

Approved: 4-9-91
Date

MINUTES OF THE HOUSE COMMITTEE ON APPROPRIATIONS.

The meeting was called to order by Chairperson George Teagarden at 12:50 p.m. on March 11, 1991 in room 514-S of the Capitol.

All members were present except: Representatives Turnquist and Adam (both excused)

Committee staff present:

Ellen Piekalkiewicz, Legislative Research Department
Debra Duncan, Legislative Research Department
Jim Wilson, Revisor of Statutes
Susan Miller, Administrative Aide
Sue Krische, Committee Secretary

Conferees appearing before the committee:

Representative Tom Love
John Alquest, Acting Commissioner, Income Support and Medical Services
Richard Schopf, President, Kansas Electronic Transfer System, Inc.

Others attending: see attached list.

HB 2264 - Electronic funds transfer remittance plan for monetary payments to recipients of public assistance.

Representative Tom Love stated that HB 2264 provides for an electronic funds transfer remittance plan by which state money could be transferred to recipients of SRS assistance (Attachment 1). Representative Love advised an electronic benefit transfer system may help to eliminate the fraudulent use of benefits, as when checks are stolen. He noted the estimated cost of issuing SRS assistance checks in December, 1990 was \$575,370.

John Alquest, Acting Commissioner, Income Support and Medical Services, advised that he supports pursuit of an investigation into establishing an electronic benefits transfer system for public assistance, but he is opposed to the section of HB 2264 which sets up a system for paying the creditors of recipients of public assistance (Attachment 2). Mr. Alquest advised that placing restrictions on the use of assistance payments made to recipients as mandated in HB 2264 is contrary to federal law and could result in the loss of federal matching funds.

Mr. Richard Schopf, President, Kansas Electronic Transfer System, Inc. of Wichita, appeared to offer informational testimony on electronic funds transfer (EFT) (Attachment 3). Mr. Schopf advised that EFT can be utilized to deliver state and federal benefits to "unbanked" recipients. In his testimony, Mr. Schopf suggested several points that should be addressed in HB 2264 prior to its passage. In response to a question, Mr. Schopf advised that Iowa now has a voluntary EBT program, a county in Minnesota has a program, and the state of Maryland is preparing to expand its program statewide. To another question, Mr. Schopf stated once a card is reported stolen, access to that account can be interrupted immediately.

INTRODUCTION OF BILLS

Chairman Teagarden requested introduction of a bill on behalf of the Governor that would cap at its present level the demand transfer from the SGF to the Highway Fund should there be an increase in sales tax. Representative Heinemann moved introduction of the bill. Representative Chronister seconded. Motion carried.

The meeting was adjourned at 1:40 p.m.

KANSAS LEGISLATIVE RESEARCH DEPARTMENT

Room 545-N - Statehouse

Phone 296-3181

February 20, 1991

TO: Representative Tom Love

Office No. 281-W

RE: Cost of Issuing Checks to Public Assistance Recipients

After pursuing several different sources of information relating to the cost of processing state vouchers for public assistance recipients, I find that neither the State Department of Administration nor the Department of Social and Rehabilitation Services has done an extensive study of the current costs of issuing either the monthly public assistance checks to AFDC recipients or food stamps. I am informed that any study of this type would require extensive research by both the Department of Administration and the Department of Social and Rehabilitation Services to determine the exact cost of issuing assistance checks and food stamps.

The Administrative Audit Section of the Department of Administration has done some checking and has come up with an estimated average monthly cost of issuing assistance checks of \$15 per check. If the December, 1990 caseload were used as the basis of computation, the estimated cost of issuing assistance checks through the Central Office of the Department of Social and Rehabilitation Services in December would have been \$575,370. This estimated cost does not include the costs of checks issued through imprest funds from the area offices.

The estimated cost of food stamp issuance is \$2.00 per household each month. The estimated cost of the first of the month issuance through the Central Office in December, 1990 would be \$118,447. The estimated cost does not include the cost of issuances made through the Wichita area office or the cost of local office involvement in handling replacement food stamps.

Federal cost sharing in the administration of public assistance is approximately 50 percent although there is enhanced cost sharing for some administrative costs, as for example in the development and upgrading of the MMS system. Federal cost sharing in the administration of the food stamp program is also just slightly under 50 percent.

Although it is not directly to the point of your proposal, the "C" level budget of the Department of Social and Rehabilitation Services requested funding to complete a study of and to implement a pilot project using electronic benefit transfer (EBT) technology as a means of providing food stamp and cash assistance benefits and Medicaid cards for eligible recipients. Under an EBT system, recipients would be given a plastic card containing a magnetic strip which has the recipient's unique identification number. The system would work much like a bank card, except that the account that could be accessed by the card would be an account in the state treasury. The recipient could use the card to secure cash from Automatic Teller Machines (ATMs), or goods or cash from point of sale (POS) locations. Food stamp benefits could be accessed in grocery stores, for example, using

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Attachment 1

POS devices at the checkout counter. To access benefits, the recipient would enter his or her own unique personal identification (PIN) number either at a POS location or an ATM. In a system of this type the state would have to contract with a private entity to handle the "switch" or the electronic procedure that takes place now when the holder of an ATM card utilizes the card at other than the financial institution where the card holder has funds on deposit. In this type of situation, there has to be a "switch" or verification of the availability of funds in the account and the electronic procedure to account for the payout of funds.

The pilot proposed by the Department of Social and Rehabilitation Services in the agency's "C" level budget was not approved for inclusion in the Governor's budget. The Department proposed the addition of a Management Analyst IV position to complete a feasibility study for the implementation of EBT. The person employed in the requested position would have been responsible for researching and analyzing the costs to the state for issuing food stamps, cash assistance, and medical cards to recipients under the current system; gathering, compiling and analyzing data from other EBT pilot projects in other states; and preparing and obtaining bids to implement an EBT pilot project in Kansas. After the initial phase, the position would be used to coordinate ongoing operations of the pilot and to study the feasibility of expanding the EBT system statewide. There would be office equipment, fixtures, rent, travel, and other costs associated with the new position as well as computer and other costs associated with the pilot project itself. None of these are included in the Governor's budget.

According to information supplied by the United States Treasury Department, there were several EBT pilot projects underway in 1990. In a suburban county outside New York City there is a pilot through which AFDC and General Assistance cash benefits are being accessed through EBT transfers and food stamps are being issued through EBT transfers. In one area in Pennsylvania food stamp benefits are accessed through EBT as a pilot program. In St. Paul, Minnesota, the pilot study involves access to AFDC benefits, and in Tacoma, Washington, the pilot involves the payment of unemployment benefits. AFDC benefits are being accessed through EBT in a Cedar Rapids, Iowa pilot. The federal Social Security administration is sponsoring a pilot in Baltimore, Maryland, through which SSI benefits are accessed through EBT, and the State of Maryland is conducting a pilot relating to EBT for food stamps and child support payment.

According to the same source, there are at least four more EBT pilots due to start in 1991. One in Albuquerque, New Mexico, will involve the use of EBT for AFDC grants, food stamp benefits, and child support payments. Another in Olympia, Washington, proposes to cover food benefits, AFDC grants, and medical benefits (drugs). In St. Paul, it is proposed to add refugee assistance to the AFDC pilot project in 1991. The Food and Nutrition Services Administration within the U.S. Department of Agriculture has proposed a pilot project whose location was not decided at the time I checked using the so-called "smart card." The latter is a plastic card like a credit card that contains a computer chip allowing all the information about the account balance, etc., to be located on the card itself.

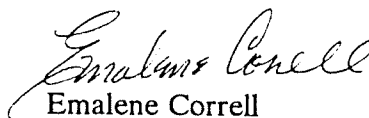
At this time, it appears that an EBT system would save postage costs for mailing checks and food stamps, the costs of storage and security for food stamps, food stamp issuance costs, and mail loss penalties. In addition, an EBT check on Medicaid eligibility in lieu of the monthly card would allow day-of-utilization verification of eligibility which would be of value to both the Medicaid client and provider. In terms of the user, the pluses would seem to include easier access to cash benefits through ATM access, avoidance of the stigma of being identified as a food stamp user, and speeding up food purchase. Additionally, recipients could withdraw benefits incrementally both in terms of cash and food stamps, thus avoiding some of the associated problems such as theft of checks

and food stamps. An EBT system may also help to eliminate the fraudulent use of benefits, including illegal use of food stamps and trafficking in food stamps and the cashing and use of stolen checks.

The major problem with an EBT system appears at this time to be cost. There are, fairly extensive start-up costs associated with an EBT system which, even when allocated over a period of several years, may not be cost effective when balanced against costs incurred in the current system. EBT would probably be implemented only if it were proved to be cost effective or at least cost neutral. Cost benefits might be improved if a complete benefit payment system could be implemented (public assistance benefits, food stamps, unemployment compensation benefits, child support payments, WIC benefits, etc.). In the case of an integrated benefit system, the costs would be shared through a number of programs. Additionally, EBT would probably be more attractive in terms of cost if there were cost sharing with the private sector such as grocery stores that would install POS equipment for the benefit of all customers.

One final note. The U.S. Treasury is now engaged in a five-year study of electronic transfers and is encouraging the states to develop systems that would allow electronic transfers of federal money to the state in programs such as AFDC. No state has implemented this type of capability at this time.

If you need additional information, please contact me.



Emalene Correll
Research Associate

EC/jar/91-194

Department of Social and Rehabilitation Services
Robert C. Harder, Acting Secretary
Testimony
House Bill No. 2264

The electronic funds transfer remittance plan proposed in this bill would be difficult and complex to implement. The bill would require establishment and maintenance of bank accounts for all recipients of SRS assistance payments. Many public assistance recipients do not currently have bank accounts because of their low income and the fees required to maintain such accounts. Direct deposit to individual accounts would require complex and potentially unmanageable tracking due to the frequent changes or account balance/overdraft problems which could occur. To implement the automatic payment to creditors further proposed in this bill, it would be necessary for SRS to become a joint owner of each recipient account. Implementation would require considerable administrative time: establishing, modifying and/or terminating automatic payment agreements, resolving deposit rejections, and working with recipients in managing/budgeting to assure account balances and payment amounts were in concert with the level of assistance provided.

The agency is investigating other electronic benefit transfer methods which would establish a system within the control of the state through which recipients could access their benefits. This could be accomplished by recipients using a plastic (bank type) card at existing automatic teller machines, or other electronic devices throughout the state. Some potential benefits would be: ensuring that recipients had money available to them on the first day of each month, eliminating the costs of lost and stolen warrants, reducing fraud, saving on the costs of preparing and mailing warrants, and eliminating the problems many recipients have in cashing their monthly checks.

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Attachment 2

The agency does not support restrictions being placed on the use of assistance payments made to recipients as mandated by this proposed legislation since such restrictions are contrary to federal law. Federal statute and regulations prohibit states from placing restrictions on the money payments made to eligible AFDC families and individuals unless the agency determines that the caretaker has misused funds to such an extent that allowing him or her to continue to manage the AFDC grant would be a threat to the health and safety of the children. (Section 406(b); 45 CFR 234.11(a); 45 CFR 234.60). This is not waivable. The adoption of this bill would ultimately result in the withdrawal of federal matching funds the state receives for the AFDC program and would make the agency vulnerable to lawsuits.

March 11, 1991

John W. Alquest
Acting Commissioner
Income Support & Medical Services

Comments on House Bill No. 2264 presented to the House Appropriations Committee, Representative George Teagarden, Chairman. Presented on March 11, 1991 by Richard C. Schopf, President, Kansas Electronic Transfer System, Inc.

Mr. Chairman and distinguished members of the House Appropriations Committee:

My Name is Richard Schopf and I am president of Kansas Electronic Transfer System, Inc. headquartered in Wichita.

Kansas Electronic Transfer System is also known by the acronym KETS. It is Kansas' largest nonstock not-for-profit membership corporation which operates a regional EFT network. The network has a membership of 60 financial institutions, including banks, savings and loans and credit unions. KETS provides its members with EFT switching facilities to route financial transactions between automatic teller machines (ATM's), Point-of-Sale (POS) devices, and independent data processing centers.

Electronic Funds Transfer, or EFT as it is known in the industry, began in the 1970's with the introduction of ATMs. These machines were unmanned and allowed customers of financial institutions access to their checking and savings accounts through the use of a plastic magnetically striped card. Identification of the cardholder was made through input by the customer of a Personal Identification Number (PIN). These ATMs have proliferated over the last 15 years and there are now over 60,000 ATMs in the United

States.

In the 1980's, we saw EFT move into a more elaborate arena called Point of Sale. Point of Sale involved the retail sector and provided cardholders with the increased convenience of purchasing goods and services through electronic point of sale terminals. POS has been slow to evolve in certain parts of the country. However, in the more populated areas you will see POS devices in supermarkets, convenience stores, hospitals, gas stations, and even in local governments where they are used for the acceptance of traffic fines and paying personal property taxes.

By the 1990's, EFT was rapidly becoming a convenient cost effective payment delivery method throughout the United States. In spite of this however, EFT primarily served the "banked" population, those individuals with checking or savings accounts at federally insured financial institutions. As EFT managers looked for ways to expand EFT, the federal government was looking for ways to reduce costs and increase the efficiency of the benefit delivery process. Somehow the EFT managers came into contact with the government people and the question was raised "could EFT be utilized to deliver state and federal benefits to "unbanked" recipients?". Well, the answer is yes. And as part of this goal, The Department of the Treasury's Financial Management Service in Washington has initiated a Government-wide Electronic Benefit Transfer program to 1)

develop a basic banking debit-card-access-only account and
2) encourage the cost-effective delivery of benefits to
each qualified receiptent via a single plastic access card
and available electronic technology such as automatic
teller machines and point-of-sale terminals. In addition,
the Farm Bill of 1990 and the Omnibus Budget Reconciliation
Act of 1990 encourage EBT and will provide regulations
under which most of it will be regulated. With this in
mind, it may not be necessary for the State of Kansas to
pass enabling legislation. However, enabling legislation
may be viewed as a pro-active step.

We support the use of EFT to provide for the delivery of
receiptent benefits through Electronic Benefit Transfer.
House Bill No. 2264 takes an initial step in that
direction. We would, however, offer some suggestions for
your consideration that would help enable this bill to
address the full scope of Electronic Benefit Transfer.

First, the bill be expanded to include non-monetary
payments, such as Food Stamps, in addition to monetary
payments; and that it include the delivery of benefits in
addition to the remittance of benefits.

Second, provide discretion to the Secretary of Social and
Rehabilitation Services to make recommendation on whether
participation of the receiptents should be optional, rather
than mandatory; and whether the accounts of the receiptents
should be state-owned or receiptent-owned.

Third, that consideration be given to giving the option

to the benefit recipient with respect to the automatic transfer of a fixed amount of money from the recipient's account to creditors who are providing shelter, utility service or other necessities to the recipient. It is not clear in the bill as to whether this is optional or mandatory. If it is mandatory, is it legal and who bears the cost of the service?

Finally, EBT is still in the pioneering stage, we know the technology works, but there are still questions to be answered. Perhaps the planned implementation date of January 1, 1992 indicated in the bill is too aggressive. Presumably, the State would need to follow a competitive procurement process, probably in the form of a Request for Proposal, to find an outside contractor to help develop this plan. After which time, a contract would need to be negotiated. With additional time needed for educating the recipients and staff training, January 1992 might not allow for adequate preparation before implementation. However, from a technical standpoint, some EBT services could be implemented by the date set in the bill if it were to pass in the near-term.

Thank you for listening to my comments. On behalf of KETS, we are very supportive of Electronic Benefit Transfer services and are interested in providing the State of Kansas and individual recipients with a cost-effective Electronic Benefit Delivery Service. I will be glad to address any questions you might have.