

Background

The Maryland demonstration was the first statewide roll-out of an electronic benefit transfer (EBT) system involving multiple programs on a single card. The goal was to confirm that a large-scale, multi-program EBT system is technically feasible and determine whether such a system can achieve cost-neutrality government-wide while maintaining high quality service for recipients. The test involved food stamps plus five cash-benefit programs: Aid to Families with Dependent Children (AFDC), Bonus Child Support for AFDC Recipients, Disability Assistance Loan Program, Non-Public Assistance Child Support, and Public Assistance for Adults. All parts of Maryland, both urban and rural, were converted to EBT.

The evaluation collected baseline and post-implementation data from local welfare office workers as well as from scientific samples of EBT constituent groups (recipients, retailers, and financial institutions). Data on administrative costs and EBT system performance were collected through monthly reports prepared by the Maryland Department of Human Resources. Data on costs were also obtained from the EBT system vendor and the federal government. As with previous EBT evaluations, cost estimates are not based only on billed amounts but describe the resources used to carry out activities, so that a true estimate of the resources required to sustain a level of service can be drawn.

Major Findings

Large scale operation of a multi-program EBT system on a single card is technically feasible. The Maryland system has been operating statewide since April 1993 and successfully distributes benefits to an average monthly

caseload of 257,000 households. Recipients are able to redeem their benefits at 3,000 food retailers as well as through 1,800 automatic teller machines (for cash program benefits). Federal and state agencies have effectively negotiated and managed a cost sharing agreement to pool budgetary resources and share system savings among all agencies.

Quality of service has been maintained: substantial majorities of recipients, retailers, and financial institutions prefer the EBT system to the check or coupon system. The preference for EBT was 8-to-1 or better among each of these constituencies.

Overall, the Maryland EBT system yields an administrative savings over paper, although the decrease in resource costs is small. EBT costs \$0.039 less per case month than paper. This translates to annual administrative savings of almost \$120,000 in a system processing average monthly payments of over \$58,000,000. An additional \$750,000 in annual savings will likely occur as volume discounts in vendor billing fees become effective. At current caseload levels, this translates into \$0.24 per case month additional savings.

The reduction in resource costs for delivering benefits for the Food Stamp Program savings is large enough to offset higher costs in cash-benefit programs. The total annual administrative cost of issuing Food Stamp Program benefits is reduced nearly \$1.3 million. These savings are largely offset by about \$1.2 million in higher resource costs for AFDC, Bonus Child Support, Disability Assistance Loan Program, and Non-Public Assistance Child Support. Resource costs are higher for the cash programs largely because of the high cost of cash withdrawals from ATMs relative to food purchases at POS terminals.

Nearly all savings in administrative costs can be attributed to a reduction in the resources required from the federal government. At the state level, resource requirements are increased for every program but food stamps. The Maryland EBT system reduces estimated resource costs by \$690,000 at the federal level, while net costs of resources applied by the State, at vendor billing rates observed during the evaluation, increase by about \$570,000 annually. Increased state costs are all associated with the five cash-benefit programs: for the Food Stamp Program only, the state costs are \$102,000 less under EBT on an annual basis. Future volume discounts from the vendor will reduce costs incurred at the state level and transform the State's net position into \$180,000 in annual savings.

Combining multiple programs in a large-scale system on one card appears neither more nor less cost-effective than smaller EBT systems involving only Food Stamps and AFDC. The food stamp cost per casemonth to operate the Maryland EBT system was \$3.92 -- substantially less than the \$4.38 it cost in the Ramsey County, Minnesota test but significantly more than the \$3.07 incurred in New Mexico's EBT demonstration.

While Maryland's food retailers prefer EBT to coupons or checks by 8-to-1 margins, the overall impact on retailers' costs is very small. Across all types of stores, food retailers save \$0.02 per \$1,000 of redemptions (statistically, not significantly different from zero). Retailers were provided EBT terminals without charge during the demonstration or given the option to use those terminals for commercial credit and debit transactions. Full-lane coverage was provided in the 31 percent of stores that allow cash back transactions; others were equipped in accordance

redemptions compared to coupons. Statewide in Maryland, banks save over \$1,250,000 in annual food-stamp-related costs and \$x,xxx,000 in cash-program costs. Banks gain another \$779,000 in EBT-related income (e.g., ATM fees and deposit fees on ACH items).

In Maryland, EBT shows great potential for reducing benefit loss and diversion in the food stamp and cash programs. Estimates of food stamp benefit loss and diversion decrease by about 43 percent under EBT, and estimated cash program loss rates under EBT are lower by nearly 75 percent. These results represent potential annual savings in food stamp loss and diversion of about \$2,700,000 and in cash program loss of roughly \$500,000.

If estimated system impacts on float gain and program losses are added to the administrative savings, the annual saving from EBT increases from \$120,000 to \$452,000. Consideration of float reduces annual savings by about \$82,000, but this is offset by reductions in program losses of nearly \$414,000.

The "payback" period (i.e., time needed for monthly savings to fully offset the initial state and federal investment in Maryland's EBT system) is 8.3 years. Excluding vendor startup costs (which are presumably recaptured in monthly billings for ongoing operations), direct government startup costs were \$3,760,000. Administrative savings are modest and would take over 31 years to equal startup costs. However, greater savings are realized through reducing benefit losses that occur during issuance and redemption. When all factors, including float, are considered together, it takes about 8.3 years to generate savings equal to government startup costs.

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