

Stegman, M., J. Lobenhofer, and J. Quinterno. (December 2003). "The State of Electronic Benefit Transfer (EBT)."  
Center for Community Capitalism: Chapel Hill, NC.

## **The State of Electronic Benefit Transfer (EBT)**

December 2003

Michael A. Stegman, Jennifer S. Lobenhofer, and John Quinterno  
Center for Community Capitalism  
The University of North Carolina at Chapel Hill

Working Paper

<b><u>1. OVERVIEW</u></b> .....	<b>5</b>
<b><u>2. THE HISTORICAL DEVELOPMENT OF EBT AND STATUS OF IMPLEMENTATION</u></b> .....	<b>5</b>
<b><u>3. THE MECHANICS OF EBT</u></b> .....	<b>7</b>
3.1 CARD-BASED EBT SYSTEMS .....	7
3.2 HOW EBT DELIVERS FOOD STAMP BENEFITS .....	8
3.3 HOW EBT DELIVERS NON-FOOD STAMP BENEFITS .....	9
3.4 DIRECT DEPOSIT AS AN ALTERNATIVE TO EBT.....	10
<b><u>4. EBT’S DESIGN, PROCUREMENT MODELS, AND VENDORS</u></b> .....	<b>11</b>
4.1 PROCUREMENT MODELS .....	11
4.2 PRICING MODEL .....	12
4.3 MARKET EVOLUTION AND ACTORS .....	13
<b><u>5. FINANCIAL IMPACTS ON THE FEDERAL GOVERNMENT AND THE STATES</u></b> .....	<b>14</b>
5.1 ADMINISTRATIVE COST REDUCTIONS.....	14
5.2 REDUCTION IN FRAUD .....	16
<b><u>7. RECIPIENT CONCERNS</u></b> .....	<b>19</b>
7.1 VENDOR FEES AND SURCHARGES .....	19
7.2 RECIPIENT TRAINING .....	22
7.3 CUSTOMER SERVICE .....	22
7.4 TECHNOLOGICAL RELIABILITY.....	24
7.5 CONSUMER PROTECTION .....	23
7.6 INTEROPERABILITY: A RECIPIENT’S PERSPECTIVE.....	25
7.7 PRIVACY .....	24
7.8 CARD REPLACEMENT.....	23
7.9 ACCESS TO FARMERS’ MARKETS .....	26
<b><u>8. MERCHANT CONCERNS</u></b> .....	<b>27</b>
8.1 SYSTEM COSTS.....	27
8.2 GOVERNMENT REIMBURSEMENTS .....	29
8.3 TECHNOLOGICAL RELIABILITY.....	30
8.4 INTEROPERABILITY: A MERCHANT’S PERSPECTIVE.....	30
8.5 CASH FLOW .....	31
8.5.1 MERCHANTS AND BANKS .....	31
<b><u>9. EXPANSION OF EBT</u></b> .....	<b>31</b>
NATIONAL EXPANSION TO WIC.....	31
STATE EXPANSION TO CHILDCARE .....	33
<b><u>10. LESSONS LEARNED FROM THE EBT EXPERIENCE</u></b> .....	<b>38</b>
<b><u>THE SHORT-TERM CHALLENGES</u></b> .....	<b>34</b>
COPING WITH EBT’S COMPETITIVE DYNAMIC .....	34
DEALING WITH COST NEUTRALITY .....	35
ADAPTING TO CHANGES IN PRICING STRUCTURES.....	36
CHOOSING BETWEEN ON-LINE AND OFF-LINE TECHNOLOGIES.....	37

**CONCLUSION** .....**ERROR! BOOKMARK NOT DEFINED.**

**List of Exhibits**

Table 1: EBT Development Timeline .....	6
Table 2: EBT Status by State .....	6
Table 3: Procurement Method by State .....	11
Table 4: Prime Contractor by State .....	13
Table 5: Status of Electronic WIC Initiatives .....	32
Graph 1: Five Most Common EBT Benefits .....	7
Graph 2: Number of Free ATM Transactions .....	18
Graph 3: Fees for Additional EBT Transactions .....	18
Figure 1: Sample EBT Cards – Dakotas, Maryland, and Indiana .....	9

## **1. Executive Summary**

Since congressional endorsement of its use as an alternative to paper food stamps in 1990, and fueled by ongoing innovation in electronic banking technology, electronic benefit transfer (EBT) has expanded rapidly throughout the US. Today, almost 90% of food stamp beneficiaries receive their benefits via EBT, which has been implemented as the delivery system for that benefit on a statewide basis in 46 states, with the remaining four experimenting with pilots or preparing to go active. Moreover, EBT has expanded to include many other welfare programs as well; in particular, many states have statewide Temporary Assistance to Needy Families (TANF) and Women, Infants and Children (WIC) programs in place.

This working paper seeks to advance public understanding of the development of EBT as the favored method of transferring various cash assistance welfare payments to eligible individuals. While the main focus is on the food stamp program, in which EBT was first implemented and which has the most comprehensive coverage of beneficiaries, there is also discussion of other types of benefits to which EBT has been extended. The merits of EBT, and its challenges, are viewed from the perspectives of all of the relevant stakeholders: beneficiary recipients, merchants, and governmental authorities. We assess EBT in terms of considerations such as cost, technological reliability, administrative ease and fraud reduction. Drawing on evidence in government documents, institutional publications and media reports, as well as an extensive EBT survey conducted by EBT consultant Barbara Leyser for the Center for Community Capitalism and the National Consumer Law Center in 2001, we bring out the salient EBT successes and challenges, and highlight some important lessons to be learned.

## **2. The Historical Development of EBT and Status of Implementation**

Electronic benefit transfer has been made possible through successive waves of technological advances in the financial world that have rendered it cheaper and easier to conduct transactions through electronic means, like debit cards, than through physical, paper-based means. Cognizant of technology's potential to lower the costs of government programs, the Food and Nutrition Service (FNS), the branch of the United States Department of Agriculture (USDA) responsible for the Food Stamp Program (FSP), initiated the nation's first EBT pilot project in 1983 in Reading, Pennsylvania (see Table 1).<sup>1</sup> Although in that instance electronic food stamps proved more expensive to operate than paper-based ones, the initiative's popularity among benefit recipients and merchants, coupled with its cost-saving potential, led the FNS to initiate other experiments, several of which involved delivering social benefits other than food stamps to test the effect of sharing costs among programs.

The demonstration programs attracted increasing political attention during the early 1990s, when a policy environment desirous of "paperless" government emerged in Washington. Congress endorsed EBT as an alternative to paper food stamps in 1990,<sup>2</sup> and Vice President Al Gore's National Performance Review backed EBT and developed a national implementation plan.<sup>3</sup>

The most important step in EBT's development came in 1996 with the passage of the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA). This congressional act required that states deliver food stamps electronically by October 1, 2002.<sup>4</sup> Members of both

parties viewed EBT as a way of reducing FSP's administrative costs and fraud losses. Indeed, a 1996 cost-benefit analysis predicted that EBT would produce annual federal savings of \$195 million by the year 2000.<sup>5</sup>

Although PRWORA only required states to develop EBT programs to deliver food stamps, many states chose to develop systems that would also permit the delivery of other federal and state social benefits. Like the federal government, states hoped to save money through the ostensibly lower costs associated with electronic systems, and, again like the federal government, released optimistic estimates surrounding the development of their EBT systems. New York State, for instance, originally estimated that its combined food stamp and cash benefit issuance costs would fall from \$6 per month per client to \$2.60.<sup>6</sup> Following PRWORA's passage, states progressively implemented EBT systems in order to meet the October 2002 deadline.

**Table 1: EBT Development Timeline**

<u>Year</u>	<u>Event</u>
1983	USDA begins first EBT pilot program in Reading, Pennsylvania.
1988	EBT pilots begin in Albuquerque, New Mexico; Ramsey County, Minnesota; and the Park Circle District of Baltimore, Maryland.
1990	Leland Domestic Hunger Relief Act amends Food Stamp Act of 1977 and allows EBT as an alternative to paper food stamps.
	FNS develops EBT regulations. The basic framework remains in effect.
1993	Maryland's EBT program expands statewide, thereby making it the first statewide system in the country.
	National Performance Review endorses EBT.
1994	Federal Electronic Benefits Transfer Task Force releases national EBT implementation plan.
	First off-line EBT pilot begins in Dayton, Ohio.
1996	Congress passes Personal Responsibility and Work Opportunity Reconciliation Act, which mandates EBT for the Food Stamp Program.
2000	Congress passes EBT Interoperability and Portability Act.
2001 (Summer)	41 states have statewide EBT systems in place.
2002 (October)	Deadline for states to implement EBT systems for the Food Stamp Program.

By February 2003, almost a half-year after the October 2002 implementation deadline, 46 states, the District of Columbia, and Puerto Rico (henceforth referred to as 48 states) had active statewide EBT systems. The remaining states were experimenting with pilot programs or preparing to activate full systems, and only one was still in the process of reviewing contracts for potential system providers<sup>7</sup>. Table 2 summarizes the EBT roll-out status in each state as of February 2003.

**Table 2: Food Stamp EBT Status by State (Feb 2003)**

Status	State
Statewide Program Implemented	AL, AK, AZ, AR, CO, CT, DC, FL, GA, HI, ID, IL, IN, KS, KY, LA, MD, MA, MI, MN, MO, MS, MT, NE, NH, NJ, NM, NV, NY, NC, ND, OH, OK, OR, PA, PR, RI, SC, SD, TN, TX, UT, VA, VT, WA, WI, WV*, WY
Pilot Programs Operating	CA, DE**, IA, Virgin Islands
Reviewing Contractors	ME
Contracts signed / Preparing to Go Active	NV, Guam

\*In West Virginia, the State began its pilot in September 2002, statewide rollout began in February 2003 and statewide expansion was expected to be completed by June 2003.

\*\* In Delaware, an EBT pilot was expected to begin in Sussex County in June 2003.

In addition to the provision of electronic food stamps, as required by PRWORA, many states have well-developed systems in place to deliver other cash benefits via EBT. At least 33 of the 47 states deliver Temporary Assistance to Needy Families (TANF) benefits electronically, either statewide or in pilots. By 2001, other popular benefits being delivered included general assistance benefits (13 states), refugee assistance (12 states), and Supplemental Security Insurance (SSI) (9 states)<sup>8</sup>, although the number of states with fully-implemented EBT systems providing these benefits is much smaller<sup>9</sup>. Additionally, many states are experimenting with the delivery of Women, Infants, and Children (WIC) support, most notably in the New England Partners (NEP) project which includes Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island and Vermont. Other examples of cash assistance provided through EBT include child support, health insurance, childcare payments, and job training payments. The typical state offers food stamps, TANF, and one other cash benefit.

### **3. The Mechanics of EBT**

#### ***3.1 Card-based EBT systems***

EBT systems typically involve the issuance of a benefit card, resembling a debit card, which the recipient can use together with a personal identification number (PIN) to access benefits. The amount that the recipient can spend is limited to the exact amount credited to him. Card-based EBT systems utilize either magnetic stripe cards or smart cards for benefit delivery.

##### ***3.1.1 Magnetic stripe cards***

Most states' EBT cards contain a magnetic stripe that works on an "online" system. Each magnetic stripe contains only a limited amount of information — normally the benefit recipient's name, EBT account number and PIN. Account information is stored in a central database and is accessed via telephone lines when the recipient swipes the card through an automated teller machine (ATM) or point of sale (POS) terminal at a merchant's cash register. This connection enables the availability of funds to be verified, the recipient's account to be debited and the appropriate amount to be credited to the retailer's bank account. This need for a live telecommunications link is what makes the technology online.<sup>10</sup> All but two states use online systems.

### 3.1.2 Smart cards

Ohio and Wyoming have EBT systems that are “off-line”. These states use smart cards that store account information directly in a computer micro-chip on the card, rather than in a central database, and any purchase amounts are deducted from the balance stored on the card. When a benefit recipient uses the smart card to purchase groceries, the card is inserted into a smart card reader attached to the cash register. Since the smart card contains all of the required information, there is no need for an on-line connection to the EBT vendor’s processing center, except for at the end of the business day when the merchant electronically transmits information pertaining to completed EBT transactions. The vendor then settles the transactions and creates a shadow account for each benefit recipient. This account may be used to restore benefits if an EBT card is lost or damaged<sup>11</sup>. The advantage of this card system is that the store does not need to be on-line to verify benefits. However, the recipient has to go the effort of adding the value of the new benefits to the card each month. For example, in Ohio, an EBT smart card holder must select three retailers that, together with the local welfare office, serve as the only places where benefits can be uploaded<sup>12</sup>.

Some states make use of a “hybrid” card which uses a magnetic stripe to process some types of benefits and a magnetic chip for others. For example, Delaware delivers food stamps and cash benefits via the magnetic stripe and WIC benefits via the chip<sup>13</sup>.

### 3.2 How EBT Delivers Food Stamp Benefits

The Food Stamp Program (FSP) is a means-tested federal entitlement that helps low-income Americans to buy food. Qualifying individuals and families receive income supplements that may be used to purchase nutritious food at authorized retail establishments. In the 2000 federal fiscal year, 17 million people received assistance through the program. The federal government funds all of the program’s benefits (approximately \$15 billion in 2000) and half of the administrative costs (approximately \$2 billion in 2000).<sup>14</sup>

EBT allows food stamp benefit recipients to pay for goods by transferring funds from a government-maintained account to a retailer’s bank account. In most states that deliver food stamp benefits via EBT, benefit recipients receive a plastic card with a magnetic stripe that resembles a debit card (see Figure 1) and a personal identification number (PIN). When benefit recipients purchase food, they inform the clerk that they wish to pay with EBT, swipe their cards at a POS terminal located at the cash register, and enter their PIN.

Figure 1: Sample EBT Cards – Dakotas, Maryland, and Indiana



The clerk then presses a button on the cash register, which sends the transaction via phone lines (maintained by either the EBT vendor (the retailer) or a third-party processor) to the EBT vendor's processing center. The computers at the processing center check to be sure the requested transaction has originated from a valid terminal, involves an active case (based on records regularly sent by the state), uses a valid PIN, and does not exceed the account balance. If those conditions are met, the transaction is authorized and approval is sent to the cash register. The clerk completes the transaction, and the benefit recipient leaves with groceries.<sup>15</sup> USDA regulations prohibit merchants from assessing surcharges on electronic food stamp purchases.

At the end of the EBT vendor's business day, the vendor's computers total all of the food stamp sales that each authorized merchant made via EBT and transmits that information through the Automated Clearinghouse Network (ACH) to the Federal Reserve Bank. The EBT vendor also electronically informs the state how much money is needed to honor that day's EBT transactions. The state's computers request the funds from the USDA, which sends the funds electronically through the Treasury Department to the state's bank account. The state then transmits the funds to the EBT's vendor bank account. Once the funds are in place, the money is transferred from the EBT's vendor account through the Federal Reserve Bank and deposited in each merchant's financial institution. At this point, the merchant's transactions for the day are settled, and the funds will be available in two or three business days, depending on the policies of the merchant's bank. In addition, the EBT vendor transmits transaction account information to the state on a daily basis so the account records of each benefit recipient can be balanced.<sup>16</sup>

### ***3.3 How EBT Delivers Non-Food Stamp Benefits***

Non-food stamp benefits delivered via EBT encompass an array of federal and state social programs, ranging from the TANF program to home energy assistance. Some of these programs are funded and administered entirely by the federal government, such as SSI, others are federally funded and state administered, such as TANF, and still others are financed solely by states, such as General Assistance (GA).<sup>17</sup> The most important non-food stamp benefit for the purpose of EBT is TANF.

Created in 1996 as part of PRWORA, TANF replaced Aid to Families with Dependent Children (AFDC). Instead of providing low-income citizens with cash entitlements, TANF provides states with \$16.8 billion in block grants that may be used in any manner consistent with program goals.<sup>18</sup> While the federal government contributes the bulk of TANF's funding, states also are expected to contribute, and they are responsible for daily administration. As is the case with food stamps, the magnitude of TANF transfers gives states and the federal government an incentive to find ways to reduce costs.

In states where benefits besides food stamps are delivered through EBT, recipients access their food stamps in the manner described in the previous section. To draw cash benefits like TANF, recipients use the same card and PIN they use to access their food stamps at either retailers' POS machines or at ATMs, and receive cash back from the clerk or machine. Cash transactions are processed in the same manner as food stamp transactions, though the transactions cannot be processed simultaneously.<sup>19</sup> If benefit recipients wish to tap both benefit streams, they must inform the clerk and swipe their EBT card and enter their PIN twice. Before processing each transaction, the clerk must press a different key to properly route the transaction. At the end of

the EBT vendor's business day, non-food stamp transactions are settled in a manner similar to the one used to settle food stamp transactions. Note that, unlike in the case of food stamp benefits, many states permit merchants to assess vendor fees or surcharges on non-food stamp benefits.

### ***3.4 Direct Deposit as an alternative to EBT***

While federal law requires that food stamps be delivered via EBT, states can choose how they wish to deliver state cash assistance benefits. Traditionally, these were delivered in the form of a paper check. But, now, states may add other cash assistance benefits to the food stamp EBT cards, as discussed above. Alternatively, they may offer the option of direct deposit of these benefits into the recipients' bank account. At least 21 states offer recipients the latter option<sup>20</sup>, also referred to as Electronic Funds Transfer (EFT). The main difference between EFT and EBT systems is that an individual must have a bank account in order to use EFT, while EBT systems use bank structures like ATMs as conduits between benefit recipients and a state-maintained account.<sup>21</sup> Unlike EBT, EFT has the potential to connect many low-income people directly to the financial mainstream. Research suggests that possessing bank accounts confers numerous benefits upon low-income citizens. Opening bank accounts allows people to save money, earn interest, build credit histories, and move towards homeownership. Connecting low-income people to the banking system also provides banks with the market information needed to develop products tailored to the needs of the newly banked.<sup>22</sup>

Many of the states with EFT options are located in the Northeast and Midwest. Two states, Connecticut and Florida, have developed direct deposit options with particularly innovative elements. Connecticut offers all recipients of cash assistance the option to establish an EFT account that allows four free ATM withdrawals per month. The state also offers an enhanced direct deposit option that provides other features.<sup>23</sup> Florida, meanwhile, has partnered with First Union Bank to create a direct deposit account that allows three free transactions per month, unlimited deposits, unrestricted POS access, privacy safeguards, one free replacement card per year, and a monthly service fee capped at \$3.00.<sup>24</sup>

For the recipient, the direct deposit of benefits has many advantages over EBT. Direct deposits involve fewer fees since the recipient will not incur surcharges for accessing their cash at the ATMs of their home banks. It also gives the recipient a greater degree of privacy since the state or benefit contractor cannot track how, when and where the recipient spends money, as they can in EBT programs. The fact that direct deposits are covered by the Electronic Funds Transfer Act (EFTA) provides recipients with additional protections, such as monthly statements, written transaction receipts and error resolution requirements. EBT, on the other hand is not covered by this Act. However, direct deposit is not necessarily the best option for those residing in states that offer it. Many recipients will not be able to open bank accounts because of past poor banking histories, while others will not be able to open bank accounts without incurring high fees or minimum balance requirements. Low-cost electronic banking accounts may help to overcome this problem, though. Another potential drawback of the direct deposit system is that benefit funds that are held in personal bank accounts may become subject to attachment, within limits, to satisfy a legal judgment, unlike those funds that are accessed by EBT and kept in a state-held bank account<sup>25</sup>.

The state, too, may benefit from the direct deposit system since there is some evidence that it entails lower costs than does EBT. Alaska and Missouri officials, for example, both support this claim with Missouri reporting that a direct deposit account costs about \$0.10 per month to maintain, compared to \$0.58 per month for an EBT cash account<sup>26</sup>.

Another form of EFT offered in some states is electronic bill payment. In New Hampshire, recipients may authorize up to three free electronic fund transfers from their state-maintained benefit account to vendors approved by the state.<sup>27</sup> Connecticut offers a similar option, while in the District of Columbia, benefit recipients have the option to pay their utility bills electronically through POS machines installed in public housing complexes.<sup>28</sup>

In spite of its potential, EFT has not reached many of those who could benefit from the establishment of bank accounts. Many states seem reluctant to consider the option and it is unclear what percentage of recipients in states with the direct deposit option do, in fact, opt for it. Missouri reports 7% and, in 1998, Massachusetts reported 32%<sup>29</sup>. This may be due, in part, to the limited awareness and training methods used in many states: information needs to be distributed on the nature of direct deposit as well as guidance on selecting a bank and opening a bank account. It also may be due to the fact that there is less of an economic incentive for EBT vendors to promote direct deposit. Under many state EBT contracts, vendors are paid a lower fee (or CPCM – cost per case month) for clients who receive cash benefits via direct deposit than for those who receive benefits via EBT. Also, financial institutions have little incentive to encourage the creation of low-balance, high activity accounts.

#### **4. EBT Design, Procurement Models, and Vendors**

When an EBT system was initially proposed, the USDA recognized that the costs of building EBT infrastructure from scratch would be prohibitive. A feasibility study estimated that the cost of implementing a national EBT would be \$233 to \$291 million, with terminal installation being the most expensive cost component.<sup>30</sup> If, however, EBT could be integrated into existing commercial processing systems, so the USDA thought, costs would fall to an affordable level. Unfortunately, such integration proved more difficult than expected since EBT, unlike debit card systems, requires the flexibility to deliver multiple benefits subject to various government regulations.<sup>31</sup> The complexities involved in developing such systems have attracted particular market actors and shaped the EBT procurement models and pricing plans.

##### ***4.1 Procurement Models***

States typically use one of three procurement models to obtain EBT systems.<sup>32</sup> Each model involves a prime vendor who manages the system and subcontractors who specialize in functional areas such as card distribution. Table 2 summarizes the procurement methods used by the 47 states with fully operating statewide EBT programs. The operation of each state's EBT system is dependent on the procurement method selected.

Regardless of procurement model, there is only one source of EBT standards. These are the optional EBT “Quest” operating guidelines, developed by the EBT Council of the National Automated Clearing House Association (NACHA). These guidelines focus exclusively on

technical specifications, and then only of magnetic stripe cards, and include rules regarding issuer requirements, card specifications, merchant agreements, security, liabilities and indemnification.

*4.1.1 Stand-Alone Procurement*

A stand-alone procurement is one in which an individual state elects to purchase an EBT system on its own, independent of the procurement decisions of other states. The advantage of a stand-alone procurement is that it allows a state to negotiate a contract specifically tailored to its needs. States have maximum flexibility in the design of the system and can experiment with different benefits and technologies.<sup>33</sup> Stand-alone procurements tend to work well for larger states with high caseloads. Smaller states may encounter difficulties, though: Delaware, for example, received no bids when it attempted to purchase a stand-alone system in 1999.<sup>34</sup>

*4.1.2 Alliance Procurements*

In order to achieve economies of scale, a number of states have joined purchasing alliances. The alliances purchase the same services as stand-alone states, but EBT contracts are negotiated jointly. Most alliances have relied on a lead state, like New York in the Northeast coalition, to negotiate terms with a vendor, who agrees to give the alliance members an opportunity to negotiate for services within the framework established by the lead state.<sup>35</sup> In this way, member states are typically able to negotiate lower prices. However, each state still signs its own contract with the selected contractor containing its own specific terms.

Stand-Alone Procurement	CA, DE, DC, IL, IN, IA, KS, LA, ME, MD, MI, MN, MS, MT, NE, NJ, NM, OH, OK, OR, PA, PR, SC, UT, VA, WI, Virgin Islands
Alliance Procurement	
<i>Northeast Coalition (NCS)</i>	CT, MA, NH, NY, RI, VT
<i>Southern Alliance (SAS)</i>	AL, AR, FL, GA, KY, MO, NC, TN
<i>Western Alliance (WSEA)</i>	AK, AZ, CO, HI, ID, NV, WA, Guam
<i>Dakotas</i>	ND, SD
State Prime Contractor	TX, WY

A downside of the alliance arrangement is that states have less freedom to experiment with new programs – a reason why some stand-alone states, such as Utah<sup>36</sup>, chose not to join an alliance. The three alliances are the Southern Alliance of States (SAS), the Western States EBT Alliance (WSEA), and the Northeast Coalition of States (NCS).

*4.1.3. State as Prime Contractor*

The constraints on design flexibility imposed by alliance membership have encouraged certain states, such as Wyoming and Texas, to opt to serve as their own prime contractors. The social service departments of these states negotiate directly with subcontractors to obtain the functions essential to an EBT system.<sup>37</sup>

**4.2 Pricing Model**

The dominant pricing model used in EBT systems has been the cost per case month (CPCM) model in which the vendor charges the state a fee for every active case in the system in a

month.<sup>38</sup> This pricing model is extremely sensitive to changes in caseload levels. If caseload levels fall rapidly, as has happened since the passage of PRWORA, vendors may find themselves unable to cover their costs and recoup their investments. In fact, national participation in the FSP decreased by 33% between federal fiscal years 1996 and 2001.<sup>39</sup> Such declines threaten the profitability of EBT systems, push up prices and may dissuade other vendors from competing in the EBT market.

#### ***4.3 Market Evolution and Actors***

When EBT expanded nationally, many financial institutions and computer processing companies expressed an interest in the market. Early players in the EBT market included Mellon Bank, First Union, NationsBank, IBM, Unisys, First Security, GM Group, and Zion's Bank.<sup>40</sup>

As time passed, however, many of these firms encountered difficulties. Not only did it prove more complicated to deliver electronic food stamps than had been expected, but many firms were unsure about how to calculate an appropriate CPCM, especially in light of the extensive initial capital investments required for EBT. Additionally, many smaller firms capable of providing elements of EBT services and infrastructure were unable to compete for EBT contracts since stand-alone and alliance states purchased all EBT services from a prime vendor, who in turn contracted with other firms for specialized services. Unless a specialized vendor managed to subcontract with a larger firm, the firm was excluded from the EBT market.

Consequently, a few firms came to dominate the EBT market. The largest of these was Citicorp Services, Inc. (CSI). CSI managed to capture the bulk of the EBT market by designing a standard EBT platform that could be deployed in any state. CSI also benefited from its access to the extensive commercial-processing network maintained by its parent, Citigroup.<sup>41</sup> Two other firms, e-Funds and Transactive Corporation, also developed standard EBT platforms and obtained state contracts. Lockheed Martin IMS enjoyed some success in the EBT market, but lacked the full processing systems of its competitors.

Gradually, the market thinned even further. Transactive, a G-Tech subsidiary, which held contracts in Illinois and Texas was forced to exit the market due to financial troubles induced by falling caseloads. In Texas, for example, Transactive earned \$2.00 per food stamp client per month and \$0.97 per TANF client per month.<sup>42</sup> When the contract was signed, Texas had a total caseload of 1.2 million, but this caseload declined by 50% over the following few years, resulting in huge losses which Transactive attempted to recoup by selling its EBT assets to CSI for \$11.5 million. However, the United States Justice Department blocked the sale on antitrust grounds<sup>43</sup>, and Transactive chose leave the EBT market,<sup>44</sup> granting the GM Group the right to use its equipment to provide EBT services in Puerto Rico.<sup>45</sup> Lockheed Martin IMS was another player which couldn't survive. Subcontracting seemed to be the only way for it to remain in the EBT business since the firm lacked the processing systems owned by prime vendor CSI. Even so, in July 2001, Lockheed sold its EBT business to Affiliated Computer Services, Inc. (ACS)<sup>46</sup>.

Citicorp Services, Inc.	AK, AZ, AR, CA, CO, CT, DC, FL, GA, Guam, HI, ID, IN, KY, LA, MD, MA, MI, NE, NV, NH, NM, NY, NC, ND, OH, PA, RI, SC, SD, TN, VT, WA, WV, WI, Virgin Islands
e-Funds	AL, DE, KS, MN, MO, NJ, OR, UT
ACS	IA, ME, MS, OK
Northrup Grumman	IL
GM Group	PR
TRW	MT
State Itself	TX, WY

Today CSI dominates the EBT market, with e-Funds and ACS as the two other significant players. As Table 4 indicates, CSI holds prime contracts in 34 states, plus Guam and the Virgin Islands, as well as some subcontracts. CSI has also negotiated non-competition agreements with e-Funds, thereby ensuring that e-Funds will not bid against CSI when certain contracts are rebid.<sup>47</sup> These developments have led to a market with very limited competition. For example, when California let a bid in 2001, it received only one bid, from CSI.<sup>48</sup>

While CSI occupies a prominent place in the EBT industry, some other firms have recently attempted to enter. TRW

for example, has secured Montana's contract<sup>49</sup>. Moreover, the development of off-line EBT projects for the delivery of WIC has attracted vendors like Stored Value Systems, which serves as a subcontractor to CSI in Ohio<sup>50</sup> and the primary processor for Wyoming, into the market and may create niches for other firms that specialize in off-line systems.

## **5. Financial impacts on the Federal Government and the States**

The federal government initially viewed EBT as a way of lowering the administrative costs and fraud losses associated with FSP. By extension, it was expected that states would save money. Yet it is unclear whether these savings have materialized. The following sections consider EBT's impact on administrative costs in both food stamp and non-food stamp benefit programs before turning to the issue of fraud reduction, particularly within FSP.

### ***5.1 Administrative Cost Reductions***

The effect of EBT on administrative costs is difficult to gauge since accurate figures are difficult to obtain, and the figures that are available suggest a mixed impact. Although a 2001 survey of statewide EBT programs, conducted by EBT consultant Barbara Leyser, revealed that many states had apparently realized cost savings, only a few of the administrators who completed the survey provided figures. Moreover, cross-state comparisons are challenging since states deliver a variety of benefits via EBT and measure savings differently. Arizona, for instance, reported general cost reductions of \$150,000 to \$300,000,<sup>51</sup> while Texas reported combined federal and state savings of \$126 million.<sup>52</sup> At the other end of the spectrum, some states claimed that EBT systems cost more than the paper-based systems. One such state was Alaska<sup>53</sup> and another was Nebraska which calculated that EBT would raise administrative costs from \$2.10 to \$3.20 per recipient per month, and annual costs from \$880,000 to \$1.3 million.<sup>54</sup> Such contradictory

reports suggest that although some states have definitely experienced cost reductions, EBT has not achieved the across-the-board savings originally envisioned by its supporters.

There also appear to be differences in the administrative costs associated with the delivery of food stamps via EBT and the delivery of non-food stamp benefits. For example, the USDA's 1994 evaluation of Maryland's statewide EBT program — used to deliver food stamps, AFDC, and three other non-food stamp programs — found that the overall CPCM of issuing all benefits electronically (\$3.85) was slightly lower than the comparable paper system (\$3.89). Annualized, this meant that EBT yielded \$120,000 (1993 dollars) in combined savings.<sup>55</sup> However, while the administrative costs associated with authorizing, delivering, redeeming, monitoring, and managing food stamps decreased, the administrative costs associated with non-food stamp benefits rose. The ultimate result was that the increased cost of delivering non-food stamp benefits electronically nearly offset the FSP savings.<sup>56</sup> The difference in savings between food stamp and non-food stamp benefits was not unanticipated. A 1990 USDA evaluation had predicted that monthly operating costs for a national EBT system would exceed the monthly operating costs of the existing paper-based system, though the increase was expected to be partly offset by fraud reductions and improved public image and program integrity.<sup>57</sup>

On the one hand, it is easy to understand how electronic food stamps can lead to cost savings. First, EBT lowers the costs associated with approving people for food stamp benefits and establishing their accounts by reducing the time and labor needed to complete these tasks. By eliminating paper coupons, the system also eliminates all of the costs associated with printing, handling, redeeming, and destroying paper food stamps. Second, the processing costs associated with electronic food stamp benefits are lower than those of non-food stamp benefits since food stamp benefits are delivered through POS systems, rather than the more expensive ATMs. Third, electronic food stamps reduce fraud.<sup>58</sup>

On the other hand, it is not surprising that EBT raises the delivery costs of non-food stamp benefits. Prior to EBT, non-food stamp benefits were delivered via paper checks — a relatively inexpensive payment method for the government, though not necessarily for benefit recipients if they incurred check-cashing fees. Previously, benefit recipients would receive their monthly checks, cash them, and spend the money as they saw fit. Switching to EBT for non-food stamp benefits replaced a low-cost, paper-based delivery mechanism with a more expensive one. Most of the cost is associated with transaction processing costs since EBT processes every transaction through ATM or POS networks that charge for their services. These fees represent a cost that did not exist prior to EBT<sup>59</sup>.

The incidence of any additional costs has become a contentious issue and the politics thereof were evident during the early 1990's when Maryland was planning its EBT program. The federal Department of Health and Human Services (DHHS), which oversaw AFDC (now TANF), recognized that AFDC costs might rise under EBT and leave the agency with a financial liability. However, the USDA, which had already implemented and evaluated EBT pilots for food stamps in several jurisdictions, expected to save money. These competing interests led DHHS, USDA, and Maryland to negotiate the EBT Single Administrative Grant (EBTSAG). This document required Maryland's planned EBT project to be cost-neutral to the federal government. Neither the USDA nor the DHHS would pay more for EBT than they were already paying for paper

benefits, and if EBT costs exceeded that limit, Maryland would absorb the difference. In exchange, the USDA and the DHHS agreed to combine resources and pay half of the system's administrative costs. EBTSAG was significant in the evolution of EBT systems because it established the concept of cost neutrality, which has evolved into a cornerstone of federal EBT policy.<sup>60</sup> Later, the USDA's evaluation of Maryland's EBT program found that, after accounting for federal reimbursements, the federal government saved money under EBT while the state government spent more. This happened because the elimination of the costs associated with the printing of paper coupons saved the federal government money, but dealing with the EBT vendor resulted in additional costs to the state.<sup>61</sup>

In subsequent years, external factors have also influenced EBT costs. Most notably, the federal Telecommunications Act of 1996 allowed telephone companies to charge telephone call centers \$0.29 for calls originating from payphones.<sup>62</sup> Since EBT vendors process all transactions and provide all customer service functions through telephone centers, EBT costs increased, and vendors passed those costs on to the states. Arizona, for instance, estimates that this change alone raised its EBT costs by \$12,000 per month.<sup>63</sup>

## ***5.2 Reduction in Fraud***

EBT has heightened the ability of the government to detect fraud in both food stamp and non-food stamp programs. Indeed, the decline in the trafficking rate from 4% to 3.5% of total benefits between 1993 and 1998 has been attributed partly to EBT.<sup>64</sup> In addition, mail fraud, which affects both food stamp and non-food stamp benefits, has been eliminated since EBT obviates the need to mail benefits.

### ***5.2.1 Illegal Trafficking of Food Stamp Benefits***

Benefit trafficking, which occurs when recipients sell their benefits at a discounted rate to retailers in exchange for cash, is the most significant form of food stamp fraud. Fraudulent retailers typically pay a recipient \$0.50 for every \$1.00 in benefits and then redeem the food stamps at their face value.<sup>65</sup>

Responsibility for detecting trafficking is shared by the FNS and the states. The FNS is charged with monitoring retailers for program compliance, while states focus on fraud committed by benefit recipients.<sup>66</sup> Since trafficking involves both retailers and benefit recipients, the FNS and the states attempt to coordinate their efforts. For example, when the FNS investigates a retailer, it normally provides the appropriate state with a list of benefit recipients suspected of trafficking.<sup>67</sup> This two-tiered approach has not been very successful since proving a case of fraud has required the use of lengthy and costly undercover investigations. Moreover, the FNS lacks the capacity to enforce the collection of fines. For example, the General Accounting Office (GAO) found that the USDA collected only 13% of assessed fines between 1993 and 1998, and deemed 55% of the total fines, or \$49 million, to be uncollectible.<sup>68</sup>

EBT technology has the potential to improve the detection of food stamp fraud. Electronic transactions generate digital records which investigators, authorized under PRWORA, can mine for patterns that indicate illegal activity.<sup>69</sup> In Louisiana, for example, investigators matched EBT transaction records to state sales tax records to apprehend a ring of grocery stores responsible for

trafficking \$20 million in food stamp benefits and transferring the proceeds to the Mid-east. What caught the attention of investigators was the fact that, in certain stores, EBT transactions accounted for 52% to 115% of the store's total food sales, while the state average for retailers was 9%.<sup>70</sup> A similar case occurred in New Jersey when investigators found that a particular store redeemed \$100 in food stamps every six minutes.<sup>71</sup>

However, EBT systems are not immune to trafficking because merchants can pay benefit recipients a discounted rate for the electronic food stamps and then use POS equipment to extract the full value. For example, a merchant can pay a benefit recipient \$0.50 per dollar, run the recipient's card through a POS terminal, enter the recipient's PIN, and receive the full benefit amount. One such case was uncovered in Portland, Oregon, where the owners of a small grocery store trafficked EBT benefits to redeem food stamp benefits equivalent to an amount that was \$250,000 greater than the store's gross food sales.<sup>72</sup> Also, EBT remains susceptible to others forms of fraud. As the United States Secret Service, which polices fraud in EBT systems, has observed, "EBT is open to a wide variety of fraud, including multiple false applications for benefits, counterfeiting of the EBT card, and trafficking of non-cash benefits for cash or contraband."<sup>73</sup>

### *5.2.2 Progress and Obstacles to EBT Fraud Reduction*

In practice, the extent to which different states exploit the potential of EBT to reduce fraud varies. In 2002, the GAO found that only five states with statewide EBT programs — Florida, Missouri, South Carolina, Texas, and Maryland — used EBT to detect fraud among benefit recipients. The contribution that EBT detection can make in combating fraud is remarkable as evidenced by the fact that these five states accounted for 99% of the individual traffickers caught nationwide between federal fiscal years 1998 and 1999.<sup>74</sup> Florida and Texas, for example, are known to use EBT transaction records to identify stores that are likely to be engaged in trafficking and then to identify likely lawbreakers who frequent the stores. While identifying stores first and benefit recipients second is similar to the traditional method used by FNS, EBT allows states like Florida and Texas to develop more comprehensive lists of potential traffickers.<sup>75</sup> Meanwhile, other states, such as Missouri take a more general approach and use EBT records to analyze the activities of all benefit recipients, not merely those who shop at certain stores. Maryland exemplifies a third strategy, and partners with the FNS to identify potential transgressors. The Office of the Inspector General (OIG) analyzes Maryland's EBT records, identifies potential traffickers, and refers those names to the state for investigation.<sup>76</sup>

Many obstacles still need to be overcome if states are to capitalize on the use of EBT in reducing fraud within the food stamp program. The FNS is struggling with poor management practices and systems that have prevented it from responding to fraud. For example, much of the data that the FNS has is outdated and different regional offices followed different procedures for investigating fraud. Communication between FNS and the states has also been problematic<sup>77</sup>, although the FNS has recently attempted to improve its performance by encouraging its regional offices to develop consistent policies and to collaborate with states to deter fraud.<sup>78</sup> Also, since investigating fraud carries a high financial cost for states, the FNS has, in the past, proposed allowing states to keep a percentage of any benefits recovered from traffickers, but opinion is divided regarding whether the amounts recovered by the states would cover the expenses

involved with investigating fraud.<sup>79</sup> Consequently, this sort of incentive for fraud reduction has not yet been implemented.

### *5.2.3 The Use of Biotechnology to reduce Fraud*

In the future, many states might choose to further enhance EBT's fraud-combating capacities through the use of biometric technology, such as fingerprints, hand geometry, retina scans and voice verification.

To a limited extent, some states have already experimented with this technology.<sup>80</sup> Currently, finger-imaging technology is employed by some states to record the fingerprints of beneficiaries on application in order to cross-reference against a database to check whether the applicant already is receiving benefits under a different name. In 1996, Texas became the first in the nation to require finger imaging of food stamp recipients for program enrollment. As of 2001, the state had created a database containing the fingerprints of 1.2 million clients, and had saved \$6 to \$11 million in duplicate benefit issues.<sup>81</sup> A 1994 pilot program in Los Angeles County (CA) that incorporated finger imaging into the application process for General Relief produced estimated savings of \$5.4 million.<sup>82</sup>

A more sophisticated way to use biometric technology would be to help ensure that the person engaged in the ATM or POS transaction is the person entitled to benefits.<sup>83</sup> In the case of fingerprints, for example, this would involve a benefit recipient placing his or her finger on a special pad which would scan the image, cross-reference it, and authorize transactions, rather than having to key in a PIN number.<sup>84</sup> However, technologies like finger-imaging have, thus far, not been used to verify identification when transactions are made at POS or ATM terminals, although the GAO has recommended this as one of the most effective method for countering fraud in EBT programs.

Despite its fraud-reducing potential, there remains substantial opposition to the use of biometrics at POS or ATM terminals. First, critics claim that biometrics invade the privacy of benefit recipients by creating a governmental database of personal biological information. Second, any widespread expansion of biometrics would increase EBT's costs since equipment, like fingerprint readers, would need to be installed at ATM and POS machines. Hypercom, a Phoenix-based firm, recently developed a fingerprint scanner that connects to POS terminals, but it costs \$120 per unit to install.<sup>85</sup> Third, there is some recent evidence that, in practice, the use of biometric identification is not as effectiveness as was first thought. Missouri, for example, had placed photographs of benefit recipients on their EBT cards, but since federal regulations allow family members of benefit recipients to use the recipient's cards, merchants were ignoring the photographs and allowing anyone with a card and valid PIN to purchase food. It is reasonable to expect that they might do the same with other biometric information. The State Auditor concluded that the photographs were an ineffective way of countering fraud and actually recommended removing biometrics from the state's EBT program in 2001.<sup>86</sup> I am not convinced that photographs on cards are a good example of biometric technology, but I have tried to spin that example so that it fits – cAryn.

## **6. Beneficiary Concerns**

Evaluating the experience of benefit recipients on a national level is a complex undertaking since EBT programs, and the accompanying consumer issues, differ across states. Nevertheless, the few studies that have been conducted suggest that benefit recipients appear satisfied with EBT, particularly the food stamp program.

The earliest comprehensive study of a statewide EBT program was conducted in Maryland (which delivers both food stamp and non-food stamp benefits via EBT) and found that an overwhelming majority of benefit recipients preferred EBT to the previous food stamp system.<sup>87</sup> Reasons for the preference included greater benefit security, enhanced convenience, as well as less social stigma - since using paper food stamps at the store clearly identified the user as a benefit recipient.

The general findings of the Maryland evaluation were supported by evidence from the North Carolina Financial Services Survey, a study of current and recent North Carolina welfare recipients conducted in 2001 by the Center for Community Capitalism. Respondents were asked a series of questions pertaining to their experiences of North Carolina's EBT system for food stamps. Sixty percent responded positively on all scores and less than one percent had overwhelmingly negative attitudes.<sup>88</sup> Consistent with the Maryland evaluation, the most commonly cited advantages of the system were its ease and reliability (69%) and security (15%).<sup>89</sup> Another important advantage of EBT is that it may have decreased the program participation costs of benefit recipients. Under paper-based food stamps, recipients needed to redeem their benefits at banks or check-cashing establishments – a process involving such out-of-pocket expenses as transportation and childcare.

Finally, a survey of advocates and EBT administrators in ten states and two pilot projects in Californian counties confirmed that most respondents preferred EBT to paper food stamps.<sup>90</sup> These observations have been supported by various state-specific studies of EBT recipients.

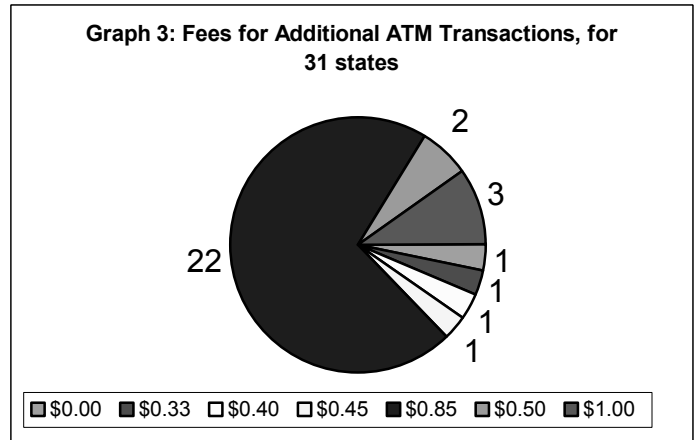
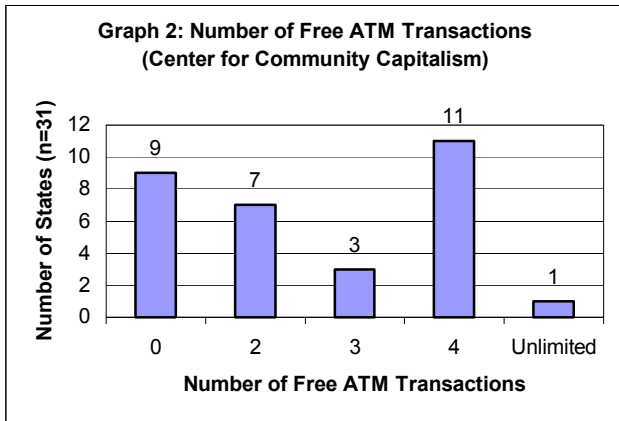
Although these surveys suggest that, on the whole, benefit recipients are satisfied with EBT, significant concerns remain. This section examines a number of issues which can be broadly classified in four main categories:

- Vendor fees and surcharges
- Beneficiary capacities and protection
- Technological issues
- Access to farmers' markets

### ***6.1 Vendor Fees and Surcharges***

Perhaps the most contentious issue in EBT is the use of vendor fees and surcharges. Although USDA regulations prohibit merchants from charging fees and surcharges on purchases made with electronic food stamps,<sup>91</sup> these regulations do not apply to non-food stamp benefits like TANF. With the exception of New Mexico, all states that deliver cash benefits allow vendors to restrict the number of free cash transactions a recipient is entitled to. Up to four free transactions may be allowed (see Graph 2) and the typical fee assessed on subsequent transactions is \$0.85 (see Graph 3). However, even when transactions are branded as “free”, this refers only to the

contractor fee - recipients may incur surcharges ranging from about \$0.50 to \$2.50 when they access cash at ATM or POS machines.<sup>92</sup> **What is the difference between the contractor fee and the fees discussed in the section below? – cAryn** Although ATM fees, particularly surcharges, are unpopular among consumers, banks view the charges as valid ways of passing along costs, generating revenues, and financing the placement of off-site ATMs.



**6.1.1 Understanding the ATM Fee Structure**

There are three main types of fees assessed at ATMs. Since transaction costs can be lowered by increasing transaction volumes, the ATMs of most banks are linked to the ATMs operated by other banks<sup>93</sup>, resulting in large ATM networks, such as Cirrus and Plus. Whenever a client with an account at one bank uses a network ATM owned by another bank, the client’s bank is charged an *interchange fee* to cover the cost incurred by the ATM’s owner to execute the transaction. The client’s home bank may, in turn, pass on the cost of this interchange fee to the client by levying a *foreign fee*. Since 1996, network policies have also allowed banks and other ATM owners to assess *direct surcharges* on foreign clients, generating significant profits.

**Such flat fees – are they always flat???** And which fees do you mean, foreign fees or surcharge or both? - can be significant on small transactions of the magnitude typically conducted by benefit recipients. For instance, if the ATM owner charges a \$1.00 surcharge and the home bank charges a \$1.00 foreign fee, total fees on a \$25.00 transaction could easily approach 8%. Two other reasons why the fees structure is particularly burdensome on low income consumers, particularly those in minority neighbourhoods, is that they (a) cannot always offset these costs by withdrawing larger sums of money because of the increased security risk of carrying cash and (b) that ATM’s in low income and minority areas are more likely to charge surcharges than non-minority areas.<sup>94</sup>

New York City’s experience with EBT provides an enlightening illustration of these challenges. A 2001 report by the New York State Comptroller noted that, prior to EBT conversion, benefit recipients received their food stamp and non-food stamp benefits twice a month at participating check cashers. This service was **free to the beneficiary** since the check cashers received a fee from the state in return for this service. However, under New York’s EBT contract with CSI,

once cash benefit recipients exceed their four free transactions per month at Citibank ATMs, they pay \$0.85 per transaction. Moreover, if they use a non-Citibank ATM to access their welfare benefits (or if they receive cash back from a POS machine), a direct surcharge of \$1.00 to \$2.00 is typically assessed.<sup>95</sup> In addition, many poor New Yorkers have poor access to Citibank ATMs – at one time, benefit recipients residing in the three poorest zip codes in New York City had access to a total of six free ATMs<sup>96</sup> Although the number of Citibank ATMs has since increased, in part due to legal action by the New York State Attorney General<sup>97</sup>, the combination of fees and limited access to free ATMs entails costs for many benefit recipients. The State Comptroller estimates that recipients in New York City paid \$647,087 and \$700,151 in fees during January and February 2001, respectively.<sup>98</sup> Under the previous system, many of these fees would not have been incurred.

### *6.1.2 State Responses to Fees and Surcharges*

As illustrated by the New York state example, states have not been oblivious to the impact of vendor fees and surcharges on beneficiaries and are working to mitigate their effects. Massachusetts, for instance, prohibits fees and surcharges at POS machines and although it permits surcharges at ATM machines, has persuaded banks to waive ATM surcharges for EBT recipients.<sup>99</sup> Like Massachusetts, Kentucky has tried to persuade the private market to provide free EBT access and has convinced certain merchants, such as Dairy Mart Convenience Stores, to modify their surcharge-free ATMs to accept EBT.<sup>100</sup> This approach may provide retailers with a competitive advantage in EBT provision.<sup>101</sup>

Other states have adopted a more regulatory approach. Minnesota has capped the total amount of fees and surcharges that a recipient may pay at \$10 per month.<sup>102</sup> Illinois has tried to tackle both fees and balance inquiries by granting recipients four free balance inquiries each month in addition to four free withdrawals.<sup>103</sup> All subsequent balance inquiries cost \$0.50 instead of the \$1.00 charged for cash access. While such measures no doubt help benefit recipients, these strategies —both the market-based and government-based ones — ignore the key matter: under EBT benefit recipients pay “fees that most regular customers do not have to pay — fees that are deducted from their welfare benefits.”<sup>104</sup>

### *6.1.3 Balance Inquiries*

A related matter that has arisen in many states is whether or not benefit recipients should be permitted to use EBT to check their balances, and whether they should be charged for this service. Although this facility would enable beneficiaries to better manage their finances, frequent inquiries would increase merchants’ operating costs. In addition, equity issues are at play since non-welfare recipients may easily check their bank balances at ATMs, and prior to EBT implementation, beneficiaries could more easily assess their financial positions.

States have responded to the balance inquiry issue in a scattered fashion. Six states prohibit balance inquiries, while 14 allow unlimited balance inquiries. Five other states include balance inquiries in a client’s monthly allowance of free transactions. In states where balance inquiries are permitted, the vendor fees and surcharges described above may be applied to balance inquiries, though this depends on the state.

In all states, though, benefit recipients may avoid balance enquiry fees altogether by calling the EBT system's toll-free service line and speaking to a customer service representative, but as will be discussed later, this service appear to often be of dubious quality.

## ***6.2 Beneficiary Capacities and Protection in the Use of EBT***

Building the capacity of beneficiaries to access their benefits, as well as the protection of their benefits, in an efficient manner is, ostensibly, an important part of the EBT program. This burden is shared between caseworkers (for recipient training), vendors (for customer service) and the federal and state government (for regulation and guidelines for protection and privacy). This section will examine the effectiveness of these measures.

### *6.2.1 Recipient Training*

Since EBT represents a fundamental shift in how food stamp benefits are accessed, the USDA requires states to provide recipients with hands-on training in EBT.<sup>105</sup> This training is related to the use of the system, the reporting of lost/stolen cards, how to recognize participating stores, and how to protect their rights.<sup>106</sup> At the time of conversion, at least 27 states received USDA waivers in this regard and could replace hand-on training with the use mailed flyers to teach current benefit recipients how to switch to EBT.<sup>107</sup> New recipients who receive hands-on training normally receive it from a caseworker, not the vendor, and the typical training program includes "watching a video, practicing on a mock terminal, and answering questions asked by caseworkers".<sup>108</sup> Telephonic training via an automated response unit has also been used in some states.

The effectiveness of EBT training is uncertain, due in part to its inappropriateness to the clientele and in its lack of recipient coverage. Mailed flyers may be ineffective when recipients have low literacy levels or limited proficiency in English, and the availability and quality of in-person training varies widely. Training videos are reportedly "too short and do not contain enough information on direct deposit options and other low-cost bank accounts."<sup>109</sup> Studies have found that only 10% of New York City's beneficiaries received in-person training at conversion,<sup>110</sup> while in North Carolina about half of each county's recipients received training.<sup>111</sup>

### *6.2.2 Customer Service*

All EBT states require vendors to provide customer service, normally through the combination of **Audio – is this not Automated?** - Response Units (ARUs) and live service representatives accessible around the clock through a toll-free telephone line.<sup>112</sup> The ARUs and service representatives are supposed to assist clients with EBT problems like lost or stolen cards, and provide balance and transaction information. While no federal regulations apply to customer service standards, states have specified such performance measures as average answer time, maximum hold time, abandoned call rate, and the number of callers who receive busy signals.<sup>113</sup>

However, there seems to be little accountability and many performance standards go unmet. During the period of June 1999 through March 2000, for example, CSI fulfilled none of the service standards required under its contract with New York State.<sup>114</sup> CSI's most serious failure pertained to hold time where it failed to meet the requirement that 95% of the calls placed on hold be answered within 30 seconds<sup>115</sup>. This failure is certainly not unique to CSI: a Consumers' Union study of EBT administrators and consumer advocates in ten states which found that

respondents “reported problems with telephone wait times and busy signals.”<sup>116</sup> The result is that benefit recipients receive poor service, while states fail to receive the services for which they contracted.<sup>117</sup>

### 6.2.3 Card Replacement

Having a card lost or stolen is a potentially serious problem for a benefits recipient since they are without their benefits until a replacement card is issued. USDA regulations require cards to be replaced within two days, but about half the states have received waivers that instead allow them to replace lost or stolen cards within three to five days.<sup>118</sup> Opinion is split over whether this is a reasonable or punitive policy.

Card replacement is a significant cost in some states. Maryland estimates that it replaces five to six percent of its cards each month.<sup>119</sup> To discourage lost cards and to reduce costs, some states charge replacement fees. These fees are permitted under USDA regulations, and the fee varies among states. Both Minnesota and Colorado charge \$2.00.<sup>120</sup> While it makes sense on one level to assess replacement fees, some advocates argue that these fees, which are normally deducted from a person’s benefits, punish people who honestly may have lost their cards.

### 6.2.4 Consumer Protection for Loss or Theft of Benefits

A contentious issue that emerged when the federal government was drafting EBT regulations pertained to the extension of consumer protections to EBT. In 1994, the Federal Reserve decided that Section 904 of the Electronics Funds Transfer Act (known as Regulation E) should apply to EBT programs, and states with EBT systems were given three years to comply.<sup>121</sup> Regulation E requires banks to provide consumers with certain protections, including protection from unauthorized transactions. If a person loses a credit or debit card and reports the loss or theft to the issuer within 48 hours, Regulation E limits the person’s liability to \$50 in the event that the card is used to make unauthorized purchases. In addition to extending liability protection to EBT, the Federal Reserve also stated that unused benefits should be replaced in cases where an EBT card is lost or stolen.

This decision met with much state opposition since there was concern that these provisions would allow benefit recipients to transfer or traffick their benefits illegally, claim their cards lost or stolen, and receive replacement benefits, leading ultimately to higher state costs. Moreover, states would be powerless to stop such actions since, unlike banks, they can not cancel a person’s account. Furthermore, states argued that beneficiaries already had adequate protection under the federal regulations governing FSP and state administrative procedures regarding non-food stamp benefits. Advocates for benefit recipients, on the other hand, responded by noting, *inter alia*, that Regulation E provided more extensive protections than federal or state EBT regulations since the former limits a person’s total liability to \$50 as opposed to administrative procedures which make recipients responsible for all benefits lost prior to theft/loss report<sup>122</sup>. They also challenged the states’ assumption that benefit recipients “are more likely to lose their cards, or ... perpetuate fraud than the average citizen”<sup>123</sup> and argued that extending Regulation E protections to EBT would add minimal costs to EBT.

In response to the conflicting claims, the USDA sponsored a one-year EBT pilot project that explored the use of Regulation E in six locations in New Jersey and New Mexico.<sup>124</sup> The results,

published in 1997, found that Regulation E had no significant impact on either the rate of benefits reported as lost or stolen, or benefit replacement costs. While Regulation E did increase the administrative costs that states spent on processing and investigating claims, the study found that these costs resulted from poor organizational designs which could be improved. Nevertheless, the Federal Reserve reversed its decision and declared that EBT accounts were not “consumer asset accounts” and therefore exempt from Regulation E<sup>125</sup>. The decision to exempt EBT from Regulation E was very important in the development and expansion of EBT since, without the exemption, the EFTA argue that states would have delayed implementation due to fears of open-ended liabilities.<sup>126</sup>

### *6.2.5 Privacy*

Under the previous system of benefit administration, benefit recipients could use their benefits without the government knowing how they were being used. Food stamp recipients used their coupons at stores, and merchants ultimately redeemed those vouchers, but in the process no records were created that could link a transaction to a person. The EBT system, however, generates a record of each transaction. At a minimum, the system records the transaction date and time, the total amount of the transaction, the type of benefit used (e.g. food stamp or cash), and the location of the transaction.<sup>127</sup> The potential also exists to use EBT to track the kinds of goods being purchased as demonstrated by the USDA pilot program conducted in South Carolina that examined the feasibility of linking EBT transaction data to the bar code data scanned at supermarket cash registers.<sup>128</sup> While information in EBT systems is not shared with merchants or ATM owners, the state can use this information (as was illustrated in section 5.2 on the detection of fraud). This raises ethical questions regarding the privacy of client information and the purposes for which it is used. States may need to look at developing guidelines that address this issue.

## ***6.3 Technological Issues: System Reliability, Disaster Response and Interoperability***

Access to benefits is crucially dependent on the reliability of the system that enables administrators these benefits. An electronic system of transferring benefits is susceptible to certain shocks, both in the course of daily operation and in times of disaster, that may temporarily limit access to benefits, at great inconvenience to recipients. Moreover, the interoperability of systems across certain state boundaries imposes restriction on how and where recipients may access benefits.

### *6.3.1 System Failure during Regular Operation*

Federal regulations require all EBT systems to develop manual backup procedures for use during system failures.<sup>129</sup> In most states, if the EBT system is down when a benefit recipient wishes to complete a transaction, the merchant can call the EBT service line to request a transaction authorization. If the authorization is given, the merchant uses a paper voucher to complete the sale. When the EBT system is later repaired, the merchant uses the information on the manual voucher to settle the transaction. While this procedure sounds straightforward, it is often difficult for merchants to reach the service line during technological failures, when a spike in call volumes taps the service systems’ limited capacities, with the consequence that store’s customer flow is disrupted, sales are denied or unauthorized vouchers are issued, in which case the merchant carries the risk of financial liability if it later is discovered that a recipient has insufficient funds.

There have been many cases of system failure. In 1999, for instance, a telephone line failed and caused the EBT systems in Georgia, Maryland, North Carolina, Florida, Pennsylvania, and the District of Columbia to fail simultaneously for 24 hours.<sup>130</sup> In 2001 when a computer error interfered with EBT transactions across the nation<sup>131</sup> resulting in some 6,000 transactions being garbled: some people were improperly denied benefits, some had their benefits debited twice, and some had their transactions denied but their benefits debited. When the problem came to light in Missouri, at least one recipient was told that re-crediting the account could take up to 45 days. Clearly, in all these cases, recipients' access to food is curtailed and their well-being severely jeopardized. Even in the event that emergency food stamps can be issued or other measures taken to assist beneficiaries, these are inevitably time-consuming and a source of inconvenience.

### *6.3.2 Disaster Responses*

The USDA requires that states develop disaster recovery plans for food stamp delivery since these events either prevent existing recipients from accessing their benefits or create a new class of emergency food stamp beneficiaries. However, states do enjoy a great deal of latitude in the design of plans. Some states, such as Florida and South Carolina, depend on prepared EBT cards that contain a predetermined benefit level (e.g. \$50) and a pre-assigned PIN that can be issued immediately to people deemed eligible for disaster aid.<sup>132</sup> These cards rely upon the same on-line technology that supports the states' EBT systems. Other states, like North Carolina, require vendors to increase the production of cards during a disaster, though this approach hinges on a vendor's ability to produce enough cards and ship them quickly to the disaster area. Contrasting North and South Carolina's response to Hurricane Floyd in 1999 illustrates the advantages and disadvantages of each approach. North Carolina encountered difficulties when its vendor could not produce and ship enough cards to the afflicted counties and had to fly in additional emergency cards from Texas at a cost of \$2.85 per card for 68,047 additional cards<sup>133</sup>, while South Carolina's procedure, coupled with the storm's smaller impact, allowed the state to respond more effectively.<sup>134</sup> However, for the responses mentioned above to function effectively, the EBT technology and electronic system must remain in operation. Few efforts have been made to develop plans for cases when EBT can not work. Furthermore, since the USDA's regulations apply only to food stamp benefits, there is no guarantee that non-food stamp benefits delivered via EBT will be available during a disaster.

### *6.3.3 Interoperability: A Recipient's Perspective*

Under the paper-based system of food stamps, benefit recipients could use their benefits at any authorized food-stamp retailer in any state. A resident of northern Indiana, for example, could cross the border and use food stamps in Michigan, just as New York residents could shop in New Jersey. Similarly, non-food stamp benefits could be used anywhere in the country. TANF recipients, in Oregon, for instance, could cash their TANF benefits and use the cash in California. Under EBT, states could choose to end this practice by requiring benefit recipients to use their benefits only in the issuing state, thereby precluding benefit recipients from shopping in other states and depriving merchants of interstate business.

Interoperability refers to the ability of EBT systems in different states to communicate with each other. When EBT implementation first began, interoperability was a key issue since many states

were pursuing stand-alone procurements and there existed no guarantees that EBT systems in any given state would be compatible with others. In response, some states voluntarily addressed the problem by collaborating in the development of QUEST.

Overseen by the National Automated Clearing House Association, QUEST is a series of evolving rules intended to create a “uniform operating environment for EBT.”<sup>135</sup> The voluntary QUEST protocol is currently used in 30 states and the District of Columbia and enables benefit recipients resident in one QUEST state to access their food stamp and non-food stamp benefits in all the other QUEST states. The QUEST logo is typically displayed at participating ATM and POS machines, informing consumers that their benefit cards are accepted at a particular machine. This voluntary protocol has helped to preserve the portable nature of food stamp and non-food stamp benefits and helped forestall the proliferation of incompatible EBT systems.

QUEST is, nevertheless, an imperfect solution. Since the protocol is voluntary, states do not have to participate. This leads to problems in areas that span QUEST and non-QUEST states. For example, benefit recipients residing in the neighboring cities of Gallup, New Mexico and Window Rock, Arizona are unable to shop in the other city since Arizona is a QUEST state while New Mexico is not.<sup>136</sup>

Realizing that a lack of interoperability could derail the full implementation of a national EBT system for food stamps, Congress passed the Electronic Benefit Transfer Interoperability and Portability Act of 2000. That law required states to develop interoperable EBT systems for food stamp delivery, thereby insuring the portability of food stamp benefits across state lines. While the law does not address the portability of non-food stamp benefits like TANF, this is of less concern than the portability of food stamp benefits since non-food stamp benefit recipients can cash the benefits in an issuing state and spend the currency in any location of their choosing.

#### ***6.4 Access to Farmers’ Markets***

The purpose of FSP is to help low-income Americans purchase nutritious food. While the overwhelming majority of food stamp purchases are made at supermarkets, farmers’ markets are also a popular venue for food stamp beneficiaries. These markets provide benefit recipients with access to some of the freshest and most nutritious food available, but many of these markets are held outdoors and therefore lack access to the computer systems and telephone lines needed to process EBT. Under the paper-based system of food stamps, benefit recipients could shop at farmers’ markets and use their paper food stamps like cash, but the move to EBT ended that practice.

To preserve access, the USDA began experimenting with ways of tailoring EBT to the farmers’ market environment. The first pilot began in 1998 in Hawaii and involved a scrip system.<sup>137</sup> When a food stamp recipient arrived at a farmers’ market to shop, he or she first went to the manager’s booth which was equipped with POS equipment. The manager debited the EBT card for the amount requested by the benefit recipient and provided scrip that could be used to purchase goods at various stalls. If the benefit recipient had scrip remaining at the end of the shopping day, the manager’s booth collected it and credited the recipient’s EBT account. Scrip projects have been replicated at other sites around the country, including Arizona, New Mexico and Washington State<sup>138</sup>.

More recently, states have been experimenting with wireless technology at farmers' markets. The hope is that wireless technology, which does not require the installation of telephone lines, will allow every booth at a farmers' market to accept EBT, thereby eliminating the need for scrip. Florida experimented with wireless technology in 2000, but technological difficulties plagued the initiative. Meanwhile, New York City has conducted two pilots of the use of wireless point of sale terminals involving about 40 farmers per pilot, and has received a \$100,000 earmarked appropriation to expand these activities.<sup>139</sup> The District of Columbia is considering wireless technology<sup>140</sup>. While wireless technology remains unproven in a farmers' market setting, the idea has gained popularity. The Farm Bill that was passed by the United States Senate in February 2002 provides \$3 million in funding for wireless technology.<sup>141</sup>

## **7. Merchant Concerns**

EBT's impacts are not limited to governments and benefit recipients. The 156,000 retail establishments (e.g. groceries, convenience stores, drugstores, and supermarkets) authorized to redeem FSP benefits form a strong interest group that has both a distinct set of financial interests in EBT and a unique role in its success.<sup>142</sup> These retailers enjoy access to a national food stamp market valued at \$15 billion dollars per year,<sup>143</sup> an interest that has led them to monitor policy changes to the FSP very closely. They appear to have four areas of particular concern:

- System costs
- Technological reliability
- Interoperability
- Cash flow.

In addition, it is worth noting that impact of EBT on the operations and financial position of banking institutions, in section 7.5

### ***7.1 System Costs***

The attraction to merchants of EBT is supposed to be its ability to reduce the time and costs involved in handling food stamp transactions, but the various research studies that have been undertaken in this regard offer contradictory conclusions as to whether this has been achieved. If, on the other hand, EBT has increased the capital and operating costs borne by merchants, then merchants have very little option but to pay these if they wish to remain in the lucrative food stamp market.

#### ***7.1.1 EBT's Impact on Operating Costs for Food Stamps***

Conventional wisdom, merchant feedback, and previous research indicate that paper food stamp transactions cost merchants more to complete than non-food stamp transactions. Food stamps are restricted to the purchase of certain goods, requiring cashiers to distinguish eligible from ineligible goods. The manual system required cashiers to recognize and categorize goods and accept the appropriate payment forms, resulting in slower checkout times. Additionally, merchants needed to handle, deposit, and reconcile paper food stamp transactions at the end of the day. They also incurred costs related to staff training so that cashiers could recognizing food-stamp eligible goods, reshelving of items not purchased due to insufficient food-stamp balances, failures to capture all proceeds due to manual accounting errors, and the loss of interest resulting from the time lapse between the acceptance of a food stamp and its deposit at a bank.<sup>144</sup>

One of the first studies to address merchant costs was the USDA's 1994 evaluation of Maryland's statewide EBT program. Through the use of longitudinal data, the USDA compared eight kinds of merchant costs under electronic and manual food stamp systems. The study concluded that EBT had no statistically significant impact on total costs<sup>145</sup>. EBT did significantly lower the back-office costs involved with handling, reconciling, and redeeming food stamps, but this decrease was offset by a significant increase in checkout costs.<sup>146</sup> In spite of this outcome, the evaluation found that Maryland merchants generally preferred EBT to paper food stamps and claimed EBT resulted in "easier handling" of transactions.<sup>147</sup>

The Maryland evaluation's general findings have been supported by other studies. For example, a 2000 study of merchant EBT costs in Pennsylvania sponsored by the Food Marketing Institute and the Pennsylvania Food Merchants Association found that EBT reduced the costs involved with handling paper coupons at the end of the business day yet increased the time needed to complete a food stamp transaction at the register by 19 seconds<sup>148</sup> due in part to the time spent waiting for the EBT system to authorize the transaction. This translated into an overall net cost increase of \$0.064 per food stamp transaction. The finding that EBT lengthens transaction times was consistent with an earlier USDA study of the Reading pilot that concluded that EBT "adds 10-15 seconds to the transaction time."<sup>149</sup> Although consistent with previous evaluations, the Pennsylvania finding attracted criticism from a variety of sources. Merchants complained that the cost figures were too low since the study omitted the costs incurred when EBT systems fail. Other interested parties like EBT vendors, meanwhile, argued that the study was unfair because it was both too small in scope and conducted too soon after Pennsylvania implemented its statewide system.<sup>150</sup>

### *7.1.2 EBT's Impact on Merchants' Capital Costs*

EBT-participation merchants incur substantial up-front capital costs in the form of processing equipment. To prevent the shifting of program costs from the government to merchants, federal regulations specify that "authorized retailers shall not be required to pay costs essential and directly attributable to EBT system operations."<sup>151</sup> Federal regulations also require that states provide authorized retailers with free POS equipment designed to process only EBT transactions, if the retailers request it.

This policy has allowed smaller retailers who had never previously accepted electronic payments to obtain the equipment needed to remain in the FSP. Moreover, it has exposed them to electronic retailing and encouraged them to begin accepting commercial credit and debit card transactions.<sup>152</sup> The USDA's 1994 evaluation of Maryland's statewide EBT program, for instance, found that many of the merchants who had never engaged in electronic commerce prior to Maryland's implementation of EBT either joined or planned to join a commercial payment network.<sup>153</sup> Accepting the free equipment may tie smaller stores, particularly those in distressed communities, and their customers closer to the financial mainstream.

EBT still holds significant capital cost implications for larger stores, like supermarkets, that are already equipped to handle electronic payments. Since the free POS equipment is restricted to EBT transactions, and since these retailers still want to accept other forms of electronic payment to accommodate their non-food stamp customers, they have been forced to upgrade their existing

equipment to accept EBT transactions at their own expense. Even stores with some free equipment have often purchased additional machines in order to serve food stamp customers at every counter. Since POS terminals cost around \$450 to \$500 per unit, converting to EBT can represent a significant expense for retailers.<sup>154</sup>

### *7.1.3 Future Capital Costs Associated with EBT*

So far, the chief capital costs incurred by merchants using EBT have been the costs of upgrading existing electronic payment systems or investing in new equipment. A potentially significant future cost involves the purchase of equipment that automatically identifies food items as food-stamp-eligible or ineligible. **Is this in the future or is it now?**

As mentioned earlier, food stamps may only be used to purchase certain goods, and traditionally it has been the responsibility of cashiers to sort purchases into the appropriate categories. But, in an attempt to reduce food stamp fraud, PRWORA contains a clause that requires food stamp retailers to deploy, to the greatest extent possible, electronic systems that differentiate between FSP eligible and ineligible items.<sup>155</sup> Complying with this mandate, which would require merchants to integrate their cash registers, optical scanning equipment and POS equipment, is technologically feasible for many retailers, especially supermarkets, but also potentially expensive. One study estimated a national implementation cost of \$4.6 billion for such a project,<sup>156</sup> and it is unclear on whom the burden of this cost would fall — government, private industry, or both.

### *7.1.4 Merchant Costs Related to Non-Food Stamp Benefits*

In addition to affecting the operating and capital costs of merchants participating in the food stamp program, EBT may have also influenced the costs associated with non-food stamp benefits like TANF. But, while merchants incur costs in providing access to non-food stamp benefits, they also benefit since recipients will use part of their non-food stamp benefits to purchase non-FSP goods.<sup>157</sup> Furthermore, many states allow merchants to levy surcharges on non-food stamp benefit transactions, creating another potential revenue stream.

### *7.1.5 Government Reimbursements for System Costs*

A second merchant concern pertains to government reimbursements for the processing costs associated with EBT. When merchants who have not requested government-issued POS terminals process EBT transactions through their private equipment, they have to pay a transaction fee to the commercial network that processes the transaction, just as they do for regular credit or debit card transactions. As far as food stamp transactions are concerned, these are additional, new costs that were not incurred under the paper system. These fees vary with transaction volumes and range from \$0.02 to \$0.20 per transaction.<sup>158</sup>

Many merchants have argued that they should be reimbursed for these fees for three reasons: First, merchants did not pay the fees prior to EBT and contend that the fact that they must bear these extra costs is a violation of federal regulations. Second, merchants note that their decision to process EBT through private rather than government-purchased equipment often translates into savings for the state since the state does not have to provide free POS equipment. Third, USDA regulations specify that “the state agency may, with USDA approval, share appropriate costs with retailers if the equipment is also utilized for commercial purposes.”<sup>159</sup>

In principle, reimbursements must compensate merchants for the average transaction fee paid to the commercial processor. Among the states that provide reimbursements, the payments range from \$0.01 to \$0.08 per transaction.<sup>160</sup> The size of the reimbursement has been debated in many states, and merchants have often demanded fees that far exceed cost, such as in Nebraska where merchants asked for \$0.14 per transaction before ultimately receiving \$0.05.<sup>161</sup> Meanwhile, opponents of the reimbursements charge that reimbursements are merely a way for merchants to tap the public coffers: after all, they argue, merchants do not complain about paying the fees on credit or debit card payments made by wealthier customers

### ***7.2 Technological Reliability***

Technological reliability is not only of concern to beneficiaries, as discussed in section 6.3, but also to merchants.<sup>162</sup> One study conducted by the Food Marketing Institute found that EBT outages occurred on an average of once every three days during the summer of 2000.<sup>163</sup> Improving the reliability of EBT has become a significant concern for merchants, and many trade associations have proposed specific plans for improving the system.

Currently, merchants, and the Food Marketing Institute, advocate a “store-and-forward process” similar to the one commercial credit card companies use when their systems fail.<sup>164</sup> Instead of depending on the manual voucher process, described in section 6.3, this process enables merchants to make an electronic sale and settle the transaction after the computer network has been repaired.<sup>165</sup> In addition, if it turns out that the benefit recipient has exceeded the amount of available benefits, merchants would like to be able collect whatever other benefits are available instead of losing the balance, as currently happens.<sup>166</sup>

### ***7.3 Interoperability: A Merchant’s Perspective***

Section 6.3 pointed to difficulties created by the proliferation of incompatible, online and off-line, systems which would have deprived benefit recipients of the ability to use their benefits anywhere in the country. This would have been particularly burdensome for merchants serving market areas transcending state borders and for larger chains that would have had to purchase different EBT equipment in each state in which they operated.

One early response to this potential problem was for individual states to achieve interoperability by deploying EBT equipment on both sides of a border. For instance, Ohio allowed merchants on the Indiana side of the border to participate in Ohio’s EBT system in order to ensure that recipients living near the border would retain access to FSP retailers.<sup>167</sup>

A second, more complicated response was the QUEST protocol (see the section 6), but while QUEST’s growth reduced the problem of interoperability among the 31 participating states, participation was voluntary and merchants remained concerned about the lack of a single national EBT standard. National merchants still had to invest in different kinds of POS equipment in each market.

The goal of interoperability was achieved in the form of the Electronic Benefit Transfer Interoperability and Portability Act of 2000. The law requires that states develop interoperable EBT systems by October 1, 2002, with the exemption of four states.<sup>168</sup> **Have they achieved**

**this???** To further assist merchants, the law prevented states from shifting the compliance costs to authorized food stamp retailers and Congress simultaneously agreed to pay 100% of the conversion costs - provided that the total amount spent on all states in a given year did not exceed \$500,000. In addition, the Act prevented states from placing limits on the geographic areas in which benefit recipients could use their benefits. From the merchants' perspective, this legislation has significantly resolved the matter of interoperability.

#### ***7.4 Cash Flow***

A final merchant concern relates to cash flow. In states where cash benefits as well as food stamps are delivered through EBT, benefit recipients may typically request part of their cash benefits from food store cashiers and most states permit merchants to charge for this service. While larger merchants generally have sufficient cash flow to provide this cash-back service, smaller merchants or merchants in areas with high concentrations of benefit recipients may not have enough cash to meet the demand. These merchants may respond by refusing to provide the cash - a rational choice, but one that may prove an obstacle to benefit recipients wanting to access their welfare benefits. This response may also cause merchants to forego potential sales if benefit recipients had hoped to use the cash to purchase items that cannot be brought with food stamps.

#### ***7.5 Merchants and Banks***

Financial institutions like banks have also benefited from EBT. Banks prefer EBT to paper food stamps because they no longer have to serve the administrative function of processing grocer coupon deposits. It had been the task of banks to count and store the food stamps and ultimately send them to a Federal Reserve Bank for redemption. The EBT system enables merchants to process their food stamp deposits electronically through the automated clearinghouse system. In this way, the move from a paper to an electronic FSP has allowed banks to eliminate the costs associated with handling food stamps without being denied food stamp deposits.<sup>169</sup> This helps banks to lower their costs and has made EBT popular with financial institutions.

### **8. Expansion of EBT**

By February 2003, EBT systems had been implemented throughout most of the US (see Table 2) to deliver food stamp benefits. States also have the option to use EBT to deliver non-food stamp benefits, such as TANF. Moreover, the supporting electronic infrastructure can be modified and expanded to deliver additional federal and/or state welfare benefits. Such programs include the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC), electronic childcare payments and child support. In addition, states have indicated definite intentions to expand EBT programs to include Medicaid, unemployment compensation, SSI supplements and state-funded general assistance<sup>170</sup>.

#### ***8.1 National Expansion to WIC***

Like food stamps, WIC is a federal program administered by the FNS, but it is a grant rather than an entitlement program. Eligible low-income pregnant and postpartum women, infants, and children (up to age five), who are assessed as being at nutritional risk, receive vouchers that may be redeemed for a certain basket of approved nutritious foods at authorized retailers.<sup>171</sup> During the 1999 federal fiscal year, \$3.9 billion in federal money was used to serve an average of 7.4 million participants.<sup>172</sup>

Expanding EBT to include the WIC program was a logical next step since both programs provide food benefits and many clients participate in both FSP and WIC. It appeared that EBT could be used to reduce WIC’s operating costs, combat fraud losses and produce many of the same benefits associated with electronic food stamps. Since WIC is a grant program which operates on a fixed budget, and thus not all eligible citizens receive aid, any administrative cost-savings can be used to expand coverage.

As of the summer of 2001, seven WIC initiatives involving 13 states were underway. As with their electronic food stamp programs, WIC EBT services can be obtained through stand-alone or joint procurements. Table 5 summarizes the status in each state.

Based on planning documents and pilot programs, it is apparent that an electronic WIC program will differ in several ways from electronic food stamps.<sup>173</sup> The main difference will be the use of hybrid technologies that meld on-line and off-line

<u>Region</u>	<u>State</u>	<u>Procurement Type</u>	<u>Status</u>
Northeast (NEP)	CT, ME, MA, NH, RI, VT	Joint	Planning stage
Mid-Atlantic	NJ	Stand-alone	Terminated
Midwest	MI, OH	Stand-alone	Pilots running
Southwest	NM, TX	Joint	Pilot running
West	NV, ND WY	Joint State Prime Contractor	Pilot running Statewide

EBT. In any one state, on-line technology can be used for the purchase of food at stores, while the off-line (chip/smart card) component permits the storage of individualized health and immunization records directly on a person’s WIC benefit card. Many of the thirteen states, including all the New England Partners (NEP), that are planning or experimenting with WIC are pursuing this option. However, delivering WIC through a hybrid technology does require that states supplement their on-line EBT systems with new offline technologies and equipment. The incidence of this additional EBT cost is likely to be a point of contention among states and merchants. By contrast, Ohio’s WIC EBT pilot is exclusively off-line, and is to be used in conjunction with the off-line card technology already in place for the Ohio Food Stamp Program<sup>174</sup>. New Jersey has terminated its WIC EBT project, effective July 2002. **It is not clear why this is.. cannot find info on the web re this – cAryn.**

Closely related to these individual WIC projects is the Health Passport Project. It is designed to demonstrate the use of an individual, secure, portable electronic health record using smart card technology. It links together 17 programs for mothers and children, including WIC, Medicaid, Maternal and Child Health, Immunization and Head Start, to manage the 500 “common data” elements across these programs on a smart card<sup>175</sup>. The Health Passport Project is in a demonstration phase in North Dakota, Wyoming and Nevada.

The expansion of EBT to include WIC has allowed a number of new system vendors to enter the market. These include Stored Value Systems and Hitachi America Ltd. (New Hampshire).

Wyoming is serving as their own prime contractor while New Mexico and Texas have contracted Govconnect (New Mexico and Texas) to provide their “card integration” services<sup>176</sup>.

### ***8.2 State Expansion to Childcare***

One area for expansion would be for states to deliver public childcare subsidies through EBT in a manner that reduces the administrative costs associated with the paper-based systems and speeds up disbursement. Oklahoma, for example, is operating a pilot EBT childcare program in Comanche County that has reduced reimbursement time from six weeks to one week.<sup>177</sup>

The technology employed by an EBT childcare program would involve installing POS machines at childcare providers. Parents or guardians would be able to use the same benefit card that they use for food stamps, swiping their cards through the card reader when dropping off and picking up their children.<sup>178</sup> Such automation would reduce the time parents, childcare providers, and state agencies devote to completing forms, reporting and reviewing attendance. In addition, states would be better able to monitor if parents are bringing their children to childcare and if childcare centers are serving only the number of children authorized by their licenses. An example is Citicorp’s “Citi Pay Care” system - is a paperless attendance tracking and payment processing system which allows childcare providers to collect attendance information via a secure web site, utilizes POS devices using custom magnetic stripe or state EBT cards, and features integrated voice response systems in multiple languages and potentially, biometric readers<sup>179</sup>.

Oklahoma is currently the only state experimenting with EBT for subsidized childcare payments. It hopes the system will lower administrative costs, reduce fraud, and encourage more childcare providers to participate in subsidized childcare programs. When fully implemented, Oklahoma will provide electronic childcare benefits to approximately 49,000 children enrolled in childcare programs.<sup>180</sup> Other states have expressed interest in a childcare EBT program, but there is concern regarding the price the state pays to the EBT vendor. ACS receives \$5.24 per participating child per month,<sup>181</sup> though that price may drop as more children and providers are brought into the program.

### ***8.3 State Expansion to Payment of Child Support***

Some states are using EBT systems or prepaid debit cards to facilitate the transfer of child support benefits. Currently, Idaho is the only state to disburse child support payments using the EBT system. In addition to being faster and more convenient for custodial parents, and generating an instant electronic record of child support payments and recipient expenditures, it reduces the operational costs related to issuing checks. Using the Quest system, payments can be made in stores and money can be withdrawn at ATMs. Puerto Rico has also been investigating the use of an EBT system for child support using a card known as UNICA. Intended to eventually serve as tool for receiving a greater variety of benefits, reimbursements and payments from other governmental agencies, it will initially carry child support payments and TANF benefits.

As of February 2003, Colorado, Minnesota and Washington were using electronic card-based systems for the disbursement of child support. Resembling standard bank-issued debit cards,

these cards enable payments to be accessed at ATM's of the relevant banking network and at point-of-sale terminals, and support both signature-and pin-based functions.

The exact technology employed varies from state to state. Minnesota has both a direct deposit and prepaid VISA-branded debit card program. Colorado's system is probably the most advanced, with prepaid or rechargeable cards having already being issued – through U.S. Bancorp – to 1,200 of the 100,000 Colorado families receiving child-support funds<sup>182</sup>. U.S. Bancorp uses the same technology for child support benefits as it does to process its other prepaid debit cards.

The use of these prepaid debit cards promises to generate substantial savings to states which are charged with issuing child-support checks as part of court orders. For example, it is estimate that Minnesota, and the federal government which subsidizes state administrative costs of child-support agencies, will save an annual \$800,000 from the elimination of paper checks<sup>183</sup>. Unlike EBT cards, in which the state pays fees to a contractor on a case-by-case basis, child-support cards are free to the state. The cost of the cards is borne by the issuing bank which can recover these costs and potentially generate a profit by generating revenue from ATM surcharges and interchange fees paid by merchant acquirers. Restrictions on the use of various commercial EFT fees that apply to EBT transactions, such as those on interchange fees, do not apply to child support transactions. Colorado officials estimate that if their child support systems were folded into the state's EBT system, the state would have to pay the vendor \$1.80 per case per month<sup>184</sup>.

## **9. Coping with the EBT Market Structure and Price Competition**

In the future, states may be able to develop EBT into a benefit delivery system that can deliver a myriad of social welfare programs in a manner that saves money and provides better services. However, at the moment it appears that EBT is quite a drain on resources. Moreover, based on the experiences of the seven states that have already issued at least their second request for proposal (RFP) for EBT contracts, price increases do appear likely. For example, New Jersey's second contract with e-Funds differs from the first by requiring interoperability and limiting the number of free ATM transactions, but it also raised the CPCM.<sup>185</sup> Similarly, when South Carolina negotiated a second contract with CSI, the new contract specified system interoperability but doubled the CPCM.<sup>186</sup>

A key reason for these price increases has been the change in EBT's competitive dynamic. The combination of declining caseloads, government regulations, poor financial forecasting, and the aggressive pursuit of business by one vendor has turned EBT into a market with diminished competition. CSI is the industry leader, currently serving as the prime contractor in 75% of the states with statewide programs and as a subcontractor in others<sup>187</sup>, and enjoys the experience and advantages that accompany that position. However, E-Funds' growing representation, ACS' recent acquisition of Lockheed Martin IMS and Montana's decision to award its EBT contract to TRW<sup>188</sup> suggest renewed competition in the EBT market. At the moment, it is too soon to estimate how this will evolve, and whether states will have much negotiating power in determining services and costs or whether CSI will dictate terms. However, it is likely that unless

the competitive dynamic of the EBT market changes, states that are re-negotiating their EBT contracts will face higher prices

### ***9.1 Options for Dealing with Higher Prices***

Three options for dealing with these higher prices are available to states:

First, states could accept the higher prevailing market prices, and try to shift these costs on to benefit recipients and merchants. Already, benefit recipients in many states pay fees and surcharges. The irony of this situation is, of course, that a technology that was intended to reduce stakeholder costs now requires them to spend more, and raises questions as to the value of having made the switch from paper to EBT.

Second, states could follow the lead of Texas and Wyoming and serve as their own prime contractors. After Texas' prime EBT contractor, Transactive, left the EBT market, the Lone Star Technology Department of Texas's Department of Human Services became the state's prime EBT contractor. The EBT system was then contracted out in three parts — central processing, retail management, and customer service — that were awarded as subcontracts to three different vendors.<sup>189</sup> In this way, the state not only retains direct control over its EBT system and the ability to develop the system as it sees fit, but may foster increased competition among EBT vendors. While few firms have the ability to serve as prime contractors, many firms have the technological resources needed to provide system components. In 2001, for example, while only CSI, e-Funds, and ACS/Lockheed served as prime contractors, 11 other firms served as subcontractors in various states.<sup>190</sup> The Texas model could possibly be adapted and employed for a coalition system of state to help them achieve economies of scale. However, this approach may certainly not suit all states since its successful execution requires that states have the resources and abilities needed to manage EBT and keep up with the constant changes in electronic payments technology.<sup>191</sup>

Third, states could cease using EBT to administer non-food stamp benefits. Various evaluations of EBT programs indicate that EBT reduces the costs of food stamps, but increases the costs of delivering non-food stamp benefits, and these higher costs often offset any food stamp savings. In response, states could choose to comply with the federal mandate and deliver food stamp benefits through EBT, but use other means for non-food stamp benefits. One possibility is to deliver non-food stamp benefits through EFT. Not only is EFT extremely cost-effective, but it carries the added advantage of connecting benefit recipients to the banking system. Moreover, moving to EFT (and having a bank account) renders the vendor fee and surcharge issue irrelevant, provides beneficiaries with Regulation E protections, affords a higher level of privacy than EBT and removes the problem of interoperability, thus avoiding many of the issues that are cause for consumer complaint in EBT (see section 6). A drawback to this option is that banks may be unsupportive of a program that requires many low-balance, high-volume bank accounts.<sup>192</sup>

### ***9.2 The Federal Cost Neutrality Requirement***

The federal cost neutrality requirement, a cornerstone of federal EBT policy, complicates how states might respond to EBT price increases. This requirement originated in 1993 during the

planning stage of Maryland's EBT program. To avoid increasing the financial burden on the federal government, the federal Department of Health and Human Services insisted on cost neutrality provisions, which eventually became part of the regulations that governed EBT's national expansion. Yet, while cost neutrality may be beneficial to the federal government, the policy may hurt the states and curtail EBT's development in several ways, as was outlined by the Federal Electronic Benefits Transfer Task Force, an outgrowth of the National Performance Review, in its 1994 EBT implementation report. The Task Force recognized that the cost-neutrality standard would penalize "states that have kept costs down the most — even when the shift to EBT would be cost-beneficial in the long run."<sup>193</sup> In other words, cost neutrality would mean that states with inexpensive and efficient paper programs would not receive enough federal funding to manage the switch to the more expensive EBT program, and such states would have to expend more of their own resources on EBT.

The Task Force argued that the cost neutrality standard should be replaced with "a governmentwide, multi-program 'cost-effectiveness' standard that would recognize the interagency, multi-state, and multi-year aspects of the EBT effort."<sup>194</sup> The Task Force's recommendation was not adopted, and as a result, many states, particularly those that were operating efficient food stamp programs, were reluctant to adopt EBT because of the potentially higher costs. Maine, for example, has traditionally operated one of the most efficient paper food stamp systems in the country, and the move to EBT is expected to increase its food stamp costs by \$550,000 per year.<sup>195</sup> Maine, consequently, has moved slowly, has not yet implemented any EBT program and is still in the process of reviewing contracts.

Since the cost neutrality is a federal regulation, states have no option but to comply — unless through the close monitoring and evaluation of the impact that the requirement is having on their EBT programs, they may be able to persuade federal decision makers to change the regulations.

### ***9.3 Adapting to Changes in Pricing Structures***

Even if new competitors enter the market, federal cost-neutrality requirements and shifts in EBT's pricing structure make it likely that states will pay more for EBT when they renew their contracts. Dissatisfied with returns on their EBT contracts and wanting to maximize their profits, vendors may try to shift EBT pricing away from the CPCM model. Possible successors include a fee for service model, a tiered pricing model, a caseload floor model, or some combination of models.<sup>196</sup> The possibility of new pricing structures means that states should be aware of the advantages and disadvantages of each of the four main alternatives.

#### **1. Fee for Service Model**

Under this pricing plan, the state pays the vendor a fixed fee for every EBT service provided. In other words, the state pays a set amount for every call that benefit recipients place to the help line or every POS terminal provided to merchants. This model essentially shifts risks from the vendor to the state. Since vendors receive a fee for every service, rather than a fee per case served, this model renders vendors' profit less sensitive to changes in the caseload, thus making the EBT market less risky, and more appealing. Meanwhile, states either save or lose money depending on the direction in which the caseload moves. The volatile nature of the food stamp caseload, at least in recent years, makes it difficult for states to develop accurate budget

projections for EBT services. Also, the fee-for-service model may impact the quality of EBT services provided by vendor. Since vendors receive a payment for every service provided, they are not penalized for poor performance. Rather, in some cases, they are rewarded. If, for instance, ineffective customer service requires a benefit recipient to call the help desk three times to resolve a problem, the vendor would receive three fees.<sup>197</sup>

## 2. Tiered Pricing

In a tiered system, the CPCM changes with caseload levels. Higher levels translate into a lower CPCM, while lower levels result in a higher CPCM. The chief advantage of the model is that it better protects vendors from risk and allows states to realize economies of scale. However, tiered pricing has already been attempted in EBT contracts with little success. One challenge is that vendors have been unsure how to accurately divide caseloads into tiers and assign an appropriate price to each level. A second problem is that it is difficult to develop tiers within joint procurements since different member states have different caseloads. New York and Rhode Island, for example, are both members of the North East Coalition, but they have vastly different caseloads. The question is whether or not these states should all pay the same rate or if New York should receive a lower rate than Rhode Island.<sup>198</sup>

## 3. Caseload Floors

This pricing model also mitigating EBT's risk to vendors since it guarantee vendors a minimum revenue level, regardless of the actual caseload levels. While this model is appealing to vendors, there exists little incentive for states to endorse it since states will not receive any cost savings if caseloads fall.<sup>199</sup>

## 4. Combined Model

There are combinations of the above three models that states might be interested in pursuing. For example, the state and vendor could agree to a contract that combines a CPCM with tiered pricing. The two parties also could negotiate different pricing elements for each EBT service, such as different charges for customer service calls and transaction processing services.

Alabama, which in late 2001 was involved in the bidding process for its next generation of EBT, attempted to create a hybrid model combining CPCM, tiered pricing, and a caseload floor. The CPCM paid by the state would depend on which tier the caseload level falls in, but these tiers would be drawn more narrowly than in the past. Additionally, the state guarantees a caseload floor. If the caseload falls below the range contained in the lowest tier, the contractor would receive the CPCM specified in the lowest tier. There also is a caseload ceiling — that is, if the caseload exceeds the highest tier, the state would pay the CPCM specified in the highest tier.<sup>200</sup> It is too early to know if this hybrid model will represent an improvement in the pricing of EBT services.

### ***9.4 Choosing between On-Line and Off-Line Technologies***

The choice to adopt on-line or off-line technologies ties states into different cost structures. From a technological standpoint, off-line technology is often viewed as superior to on-line technology. First, the embedded microchip allows off-line cards to hold considerably more information than do on-line cards, which may expedite transactions - particularly internet-based ones since the chips can store electronic signatures,<sup>201</sup> - thereby eliminating the need for customers to wait for

and sign paper receipts. Second, off-line cards are harder to counterfeit than on-line ones, which reduces the frequency and magnitude of losses associated with fraud.<sup>202</sup>

Off-line technology is also considerably more expensive than on-line technology. While an on-line card costs \$0.25 to manufacture, an offline card's price ranges from \$3.00 to \$10.00.<sup>203</sup> Another significant concern is that the existing commercial payment environment is not conducive to the acceptance of off-line cards. Most POS readers located in retail establishments are designed for on-line cards and are incapable of accessing the information stored on an off-line card's microchip.<sup>204</sup> Nevertheless, interest in off-line technology has been growing on the part of credit card companies, retailers, and the government. Credit card companies like American Express have introduced or plan to introduce off-line cards, while Target, a national retail chain, has begun installing off-line technologies in its stores. Most interestingly, the Department of Defense has begun issuing off-line cards to 4.3 million uniformed and civilian employees.<sup>205</sup> This move may speed the technology's growth and acceptance.

With regard to the delivery of social benefits, the USDA began experimenting with off-line EBT technology in 1990. That year, the FNS sponsored a pilot program in Dayton, Ohio, that delivered food stamps electronically. In 1994 this program was expanded throughout the state of Ohio. Meanwhile, a second pilot started in Wyoming in 1993 and used EBT to deliver both food stamp and WIC benefits. Evaluations of the various pilot programs revealed that off-line technology was a reliable method for delivering benefits, especially for WIC. Off-line technology is well-suited to WIC because the detailed health and immunization records that are part of the program can be stored directly on the smart cards. However, it was also found that off-line technologies are more expensive to implement and administer than on-line EBT systems, though costs were expected to fall if more states adopted the technology.<sup>206</sup> Widespread use of off-line EBT seems unlikely, however, since most states have already invested substantially in on-line systems, and the on-line platform remains the technological standard in most retail environments.

### **10. Three general lessons from EBT**

In the six years that have passed since the passage of PRWORA, almost all states have managed to establish state-wide EBT system for the food stamp programs. Only 7 states, namely California, Delaware, Iowa, Maine, Nevada, the Virgin Islands and Guam, have not yet implemented state-wide EBT programs. Of the states that have implemented EBT, many have moved beyond the congressional mandate to provide electronic food stamps and are delivering non-food stamp benefits like TANF, general assistance and child care payments. In addition, a number of WIC pilots are underway and national expansion appears likely.

The foregoing sections describing states', benefit recipients' and merchants' experiences of EBT have highlighted a number of areas, such as administration and fraud reduction, in which EBT offers considerable advantages over paper systems. However, these sections also provided some evidence that EBT is turning out to be more expensive than had previously been anticipated. It may be the authorities were too quick to assume that technological solutions would lower costs. This is despite much evidence in the early EBT evaluation literature on pilot programs in

Pennsylvania (Reading), New Mexico (Albuquerque), Minnesota (Ramsey County), and Maryland that indicated that EBT was not necessarily an improvement over the status quo. In fact, the Maryland study revealed that EBT increased the administrative costs of non-food stamp programs like TANF and was cost-competitive with paper food stamps. Evaluations also indicated that benefit recipients and merchants, though supportive of EBT, incurred costs due to the technology.

Second, EBT reminds us of the unintended consequences that may result when one stakeholder's interests are elevated over those of others. The EBT story suggests that the federal government elevated its goal of short-term financial gain over states, merchants, and benefit recipients and attempted to insure that outcome by using its rule-making powers to lay down the requirement of cost-neutrality. When coupled with changes in EBT's economic and market structure, the cost neutrality regulations increased the cost of EBT to the states, which responded by shifting costs to benefit recipients and merchants. EBT. The federal government may have saved money, or at the least maintained a certain level of expenditure, while redistributing costs among other stakeholders.

Third, EBT cautions us of the difficulties of implementing technology for national programs in a decentralized manner. While PRWORA required that states implement EBT systems for food stamps benefits, the act provided states with the flexibility to develop systems as they saw fit. Yet, the FSP is a national program that transcends state lines and benefits are intended to be portable. By allowing the implementation of EBT in a decentralized fashion, a situation was created whereby states were developing systems that were potentially technologically incompatible, so that benefits could not be used in many states in which beneficiaries were non-resident. As discussed earlier, this lack of EBT interoperability and portability were key concerns for both merchants and benefit recipients. The adoption of QUEST protocols and the passage of the Electronic Benefits Transfer Interoperability and Portability Act of 2000 should help in to erode these barriers.

---

Notes

<sup>1</sup> J. Kirlin, *The Evaluation of the Expanded EBT Demonstration in Maryland: Summary of Findings*, report prepared by Abt Associates, Inc. for USDA, Food and Nutrition Service (1994): 1.

<sup>2</sup> “Electronic Benefits Transfer (EBT) Provisions of Personal Responsibility and Work Opportunity Reconciliation Act, Proposed Rule” *Federal Register* 56 (May 27, 1999): 28763-28768.

<sup>3</sup> Joseph Radigan, “EBT Rules Cause a Stir,” *US Banker* (July 1997): 75.

<sup>4</sup> General Accounting Office, *Food Stamp Program: Implementation of Electronic Benefit Transfer Systems*, GAO-02-332 (Washington: General Accounting Office, January 16, 2002), 1.

<sup>5</sup> David B. Humphrey, “The Economics of Electronic Benefit Payments,” *Economic Quarterly* 82, no. 2 (1996).

<sup>6</sup> David Barstow, “Welfare Debit Cards Offer Benefits and Some Snags,” *New York Times*, June 18, 1999, New York City ed.: B1.

<sup>7</sup> USDA, Food and Nutrition Service. *Electronic Benefits (EBT) Status Report*, (October 2002), [http://www.fns.usda.gov/fsp/ebt/ebt\\_status\\_report.htm](http://www.fns.usda.gov/fsp/ebt/ebt_status_report.htm) (accessed November 15, 2002).

<sup>8</sup> Data taken from Center for Community Capitalism, *Survey of State EBT Programs* (2001).

<sup>9</sup> USDA, Food and Nutrition Service. *Electronic Benefits (EBT) Status Report*, (February 2003), [http://www.fns.usda.gov/fsp/ebt/ebt\\_status\\_report.htm](http://www.fns.usda.gov/fsp/ebt/ebt_status_report.htm) (accessed March 17, 2003).

<sup>10</sup> John Kirlin, Seth Cooper, Sandra Nolden, and Christopher Logan, *Evaluation of the Expanded Off-Line EBT System in Ohio: Moving to a Statewide EBT System Using Smart Cards for Food Stamps* (Abt Associates, March 1999): 8.

<sup>11</sup> Kirlin, *Evaluation of the Expanded Off-Line EBT System*, 8.

<sup>12</sup> *Consumer Banking and Payments Law*, 2<sup>nd</sup> ed. (Boston: National Consumer Law Center, 2002), 124.

<sup>13</sup> USDA, Food and Nutrition Service, *EBT Status Report - October 2002*.

<sup>14</sup> United States Department of Agriculture, *Food Stamp Program Participation and Costs*, <http://www.fns.usda.gov/pd/fssummary.htm> (accessed March 25, 2002).

<sup>15</sup> Kirlin, *Maryland EBT Demonstration: Summary of Findings*, 19-20.

<sup>16</sup> *Ibid.*, 22-25, 28.

<sup>17</sup> Brian Kibble-Smith, “Citibank Profitably Pioneers Electronic Benefit Transfer Programs,” *Journal of Retail Banking Services* 19, no. 4 (1997): 3.

<sup>18</sup> General Accounting Office, *Welfare Reform: Data Available to Assess TANF’s Progress*, GAO-01-298 (Washington: General Accounting Office, February 28, 2001), 1, 6.

<sup>19</sup> Kirlin, *Maryland EBT Demonstration: Summary of Findings*, 19.

<sup>20</sup> *Consumer Banking and Payments Law*, 124.

<sup>21</sup> Michael A. Stegman, *Savings for the Poor: The Hidden Benefits of Electronic Banking*. (Washington: Brookings Institute Press, 1999), 7.

<sup>22</sup> *Ibid.*, 9.

<sup>23</sup> Center for Community Capitalism, *Survey of State EBT Programs*, 33.

<sup>24</sup> *Ibid.*, 44.

<sup>25</sup> *Consumer Banking and Payments Law*, 125.

<sup>26</sup> *Ibid.*, 125.

<sup>27</sup> Center for Community Capitalism, *Survey of State EBT Programs*, 111.

<sup>28</sup> *Ibid.*, 39.

<sup>29</sup> *Consumer Banking and Payments Law*, 125.

<sup>30</sup> John A. Kirlin, Charles R. King, Elizabeth E. Davis, Christopher Jones, and Gary Silverstein, *The Feasibility of a Nationwide Electronic Benefit Transfer System for the Food Stamp Program* (Abt Associates, April 1990): vii-viii.

<sup>31</sup> USDA, Food and Nutrition Service, *EBT Alternatives Analysis*, report prepared by Phoenix Maximus Planning and Evaluation for USDA, Food and Nutrition Service (August 10, 2000): 15.

<sup>32</sup> *Ibid.*, 24.

<sup>33</sup> *Ibid.*, 24-25.

<sup>34</sup> Center for Community Capitalism, *Survey of State EBT Programs*, 35.

<sup>35</sup> USDA, Food and Nutrition Service, *EBT Alternatives Analysis*, 26-27.

<sup>36</sup> Center for Community Capitalism, *Survey of State EBT Programs*, 169.

<sup>37</sup> *Ibid.*, 28,34.

<sup>38</sup> USDA, Food and Nutrition Service, *EBT Alternatives Analysis*, 16-23.

- 
- <sup>39</sup> Robert E. Robertson, *Food Stamp Program: Program Integrity and Participation Challenges*, GAO-01-881T, (Washington: General Accounting Office, June 27, 2001), 9.
- <sup>40</sup> Complaint filed by the United States Department of Justice in *United States of America v. Citicorp*, United States District Court for the District of Delaware, 1998 <http://www.usdoj.gov/atr/cases/fl900/1905.htm>. *United States of America v. Citicorp*, United States District Court for the District of Delaware, 1998. See also, USDA, Food and Nutrition Service, *EBT Alternatives Analysis*, 12.
- <sup>41</sup> Kibble-Smith, "Citibank Profitably Pioneers," 2.
- <sup>42</sup> David Breitkopf, "Trial-and-Error Phase Over, EBT is Finding More Takers," *American Banker* 22 (August 2001): 12.
- <sup>43</sup> *United States of America v. Citicorp*.
- <sup>44</sup> "Declining Caseloads, Profits Force Contractors to Run Lean and Mean," *EFT Report* (July 1, 1998).
- <sup>45</sup> *United States of America v. Citicorp*.
- <sup>46</sup> "ACS Acquires Subsidiary of Lockheed Martin to Significantly Expand Business Process Outsourcing," *Affiliated Computer Services Homepage* July 19, 2001, <http://www.acs-inc.com> (accessed on November 11, 2001). Note that ACS is not entirely new to the EBT market. It has been providing certain program elements through subcontracts in Illinois and Texas (Source: Center for Community Capitalism Survey).
- <sup>47</sup> *United States of America v. Citicorp*.
- <sup>48</sup> Laura Mandaro, "Citigroup Wins Contract for California's EBT System," *American Banker* (August 2, 2001): 7.
- <sup>49</sup> "Electronic Benefits Transfer (EBT): Systems – Services – Solutions." [http://www.trw.com/extlink/1...00.html?ExternalTRW=/images/electronic\\_benefits\\_transfer.pdf&DIR=2](http://www.trw.com/extlink/1...00.html?ExternalTRW=/images/electronic_benefits_transfer.pdf&DIR=2)
- <sup>50</sup> Center for Community Capitalism, *Survey of State EBT Programs*, 136.
- <sup>51</sup> *Ibid.*, 10.
- <sup>52</sup> *Ibid.*, 165.
- <sup>53</sup> *Ibid.*, 3.
- <sup>54</sup> Nancy Hicks, "New Food Stamp Cards May Affect State Costs," *Lincoln Journal Star* (3 April 2001), <http://www.journalstar.com/>.
- <sup>55</sup> C. Logan, J. Kirlin, P. Elwood, M. Menne, and M. Walker, *The Evaluation of the Expanded EBT Demonstration in Maryland, Vol. 2: System Impacts on Programs and Integrity*, report prepared by Abt Associates, Inc. for USDA, Food and Nutrition Service (1994): 32.
- <sup>56</sup> *Ibid.*, 14, 17-18. Note that this report uses a resource inventory method for measuring costs, which means that the cost figures are higher than the financial costs reported by Maryland to the USDA.
- <sup>57</sup> Kirlin et al., *The Feasibility of a Nationwide EBT*, vii-x.
- <sup>58</sup> Logan et al., *Maryland EBT Demonstration, Vol. 2*, 20-32.
- <sup>59</sup> *Ibid.*
- <sup>60</sup> Kirlin, *Maryland EBT Demonstration: Summary of Findings*, 43.
- <sup>61</sup> Logan et al., *Maryland EBT Demonstration, Vol. 2*, 32-35.
- <sup>62</sup> "Stakeholders Dial Up a Headache with 800 Numbers," *EFT Report* (March 25, 1998).
- <sup>63</sup> Center for Community Capitalism, *Survey of State EBT Programs*, 9.
- <sup>64</sup> Theodore Macaluso, *The Extent of Trafficking in the Food Stamp Program*, United States Department of Agriculture Food and Consumer Service. Office of Analysis and Evaluation, 1995.
- <sup>65</sup> Lawrence Dyckman, *Food Assistance: Reducing the Trafficking of Food Stamp Benefits*, GAO/T-RCED-00-250 (Washington: General Accounting Office, July 19, 2000), 1.
- <sup>66</sup> General Accounting Office, *Food Stamp Program: Better Use of Electronic Data Could Result in Disqualifying More Recipients Who Traffic Benefits*, GAO/RCED-00-61, (Washington: General Accounting Office, March 7, 2000), 4.
- <sup>67</sup> Benefit recipients who traffic their benefits may be disqualified from the Food Stamps for one following the first offense, two years for the second offense, and forever for the third offense or an offense involving an amount greater than \$500. (Source: General Accounting Office, *Food Stamp Program: Better Use of Electronic Data Could Result in Disqualifying More Recipients Who Traffic Benefits*, 6).
- <sup>68</sup> Dyckman, *Food Assistance*, 2.
- <sup>69</sup> General Accounting Office, *Food Stamp Program: Better Use of Electronic Data*, 6.
- <sup>70</sup> Gary Fields, "Electronic Cards Used in Fraud with Food Stamps, U.S. Alleges" *Wall Street Journal*, September 20, 2000, Eastern ed.: B2.
- <sup>71</sup> "States Plug in Electronic Tools to Fight Fraud," *Bank Network News*, August 28, 1997.
- <sup>72</sup> "Grocer Sentenced for Fraud," *The Seattle Times*, May 9, 1999.

- 
- <sup>73</sup> *United States Secret Service Homepage*, [http://www.treas.gov/usss/financial\\_crimes.htm](http://www.treas.gov/usss/financial_crimes.htm) (accessed October 1, 2001).
- <sup>74</sup> General Accounting Office, *Food Stamp Program: Better Use of Electronic Data*, 7.
- <sup>75</sup> *Ibid.*, 9.
- <sup>76</sup> *Ibid.*, 7.
- <sup>77</sup> Dyckman, *Food Assistance*, 8-9.
- <sup>78</sup> General Accounting Office, *Food Stamp Program: Better Use of Electronic Data*, 10.
- <sup>79</sup> *Ibid.*, 11-12.
- <sup>80</sup> General Accounting Office, *Electronic Benefits Transfer: Use of Biometrics to Deter Fraud in the Nationwide EBT Program*, GAO/OSI-95-20 (Washington: General Accounting Office, September 29, 1995), 2.
- <sup>81</sup> "Lone Star Image System," <http://www.dhs.state.tx.us/providers/LoneStar/LSIS/index.html> (accessed March 4, 2002).
- <sup>82</sup> General Accounting Office, *Electronic Benefits Transfer: Use of Biometrics*, 6-7.
- <sup>83</sup> *Ibid.*, 1-2.
- <sup>84</sup> Texas Department of Social Services, *Lone Star Image Fact Sheet*, 1998.
- <sup>85</sup> "Hypercom Puts Its Finger on a New ID Mechanism," *American Banker Online*, [www.americanbanker.com](http://www.americanbanker.com) (accessed December 14, 2001).
- <sup>86</sup> Missouri Office of the State Auditor, *Performance Audit of Department of Social Services Electronic Benefit Security Card and Electronic Benefit Transfer Benefit Delivery System*, Report No. 2001-58, August 3, 2001.
- <sup>87</sup> E. Beecroft, M. Ciurea, S. Hebert, N. Kutty, V. Leiter, and J. Maskeret. *The Evaluation of the Expanded EBT Demonstration in Maryland, Vol. 3: System Impacts on Demonstration Stakeholders*, report prepared by Abt Associates, Inc. for USDA, Food and Nutrition Service (1994): 11.
- <sup>88</sup> Center for Community Capitalism, *Welfare, Work, and Banking: North Carolina Financial Services Survey* (2001), 74.
- <sup>89</sup> *Ibid.*, 75.
- <sup>90</sup> Joulia Dibb, Anastasia Dodson, and Celina Schocken, *Electronic Benefit Transfer (EBT) Programs: Best Practices to Serve Recipients* (Berkeley, CA: Consumers Union, 2000), 18.
- <sup>91</sup> *Ibid.*, 27.
- <sup>92</sup> *Consumer Banking and Payments Law*, 146.
- <sup>93</sup> Timothy H. Hannan, Elizabeth K. Kiser, Robin A. Prager, and James J. McAndrews, *To Surcharge or Not to Surcharge: An Empirical Investigation of ATM Pricing* (New York: Federal Reserve Board, 2001).
- <sup>94</sup> *Ibid.*, 20.
- <sup>95</sup> New York State Office of the Controller, 6.
- <sup>96</sup> David Barstow, "ATM Cards Fail to Live Up to Promises Made to the Poor," *New York Times*, August 16, 1999, New York City ed.: A1.
- <sup>97</sup> Robert Julavits, "Advocacy Group Cites EBT Trouble in N.Y." *American Banker*, April 19, 2001: 20.
- <sup>98</sup> New York State Office of the Comptroller, 7.
- <sup>99</sup> Center for Community Capitalism, *Survey of State EBT Programs*, 83.
- <sup>100</sup> *Ibid.*, 74.
- <sup>101</sup> Stegman, 54.
- <sup>102</sup> Center for Community Capitalism, *Survey of State EBT Programs*, 92.
- <sup>103</sup> *Ibid.*, 60.
- <sup>104</sup> Barstow, "ATM Cards Fail," A1.
- <sup>105</sup> USDA, Food and Nutrition Service, *EBT Alternatives Analysis*, 47.
- <sup>106</sup> "Electronic Benefit Transfer Issuance System Approval Standard," *Code of Federal Regulations*, 2001 ed, Title 7, Pt 274.12: 826-27.
- <sup>107</sup> Food and Nutrition Service.
- <sup>108</sup> Dibb et al., *EBT Programs: Best Practices to Serve Recipients*, 24.
- <sup>109</sup> *Ibid.*, 25.
- <sup>110</sup> New York State Office of the Comptroller, 5.
- <sup>111</sup> Andrea Ball, "Food Stamp Users AWOL for Training," *Greensboro (NC) News and Record*, February 25, 1999.
- <sup>112</sup> USDA, Food and Nutrition Service, *EBT Alternatives Analysis*, 35.
- <sup>113</sup> USDA, Food and Nutrition Service, *EBT Alternatives Analysis*, 53.
- <sup>114</sup> New York State Office of the Comptroller, 14.

<sup>115</sup> Ibid.

<sup>116</sup> Dibb et al., *EBT Programs: Best Practices to Serve Recipients*, 27. The surveyed states were FL, IL, MD, MA, NJ, NY, TX, WA, WI, and two pilot projects in CA. Of these states, FL, MD, MA, NY, WA, and WI use CSI as the prime EBT contractor.

<sup>117</sup> An interesting twist on customer service occurred in 2002 when it became known that e-Funds was processing its customer service functions for New Jersey out of a call center located in Bombay, India, in order to reduce labor costs [Source: Lawrence Ragonese, "Calls for Help to N.J. Welfare Program Routed to India," *Newark Star-Ledger*, March 6, 2002].

<sup>118</sup> USDA, Food and Nutrition Service, *EBT Alternatives Analysis*, 47.

<sup>119</sup> Dibb et al., *EBT Programs: Best Practices to Serve Recipients*.

<sup>120</sup> Center for Community Capitalism, *Survey of State EBT Programs*, 25, 88.

<sup>121</sup> USDA, Food and Nutrition Service, *Application of Regulation E to EBT Systems, Final Report* (Alexandria, VA: USDA, July 1997), i.

<sup>122</sup> Dibb et al., *EBT Programs: Best Practices to Serve Recipients*, 41.

<sup>123</sup> Scott Barg, *Electronic Benefits Transfer: From Local Innovation to National Standard*, (Taubman Center: Kennedy School of Government, 1999), 4.

<sup>124</sup> USDA, Food and Nutrition Service, *Application of Regulation E to EBT Systems*.

<sup>125</sup> Carol J. Olander, *Electronic Benefit Transfer in the Food Stamp Program; The First Decade* (Alexandria, VA: USDA 1992), 22.

<sup>126</sup> "EBT Industry Council Marks Fifth Anniversary of Welfare Reform Law" *Business Wire*, August 30, 2001.

<sup>127</sup> "Privacy for EBT Users," State of California, Health and Human Services Data Center, <http://www.ebtproject.ca.gov/FAQ/privacy.pdf> (accessed October 31, 2001).

<sup>128</sup> John Kirilin and William Adam, *Feasibility Study of Capturing Food Data at Checkout*, September 1999, <http://www.abtassoc.com/reports/nutrition/8451.pdf> (accessed January 11, 2002).

<sup>129</sup> "Electronic Benefit Transfer Issuance System Approval Standard," 831.

<sup>130</sup> "Computer Glitch Shut Down Electronic Food Stamp System," *The Associate Press State and Local Wire*, October 8, 1999.

<sup>131</sup> Deidre Shesgreen and Denise Hollinshed, "Computer Glitch Leaves Food Stamp Recipients in Lurch," *St. Louis Post-Dispatch*, August 18, 2001, News Section: 7.

<sup>132</sup> USDA, Food and Nutrition Service, *EBT Disaster Plan Guide*, <http://www.fns.usda.gov/fsp/ebt/> (accessed November 1, 2001).

<sup>133</sup> *Consumer Banking and Payments Law*, 142.

<sup>134</sup> USDA, Food and Nutrition Service, *EBT Disaster Plan Guide*, 6-7.

<sup>135</sup> *Connecticut Department of Social Services Homepage*, <http://www.dss.state.ct.us/digital/faq/ebtquest.htm> (accessed October 31, 2001).

<sup>136</sup> Steve Weinstein, "Adjusting to EBT" *Progressive Grocer*, May 1999: 89.

<sup>137</sup> United States Department of Agriculture, "Farmers' Market EBT Projects Status," <http://www.fns.usda.gov/fsp/ebt/> (accessed on March 4, 2002).

<sup>138</sup> USDA, Food and Nutrition Service, *EBT Status Report - February 2003*.

<sup>139</sup> USDA, Food and Nutrition Service, *EBT Status Report - October 2002*.

<sup>140</sup> USDA, "Farmers' Market EBT Projects Status."

<sup>141</sup> U.S. Wireless Data Systems, "Senate Supports Wireless Electronic Benefit Transfer Services in Farm Bill; U.S. Wireless Data's Technology Provided Pilot System," [http://www.corporate-ir.net/ireye/ir\\_site.zhtml?ticker=USWE&script=450&layout=-6](http://www.corporate-ir.net/ireye/ir_site.zhtml?ticker=USWE&script=450&layout=-6) (accessed March 4, 2002).

<sup>142</sup> Robertson, *Food Stamp Program*, 2.

<sup>143</sup> Robertson, *Food Stamp Program*, 1.

<sup>144</sup> Office of Analysis and Evaluation, 70.

<sup>145</sup> Logan et al., *Maryland EBT Demonstration, Vol. 2*, 114.

<sup>146</sup> Ibid., 115.

<sup>147</sup> Ibid., 77.

<sup>148</sup> "Study Finds EBT Carries a Cost," *Chain Store Age*, April 2000: 137.

<sup>149</sup> Olander, *EBT in the Food Stamp Program*, 5.

<sup>150</sup> "Indiana Takes Its Shot at EBT Success," *Chain Store Age*, February 2001: 284.

<sup>151</sup> "Electronic Benefit Transfer Issuance System Approval Standard," 827.

- <sup>152</sup> MacAllister Smith, “EBT Seen as Selling Point For Signing Up Small Stores,” *American Banker*, August 26, 1999: 9.
- <sup>153</sup> Logan et al., *Maryland EBT Demonstration, Vol. 2*, 81.
- <sup>154</sup> “EBT’s Plastic Potholes Scar A Paperless Trail,” *Debit Card News*, May 27, 1998.
- <sup>155</sup> John Kirlin and William Adam, *Food Stamp EBT Systems and Program-Eligible vs. Non-Eligible Food Items*, report prepared for USDA, Food and Nutrition Service (August 1998): 3.
- <sup>156</sup> *Ibid.*, 15.
- <sup>157</sup> Logan et al., *Maryland EBT Demonstration, Vol. 2*, 118.
- <sup>158</sup> Pat Kossan, “Grocers Resent Store Costs,” *Arizona Republic*, July 1, 1998.
- <sup>159</sup> “Electronic Benefit Transfer Issuance System Approval Standard,” 827.
- <sup>160</sup> Nancy Hicks, “Grocers Fighting For Funds” *Lincoln Journal Star*, March 27, 2001, <http://www.journalstar.com> (accessed March 27, 2001) .
- <sup>161</sup> *Ibid.*
- <sup>162</sup> Olander, *EBT in the Food Stamp Program*, 5.
- <sup>163</sup> Ken Clark, “FMI Testifies for EBT Changes” *Chain Store Age*, August 2001, 90.
- <sup>164</sup> *Ibid.*
- <sup>165</sup> Ken Clark, “An Epidemic of Finger-Pointing” *Chain-Store Age*, September 2000: 128.
- <sup>166</sup> Clark, “FMI Testifies for EBT Changes.”
- <sup>167</sup> “Electronic Benefits Transfer (EBT) Systems Interoperability and Portability, Final Rule” *Federal Register* 65 (August 15, 2000, 1999): 49719-49726.
- <sup>168</sup> Senate Committee on Agriculture, *A Bill to Amend the Food Stamp Act of 1977*, 106<sup>th</sup> Congress, 1<sup>st</sup> sess., 1999, S. 1733.
- <sup>169</sup> Olander, *EBT in the Food Stamp Program*, 11.
- <sup>170</sup> EBT Council, “EBT in the States, Survey Results,” [http://www.nacha.org/OtherResources/buyers2002/BG\\_EBT.pdf](http://www.nacha.org/OtherResources/buyers2002/BG_EBT.pdf) (2002): 43-44.
- <sup>171</sup> USDA, “Women Infants and Children Frequently Asked Questions,” <http://www.fns.usda.gov/wic/FAQs/faq.htm> (accessed November 5, 2001).
- <sup>172</sup> General Accounting Office, *Food Assistance: Efforts to Control Fraud and Abuse in the WIC Program Can Be Strengthened*, GAO/RCED-99-224, (Washington: General Accounting Office, August 30, 1999), 1.
- <sup>173</sup> USDA, Food and Nutrition Service, “WIC Electronic Benefits Transfer (EBT) State Projects – Status Report,” <http://www.fns.usda.gov/wic/EBT/wicebtstateprojects.htm> (accessed November 5, 2001).
- <sup>174</sup> *Ibid.*, (accessed March 17, 2003).
- <sup>175</sup> *Ibid.*
- <sup>176</sup> *Ibid.*
- <sup>177</sup> “Child Care Benefits Become a New Goal for EBT Programs,” *ATM & Debit News*, December 6, 2001.
- <sup>178</sup> Barbara Hoberock, “Online Day-Care Payment Tested,” *Tulsa (OK) World*, October 29, 2001.
- <sup>179</sup> “Citicorp EFS and Controltec, Inc. to Market New Software Systems to Streamline Subsidized Childcare Payments”, Citicorp press release, March 2002. <http://www.citigroup.com/citigroup/press/020310a.htm>
- <sup>180</sup> “Child Care Benefits Become a New Goal for EBT Programs,” *ATM & Debit News*, December 6, 2001.
- <sup>181</sup> Center for Community Capitalism, 138.
- <sup>182</sup> “Prepaid Cards are Replacing Checks for Child Support,” *ATM & Debit News*, February 27, 2003.
- <sup>183</sup> *Ibid.*
- <sup>184</sup> *Ibid.*
- <sup>185</sup> Center for Community Capitalism, *Survey of State EBT Programs*, 114.
- <sup>186</sup> *Ibid.*, 154.
- <sup>187</sup> Data analysis of Center for Community Capitalism survey.
- <sup>188</sup> TRW, “Electronic Benefits Transfer,” <http://www.trw.com/extlink> (accessed December 7, 2001).
- <sup>189</sup> Breitkopf, “Trail and Error Phase Over.”
- <sup>190</sup> Center for Community Capitalism, *Survey of State EBT Programs*.
- <sup>191</sup> David Breitkopf, “Trail and Error Phase Over, EBT Is Finding More Takers,” *The American Banker*, August 22, 2001.
- <sup>192</sup> See Stegman for a discussion of how bank reactions affected the implementation of an EFT initiative proposed by the United States Treasury called Electronic Transfer Account (ETA).

---

<sup>193</sup> Federal Electronic Benefits Transfer Task Force, *From Paper to Electronics: Creating a Benefit Delivery System that Works Better & Costs Less* (Washington: GPO) 1994, 36.

<sup>194</sup> *Ibid.*

<sup>195</sup> Gary J. Remal, "Electronic Food Stamps Coming," *Portland Press Herald*, August 28, 2001, 4B.

<sup>196</sup> USDA, Food and Nutrition Service, *EBT Alternatives Analysis*, 70.

<sup>197</sup> USDA, Food and Nutrition Service, *EBT Alternatives Analysis*, 70-72.

<sup>198</sup> USDA, Food and Nutrition Service, *EBT Alternatives Analysis*, 72-73.

<sup>199</sup> USDA, Food and Nutrition Service, *EBT Alternatives Analysis*, 73-74.

<sup>200</sup> Alabama Department of Social Services, "Request for Proposal for Electronic Benefit Transfer Services," <http://www.dhr.state.al.us/> (accessed on March 4, 2002).

<sup>201</sup> Michael Love, "2002-A Smart Bet on Smart Cards" *Credit Card Management*, February 2002, 56.

<sup>202</sup> "Chip Cards Break Out of Their Shell" *Credit Card Management*, February 2002, 36.

<sup>203</sup> *Ibid.*, 35.

<sup>204</sup> *Ibid.*, 35.

<sup>205</sup> *Ibid.*, 39.

<sup>206</sup> Kirlin, *Evaluation of the Expanded Off-Line EBT System*, 8-9.