

May 23, 1997

To: EBT Public and Private Sector Participants

Transactive Corporation participated in the recent meeting of the National Association of State Accountants, Comptrollers and Treasurers (NASACT), providing an update on the Texas—New Mexico EBT interoperability project that we have pioneered.

In her presentation to the NASACT association members, Margaret Jedlicka, Transactive's director of software operations, provided an overview of this model for EBT transactions that are exchanged between states, projects, and vendors.

This solution is the first practical test of the nationally uniform technical interoperability standards for vendor-to-vendor transaction exchanges (ANSI 9510) that were adopted by the National Automated Clearing House Association (NACHA) under the national EBT operating rules.

I am providing you with a copy of Margaret's presentation in an effort to increase awareness about the technical viability of achieving nationwide EBT operability through processor-to-processor interchange.

This project was undertaken with the full support and cooperation of the EBT project staff of the states of New Mexico and Texas as well as USDA Food and Consumer Service. Transactive worked closely with First Security Bank Processing Services of Albuquerque, processor for the state of New Mexico.

While outstanding issues—such as the costs of interoperability and who will pay them—remain unanswered, we are enthusiastic about the opportunities for nationwide benefit accessibility that this development heralds.

We believe that interoperability is clearly an issue on which the industry needs to come together to seek answers that will push forward the development of EBT and the services that it brings to millions of Americans nationwide.

Transactive manages the largest number of online EBT cases in the nation and has successfully distributed nearly \$5 billion in benefits through 200 million transactions. We are proud to once again participate in a leading development of the EBT industry, and we are eager to share our experiences in an effort to increase overall understanding about this key issue.

Sincerely,



Gregory L. Coler
President and Chief Executive Officer

Bruce Reed?
Yes - just send
to Bruce - no ltr
to Coler nec.

ELECTRONIC BENEFITS TRANSFER BILL
Summary of Senator Leahy's Anti-Fraud Bill

ELIMINATION OF COUPONS: The bill will alter the Food Stamp Act and will require that the Secretary of Agriculture no longer provide food stamp coupons to states within three years of enactment. In general, under current law states are required to use a coupon system.

Any Governor may grant his or her state an additional 2 year extension and the Secretary can add another 6 month extension (for a maximum of five and one-half years) to convert from coupons to EBT.

At the end of that time period, coupons would no longer be provided to the state. Food benefits would instead be provided through electronic benefits transfer (EBT) or in the form of cash if authorized by the Food Stamp Act. (For example, under a bill reported out the Senate Agriculture Committee by Senator Lugar on June 14, 1995, states can cash out food stamp benefits as part of a wage supplementation program.)

The bill is designed to "piggy-back" onto the current expansion of point-of-sale terminals found in many stores. The bill anticipates that stores, financial institutions and states will take the lead in the conversion to EBT.

Under current law, states must pay for half the costs of the point-of-sale equipment put in stores. Under Senator Leahy's bill USDA will pay for 100 percent of those initial equipment costs, and USDA will pay for 100 percent of the costs of the EBT cards.

STATE LIABILITY: Under Senator Leahy's bill, USDA and the Federal Reserve Board are precluded from making states liable for losses associated with lost or stolen EBT cards (unless due to state fraud or negligence as under current law for coupons). The bill makes households liable for most EBT losses: however, they are not liable for losses after they report the loss or theft of the EBT card.

As under current law, states are liable for their own fraud and negligence losses.

Senator Leahy's bill provides that "Regulation E " will not apply to food stamp EBT transactions. Generally speaking, "regulation E" provides that credit card or debit card users are liable only up to the first \$50 in unauthorized uses of lost or stolen credit cards (as long as such a loss is reported in a timely manner).

The card issuer is liable for the rest of the loss. Under current law the state is considered the card issuer for food stamp EBT purposes. Regulation E has been a major impediment to implementation of EBT by states.

While the risks are much lower for the food stamp program than for debit cards (since EBT food cards only contain the balance of the unused food benefits rather than access to bank accounts or credit lines), many states are worried about liability and oppose the application of "Regulation E." The bill also provides that each recipient will be given a personal code number (PIN) to help prevent unauthorized use of the card.

HOUSEHOLD LIABILITY: Under the bill food stamp families will have to pay for replacement cards. However, once reported the old card will be voided and a new card will be issued with the balance remaining.

Households will be able to obtain transaction records, upon request, from the benefit issuer and that issuer will have to establish error resolution procedures.

FEDERAL SAVINGS: Under the bill, USDA will no longer have to pay for the costs of printing, issuing, distributing, mailing and redeeming paper coupons -- this costs between \$50 million and \$60 million a year.

Under the bill, in an effort to reduce the costs of implementing a nationwide EBT system, states and stores will look at the best way to maximize the use of existing point-of-sale terminals and follow technology, rather than lead technology.

STORE PARTICIPATION: Many stores are currently using or in the process of adding point of sale terminals which allow them to accept debit and credit cards. These systems can also be used for EBT.

Stores which choose not to invest in their own systems will receive reimbursements for point-of-sale card readers (which can only be used for federal or state assistance programs). USDA will pay for those reader costs.

If the store decides at a later date that it needs a commercial (debit or credit card) reader, the store will have to bear all the costs. In very rural areas, or in other situations such as house-to-house trade routes or farmers' markets, manual systems will be used and USDA will pay 100 percent of the costs of the equipment.

It is planned that this dual restriction -- only federal and state program readers paid for and the upgrade at store expense -- will encourage the largest possible number of stores to invest in their own point-of-sale equipment. That is clearly the best option.

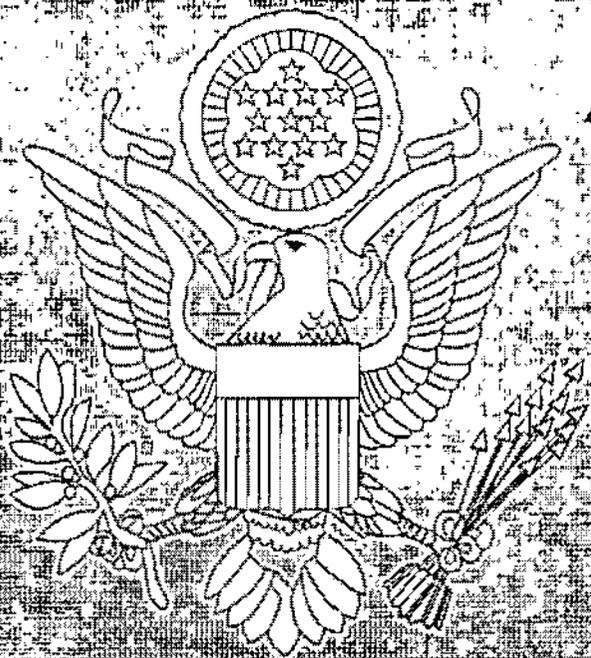
To the extent needed to cover costs of conversion to EBT, the Secretary is authorized to charge a transaction fee of up to 2 cents per EBT transaction (taken out of benefits). Households receiving the maximum benefit level (for that household size) may be charged a lower per transaction fee than other households.

CONSULTATION: In implementing the bill the Secretary will have to consult with states, retail stores, the financial industry, the Federal EBT taskforce, the Inspector General of USDA, the United States Secret Service, the National Governor's Association, the Food Marketing Institute, and others.

FROM PAPER TO ELECTRONICS

Creating a Benefit Delivery System That Works Better & Costs Less

*An Implementation Plan
for Nationwide EBT*



Report of the Federal Electronic Benefits Transfer Task Force

Washington, D.C.

May 1994

Reed



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

5/23

MEMORANDUM FOR DISTRIBUTION

FROM: Belle Sawhill .

SUBJECT: Electronic Benefit Transfer Roll-out

On May 31, the Vice-President is planning to announce our plans for the rapid, nationwide implementation of Electronic Benefit Transfer (EBT). The plan entails working with the States to include as many Federal and State benefits as possible on a single card that can be used at ATM machines and in supermarkets. We will start with a small group of States and a limited set of programs and expand from there. The goal is to have complete coverage within five years. An advance copy of the plan developed by the EBT Task-force which I chair is attached for your information.

A main theme of the Vice-President's announcement will be the NPR goal: "moving toward electronic government." We are working closely with NPR staff on the rollout.

If you or your staff have any questions please call me, Tom Stack, or Richard Green.



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

The Vice President
The White House
Washington, D. C. 20500

Dear Mr. Vice President:

We are very pleased to present you with the Report of the Federal Electronic Benefits Transfer Task Force. In September, the National Performance Review called for an implementation plan to support the rapid development of a nationwide system to deliver government benefits electronically. This report answers that call.

In November, an interagency Task Force was formed to make EBT nationwide in the fullest sense – one card, user friendly, with unified delivery of government-funded benefits. This Task Force report is the result of hard work and cooperation among many people in Federal and State government who believe EBT is a modern tool to make government work better and cost less. In preparing this report, we consulted with and received excellent input from States, the financial services community, food retailers, and recipient advocates.

The report represents a key milestone for the implementation of EBT nationwide. Upon your acceptance of this report, nationwide implementation of EBT in partnership with States, will begin immediately. We look forward to discussing this report with you.

Sincerely,

Isabel Sawhill
Chair, Federal EBT Task Force

Ellen Haas
Vice Chair, Federal EBT Task Force

Kenneth Apfel
Vice Chair, Federal EBT Task Force

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1. EXECUTIVE SUMMARY

THE VISION—ELECTRONIC BENEFIT DELIVERY

Make EBT nationwide in the fullest sense -- one card, user friendly, with unified delivery of government funded benefits.

Vice President Gore's September 1993 Report of the National Performance Review (NPR), *From Red Tape to Results*, called for the rapid development of a nationwide system to deliver government benefits electronically. The Federal Electronic Benefits Transfer (EBT) Task Force was chartered in November

1993 to meet this challenge. Simply put, our goal is to make EBT nationwide in the fullest sense—one card, user friendly, with unified electronic delivery of government funded benefits under a federal-state partnership.

EBT provides benefit access through automated teller machines (ATMs) and retail point-of-sale (POS) terminals. It can replace the multiple paper-based benefit delivery systems with a single, integrated electronic system that delivers benefits for a full range of federal and state government programs. The Task Force envisions a national EBT system that reduces the cost of benefit delivery, strengthens the management of program funds, and reduces fraud. A national EBT system, built with the help of the private sector, will replace outmoded government disbursing through the use of modern electronic banking technology. The result will be improved service at a lower cost. This implementation plan is the first step in meeting that goal.

Each year, federal and state programs deliver almost \$500 billion in cash benefits and food assistance. Most of these benefits can be delivered through direct deposit and the rest by EBT. There are at least 12 federal and state benefit programs which could use EBT to replace paper delivery methods. These include food assistance programs under the Department of Agriculture (USDA) and cash benefit programs under the Departments of Health and Human Services (HHS), Veterans Affairs (VA), Defense, Labor, and Education, the Office of Personnel Management, and the Railroad Retirement Board.

Initially, the effort to implement EBT nationwide will focus on programs currently using EBT on a small scale, including the Food Stamp Program, Aid To Families With Dependent Children (AFDC), certain direct federal cash benefit programs, and some state general assistance programs. Once the full range of programs is included, a nationwide EBT system will deliver over \$111 billion in benefits annually. To put this in perspective, the annual funds flow for VISA USA, the most widely used credit card in the United States, is in the range of \$175 to \$180 billion.

For recipients with bank accounts, direct deposit is the most cost effective means of delivering benefits. However, a substantial portion of federal and state benefit recipients do not have access to bank accounts. Moreover, direct deposit is not an option for government food assistance programs which restrict access to eligible food items in authorized food retail locations. In these cases, EBT is the solution.

THE NATIONAL STRATEGY

The Task Force will provide the leadership for the development of an integrated, nationwide EBT payments system providing recipients with access to all their government benefits, even across state lines. The implementation plan calls for development and roll-out of nationwide EBT over the next five years. The plan has the following five points.

- *Establishing partnerships with states*, to provide the structure for decision making, operations, and management of nationwide EBT, to be completed by June 1994.
- *Developing the foundation for a uniform EBT operating environment*, based on commercial standards. Some components will be available by September 1994; all components will be available by March 1995.
- *Implementing EBT*, through multi-state prototype(s) and state initiatives, between now and March 1996.
- *Expanding EBT services* to all states by March 1999.
- *Enhancing EBT services*, by examining new and developing technologies, beginning now and continuing in the future.

The National EBT strategy features two converging paths, both based on a standard foundation.

The Task Force recommends a national implementation strategy that features two converging paths. To ensure uniformity, both paths will be based on a standard foundation consisting of organizational and operational building blocks derived from the infrastructure that support commercial debit

and credit cards.

- *Joint-Venture Prototype(s)*: The federal government and groups of states or single states will work together in federal/state joint-venture partnerships to develop, implement, and manage one or more large-scale, multi-program EBT systems encompassing both direct federal and state-administered benefit programs. The implementation of the first prototype model is expected to begin by March of 1996, with other prototype implementations beginning shortly thereafter.
- *State-Initiated EBT*: A parallel path to achieve nationwide EBT recognizes that some states may choose to proceed with EBT development on their own or with other states rather than committing to a federal/state joint venture. States will have the flexibility to procure and implement EBT services with federal support and will be able to incorporate direct federal benefits by linking with financial institutions approved by the Treasury Department for this purpose.

We believe that both of these paths are viable. They will converge in a uniform national operating environment, while offering states flexibility to determine the most appropriate path for

their implementation. The Task Force encourages states to enter partnerships with the federal government for the potential cost efficiencies and streamlined design, development, and procurement processes that joint business ventures offer.

Standard EBT services should be available to benefit recipients in all states by 1999.

proceed to additional states and regions of states. Standard EBT services should be available to benefit recipients in all states by 1999.

The federal government will provide leadership for the development and procurement of EBT services for both paths. With the elements of the foundation and streamlined procurement options available, the roll-out of uniform EBT operations can

The Task Force recommends that EBT use on-line access and magnetic stripe card technologies to ensure compatibility with the commercial infrastructure. However, to encourage innovation, the federal government will work with stakeholders to examine emerging technologies, such as intelligent chip or "smart" cards, for EBT operations.

MAKING EBT COST EFFECTIVE

Development of the EBT infrastructure will require an initial investment shared equitably among the government and private sector stakeholders. The size of this investment can be limited by building on, rather than recreating, what the commercial EFT infrastructure already provides. The Task Force will also use lessons learned from over ten years of state demonstration testing. Although these pilot systems represent less than one percent of the dollars to be delivered through the nationwide system, these pioneering efforts have proven that EBT works. Savings can accrue from combining multiple program benefits on a single card.

STAKEHOLDERS VIEWS

The strategies presented in this plan reflect the input and concerns of recipients and government and private sector stakeholders. To obtain their input, the Task Force participated in a wide range of stakeholder discussions and forums over the past several months.

The Task Force recommends federal and state agencies join in the reinvention of government and pursue partnerships...

Government benefit delivery is shared between federal and state governments. While states share our goals for EBT, they observe that the federal approval process is fragmented and inconsistent, and that federal regulations hamper EBT development. The federal government must provide the leadership to change the way the federal and state agencies work together. The Task Force recommends that federal and state agencies pursue partnerships that streamline the development and acquisition of EBT services. Successful implementation of EBT will require not only the partnership of states and local officials, but also the cooperation of merchants, who provide food

and cash services, and financial service providers, who offer reliable and secure payment systems.

CHALLENGES

Vice President Gore's National Performance Review recognized that challenges must be met to implement EBT:

"Barriers still stand in the way. Agencies will have to work together to develop a comprehensive nationwide strategy for implementation; it will do no good for each agency to develop its own process. We will need to strengthen the partnership between state and federal governments in developing and operating the system. We will have to eliminate some regulations that would prevent this radical change in how government operates."¹

The primary challenges to the development of nationwide EBT are:

- *Costs and financing:* The governments' share of system costs must be reasonable—based on equitable cost-sharing by all stakeholders in the design, development, implementation, and operation of EBT.
- *Management and organization:* Both within the federal government and among the system stakeholders, new organizational relationships must be established to ensure uniform and cost effective development of EBT nationwide.

COSTS AND FINANCING

The Task Force believe that all stakeholders will benefit from EBT. However, these benefits should not be realized solely at taxpayers' expense. The federal government should pay a reasonable share to provide nationwide EBT services, including an up-front investment in EBT design, development, and implementation.

Regulation E is a key cost driver for EBT. Regulation E is intended to provide consumer protection for participants in electronic funds transfer systems. In February 1994, the Board of Governors of the Federal Reserve System issued a decision to make Regulation E applicable to EBT. The decision provided for a three-year delay before coverage becomes effective. States have indicated that the potential liability associated with applying Regulation E to EBT may be a "show stopper" for further EBT development. While there must be adequate consumer protection, the Task Force shares the states' concern about accepting liabilities of undetermined value. Over the next three years, the federal government will work with a coalition of states and with the financial services industry to develop the strategies and procedures that can limit exposure to fraudulent claims and equitably distribute the liability among the stakeholder groups.

¹ *From Red Tape to Results, Creating a Government that Works Better and Costs Less*, Report of the National Performance Review, September 1993, page 114.

Although there is promising cost data from the EBT demonstrations, extrapolating these analyses to a nationwide rollout is difficult given the number of cost variables and assumptions about stakeholders' participation in financing. To estimate EBT costs, the Task Force constructed a model to approximate the outcome of nationwide EBT design, development, implementation, and operating costs. A discussion of the cost methodology, including key assumptions and cost drivers, is presented in the main body of the report.

The Task Force estimates EBT, once operational nationwide, will produce annual federal savings of \$195 million.

Full implementation of EBT will produce federal savings of an estimated \$195 million annually, as compared to the costs of paper-based benefit delivery. The one-time federal investment for the design, development, and implementation of nationwide EBT is expected to require \$83 million in new federal

appropriations over four years - 1994 through 1997 - including \$11 million already earmarked for 1994 and \$15 million requested for 1995.

States will share in a portion of the design, development, and implementation costs and in operational costs. Retailers will be expected to invest in POS terminals for their stores and to pay the normal cost of POS terminal transactions. The financial services community will provide access to ATM terminals and networks and will help in determining ways to limit Regulation E liability. Benefit recipients, many of whom currently pay very high check cashing fees, will be able to access all of their cash benefits at little or no charge, but will be expected to pay a nominal fee for the cost of additional transactions in order to benefit from the security of retaining funds in their EBT accounts.

MANAGEMENT AND ORGANIZATION

Agencies must work together to implement EBT nationwide. Those responsible for EBT within the federal government should be organized to fulfill the following needs:

- *Develop consistent federal policy*, so that EBT stakeholders (i.e., states, retailers, EBT service vendors, and advocates) receive a coordinated policy message across programs and agencies;
- *Ensure accountability*, so that progress toward nationwide EBT is continually assessed;
- *Provide a single point of contact*, so that stakeholders who need information and approvals do not have to manage their own way through multiple federal contact points;
- *Mobilize federal resources to meet a schedule for rapid deployment of nationwide EBT*, so that scarce resources are managed effectively; and
- *Develop standards for a uniform, commercially compatible EBT operating environment*, so that retailers and financial institutions can tie into federal and state-sponsored EBT systems that support interstate transactions for multiple programs.

To respond to these needs, the Task Force recommends a structure that consolidates responsibility for government-wide EBT policy and provides an account executive for each state or group of states. Within this framework, the responsibilities of the key organizations follow.

The Federal EBT Task Force. National EBT policy, implementation, and operations will be directed by the Federal EBT Task Force consisting of principals representing the Office of Management and Budget (OMB), HHS, USDA, and Treasury and an executive support staff. The OMB principal serves as the Task Force chair. Specifically the Task Force will:

- * Develop and oversee national EBT policy;
- * Direct the design and development of the EBT foundation;
- * Manage EBT prototype project(s);
- * Coordinate EBT stakeholder communications;
- * Work with agencies to ensure the development of a streamlined, multiple program grant approval process;
- * Receive state grant applications and oversee the federal approval processes; and
- * Coordinate budget requests related to implementation and operation of nationwide EBT.

Lead Program Agency. As lead program agency, USDA will designate an EBT account executive to coordinate the federal response to EBT grant applications from states or groups of states. Account executives will have a direct working relationship with the Task Force executive staff and serve as the single point of contact for project-related communications. They will coordinate the review and approval processes within the federal government for each grant application. The account executive will ensure that governmentwide EBT policies are addressed consistently. In managing a project, the account executive will consult with the Task Force regarding progress, problems, and changes in direction. The account executive will ensure rapid review and approval of grant applications.

Treasury. Treasury will manage the federal government's financial operations associated with EBT. Working with the Task Force executive staff to document requirements, Treasury will be responsible for acquiring and managing the EBT financial services that are needed to support nationwide EBT.

Agencies will work together to coordinate EBT grant application approval. The Task Force executive staff will receive the grant application and, in coordination with the affected agencies, refer it to the designated account executive. Following the streamlined approval process with established deadlines, the application will be reviewed by the appropriate agencies. The new feature of the process is that the account executive will be responsible for facilitating solutions to problems identified in the review process. Any major problems or issues that the account executive encounters in moving the application will be referred to the Task Force for resolution.

1. THE VISION - ELECTRONIC BENEFIT DELIVERY

Make EBT nationwide in the fullest sense—one card, user friendly, unified delivery of government funded benefits.

Vice President Gore's September 1993 Report of the National Performance Review, *From Red Tape to Results*, called for the rapid development of a nationwide system to deliver government benefits electronically. The Federal Electronic Benefits Transfer (EBT) Task Force was chartered in November to meet this challenge. Simply put, our goal is to make EBT nationwide in the fullest sense—one card, user friendly, with unified delivery of government funded benefits developed under a federal-state partnership. Federal benefits not delivered through EBT will be delivered through electronic direct deposit. For recipients with bank accounts, direct deposit is the most cost effective means of delivering benefits. However, a substantial portion of federal and state benefit recipients do not have access to bank accounts, and direct deposit is not an option for food assistance programs which restrict access to eligible food items at authorized food retailers.

EBT, an electronic funds transfer (EFT) technology applied to the delivery of government benefits, provides benefit access through automated teller machines (ATMs) and retail point-of-sale (POS) terminals. The current paper-based coupon, check, and voucher systems are expensive and inefficient. Each of the many, diverse benefit programs currently has separate systems to print, issue, and reconcile paper benefits. Too often these systems are beset with fraud and abuse. For benefit recipients, there can be long waits for the check to arrive, check cashing fees which erode benefits, and a high risk of theft.

EBT presents an opportunity to replace the multiple paper systems with a single, streamlined electronic system that delivers benefits for a full range of federal and state programs. The EBT Task Force envisions a uniform national EBT system that, implemented in the right way, will reduce the cost of benefit delivery. It will also help strengthen the management of program funds and reduce and aid in the prosecution of fraud. (See Appendix A for a discussion of fraud reduction and other benefits.) The national EBT system we would build will make the government a partner with the private sector to transform outmoded government disbursing through the use of modern electronic banking technology. The goal is improved service at a lower cost. This implementation plan is the first step in meeting that goal.

POTENTIAL SCOPE OF NATIONAL EBT

Each year, federal and state programs deliver almost \$500 billion in cash benefits and food assistance. A good portion of these benefits can be delivered through direct deposit; the rest through EBT.

As shown in the following table, there are at least twelve federal and state benefit programs which could use EBT to replace paper benefit delivery methods.

*Potential Scope of Nationwide EBT
(Pooled Federal & State Benefits)
1993 Estimated*

<u>Program</u>	<u>EBT</u>	
	<u>Caseload</u>	<u>(\$000)</u>
Food Stamps	10,800,000	\$22,005,000
AFDC	3,733,000	\$16,915,000
SSI	3,000,000	\$12,180,000
OASDI	3,890,000	\$41,078,000
GA	1,300,000	\$5,505,000
Unemployment	1,600,000	\$6,713,000
LIEA	2,800,000	\$465,000
RRB	64,000	\$603,000
VA	200,000	\$1,155,000
Federal Pensions	29,000	\$379,000
Military Pensions	300,000	\$2,605,000
WTC	1,400,000	\$2,114,000
	<u>31,118,000</u>	<u>\$111,717,000</u>

These include programs providing food assistance under the Food Stamp Program (FSP) and the Special Supplemental Food Program for Women, Infants, and Children (WIC), and programs that provide cash benefits such as the Social Security Administration's Old Age, Survivors, and Disability Insurance (OASDI), Supplemental Security Income (SSI), Aid to Families with Dependent Children (AFDC), States' General Assistance (GA), Civil Service Retirement and Disability, Veterans Affairs Compensation and Pension Benefits, military pensions, Railroad Retirement benefits, Unemployment Insurance, Energy Assistance, and Student Loans. Among the federal agencies with

responsibility for these programs are the Departments of Agriculture, Health and Human Services, Veterans Affairs, Defense, Labor, and Education, the Office of Personnel Management, and the Railroad Retirement Board.

Initially, the effort to implement EBT nationwide will focus on programs currently using EBT on a small scale, including the Food Stamp Program, AFDC, certain direct federal cash benefit programs, and some state general assistance programs. Once the full range of programs is included, a nationwide EBT system could deliver over \$111 billion in benefits annually. To put this in perspective, the annual funds flow for VISA USA, the most widely used credit card in the United States, is in the range of \$175 to \$180 billion.

THE NATIONAL STRATEGY FOR EBT

The Task Force will provide the leadership for the development of nationwide EBT. Our plan is based on a five point implementation strategy as follows.

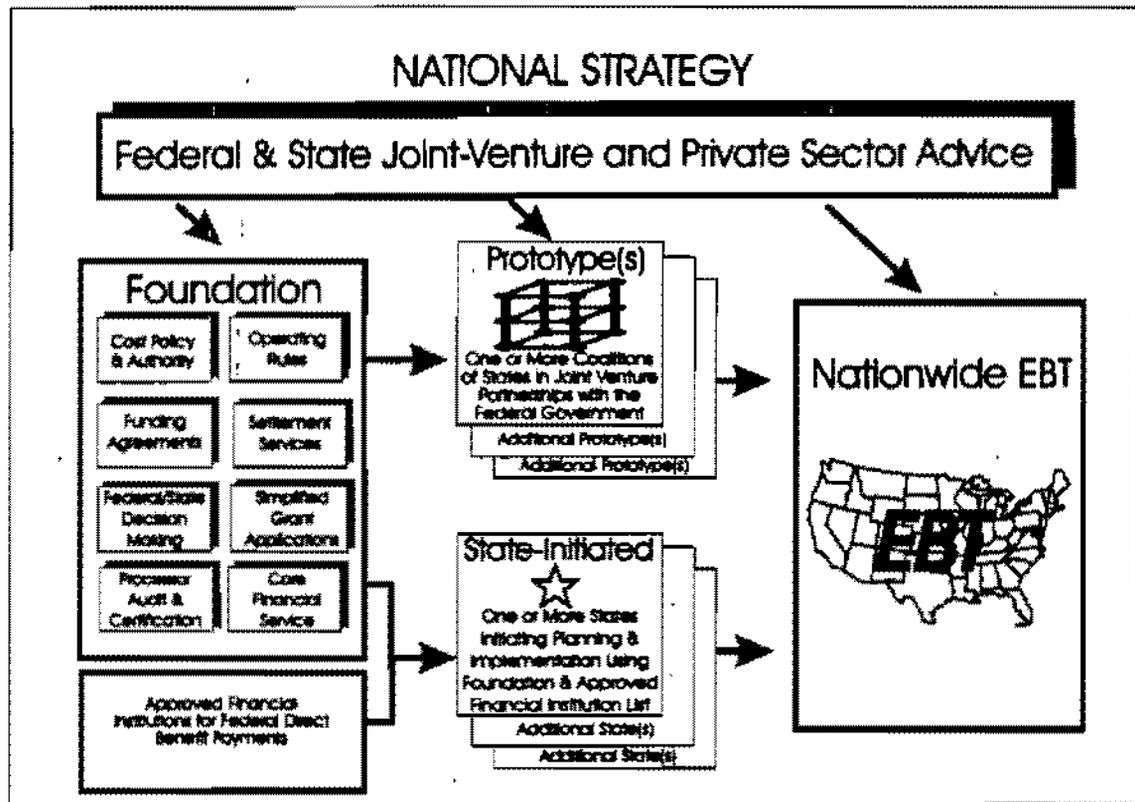
Establish Partnerships

As a first step, the federal government must act as a catalyst to reinvent the way the federal and state agencies work together in building EBT payment systems. In doing this, the federal government will establish partnerships with states to work on one or more joint venture prototypes and on state-initiated EBT projects. These partnerships will be established by September 1994.

Build Foundation

The federal government and states will develop a set of eight building blocks which will form the foundation for uniform nationwide EBT operations. The foundation consists of

organizational and operational building blocks and includes: (1) standard operating rules; (2) standard financial core; (3) standard settlement service; (4) funding agreements; (5) enabling cost policy; (6) simplified state application process; (7) EBT processor and audit certification; and (8) federal/state decision-making structure.



These key building blocks of nationwide EBT will be made available for use by states as they are completed. Some will be available as early as September 1994; all eight will be available by March 1995.

Implement EBT

Recognizing that some states have already proceeded through various stages of planning and implementation, the Task Force recommends a national implementation strategy that features two converging paths. To ensure convergence and uniformity, both paths will be based on the standard foundation.

- **Joint-Venture Prototype(s):** The federal government and multiple states will work together in federal/state joint-venture partnerships to develop, implement, and manage one or more large-scale, multi-program EBT systems encompassing both direct federal and state-administered benefit programs. This prototype(s) will feature a coordinated process to acquire common EBT services. The goal is to acquire services quickly and

efficiently without having to proceed through separate, redundant, and costly design, development, and procurement processes for each state. The organization, management, and operational specifications for the prototype can serve as a model for states wishing to participate in similar regional federal/state partnerships to acquire and manage large scale EBT systems. The implementation of the first prototype model is expected to begin by March of 1996, with other prototype implementations beginning shortly thereafter.

- **State-Initiated EBT:** A parallel path to achieve nationwide EBT recognizes that some states may choose to proceed with EBT development on their own or with other states rather than committing to a federal/state joint venture. In particular, some states which are currently in the process of developing or implementing EBT may want to proceed individually. Also, some states may want the increased autonomy and flexibility of separate procurement actions to acquire EBT services. To ensure integration in the national system, these states will use the EBT foundation. States will be able to incorporate EBT services for direct federal beneficiaries by linking with financial institutions approved by the Department of the Treasury for this purpose.

We believe that both of these paths are viable. They will converge in a national uniform operating environment, while offering states flexibility to determine the most appropriate path for their implementation.

Expand EBT

By March 1999, EBT services for the major federal and state benefit programs will be available nationwide. During this period, EBT will be expanded to benefit programs with more complex requirements for EBT integration. These programs include health care programs, such as Medicaid and Medicare, as well as the Special Supplemental Food Program for Women, Infants, and Children (WIC), a nutritional assistance program. In addition, the federal government will work with states that have not deployed EBT to determine appropriate strategies for including them in the nationwide system.

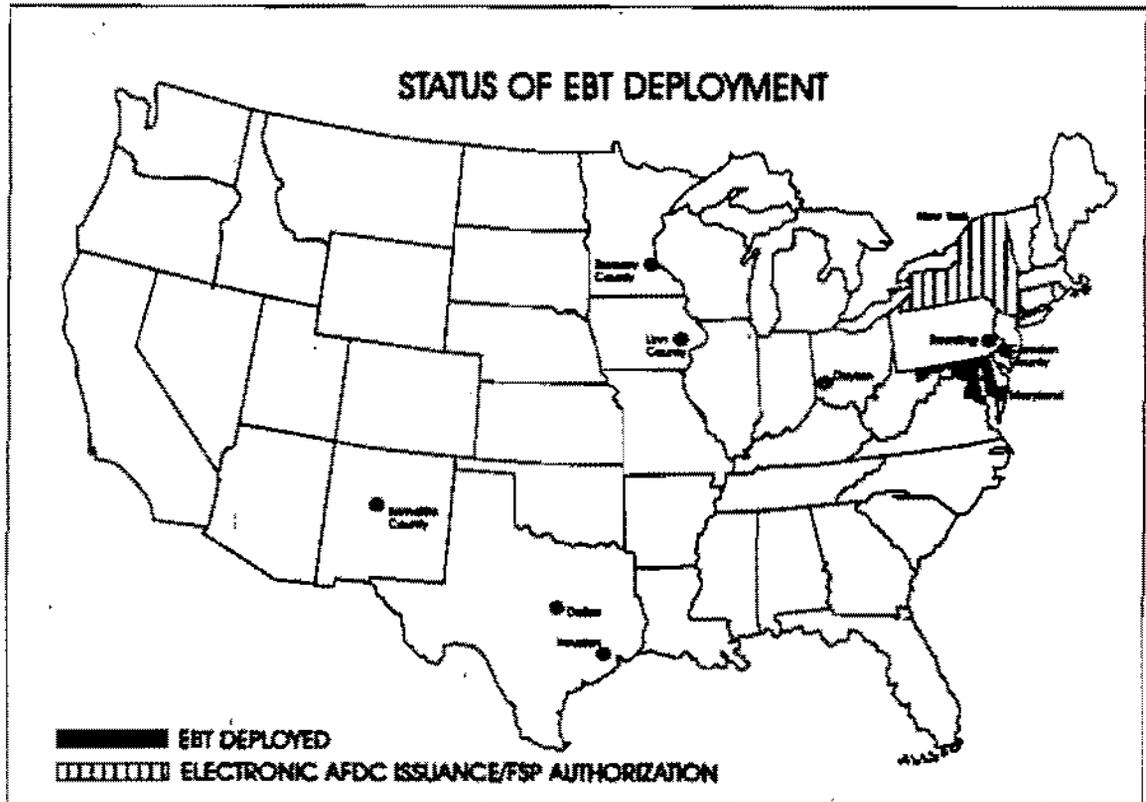
Enhance EBT Systems

The federal government will support the adaptation of appropriate new and evolving technologies for EBT, placing special emphasis on innovative technologies such as smart cards. This work will be conducted in coordination with the implementation of the national EBT system.

STATUS OF EBT DEPLOYMENT

While well over half the states are anticipating implementation of EBT, Maryland operates the only state-wide system. As shown below, six other states currently operate small, county-based demonstration projects, and the Treasury Department is demonstrating the use of EBT for direct federal programs, primarily Social Security benefits, in Houston and Dallas. . . Another three states have recently awarded contracts for EBT processing services. These systems will initially be pilot-tested in local counties. While New York does not have a traditional EBT

system, the state is using POS and card technologies to issue AFDC cash payments and replace food stamp authorization-to-participate (ATP) cards. (See appendix B for a detailed discussion of the status of EBT deployment.)



MAKING EBT COST EFFECTIVE

For more than a decade, federal and state agencies have proven the feasibility of EBT through various demonstration projects. However, the Task Force does not expect that individual experiments will achieve the economies that can accrue from building an integrated national system encompassing a full range of federal and state benefit programs. After an initial federal investment, a fully operational system could save the federal government \$195 million per year compared to operational costs of the current paper-based systems. (See chapter 4 for a detailed discussion of the cost model.) However, to ensure cost-effectiveness, the national EBT system must be based on the following criteria:

- **Federal/State Partnerships:** In developing this report, the Task Force conducted an outreach program to obtain input from government and private sector entities who have a stake in EBT development. States were unanimous in saying that they want to become true partners with the federal government in developing and managing EBT systems. States indicate that EBT systems could be developed more cost effectively through federal and state joint ventures and a streamlined approval process. To achieve

this goal, states have asked for an EBT policy board or committee that includes federal and state representation.

- **Commercial Technology and Infrastructure:** The initial investment needed to build the national EBT infrastructure can be limited by not recreating what the commercial EFT infrastructure already provides. The Task Force recommends that EBT be built on the existing commercial infrastructure rather than duplicate it. Key features of this infrastructure include equipment, communications, and settlement mechanisms.
- **Nationwide Standards:** To be cost effective, EBT systems must be built on standard technical specifications and operate the same throughout the country. Stakeholders indicate that cost savings which would otherwise be gained from EBT will surely be lost if retailers, networks, and financial service providers have to adapt their services or operations to unique operating environments in each state. The Task Force recommends that a standard foundation incorporating operating rules and standard technical specifications for all EBT development efforts form the basis for deploying EBT nationwide.
- **Equitable Taxpayer/Private Sector Cost Sharing:** Federal and state governments rely on food retailers, through retail POS terminals, and the financial service providers, through ATMs, to provide access to government food and cash benefits. It is not unusual for food stamp transactions to comprise 30 to 40 percent or more of a store's retail food sales in inner city and metropolitan areas. For food retailers, EBT reduces paper coupon handling and lowers retailers' operating costs. In addition, many large food retailers (75 percent of food stamp benefits are redeemed through 15 percent of retailers, mostly large retail chains) either already have or are considering implementing electronic POS systems. For these retailers, EBT enhances their business case for POS. Food retailers will be asked to invest in EBT by deploying terminals and assuming the POS transaction fees—as they now do in the commercial environment. In turn, the federal government must provide retailers with standard systems so that they will not have to adapt their operations to a different system in each state in which they operate.

Current law prohibits the government from forcing food retailers to incur the costs associated with EBT system installation in order to participate in EBT. Retailers have expressed concern that government efforts would force them to use special equipment, link to non-standard networks, and establish new banking or processing relationships. Retailers want to work with the government to overcome obstacles and to implement a national EBT strategy that is consistent with their business needs.

The financial services community will also benefit from reduced paper handling and from increased use of the electronic infrastructure. The financial services community will be encouraged to deploy ATM terminals in areas with limited access. There is evidence that this community is willing to deploy more terminals in such areas if there is sufficient transaction volume to support the terminals. For example, a large, New York-based bank increased the number of ATMs deployed in the city of Camden, New Jersey from three to six with the implementation of EBT, bringing the number of ATMs available to recipients in Camden to ten.

2. STAKEHOLDER VIEWS

The federal government cannot develop the nationwide EBT system alone. Partnerships with states and the participation and support of retail merchants, the financial services community, and recipients are vital to creating the system. To understand the needs of these stakeholders, members of the Task Force participated in many meetings and forums with states and other stakeholders over the past several months. Our goal was to understand their concerns and tap their ideas to incorporate them into this plan.

THE STATE PERSPECTIVE

For many programs, government benefit delivery is a shared responsibility between the federal and state governments. States acknowledge EBT's potential, but they observe that the federal approval process is fragmented and inconsistent, and that federal regulations often hamper EBT development and integration. In this regard, states expressed the following views.

- **Federal/State Collaboration:** States now administer and jointly fund many of the federal programs whose benefits can be delivered through EBT. Nationwide EBT deployment can only succeed through cooperative efforts between states and the federal government. Once EBT is deployed, federal and state representatives must have an ongoing dialogue to oversee system maintenance and innovation.
- **Alternative Paths to Development:** While a number of states are considering a federal/multi-state regional approach to EBT deployment, others may choose a state-initiated approach. States want the flexibility to choose the most appropriate route.
- **Streamlined Approval/Single Point of Contact:** States do not want to have to go from agency to agency to seek approvals, funding, and guidance prior to implementing an EBT system. They want a coordinated federal approval process. While they recognize agencies' program responsibilities may vary, the cost and time required to successfully maneuver an EBT proposal through the federal maze stifles implementation.
- **Consistent Federal Policy:** States recognize that EBT is only now moving from the experimental to the operational stage, and that policy shifts are natural during this process. However, for EBT to be rapidly deployed in a cost-effective manner, the federal government must articulate consistent federal policies regarding administrative approvals, cost allocation methodologies, and grant requests. States suggest creation of a board tied to the Executive Office of the President to serve as a single point of contact. They also favor a mechanism for states to provide meaningful input into federal decisions related to EBT.
- **Regulation E Relief:** The Electronic Fund Transfer Act governs electronic funds transfers initiated to debit or credit a consumer account. The Act, implemented by the Federal Reserve Board's Regulation E, creates a legal framework of rights and responsibilities for consumers and for providers of electronic fund transfer (EFT) services. The Act and regulation provide for restrictions on the unsolicited issuance of

automated teller machine (ATM) cards and other access devices; disclosure of terms and conditions of an EFT service; documentation of transfers through terminal receipts and periodic statements; limitations on consumer liability for unauthorized transfers; and procedures for error resolution. In February 1994, the Board voted to apply the liability provisions of Regulation E to EBT effective March 1997.

Many states expressed strong opposition to the application of Regulation E to EBT. States indicated that Regulation E may be a "show stopper" due to the financial liability they believe it will impose. The obstacle that Regulation E poses to EBT has led some states to re-think their position on deploying EBT. The Task Force understands the position of the states and is concerned about undertaking responsibility for liabilities of an undetermined value. There may be approaches that could limit federal and state liability in a way that is equitable to taxpayers and recipients; the Task Force will explore these approaches.

During the next three years, the federal government will evaluate the costs and impacts of Regulation E on EBT. A fundamental part of the evaluation will be the definition of administrative procedures to resolve disputes. The government will also assess alternative methods of funding. Pending the outcome of these analyses, state concerns will continue to influence nationwide implementation planning.

- **Standard Financial Specifications:** The current EBT process often results in each state developing an independent set of system requirements and specifications, generating an expensive and time-consuming procurement process. Many states believe that a core set of requirements could be packaged as a standard EBT product, and be made available through the marketplace. States want to have flexibility regarding program performance and customer service aspects of EBT, but every state does not need to start from scratch for all requirements, particularly those related to financial aspects of EBT.
- **Cost-effectiveness:** States want to build cost-effective systems. They want relief from program-by-program rules that often impose, rather than reduce, administrative burdens. States would prefer the establishment of an overall cost-effectiveness standard that recognizes the multiple-program, multi-year aspects of EBT rather than the current

Regulation E - The State View

States concern regarding Regulation E stems from two sources: First, the requirement to reinstate benefits withdrawn in a disputed transaction would result in an unfunded liability that would fall chiefly on states. Second, requirements for response and resolution of claims place an extreme burden on already overworked social service workers. In a commercial environment, reinstated funds can be removed once resolution is set. Funds reinstated to an EBT account could be subject to rules governing the reclamation of overpayment that differ with each benefit program.

States argue that financial institutions that issue debit cards have recourse to control expenses related to Regulation E which are not available to public institutions. For example, financial institutions charge account maintenance and transaction fees that offset losses. They can close "high risk" accounts and can refuse to issue a new card to a customer that has repeated losses. They can also refuse to open an account for individuals with questionable credit.

standard for strict annual cost neutrality. They also think improvements in customer service and reductions in fraud should be part of the performance equation. Some states have also suggested fiscal incentives, such as restoration of enhanced matching rates for fraud prevention, to be able to focus on fraud prevention activities.

- **State Innovation:** While the majority of states are opting for on-line EBT technology, upon which the commercial financial payment systems are based, some states want to retain the flexibility to pursue off-line, smart card and other technologies. They believe the national strategy should allow room for experimentation.
- **State Regulations/Legislation:** Some states may need to change regulations or amend statutes to fully participate in the federal/state partnership to implement EBT nationwide. States need to have as much advance notice as possible of federal policy decisions related to EBT in order to identify where state action may be required.

THE BENEFIT RECIPIENT PERSPECTIVE

To learn how benefit recipients viewed EBT, the Task Force talked to recipients in several demonstration sites and to client advocates. When asked what they liked most about EBT, clients overwhelmingly gave two answers—dignity and security. When asked what feature not available in current demonstrations they would most like, they indicated access—both routine access to benefits across county and state lines and access to benefits from other programs that could be included on the same card. In building the national EBT infrastructure, the Task Force will continue to talk to recipients and work with their advocates to ensure their views are considered.

- **Dignity:** The card and system should look and operate like commercial credit and debit card systems widely used across the nation. At the point of service, whether at a POS terminal in a check-out line or at an ATM, the system should not differentiate between an EBT cardholder and a MasterCard, VISA, or other cardholder.
- **Security:** Paper coupons and checks make easy prey of society's elderly and neediest people. They fall victim to muggers who wait outside places where recipients cash their checks or pick up food coupons. Recipients with access to EBT often say that the security it provides is a primary reason that they prefer a card to coupons and checks. They do not have to withdraw the entire amount of their benefits and can keep funds secure until needed. Toll free telephone numbers let them obtain information, resolve problems, and deal with such routine maintenance activities as a change of address.
- **Access:** ATMs across the nation are linked through a well-defined and well-managed set of local, regional, and national communications networks that allow consumers to access their accounts wherever and whenever they need money. POS systems allow people to use credit and, increasingly, debit cards at participating merchants. EBT recipients should have similar access to benefits. In developing the EBT system, this infrastructure will not be reinvented, only augmented when necessary. Recipients, along with commercial customers, will be able to access funds through the expanding network of POS terminals and ATMs and to do so at little or no cost. In order to make ATM withdrawals beyond the number provided as part of a basic services package, recipients

will pay a nominal fee. In addition, recipients will be able to conduct transactions at POS terminals consistent with commercial practices.

The Administration will review the 1974 Privacy Act and the 1987 Computer Security Act to identify any revisions needed to ensure the confidentiality of personal information in EBT systems, and to help assure a national EBT system's integrity and security. Stakeholder privacy protections, like those in the Food Stamp Act which restrict informational access to persons directly connected with EBT's administration and enforcement, will also be considered. In fact, given the multi-agency nature of the EBT effort now envisioned, consideration will be given to converting individual agency protections into a government-wide standard.

THE PRIVATE SECTOR VIEW

Successful implementation of EBT will require not only the partnership of states, but also the cooperation of merchants who provide food and cash services and financial service providers who offer reliable and secure payment systems. These stakeholders provided valuable input in the development of this plan. The Task Force will continue to look for opportunities for systematic participation from the private sector as we build the national EBT system.

- **Retail Merchants:** Perhaps more than any other private sector group, merchant support is vital for EBT implementation and delivery of benefits. Retailers provide food stamp recipients an outlet for redeeming their electronic benefits for eligible food items. Merchants also provide other EBT services for recipients, including cash benefit purchases through merchant POS, cash back services, and assistance on EBT's use and access. In providing these services, merchants want to meet customer needs through uniform, cost-effective, and reliable EBT operations, consistent with industry standards.
- **Financial Service Providers:** This group includes financial institutions, networks, and ATM and POS service providers. Their resources can form the cornerstone for EBT operations. To the extent feasible and cost effective, EBT operations can and should use commercial industry infrastructure and processes. Financial service providers have pledged to use the EFT infrastructure for EBT, provided EBT can fit reasonably with commercial standards, rules, and practice. These providers want to expand the services that they provide to clients, but only if they can maintain profitability.
- **EBT Processing Service Providers:** As the governments' direct processing agent for EBT, processors retain a central position among EBT cooperators. The processor interacts directly with all other major cooperators and plays a key role in development, implementation, and operation of an EBT system. In addition to working directly with federal, state, and local program agencies to design the base service system, the processor will compete with other POS providers to deploy terminals and provide POS services to the merchant community. As the EBT system's operator, the processor maintains benefit accounts, processes transactions, creates and provides settlement data, and can perform customer service functions such as card issuance and training. Like other financial service providers, these cooperators want to expand services on a cost-effective basis.

LESSONS FROM THE PRIVATE SECTOR

In implementing EBT nationwide, the Task Force recommends building on the commercial infrastructure for two reasons:

- The system works, and it works well. Customers of one financial institution can seamlessly access their accounts from ATMs across the country and POS devices throughout their area. In the near future, they will have access to POS nationwide.
- Card issuers and transaction originator or acquirers participate in regional and national alliances that consistently, and precisely, coordinate the exchange of transactions, funds, and information. These alliances operate under a common set of rules.

However, the commercial infrastructure did not always operate in such a seamless fashion. Before the advent of regional and national ATM networks, each financial institution deployed stand-alone ATMs, and each directly connected to the customer database. These innovative institutions invested in ATM technology to provide better service to their customers, move customer traffic out of the branch, and improve their competitive positions. As more ATMs were deployed, the customer-service features became paramount. Wishing to provide customers with greater access and desiring to share in the cost of deploying large networks, individual financial institutions formed cooperatives that allowed their respective customers to access their account through any member ATM. These financial institutions established communications links which were the precursors of today's regional networks.

This merger activity, which continues today, did not come without pain. Financial institutions had large investments in proprietary systems and had to reinvest resources to standardize systems to join the network. Similar reinvestment is being required to standardize the debit card market. As noted by the American Bankers Association,¹ many financial institutions found their systems were not compatible and have been forced to reinvest in standard systems to achieve interchange. The federal government is currently facing a similar challenge for EBT. As indicated in the National Performance Review, "*agencies will have to work together to develop a comprehensive nationwide strategy; it will do no good for each agency to develop its own process.*"²

Government need not walk down the same time-consuming, costly development path followed by the private sector. State and federal government innovation and investment have

¹ "...banking institutions in the United States were poised to invest considerable sums of money [in a national network] to facilitate the use of the debit card as a payment mechanism at the retail point of sale. [However]... many institutions had invested in operations which ... turned out to be incompatible with the ... definition of interchange, ... and were then forced to reinvest resources.", *Guidelines for Online Debit Card Systems at the Point of Sale*, American Bankers Association, Washington, D.C., 1987.

² *From Red Tape To Results, Creating a Government That Works Better & Costs Less*, op. cit., page 114.

already tested the EBT concept. EBT has the potential to provide better service at lower cost. The aim is to make uniform EBT services available throughout the nation in the most efficient way possible. To aid in developing cost effective systems, the following key features of the commercial infrastructure can provide a model for EBT.

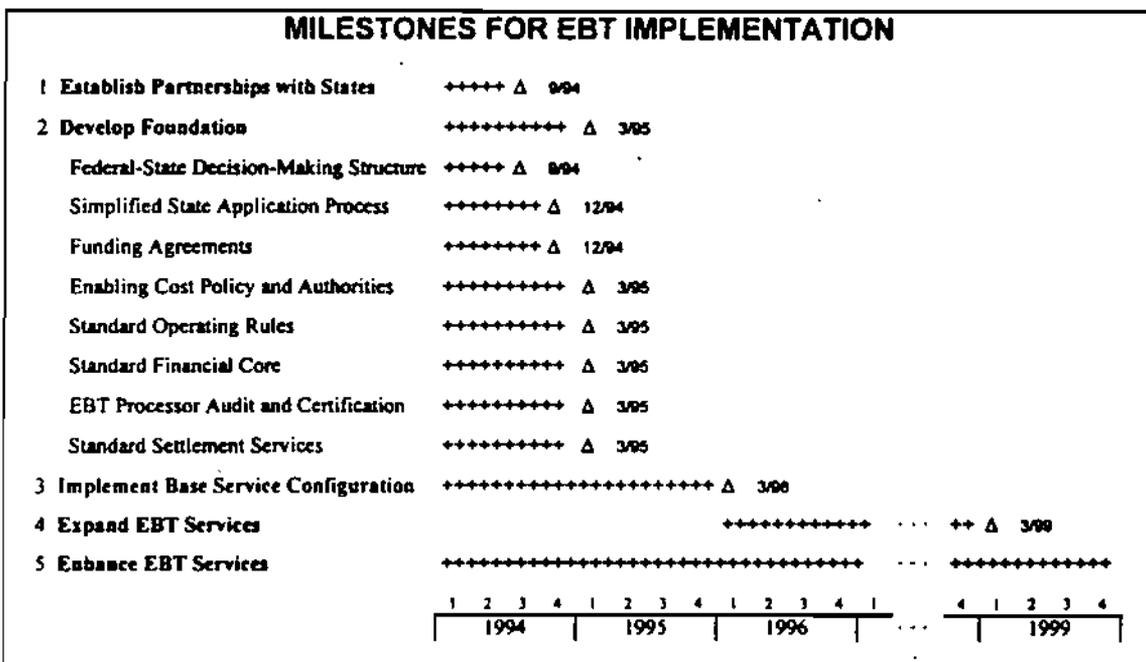
- **Universal Access:** Each participating network is represented by a name and logo that identify points of access. For example, most merchants that accept MasterCard, VISA, Discover, American Express, or any other card display the emblem on their doors or cash registers. This display tells customers their options for payment and services. Similarly, most ATMs accept a number of different cards, the names of which are prominently displayed.
- **Operating Rules:** These are standard sets of agreements that specify each participant's roles and responsibilities, the distribution of liabilities, the timing and mechanics of the movement of funds, the structure and flow of fees paid by various participants, and procedures to be followed if errors occur or disputes arise. These operating rules often incorporate or reference various technical standards.
- **Technical Standards:** These govern the format of messages, the types of transactions that can be processed, and the rules for exchanging information across single or multiple networks.
- **By-Laws:** These define the rules governing the management and organization of participating institutions. Most local, regional, and national networks are governed by a board with representatives from each major participant. These boards provide overall policy guidance, and oversee admission of new members, dispute resolution, and changes to operating rules.
- **POS Flexibility:** The networks were established to serve the card-issuing and transaction-acquiring communities. Thus, few networks dictate the types or configurations of POS equipment installed by individual merchants. Merchants have a wide range of options for linking with networks, e.g., direct connections, third-party processing in which an independent organization may provide POS equipment, training, and settlement services, and gateway processors that provide a telecommunications link.
- **Automated Clearing House (ACH):** A communication pathway used by financial institutions to electronically transfer funds. This same pathway is available to settle EBT transactions and electronically exchange program information with the financial institutions.

The implementation plan which follows for nationwide EBT mirrors many of these concepts which have been basic to creating a universal operating environment for the commercial sector. By emulating the commercial system in place today, the national EBT system can be implemented in the most cost effective way possible.

3. IMPLEMENTATION

The previous chapters discussed a broad strategy for achieving nationwide EBT and highlighted some of the challenges to meeting that goal. This chapter describes the five—point plan to develop the EBT foundation and work with states to achieve rapid implementation nationwide. The key milestones of this plan include:

- **Establish partnerships with states** — establish the structure for decision-making, operations, and management.
- **Develop foundation for uniform operating environment** — develop the building blocks for a uniform EBT operating environment.
- **Implement EBT standard services** — implement integrated, inter-state EBT services, using a standard foundation through a regional prototype(s) and through other regional/state initiatives.
- **Expand EBT services** — provide expanded EBT services across regions and states for nationwide availability.
- **Enhance EBT services** — enhance EBT services through new and developing technologies.

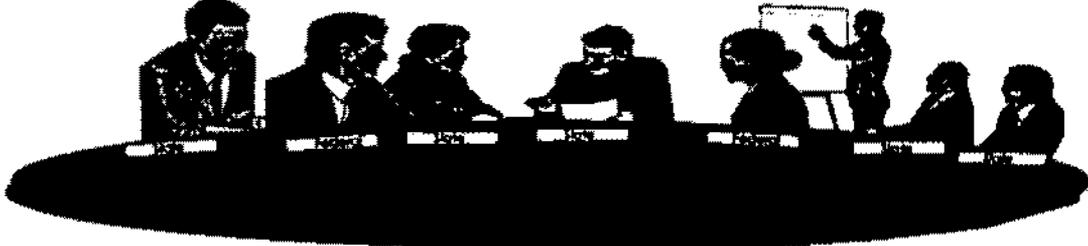


As this chart indicates, the implementation plan follows a set of successive steps resulting in nationwide availability of EBT services by early 1999. To meet this schedule, work on the milestones must begin immediately. The structure for federal and state management and decision-making will be identified by June 1994. Some of the foundation building blocks will be available as early as September 1994; all will be available by March 1995.

ESTABLISH PARTNERSHIPS WITH STATES

The strategic importance of the federal partnership with state and local governments for EBT is clear—states share benefit delivery management with the federal government; states have led efforts to bring EBT services to clients; state and local governments have close relationships with their clients and are familiar with the needs of local retailers, banks and other cooperators; and states' tax dollars help fund EBT development and operations. *States must be partners from the start.*

EBT PARTNERSHIP



- Develop Operating Rules
- Develop Technical Specifications
- Prepare Procurement Documents
- Select EBT Service Provider(s)
- Manage EBT Implementation & Expansion

In EBT Task Force forums held around the country, states expressed the need to change some of the fundamental aspects of federal grant program administration as recommended by Vice President Gore's National Performance Review:

"Virtually every expert with whom we spoke agreed that this system [i.e., federal grant programs] is fundamentally broken. No one argued for marginal or incremental change. Everyone wants dramatic change—state and local officials, federal managers, congressional staff. As in managing its own affairs, the federal government must shift the basic paradigm it uses in managing state and local affairs. It must stop holding programs accountable for process and begin holding them accountable for results."¹

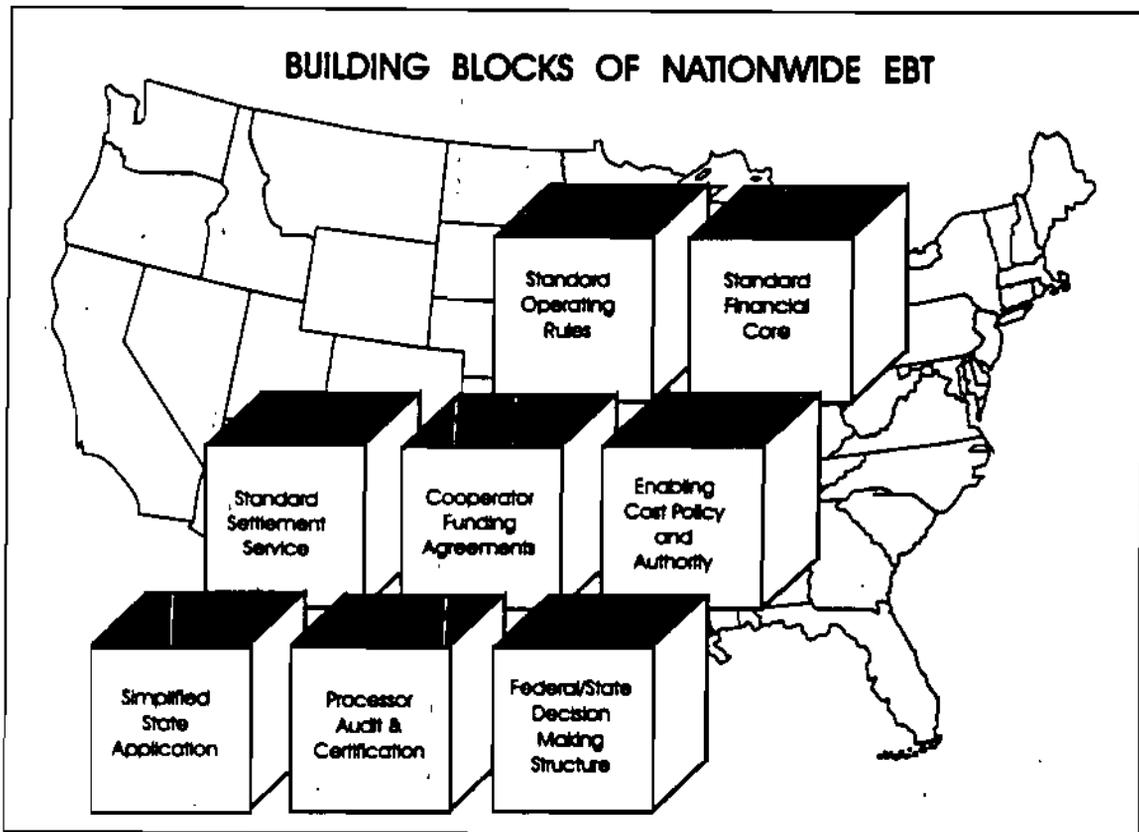
¹ *Creating a Government that Works Better and Costs Less*, op. cit., pages 36-37.

The Task Force wants to produce real improvements and encourages states to enter partnerships with the federal government towards this end. These federal and state partnerships will be based on business models, rather than traditional federal/state grant relationships, resulting in shared ownership and management. As such, a formalized federal and state management structure will steer the development, implementation, and operation of an EBT system or systems.

Consistent with the National Performance Review, federal and state EBT managers should be held accountable for producing results, rather than meeting process requirements. As recommended by states, the Task Force wants to test the feasibility of funding the administrative costs of EBT on a business model based on performance, rather than the traditional federal/state cost reimbursement.

DEVELOP FOUNDATION FOR UNIFORM OPERATING ENVIRONMENT

The foundation for nationwide EBT rests upon development of eight building blocks. As depicted in the following chart, this foundation is based on commercial industry standards and operations for ATM and POS direct debit systems. Some work to create this foundation has already been accomplished through the EBT demonstration projects. The Task Force will work with states to expand this effort and to establish a uniform EBT operating environment that meets the needs of all government programs. The building blocks for this foundation will be made available for system development as they are completed over the next 12 months.



Standard Operating Rules

To support the national system for debit and credit cards, the financial services industry established operating rules and standards that govern the procedures, roles, and responsibilities of various interested parties (e.g., network operating rules, financial institutions and American National Standards Institute standards, Automated Clearing House operating rules). The industry determined that such rules and procedures were necessary to govern ATM and POS operations and to allow for universal exchange of funds and information.

Federal and state governments, and other EBT system cooperators, now confront a similar need. To provide for uniform operations that parallel commercial EFT, standard operating rules for EBT must be developed. The rules should utilize existing industry standards for transaction processing, account maintenance, settlement and reconciliation operations. They also need to describe the roles and responsibilities of federal and state agencies, networks, card issuers/processors, and ATM/POS acquirers.

Swift action is critical; the development of standard EBT system operations will ensure the ability to perform inter-state transactions and enable multiple programs to be delivered through a single card. Meeting these goals through the alternative of deploying non-standard systems will result in a need to retrofit at increased cost to the taxpayer.

Since the issuance of standard EBT operating rules is critical to achieving uniform EBT operations nationwide, the Task Force recommends that a federal design and development team be assigned to work with states and private industry to produce standard operating rules for EBT within six months. This demanding time schedule can be achieved for several reasons. First, EBT operating rules will be based on existing industry standards and rules to the extent possible. Second, there are models for the cooperative development of EFT rules among private industry and the federal government. For example, the Armed Forces Financial Network collaborated with the representatives of the financial services industry to create standard operating rules to govern operations, roles, and responsibilities for all participants in their network. Third, the Food and Nutrition Service published rules containing standards for EBT operations in the Food Stamp Program. These standards include: processing speed, system availability, system reliability, system security, card standards, encryption requirements, and minimum transaction set.

The key components of the operating rules include:

- **Procedural Rules:** Procedural rules represent the standard operational requirements and practices for cooperators in EBT's financial and transaction processing.
- **Technical Standards:** Technical standards represent the detailed requirements that govern account access and transaction processing within the financial industry infrastructure.
- **Pricing Structure:** The pricing structure supports uniform national EBT operations by facilitating inter-state and inter-network interchange.

- **By-Laws:** The by-laws provide a detailed description of liabilities for each cooperator.

Standard Financial Core

The standard financial core represents a set of standard specifications for the financial operation of EBT service providers. To a large extent, the financial core will be shaped by the standard operating rules for EBT. These specifications allow for standardized services across vendors.

The goal is for EBT transactions, communications, settlement processes, and system controls to look the same across the country. Nationwide EBT cannot require a food stamp transaction at a supermarket chain store in one part of the country to be processed and settled differently than a food stamp transaction in the same chain in another part of the country. Private sector cooperators must be allowed to be creative in finding the optimum hardware and software solutions.

The standard financial core includes the following functions, which are described in detail in Appendix C:

- posting to benefit authorization accounts;
- account maintenance;
- transaction processing; and
- settlement and reconciliation.

Standard Settlement Services

To accomplish uniform national operations, EBT settlement must occur in accordance with standard procedures and specifications, compatible with commercial EFT applications. Multiple financial agents, under contract, may provide nationwide settlement services to the federal and state governments. Settlement services include:

- transfer of funds from the federal and state governments;
- control and audit of operations involving federal funds;
- federal and state financial reporting; and
- reconciliation of transactions and funds transfers.

Standardized settlement services will allow the government to ensure the timely payment of credits due to private sector cooperators, maintain proper controls over public funds, and enjoy maximum cost efficiencies.

Funding Agreements

The national EBT system will provide services to customers of both direct federal benefit programs and state-administered programs. Costs must be shared equitably across federal and state agencies. Agreements for standardized principles and procedures for allowing and allocating these administrative costs must be developed. Cost-sharing agreements should:

- determine responsibilities and rules for cost sharing among federal and state governments and across governmental agencies and programs;
- distribute costs equitably to benefitting agencies, using a simple, uniform process; and
- establish standardized payment processes for federal agencies that are providing common EBT services.

Enabling Cost Policy and Authorities

The federal government must demonstrate its commitment for nationwide EBT to all cooperators by sharing equitably in the early investment costs. There will be a need for the federal government to shoulder a large part of the development and implementation investment over the next three to four years. Thereafter, the cost of EBT operations will be less than the costs of the paper-based systems they replaced, resulting in a positive return on investment.

A cost policy that rewards innovation, improvement, and performance must be developed. Current cost policies may serve, directly or indirectly, as impediments to nationwide EBT expansion. For example, current food stamp legislation and policy concerning program-specific cost neutrality requirements may have a chilling effect on the implementation of EBT in some states. That policy, which allows for amortization of design and development costs, assesses cost neutrality on an annual basis solely in relation to the food coupon issuance system being replaced. Potential benefits—such as improved accountability and improved service—are not considered as part of the cost neutrality assessment. As a result, states that have achieved the greatest efficiencies in coupon issuance systems are penalized in their ability to implement EBT. One solution may be of a measurement of government-wide cost effectiveness.

The Task Force recommends the thorough examination and timely resolution of these and other EBT policies that may restrict state participation in EBT.

Simplified State Application Process

The National Performance Review promotes cutting red tape and streamlining the federal bureaucracy. Currently, a state wanting to implement EBT for food stamps, AFDC, and Social Security would require oversight and approval from as many as three federal organizations.

Differences in rules and procedures among agencies are barriers to rapid EBT deployment. States have recommended a streamlined federal approval process, a single point of contact, and streamlined procurements. The EBT foundation and, in particular, the standard financial core will minimize the need for states to develop separate costly and duplicative procurements, designs

and specifications. An EBT joint-venture prototype can serve as a model for the National Performance Review's recommendation to encourage innovation in procurement. A coordinated procurement action will eliminate the need for costly and redundant procurement actions by different government agencies.

For states choosing to initiate EBT on their own, the federal government will make EBT services available to states through financial institutions that are approved to deliver direct federal benefits and other EBT services. Using Treasury Department service acquisition procedures, an approved schedule of financial institutions will be made available to states.

EBT Processor Audit and Certification Requirements

To promote and ensure reliable and uniform operations, EBT service providers will be required to obtain an annual independent audit of their EBT operations. Such audits will examine conformity to the standard EBT operating rules, performance and capacity tests, and system and funds controls. EBT service providers will be required to provide an annual certification of operational compliance with EBT system standards and functional requirements.

Federal/State Decision-Making Structure

A fundamental aspect of the foundation for building nationwide EBT is the creation of a joint federal/state decision-making structure. It is necessary to forge partnerships with states in order to achieve a national program. Implementing EBT nationwide will involve both federal and state decisions to be made on the operations and standards of EBT systems.

To ensure coordination in the development of national level standards and operations among the federal and state governments, a meaningful forum must be established. Such a forum is needed to provide direction on an ongoing basis for the development and implementation of standards for EBT system operation and performance, including EBT operating rules and audit standards. To meet this need, the Task Force will immediately invite states to participate fully in its regular meetings in order to coordinate the development and implementation of EBT operations and standards nationwide.

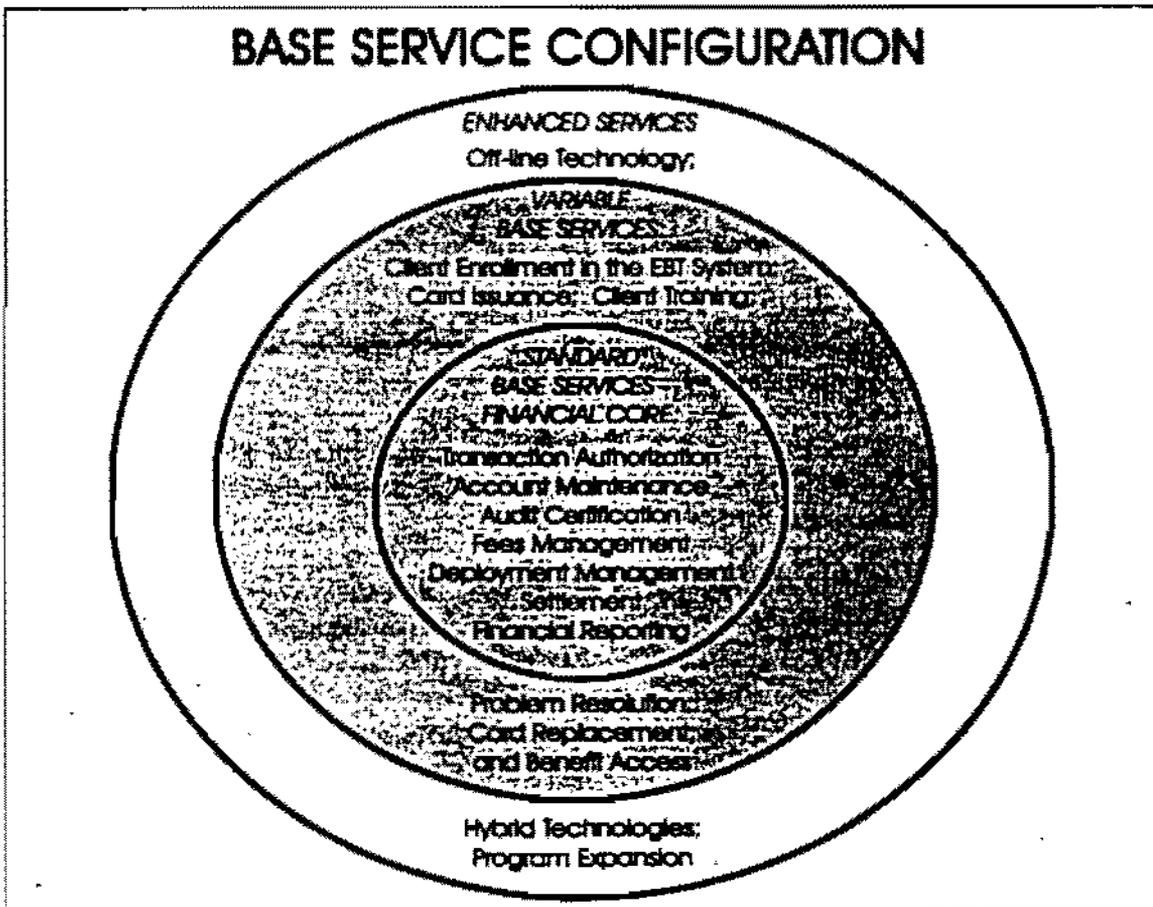
A second management level will be established as a key component of the joint-venture prototype(s). The prototype(s) will require a joint federal/state management team to develop, implement, and manage the operation of the EBT operating system across various federal and state agencies and programs. The Task Force is not recommending a particular organizational model or process for the management of the prototype(s). Rather, the structure and organization models will be established by the participating federal and state agencies as the prototype programs are developed. The creation of these new federal/state roles and management relations represents a major challenge to governments to coordinate and work cooperatively and truly reinvent the way government operates.

IMPLEMENT EBT BASE SERVICE CONFIGURATION

Along with the standard foundation, a uniform, integrated, nationwide EBT program demands the development and implementation of a basic set of EBT services.

The following chart illustrates the base service configuration. The shaded area represents the base service functions for all EBT operating systems. At the center is the standard financial core set of services that must be performed uniformly across any EBT operating system. The middle ring displays the base services that must also be provided by all EBT operating systems; these functions may vary across operating systems.

While there will be some degree of commonality across states for these service requirements, states will have the flexibility to determine how best to perform these functions based on the local customers and conditions. The outer ring represents state enhancements to base services which can be used to augment services to clients on a state-by-state basis. The base and enhanced services will be structured to meet functional requirements developed by federal and state program agencies to best serve their customers. These services differ from the core financial services; the financial core is based on a standard set of specifications, and may not vary. Thus, EBT operations can be made uniform nationally across private sector cooperators, while still enabling state flexibility to best meet local needs and conditions on a state-by-state basis.



EBT Base Services

All EBT system operations must provide for the base services identified below. Federal agencies' functional requirements will drive these services. The Food and Nutrition Service has already published such functional requirements in the *Federal Register*; other federal program agencies using EBT will need to issue similar requirements. More detail on these services is provided in appendix D. These services are:

- client enrollment in the EBT system;
- card issuance;
- client training;
- problem resolution;
- card replacement; and
- benefit access.

Base Service Programs

Numerous federal and state benefit programs that could use EBT as the benefit delivery mechanism to the unbanked have been identified. In addition, various federal programs that provide health, nutrition, and housing services could potentially use EBT services to improve customer services. The scope of EBT programs is presented in three tiers, corresponding to their overall readiness for incorporation into an integrated EBT system.

Tier 1 programs are large, high-impact programs that already have demonstrated successful EBT operations. Each one can proceed quickly in the initial phase of development for integrated EBT system operations. Tier 2 programs all provide cash assistance and have delivery requirements similar to Tier 1

Federal Agency	Administration	Programs
Tier I		
USDA	State Administered	Food Stamps
HHS	State Administered	AFDC
HHS	Direct Federal	SSI
HHS	Direct Federal	Social Security (OASDI)
States	Direct State	General Assistance
RRB	Direct Federal	Railroad Retirement
Tier II		
HHS	State Administered	Energy Assistance
DOVA	Direct Federal	Veterans Benefits
OPM	Direct Federal	Federal Pensions
DOD	Direct Federal	Military Pensions
Tier III		
USDA	State Administered	WIC
HHS	State Administered	Medicaid
HHS	Direct Federal	Medicare
DOEd	Educational Institutions	Student Loans
HUD	State Administered	Housing Assistance
DOL	State Administered	Unemployment

cash programs. As development and operations proceed, any or all of the programs in Tier 2 can be moved into Tier 1 for initial implementation. Tier 3 programs, however, have administrative or benefit delivery requirements that are substantially different from the programs in Tier 1 and Tier 2. While EBT may eventually prove a viable delivery mechanism for Tier 3 programs, their complex policy and technical requirements are expected to make their implementation into an integrated EBT operation lag behind those in Tiers 1 and 2. Research may be necessary before Tier 3 programs can be successfully integrated with Tier 1 and 2 programs.

Implementation Paths

The federal government will work proactively with states to implement EBT services along two converging paths—the joint-venture prototype(s) and state initiated EBT.

The goal through either path is to provide multi-program, inter-state EBT services through uniform operations nationally. Both paths will use the elements of the foundation to ensure uniformity of operations. There are substantial differences in management, organization, and conditions among states. Therefore, states must not be limited to a “one size fits all” model that fails to provide for state flexibility. The two implementation paths offer states flexibility to determine the most appropriate approach for EBT development and implementation, yet provide for a national uniform operating environment by building all EBT systems through a standard foundation. Following are the key common attributes of EBT services through either of these paths:

- **Integrated federal and state benefit delivery:** systems should be able to provide for integrated, uniform delivery for direct federal and state-administered program benefits;
- **Interstate transactions:** benefit portability through inter-state EBT system operations;
- **EBT base service configuration:** an EBT service package consistent with program functional requirements and tailored to local needs and conditions;
- **Standard financial core services:** standard specifications for EBT transaction processing, funding, accountability, funding controls, and other financial services;
- **Streamlined procurement processes:** as permitted by state rules, streamlined and/or coordinated procurement processes would be available to states to avoid the redundancy and costs of separate processes when acquiring common services; and,
- **Uniform operating environment:** by using the elements of the foundation—principally, standard operating rules, standard settlement services, and standard financial core services—a uniform nationwide operating environment can be built for all EBT stakeholders.

Joint-Venture Prototype(s): The federal government will join with states in joint-venture partnerships to develop, implement, and manage cooperatively a prototype system(s) to deliver EBT services across one or more regions. A federal design and development team will work

cooperatively with states to develop specifications for an integrated, multi-state EBT system to deliver both direct federal and state-administered program benefits. The prototype will use a coordinated procurement process to acquire these services with the federal government and each state entering into separate but related agreements with the winning vendor or vendors.

The prototype(s) will avoid the redundant and costly processes for states to proceed individually with the design, development, procurement, and testing of separate state EBT systems. Through the cooperative implementation of a common operating system, the government will pay for EBT design and development only once, not multiple times. Similarly, the costs and administrative burden of individual state procurement actions can be minimized through a coordinated procurement process across federal agencies.

Through the establishment of partnerships among the federal and state governments, the prototype management is patterned much closer to business-type models than traditional federal/state grant relationships. A federal/state management structure will need to be established to successfully oversee development and operations on an ongoing basis. Federal and state agencies will need to coordinate and cooperate in order to achieve desired results.

Several elements of the foundation are essential for the operation of the prototype—standard operating rules, standard settlement service, cooperator funding agreements, standard financial core. While development of these elements will begin immediately, the partnerships of the prototype(s) may be utilized to facilitate the joint federal/state development of some of these key elements.

Without question the joint-venture prototype(s) will present major organizational and management challenges to the government. The National Performance Review recognized these challenges as well as the need to change traditional federal/state grant management relationships. The Task Force believes that these challenges can be successfully met and result in substantial cost efficiencies to the government through the development and operation of a common, regional system.

A number of states and state associations already have recognized the potential advantages of implementing a regional, multi-program EBT system. For example, social service commissioners in ten southern states have signed a formal Memorandum of Understanding for a regional EBT system; these ten states are now working with the federal government to develop a common regional EBT system. In addition, the Western Governors' Association representing six states; the states of North and South Dakota; and the states of Maine, New Hampshire, and Vermont are pursuing multi-state consortia to provide common EBT services. The Task Force endorses this kind of initiative and leadership.

State-Initiated EBT: A parallel path to nationwide EBT recognizes that some states may want to proceed with EBT development on their own rather than commit to a regional configuration. These states may want the autonomy and flexibility to pursue EBT procurement actions on their own. States will have the flexibility to procure and implement EBT services either singly or in groups, and will be able to incorporate direct federal benefits into the EBT operating system by linking with financial institutions approved by the Treasury Department for this purpose.

A key element of the foundation involves streamlining the federal grant application and approval processes to facilitate rapid EBT development and implementation. Several initiatives for such streamlining are already underway. The streamlining of processes such as these is consistent with the fundamental direction of the National Performance Review. States will have the flexibility to pursue EBT services through state-initiated contracts under existing authorities and procurement processes. To assist states in developing and procuring EBT services, states will need to be able to use the elements of the nationwide EBT foundation; use of the elements of the foundation will also ensure that state-initiated EBT services are consistent with other EBT operations.

The Department of the Treasury will make a schedule of financial institutions available to states. The schedule will consist of financial institutions approved by Treasury to provide EBT financial services to direct federal program beneficiaries. States can either contract directly with those approved financial institutions on the Treasury schedule for EBT base services or procure services through a consortium of the approved financial institutions and other financial service providers.

In addition to the increased flexibility and autonomy that these processes provide to states, states may be able to utilize expedited procurement processes in acquiring services from the Treasury schedule, as permitted by state procurement laws and rules.

The early innovators, who have implemented EBT systems to date, should not be unfairly penalized as nationwide EBT is developed. The Task Force will work with these states to migrate their systems and enable them to conform to the foundation. Since many of these demonstration projects and the current Food Stamp Program regulations have required processing and system standards consistent with industry practices, any conversion requirements should be minimal. Ideally, the current system operations can serve as models requiring only minor modification in working with new states and groups of states to provide uniform EBT operations nationwide.

Evaluation

All efforts toward building the standard foundation for nationwide EBT and working with states to develop and implement EBT operations will require careful assessment. As state system development proceeds along either path, the Task Force intends to make available the system design specifications and operational requirements as models for replication by other states involved in development activities. To ensure success with this approach, the task force recommends a full, government-sponsored evaluation of key aspects of the development and operation of the systems being developed for future replication, including the prototype(s).

EXPAND EBT SERVICES

With successful implementation, the prototype(s) and state-initiated efforts will serve as models. The Task Force will encourage states to work cooperatively as regions for the following reasons:

- states already have established consortia and inter-state structures to cooperate regionally for other shared services (e.g., electrical power, transportation);
- the greatest cost efficiencies are obtainable through joint state EBT operations, maximizing transaction volume; and
- network interchange fees can be minimized through multiple state configurations that use regional networks.

The pace of deployment of the national infrastructure for POS direct debit continues to accelerate. In addition to debit and credit, this infrastructure will support EBT, as well as other emerging POS services.

The government's endorsement of nationwide EBT should further expedite deployment of the POS infrastructure. Given the increasing pace of POS deployment and states' interest in EBT, the standardization of operations and services should facilitate states' development efforts; making EBT base services available to benefit recipients in all states by 1999.

ENHANCE EBT SERVICES

The leadership of the innovators and early pioneers of EBT has boldly demonstrated methods for making government work better for less cost. It is their leadership, both at the federal and state level, that forms the basis for the high priority

INNOVATION AND REGIONAL COOPERATION

The Western Governors' Association initiated the Health Passport Project to integrate and improve the delivery of health services and benefits for women, infants, and children eligible across six states—Colorado, Idaho, Montana, Nevada, North Dakota, and Wyoming.

The Health Passport, a four year project, will build upon the innovative use of smart card technology in the State of Wyoming to deliver WIC benefits. WIC, a federally funded nutrition program for pregnant and nursing women and young children, presents a unique challenge for EBT systems. Under the paper-based system, participants receive a voucher entitling them to receive milk, formula, cereal and other high nutrition foods. These vouchers are exchanged at authorized retail stores. Wyoming is currently automating this process using chip card technology. Each woman is assigned a food prescription that is stored in the memory on the card. In the check-out line, each item is checked against the card database. The cashier no longer has to interpret questions of eligible versus ineligible items. More important, the information is available to the local health clinic to aid in nutrition education. Wyoming is currently integrating food stamp delivery into the system.

The Health Passport feasibility study will assess the data needs of health and nutrition programs and program linkages among these six states. In addition to WIC and food stamps, other possible uses of the card include filling prescriptions, maintaining immunization and health data, and accessing other social service benefits. Paperwork for all users, could be reduced and the quality of care could be improved. With an accessible and more complete medical record, the primary provider would be able to coordinate and ensure appropriate, non-redundant care for individuals.

The WGA Health Passport has the commitment of 21 western governors who believe that use of smart card or hybrid electronic card technology offers great promise to improve services and lower costs. The potential for program efficiency and cost savings will be best realized when the card technology ensures maximum inter-operability among programs and across state lines.

given this implementation plan for national, rapid deployment of a uniform, integrated EBT operating system.

A key principle for the early EBT system designs was to utilize the existing commercial infrastructure to the greatest extent possible. That same principle remains foremost today; the EBT base service design is derived from the national ATM and POS EFT infrastructure. However, technological advances can influence business decisions that may lead to changes in that infrastructure in the future.

As some states approach rollout of the base service design, others continue to innovate, providing insights into the future of not just EBT, but a broad range of government and commercial card products as well. The federal government, in its leadership role, must ensure that these innovators continue to be encouraged to explore, experiment, test, and evaluate.

The Task Force supports the direction of the National Performance Review and the recent Office of Technology Assessment report, *Making Government Work*,² which call for electronic government services in the broadest sense. In order to expand electronic services, it may be necessary to challenge current commercial service providers to develop new products to deliver services such as authorizing health care payments, and supporting housing assistance and infant nutrition. Through support of such innovation, the government can be proactive in applying new technologies and new uses of existing technologies to EBT, rather than be reactive to changes as they occur.

Off-line Technology

An alternative technology to on-line access and magnetic stripe cards has been recently introduced in the U.S. This alternative, off-line processing may use a variety of access cards, but benefit program applications have thus far focused on smart cards.

Smart cards contain a microchip that can store large amounts of information and manipulate data. Smart card proponents argue that the increased costs of the card can be offset by reduced telecommunications cost, increased security and increased functionality. The Food and Nutrition Service is sponsoring an off-line food stamp demonstration in Dayton, Ohio, which is planned to be expanded state-wide.

A combined WIC and Food Stamp Program project will soon be piloted in Wyoming. Using smart cards, WIC administrators will be assured that only items prescribed for the participant are purchased using WIC benefit dollars and that purchase and health-related information is available to aid local health practitioners in nutritional counseling of WIC recipients.

There is a growing interest in the enhanced capacity and security which chip and laser cards provide. This may influence future investments by the commercial sector. Some recent announcements by major financial institutions and networks provide evidence that smart cards

² U.S. Congress, Office of Technology Assessment, *Making Government Work: Electronic Delivery of Federal Services*, OTA-TCT-578 (Washington, DC: U.S. Government Printing Office, September 1993).

may supplement or replace the magnetic stripe card in the foreseeable future. The Task Force recommends that states be encouraged to work with private sector cooperatives to explore new technologies and new uses for existing technologies.

Hybrid On-Line/Off-Line Solutions

There are a number of ways to combine on-line and off-line technologies in electronic benefit delivery systems. A hybrid EBT system would combine the use of on-line and off-line EBT technologies in single or contiguous systems.

At least two initiatives involving hybrid solutions are currently underway. The WIC Program and Maternal and Child Health Program are working with the Department of Defense to test a multi-program application that combines magnetic stripe and chip technology on a single card. In another initiative the Food and Nutrition Service will pilot test on-line or hybrid systems for integrated WIC and Food Stamp Program delivery with demonstration grants to be awarded in 1994.

Program Expansion

The government is proceeding to accomplish the delivery of multiple program benefits through a uniform, integrated EBT system. As previously discussed, the initial focus will be on tier 1 and 2 programs (i.e., the Food Stamp Program and federal and state cash benefits) for rapid implementation nationwide. EBT services for all tier 1 and 2 programs should be available by 1999.

Programs with more complex forms of benefit delivery will require continued research to determine how best to incorporate those programs into a single, integrated operating system in a cost effective manner. Both the federal and state governments have provided strong leadership in such research and testing to apply innovative technology to complex program benefit delivery.

The Medicare and Medicaid programs provide medical care for OASDI recipients (Medicare) and for the poor and disabled (Medicaid). To date, the primary interest in EBT for these two programs has been for on-line eligibility determination. As part of the Health Reform effort, the Health Care Financing Administration is considering using a magnetic stripe card as the medium to validate health insurance eligibility information through in-place point-of-service equipment at the time of inquiry.

In addition, 28 states are currently using magnetic stripe cards and point-of-service equipment to expedite service delivery in the Medicaid program. Services for which magnetic stripe technology is in use include: eligibility determination, initiation and payment of claims, dispensing and initiation of payment for drug prescriptions, monitoring and enhancement of the quality of health care provided, and the detection of patterns of fraud and abuse.

The complexities of a total health care benefit delivery system are such that it will require continued research before such a system can be efficiently incorporated into a single, integrated EBT operating system. The Western Governors' Association has undertaken a major effort—the Health Passport Project—to conduct research and feasibility testing toward this goal; that is, an

integrated system using smart or hybrid card technology to provide access to a broad array of maternal and child health and nutrition services.

The Task Force fully endorses such innovative efforts. The government must continue to support similar technological experimentation and research to provide quality service.

4. CHALLENGES

Vice President Gore's National Performance Review recognized that several major challenges must be met in order to accomplish the implementation of EBT services nationwide:

"Barriers still stand in the way. Agencies will have to work together to develop a comprehensive nationwide strategy for implementation; it will do no good for each agency to develop its own process. We will need to strengthen partnership between state and federal governments in developing and operating the system. We will have to eliminate some regulations that would prevent this radical change in how government operates."¹

The primary challenges to the development of nationwide EBT include:

- **COSTS AND FINANCING:** The governments' share of system costs must be reasonable—based on equitable cost-sharing by all stakeholders in the design, development, implementation, and operation of EBT.
- **MANAGEMENT AND ORGANIZATION:** Both within the federal government and among the system stakeholders, new organizational relationships must be established to ensure uniform and cost effective development of EBT nationwide.

COSTS AND FINANCING

The Task Force believes that all stakeholders will benefit from EBT. The federal government will pay its fair share to provide nationwide EBT services, including an up-front investment in design, development and implementation. However, stakeholder benefits must not be gained solely at taxpayers' expense, but rather through reasonable cost sharing among all stakeholders.

Although there are promising cost data from the individual state-initiated and the direct federal demonstrations, extrapolating these analyses to a reliable estimate for nationwide rollout of a governmentwide system is difficult given the large number of cost variables and many stakeholders. In addition, the limited scale and scope of these demonstrations may understate savings. Consequently, this plan estimates costs based on the assumption that nationwide EBT will roll out regionally based on a standard foundation. This model is different from past experience in the following ways.

- Current demonstrations provide access to a limited set of program benefits. However, there is a strong fixed cost element to EBT and the inclusion of multiple programs and large numbers of customers will reduce the overall cost per case.

¹ *From Red Tape to Results, Creating a Government that Works Better and Costs Less*, op. cit., page 114.

- Each of the current demonstrations was designed, developed and implemented to meet the needs of a single geographic location. The Task Force's strategy, which is based on technical and operating standards, equitable cost sharing, large scale, regional deployment, and the inclusion of both direct federal and state-administered programs, should result in reduced costs to procure, design, develop, test, and implement compared to individual state implementations, and reduced operating costs through economies of scale.
- With few exceptions, POS equipment and training have been provided by the government (through the EBT processor) to retailers participating in the demonstrations. Amortization of this implementation cost results in a direct cost to the government. In two of the current demonstrations, the government (again through the EBT processor) pays transaction fees to the retailer for EBT transactions processed on their existing equipment. The Task Force believes that these costs should be borne by the retailer community with a provision for government support in extraordinary cases.
- Only two of the current demonstrations, each of which operate on a voluntary basis, limit the number of free ATM transactions. The Task Force recommends that *free* ATM transactions be limited, as they are for customers of commercial financial institutions, and that recipients pay nominal fees for the added convenience and service of unlimited access.

To support a nationwide projection, data were gathered on actual network fees for different types of transactions (e.g., ATM withdrawals, POS purchases, and network interchange fees). While it may be possible to negotiate more favorable rates based on volume, such rates were not anticipated in the cost model.

An additional item must be mentioned regarding the Food Stamp Program's conversion to EBT. The Food Stamp Act calls for state EBT systems issuing food stamp benefits to be "cost-effective" on an annual and state-by-state basis. Under USDA implementing regulations, these systems must be "cost neutral". That is, the cost of delivering food stamp benefits by an EBT system must be no greater than the cost of the current paper-based system each year for each state. Greater flexibility may be needed to allow the federal government and the states to balance long-term savings against the initial investment required without arbitrarily constraining when that return on investment must occur. For example, eliminating the "cost neutrality" standard and substituting a governmentwide, multi-program "cost effectiveness" standard would recognize the interagency, multi-state, and multi-year aspects of the EBT effort now envisioned as a result of the National Performance Review recommendation. The current requirement penalizes states that have kept costs down the most—even when the shift to EBT would be cost-beneficial in the long run.

EBT Cost Model

To estimate EBT costs, the Task Force constructed a model to approximate the outcome of nationwide EBT design, development, implementation, and operating costs under some key

assumptions. The costs depicted represent the cost of EBT to the federal government based on these assumptions.

The table on the following page depicts, for the years 1994-2000, (a) the costs of the design, development, implementation, and operations for rolling out EBT nationwide by March 1999, and (b) the amounts attributable to potential sources for funding this rollout. Cost estimates assume that the design and development work to create the foundation, which serves as the basis for standard implementation of EBT under both joint-venture prototypes and state-initiated EBT, would begin immediately. Some components of the foundation will be available as early as September 1994; all components will be available by March 1995. Following the completion of the foundation, a sample region, representative of one-fifth of the nation, will begin implementation in March 1996, with full operations region-wide within two years. For purposes of the model, two regions representing another two-fifths of the nation will follow, beginning implementation in the fall of 1996 with full operations within two years. The final two-fifths of the nation would begin implementation in the spring of 1997 and complete implementation in two years. Under this scenario, EBT will be available to all recipients nationwide by the spring of 1999.

EBT Costs

The cost model includes costs for three cost categories - EBT system design and development, system implementation, and EBT nationwide operations.

Design and Development: Design and development costs include non-recurring costs associated with functions which would be performed principally by the EBT service provider. They include: detailed system design and review, development hardware acquisition, software development, system demonstration and acceptance testing, preparation of operations and users' manuals and training materials, and development of implementation plans. Other design and development costs include federal and state project administration, state-specific development requirements, and independent validation and verification.

Implementation: Implementation costs include non-recurring costs to convert from paper-based benefit delivery systems to EBT. Major cost elements include: POS terminal deployment, participant training, and enrollment/conversion of the ongoing caseload. Implementation costs are assumed to be spread evenly over the deployment period for each region.

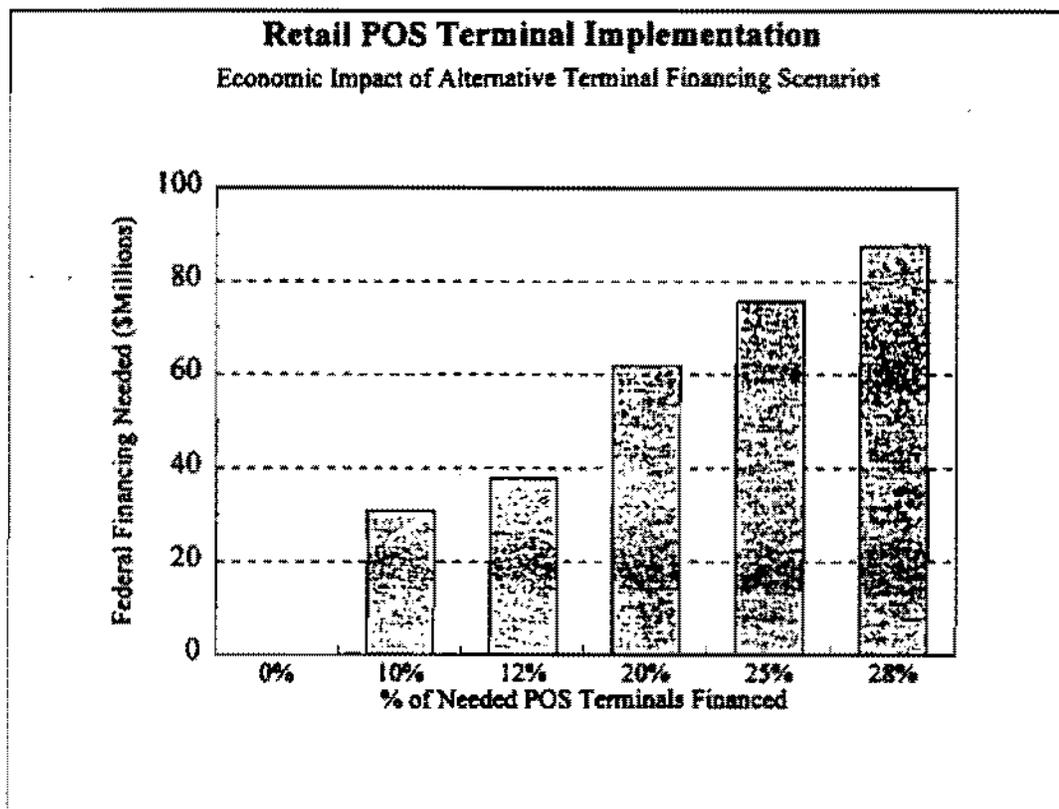
A key implementation cost driver is the cost of deploying POS terminals in the retailer community. In the commercial environment, food retailers provide EBT service through multiple-purpose terminals, capable of accepting any of a number of debit or credit cards. Since the benefit a retailer would derive from an EBT transaction is similar to the benefit derived from a commercial transaction, the Task Force believes retailers should incur the costs of terminal deployment.

NATIONAL EBT COSTS AND FINANCING
 (\$000)

	Actual 1994	Proposed 1995	Estimate					Total 1994-2000
			1996	1997	1998	1999	2000 & After	
EBT COSTS:								
Infrastructure	\$10,000	\$10,000	\$10,000	\$5,000	\$5,000	\$5,000	\$5,000	\$50,000
EBT Administration	400	1,250	1,250	1,250	1,250	1,250	1,250	\$7,900
Design & Development	500	4,213	7,586	1,762	0	0	0	\$14,061
Implementation	0	0	8,033	67,335	76,391	17,089	0	\$168,848
Operations	0	0	1,313	47,537	160,298	228,845	234,820	\$672,813
Total Federal EBT Costs	\$10,900	\$15,463	\$28,182	\$122,884	\$242,939	\$252,184	\$241,070	\$913,622
SOURCES OF FUNDING:								
Reduction in Paper Costs	\$0	\$0	\$4,717	\$89,942	\$299,601	\$424,888	\$435,783	\$1,254,931
Investment Appropriation	10,900	15,463	23,465	32,942	0	0	0	82,770
Total Funds Available	\$10,900	\$15,463	\$28,182	\$122,884	\$299,601	\$424,888	\$435,783	\$1,337,701
SAVINGS COMPARED TO PAPER	\$0	\$0	\$0	\$0	\$56,662	\$172,704	\$194,713	\$424,079

The federal government will be the deployer of last resort, where necessary to ensure adequate access, by providing single-function terminals which would only be connected to the EBT service provider. The following chart shows the impact on federal funding needs of differing levels of subsidized terminals. The cost model reflects government financing of 25 percent of the POS terminals.

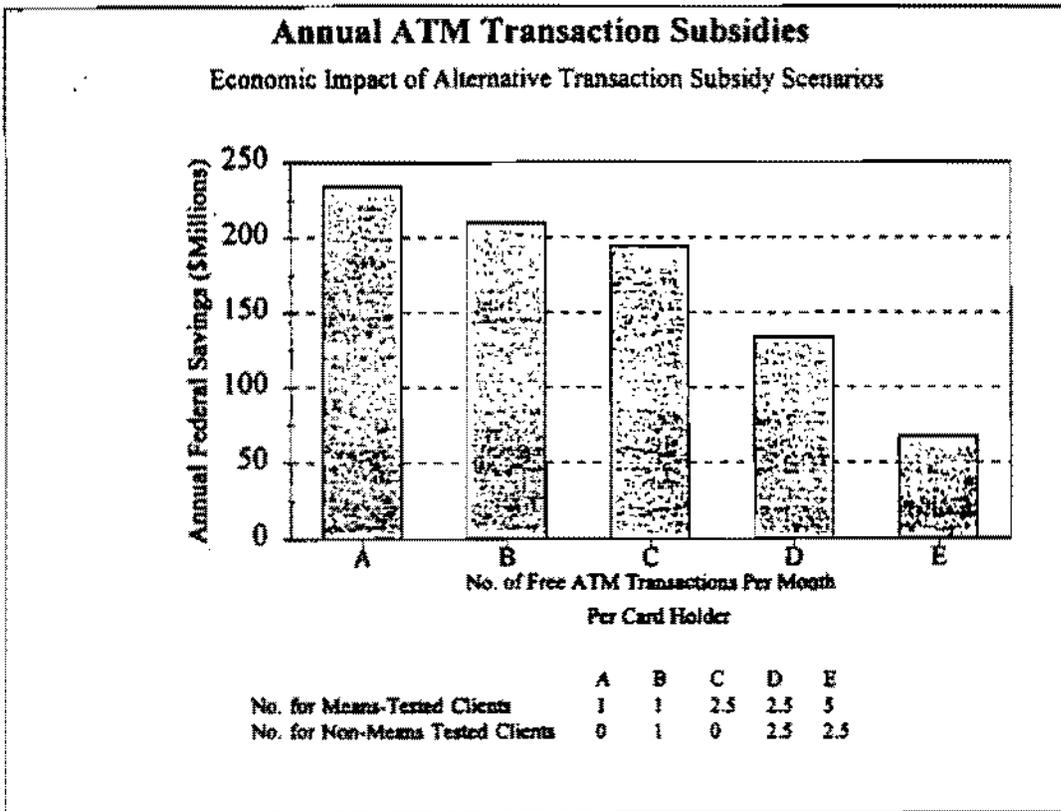
The federal government will also share in the cost to deploy administrative terminals in the local welfare offices. The cost model reflects financing of over 6,000 administrative terminals.



EBT Operations: The major costs associated with EBT operations are EBT processor and settlement service costs, transaction costs, state and county operations costs, and expenses associated with consumer protection coverage under Regulation E. Operations costs are assumed to be spread evenly on the basis of client participation.

A key policy variable related to operations is the number of ATM transactions that will be provided to recipients free of charge. For EBT operations to date, policy concerning the ATM transaction costs has varied. For example, the Department of the Treasury-sponsored EBT project in Houston and Dallas, passes ATM transaction costs to the customer, while in the New Mexico EBT project all ATM transaction costs are paid by the federal and state governments.

Other projects have set a monthly transaction limit on the number of government-paid ATM transactions; customers are charged fees when that limit is exceeded.



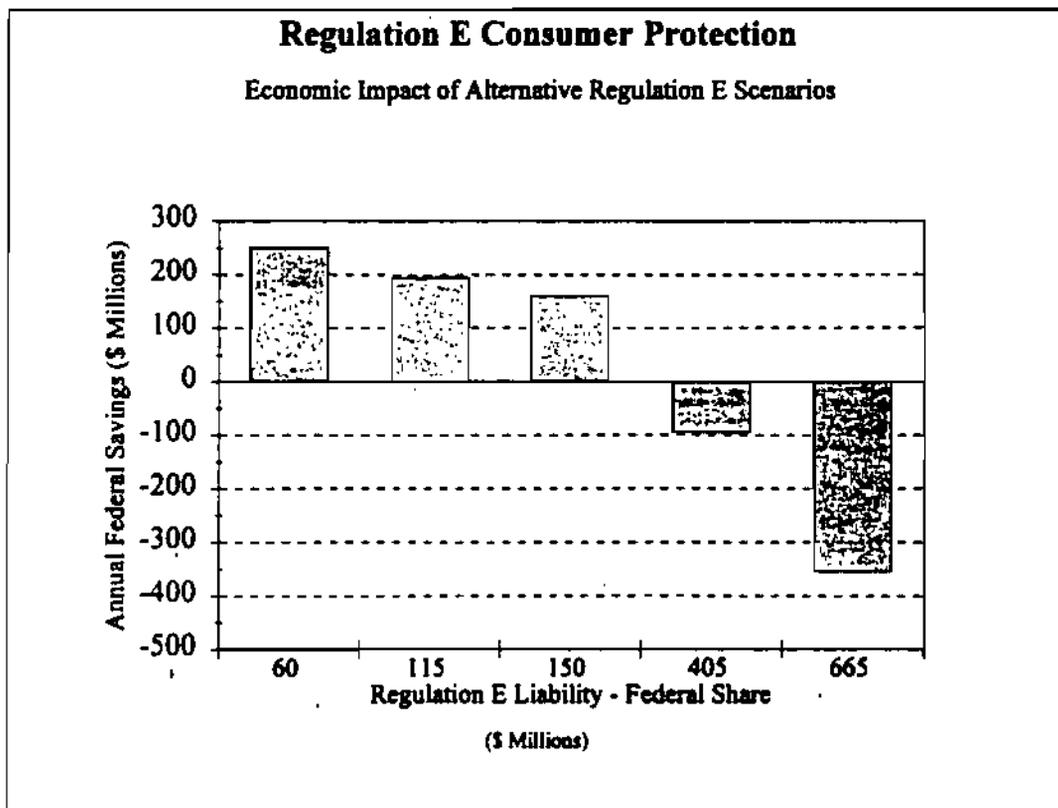
For cost projection purposes, an average of 2.5 subsidized ATM transactions per month for means-tested benefit recipients was assumed. Non-means-tested benefit recipients would pay their own ATM fees. The ATM transaction fee used in the cost model is \$0.20 for on-us transactions (directly connected to the EBT vendor) and \$0.425¹ for foreign transactions (carried over networks). As shown in the chart above, decreasing the subsidy for means-tested recipients to one transaction per month would increase annual operating savings from \$195 million to approximately \$232 million. However, increasing government-paid subsidies to 5 transactions per month for means tested and 2.5 transactions for non-means tested recipients would decrease annual operating savings to only \$67.8 million.

Another key EBT operating cost driver is Regulation E liability. Regulation E is intended to provide consumer protection for participants in electronic funds transfer systems and sets limits on consumer liability for unauthorized account transfers. The card issuer assumes the cost for replacement of funds and claims investigation. In February 1994, the Board of Governors of the Federal Reserve issued a decision that Regulation E applies to EBT. The decision provided for a three-year time period before coverage becomes effective.

¹ *How Regional Network Interchange Fees Compare*, Bank Network News, (Volume 12; Number 21), March 25, 1994.

There is much controversy surrounding the application of Regulation E to EBT. While federal and state agencies do not dispute the principle that EBT participants should be afforded some basic consumer protection, all agencies are concerned about assuming liabilities of undetermined value. In addition to the cost of replacing benefits, states are particularly concerned about the additional burden of administering a claims adjudication process within the time frames stipulated in the regulation. Unlike commercial financial institutions whose operations are normally covered under the regulation, states do not have the flexibility to increase staff to accommodate additional administrative responsibilities. Similarly, states and federal agencies cannot limit their losses by refusing to serve repeat claimants or high risk customers, as is the prerogative of commercial financial institutions.

Current law limits HHS's authority to replace AFDC benefits. As a major player in EBT's implementation, HHS must contribute its fair share to cover the liability represented by the need to give adequate protections to recipients. Not to do so could have a chilling effect on states' willingness to participate in a national, multi-program EBT system. The cost model assumes a federal Regulation E liability of \$116 million per year based upon an analysis commissioned by the Department of the Treasury.³ The following chart shows the impact on costs of operations of altering the consumer protection liability assumption.



³ *Implications of Regulation E in Electronic Benefit Transfer Programs*, Citicorp Services, Inc., August 1993.

To date, only the Houston and Dallas EBT project has been covered by Regulation E, and data are available only from Houston. Thus, there is extremely limited experience with the number or value of claims submitted in an EBT environment. The cost model includes the Houston investigation cost of \$37.50 per claim. The benefit replacement rate used in the model for direct federal benefit recipients reflects the Houston experience. The benefit replacement rate for food stamp and AFDC used in the model is based on the rates experienced in paper-based systems due to expectations of similar claim behaviors in EBT. Over the next three years, through field testing, more precise estimates of the costs associated with the application of Regulation E to EBT will be obtained. The federal government, states, and the financial services industry will work together to develop strategies and procedures that can limit exposure to fraudulent claims and equitably distribute the liability among each of the stakeholder groups. Some states have predicted that this liability could be as much as \$500 to \$800 million nationwide. Costs of this magnitude threaten the viability of EBT and make the limitation of government liability imperative.

Federal Paper-based Costs

Federal paper-based costs represent a weighted average of the costs per case per month for the various paper payment types (coupons, federal checks, and state or local checks) used to deliver federal and state benefits. The costs for each benefit type were weighted based on caseloads and benefit delivery method. The data used in this analysis are from extant data sources.^{4, 5, 6} The cost was augmented by the current cost of duplicate issuances of food coupons only insofar as those costs covered the cost of replacing Food Stamp Program benefits through Regulation E protections. Based on this analysis, administrative costs of nationwide paper systems are estimated to be about \$436 million annually.

Federal Funding Need and Investment Appropriations

Analysis of the costs of EBT's design, development, implementation, and operation indicates that, given the right mix of investment by food retailers and financial institutions, the federal government could realize ongoing operational savings beginning as soon as fiscal year 1998. Annual reductions in operating cost once the system is fully operational, when compared to the operating costs of current paper-based systems, would be approximately \$195 million. The price of this long-term savings is an up-front investment. In the model, funding needs total \$83 million over a four-year period from 1994-1997. Since sufficient funds have been appropriated

⁴ *The Impacts of the State-Initiated EBT Demonstrations on the Food Stamp Program*, Abt Associates, prepared for the United States Department of Agriculture, Food and Nutrition Service, Office of Analysis and Evaluation, June 1993.

⁵ U.S. Department of the Treasury, Financial Management Service, *Distribution of Costs by Payment Type for Fiscal Year 1991; Regional Operations Costs for Fiscal Year 1992; FY 88 FMS Area/Category Average Unit Cost*.

⁶ *Benchmarking Comparative Payment Methods: Costs and Case Studies*, Food Marketing Institute, March 1994.

in 1994 and requested in 1995, the key years for which appropriations are needed to realize the benefits of EBT are 1996 and 1997. Funding needed above the 1995 requested level in those two years totals \$25 million (\$8 million in fiscal year 1996 and \$17 million in fiscal year 1997). Appropriations requests in these years can be expected to reflect those costs. The Administration will ensure that requests for EBT funding are coordinated and represent the minimum investment necessary for successful implementation of EBT nationwide.

Based on the cost analysis, the federal funding need represents the EBT costs in the years 1994-2000, net of any amounts available from reductions in the costs of paper-based systems as a result of implementation of EBT in the states. After that year, savings available from paper are greater than EBT costs.

MANAGEMENT AND ORGANIZATION

The Task Force agrees that agencies will have to continue to work together to implement EBT nationwide. Those responsible for EBT within the federal government should be organized to fulfill the following needs:

- *Develop consistent federal policy*, so that EBT stakeholders (i.e., states, retailers, EBT service vendors, and advocates) receive a coordinated policy message across programs and agencies;
- *Ensure accountability*, so that progress toward nationwide EBT is assessed and corrected as necessary;
- *Provide a single point of contact*, so that EBT stakeholders who need information and approvals do not have to manage their own way through multiple federal contact points;
- *Mobilize federal resources to meet a schedule for rapid deployment of nationwide EBT*, so that scarce resources are managed effectively; and
- *Develop standards for a uniform, commercially compatible EBT operating environment*, so that retailers and financial institutions can tie into federal and state-sponsored EBT systems that support interstate transactions for multiple programs.

To respond to these needs, the Task Force recommends a structure that consolidates responsibility for governmentwide EBT policy and provides an account executive for each state or group of states.

EBT Organizational Roles and Responsibilities

Within the framework described above, the responsibilities of the key organizational entities are as follows.

Task Force Executive Staff: National EBT policy, implementation, and operations will be directed by the Federal EBT Task Force consisting of principals representing OMB, HHS, USDA, and Treasury and an executive support staff. The OMB principal serves as the Task Force chair. Specifically, the Task Force will:

- develop and oversee national EBT policy;
- direct the design and development of the EBT foundation;
- manage EBT prototype project(s);
- coordinate EBT stakeholder communications;
- work with agencies to ensure the development of a streamlined, multiple program grant approval process;
- receive new grant applications from states and oversee the federal approval processes; and
- coordinate budget requests related to implementation and operation of nationwide EBT.

The Task Force is currently projected to sunset in March 1999.

Lead Program Agency: As lead program agency, USDA will designate an EBT account executive to coordinate the federal response to EBT grant applications from states or groups of states. Account executives will have a direct working relationship with the Task Force executive staff and serve as the single point of contact for project related communications. They will coordinate the review and approval processes within the federal government for each grant application. The account executive will ensure that governmentwide EBT policies are addressed consistently. In managing a project, the account executive will consult with the Task Force regarding progress, problems, and changes in direction. The account executive will ensure rapid review and approval of grant applications and will refer major problems to the Task Force for resolution. The lead program agency head will ensure that account executives:

- are available to work with states;
- recognize their direct relationship with the Federal EBT Task Force executive staff and the need to consult with the Task Force staff on progress, problems, and changes in direction; and
- meet or improve on the cycle times for review and approval of grant applications according to a to-be-agreed-upon multiple-program EBT application process.

Treasury Department: Treasury will manage the federal government's financial operations associated with EBT. Working with Task Force executive staff to document

requirements, Treasury staff shall be responsible for acquiring services and managing the EBT financial services that are needed to support nationwide EBT. Functions will include:

- development of a federal net and commercial settlement services;
- development of EBT service vendor audit and certification requirements; and
- acquisition of services of fiscal agents to provide EBT services.

EBT Executive Staff Support

The Federal EBT Task Force executive staff will include an Executive Director, a Deputy Director, no more than eight additional professionals, and two support staff; support for the executive staff will be provided by HHS, USDA, and Treasury. In addition, Treasury will provide the Task Force with administrative services, including accounting, payroll, personnel, and procurement services.

The Account Executives

To leverage the resources of the executive staff and carry out the lead program agency functions of coordination of approvals and providing states with a single point of contact, the role of the account executive is critical. A state should be able to count on having a single person to coordinate the review and approval process for its EBT grant application within the federal government with an eye toward substantially reducing the cycle time for the process.

A key element of this management structure is the direct relationship of the Task Force executive staff to the designated account executives. Critical to the success of this innovative organizational structure are the ability of: (1) the account executive to have access to and raise issues directly with the staff; and (2) the staff to communicate directly with the account executives.

How It Should Work: A Coordinated Grant Application Approval Process

A state, either working with other states and the federal government in one of the prototypes or initiating an EBT effort on its own, would prepare a grant application. The executive staff will receive the application and refer it to the appropriate account executive. He or she will be responsible for coordinating the review and approval of the application within the federal government. The review and approval process will follow streamlined procedures established by the Task Force, including specified timeliness for completion of the process.

The application would be reviewed and approved by the appropriate agencies. The new feature of the process is that the account executive would be responsible for facilitating solutions to problems identified in the review process. Any problems or issues that the account executive encountered in moving the application would be quickly referred to the Task Force executive staff.

APPENDICES

Appendix A
FRAUD REDUCTION AND OTHER BENEFITS OF EBT

REDUCING FRAUD AND ABUSE

An important benefit of converting from paper to electronic benefit delivery is EBT's value in reducing fraud, waste, abuse and inefficiency. Food stamps coupons are an underground currency, used to buy everything from drugs and guns to real estate. Coupons are often redeemed or sold at discount for cash, often with the help of unscrupulous retailers. This diverts food stamps from their intended purpose— feeding the poor. The Office of the Inspector General, Department of Agriculture estimated diversion at \$100 million per year.

EBT provides investigators with a powerful weapon to detect and prosecute trafficking. With coupons, investigators rely on anonymous tips to identify potential cases and undertake costly undercover investigations. With EBT much of the legwork is taken out of fraud investigation. Investigators use computer programs that systematically analyze information to target *trafficking* stores. EBT provides investigators with extant data, reducing the time needed to build a case.

EBT data is also useful for identifying recipients who may be trafficking. Under the coupon system, investigators are unlikely to identify a trafficker unless they witness the transaction. EBT provides data on individuals who frequent stores suspected of trafficking and captures data on each transaction. When confronted with the evidence, guilty individuals are quick to confess and accept program suspension rather than go to trial. The use of EBT in fraud detection has yielded some high profile results. For example, investigators used EBT to identify and track a sandwich shop in Reading, Pennsylvania suspected of trafficking over \$200,000 in food stamp benefits. After an investigation, store owners were prosecuted. In addition, the Pennsylvania Attorney General's Office obtained signed confessions from about 175 program recipients which disqualified them from receiving benefits for a two-year period. The recipient disqualifications from this case alone are believed to have saved about \$750,000 in benefit outlays.

REINVENTING GOVERNMENT AND PROGRAM SIMPLIFICATION

EBT's successful nationwide implementation will serve as a model for federal-state cooperation in providing a customer-oriented service that benefits not only recipients, but also taxpayers. At the same time the common benefit delivery platform of EBT may spur action to further simplify programs, eliminate program differences, and reduce the complexity inherent in the different eligibility rules and requirements of programs. In a related example, a multi-agency federal-state partnership is conducting the Atlanta Common Access Project, a pilot program which uses a consolidated application process and a common application form for benefits for Aid to Families with Dependent Children (AFDC), Food Stamps, Medicaid, Housing Assistance, Supplemental Security Income (SSI), and the Special Supplemental Food Program for Women, Infants, and Children (WIC). Former President Jimmy Carter's Atlanta Project was the driving force for this project. Just as this project is the first attempt at combining the application and certification processes for both federal and state programs, nationwide EBT implementation will

be the first effort to combine benefit delivery for both federal and state-administered benefit programs.

National EBT also will provide a model of public-private partnership. To the extent possible, commercial systems form the foundation for the plan. The use of existing infrastructure and expertise, and private-sector competition to provide services will assure cost effective implementation.

IMPROVING ACCOUNTABILITY

In addition to the reduction of fraud and abuse, uniform nationwide EBT operations will provide for other key improvements to the integrity of governmental programs and the controls over the use of taxpayers' funds to support those programs. EBT moves the operations for the disbursement of funds for participating programs from various government agencies to the commercial financial services industry. By using the standard controls and operations of the commercial infrastructure, EBT will provide the same high level of security for government benefits that already exists for personal bank accounts.

FACILITATING WELFARE REFORM

The Administration's welfare reform initiative seeks to reinforce the values of work, family, opportunity and responsibility. The welfare reform plan is designed to give people back the dignity and control that comes from working. To that end, the welfare reform plan supports the use and expansion of new technology and automation to ensure quality service, fiscal accountability and program integrity. Providing benefits through an efficient and safe process that helps bring recipients into the economic mainstream can facilitate efforts to reform the welfare system.

Many program administrators see clear links between EBT and welfare reform. The potential scope of nationwide EBT includes the AFDC program, which is the primary "welfare" cash assistance program and the focus of the welfare reform efforts. Both plans seek to improve the support provided to program participants. Successful early implementation of EBT can be a signal to recipients that the welfare system has changed.

Promoting Responsibility and Accountability

Welfare reform is aimed at helping people to support themselves while expecting them to achieve self-sufficiency through work. Recipients will be expected to participate in training, education and job placement services and make their best effort to take responsibility for their lives and the economic well-being of their children.

Currently, approximately 80 percent of AFDC recipients are "unbanked". Since using an EBT card is like using a bank card, recipients will be better prepared to participate in the economic mainstream of the community once they are working. By exposing and training recipients to utilize electronic banking technology through EBT, they will acquire much of the knowledge necessary to move into electronic banking. This strategy emphasizes the importance

of helping unbanked recipients to become banked and will help maximize the number of low-income families who have bank accounts, thus making better use of technology to encourage responsibility. Improved delivery and processing of program benefits will also increase accountability to taxpayers.

Welfare as a Transition to Work

A critical goal of welfare reform is to reshape the mission of the current support system. The welfare reform proposal calls for replacing the current AFDC program with a transitional assistance program, followed by work. Welfare reciprocity should be viewed as a transitional period of preparation for self-sufficiency, rather than a way of life. The welfare reform plan emphasizes that work is valued. Persons who are able to work will be expected to find employment before reaching the two-year limit.

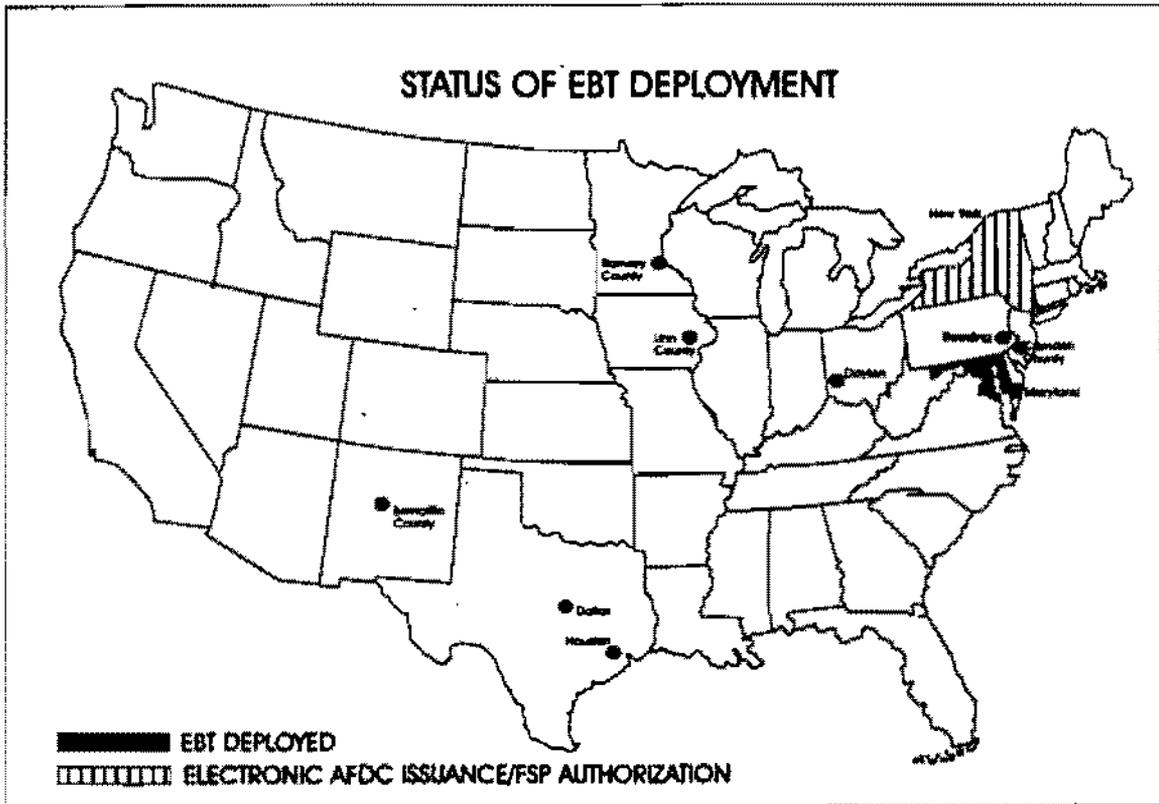
EBT can be a symbol to recipients that the welfare system has changed. Many non-welfare employees receive their salary and wages and perform many financial transactions through electronic means. EBT helps blur the distinction between the "banked" and the "unbanked". EBT can help recipients gain familiarity with the financial community and electronic banking, as well as experience in tracking account balances to budget funds.

EBT could also facilitate the disbursement of advance payments of the Earned Income Tax Credit (EITC). The EITC is a refundable tax credit which uses the tax code to provide a federal subsidy to low-income working families. The program is projected to grow to about \$25 billion a year by the turn of the century. Currently, EITC comes (1) through an after-tax refund or, (2) in advance, from employers. Both delivery mechanisms are somewhat problematic in making clear to individuals the true economic benefits of taking a low paying job, an outcome which could advance the broader welfare reform strategy. The first approach does not provide an immediate work incentive because there is not a direct link between work and the EITC. Few workers utilize the second approach for reasons that are not well understood. The Department of the Treasury is currently exploring alternative approaches for providing the EITC, including permitting States to process payments. EBT could serve as an ideal vehicle for delivering these payments.

Appendix B
STATUS OF EBT DEPLOYMENT

While well over half the states are anticipating implementation of EBT, Maryland operates the only statewide system. Six states operate small demonstration systems and the Treasury Department is demonstrating the use of EBT for direct federal programs in Houston and Dallas. Another three states have recently awarded contracts.

EBT Operations



As shown above, EBT is currently operational statewide in Maryland and in parts of six other states. While New York does not have a traditional EBT system, they have deployed an electronic authorization system that allows recipients to obtain their food coupons or withdraw their cash benefits at authorized check cashing locations.

Operational EBT Systems

The following locations have operational EBT demonstration systems. Cited caseload data represent duplicated caseloads, calculated by summing the number of cases served for each benefit program. Since some cases receive benefits from more than one benefit program, the number of caseloads cited overstates the total number of cases served.

- **Maryland:** Thus far, Maryland is the only state to operate EBT state-wide. Maryland delivers about \$55 million in state administered benefits each month and handles about 250,000 cases. Benefit programs served by EBT in Maryland include Food Stamps, AFDC, General Assistance, and bonus Child Support.
- **Reading, Pennsylvania:** The Reading, Pennsylvania, project, the first EBT demonstration, was deployed in 1984. Pennsylvania delivers about \$1.3 million in food stamp benefits per month to about 8,500 households.
- **Ramsey County, Minnesota:** The Ramsey County EBT demonstration delivers about \$8.8 million in state administered benefits each month and handles about 34,000 cases. Benefit programs served include Food Stamps, AFDC, General Assistance, and Refugee Assistance.
- **Bernalillo County, New Mexico:** The New Mexico demonstration project in Bernalillo County delivers about \$7.7 million in state administered benefits each month and handles about 36,000 cases. Benefit programs served include Food Stamps and AFDC. The New Mexico project is expanding statewide.
- **Linn County, Iowa:** The Iowa demonstration in Linn County delivers about \$450,000 in Food Stamps and AFDC benefits each month and handles about 970 Food Stamp and 670 AFDC cases.
- **Dayton, Ohio:** The Dayton, Ohio system delivers about \$2.2 million in food stamp benefits per month and serves about 11,000 households. Unlike the other EBT demonstration systems, the Ohio system uses off-line authorization and smart card technologies.
- **Camden County, New Jersey:** New Jersey is currently implementing an EBT system in Camden County where they will deliver Food Stamp and AFDC benefits for approximately 24,000 cases. After an evaluation of the Camden County demonstration, New Jersey plans to expand to Essex and Hudson counties.
- **Houston and Dallas, Texas:** The Treasury Department's Financial Management Service has a contract to deliver direct federal benefits to recipients on a voluntary basis. The demonstration, first deployed in Houston has now been extended to Dallas. The system delivers OASDI, RRB, VA and OPM benefits and handles about 8,700 cases. This is the only EBT demonstration system to deliver direct federal program benefits.

Operational Electronic Authorization Systems

- **New York:** Although New York does not have a traditional EBT system, they are using POS and mag-stripe card technologies to replace food coupon authorization to participate (ATP) cards and checks. The recipients receive their food coupons and cash benefits at authorized check cashing locations. The full amount of the benefit must be taken at one time, as individual accounts are not maintained. This system is deployed throughout the state with the exception of New York City.

EBT System Development Efforts

Texas recently awarded a contract to deliver Food Stamp and AFDC benefits. The system will be piloted in Chambers and Harris counties. South Carolina awarded a contract to deliver Food Stamp benefits; it will be piloted in Darlington County. Wyoming awarded a contract to develop an off-line authorization, smart card demonstration to pilot Food Stamp benefit delivery in Natrona County and WIC benefit delivery in several counties.

EBT Planning Efforts

Under current procedures, the first step in the federal approval process is the submission of an Planning Advanced Planning Document (PAPD) to the Food and Nutrition Service and the Administration for Children and Families. The purpose of the PAPD is to request federal funding for EBT planning activities. The following states have submitted PAPDs to develop demonstration systems: Alabama; California (for San Bernadino county); Florida; Georgia; Illinois; Kansas; Louisiana; Maine, New Hampshire, and Vermont (joint PAPD); Michigan; Mississippi; Missouri; North and South Dakota (joint PAPD); Oklahoma; Oregon; Utah; and the District of Columbia.

STATE PROGRESS TOWARD EBT DEPLOYMENT

STATE	STATUS
OPERATIONS STATEWIDE (1)	
Maryland	State-wide expansion completed
OPERATIONS IN ONE OR MORE COUNTIES (6)	
Iowa	Operating EBT Pilot.
Minnesota	Operating EBT Pilot in Ramsey County. Planning for expansion of Food Stamps into Hennipen County. APD pending.
New Jersey	Began Operations in Camden County in February, 1994
New Mexico	Operating EBT pilot in and around Albuquerque. Expansion APD -- FNS approved, ACF approval pending.
Ohio	Operating off-line Food Stamp project; issued RFP to expand state-wide.
Pennsylvania	Operating EBT pilot in Berks County. PAPD submitted to FNS regional office for expansion of system. Intend to add AFDC.
IMPLEMENTING EBT (3)	
South Carolina	Vendor selected. Operations to begin in November, 1994
Texas	Vendor selected. Contingent approval to spend implementation funds for MIS programming
Wyoming	Vendor selected for off-line project.

STATE PROGRESS TOWARD EBT DEPLOYMENT

STATE	STATUS
PAPD SUBMITTED (19)	
Alabama	Contingent approval of PAPD by FNS
California	Revising PAPD and RFP for food stamps in San Bernadino County. PAPD submitted for San Diego County
Connecticut	Approval of PAPD by FNS
Florida	Submitted PAPD to ACF and FNS, FNS approval pending
Georgia	PAPD approved by FNS and ACF
Illinois	Contingent approval of PAPD by ACF and FNS.
Kansas	Contingent approval of PAPD by HCFA. Approval by FNS and ACF for food stamp and AFDC benefit delivery.
Louisiana	Approval of PAPD by FNS
Maine/New Hampshire/ Vermont	Approval of PAPD. Reviewing feasibility study. APD update submitted for funding increase
Michigan	PAPD approved
Mississippi	PAPD approved
Missouri	PAPD approved by FNS and HCFA. Planning RFP submitted.
No. Dakota/So. Dakota	PAPD approved by FNS and ACF. IAPD submitted.
Oklahoma	Final draft of RFP submitted to FNS
Oregon	PAPD approved
Utah	Developing planning documentation. PAPD approved.
District of Columbia	PAPD submitted.

STATE PROGRESS TOWARD EBT DEPLOYMENT

STATE	STATUS
INVESTIGATING EBT (8)	
Arkansas	Investigating EBT
Colorado	Investigating EBT
Delaware	Investigating off-line using a laser optical memory card
Massachusetts	Investigating EBT
North Carolina	Investigating EBT
Tennessee	Investigating EBT
Virginia	Investigating EBT. Feasibility study completed. Awaiting state support decision.
Wisconsin	Investigating EBT
OTHER	
New York (statewide except for New York City)	Operates electronic authorization to replace ATP card and check. Coupons and cash disbursed at authorized check cashiers; full benefit amount must be drawn, as no accounts are maintained.

Appendix C
STANDARD FINANCIAL CORE

The standard financial core represents a set of standard specifications governing EBT financial processes. To provide for uniform national operations, primary financial operations will be standardized across EBT systems and states. To a large extent, the financial core will be shaped by the standard operating rules for EBT, based on existing financial industry rules. Consistent with those rules, these specifications allow standardized services among EBT service vendors.

The standard financial core includes:

- **Posting to Benefit Authorization Accounts:** Benefit authorization files will originate from two sources—one for state-administered programs, one for federal direct benefit programs. Before the monthly benefit allotment comes due (generally, the beginning of each month), state program offices that determine recipient eligibility and calculate benefits will transmit authorization files, in a standardized format, to the EBT processor. Smaller files will be transmitted daily for clients eligible for a partial or supplemental payment. The EBT processor will post the new allotments to client accounts, adding the current month's allotment to any amounts remaining from prior months.

Payment information and funds for each direct federal EBT client must flow to a designated financial institution through the automated clearing house method in the same manner as regular direct deposit payments are disbursed for individual beneficiaries. The participating financial institution will remain liable to the government for compliance with existing rules and regulations regarding the acceptance of direct deposit payments and returns and reclamations. The individual account, or sub-account mechanism of a master account, must have a fully traceable audit trail for each payment delivered through the EBT system.

- **Account Maintenance:** The EBT service provider must maintain client accounts, using standard case identifiers and account structures to allow for inter-processor transactions. Two types of accounts will be maintained—pooled cash (e.g., cash assistance) and restricted access (i.e., food stamps and WIC). Accounting information will include the current balance and a transaction history for each account.
- **Transaction Processing:** EBT transaction processing will follow the standards for commercial transaction processing. The minimum EBT transaction set includes: FSP purchases, FSP refunds, cash withdrawals, non-FSP purchases, voids, reversals, and balance inquiries. Like any other commercial card transaction, every EBT transaction requires an exchange of two messages—a request message and a response or authorization message.

The authorization request includes information that identifies the card holder, transaction type, and transaction amount. If there are sufficient funds to cover the transaction, the

processor's system returns the authorization message to the originating terminal. Benefits may then be issued to the client.

During transaction processing, the processor must capture the transaction information and other information to ensure the timely, accurate settlement of the transactions. The processor also must capture enough information to trace the transaction—should a subsequent dispute arise. The minimum information will enable the processor to identify and match the request and response messages, identify the time and terminal at which the transaction originated, and provide the client account and transaction amount.

- **Settlement and Reconciliation:** In general, settlement is the exchange of information that produces the transfer of funds from one entity to another, completing a financial transaction. For EBT, settlement involves the electronic transfer of funds from EBT accounts maintained by the EBT service provider or Treasury accounts through financial networks to ATM and POS financial service providers. At the end of each transaction day, the service provider will, at a minimum, calculate the total value of all account authorization and client transactions and balance them to net debits and credits posted to client accounts. After end-of-day balancing, the service provider will initiate settlement through the EBT settlement service provider—the institution in which the consolidated pooled benefit accounts are maintained. Based on communication from the EBT processor, the settlement service will transfer funds to the financial institutions and retailers which disbursed benefits to EBT clients through their ATM terminals, POS terminals, or both. The processor and settlement service provider could be the same institution. To the extent possible, the most cost-effective processes will be used for settlement—such as settlement through automated clearinghouse (ACH) processes.

In settling transactions which originated at ATM terminals and are authorized through networks, the settlement service will move funds from the consolidated pooled benefit accounts, through commercial networks, to the transaction acquirers (financial institutions that own and operate the ATMs at which benefits were disbursed). This process may require the settlement service provider to be a member of one or more regional networks, and to maintain clearing accounts with the networks.

Appendix D **EBT BASE SERVICES**

All EBT system operations must provide for a common set of EBT base services. The base services will be structured to meet functional requirements developed by federal and state program agencies to best serve their customers. While some degree of commonality will exist among states for these service requirements, states will have flexibility to determine how best to perform these functions based on the local customers and conditions.

The EBT base services include:

- **Client enrollment in the EBT system:** Clients will enroll in EBT when they apply or are recertified for program benefits at the state-local program office. Unbanked applicants for direct federal benefits—those who do not have a bank account and cannot take advantage of direct deposit applications—will be presumed to choose EBT unless they request to have their payments made by check. Customers that are receiving direct federal benefits on an ongoing basis will be enrolled through mailed materials from the EBT service provider and referrals from program agencies. Upon assignment of account numbers, the financial institution will electronically transmit enrollment information to federal program agencies through the ACH. This approach shifts the enrollment function to the financial industry and eliminates the requirement that a recipient make a special trip to a program agency field office to enroll in EBT.

Consistent with the Administration's desire to deliver all federal payments through EFT, declaring in statute that EFT—direct deposit for those with bank accounts, EBT for those without—is the presumed federal payment method could accelerate our efforts to expand electronic government.

- **Card issuance:** Clients may receive their EBT card either in person or through the mail, depending upon the benefit program(s) in which they are enrolled and their personal preference. For state-administered programs, card issuance generally will occur in the state or county program office. Upon issuance, the program office will ask the client to choose a PIN and will provide hands-on training upon request. Also, each client will receive written materials about the card. For direct federal benefit recipients, the EBT service provider will issue the EBT card and PIN and may do so in person or by mail at the discretion of the participant. The PIN can be assigned by the card issuer or selected by the participant consistent with current private sector practices.
- **Client training:** All clients will be eligible for basic training in the use of EBT cards and the system. Written and other types of educational material (e.g., videotapes and displays) will be available at local program offices. States will have flexibility in designing the training and education services that best meet the local needs and conditions.

For direct federal benefit recipients, training is optional at the discretion of the participant. The EBT service provider must provide training upon request and may utilize mail, video, or hands-on training techniques.

- **Problem resolution:** Clients will be able to direct problems with their cards or accounts to a client service center by accessing a toll-free telephone number available 24 hours a day, 7 days a week. The service center must also offer services that provide key client account information (e.g., client balances, issuance date(s), and recent transaction history) by type of program. Customer service representatives will be available for consultation at state program offices and/or contracted facilities.
- **Card replacement:** EBT base services will give clients a toll-free number to report lost or stolen cards. Clients also may report lost or stolen cards in person at state program offices. The service provider will immediately freeze the card balance and authorize the issuance of a new card. The client will then be able to pick up the card, with a selected or assigned PIN, as previously described. The number of free card replacements may be limited, based on program requirements.
- **Benefit access:** EBT base services will give clients reasonable access to benefits at little or no cost. Clients will be able to access cash benefits at all ATM and POS locations displaying the identifying EBT logo, and at participating merchant or financial service locations that offer cash benefit disbursement. The government will not limit the number of food stamp POS transactions at authorized food retailers. Similarly, it will not limit the number of cash back transactions at participating POS merchants. Any limitation on the number or amount of cash-back transactions will be based on the commercial industry or merchant-specific procedures.

Appendix E
SUMMARY OF KEY TASK FORCE RECOMMENDATIONS

DELIVER GOVERNMENT-FUNDED BENEFITS BY EBT THROUGH A SINGLE CARD

Replace multiple paper-based benefit delivery systems with a single electronic system that delivers benefits for a full range of federal and state programs.

ESTABLISH PARTNERSHIPS WITH STATES TO IMPLEMENT EBT NATIONWIDE

For many programs, government benefit delivery is a shared responsibility between the federal and state governments. State tax dollars help fund EBT development and operations. Successful nationwide deployment of EBT requires a working partnership between the federal and state governments.

DEVELOP UNIFORM EBT OPERATING ENVIRONMENT BASED ON COMMERCIAL EFT

To ensure uniformity, EBT operations should be based on a standard foundation. The foundation should be derived from operating rules and technical standards available in the commercial sector.

EMPLOY A NATIONAL STRATEGY THAT FEATURES TWO IMPLEMENTATION PATHS

Some states will enter into partnerships with the federal government; some states may wish to proceed with EBT development on their own. The Task Force recommends an implementation strategy that features two converging paths: joint-venture federal/state prototype(s) and state-initiated EBT projects. Both paths will be based on the standard foundation.

BEGIN IMPLEMENTING BASIC EBT SERVICES BY MARCH 1996 AND EXPAND BY MARCH 1999

Basic services include a standard financial core and flexible EBT client services. Basic EBT services should begin to be delivered through prototype(s) by March 1996 for the major federal and state programs. EBT should be available nationwide and expanded to additional benefit programs by March 1999.

ENHANCE EBT SERVICES

The federal government should support the adoption of appropriate new and emerging technologies for EBT, placing special emphasis on innovative technologies such as smart cards.

SHARE COSTS EQUITABLY AMONG ALL STAKEHOLDERS

The federal government should pay a reasonable share to provide nationwide EBT services. Costs should be shared among governments, retailers, the financial services community, and benefit recipients.

CALL ON RETAILERS TO INVEST IN EBT

As is common in the commercial sector, retailers should assume costs for terminal deployment and POS transactions. The government should be the deployer of last resort to ensure adequate recipient access.

LIMIT FREE ATM TRANSACTIONS

The number of no-cost ATM transactions should be limited for means-tested program recipients. Non means-tested program recipients should pay a nominal fee for ATM transactions.

BALANCE COSTS OF ADEQUATE CONSUMER PROTECTION WITH THE COST TO TAXPAYERS

The federal government, states, and the financial service community should work together to limit government exposure to fraudulent claims while providing adequate consumer protection.

INVEST FUNDS IN FISCAL YEARS 1995 THROUGH 1997

The savings from reductions in the cost of paper-based delivery should be made available to fund nationwide EBT. Until these savings become greater than the cost of EBT, investment will be required to fund EBT development and implementation.

WORK TOGETHER WITHIN THE FEDERAL GOVERNMENT TO IMPLEMENT EBT NATIONWIDE

National EBT policy, implementation, and operations should be directed by a Federal EBT Task Force, chaired by OMB and including principals representing HHS, USDA, and Treasury, and an executive support staff. USDA, as lead program agency, should designate account executives to serve as a single point of contact for each state or group of states.

Appendix F
FEDERAL CONTRIBUTORS AND STAKEHOLDER PARTICIPANTS

FEDERAL CONTRIBUTORS

This report is the result of the dedication and hard work of many contributors. The Task Force principals and the Executive Steering Committee charted the course, reviewed the draft reports, and provided valuable input. Members of the Federal EBT Task Force core staff were the principal authors of the report. Agencies made staff members available to conduct and participate in the many stakeholder meetings. Agency staff contributors also provided input and support for task force issues papers, as well as this report.

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As stressed throughout this report, the federal government cannot build the infrastructure for nationwide EBT in isolation. Successful implementation requires a partnership between the federal and state governments and the support of private sector stakeholders. The Task Force believes we have made a good start in building these relationships. Over the past several months, the Task Force participated in numerous meetings with stakeholders to understand their concerns and obtain their input for this report. Many stakeholders were generous with their time and support and we wish to recognize those who participated in this process. Inclusion of names on this list does not constitute endorsement of the recommendations of the report.

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Larry Goolsby, American Public Welfare Association

Brian Lagana, National Association of Counties

Doug Munro, Southern Governors' Association

Candi Penn, Southern Governors' Association

Marilina Sanz, National Association of Counties

Helena Sims, National Association of State Auditors, Comptrollers, and Treasurers

Sheri Steisel, National Council of State Legislators

Julle Strawn, National Governors' Association

Tom Slager, Western Governors' Association

Kelly Thompson, American Public Welfare Association

States

Allsa Abrams, Nevada

Joe Antolla, Illinois

Ed Bailey, Missouri

Mike Barhan, North Carolina

Van Beggarty, Virginia

Stan Blen, Michigan

Darren Bond, Oregon

Deborah Brady, California	Ray McCabe, Massachusetts
Dale Brown, Maryland	Delores McLeod, North Carolina
Mary Buckley, Texas	Marilyn Michel, Mississippi
Pat Craig, Craig Associates (California/Minnesota)	Richard Mellinger, Florida
Joanne Cunningham, Maryland	John Michaelson, California
Dave Dobson, New York	Todd Morgan, Texas
Dee Fones, Oklahoma	Larry Nale, Texas
Tom Fashingbauer, Minnesota	Rich Pedrolli, Massachusetts
Kevin Fitzgerald, North Carolina	Theresa Poon, Texas
John T. Flynn, Massachusetts	Edith Pruisman, Iowa
Gene Gandy, Alabama	Eddie Quire, Kentucky
Joe Golden, Wyoming	Mark Reger, Maryland
Billy Hamilton, Texas	Connie Reinhardt, Florida
Jack Hill, Tennessee	John Scaggs, Ohio
Andrew Hornsby, Alabama	Bob Schmitt, Kentucky
Ann Howard, Georgia	David Schwartz, Ohio
Issac Jackson, Texas	David Smedley, Arkansas
Ed Jakobsen, Illinois	Allen St. Clair-Finch, Puerto Rico
Joyce Johnson, North Carolina	Wayne Stultz, Delaware
Elizabeth Kilcoyne, Massachusetts	Esteban Vbleta, Puerto Rico
William Kilmartin, Massachusetts	John Waller, New Mexico
Ken Mannella, Maryland	Brian Webb, California
Kathy Marzolf, Minnesota	Terry Williams, Wyoming
Lucille Maurer, Maryland	Tony Wintzer, South Carolina
	Jean Womack, Kentucky

Food Retailers

David Brugin, Winn-Dixie Stores, Inc.
Jennifer Fildiam Brandenburg, Lucky Stores, Inc.
George Dieterich, Fleming Companies, Inc.
Larry Friedman, Price Chopper Supermarkets
Bobby Gowens, Randall's Food Markets, Inc.
Tim Hammonds, Food Marketing Institute
George Hood, Wegmans Food Markets, Inc.
Peter Larkin, Food Marketing Institute
Virginia Miller, The Vons Companies, Inc.
Jay Nelson, Giant Food Inc.
Jim Nygren, Fry's Food Stores of Arizona, Inc.
Ron Parmelee, Safeway, Inc.
Art Powell, Albertson's Inc.
Todd Schnuck, Schnuck Markets, Inc.
Tom Shortt, Twin County Grocers, Inc.
Michael Wheeler, Hy-Vee Food Stores, Inc.
Kevin Wittig, SUPERVALU, Inc.
Mark Williams, Carr Gottstein Foods Co.

Financial Services Community

Brian Bates, Transaction Network Services
Susan Baumann, Bank of America
Greg Benson, Savings and Community Bankers of America
Brian Claire, CitiBank
Dennis Clark, National Bankers Association

Lynette Cromer, ENVOY Corporation
Dan Cunningham, GEMPLUS Card International
Boog Davidovac, CitiBank
Magruder Dent, GEMPLUS Card International
Mary Dunn, Credit Union National Association
Anna Estadt, International Verrifact Inc.
Nessa Feddis, American Bankers Association
Samuel Foggie, National Bankers Association
Stan Frerking, Systems Planning Associates
Ann Fuelberg, GTECH
Charlene Gardner, National City Processing Company
Jane Gell, Federal Reserve Board
Kathy George-Hough, Faraday
Lisa Hafner, Canadian Bankers Association
Kurt Helmig, Electronic Funds Transfer Association
Ron Hoopes, Navy Federal Credit Union
Margaret Janowski, Lockheed
Calvin Johnson, Bank South, N.A.
Robert Joyner, First Security Services
Sean Kennedy, Electronic Funds Transfer Association
Alfred Leist, The Apple Creek Banking Company
Anne Livingston, American Bankers Association
Nancie Lynch, Mellon Bank, N.A.
Wayne Malone, Chemical Bank

Howard Mandelbaum, National Check Cashers Association

Elliott McEntee, National Automated Clearing House Association

Tom McLaughlin, Deluxe Data Systems

Ben Miller, CardTech SecurTech

Donald Ogilvie, American Bankers Association

C. Stanley Price, National Processing Company

Matt Robinson, IBM

Mitch St. Thomas, Transactive Corp.

John Simeone, Citibank EBT

Carolyn Spicer, State Bank (Michigan)

Marcia Sullivan, Consumer Bankers Association

Gail Thompson, Wells Fargo

LuAnn Ucker, Diebold, Inc.

Viveca Ware, Independent Bankers Association of America

Dave Weber, Armed Forces Financial Network

Lynne Wolstenholme, Electronic Data Systems

Dick Yanak, Yankee 24

