CFR § 278.1(b)(6), but determined that the Appellant does not qualify for SNAP authorization under this provision.

As a result of being found ineligible for participation under both Criteria A and B, and being found ineligible under the Need for Access provision, the Appellant's SNAP application was denied for a period of six months pursuant to regulation at 7 CFR § 278.1(k)(2).

In a letter postmarked November 15, 2018, the Appellant requested an administrative review of the Retailer Operations Division's decision. The request was granted.

STANDARD OF REVIEW

In an appeal of adverse action, such as an application denial, an Appellant bears the burden of proving by a preponderance of the evidence that the administrative action should be reversed. This means that an Appellant has the burden of providing relevant evidence which a reasonable mind, considering the record as a whole, would accept as sufficient to support a conclusion that the matter asserted is more likely to be true than not true.

CONTROLLING LAW AND REGULATIONS

The controlling law in this matter is found in the Food and Nutrition Act of 2008, as amended (7 U.S.C. § 2018), and is promulgated through regulation under Title 7 CFR Part 278. In particular, 7 CFR § 278.1(k) establishes the authority upon which FNS shall deny the authorization of any firm applying for participation in SNAP if it fails to meet established eligibility criteria.

7 CFR § 278.1(k)(2) reads, in relevant part:

FNS shall deny the application of any firm if it determines that:

(2) The firm has failed to meet the eligibility requirements for authorization under Criterion A or Criterion B, as specified in paragraph (b)(1)(i) of this section.... Any firm that has been denied authorization on these bases shall not be eligible to submit a new application for authorization in the program for a minimum period of six months from the effective date of the denial.

7 CFR § 271.2 defines a retail food store as:

- (1) An establishment or house-to-house trade route that sells food for home preparation and consumption normally displayed in a public area, and either offers for sale qualifying staple food items on a continuous basis, evidenced by having no fewer than *[three]** different varieties of food items in each of the four staple food categories with a minimum depth of stock of three stocking units for each qualifying staple variety, including at least one variety of perishable foods in at least *[two]** such categories (Criterion A) as set forth in § 278.1(b)(1) of this chapter, or has more than 50 percent of its total gross retail sales in staple foods (Criterion B) as set forth in § 278.1(b)(1) of this chapter as determined by visual inspection, marketing structure, business licenses, accessibility of food items offered for sale, purchase and sales records, counting of stockkeeping units, or other inventory or accounting recordkeeping methods that are customary or reasonable in the retail food industry as set forth in § 278.1(b)(1) of this chapter...

7 CFR § 271.2 defines staple food as:

...food items intended for home preparation and consumption in each of the following four categories: Meat, poultry, or fish; bread or cereals; vegetables or fruits; and dairy products... Hot foods are not eligible for purchase with SNAP benefits and, therefore, do not qualify as staple foods for the purpose of determining eligibility under § 278.1(b)(1) of this chapter.

Commercially processed foods and prepared mixtures with multiple ingredients that do not represent a single staple food category shall only be counted in one staple food category. For example, foods such as cold pizza, macaroni and cheese, multi-ingredient soup, or frozen dinners, shall only be counted as one staple food item and will be included in the staple food category of the main ingredient as determined by FNS. Accessory food items include foods that are generally considered snack foods or desserts such as, but not limited to, chips, ice cream, crackers, cupcakes, cookies, popcorn, pastries, and candy, and other food items that complement or supplement meals, such as, but not limited to, coffee, tea, cocoa, carbonated and uncarbonated drinks, condiments, spices, salt, and sugar. Items shall not be classified as accessory food exclusively based on packaging size but rather based on the aforementioned definition and as determined by FNS. A food product containing an accessory food item as its main ingredient shall be considered an accessory food item. Accessory food items shall not be considered staple foods for purposes of determining the eligibility of any firm.

7 CFR § 278.1(b)(1)(i) states, in part:

An establishment...will effectuate the purposes of the program if it sells food for home preparation and consumption and meets one of the following criteria: Offer for sale, on a continuous basis, a variety of qualifying foods in each of the four categories of staple foods...including perishable foods in at least *[two]** of the categories (Criterion A); or have

* As currently implemented. See SNAP Retailer Policy and Management Division Policy Memorandum 2018-04 for additional information regarding the enhanced retailer standards, which were implemented on January 17, 2018. This memorandum can be found on the FNS public website at <https://www.fns.usda.gov/snap/retailer-eligibility-clarification-of-criterion>.

more than 50 percent of the total gross retail sales of the establishment...in staple foods (Criterion B).

7 CFR § 278.1(b)(1)(ii) states, in part:

In order to qualify under [Criterion A] firms shall:

- (A) Offer for sale and normally display in a public area, qualifying staple food items on a continuous basis, evidenced by having, on any given day of operation, no fewer than *[three]** different varieties of food items in each of the four staple food categories with a minimum depth of stock of three stocking units for each qualifying staple variety and at least one variety of perishable foods in at least *[two]** staple food categories. Documentation to determine if a firm stocks a sufficient amount of required staple foods to offer them for sale on a continuous basis may be required in cases where it is not clear that the firm has made reasonable stocking efforts to meet the stocking requirement. Such documentation can be achieved through verifying information, when requested by FNS, such as invoices and receipts in order to prove that the firm had ordered and/or received a sufficient amount of required staple foods up to 21 calendar days prior to the date of the store visit...
- (B) Offer for sale perishable staple food items in at least *[two]** staple food categories. Perishable foods are items which are either frozen staple food items or fresh, unrefrigerated or refrigerated staple food items that will spoil or suffer significant deterioration in quality within 2-3 weeks; and
- (C) *[Offer a variety of staple foods which means different types of foods, such as apples, cabbage, tomatoes, and squash in the fruit or vegetable staple food category, or milk, cheese, butter and yogurt in the dairy category. Variety of foods is not to be interpreted as different brands, different nutrient values, different varieties of packaging, or different package sizes. Similar processed food items with varying ingredients such as, but not limited to, sausages, breakfast cereals, milk, sliced breads, and cheeses, and similar unprocessed food items, such as, but not limited to different varieties of apples, cabbage, tomatoes, or squash shall not each be considered as more than one staple food variety for the purpose of determining variety. Multiple ingredient food items...such as...cold pizza, macaroni and cheese, soup, or frozen dinners, shall only be counted as one staple food variety each and will normally be included in the staple food category of the main ingredient as determined by the FNS.]**

7 CFR § 278.1(b)(1)(iii) states, in part:

* As currently implemented. See SNAP Retailer Policy and Management Division Policy Memorandum 2018-04 for additional information regarding the enhanced retailer standards, which were implemented on January 17, 2018. This memorandum can be found on the FNS public website at <https://www.fns.usda.gov/snap/retailer-eligibility-clarification-of-criterion>.

* As currently implemented. See SNAP Retailer Policy and Management Division Policy Memorandum 2018-04 for additional information regarding the enhanced retailer standards, which were implemented on January 17, 2018. This memorandum can be found on the FNS public website at <https://www.fns.usda.gov/snap/retailer-eligibility-clarification-of-criterion>.

In order to qualify under [Criterion B] firms must have more than 50 percent of their total gross retail sales in staple food sales. Total gross retail sales must include all retail sales of a firm, including food and non-food merchandise, as well as services, such as rental fees, professional fees, and entertainment/sports/games income...

7 CFR § 278.1(b)(6) states:

Need for access. FNS will consider whether the applicant firm is located in an area with significantly limited access to food when the applicant firm fails to meet Criterion A per paragraph (b)(1)(ii) or Criterion B per paragraph (b)(1)(iii) of this section so long as the applicant firm meets all other SNAP authorization requirements. In determining whether an applicant is located in such an area, FNS may consider access factors such as, but not limited to, the distance from the applicant firm to the nearest currently SNAP authorized firm and transportation options. In determining whether to authorize an applicant despite its failure to meet Criterion A and Criterion B, FNS will also consider factors such as, but not limited to, the extent of the applicant firm's stocking deficiencies in meeting Criterion A and Criterion B and whether the store furthers the purposes of the Program. Such considerations will be conducted during the application process as described in paragraph (a) of this section.

APPELLANT'S CONTENTIONS

The Appellant made the following summarized contentions in its request for administrative review, in relevant part:

- Appellant was not informed about the store visit and was still buying and stocking inventory items, with some items, such as infant formula still in storage and not shelved at the time of the inspection;
- Neither the store owner or his wife speak English fluently, and because of communication problems, this inventory information was not conveyed to the inspector;
- The firm has unexpectedly experienced a significant cost overrun in preparing for operations because of expensive repairs to correct building defects after failing to pass a building inspection;
- Over 60 percent of store sales is in EBT-related products and denial of the SNAP application will have far-reaching negative implications for the store's survival. The firm will definitely go out of business and the expenses for building repairs will be lost;
- The firm has on its shelves at least three stocking units of three varieties of foods in each of the four staple food categories and this inventory will be carried on a continuous basis at the store;
- Appellant projects that at least 60.5 percent of annual gross retail sales will be on account of staple foods and the original estimate of 37.5 percent on the application was an oversight and does not reflect a realistic picture of staple food sales within the market served; and
- Appellant requests a review of the case, and reconsideration of the firm's eligibility for authorization in SNAP.

In addition to the request for administrative review, the Appellant submitted for consideration 17 undated photographs of store inventory, presumably taken after the store visit, 25 inventory purchase receipts from local vendors, and a copy of the firm's Bill of Sale.

The preceding may represent only a brief summary of the Appellant's contentions presented in this matter. However, in reaching a final decision, full attention was given to all contentions presented, including any not specifically summarized or explicitly referenced herein.

ANALYSIS AND FINDINGS

It is important to clarify for the record that the purpose of this review is to either validate or invalidate the earlier determination of the Retailer Operations Division. Thus, this review is limited to consideration of the relevant facts and circumstances as they existed at the time of the store visit and at the time the Retailer Operations Division rendered its decision.

In order for a firm to be eligible under Criterion A, it must offer for sale no fewer than three different varieties of food items in each of the four staple food categories, with a minimum depth of stock of three stocking units for each variety. Eligibility under Criterion B requires that the firm have more than 50 percent of its total gross retail sales in staple foods.

After reviewing the store visit report and photographs, as well as evaluating the contentions and evidence submitted by the Appellant, it is the determination of this review that the Appellant firm does not carry, on a continuous basis, sufficient staple food inventory to be eligible for SNAP authorization.

Criterion A

Appellant contends to have been uninformed about the store visit and to be still buying and stocking inventory, with some items, such as infant formula being in storage and not shelved at the time of inspection. Appellant also says that a language barrier prevented this from being conveyed properly during the store visit. While this may be true, there is no provision in statute or regulations which allows such considerations to warrant a reversal of a denial decision correctly made.

The record shows the firm fell short of Criterion A requirements in the dairy products staple food category by having only milk in sufficient quantities in inventory at the time of the store visit. The firm also had two units of cheese, but not a third. Although Appellant claims to have had infant formula in storage, this was not made known at the time of the store visit, nor is infant formula visible in any store visit photos. Additionally, inventory receipts submitted by the Appellant do not reflect the purchase of infant formula or any dairy products besides milk, which the firm was already credited for. Even if the evidence showed that infant formula was in storage at the time of the store visit, the firm still fell short of eligibility requirements because it did not have a third unit of cheese.

Of the 25 inventory purchase receipts submitted for review, 24 were dated within 21 days prior to the store visit. However, two of these are cut off and either the date of sale or the items purchased cannot be seen on them. For the remaining 22 inventory purchase receipts, none reflect the purchase of additional dairy products; only two of the receipts show the purchase of milk.

Accordingly, the firm is not eligible for SNAP authorization under Criterion A because the firm had insufficient items in the dairy products staple food category at the time of the store visit.

Criterion B

The firm is also not eligible for SNAP participation under Criterion B, as the sale of staple foods does not exceed 50 percent of the firm's total sales. On the authorization application, signed and certified as "truthful and complete," the Appellant reported staple food sales as being 38 percent of total gross sales. However, Appellant now contends that staple food sales are projected to be 60.5 percent of annual gross retail sales. Appellant provided no evidence to support this contention, which contradicts the prior signed and certified statement regarding staple food sales. Based upon the available evidence, this review concludes that at the time of the store visit, the firm was not eligible under Criterion B.

Remedial Actions Taken

Appellant contends that the store now has at least three stocking units of three varieties of foods in each of the four staple food categories and this inventory will be carried on a continuous basis at the store. Appellant submitted 17 undated photographs, presumably taken after the store visit, to show current inventory. With regard to this contention, it must be restated that this review is limited to consideration of the relevant facts and circumstances as they existed at the time of the store visit and at the time that the Retailer Operations Division rendered its denial decision. It is not the authority of this review to consider subsequent remedial actions that have been or will be taken so that a store may begin to comply with program requirements. There are no provisions in SNAP regulations for reversal of an application denial on the basis of alleged corrective actions implemented subsequent to the finding of a firm's ineligibility. Therefore, the Appellant's contention that the store has made improvements to its staple food inventory does not provide a valid basis for reversing the Retailer Operations Division's denial determination.

Hardship to the Appellant

The Appellant contends that the firm will definitely go out of business and that expenses for building repairs will be lost if the firm continues to be denied authorization. While it is recognized that some degree of economic hardship may occur when a firm is denied SNAP participation, there is no provision in SNAP regulations that would allow a reversal of a denial decision on the basis of possible economic hardship to either the firm's ownership, personally, or

to the firm itself as a result of a denial of SNAP authorization. Giving special consideration to economic hardship of the firm would forsake fairness and equity, not only to other participating retailers who are complying fully with SNAP regulations, but also to those retailers who have been denied or withdrawn from the Program in the past for similar reasons.

Need for Access

SNAP regulations, at 7 CFR § 278.1(b)(6), state that FNS will consider whether or not the Appellant firm is located in an area with significantly limited access to food when the firm fails to meet Criterion A or Criterion B as long as it meets all other eligibility requirements. This Need for Access evaluation also considers other factors, such as distance to the nearest SNAP-authorized firm, transportation options, the extent of the Appellant's stocking deficiencies, and whether or not the Appellant firm furthers the purposes of the program.

The record indicates that the Retailer Operations Division conducted a Need for Access evaluation and determined that the Appellant firm does not qualify for SNAP authorization under this provision. After a review of all available evidence, this review agrees that authorization under the Need for Access provision is not appropriate in this case.

CONCLUSION

Based on the analysis above, it is the determination of this review that the Appellant firm, Kal's Mart, LLC, does not meet authorization requirements under Criterion A or B outlined in regulations, at 7 CFR § 278.1(b)(1). Additionally, the contentions presented by the Appellant are not sufficient to show that the denial decision made by the Retailer Operations Division should be reversed. Accordingly, the decision by the Retailer Operations Division to deny the application of Kal's Mart, LLC for SNAP authorization is sustained.

In accordance with 7 CFR § 278.1(k)(2), the Appellant shall not be eligible to reapply for authorization as a retailer in SNAP for a minimum period of six months from November 5, 2018, which is the effective date of the denial.

RIGHTS AND REMEDIES

Applicable rights to a judicial review of this decision are set forth in Section 14 of the Food and Nutrition Act of 2008 (7 U.S.C. § 2023) and in Section 279.7 of the SNAP regulations. If a judicial review is desired, the complaint, naming the United States as the defendant, must be filed in the U.S. District Court for the district in which the Appellant owner resides or is engaged in business, or in any court of record of the State having competent jurisdiction. If a complaint is filed, it must be filed within 30 days of receipt of this decision.

Under the Freedom of Information Act, we are releasing this information in a redacted format as appropriate. FNS will protect, to the extent provided by law, personal information that could constitute an unwarranted invasion of privacy.

MICHELLE WATERS
Administrative Review Officer

March 13, 2019