

# IV. Conclusions

## Table of Contents

VI. Conclusions ..... 116

- A. Policy and Regulation ..... 116
- B. Stakeholder Comments and Concerns..... 117
- C. Pricing Models ..... 117
- D. Procurement..... 118
- E. Federal Involvement..... 118

## VI. Conclusions

What is apparent within this report is that EBT is currently in a state of transition. The competitive landscape has changed significantly within the last couple of years. The prices being charged for EBT services are increasing. Many stakeholders within EBT are concerned regarding the changing landscape, and are wondering what options and alternatives are available within the marketplace, in particular to keep EBT a viable process for the delivery of Food Stamp benefits to recipients.

This section of the report reviews the different alternatives and suggestions detailed in the previous sections of the report, and offers a conclusion and/or a recommendation in regards to the respective alternative and/or suggestion. However, as previously noted, much of the current methods and operations of the Food Stamp Program are mandated through legislation contained within the Food Stamp Act of 1997 and the subsequent amendments to the act. Consequently legislative changes may be required in order to modify some of the current practices of EBT for the Food Stamp Program.

It is also generally recognized that there is a large and varied group of stakeholders that have an interest in the Food Stamp Program, and its implementation of EBT. Certain alternatives and/or suggestions, while viable from a technical and cost/benefit standpoint, may be politically untenable to certain factions of the stakeholder group.

While recognizing that there are legislative impacts and political concerns within the alternatives and suggestions being discussed, this section does not address these impacts and concerns within its conclusions/recommendations. Instead, the focus is on the positive impacts and potential benefits of the alternative/suggestion being discussed.

### A. *POLICY AND REGULATION*

The specific recommendation for policy and regulation is to review and modify the requirements for system processing speeds as defined in Code of Federal Regulations 7CFR274.12(h)(1). This section requires 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. A better method is to state a percentage, as the regulations do at the lower processing timeframe, such as 99.5 percent need to be processed within 15 seconds or less in a lease line environment.

The optimal solution would be to remove this section completely, and instead allow the state agency and its EBT vendor to utilize the prevailing industry performance standards in its region, as specified in 7CFR274.12(h). Other than specifying to FNS what processing requirement has been established for the EBT vendor, no other approval should be required.

## **B. STAKEHOLDER COMMENTS AND CONCERNS**

As evidenced in section IV, *Stakeholder Comments and Concerns*, there are a large number of concerns raised by the various constituents within the EBT community. Many of the comments were received at various stakeholder meeting held by FNS in the summer and fall of 1999. But one of the main positives about the meetings, in particular for the state stakeholders, is that they provided a forum for the stakeholders to meet and share common issues and concerns, as well as experiences.

Consideration should be given to sponsoring either annual or semi-annual National EBT User Group meetings, similar to meetings sponsored by Administration for Children and Families (ACF) during the initial development of the FAMIS systems. As with the ACF model, a state would host each meeting, and a user group of FNS and states would develop the agenda for the meetings. The meeting would provide a national forum for the discussion of issues and sharing of information that is germane to states. It is also within these meetings that FNS could determine the usefulness to the states of updating the EBT core specifications that have been utilized in most EBT procurements.

## **C. PRICING MODELS**

The pricing models discussed previously concerned themselves mainly with decreasing the amount of risk within an EBT project. The theory behind this discussion is that pricing risk has an impact within the competitive environment, as potential vendors may not be entering the market because of the pricing risk that needs to be assumed. Although not currently validated through empirical evidence, the assumption is that changing the pricing model to remove risk will provide the incentive to these vendors.

However, as states begin to look at various procurement options, the pricing models will increase in importance. States that contract separately for services not tied to the number of cases, such as government sponsored POS terminals, will need to request pricing that is tied to the service unit. In the example being discussed, pricing will need to be based upon the number of POS terminals deployed and the Food Stamp transactions acquired on these terminals.

The second recommendation is that states using cost per case month (CPCM) pricing models provide for pricing tiers with smaller breakpoints. Depending upon the specific caseload of a state, tier breakpoints should be 3,000 to 20,000 cases. States with a smaller caseload (e.g., under 100,000 cases) should be at the lower end of the breakpoint, while states with a large caseload (e.g., greater than 300,000 cases) can be at the higher end of the tiers. Tiered pricing is a better alternative for the states than assuming a caseload floor for pricing of EBT services.

The last pricing issue to be discussed concerns itself with the re-procurement of EBT services. Because implementation of EBT requires a substantial capital investment for system infrastructure, the incumbent vendor has a definite advantage. This is because the incumbent vendor does not have to factor in the conversion costs to convert the state to a new EBT system. This advantage is manifested even greater when a single CPCM pricing model is used. The goal of states should be 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 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**

Some states are still in the process of their initial procurement for EBT services, while others are beginning to go through a second round of procurement as their initial contracts expire. What is apparent from the states going through the procurement process is that there is not one optimal method for procuring EBT services. Instead, procurement models are tied more to the particular circumstances for a state, both from a strategic as well as a timing standpoint. States need to look at their particular circumstances, as well as the amount of risk they wish to assume, before choosing a particular procurement model. With this caveat in mind, there are advantages to attempting the three procurement models detailed in Section V of this document.

A few states have already made strides in attempting new procurement options. For example, Wyoming has been successful operating as a prime contractor. And the State of Texas is well on its way to implementing the first model suggested, specifically State Owned Software, Outsourced Processing. However, it should be noted that Texas does not have true ownership of the software, but instead has a perpetual license to use and modify the software.

The second alternative model was “Federal Developed Software, Outsource Processing”. This model is not currently being attempted, however a hybrid of the model is under consideration by the State of Montana. Montana is looking at developing the authorization processing component of EBT, and outsourcing the balance of the services within EBT, such as government sponsored POS terminal deployment. This model is very similar to the model described in Section V, with the main difference being that the driver for the model is a state as opposed to the federal government. If FNS were to support this approach by Montana, the software being developed, in particular, would be in the public domain and available to any other state that wishes to use it.

An approach that should be considered is the federal catalog, but only for standard services such as government sponsored POS terminal support. This would provide support to states considering either of the first two alternatives, in that standardized pricing and pre-qualified vendors would be available for the state to utilize. However, FNS needs to consider the additional resources that will be required to support this effort, and also realize that its use will be minimal because most states will not use this model because of the effort required to manage multiple vendors.

#### **E. FEDERAL INVOLVEMENT**

Section V, *Alternatives*, of the report reviewed five areas for direct federal involvement within EBT processing. The areas discussed were:

- EBT Gateway;
- Retailer Management;
- Authorization Engine;
- Client Help Desk Services; and
- Settlement

There are common issues relating to federal involvement in any of these areas, the most prevalent being the handling of cash benefit transactions and funding issues. The issues respective to each alternative are more fully discussed within the description of the alternative. The conclusion is that federal involvement does not make sense for the Authorization Engine, Client Help Desk Services, and Settlement Processing. The main reasons for this conclusion are that the specific requirements and considerations inherent within these areas remove any possible advantage that exists with direct federal involvement. A considerable amount of resources within FNS would be required to support these functions, without any associated reduction within the states. Consequently, federal involvement would only serve to drive up the overall costs of these specific service areas within EBT.

However, there are advantages to federal involvement with retailer management, and specifically the deployment of government sponsored POS terminals. As stated within the analysis in Section V, FNS is already directly involved with retailer management under EBT, in that FNS provides the authorization to individual retailers to accept Food Stamp benefits as payment for food from recipients. There is already some infrastructure in place to support retailer management that could be enhanced to provide all of the needed functionality. Retailer management is a function that under the food coupon environment was the sole responsibility of FNS, so there is an existing precedent for continuing this responsibility. Finally, federal involvement in retailer management would change the competitive landscape within EBT in a positive manner by allowing new vendors to bid on a specific aspect of the business and simplifying the overall requirements for a “full service” EBT vendor such as CSI. However it is recommended that government sponsored terminals provided to retailers only support Food Stamp transactions. Additional resources will be required within FNS to support this function, however there should be a net savings overall between the states and FNS, as states will no longer be required to support this function. The estimate is that an additional five to eight additional staff would be required for the initial implementation at FNS headquarters, and three to five additional staff would be required for ongoing support. In addition, two to three additional staff would be required within each of the FNS regions to support this function.

The federal assumption of EBT Gateway services is a little more complicated, but does offer some attractive features to FNS, and consequently is recommended as a viable alternative for consideration. But in order for the federal EBT Gateway to be viable, FNS should also assume responsibility for retailer management. The primary operational function provided by a gateway is to connect transactions acquirers (e.g., retailers) to issuers (e.g., the processors supporting the recipient’s EBT accounts). FNS providing a gateway without supporting retailer management does not offer the same advantages as a gateway function that is an extension of the retailer

management function. However, assuming responsibility for an EBT Gateway will also increase both the internal expertise required and the support staff required. FNS will need to establish and enforce a standard set of operating rules for the parties connected to the EBT Gateway,<sup>1</sup> as well as contract directly with the entities (TPPs, ATM Networks, and some Direct Connected Retailers) that will need to connect to the gateway. The estimate for additional resources is an additional three staff during the rollout, and one or two additional staff for ongoing support once the gateway is implemented.

The second caveat for federal involvement is that the EBT Gateway also supports cash EBT transactions. EBT supports both Food Stamp and cash benefits, so consequently the gateway will need to support both benefit types in order to be viable. From a processing standpoint, the issues are minimal, but it will require FNS to implement a mechanism to bill the respective states for their EBT cash transactions.

---

<sup>1</sup> The Quest® Operating Rules would be the obvious choice for the operating rules to be used.