



California Department of Social Services

# California's Electronic Benefit Transfer Program

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## Executive Summary

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Electronic Benefit Transfer (EBT) is the electronic method for distributing the federal Food Stamp Program benefits and, when selected by California counties, cash benefit programs. The EBT system automates the delivery, redemption, and reconciliation of issued benefits. California EBT is the result of federal and state legislation. The federal Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) mandated the replacement of the paper-based food stamp issuance method with electronic fund technology (debit cards). In August 1997, California Assembly Bill 1542 authorized the EBT Project and provided counties with the option of issuing cash benefits via EBT. Statewide implementation of EBT began in July 2001 and was successfully completed in all 58 counties by May 2005.

The positive effects of California EBT extend beyond the cardholder. Others who benefit include: federal, state, and county governments; retailers; financial institutions; and the taxpayers. As of January 2007, there are over 30,000 retailers processing food stamp and/or cash POS transactions and over 32,000 ATMs dispensing cash benefits. EBT is a success in California.

This application is not only about the success of the EBT program in California, but also how this program has proven to be dynamic; improving the scope and methods that EBT users enjoy. Since 2005, when the EBT program was fully implemented in California enrollment in the program has more than doubles, retailers and ATMs that accept EBT benefits have increase dramatically, both restaurants and farmers' markets have been added as eligible to take EBT benefits, and a new contract for the procurement of EBT services has decreased the rate that the state pays for these services.

These improvements represent the best government to citizen transactions because they use technology, management, and hard work to take a good program and make it better. They improve the operations of a government program and increase the value of that program to the citizen end-users. The driving force behind these improvements was not a legislative mandate, that mandate was meet in 2005 when the program was implemented, but instead it was driven by the desire to provide the highest level of service to EBT end users.

Under the EBT program and it subsequent improvements, the state has more efficiently administered a program that pays-out nearly \$500 million of benefits a month. All stakeholders, particularly retailers, beneficiaries, financial institutions, and the federal government have seen a dramatic cost savings or an equally dramatic increase in service.

## Description

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### **Business Problem**

In 1996, the federal government passed the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, which mandated the replacement of coupon style food stamps with an electronic fund transfer program (debit cards). In 2005, California installed the Electronic Benefit Transfer project (EBT) revolutionizing the way 700,000 recipients receive and access food stamp benefits. Besides the end user benefits of EBT, the program represented the most effective and efficient practices being used in government. Navigating the complexity of California's welfare system, the California Department of Social Services (CDSS) used innovative technology, excellent management practices, and on-the-ground work to better the efficacy of a program that delivers subsistence and nutrition to the people of California.

The EBT program was a success. As simple as that sounds, by any metric, that is what it was. It increased the accessibility to and usability of the food stamp program, while decreasing the "trafficking" or fraudulent use of food stamps. The success of the program was a real feather in the cap for California state government – the kind that deserves a press release or an announcement: "Today, in March of 2005, California successfully implemented the EBT project, bringing untold benefits to California's citizens and untold efficiencies to our government. We are proud of the services that this will bring to the people of California." Speech done, exit stage left, on to the next project.

There is a certain ethos in government where we don't dwell on our successes; there are so many mandates from politicians and citizens that by the time we catch up to standards on one program, it is time to jump to the next. We push the problems of last year to the back of our minds because the problems of now seem so much more urgent. Nobody makes a pet project out of maintaining success; nobody writes a newspaper article exposing the constant dedication and work of state employees; and, to be fair, nobody would read that story anyway.

Here at the Department of Social Services, we believe our EBT program is one of those stories. It's a story of what happens after the press release, a story of how just meeting standards isn't enough, a story of taking a good program and using technology, management, and hard work to make it better. The action is not initiated from behind; there is nothing pushing the improvement – the action instead is a pulling action. We are pulled forward by a desire to make things better, a desire to improve. That desire can be summed up in one word, and that word is what is at the heart of the best Government-to-Citizen interactions: service.

It was a desire to provide the most excellent level of service that causes California's EBT program to be unique. In California, the program kept improving even after the federal mandate was met. The Department of Social Services kept working – not to maintain a baseline level of effectiveness, but to strive for the goal behind the mandate: the goal of better serving food stamp beneficiaries, the goal of finding innovative ways to expand the



scope of the EBT technology, the goal of making governmental services work for its constituents, and not the other way around.

### **Description of the EBT system**

To understand how the California Department of Social Services strives to make EBT better every day, it is important to know exactly how the EBT system works. EBT is a government-to-citizen electronic payment system. It is also an exemplary demonstration of government-business partnership, where technology commonly used in the private sector for electronic consumer payment transactions is being used by government. This creates a highly efficient and effective government benefit distribution process. The EBT system consists of:

- A central transaction processing application that was developed and is operated by Citicorp Electronic Financial Services, Inc. (California's EBT Prime Contractor) with significant customization to meet specific requirements for California
- A standard interface used by 58 counties that operates seven different county welfare eligibility systems to transmit and receive data to the EBT system
- Connection to retail endpoints and Automated Teller Machines (ATMs) using commercial transaction processing networks and cardholder interfaces (Point of Sale)
- A 24x7 Customer Service system available for all cardholders in 11 languages
- A state-level automated reconciliation system that allows for improved financial management through the daily reconciliation of all monies entering and exiting the system
- Client-Benefit accounts that are owned by the State of California and are managed under contract with a third-party transaction processor (Citicorp Electronic Financial Services). Through ownership of the client electronic benefit accounts, California is able to enforce all of the program regulations and policies unique to the distribution of government benefits.

When EBT was initially implemented, it serviced 700,000 citizens, connecting them to 17,000 food stores and 20,000 ATMs. All users, regardless of their specific needs, spent their EBT credits in the same way. Since then, the CDSS increased the level of service provided by EBT in a number of ways.

- EBT increased the number of eligible Californians receiving their benefits.
- CDSS increased the choices EBT users have as to where to spend their credits by bringing in more retailers and ATMs. They also increased EBT user access to fresh fruits and vegetables by implementing EBT point-of-sale systems in Farmer's Markets across the state.



- CDSS introduced the Restaurant Meals Program which allows elderly, disabled, or homeless food stamp recipients – who may not be able to cook the food they purchase – the option of using their credits at restaurants.
- CDSS negotiated an extension with the primary EBT contractor that gave the state flexibility and reduced its payments.

### **Significance of Improvements to the EBT system**

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The improvements instituted by the California Department of Social Services since the implementation of the EBT program meet the goals of state government by providing a crucial service to more people in a more efficient and flexible manner.

#### **Increasing the Number of Eligible Users**

In 2005, EBT serviced 700,000 Californians. Today, it distributes food stamps to approximately 2 million residents and cash aid to 1.2 million residents. This was not done by changing eligibility requirements, but by using outreach to make sure all eligible people could receive their benefits. The significance of this is astounding; in a three-year period, an additional 1.3 million people were identified as needing and being eligible for EBT. In three years, more than double the amount Californians were given service by the EBT program than when the program was first implemented. That is an increase of 185 percent. And it all came from the desire of workers at the CDSS and county levels to access these people.

Today, nearly \$500 million in food stamps and cash benefits are distributed monthly through the California EBT program.

#### **Increasing the Number of Retailers and ATMs**

Since 2005, the number of grocers that accept EBT payment has jumped from 17,000 to 30,000 – an increase of 76 percent. The number of EBT-accessible ATMs went from 20,000 to 31,500 – an increase of 58 percent. These jumps did not rain down upon the program like manna from heaven. This happened because there was a desire to see the use of the EBT technology made more accessible for its users. Giving EBT users more choices increases the quality of service as well as the overall effectiveness of the program.

The CDSS also started a Farmers Market program to increase access to fresh fruits and vegetables for EBT users. California learned from the experience of other states that had already implemented EBT that there would be a significant decline in the purchase of fresh fruits and vegetables by EBT users. Since part of the Food Stamp Program's initial goal was to increase the nutrition of low-income Americans, this prospect was unacceptable. To remedy this situation, the state collaborated with food policy advocates, counties, the federal government, and farmer's markets to develop and implement a model that has been very successful in California. This model involves use of a single wireless EBT point-of-sale device at a central location in the market – managed by the farmer's market manager – where EBT clients can use their EBT to



purchase a desired amount of scrip that can be spent on allowable food items at any of the farmer stalls. At the end of each market day, the farmers will redeem the scrip for cash with the market manager. The scrip is unique to each market and can only be redeemed at that particular market. This has been a highly successful venture; the number of markets that accept EBT and the number of clients shopping at the open-air markets are steadily growing each year.

**Tailoring the Program to Stakeholders**

California also implemented a restaurant meals program that allows elderly, disabled, and homeless food stamp recipients to purchase prepared value meals at participating restaurants. To ensure that only eligible recipients access this program, the EBT Project developed a special indicator code that is coded on the recipient’s welfare case record through the county’s automated eligibility system that allows participating restaurants to identify whether or not an individual is eligible for prepared meals. Although the number of participating counties is relatively low, it includes San Francisco and Los Angeles, which have a significant homeless population. The EBT transaction volume at participating restaurants in these counties is very sizeable, and the number of counties that are interested in participating in this program is steadily growing.



**Extension of EBT Contract**

The original contract with Citicorp Electronic Financial Services (EBT’s prime contractor) was schedule to end in 2008 with two one-year extensions available at the state’s option. It was determined that the state could not successfully conduct a re-procurement, execute the new contract, and complete implementation activities by the time the original contract ended. Accordingly, the two option years would have to be exercised. The state engaged in negotiations with the vendor in which it offered to exercise the two option years in exchange for price reductions over the remainder of the original term plus the two option years.

## Public Benefits

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The benefits of the EBT program were immense when the program was first instituted in 2005; since then, the stakeholder benefits of this program have only grown. When the project was first implemented, it was estimated that EBT reduced the cost for grocers to process food stamp payments from an average of \$2.98 (coupons) to \$0.70 (EBT). This price reduction is compounded when we realize that between 2005 and 2008, the number of EBT users increased from 700,000 to more than 2 million. If an EBT user only makes one transaction a month, the increase in the number of EBT users would equate to about \$3 million a month in savings on behalf of grocers.  $(((2.98-0.70)*2 \text{ million} - (2.98-0.70)*700,000) = \text{approximately } 3 \text{ million})$

California's EBT program has also reduced tax payer money lost to the trafficking of food stamps. The USDA estimates that under the EBT protocol, trafficking represents 2.5 cents out of every dollar; this is a 29 percent decrease from coupon era levels. Stopping the illegal trafficking of food stamps also has the residual effect of boosting grocers' sales because the money that was previously lost to trafficking is now being spent on food.

The users of EBT have also seen a number of specific benefits from the hard work of CDSS employees.

- EBT users now have more choices where they spend their benefits because the number of grocers has increased by 13,000 statewide since the implementation of EBT.
- There are more ATMs accessible for EBT users with cash benefits (since the implementation, an increase of 11,500).
- A new Farmers Market program increases accessibility to fresh fruits and vegetables, increasing EBT user's choices and nutrition. Nearly 60,000 benefit-dollars a month are now spent at farmer markets
- The Restaurant Meals Plan gives elderly, disabled, and homeless EBT beneficiaries access to pre-made meals. Currently, more than 400,000 benefit-dollars a month are being spent in this program

Furthermore the state has seen a cost reduction by the extension and renegotiation of rates with the EBT Prime Contractor. This negotiation yielded a number of advantages:

- The negotiated amendment provided a cost reduction against the current contract that will save up to an estimated \$38.5 million during the remaining term of the contract.
- The state retained the right to terminate the contract early if we complete the re-procurement early.
- No reduction in Service Level Agreements.