

III. Assessment of Current Environment and Potential Changes Table of Contents

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III. Assessment of Current Environment and Potential Changes

A. *COMPETITIVE ENVIRONMENT*

In 1993, Maryland became the first state to implement a statewide EBT program. As of May 2000, thirty-eight states and the District of Columbia have operational on-line EBT systems, as well as two off-line systems (Ohio and Wyoming). During this six-year period each of these states, with the exception of Wyoming, has procured its system from a full service EBT vendor. EBT system vendors include single prime contractors as well as contractor teams. Teaming arrangements have had different designated prime contractors and a variety of member organizations, with vendors sometimes bidding together and sometimes bidding against each other.

The earlier EBT Requests for Proposals (RFPs) received responses from a much wider variety of large systems integrators and financial institutions than is being seen in today's market. In addition to the current EBT service providers of Citicorp Services Inc. (CSI), Deluxe Data Systems, Inc. (Deluxe), Lockheed Martin IMS (Lockheed Martin), Transactive Corporation, a subsidiary of GTECH Corporation (Transactive), GM Group and Zion 1st National, teaming efforts for proposals included additional firms, such as First Security, Electronic Data Systems (EDS), IBM, TransFirst, and Unisys. Examples of past team responses to proposals include:

- **Pennsylvania** – awarded a contract to CSI, with Lockheed Martin as a subcontractor, in April 1997. One of the proposals received was primed by Unisys, with Deluxe as a subcontractor.
- **Texas** – awarded a contract to Transactive in February 1994. One of the proposals received was primed by EDS, with Deluxe as a subcontractor.
- **Oklahoma** – as the lead state of the Southwest Consortium, released a multi-state RFP in December 1994, with New Mexico, Louisiana and Kansas. First Security Bank was selected as the EBT contractor. Other proposals included one from Unisys with Deluxe as a subcontractor, and one from Lockheed Martin with CSI as a subcontractor. A protest was filed by four non-winning vendors following the initial selection, after which the three consortium states broke their participation with Oklahoma in the procurement process. After the protest was upheld and upon further evaluation, Lockheed Martin was selected as Oklahoma's prime contractor.

Whatever the reasons for being awarded or not awarded a contract, as more states continued to procure full service EBT systems certain firms emerged as "winners". This has had the effect of limiting the competitive market for EBT. This section discusses the current EBT contractors, the reasons for limited competition and the impacts and constraints this has had on state procurements. As a reference, the following table defines the current status of EBT deployment, and the current prime and subcontractors for EBT systems.

TABLE 2: EBT SYSTEM STATUS

State	Status	EBT Provider	Authorizer	Acquirer/ Switch
Alabama	Statewide	CSI	Deluxe	Deluxe/EDS
Alaska	Statewide	CSI	Deluxe	Deluxe/EDS
Arizona	Statewide	CSI	Deluxe	Deluxe/EDS
Arkansas	Statewide	CSI	Deluxe	Deluxe/EDS
California (Partial)	San Bernardino & San Diego Only	Deluxe (County only)	Deluxe	BofA/Deluxe
California (Statewide)	Proposals under review			
Colorado	Statewide	CSI	CSI	Deluxe/EDS
Connecticut	Statewide	CSI	CSI	Deluxe/EDS
Delaware	Implementation	Deluxe	Deluxe	Deluxe
Dist of Columbia	Districtwide	Lockheed Martin	CSI	Deluxe
Florida	Statewide	CSI	CSI	Deluxe/EDS
Georgia	Statewide	CSI	CSI	Deluxe/EDS
Hawaii	Statewide	CSI	CSI	Deluxe/EDS
Idaho	Statewide	CSI	CSI	Deluxe/EDS
Illinois	Statewide	Transactive	Transactive	Transactive
Indiana	Under negotiation			
Iowa	Linn County	Shazam	Shazam	Shazam
Kansas	Statewide	Deluxe	Deluxe	Deluxe
Kentucky	Statewide	CSI	Deluxe	Deluxe/EDS
Louisiana	Statewide	Deluxe	Deluxe	Deluxe
Maine	Planning			
Maryland	Statewide	CSI	CSI	Concord/EDS
Massachusetts	Statewide	CSI	Deluxe	Deluxe/EDS
Michigan	Planning	CSI	CSI	Deluxe/EDS
Minnesota	Statewide	Deluxe	Deluxe	Deluxe
Mississippi	Planning ¹			
Missouri	Statewide	CSI	Deluxe	Deluxe/EDS
Montana	Planning			
Nebraska	Planning			
Nevada	Planning			
New Hampshire	Statewide	CSI	Deluxe	Deluxe/EDS
New Jersey	Statewide	Deluxe	Deluxe	Deluxe
New Mexico	Statewide	CSI	CSI	1st Sec/Deluxe
New York	Implementation	CSI	CSI	Deluxe/EDS
North Carolina	Statewide	CSI	CSI	Concord/Deluxe
North Dakota	Statewide	CSI	CSI	CSI
Ohio	Statewide	CSI	CSI	NPC
Oklahoma	Statewide	Lockheed Martin	CSI	Concord/Deluxe
Oregon	Statewide	Deluxe	Deluxe	Deluxe
Pennsylvania	Statewide	CSI	CSI	Concord/Deluxe
Puerto Rico	Implementation	GM Group	GM Group	GM Group

¹ Mississippi has issued two RFPs, but was not able to consummate a contract with the vendor awarded the bid through the first RFP. No responsive bids were received on the second RFP issued. Mississippi is now reviewing alternative approaches to obtaining EBT services.

TABLE 2: EBT SYSTEM STATUS				
State	Status	EBT Provider	Authorizer	Acquirer/ Switch
Rhode Island	Statewide	CSI	Deluxe	Deluxe/EDS
South Carolina	Statewide	CSI	CSI	CSI
South Dakota	Statewide	CSI	CSI	CSI
Tennessee	Statewide	CSI	Deluxe	Deluxe/EDS
Texas	Statewide	Transactive	Transactive	Transactive
Utah	Statewide	Zion 1st National	Deluxe	Deluxe
Vermont	Statewide	CSI	Deluxe	Deluxe/EDS
Virginia	Under negotiation			
Washington	Statewide	CSI	CSI	Deluxe/EDS
West Virginia	Under negotiation			
Wisconsin	Implementation	CSI	CSI	Concord
Wyoming	Expanding statewide	SVS	NPC	NPC

While the data above indicates that there are a number of players currently in the EBT market, four corporations are important for purposes of discussion of the current environment:

- **Citicorp Services, Inc.** – Thirty states have selected CSI as their prime contractor for EBT services. CSI is a subcontractor in two additional states. Providing services for a majority of states, CSI has obtained a dominant position in the EBT market.
- **Deluxe Corporation** – Deluxe is the prime contractor for EBT services in five states and the EBT transaction acquirer in the majority of states that have deployed EBT. While Deluxe is in frequent competition with CSI as a prime EBT provider, it has also been a subcontractor to CSI on some state contracts. In states where Deluxe has won the EBT service provider contract, it has also provided transaction acquirer and authorization services. Deluxe is providing retailer management and card production services to the Western States EBT Alliance (WSEA).
- **Lockheed Martin IMS** – Lockheed Martin has contracts as the prime EBT service provider in Oklahoma and the District of Columbia, with CSI as the subcontractor providing EBT processing. Lockheed Martin also provides retailer management services as a member of the CSI team for the Southern Alliance of States (SAS) and Northeastern Coalition of States (NCS) and card production services for SAS. Lockheed Martin does not have the market share of either CSI or Deluxe, mainly because they do not have EBT processing capabilities. To rectify this deficiency, in early 2000 Lockheed Martin teamed with Total Systems to develop an EBT processing application. Lockheed Martin is projecting a launch date for their system by the end of 2000.
- **Transactive Corporation** – Transactive currently holds two full service EBT contracts, in Texas and Illinois. Similar to Deluxe, Transactive acts not only as the prime EBT contractor, but also provides its own transaction acquirer and authorization services. On February 27, 1998, Transactive announced that it had elected to transition out of EBT and that it had entered into an asset purchase agreement with CSI. CSI subsequently dropped its intent to purchase in light of a

review by the anti-trust division of the Department of Justice. Both states had an option to extend their original contracts with Transactive. This means that Texas could exercise an option to extend their contract with Transactive for two two-year periods beyond the February 2001 closing date of the current contract period. As part of their transition out of EBT, Transactive has indicated it will not provide services to either state extending beyond the end of their original contracts. Transactive has leased its processing software to GM Group for use in providing EBT services solely in the Commonwealth of Puerto Rico.

Reasons for Limited Competition

While one goal of the EBT program was to leverage the existing electronic payment infrastructure, using existing financial institutions, networks, third party processors, etc., state EBT systems had to be designed and built for a commodity – food benefits – that had requirements above and beyond those necessary for banks to manage a normal debit account. The restrictions associated with Food Stamp accounts, combined with carrying multiple benefits on one cardholder account was more complex than originally perceived by banks and could not be handled by a modified debit account.

In general, when EBT first entered the market, banks had little experience in the federal procurement process, did not perceive opportunities for cross-selling, financial incentives, or expansion beyond the Food Stamp and cash accounts, and were wary of the risks involved in cost per case month (CPCM) pricing, such as up-front design, unpredictable transaction and call center volumes and the chance of falling caseloads. Because all EBT functions were bid within one procurement vehicle, vendors specializing in some of the functional areas, such as call center services, were precluded from bidding on EBT contracts unless they could become a part of a proposing team.

States purchased isolated EBT systems that were designed not only to meet all federal regulations but also individual state regulations, agency policies and procedures, additional programs and optional services. Early winners in the EBT market gained the knowledge and experience necessary to meet these requirements and soon became the only vendors with existing EBT processing systems.

Bank of America, having lost the SAS bid to CSI, did not subsequently have the EBT experience required as one of the evaluation criteria by the NCS. Because Bank of America has the largest ATM network in the west, it bid on the WSEA RFP but did not win that contract either. Each proposal was extremely expensive to prepare and once the bank lost WSEA it prescribed to the "three strikes and you're out" policy and made the decision not to bid on EBT again.

As the competitive market narrowed and the majority of states had purchased EBT services, there were only five vendors that had built processing systems: CSI, Deluxe, Transactive, TransFirst and 1st Security. TransFirst and 1st Security chose to exit the EBT market. On July 17, 1998, approximately four months after Transactive announced its decision to sell its EBT assets to CSI, the U.S. Justice Department filed a legal challenge to the CSI acquisition. The Justice Department complaint stated:

"There are presently only four firms in the national market to provide EBT services: Citicorp, Transactive, Deluxe Data Systems, Inc. ("Deluxe"), and Lockheed Martin IMS ("Lockheed"). While there are other firms that can and do provide individual components of EBT services, only these four firms are in the market and bid for EBT service contracts as the prime contractor in multiple states."²

"Actual bid competition generally involves fewer than these four bidders for two principal reasons. First, only three of these firms have EBT processing systems. Lockheed does not have an EBT processing system, and thus has had to submit its prime contractor bids with a processing subcontractor, as was the case in Oklahoma and the District of Columbia where Citicorp is Lockheed's processing subcontractor. Second, Citicorp, Deluxe, and Lockheed frequently bid jointly with one of the three bidding as the prime contractor and one or both of the others performing as a subcontractor on that bid."³

"If the proposed acquisition is allowed to be consummated, Transactive has agreed, pursuant to a non-compete clause not to compete against Citicorp, with very limited exception, for any new contracts or rebid contracts for at least eight years... The effect of the proposed transaction and Agreement is to remove Transactive as Citicorp's only substantial competitor in the EBT services market."⁴

In January 1999, CSI rescinded its acquisition offer and the Justice Department complaint was dropped. However, Transactive still plans to exit the EBT market, further narrowing the competitive market for full service EBT providers.

Procurement Constraints/Impacts

The impact of the limited EBT market is being felt today as new contracts are being bid and old contracts are being renegotiated or rebid. CPCM rates are rising, and negotiations with vendors have become more limited and difficult. A variety of reasons, including the number and type of technical requirements, the risks associated with EBT system operations which includes liquidated damages for system down times, the unpredictability of caseloads, and the high cost of preparing a proposal to respond to an RFP has deterred vendors – both current and aspiring – from responding to the most recent RFPs.

B. CPCM PRICING MODEL

A major issue raised by a number of the EBT stakeholders has been the pricing models used to acquire services for EBT. The basic model used for obtaining pricing from the EBT vendors has

² *United States of America, Plaintiff, v. Citicorp, Inc., Citicorp Services, Inc., GTECH Holdings Corporation, and Transactive Corporation, Defendants*, Civil No. 98-436, Verified Complaint, V (A)(23).

³ *Ibid.* V (A)(24).

⁴ *Ibid.* V (B)(29).

been a CPCM. Under this model, the EBT vendor charges the state for every active case on the EBT system. There have been a number of issues and problems experienced, mainly by the EBT vendors, because of this pricing model.

There are three definable issues with the CPCM pricing model:

- Active case definition;
- Capital investment recovery; and
- Case volumes.

Each of these issues is discussed in more detail.

Active Case Definition

The definition of an active case would seem like an innocuous item, with relatively little room for discussion or flexibility, but when the EBT vendors began creating their billing programs, the definition was not as concrete as they originally anticipated. In the current environment, three definitions of an “active case” are being used for pricing and states include their active case definition in their EBT RFPs. These are:

1. An EBT account with any type of debit or credit activity within the calendar month, including benefit issuance (state or system generated) and client-initiated activities, such as expenditures or withdrawals;
2. An EBT account where a benefit has been deposited and made available to the client within the calendar month; and
3. An EBT account where there has been client initiated credit or debit activity within the calendar month. The account is not considered active if the only activity within the account is state or system generated activity, such as a benefit being deposited or a benefit being expunged.

While active case definition does impact revenue since the CPCM pricing is per “active” case, it has not caused economic hardship to the EBT vendors since it has been defined in advance in state solicitation. There does not appear to be substantial advantages between the different definitions to the contracting states. However there is a small advantage to the second definition, activity based upon a benefit being added, in that the contracting states can more easily tie billing to active cases on the eligibility system and can more easily reconcile the EBT vendor billing.

The disadvantage of the different definitions is that it has made comparisons between states more difficult, especially when referring to a single CPCM price. A true comparison needs to not only take into account the service being provided (e.g., method of card issuance), but also which method of tracking active cases. For example, assuming that all other factors are equal, a CPCM price under the first definition should be lower than a CPCM price under the second definition, as the first definition is a broader definition that will increase the overall number of active cases.

Recovery of Capital Investment

The implementation of a new EBT project requires a substantial upfront capital investment. This is because the EBT vendor needs to develop and implement an infrastructure that can support EBT transaction processing before the first EBT transaction occurs. Assuming that the vendor already has an existing EBT system that can be utilized, a capital investment is still required to:

1. Develop, test, and implement an interface between the contracting agency's eligibility system and the existing EBT system;
2. Provide EBT cards, and optionally, training to recipients who will receive their future benefits through EBT; and
3. Solicit FNS certified retailers to accept the EBT card. If these retailers do not have point-of-sale (POS) equipment, or do not wish to use their existing POS equipment for EBT, the vendor must supply the POS equipment.

In many EBT procurements, the pricing model assumes that the capital investment for the initial implementation costs will be paid over the life of the contract through the CPCM pricing. A simple example best illustrates this point. The following hypothetical example assumes capital recovery does not start until full pilot rollout at the end of year 1, and does not take into account the time value of money (i.e., an imputed interest rate). The example assumes an agency with a 50,000 caseload, and a contract period of six years.

TABLE 3: ASSUMPTIONS		
Anticipated average number of cases to be billed each month	50,000	
Contract Length	6 years	
Pilot Start	9 months	
Full Rollout complete	1 year	
Number of Contract months at full rollout	60 months	
Capital Investment -		
Retailer Installation ⁵	\$450,000	
Agency Interface	\$150,000	
Card Issuance and Training	\$300,000	
Total Capital Investment		\$900,000
Recovery Period – months		60
Anticipated recovery amount per month		\$15,000.00
Amount allocated per case		\$0.30

In the above case, the EBT vendor is making an assumption that their capital investment of \$900,000 will be recaptured over the life of the contract, at \$.30 per case per month (PCPM). When an EBT vendor calculates pricing for recovery of their capital costs, they need to take into account three types of risk. These risks are:

⁵ Retailer installation costs are the costs to contract with retailers for EBT and deploy and install EBT-only POS equipment at retailers requesting government sponsored equipment. Retailer installation cost in example is intended to be representative. Actual costs are a function of the number of retailers within a state. The breakdown of the estimated deployment costs per POS terminal is detailed in Section 5.

- Costs have been calculated correctly (i.e., that it will take \$900,000 in capital investment to implement the EBT project);
- The project will be implemented by the end of year 1, so that the recovery period is 60 months; and
- The anticipated monthly average number of cases over the life of the contract is correct.

When costs rise, it is easy to see the impact. The vendor will not recover their investment over the life of the contract. What is not as easily seen is the impact when a project slips, in other words, when implementation occurs later than in the original project workplan/timeline. Using the same assumptions as in the previous example, the following is an example that shows the impact if a project slips by six months, so that the recovery period is 54 months instead of 60 months.

TABLE 4: PROJECT DELAY EXAMPLE	
Total Capital Investment	\$900,000
Recovery amount allocated per case per month	\$0.30
Actual recovery period in months	54
Actual investment amount recovered	\$810,000
Recovery shortfall	-\$90,000

The impact of project delays has been recognized in at least one existing contract. The State of Wisconsin has an operational contract period that starts at the end of the project rollout.⁶ The operational period is set at a predetermined period, thus removing project delay risk from the EBT vendor's pricing calculation. Other states contracting for EBT services may want to consider this approach.

The third risk assumed by the vendor is the impact of a changing caseload. Since caseloads can go either up or down, the vendor can be either positively or negatively impacted. Since caseloads over the last three years have decreased, the impact of a decreasing caseload will first be modeled. The following example shows the impact to the recovery of a capital investment if the average caseload drops from 50,000 to 40,000 cases over the life of the contract.

TABLE 5: CASELOAD DECREASE EXAMPLE	
Total Capital Investment	\$900,000
Recovery amount allocated per case per month	\$0.30
Expected average number of cases	50,000
Actual average number of cases	40,000
Actual investment amount recovered	\$720,000
Recovery shortfall	-\$180,000

⁶ Although the determination of the start date for the EBT contract had a positive impact for the EBT vendor in Wisconsin, there is no empirical data that Wisconsin received a lower CPCM price because of it.

Alternatively, if caseloads increase, the EBT vendor realizes an economic benefit. The following example illustrates this scenario.

TABLE 6: CASELOAD INCREASE EXAMPLE	
Total Capital Investment	\$900,000
Recovery amount allocated per case per month	\$0.30
Expected average number of cases	50,000
Actual average number of cases	60,000
Actual investment amount recovered	\$1,080,000
Recovery windfall	\$180,000

When taking these risks in combination with each other, the dynamics of pricing the capital investment can be very complex. An assumption is that the EBT vendors take into account these pricing risks, and these risks are reflected in the CPCM pricing provided to the contracting agencies.

Case Volumes

EBT case volume is another area that has caused concern for the EBT vendors. This is not only true in the earlier EBT contracts where tiered pricing was not in effect, but is also true in the pricing obtained in the SAS, WSEA, and the NCS coalition pricing. This is because the winning vendors, in their eagerness to win the business, did not provide true tiered pricing to the procuring coalitions. It can be assumed that the winning vendor, CSI, did not believe that caseloads would fall as significantly as they have. Consequently, CSI accepted the risk that caseloads would not significantly decrease over the life of the contracts for these coalitions.

The reason why case volume is so important in EBT processing procurements is because of the amount of fixed costs that must be recovered through the CPCM pricing model. While it is not possible to know the actual breakout between fixed and variable costs for each EBT vendor, a useable estimate has been published by one of the existing EBT vendors. The response to the NCS RFP required a breakout between fixed and variable costs for the bidding vendors. In the proposal submitted by the winning vendor, CSI, it was stated that 60 percent of the CPCM pricing was to cover fixed costs, and 40 percent was for variable costs.

By the very nature of an EBT project, there are a significant amount of fixed costs. These costs include the POS terminals provided to EBT-only retailers, the computer and telecommunication infrastructure required for processing EBT transactions, and the reporting, settlement, and reconciliation functions that must be supported. These functions are typically fixed over a given caseload range (i.e., 50,000 to 100,000 cases). It should also be noted that it is the fixed costs that allows for the economies of scale when implementing large projects (or obtained when a single vendor obtains a larger market share). Pricing the fixed costs in an EBT project is a fairly easy equation illustrated by the following example.

TABLE 7: FIXED COST RECOVERY EXAMPLE⁷	
Anticipated Average Number of Billable Cases	50,000
Monthly fixed costs	\$60,000
CPCM required to recover fixed costs	\$1.20

If tiered pricing is not utilized (or is calculated incorrectly), the vendor carries the risk of not being able to recover its fixed costs. While caseload variation impact will have both a positive and a negative impact on the vendor, recent history has shown a downward shift in caseloads. Consequently, this is the scenario in the following model. Using the assumptions defined in the previous example, this model illustrates the impact to the EBT vendor when the expected caseload drops by 20 percent.

TABLE 8: 20 PERCENT DECREASE IN CASELOAD EXAMPLE	
Monthly fixed costs	\$60,000
CPCM required to recover fixed costs	\$1.20
Actual average number of billable cases	40,000
Actual recovery of fixed costs	\$48,000
Shortfall in recovery of fixed costs	(\$12,000)

It should be noted that while the earliest EBT RFPs did not include tiered pricing, subsequent RFPs have included tiered pricing. Also note that a caseload tier needs to be in a fairly narrow range in order to be effective, otherwise at the higher end of the caseload within a tier the contracting agency will be paying an excessive price, while at the lower end the EBT vendor may not be recovering their fixed costs.

C. EBT PRICING ESCALATION

Following the contract awards for the SAS, NCS, and WSEA coalitions, there has been a steady and consistent escalation in the pricing received from the EBT vendors. This is true for both new acquisitions and for existing contracts that are being renegotiated with vendors. While the EBT vendors keep their pricing strategies confidential, there is some empirical evidence for the escalation in pricing.

Caseload Changes

The first reason for the pricing escalation is the decrease in caseloads. When analyzing the fixed expenses for a given project, the capital investment expense falls into two categories. The first

⁷ The monthly fixed cost used in the table is for illustrative purposes. The actual fixed costs within a project are dependent upon a number of variables. These include factors such as the number of projects supported by the EBT vendor and whether the EBT vendor has subcontracted specific functions to other vendors such as help desk services. Monthly fixed costs include both operational costs and recovery of capital investment.

category is the capital investment that is sensitive to caseload level. When caseloads decrease, these expenses will also decrease. Client training and card issuance falls into this category. The second category is the investment costs that are not sensitive to caseload levels. This category includes retailer deployment and interface development. Specifically, the number of retailers certified to accept Food Stamps will not change just because the caseload has fallen (albeit Food Stamp sales per retailer will drop). Also, the cost to implement the interface to the contracting agency's eligibility system will not change. The cost of the interface will be relatively constant if the caseload volume is one case or 100,000 cases.

A falling caseload also means that the remaining caseload must pick up a larger share of the ongoing fixed costs.⁸ As with the capital investment, fixed costs fall into two categories. The first are expenses that are only allocated to the respective project. These types of expenses are the POS equipment for EBT-only retailers, dedicated onsite project managers and onsite project facilities. The other category of fixed expenses is the expenses that can be leveraged over a large number of EBT projects (i.e., the expenses that provide the economies of scale). These expenses include computer hardware and a portion of the telecommunication infrastructure, as well as the back office functions of reporting, settlement, and reconciliation. This category of fixed expenses is important to consider in that it provides a distinct advantage to an EBT vendor with a large existing contract base. In this respect, both CSI and Deluxe can be seen as having a distinct advantage over new entrants to the market.

Cost Recovery

The second reason for the escalation in pricing can be attributed to better information regarding the true expenses for an EBT project. The EBT vendors, in their pricing on the SAS, NCS, and WSEA coalitions, made a number of assumptions that turned out to be incorrect. Based upon comments and documents provided by the prime contractor, CSI, and the subcontractors, Deluxe and Lockheed Martin, it can be deduced that the CPCM pricing contained the following erroneous assumptions:

- The number of retailers that would receive EBT-only POS equipment. The original estimate made by the CSI team of the number of POS terminals that would be needed was about 10-20 percent of the retailer base. The estimate of the CSI team has proven to be very wrong in that the actual percentage of retailers requiring equipment is between 50-70 percent, depending upon the demographics of the state.
- The number of calls made to the recipient help desk was underestimated, in particular during the project rollouts. Again, the primary reason appears to be faulty assumption on the part of the CSI team, although part of the reason for the higher number of calls in many of the projects during project rollout had to do with the card issuance method (through the mail), and not requiring that clients attend a mandatory recipient training (although the cost of mandatory training would have greatly exceeded the cost of the additional help desk calls). The impact of training by mail was not known when bids were received for the three coalitions. A reason for higher

⁸ CSI, in their response to NCS RFP, was required to break out the costs of the project between fixed and variable costs. The fixed costs were estimated to be approximately 60 percent of the overall costs.

- recipient calls to the help desk during ongoing operations was the result of setting and reinforcing of recipient behavior during the conversion to EBT. Training documentation, as well as in person training, encouraged the recipients to utilize the services provided by the help desk, in particular in obtaining balance information.
- The expense to implement the individual projects has been higher than anticipated. Because the interface to the state is still customized to the individual requirements of the respective state, there have not been the economies of scale in implementing the EBT system for states within a coalition as opposed to an individual state. The amount of work required to establish the infrastructure and interfaces for each state within the coalition has proven to be similar in scope and scale to a state within a single procurement model. The economies of scale come into play once the states within the coalition are converted to EBT.
 - Using the SAS as an example, the rollout of the states within the coalition, based on specific state schedules, was not as rapid as had been forecasted and expected by the EBT contractor.

Vendor Pricing Strategy

Even if caseloads had maintained their previous levels and the cost assumptions had been correct, it should be assumed that pricing would still have increased from the CPCM pricing provided in the three multi-state coalitions, SAS, NCS, and WSEA. Specifically the base pricing offered in the coalitions was not realistic when considered in the context of the ongoing expenses. Fear of the competitors' possible prices was probably the main driver for the aggressive bid pricing.

There is also another factor to consider in the CPCM pricing, specifically the advantage of the incumbent during any EBT re-procurement. In a re-procurement scenario, the incumbent EBT processor has an important monetary advantage of an available infrastructure. A new EBT processor that bids on a re-procurement has the additional expense of converting the EBT project over to a new system, and potentially replacing all of the EBT-only POS terminals in the field. It is to the advantage of states during re-procurement to obtain a CPCM price that reflects true operational costs of the EBT project and allow an "apples to apples" comparison between bidders. The method that a state can use to remove the incumbent's advantage is to require that the price of the conversion to be provided outside of the operational CPCM price. Once the conversion price is received, it becomes a state option whether to finance the conversion effort through a CPCM pricing model, or to provide for upfront payments for the conversion effort.

D. PROCUREMENT MODELS

Once the requirements to deploy EBT were enacted by the federal government, states began to explore different approaches to the procurement of EBT services. These approaches, as well as the timing of the procurements, were based on a number of factors, including political, economic, technological, institutional, and organizational constraints and resources. States

elected to procure EBT services individually for systems dedicated to that particular state, through joint procurements (or by "coat tailing" onto the procurement of a lead state) and with the state as the prime contractor, procuring services individually by function. Regardless of the procurement approach, each state that has implemented an EBT system has signed an individual contract with an EBT vendor.

Due to the concern with pricing increases, the discussion of procurement models has validity in that some procurement approaches are better able to leverage pricing and/or economies of scale and offer different programmatic and technological advantages. Pricing is impacted by caseload volume and vendor competition, which tends to give states participating in a coalition procurement an advantage in CPCM rates from EBT vendors and if the state is willing to act as prime contractor, it may trade added responsibilities with tighter management control and lower contracted costs. Faced with the second round of EBT procurements and/or contract negotiations, and anticipated higher prices for EBT services, states are exploring those procurement options that will provide the best value and the best service for their EBT programs.

The following sections describe the methodologies used by states for the procurement of EBT services and their advantages and disadvantages.

Stand-Alone Procurements

Over 20 states have either purchased, are in the process of purchasing, or have attempted to purchase complete EBT services through individual stand-alone procurement processes. The EBT services that are purchased are proprietary in that the service is designed and implemented solely for the uses of the respective state, therefore the system design and functionality is based on the requirements of that particular state. This has allowed states to acquire the exact services, technologies and functionalities, that they require for their benefit programs, without the level of effort needed for coordination with other states in a joint procurement effort. However, services purchased through the stand-alone approach are less likely to be interoperable with other states, simply because these states may not have established agreements with other states, as in coalition or lead state procurements, or for various reasons including cost and policy, some states have not required it of their contractor.

Several issues have impacted a state's decision to pursue a stand-alone procurement and/or their ability to enter into a joint procurement process. These include:

- **Timing:** A state may not be politically, economically, or technologically ready to implement EBT within the timeframe allowed in a coalition or lead-state RFP.
- **Policy:** There may be policy and institutional issues that impact a state's ability to cooperate with other states in a joint effort. This includes the state procurement laws, which may impact a state's ability to proceed with a joint or coalition procurement.
- **Technology:** To date, states wishing to deploy advanced technologies, such as smart cards for Food Stamp and Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) benefit delivery, have been able to do so only through stand-alone systems.

In the past, stand-alone procurements simplified the procurement process, because there was no need to meet other states' requirements and procurement laws. However, smaller caseload states are having increasing difficulties when pursuing stand-alone procurements. When Delaware Health and Social Services (DHSS) published its RFP in 1999, it had a statewide Food Stamp caseload of less than 15,000 cases and approximately 449 authorized Food Stamp retailers. DHSS was seeking a full-service EBT system that would initially provide Food Stamp EBT, with the option to add other programs, such as Temporary Assistance for Needy Families (TANF), Child Support, pre-funded federal direct and WIC. Unlike earlier EBT procurements – Oklahoma received bids from five vendors – Delaware received no responses to its RFP. Pursuant to Delaware Title 29, Section 6982 (b), DHSS is now allowed to interview and enter into negotiations with one or more qualified firms. Using this process, DHSS selected and contracted with Deluxe for EBT services.

Direct negotiation may be an option for a state having difficulty attracting vendors into the RFP response process, although the option can only be used if direct negotiation is allowed under the state's procurement law. Direct negotiation presents states with other difficulties that may occur during the negotiation process. One challenge that is true for all methods of procurement – whether through a stand-alone or joint RFP or a catalog procurement, but more particularly for a procurement through direct negotiations – is to ensure that an evaluation is made comparing "apples to apples," in other words, that all vendors are offering similar products and services while comparing their prices. This is because a true negotiation process involves negotiating the system requirements and level of service as well as pricing.

The following table delineates the advantages and disadvantages of pursuing a stand-alone procurement.

TABLE 9: STAND-ALONE PROCUREMENT MODEL		
	Advantages	Disadvantages
Pricing		Is less likely to receive favorable pricing based on caseload volumes. Depending upon the EBT vendor selected, the project is less likely to benefit from economies of scale reached through shared services.
Ease of preparation of a procurement vehicle	Can pursue an acquisition without the level of effort required to address the institutional issues and procurement laws of multiple states.	
Programmatic	Can specify a system tailored to the state's program requirements.	May have to negotiate specific services with a vendor reluctant to provide them to a single state because of reduced economies of scale.
Technological approach	Is able to more easily pursue or test advanced technologies, such as smart cards.	May have to negotiate specific technological requirements with the vendor.

Coalition Procurements

During the early stages of EBT procurement, seven coalitions and alliances were formed, some of which had cross-over memberships: the Mid-Atlantic Regional Coalition (MARC), the Midwest Association of States (MIDAS), the NCS, the SAS, the Southwest Consortium, the WSEA and North and South Dakota. Five of these coalitions sought to leverage the advantages of economies of scale while offering clients within the coalition the portability of benefits through interoperable agreements. The other two, the Mid-Atlantic Regional Coalition and MIDAS, met to discuss issues related to their EBT programs in order to enhance the services they would procure and subsequently provide to their clients.

The following table describes the coalitions that participated in the procurement process and their original member organizations.

TABLE 10: EBT COALITIONS		
Coalition/Alliance	Members	Procurement Method
North and South Dakota	North Dakota, South Dakota	Procurement through a jointly issued RFP.
Northeast Coalition	Connecticut, Maine, Massachusetts, New Hampshire, New York, Rhode Island, Vermont	Procurement through a jointly issued RFP with New York as the lead state. States signed a Memorandum of Understanding (MOU).
Southern Alliance of States	Alabama, Arkansas, Florida, Georgia, Kentucky, Mississippi, Missouri, North Carolina, South Carolina, Tennessee (West Virginia has recently negotiated with CSI as part of SAS)	Procurement through a jointly issued Invitation for Expressions of Interest. States signed a MOU.
Southwest Consortium	Louisiana, Kansas, New Mexico, Oklahoma	After notice of award, a protest was filed, and New Mexico, Louisiana, and Kansas withdrew from the consortium. All states pursued a stand-alone procurement and are now operational statewide.
Western States EBT Alliance	Alaska, Arizona, Colorado, Hawaii, Washington, Idaho, Oregon and Nevada	Procurement through a jointly issued RFP with Colorado as the lead state. Oregon and Nevada withdrew before the issuance of the RFP. Oregon proceeded with a stand-alone procurement and Nevada is in the planning stages.

The procurement approaches varied between the different coalitions. NCS and WSEA both issued RFPs under the umbrella of a lead state. North and South Dakota issued a joint RFP with common technical and contractual requirements. The Southwest Coalition issued a joint RFP but after a protest was filed against the award, the consortium was effectively disbanded and Oklahoma proceeded on its own with a stand-alone system. The SAS proceeded to procurement with a jointly issued Invitation for Expression of Interest (IEI) through the U.S. Department of Treasury.

The original ten members of the SAS agreed that the joint procurement process would benefit their EBT procurement ability as well as provide the value-added benefit of interstate portability

to recipients who reside within the SAS. Interested in including federal benefits through the SAS EBT program, the federal government assisted the SAS to develop specifications for a nationwide EBT prototype. The Financial Management Service (FMS) of the U.S. Department of Treasury issued the IEI for the procurement of EBT services. In October 1995, CSI, with support from Lockheed Martin, Deluxe, and First Union National Bank, was selected as the SAS EBT contractor. The inclusion of federal benefits may have impacted the SAS pricing due to anticipated caseload volumes.

Upon acceptance of CSI as the EBT contractor, each state within the SAS proceeded with planning separate EBT pilot and implementation programs. The SAS agreement and planning framework provides seamless interoperability for both electronic and manual voucher transactions for recipients in the SAS states.

North and South Dakota, each with small caseloads, contracted with CSI for EBT services in 1995 for the joint procurement of one, unified EBT system with the same core technical and programmatic requirements, without individual state options. At the time of procurement, participating with other border states was not an option for various reasons. Each state has low caseload volumes – currently around 14,700 for North Dakota and 16,500 for South Dakota. The system is interoperable between the two states, but is currently not interoperable with other EBT projects. Since EBT services began, South Dakota has added on-line Medicaid eligibility through CSI, accessed through a separately issued magnetic stripe card.

There have been two major procurements of EBT services through an RFP issued by a lead state. These are the Colorado and New York RFPs, which included states within the WSEA and the NCS, respectively. Rather than issue a joint procurement, these coalitions were led by one state with other coalition members having the option to obtain EBT services through the lead state procurement.

As an example, the Colorado RFP was issued on January 19, 1996. It contained language giving the state the right to exercise the option to add additional states to its procurement. On March 1, 1996, it issued an addendum exercising this option and added Alaska, Hawaii, Idaho, Washington and Arizona to the RFP, and provided pricing sheets for individualized services required by each additional state. Oregon and Nevada retained the right to procure services from the selected vendor, at the rates provided to the WSEA, if they contracted with the vendor within 12 months of the original contract award. Neither state elected to procure EBT services from CSI, the awarded vendor, within the specified timeframe.

The Colorado RFP contained Terms and Conditions that applied to Colorado. Additional states' Terms and Conditions were individually negotiated with the vendor when states were ready to begin EBT implementation. As with the SAS IEI, the Colorado RFP allowed multiple states the ability to procure EBT services through the development and release of one RFP, one evaluation of proposals and one major contract negotiation, with minor negotiations occurring between the vendor and individual states. It provided for tier pricing for core services at nine separate break points, at case volumes ranging from under 150,000 to over a million. It also assisted states with very small caseloads, such as Alaska and Idaho, to acquire a system with built-in economies of scale while tailoring their programs requirements.

While any state may use a tiered pricing schedule based on volume as a pricing approach to purchasing EBT services, few states on their own can match the combined caseload volume of a coalition such as the SAS. The January 2000 caseload volume based on an unduplicated caseload for the SAS is represented in the following table.⁹

TABLE 11: SAS CASELOAD VOLUME	
Program	Caseload Volume
Food Stamp Only	1,476,038
Cash Only	98,852
Cash & Food Stamp	206,043
Food Stamp & Federal	6,637
Cash & Federal	216
Cash, Food Stamp & Federal	231
Total Caseload	1,788,017

The following table delineates the advantages and disadvantages of the coalition procurement model.

TABLE 12: THE COALITION PROCUREMENT MODEL		
	Advantages	Disadvantages
Pricing	Has been more likely to receive favorable pricing based on caseload volumes. Is more likely to benefit from economies of scale such as shared services.	
Ease of preparation of a procurement vehicle		An increased level of effort is required to address the institutional issues and procurement laws of multiple states.
Programmatic		Must agree with other states on a core system that meets each state's core program requirements.
Technological approach		Must agree with other states on a standard technology.

State as Prime Contractor

Two states, Wyoming and Texas, have decided to act as the prime contractor, procuring separate functional services from separate and different contractors. Wyoming is in the process of implementation and has particular insight to offer concerning the challenges and rewards of acting as a prime contractor. Texas is in process of procuring services. This section discusses both states' experiences as prime contractor.

⁹ There were no federal-only cases reported during January 2000.

Wyoming

During Wyoming's smart card pilot, the state released an RFP for a statewide, full service EBT vendor. The responses the state received were not considered to be within a viable price range, hence the state decided to act as its own prime contractor. The new RFP, breaking services into separate functional categories, identified in detail the responsibilities of the state and the responsibilities of the contractors, and encouraged contractors to pull in potential subcontractors under one umbrella in order to reduce the state's contract management responsibilities. The resulting eight contracts (not including the WIC interface contract) are now managed by the state's EBT Project Team, consisting of staff from the Food Stamp and WIC programs.

Stored Value Systems (SVS) was signed to design and develop a system to provide WIC in addition to Food Stamp benefits. SVS was required to allow on-line access to the host from rural environments via landlines or cellular phones in order to support WIC clinic in remote settings. Finally, SVS was contracted to provide customer service, processing, and the network to allow for electronic payment of retailers through Norwest of Wyoming. For these services, Wyoming is paying SVS the following CPCM¹⁰ rates, which are subject to annual increases based on accepted food inflation, but not greater than four percent.

TABLE 13: CPCM FOR WYOMING BASE SERVICES		
	First Year of Operations	Second Year (current)
Food Stamps	\$1.07	\$1.09
WIC	\$1.31	\$1.33

In addition to SVS, Wyoming contracts include the following:

- A personal services contract for a retail manager;
- Modern Electric is installing equipment at retailer sites and retrofitting the original seven counties in the pilot area. Modern Electric is a local entity with pre-established relationships with many of the Food Stamp and WIC retailers. It is on retainer for maintenance of POS equipment.
- DataCard is providing POS terminals;
- Orga is providing smart cards;
- Schlumberger is providing smart cards;
- Bluestar provides WIC scanners in lane for Universal Product Code (UPC) codes and the cables to use the new equipment; and
- The University of Wyoming is providing retailer, client, WIC and Food Stamp Program training videos and retailer management training materials.

The Wyoming EBT Project Team consists of a lead, Mr. Terry Williams, a fiscal administrative assistant, a full time retailer manager, and a field person involved in equipping Food Stamp field

¹⁰ WIC is based on a WIC household, consisting on average of 1.6 people.

offices, managing the infrastructure and responsible for card distribution and staff training. The WIC program has an additional person that performs trouble shooting for the interface between the WIC eligibility software and the EBT system, while the Food Stamp Program has several people (contributing a combined time equal to one full time employee) that perform policy, IT and customer services, including an individual who monitors the monthly and daily file transfers. The WIC manager provides assistance in issues and draws, and maintains the infant formula rebate contract. The core team members cooperate with the WIC and Food Stamp staff through an established Memorandum of Understanding with a goal towards providing a common electronic service delivery.

The Wyoming experience provides information to other states should they choose to perform as a prime contractor, including the following:

Challenges:

- While providing customer services, SVS does not perform retailer management or training. The state found SVS customer service representatives had to be trained to understand retailer requirements and to answer basic questions, while relaying other problems back to the state.
- The state was subject to supply issues. For example, it found that smart card stock is in high demand and it must order stock at least eight months in advance. It is felt the state's smaller volume of cards impacted its ability to leverage faster card turn around times. The state had to purchase cards from four different manufacturers because of the delay. In addition, the vendor providing POS equipment moved its operation from Minnesota to Toronto delaying the receipt of terminals.
- The decision was made early on to continue its pilot into the implementation of the statewide beta program before conversion; hence the state had to manage two separate benefit delivery programs.
- Designated state personnel must be on call (through a pager system) and the state must operate during expanded business hours, 24x7.

Rewards:

- Using local entities, such as Modern Electric for POS equipment installation and maintenance, promoted stakeholder satisfaction. For example, Modern Electric had established relationships with many Wyoming retailers and was familiar with retailer sites, telecommunications and electrical infrastructure and management; Norwest of Wyoming is also familiar to the retailer community.
- As prime contractor, the state is able to assess the need for emergency action or response, with a cost savings to the state. For example, if the state receives a call on Sunday that one terminal in a ten-lane store is malfunctioning; the state can judiciously determine if the maintenance call can be delayed until the next business day. The maintenance contract is based on service calls. On the other hand, a full service EBT required may be contracted to provide service within a set number of

hours; this means the contractor has to establish maintenance offices within the state (or subcontract the work) and build maintenance into the CPCM pricing.

- Project team satisfaction with work performed and knowledge obtained through the prime contractor process is high.

*Lessons Learned*¹¹

- Wyoming emphasized the importance of clearly stating requirements in the RFP, estimating that 80 percent of the management role was established through the preparation of the RFP, five percent through the contract and the remaining 15 percent has evolved through the learning process.
- Communications between the project team, agencies, and vendors is extremely important. Wyoming has established weekly conference calls including a Friday afternoon call with local Food Stamp offices to identify and correct any problems before the weekend and a Wednesday call with WIC staff.
- In hindsight, the state feels it would have been better served to focus on implementing the beta system rather than managing two systems (pilot and beta) at one time.
- The Project Team should have included a full time Quality Control person to schedule and test changes to the system in order to gain a higher confidence level before implementing changes at local offices.

Texas

Faced with the exit of Transactive from the EBT market, upon contract completion Texas began to look at alternatives to purchasing EBT services that would provide the best interest/best value for the state. In particular, the state analyzed the methodology for procuring and operating an EBT system, based on current models and exploring models not yet in use. The *Texas EBT Alternatives Analysis (TEAA)*¹² provided technical, programmatic and funds management evaluations of eight different approaches to procuring EBT services. These approaches included:

- **Stand-Alone EBT Environment:** The procurement of the full set of EBT services that are dedicated to the State of Texas.
- **Shared EBT Environment:** The procurement of a full set of EBT services from a vendor that shares its EBT infrastructure with multiple states, such as a joint procurement with one or more states.
- **SAS EBT Solution:** Join SAS and negotiate a contract with the SAS EBT provider under the SAS EBT agreement.
- **State In-House EBT Solution:** The state develops and provides the full range of EBT services in-house.

¹¹ Full statewide operations have not been reached; lessons learned are preliminary.

¹² *Texas EBT Alternatives Analysis*, January 1999, Phoenix Planning & Evaluation, a division of MAXIMUS.

- **State In-House Acquire Transactive's Assets:** The state purchases certain resources from their existing EBT contractor and provides the full range of EBT services in-house.
- **Multiple-Service Outsource EBT Solution:** The state contracts with separately multiple vendors that combined would provide the full range of EBT services.
- **Selective Multiple-Service Outsource Combined With an In-House Solution:** The state contracts selected services while bringing other services in-house.
- **Selective Outsource, Acquire Assets Solution:** The state contracts selected services while acquiring some assets from the current vendor.

Upon completion of the TEAA, Texas Department of Human Services (TDHS) determined it would implement a combination of the alternatives. The Department made the decision to become the prime EBT contractor, taking over the management and coordination of up to three contractors for three outsourced EBT functions.

As part of the Department's overall EBT-2 effort, TDHS negotiated with Transactive to acquire the license for the company's EBT software as well as for a transition plan from the vendor. The state discovered that the negotiations for the software license required more effort than what was anticipated.

TDHS has established a Systems Integration and Management Services (SIMS) Unit to plan, organize, direct, approve and control all activities required to implement the new EBT-2 system and will ensure the three functional areas being procured are integrated. Through this approach, TDHS hopes to achieve the following benefits:

- Increase competition and reduce costs for individual services;
- Acquire the services of experienced niche providers; and
- Develop an infrastructure upon which other programs and services can be based.

In November 1999, TDHS issued the three EBT-2 Requests for Offers (RFOs). The RFOs indicated that TDHS will purchase Transactive's software upon contract completion. Vendors had the option of bidding on one, two, or all three of the following EBT functions but no single vendor would be awarded all three.

- **Central Processing** – responsible for the uninterrupted operation and maintenance of the central site hardware; possibly the development and maintenance of software applications; management of central processing telecommunications networks; and operation and management of associated hardware.
- **Call Center** – operate and maintain help desk services to respond to EBT client and retailer calls.
- **Retailer Management, Point-of-Sale Hardware, and Settlement and Reconciliation** – responsible for the control and maintenance of EBT accounts

established for clients and retailers; provide installation, training, and maintenance support of state-deployed POS hardware; and manage POS network connections.

The responses to the RFOs were due to TDHS at end of January 2000. Initial reported attendees at the bidders' conferences included.

TABLE 14: ATTENDEES AT VENDOR CONFERENCES FOR TEXAS EBT-2

	Central Processing	Call Center	Retailer Management
ACS-Inc.	X	X	X
Andersen Consulting		X	
Benova, Inc.		X	
Calyx Consulting	X		
Citicorp			X
Contact Network		X	
Epicom			X
GTECH		X	
GTG Inc.		X	
J3/Contact Network & J3/Impact Solutions	X		
Kathy Ikard & Assoc.	X		
Lockheed Martin IMS	X	X	
LOL		X	
MAXIMUS		X	
McConnell, Jones, Lanier & Murphy		X	
METAMOR-IS			X
Northrup Grumman, Logicon, NGTSI	X		X
PDA Inc.			X
Renaissance Government Solutions		X	
RFD & Associates	X		X
SAGEM Morpho		X	X
Siemens ICN		X	
SPR	X	X	X
Tonn & Assoc.	X	X	X
Transaction Processing Spec.	X		
Transactive Corp.	X	X	X
TRW		X	
Unisys		X	

As of April 2000, TDHS has selected Northrup Grumman as its vendor for the Central Processing portion of the EBT-2 procurement. This contract has been approved by FNS and has been finalized by TDHS and the vendor. For the Retailer Management, Point-of-Sale Hardware, and Settlement and Reconciliation portion of the EBT-2 procurement, TDHS has selected Affiliated Computer Service (ACS). The contract for this service has been submitted to FNS for approval and is currently being reviewed. Once TDHS receives FNS approval it plans to finalize the contract with the vendor. TDHS has not yet selected a vendor for Call Center services.

The following table delineates the advantages and disadvantages of the "state as a prime contractor" purchasing model.

TABLE 15: STATE AS THE PRIME CONTRACTOR		
	Advantages	Disadvantages
Pricing	May receive more favorable pricing based on increased vendor competition. May benefit from economies of scale such as shared services, e.g., commercial call center services shared with private corporations.	May be more difficult to translate separate functional pricing for evaluation purposes. Depending upon the size of the state, may not receive premium services from vendors. For example, the state procurement of card stock directly from the vendor.
Ease of preparation of a procurement vehicle		An increased level of effort is required to issue multiple RFPs (or to define separate requirements within one RFP) and to define roles and responsibilities within the project.
Programmatic	State is able to assess level of service and have greater control over costs during ongoing operations.	State must act as project manager over multiple vendors.
Technological approach	Is able to separately pursue or test advanced technologies, such as smart cards as additional or optional services.	State must coordinate with multiple vendors when pursuing additional or optional services. State may have to perform on a 24x7 basis as intermediary between vendors

Direct Negotiation of Contracts

As discussed in the stand-alone procurement model, some states that are newly entering the EBT market have difficulties attracting potential bidders; such was the case in Delaware. As an alternative, these states are entering into direct negotiations with vendors. There are also a number of other states that are nearing the end of the initial term within their EBT contracts. These contracts have included a contract clause that allows either the vendor or the state the option to not renew. CSI has informed the states of their decision not to renew these contracts and continue with services unless the terms of the original contract, specifically the prices, are modified. Contract modifications have been negotiated with the States of Alabama and Arkansas for the renewal periods, and discussions are currently underway with the State of North Carolina. As discussed in the pricing evaluation, the new CPCM rate negotiated in Alabama and Arkansas are higher than the CPCM rate obtained during the first round of EBT procurement.

E. EBT COMPONENTS

The Federal EBT Task Force fostered the development of EBT functional requirements for states interested in implementing EBT for public assistance and other government benefit and payment programs. The following are EBT system requirements, regardless of program, benefit type, card, or processing technologies. They are presented as eight EBT functional areas:

- **Account Setup and Benefit Authorization** – this includes generating an account setup record and a benefit authorization record. These functions are performed by the

- administering government agency. The government transmits an account setup record to authorize the EBT contractor/card issuer to establish an EBT cardholder account. The EBT cardholder account is the record kept by the EBT contractor/card issuer on each benefit type (e.g., Food Stamps and TANF) for which the recipient is certified;
- **Card Issuance and Training** – this includes issuing an EBT card and personal identification number (PIN) and providing recipient training. The EBT card is linked to the cardholder account(s) and provides access to authorized benefits through POS devices. For account security, access to benefits also includes the use of a recipient-entered PIN at the point of access. Training is provided to ensure that recipients have the information they need to access their benefits;
 - **Recipient Account Maintenance** – the maintenance of the recipient account includes the posting of debits, credits, and adjustments to account balances. A historical record, including current balance and a record of account activity, is maintained on-line for a 90-day period, at a minimum, and then is maintained off-line for at least three years¹³;
 - **Transaction Processing** – EBT transaction processing occurs in conjunction with the interchange and authorization of recipient and administrative transactions. Cardholder transactions are generated at the point-of-purchase/sale and administrative transactions are performed on administrative terminals. Except in the case of balance or administrative inquiry transactions, a transaction results in a change to the account balance, the account status or the cardholder profile;
 - **Customer Service** – cardholders have toll-free telephone access to account and benefit information via the Audio Response Unit (ARU) and customer service representatives (CSRs). At the point of purchase or cash access, the cardholder may access account balance information either through inquiry-only capability (optional) or via a printed receipt. The EBT contractor/card issuer's customer service unit has responsibility for processing and resolving cardholder inquiries and requests;
 - **Retailer Participation** – the EBT contractor/card issuer manages the retail merchant database to ensure that targeted food and cash transactions originate at authorized merchant locations. The EBT contractor/card issuer also provides information on vendor redemptions to the government and originates Automated Clearinghouse (ACH) transactions to settle merchant EBT transactions. In addition, the EBT contractor/card issuer provides telephone authorization service for manual transactions;
 - **EBT Settlement** – the EBT contractor/card issuer operates the EBT host on a 24-hour processing cycle. At the end of every processing cycle, the system is balanced and reconciled. The EBT contractor/card issuer must have an originating and receiving relationship with the ACH, either directly or through a depository financial

¹³ Online history has been an accepted alternative to producing and mailing monthly statements to EBT recipients, mainly as a cost containment practice. The production and mailing of monthly statements would cost \$.35 to \$.45 or more per case per month, while online history is estimated at \$.02 to \$.05 per case on a monthly basis.

institution, and originate ACH transactions for next banking day settlement of EBT transactions. This includes the online request for and receipt of funds from Automated Standard Application for Payments (ASAP) as well as the settlement of funds to financial institutions and retailers; and

- **EBT Reporting** – the EBT contractor/card issuer provides EBT system processing and operating information to support government agency data requirements. A government agency(ies) receives the daily activity file and other specified data and reports from the EBT contractor/card issuer as batch files.

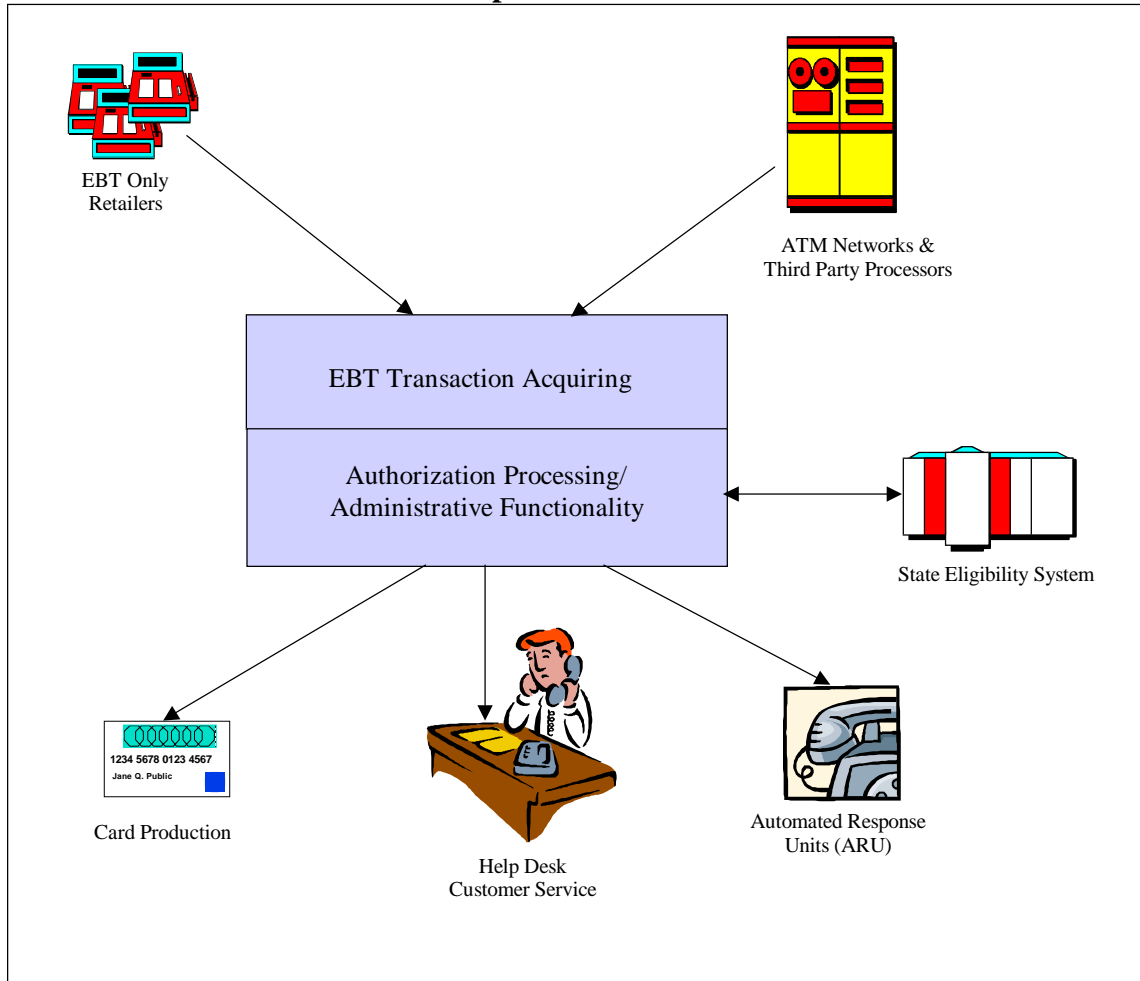
The above functional components have become the basic building blocks for defining the processing requirements in almost every RFP issued since the SAS IEI. From a historical perspective, early EBT systems had all of these functional components combined as a single processing entity. There are two primary reasons for this. The first is that many of the first projects were either pilots or were implemented in small to medium sized states. Economies of scale were not yet a factor for the EBT processors in trying to control costs.

The second reason was that the system requirements for a fully functional EBT system were not yet fully understood, at least from a system implementation standpoint. It appeared to be more expedient to develop and implement the system as a cohesive whole. Tightly coupled functional components within a single system allowed for a faster development cycle, and the ability to quickly implement changes to meet an evolving market.

It should also be noted that interoperability was not an issue at this time. All of the EBT projects were stand-alone projects that did not have a need to communicate with any other EBT project.

Standards for the passing of transaction data also did not exist. Essentially, each EBT processor created their own interface specification for how third party processors (TPPs) and Automated Teller Machine (ATM) Networks would pass transaction data for their respective EBT projects. For example, the interface specifications used by Deluxe in their early projects was a proprietary message specification format called “Format 8”. Figure 1 is a pictorial representation of the functional components of an early EBT system.

FIGURE 1 EBT Functional Components



The SAS IEI was a major change in the procurement and implementation of EBT systems.¹⁴ The IEI was the first RFP that mandated interoperability among its member states. The scope of the project was also significant enough that it required partnerships among the EBT processors and other vendors. The winning bid was a partnership between CSI, Lockheed Martin, and Deluxe, with CSI serving as the prime contractor.

The partnership between CSI and Deluxe required a level of integration and commonality between EBT processors that to date had not existed. One of the requirements stated in the IEI was that the EBT systems offered to each of the consortium's member states had to be functionally equivalent. Consequently, during the development and installation of the initial states within the SAS, CSI and Deluxe worked closely together to ensure that both existing functionality (such as card issuance) and new functionality (such as the ARU PIN select) operated in a similar fashion. This requirement was a driver in ensuring that the system functionality between processors was equivalent.

¹⁴ Although the Dakotas issued a joint RFP, it was for a single EBT system with no unique requirements specified for either State, as well as a single contract between the winning vendor and the two states.

The other driver was the requirement for interoperability within the project area.¹⁵ Cardholder transactions from a SAS member state, but acquired in a different SAS member state, had to be routed to the correct EBT vendor for processing and approval. This requirement led to the creation of the EBT Gateway by the CSI team.¹⁶ The EBT Gateway was an Electronic Funds Transfer (EFT) transaction switch with two main purposes. These were:

- Provide interoperability. Interoperability occurs when an EBT transaction acquired by a retailer in one state can be routed to a different state for processing and approval.
- Simplify settlement. Without the EBT Gateway, each member state in the SAS would have to settle with every retailer and TPP acquiring recipients' transactions for a respective state.

There were also some other impacts from the development and implementation of the EBT Gateway. One little recognized impact was that the EBT Gateway provided defacto interoperability for transaction acquirers (TPPs, ATM Networks, and direct connect retailers) to every issuer (state/county EBT project) connected to the EBT Gateway. This was because transaction acquirers normally have a single connection to the EBT Gateway, regardless of how many states in which the transaction acquirer is operating. A method called restrictive interchange provides transaction switches, such as the EBT Gateway, which controls what cards a transaction acquirers can process. In a layman description, the first six to eight positions of a card number, also called a Personal Account Number (PAN), is known as the Bank Identification Number, or Bank Identification Number (BIN), also referred to as the Issuer Identification Number (IIN). The card BIN defines the owner of the cardholder account. The EBT Gateway, when accepting a transaction from a transaction acquirer, will first determine if the BIN on the card is valid for that transaction acquirer (i.e., is the transaction acquirer allowed to accept the respective BIN). If the BIN is valid for that transaction acquirer, the EBT Gateway will route the transaction to the appropriate EBT processor for approval. At no point in the processing does the EBT Gateway determine, or actually care, where the transaction was physically acquired. So if a transaction acquirer connected to the EBT Gateway is obtaining transactions in both Florida and Colorado, the transaction acquirer can acquire a Florida EBT cardholder transaction in Colorado, pass it to the EBT Gateway and obtain an approval for the transaction.

The second impact is that it allowed the EBT vendors, when implementing a state's authorization system, a degree of separation from the transaction acquirers, including EBT-only retailers.¹⁷ EBT-only retailers are merchants that are using state supplied POS equipment to acquire EBT transactions. Prior to the implementation of the EBT Gateway, transaction acquirers and EBT-

¹⁵ This requirement provided for interoperability within the coalition and predated the Electronic Benefit Transfer Interoperability and Portability Act of 2000 (P.L. 106-71) that was enacted February 11, 2000. This law mandates interoperability for EBT (with some exceptions), requires the USDA to pay 100 percent of the interoperability costs with a cap of \$500,000 annually; and requires the USDA to adopt a uniform national standard of interoperability and portability based on standards already adopted by a majority of states.

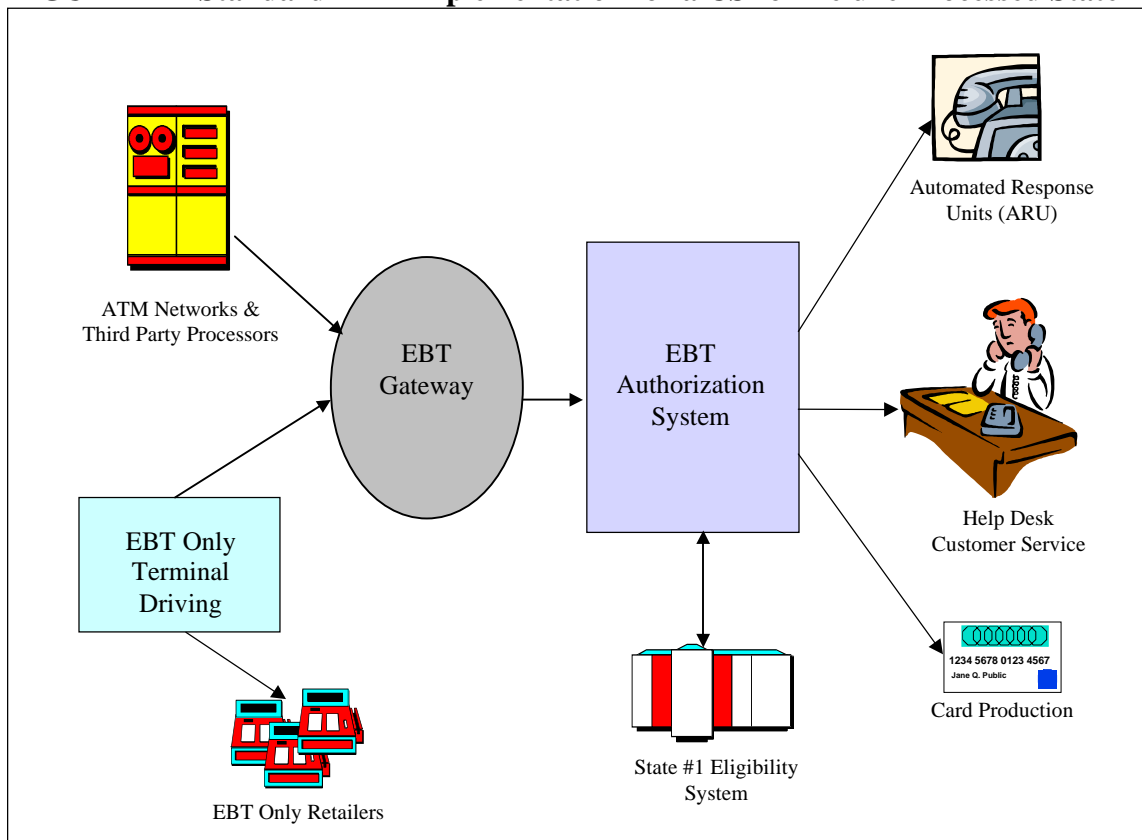
¹⁶ The implementation of the EBT Gateway solved the technical problem of routing transactions between states within the SAS project, but did not address the operating rules and standards required for inter-project interoperability. These operating rules and standards have been formally established and promulgated through the Quest® Operating Rules.

¹⁷ The degree of separation within the context of the discussion refers to technical implementation of the respective state's authorization platform.

only retailers were directly connected to the authorization system for the respective state. By allowing the separation to occur, the EBT Gateway allowed for a faster implementation of new states, as well as provided for interoperability for retailers using EBT-only POS terminals.¹⁸ Finally it made it easier for other service providers, such as Concord Computing, to enter the market for EBT-only terminal driving. Prior to the implementation of the EBT Gateway, EBT-only terminal traffic was routed directly into the authorization systems using proprietary and unique interfaces.

A pictorial representation of the standard EBT implementation for a CSI or Deluxe processed state is depicted in Figure 2.

FIGURE 2 Standard EBT Implementation for a CSI or Deluxe Processed State



It should be noted that Transactive, in its EBT contracts in Texas and Illinois, continued to operate essentially stand-alone systems as defined in Figure 1. But Citibank and Deluxe have both migrated to the model depicted in Figure 2 for all EBT projects implemented after the award of the SAS.

The last significant change in the configuration for EBT systems is in the process of being implemented. CSI awarded the EBT Gateway processing for the EBT projects on which it is prime to EDS in August of 1999. The implementation and migration to the EDS EBT

¹⁸ The faster implementation was able to occur because TPPs and direct connect retailers did not have to establish and certify a new telecommunication link to the EBT processor.

transaction switch is scheduled to be complete in May 2000. As CSI is the prime contractor for the SAS, NCS, and the WSEA, a significant transaction volume will shift to the EDS transaction switch when the migration is complete. The impact of this change is two-fold. The first is that it introduces another player to the EBT transaction switch processing. Prior to this change, Deluxe had a virtual monopoly on the EBT transaction switching market.

The second impact is that it now provides an alternative to the Deluxe EBT Gateway for vendors wishing to enter the market for EBT processing. Specifically a vendor wishing to enter the EBT processing market could either select Deluxe or EDS to provide EBT transaction switching services, as opposed to implementing their own EBT transaction switch.

However, it should be noted that the complete impact from the implementation of the EDS transaction switch is still unknown and in question. There is some concern that the EDS transaction switch will in reality add additional costs to EBT processing, in particular for interoperable transactions. This is because the processing rules for transaction routing are typically based upon contractual requirements. Within the current EBT environment, the fear is that CSI may dictate contractual requirements that will increase the cost of acquiring an EBT transaction. Specifically CSI may require transactions to route through the EDS transaction switch into the authorization processor for processing, although it may be more beneficial to bypass the EDS transaction switch. This scenario will potentially exist for states under contract to CSI where Deluxe is performing the authorization processing function.

For a vendor to enter the EBT market, each of the functional requirements detailed above (e.g., account setup and benefit authorization, card issuance and training, recipient account maintenance, etc.) needs to be satisfied. However, from a processing standpoint it is apparent that the functional requirements are not indicative of the logical system component breakpoints for EBT processing. EBT processing has evolved in the Deluxe and CSI model to have some fairly divisible functional components. The divisible components from a processing standpoint are as follows:

- Authorization platform;
- EBT-only retailer processing;
- EBT transaction switching;
- Client help desk (ARU and CSR support); and
- Card production.

To date, an EBT vendor has been fairly free to decide how to implement their product offering. So it is conceivable that future EBT vendors may decide to implement an EBT system that combines some of the functional components, as did the early implementations of the EBT systems from CSI and Deluxe. Likewise, a future EBT vendor may implement a system that has further broken out the functional components in a way not previously seen or anticipated.

However, the components implemented by Deluxe and CSI offer some opportunities for new and different competition within EBT. It has also introduced new players in the form of service providers for both CSI and Deluxe. These service providers have not shown an inclination to bid on EBT contracts on their own. A further analysis of each of the functional components, and the service providers supporting the components, follows.

Authorization Platform

When discussing an EBT system, reference is usually to the Authorization Platform. This is the heart of the EBT system that maintains and carries the recipient's EBT account and associated Food Stamp and cash benefit balances. The authorization platform is considered the minimum system component that an EBT vendor must have before they can be considered an EBT processor. While the existing EBT processors have at different times used multiple service providers to implement the other EBT components, the EBT processors have always provided the authorization platform functionality.

TABLE 16: FUNCTIONAL REQUIREMENTS SUMMARY (AUTHORIZATION PLATFORM)	
Requirement	System Application
Account Setup and Benefit Authorization	Authorization platform holds and maintains the recipient's EBT account, including both demographic and benefit data. The interface to the eligibility system is maintained within this functional component, albeit a batch, administrative terminal, or host-to-host interface to the contracting agency's eligibility system.
Card Issuance and Training	The authorization platform maintains the card linkage to the recipient's EBT account. Card production is usually external to the authorization platform. Client training is not part of the authorization platform.
Recipient Account Maintenance	This requirement is performed primarily within the authorization platform.
Transaction Processing	The authorization platform either approves or denies recipients' and/or administrative transactions and updates the EBT account with the results of the transaction. It is also used to place a hold on a client's account for the amount of a manual voucher.
Customer Service	The authorization platform supports the customer service functionality by providing inquiry and update access to the recipient's EBT account. This functionality is used to change the status of a recipient's EBT card, order or add a new EBT card, and support recipient and help desk inquiries.
Retailer Participation	The authorization platform is responsible for providing redemption information by retailer FNS number to FNS for input into the STARS system.
EBT Settlement	The authorization platform provides the settlement and reconciliation to the respective governmental agencies.
EBT Reporting	The authorization platform provides most of the system generated EBT reporting provided to the contracting governmental agencies.

EBT-Only Retailer Processing

EBT-only retailer processing is the function of deploying and driving POS terminals for retailers that do not wish to obtain and/or use their own POS terminals for acquiring EBT transactions. Also included in the definition of EBT-only retailers are non-traditional retailers (retailers such as route vendors or farmers markets that do not have a fixed place of business) and low volume retailers (retailers performing less than \$100 of food redemptions per month). EBT-only retailer processing includes the help desk support of these retailers.

This functional area has had the greatest number of service providers supporting the EBT vendors. Service providers such as Concord Computing and Deluxe have been used to drive the EBT-only POS terminals (Deluxe provides EBT-only terminal driving in a number of CSI processed states such as New York, Florida, and Colorado; Concord Computing also provides terminal driving for CSI processed states such as Maryland and Wisconsin). Different service providers have been used in the initial retailer rollouts for installation of equipment. Specifically a service provider may only be used during the initial rollout phase of the project, but not for the ongoing operational support of the project. Finally, ongoing maintenance of POS equipment and retailer servicing can also be subcontracted out to a different set of service providers.

In the three coalition projects (SAS, NCS, and WSEA), CSI subcontracted out the entire EBT-only retailer processing to Lockheed Martin. Because it does not have any terminal driving capabilities, Lockheed Martin subcontracted out terminal driving to either Deluxe or Concord, while performing the retailer contracting and managing the terminal deployment. In subsequent contracts such as Maryland and Wisconsin, CSI has maintained overall control of EBT-only retailer processing, but subcontracted out the terminal driving to Concord Computing.

TABLE 17: FUNCTIONAL REQUIREMENTS SUMMARY (EBT-ONLY RETAILER PROCESSING)	
Requirement	System Application
Transaction Processing	EBT-only retailer processing is responsible for acquiring recipient transactions at EBT-only retailers and passing them on to the authorization platform (through the EBT Transaction Switch) for processing.
Customer Service	EBT-only retailer processing customer service is responsible only for supporting the retailers using EBT-only equipment (i.e., it does not support those retailers using commercial equipment and third party processors) and non-traditional and low volume retailers.
Retailer Participation	The EBT-only retailer processing component manages the retail merchant database and is responsible for ensuring that retailers who do not have their own POS equipment can participate in EBT either through EBT-only POS equipment or through telephone authorizations for manual transactions.
EBT Settlement	EBT-only retailer processing is responsible for settling to the respective retailers the component is supporting. Includes settlement for manual vouchers.
EBT Reporting	While there is internal reporting to assist in reconciliation and problem resolution, there is no requirement for specific reporting to the contracting governmental agency.

EBT Transaction Switching

The EBT transaction switching component is responsible for acquiring transactions from TPPs, ATM Networks, and direct connect retailers (retailers that perform their own EFT transaction processing) and switching the transaction on to the authorization platform for processing. It should be noted that the EBT-only retailer processing component is considered a TPP to the EBT transaction switch.

As noted above, the advantages of the EBT transaction switch is the simplification of the transaction switching and retailer settlement within the EBT processing environment. Essentially the EBT transaction switch acts a traffic cop who must determine the following when processing EBT transactions.

1. Is the card number on the EBT transaction from an EBT project that is connected to the EBT transaction switch (validated by the BIN on the card number)?
2. Is the transaction acquirer allowed to process the respective cardholder transaction (validated by checking a table of valid BIN numbers for the transaction acquirer)?
3. If the transaction is a Food Stamp transaction, is there a valid FNS retailer number associated with the transaction (validated against the National Retailer EBT Data Exchange [REDE]¹⁹ file received from FNS)?

If the EBT transaction passes the three previous edits (along with some ancillary transaction format edits), the transaction is passed on to the respective authorization platform for processing. When the response is received from the authorization platform, the transaction is logged for settlement and the response sent back to the transaction acquirer.

The main advantage during settlement is that the EBT transaction switch consolidates all settled transactions for each endpoint (both authorization platforms and transaction acquirers). There are always two pieces to a transaction processed and settled by the EBT transaction switch, specifically the card issuer and the transaction acquirer. On a Food Stamp purchase transaction, the EBT transaction switch will take money from the card issuer (e.g., the authorization platform) and give it to the transaction acquirer.

A primary objective of the EBT transaction switch is to avoid a float condition. Float occurs when the EBT transaction switch is able to settle only one half of the transaction (for example a Food Stamp purchase approved by the authorization platform), in the settlement cycle. The other half of the transaction is carried in suspense, thus creating a float condition, until it can be settled in a subsequent settlement cycle.

In order to perform the settlement function and not carry a float position, there are two basic requirements. The first requirement is that all entities (transaction acquirers and authorization platforms) have a common settlement cutoff time. Everyone connected to the EBT transaction

¹⁹ The REDE file is the mechanism for the conveying of retailers who have been authorized (or de-authorized) to accept Food Stamps as payment for food products.

switch must settle at the same time. The second requirement is that the EBT transaction switch is the master of settlement, meaning that it controls the movement of funds from the multiple authorization platforms to the various transaction acquirers. In the implementation for both the Deluxe and EDS EBT transaction switches, this is the case.

TABLE 18: FUNCTIONAL REQUIREMENTS SUMMARY (EBT TRANSACTION SWITCHING)	
Requirement	System Application
Transaction Processing	EBT transaction switch is responsible for switching recipient transactions from EBT acquirers and passing them on to the authorization platform for processing, and returning the response.
Retailer Participation	The EBT transaction switch is responsible for providing connectivity to the respective authorization platform for transaction acquirers supporting the retailers accepting EBT transactions.
EBT Settlement	The EBT transaction switch is responsible for moving funds from the respective authorization platform to the transaction acquirers the supporting the retailers accepting EBT transactions.
EBT Reporting	While there is internal reporting to assist in reconciliation and problem resolution, there is no requirement for specific reporting to the contracting governmental agency. The EBT transaction switch is responsible for moving a transaction file for each entity connected to it that can be used to reconcile to the EBT transaction switch.

Client Help Desk (ARU and CSC Support)

The client help desk²⁰ consists of two system components. The first is the ARU, which is often also referred to as a Voice Response Unit (VRU) and Network Interactive Voice Response (NIVR). The second component is the Customer Service Center (CSC), where recipient help is provided through live CSR. Because of the greater variable expense of a live CSR (as opposed to an ARU), the EBT vendors attempt to have as many recipient help desk calls as possible processed by the ARU.

The EBT vendors have taken different tacks for the client help desk functionality. While Transactive performed all client help desk functions internally, both CSI and Deluxe have outsourced some of this functionality to other service providers. Both CSI and Deluxe have their own CSC, as well as use external service providers to supplement their own CSRs. Deluxe has maintained control of its ARU component, while CSI has used external service providers to support its ARU application. In recent projects, CSI has contracted with MCI/Worldcom to provide ARU and CSC support services.

The client help desk, while a distinct component of EBT processing, is unique because of the impact to it when other functional components are experiencing problems. Specifically, when clients are not able to access their benefits because of system processing problem with any of the other components, the calls to the client help desk increase dramatically.

²⁰ See EBT-only Retailer Processing for information on retailer customer service.

TABLE 19: FUNCTIONAL REQUIREMENTS SUMMARY (CLIENT HELP DESK)

Requirement	System Application
Card Issuance and Training	While often not intentional, the client help desk often performs a large part of the ongoing recipient training, in particular in states where cards and PINs are mailed to the EBT clients. The client help desk will support card issuance in states where replacement cards are mailed by ordering replacement cards for clients.
Recipient Account Maintenance	The client help desk will change the status of a client's EBT card to lost/stolen/damaged based upon a request by the client.
Customer Service	The client help desk is directly responsible for this requirement.

Card Production

Card production is the act of creating and providing the physical plastic EBT card to recipients so they are able to access their benefits through EBT. Card production is the component with the most variability even within the EBT processors. How card production is supported is dependent upon the requirements of the state. The different methods for implementing card production are as follows:

1. Cards produced and mailed from a central location;
2. Cards personalized and delivered over-the-counter;
3. Cards centrally produced and delivered to a local office for over-the-counter delivery to the client;
4. State card issued (either over-the-counter or through the mail) and subsequently added to the EBT system; and
5. Combination of client mailed and over-the-counter issuance.

The third alternative is often used for the initial implementation of EBT in a new project. PIN assignment to the client's EBT card is closely related to the card issuance method. Anytime cards are issued over-the-counter, the client has been allowed to select a PIN at the time of card issuance. Clients that receive their cards through the mail will normally receive a PIN mailer containing their PIN a day or two after the card is received.

The EBT vendors all use service providers to manufacture and provide the plastic card stock. Service providers (e.g., card manufacturers) are also used anytime a card is manufactured in a central location. Cards personalized locally and delivered over-the-counter are created using a low volume embossing/encoding machine such as a Datacard 280 or Datacard 150i that is driven from an EBT administrative terminal application. Where a state is producing their own EBT cards, the EBT processor is responsible for linking the EBT card to the client's EBT account, and providing PIN selection capabilities for the client.

TABLE 20: FUNCTIONAL REQUIREMENTS SUMMARY (CARD PRODUCTION)	
Requirement	System Application
Card Issuance and Training	Card issuance is the primary function of the card production component.

F. POLICY AND REGULATIONS

On a federal level, EBT is governed by a set of regulations, 7CFR §274.12, which were developed with the aid of EBT stakeholders. Some regulations, such as cost neutrality and no additional cost to retailers, are based in statute of the Food Stamp Act of 1977 and all subsequent amendments. Additionally, most states have developed their own set of policies and requirements specific to their state and their EBT system. As EBT has matured, stakeholders have begun to question some of the regulations and policies at both the federal and state levels.

This section identifies and discusses some of those regulations and policies: specifically, processing standards, no additional cost to retailers, and customer service standards. The section also takes a look at waivers for federal regulations granted and denied by FNS.

Federal Regulations: Waivers

FNS has the authority to waive regulations upon state request if there is no adverse effect to Food Stamp clients and the Food Stamp Act is not over-ridden. Since 1993, 396 waivers for federal regulations regarding the EBT Food Stamp Program have been requested by 41 states. Many of the same waivers have been requested by multiple states such as those that allow POS device deployment only to retailers with \$100 per month or more in Food Stamp redemptions and those that allow client training by mail. These waivers have become commonplace in the industry. Most EBT vendors expect states to request these waivers and price their bids accordingly.

From a historical perspective it appears that most waivers are either granted as written or after minor changes have been made at the request of the FNS. Fewer than 15 percent of all waivers have been denied. Because these waivers are now so commonplace and since time and effort is required by states in order to request waivers, FNS has indicated that it will be moving towards regulatory changes that might alleviate some of the inconvenience of the waiver process.

Waivers Granted

The majority of waivers are granted by FNS and are therefore accepted by the EBT community as routine policy. The following table presents the waivers most commonly requested and granted by FNS.

TABLE 21: WAIVERS GRANTED

	Waiver	Number of Requesting States	Reference
1.	Request to provide POS equipment only to authorized retailers who have Food Stamp sales equal to or greater than \$100 per month. Retailers with less than \$100 in monthly redemptions would participate via manual vouchers.	36 States and the District of Columbia	7CFR §274.12(g)(4)
2.	Request to allow state agencies to assign client PINs. Some states only requested this waiver to assign PINs during conversion.	27 States	7CFR §274.12(f)(5)
3.	Request to allow group living arrangements, battered women shelters, and homeless meal providers to deposit Food Stamp benefits directly into financial institutions using EBT-only POS equipment.	25 States and the District of Columbia	7CFR §274.08(g) 7CFR §278.01(f) 7CFR §278.02(g)
4.	Request to allow state agencies to provide recipient training by mail. Hands-on training must be available on request, or to persons having problems using the EBT system. State agency must work with local recipient advocates to assure that recipients receive adequate training.	27 States	7CFR §274.12(f)(10)
5.	Request to allow contractors to charge a reasonable fee to de-install EBT-only POS devices that were installed at government expense if the retailer breaches the retailer agreement, was disqualified or involuntarily withdraws from the Food Stamp Program and allow a charge to retailers to reinstall POS devices if devices were installed at government expense and the POS device was removed because of retailer breach of contract, or the retailer was reinstated after program disqualification or involuntary withdrawal.	26 States	7CFR §274.12(g)(2)
6.	Request to allow state agencies to provide EBT card replacement within three to five days rather than the two days required by regulations. Regulations provide for a waiver of up to five days when a centralized mailing system is used.	26 States	7CFR §274.12(f)(5)
7.	Request to allow state agencies to notify households of off-line storage of “stale benefits” and reactivation procedures as part of initial client training or at recertification.	26 States and the District of Columbia	7CFR §274.12(f)(7)
8.	Request to cash out remaining Food Stamp Program benefits in EBT accounts of recipients moving to a non-EBT area. ²¹	21 States	7CFR §274.12(f)(6)

²¹ This waiver is no longer allowed. Welfare Reform legislation of 1996 prohibits cashing out Food Stamp benefits

TABLE 21: WAIVERS GRANTED			
	Waiver	Number of Requesting States	Reference
9.	Request to allow state agencies to store benefits off-line for six months rather than the required nine months.	16 States	7CFR §274.12(f)(7)
10.	Request to allow states to mail POS devices to retailers with installation instructions and a toll-free number for assistance. (In most states this waiver is limited to specified areas.)	14 States	7CFR §274.12(g)(4)
11.	Request to allow state agencies to provide the nondiscrimination statement on a card carrier and other training materials instead of on the EBT card or sleeve.	12 States	7CFR §274.12(b)(6)
12.	Request to allow PIN selection via ARU.	7 States	7CFR §274.12(h)(7)

Waivers Denied

Even though most of waivers have been accepted by FNS, there have been a few exceptions. Of the 396 waivers requested by states, only 58 have been denied. The following table provides a sample of waivers requested and denied by FNS.

TABLE 22: WAIVERS DENIED			
	Waiver	Number of Requesting States	Reference
1.	Request to cash out remaining Food Stamp Program benefits in EBT accounts of recipients moving to a non-EBT area. ²²	8 States	7CFR §274.12(f)(6)
2.	Request to exclude from Quality Control review variances in cases selected for review during the pilot and implementation phases of their EBT systems.	7 States	7CFR §275.12
3.	Request to extend expedited service processing timeframe beyond five calendar days.	4 States	7CFR §273.02(i)(3)
4.	Request to cash out elderly households in EBT project areas.	3 States	7CFR §274.03(a)(4) 7CFR §274.07(a)(1) 7CFR §274.12(b)
5.	Request to require recipients to use their EBT benefits in an EBT service area before moving to a non-EBT state.	3 States	7CFR §274.12(f)(6)
6.	Request to require retailers to pay for their own materials/supplies necessary to operate state-supplied EBT-only devices.	3 States	7CFR §274.12(g)(2)

²² These waivers were requested after the adoption of the 1996 Welfare Reform legislation, which prohibited cashing out Food Stamp benefits.

TABLE 22: WAIVERS DENIED			
	Waiver	Number of Requesting States	Reference
7.	Request to expunge stale benefits after less than six months, specifically ninety days and three months.	2 States	7CFR §274.12(f)(7)
8.	Request to offer participation through manual vouchers to retailers who redeem less than \$500 per month in Food Stamp benefits.	1 State	7CFR §274.12(g)(4)
9.	Request to offer participation through manual vouchers to retailers who redeem less than \$200 per month in Food Stamp benefits	1 State	7CFR §274.12(g)(4)

Federal Regulations: Processing Standards

EBT vendors have stated that system processing standards as required by federal regulation are too strict. They feel the standards required for EBT processing have been set much higher than the commercial environment. Furthermore most contracts allow states to assess liquidated damages when these standards are not met. EBT vendors explained that these standards are one of the factors behind system costs as well as a contributor to the current market environment. Potential vendors might find it too costly to change their processes in order to be certified as an EBT processor. With the additional risk of liquidated damages, they can find it difficult to make a business case to enter the market. However not all contracts specify liquidated damages to the EBT vendor. For example some contracts in the SAS states (except for Florida, Georgia, and Tennessee) do not have any penalties at all other than withholding of payment when a breach of contract is felt to exist.²³ Other contracts, such as in the State of Wisconsin, allow the withholding of partial payments until the deficiency has been corrected.

It should be noted that some of the processing standards the EBT vendors feel are onerous or not attainable are not specified in the federal regulations, but specifically are from state requirements. The best example of this is standards for the processing of recipient calls to the EBT help desk.

The following is an excerpt from the Code of Federal Regulations 7CFR274.12(h)(1) which describes the current processing standards.

System Processing Speeds.

- (i) For leased line systems, 98 percent of EBT transactions shall be processed within 10 seconds or less and all EBT transactions shall be processed within 15 seconds....*
- For dial-up systems, 95 percent of the EBT transactions shall be processed within 15 seconds or less and all EBT transactions shall be processed within 20 seconds or*

²³ The concern with this method is that there is no middle road for issues that are irritants, but are significant enough to be declared a breach of contract. A specific example of this is an EBT vendor not deploying EBT-only equipment to contracted EBT-only retailers within the required 14 days. The state impacted did not want to declare a breach of contract for the deficiency, but was frustrated by the inability of the contractor to meet the standard.

less.... Processing response time shall be measured at the POS terminal from the time the 'enter' or 'send' key is pressed to the receipt and display of authorization or disapproval information.

EBT processors originally suggested the processing speeds currently used in EBT. Since the implementation of EBT, this same group has come to the consensus that the processing speeds are flawed. The first reason is the processing requirement states that in a lease line environment, "all EBT transactions shall be processed within 15 seconds or less," and in a dial-up system, "all EBT transactions shall be processed within 20 seconds or less." Because this requirement is an absolute in that it says **all** transactions, one transaction that exceeds the requirement will cause the EBT processor to be out of compliance. A better method is to state a percentage, as the regulations do at the lower processing timeframe. The EBT vendors have recommended that the requirement should state that x percent, such as 99.5 percent, need to be processed within the higher timeframes.

The second issue with the standard is the inability to apply these standards against TPPs and direct connect retailers performing their own transaction acquiring. The CFR also requires the EBT processor to provide reports that document transaction response times and the number and type of problem transactions that do not meet the defined standards. In the commercial environment for debit and credit card processing, reporting of processing standards does not exist. Retailers vote with their feet. If processing times are deficient, causing the retailer to lose sales or increase expenses, the retailer will obtain a new processor that will provide better service. Being at the back-end of the process, the EBT vendor has no leverage against the TPPs or direct connect retailer to enforce compliance. The only real alternative available to the EBT processor is to not allow the TPPs or direct connect retailer access to the EBT system, in which case the retailers will want EBT-only POS equipment, thus increasing costs to the EBT processor.

As an adjunct to this issue, many of the later contracts for EBT services require the EBT processor to meet an internal processing time of two seconds for EBT transactions coming in from external sources such as TPPs or direct connect retailers.²⁴ The EBT processors feel that this is a more accurate indication of their performance because it defines a measure of performance over which they have control. Once the transaction leaves the EBT processor's host, the EBT processor has no control over the time it takes to complete the transaction. It should be noted that the reason for the end-to-end measurement was to ensure adequate service delivery for the recipient performing the EBT transaction. However the EBT processors have never solved the problem of ensuring conformance with the standard from external transaction acquirers. Consequently, the EBT processors feel a more practical standard in terms of cost and ability to implement is the two second internal response time measure.

The third point of contention with the processing standards is the application of liquidated damages when the standards are not met. The EBT processors have stated that there is no

²⁴ The EBT vendors should still be responsible for the aspects of processing for which they are providing, such as EBT-only terminal driving and EBT transaction switching. But in a processing environment where there are multiple connections and failure points, such as with a retailer using a TPP, the exact cause and party at fault for a failure is often difficult to determine.

damage to the state when processing standards are not met if the system is up and the recipients are able to obtain their benefits. Therefore, processors argue that liquidated damages should not be applied for not meeting these processing standards.

Finally the EBT processors have stated that the requirements should be modified to be more generic, such as stating that processing response time shall be consistent with timeframes applicable to the commercial POS debit card environment. This is allowed under federal regulations. 7CFR274.12(h) states that, "With prior written approval from FNS, the state agency may utilize the prevailing industry performance standards in its region in lieu of those identified in this section." The problem here is that such prevailing industry standards have been very difficult to identify.

The second part of the regulation that deals with processing standards, 7CFR §274.12(h)(2), states the following.

System Availability and Reliability.

(i) The EBT system central computer shall be available 99.9 percent of scheduled up-time, 24 hours a day, seven days per week. Scheduled up time shall mean the time the database is available for transactions excluding scheduled downtime for routine maintenance. The total system, including the system's central computer, any network or intermediate processing facilities and cardholder authorization processors, shall be available 98 percent of scheduled up-time, 24 hours per day, 7 days per week. Scheduled downtime for routine maintenance shall occur during non-peak transaction periods....

(ii) The system central computer shall permit no more than 2 inaccurate EBT transactions for every 10,000 EBT transactions processed....

The EBT processors do not have any issues with the requirement stated for the central computer. All of the remaining EBT processors state that they have consistently met this requirement. The issue taken by the EBT processors has to do with the requirement that the total system, including any network or intermediate processing facility, shall be available 98 percent of scheduled up-time. Because EBT is using the commercial infrastructure, a large number of EBT transactions are acquired from intermediaries. The EBT processor has no control, or leverage, over these networks or intermediate processing facilities in regards to their scheduled uptime. Consequently, the EBT processors do not want the requirement for ensuring the uptime for these intermediaries.

An issue also exists with the requirement for no more than two inaccurate EBT transactions for every 10,000 EBT transactions processed. On the surface the requirement appears to be reasonable and objective. But because there is not a concise definition for an inaccurate transaction, the requirement becomes subjective. A literal interpretation of the requirement is an approved EBT transaction that does not post correctly to a client's EBT account, or is posted to the wrong EBT account. While incorrect postings have occurred, in practice these transactions are far and few between. But other more liberal interpretations have been taken, including

defining as inaccurate those transactions that are reversed because a response could not be delivered to the requesting POS terminal, either because of a communication failure or a failure in one of the intermediate processing facilities such as a TPP.

Federal Statute: No Cost to Retailers

The requirement of no additional cost to retailers has been a contentious area of debate within the EBT community. One of the reasons is that retailer management tasks have become the most expensive component of EBT systems.²⁵ While states are looking at ways to reduce their costs retailers are arguing that the requirement of no cost to retailers is not being met in most state EBT systems.

The federal regulation requires:

Authorized retailers shall not be required to pay costs essential to and directly attributable to EBT system operations as long as the equipment or services are provided by the State agency or its contractor and are utilized solely for the Food Stamp Program. In addition, if Food Stamp Program equipment is deployed under contract to the State agency, the State agency may, with USDA approval, share appropriate costs with retailers if the equipment is also utilized for commercial purposes. 7CFR274.12(g)(2)

The Food Stamp Act requires

The cost of documents or systems that may be required pursuant to this subsection may not be imposed upon a retail food store participating in the food stamp program. Sec. 7[2016](g)(2)

Many retailers feel that although EBT processors and states are complying with the specifics of the regulatory requirements, but the EBT processor and states are not meeting the spirit of the regulation as intended within the Food Stamp Act. Specifically the retailers that are using their own equipment feel that the government should be offering to share the appropriate cost to acquire and process EBT transactions. The retailers point to state projects, such as Minnesota and Wisconsin, as positive examples that have addressed this issue by reimbursing retailers for EBT transactions acquired each month. Retailers and retailer advocate groups are promoting the payment of transaction processing fees to retailers utilizing their own equipment in all states that have implemented EBT.

As should be expected, the EBT processors, as well as many states, take an opposing view. The EBT processors point out that retailers are not required to use their own POS equipment for acquiring EBT transactions, but do so because of other advantages, including the ability to have an integrated POS environment that handles all payment types such as debit and credit, as well as EBT. Both the EBT processors and retailers agree that EBT is a much more efficient method of transacting Food Stamp sales than the previous paper coupon method, however the EBT processors have not objected if the states choose to pay transaction fees to retailers using their

²⁵ Retailer management costs, and specifically EBT-only POS terminal costs, are analyzed in Section V.

own equipment, such as Wisconsin and Minnesota have chosen, but do not feel they (EBT processors) should subsidize EBT transactions.

State Requirements: Customer Service Requirements

Along the same lines as the processing standards, EBT vendors have stated that customer service requirements for EBT systems go above and beyond what is required in a commercial environment. While these customer service standards are not required by federal regulation, many states have adopted similar standards for calls to both ARUs and CSRs. These standards include average answer time, the maximum number of rings before a call is answered, maximum hold time, abandoned call rate, and the percentage of calls allowed to receive a busy signal. In most states if the customer service standards are not met by the EBT processor, the state can assess liquidated damages. The cost for vendors to meet the customer service requirements combined with the risk related to the liquidated damages creates an expensive component that can be difficult for vendors to price.

The customer service standards are included as part of the system requirements in state RFPs for EBT systems. Some states have required “financial industry standards,” but others have been more specific. For example the State of Wisconsin required:

- An average answer time of less than 15 seconds;
- 85 percent of calls answered in less than 25 seconds;
- Abandoned call rate less than three percent;
- No more than ten percent of calls will receive a busy signal;
- 95 percent of call put on hold must remain on hold less than 30 seconds; and
- 85 percent first call resolution (one representative/no transfers) for card-related inquiries.

The State of Texas in its most recent RFO for the EBT-2 call center required:

- An average of 98 percent of calls answered within 20 seconds;
- No call busy signal for the first 40 calls or a level defined by the responding vendor;
- 92 percent of associate assisted calls to be answered within 30 seconds of call transfer; the remaining eight percent to be answered within 60 seconds; and
- 100 percent of Automated Voice Response calls to be answered within five seconds of menu selection.

There is a dichotomy when comparing the requirements for an EBT call center to the standards followed by a commercial call centers. In a commercial environment, the standards are based upon a cost/benefit analysis. Specifically, what is the minimum performance standards a customer can expect to put up with before getting irritated and taking their business elsewhere.

In commercial environments where the customer is captive or has fewer alternatives, the standards are lower. This is demonstrated on a daily basis by patients trying to schedule an appointment to see a doctor at a Health Maintenance Organization (HMO). But in a commercial environment where the call center is taking customer orders, processing standards are excellent. An example of this is calling FTD to order flowers, or calling Dell Computer to order a new computer.

In the EBT environment, the call center activity is more closely related to the commercial environment with captive or limited options clients. An EBT recipient does not have another option for obtaining service. Consequently, the normal inclination of the EBT processor is to provide the minimal customer service requirements that will meet the service level expectations stated in the contract with the contracting agency. Unfortunately, there is not any additional capacity or opportunity to accommodate unexpected events, such as a processing problem with the EBT system or the failure of a major TPP.

The real issue is defining an acceptable level of customer service that will meet the states' customer service objectives yet be financially feasible for the EBT vendors. In addition, the EBT processors need to charge a realistic price for providing enhanced, or unrealistic, customer service standards. The EBT vendors have stated that in the past, the competitive environment has not allowed realistic pricing for call center activity, but this would not appear to be a valid argument in the current environment. The federal regulations do not specify any performance standards for customer service, other than to state that the "State Agency shall implement a reporting system which is continually operative" for reporting lost or stolen cards (7CFR274.12(f)(5)).

G. COMMERCIAL GAP ANALYSIS

One of the recurring statements made by stakeholders is the difference between EBT and the commercial models, and that if EBT was more aligned with the commercial model, it would be easier for companies to enter the market. The impact of more competitors is that it should lower prices to the states. This section explores the differences between EBT and the commercial model.

The differences being explored relate only to the Food Stamp Program. This section does not look at the differences, nor explore the difference in requirements for cash and/or WIC EBT programs.

It is often unclear as to which commercial model is being referenced when a comparison is being made with EBT. EFT transactions in the commercial world include both credit card and debit card transactions. Both types of transactions are inherently different, with different operating rules and settlement processes. For the most part, EBT has been modeled after the debit card (sometimes referred to as an ATM card) environment. Consequently, this is the comparison that will be performed.

The comparison will be by the components defined in Part E: *EBT Components* of this section. Within each component, the differences between the debit card and Food Stamp Program will be detailed.

EBT Retailer Processing

EBT retailer processing covers the transaction acquiring aspects of an EBT environment. In the commercial world, transaction acquiring starts at retailers that accept a debit card as payment for goods and services.

TABLE 23: EBT VS. COMMERCIAL ENVIRONMENT (EBT RETAILER PROCESSING)	
Difference	Explanation
EFT Transaction Set	The difference in the transaction set is that the Food Stamp Program required a Food Stamp return transaction. In the commercial environment, a return is handled outside of the EFT arena, typically by providing cash to the customer.
Transaction Receipt	The transaction receipt under EBT includes the recipient's EBT account balance on all approved transactions, as well as those transactions denied for non-sufficient funds. This is not a required practice in the commercial environment.
Offline Transactions (voucher transactions)	In the EBT world, retailers are able to call the card issuer (EBT account processor) and obtain a hold on the available funds for a purchase. The transaction is consummated when a manually completed paper voucher is changed to an electronic format (either by the retailer at a POS device or by the EBT processor) and processed at the EBT host. This is the biggest difference between the commercial environment and EBT in terms of technology. The commercial environment does not support a voucher transaction for debit card transactions (although this is common practice in the credit card world).
Retailer Recruitment	Presumably in both the commercial and EBT environment, retailers decide to accept the tender type (i.e., debit card or EBT card) based upon a cost/benefit analysis and a profit motive. The difference for EBT is that the regulations state that a retailer participating in EBT is not required to pay any transaction costs directly attributable to EBT system operations. Essentially this changes the cost/benefit equation (i.e., no incremental cost for additional revenue), making the decision to accept the EBT card more obvious. Consequently there are a number of low volume retailers that choose to accept the EBT card. In the commercial environment, the cost of entry would preclude these marginal low volume retailers.

Transaction Switch Processing

The transaction switch function is performed in both the commercial and EBT environment. The function of the transaction switch is to provide an efficient and effective means of connecting transaction acquirers (i.e., retailers) to card issuers (cardholder institution and/or EBT processor) for both transaction processing and settlement. In this regard, the EBT model parallels the commercial model. Both the commercial and EBT environment use the same International Standards Organization (ISO) message formats (ISO 8583) for the exchange of online

transactions. The settlement process between transaction acquirers and card issuers within EBT mirrors the production environment.

There is only one difference of note between the commercial and EBT environment, which is described below.

TABLE 24: EBT VS. COMMERCIAL ENVIRONMENT (TRANSACTION SWITCH PROCESSING)	
Difference	Explanation
Retailer Integrity (FNS Merchant Validation)	The transaction switch within an EBT environment is responsible for ensuring that the transaction originated from an authorized FNS retailer. The transaction switch checks the FNS merchant number that is passed within the online request against a table of valid FNS merchant numbers to perform this validation. In the commercial environment, retailer integrity is the responsibility of the financial institution that is sponsoring the retailer into the associated network (i.e., transaction switch). If there is a problem with the retailer, the sponsoring bank is liable.

Authorization Platform

The authorization platform within an EBT environment can be compared to the card issuer within the commercial world. In the commercial world, the debit card is usually connected to a Demand Deposit Account (DDA) at a financial institution (i.e., Bank, Savings and Loan, or Credit Union), although the debit card could also be connected to a savings account. A DDA is often referred to as a checking account. The online transaction processing aspects of EBT also closely parallels the transaction processing aspects of the commercial environment. Transactions are processed and approved real time against the available balance within the client’s account in both the commercial and EBT environment. But differences are apparent in the maintenance and accounting for client balances.

TABLE 25: EBT VS. COMMERCIAL ENVIRONMENT (AUTHORIZATION PLATFORM)	
Difference	Explanation
Voice Authorization	The only difference between EBT and the commercial EFT model for transaction processing is that EBT requires support for a paper-based transaction. The requirement from a transaction processing aspect is that a hold is placed on the available funds in the EBT account until the voice authorization is cleared electronically (see retailer processing differences).
Regulation “E” Requirements. ²⁶	EBT processors are exempt from Reg. E requirements as required by the Welfare Reform Act. In the EBT environment benefits are not considered a client asset until the client redeems (i.e., spends) the benefit. Another difference between EBT and commercial environments is that the EBT processor does not have the ability to refuse service to a client who has had multiple losses, as the processor would in the commercial environment.

²⁶ The *Electronic Funds Transfer Act & Federal Reserve Board Regulation E* protects consumers against unauthorized electronic transactions, shifting the risk burden from the consumer to the bank. Regulation E requires financial institutions to inform customers of their rights, providing the following to consumers: 1) initial disclosures (which state the consumer's liability for unauthorized transactions); 2) identification of the type of electronic funds transfer that may be performed with the card; 3) specification of any limitations on the frequency and/or the dollar amount of customer

TABLE 25: EBT VS. COMMERCIAL ENVIRONMENT (AUTHORIZATION PLATFORM)

Difference	Explanation
Account Ownership	In the commercial environment, the account belongs to the client. In EBT ownership of the EBT account is with the state agency (see Reg. E differences).
Cash Management	In the commercial account, accounts are pre-funded (actually contain the client's funds), whereas in EBT the accounts are not funded until benefits are redeemed (spent).
Benefit Tracking	In the commercial environment, funds are pooled within the account, regardless of the source. Within EBT, the individual benefits must be tracked and reported back to the state agency issuing the benefit. This requirement is for both cash and Food Stamp benefits. ²⁷
Reporting Requirements	Reporting requirements obviously differ from the commercial environment because of the ownership aspects of the account. Since the state agency is the owner and fund agent for the Food Stamp EBT account, reporting is geared towards the requirements of the state agency. In a commercial environment, reporting is geared towards the client owning the account in the form of a periodic (i.e., monthly) bank statement.
Adjustment Processing	The FNS adjustment regulations have resolved an outstanding difference between EBT and the commercial model, specifically the ability to correct the effect of a system problem where either the retailer or the recipient was penalized. ²⁸ However, a difference between EBT and the commercial environment is that the EBT processor is not required to satisfy the adjustment claim if there are not sufficient benefits within the recipient's account. Within a commercial environment, the issuer would be required to satisfy the adjustment claim and attempt to collect the funds directly from the cardholder. Within EBT, the EBT processor is not required to satisfy the adjustment claim until sufficient Food Stamp benefits are available in the recipients account to satisfy the claim.

When comparing account maintenance in the commercial and EBT environments, the differences between them are not from a transaction processing standpoint, but from account management and ownership. In order for the account management aspects of Food Stamp EBT to be more like the commercial model, EBT would have to change to more of a banking service geared towards the EBT cardholder, and not the state agency issuing the benefit, as well as adhering to the requirements of Regulation E (Reg E).

Client Help Desk

As described in Part F: *Policy and Regulatory Impact on EBT* of this section, the requirements for the client help desk follows the specific objectives of the contracting states in providing client

transfers; 4) identification of any fees imposed by the issuer; 5) provision of a summary of the issuer's error resolution procedures; 6) provision of consumer receipts and periodic account statements; 7) provision of annual error resolution notices; and 8) publication of consumer liability limitations. *The Welfare Reform Act of 1996* exempts EBT from Regulation E.

²⁷ The requirement within Food Stamp is typically for those states that are issuing state funded Food Stamp benefits, such as Food Stamp benefits for refugees.

²⁸ Recipients have always been able to receive credits to their EBT account due to issues resulting from system problems. However the new FNS regulations have instituted timeframes that ensured a more timely resolution would be received.

service. Within the commercial environment, the objective is actually more complicated, but usually boils down to a profit motive. Specifically what is the best way to provide customer service, so client satisfaction and business is maintained, while controlling costs? Because the EBT processors do not have the checks and balances provided by a cardholder who can move their account, the incentive is different.

Overall the functionality offered by the client help desk under EBT is the same as the services in the commercial environment. Clients in both the commercial and EBT environment are able to call an ARU and obtain balance and previous transactions history. Clients can talk to a CSR if they have specific questions or problems. In many commercial environments, although not all, this is also a 7-day by 24-hour function. Clients are usually able to call and report a lost card at any time under the commercial environment, mainly because of Reg E liabilities. So although there are some differences, overall they are minimal.

Difference	Explanation
Card Replacement Timeframes	Under EBT there is a definite timeframe for providing a replacement card. Within the CFR the timeframe is stated as two business days, although waivers have been granted to extend the timeframe up to five days. In the commercial environment there is no requirement for card replacement timeframes. Timeframes are instead dictated by competitive and cost factors.
Help Desk Standards	The only help desk standard stated in the CFR for EBT is the ability to report a card as lost or stolen on a 7x24 basis. Other help desk standards are defined by the state agency acquiring EBT services. In the commercial environment, help desk standards are dictated by competitive and cost/benefit factors.

Card Production

There are no differences between the physical characteristics of the magnetic stripe cards used in the commercial environment and EBT. As in the commercial sector, state agencies implementing EBT have used a number of different alternatives for card production. Some EBT cards are produced over-the-counter and provided directly to the client. Other state agencies have decided to produce and mail EBT cards from a central location. As in the commercial environment, many of the choices selected for card production is based upon the specific client service objectives for the respective state agency. Consequently it is not possible to look at the card production characteristics under EBT and point out any discernable differences between EBT and the commercial environment.