The Evaluation of the Expanded EBT Demonstration in Maryland

Volume 1: System Startup, Conversion and Expansion

Contract # 53-3198-1-019

Introduction

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CHAPTER ONE
INTRODUCTION

This is the first volume of a three-volume final report presenting the results of the evaluation of the expanded EBT demonstration in Maryland. This volume documents the process followed and efforts undertaken to implement the first statewide EBT system in the country. Volume 2 describes the impacts of the demonstration EBT system on administrative costs and benefit loss and diversion. Volume 3 examines the impacts of the demonstration EBT system on program recipients, food retailers, check cashing organizations, and financial institutions.

A summary of the major findings presented in the three-volume final report is available as a separate document.

1.1 PROJECT OVERVIEW

Over the past ten years, the Food and Nutrition Service (FNS) of the U.S. Department of Agriculture has been investigating an alternative method of issuing and redeeming benefits in the Food Stamp Program. This method, called electronic benefits transfer (EBT), eliminates the use of paper food stamp coupons and implements a computer system, together with a point-of-sale (POS) terminal network and plastic magnetic-stripe EBT cards, to handle benefit issuance and redemption.

In July 1983, FNS awarded a contract to the Planning Research Corporation to develop and implement an EBT system in Reading, Pennsylvania. The demonstration became fully operational by


4. A glossary of terms is provided in Appendix A.
February 1985, serving approximately 3,400 food stamp recipients. An evaluation of that demonstration concluded that recipients, food retailers, and financial institutions preferred the EBT system to the use of food stamp coupons, and that their costs of participating in the Food Stamp Program were lower under EBT. Nonetheless, while EBT proved to be technically feasible, the system was more costly to operate than the coupon issuance system it replaced.

In 1988, in a further effort to determine whether EBT systems could be cost-competitive with coupon issuance systems, FNS entered into Cooperative Agreements with three state governments, Arizona, New Mexico, and Washington, and one county government, Ramsey County, Minnesota, to conduct additional EBT demonstrations. The new demonstrations were intended to serve as more realistic models for future EBT initiatives. It was also expected that EBT's administrative costs within the Food Stamp Program would be lower due to cost-sharing with other public assistance programs and with commercial electronic funds transfer networks. Specifically, these demonstrations differed from the Reading demonstration in the following ways:

- The projects were directly managed by state and county government agencies rather than by FNS;
- Each demonstration site served more food stamp households than the Reading demonstration;
- Each of the demonstrations included cash assistance programs, such as Aid to Families with Dependent Children (AFDC), as well as the Food Stamp Program; and
- Each project was to be integrated in some fashion with commercial electronic funds transfer networks.


7. Electronic funds transfer is a process by which funds are transferred electronically between bank accounts.
Two of the four projects, Arizona and Washington State, were ultimately canceled due to state budget constraints or difficulties negotiating cost-competitive agreements with food retailers and the system vendor. After overcoming numerous obstacles, the Ramsey County EBS system was implemented in September 1991, and by March 1992 was issuing benefits to about 18,000 food stamp and 12,600 cash assistance households. New Mexico's EBT system began processing benefits in February 1991, and by March of 1992 was issuing benefits to over 20,800 food stamp and 7,300 AFDC recipients.

A number of other states and federal agencies were also interested in pursuing larger-scale EBT projects. In 1988, the U.S. Office of Management and Budget (OMB) approached several states bordering Washington, D.C. about the possibility of implementing a statewide EBT system. Intrigued by EBT's potential for cost savings and improved client services, the Secretary of the Maryland Department of Human Resources (DHR) asked the director of DHR's Office of Information Management (OIM), the agency's computer services division, to develop a proposal for such a project. Administered through OIM, the proposed Maryland EBT system would serve six assistance programs: the Food Stamp Program (FSP), AFDC, Bonus Child Support (BCS), Non-Public Assistance Child Support (NPACS), Public Assistance for Adults (PAA), and the Disability Assistance Loan Program (DALP).

The project moved forward quickly, as shown in Exhibit 1.1. In August 1988, OMB approved DHR's request for a pilot test in the Park Circle district of Baltimore. In November, a Request for Proposals was issued for an EBT contract. In late February, OIM awarded a five-year, $25.8 million contract to TransFirst Corporation, the Dallas-based firm that was also the EBT vendor for Ramsey County. Under the terms of the contract, the pilot project could be expanded statewide after it reached a steady state of operation in Park Circle and after DHR received approval for expansion from FNS and the U.S. Department of Health and Human Services' Family Support

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9. Ramsey County officials use the term EBS (electronic benefits system) rather than EBT.

10. Until December 1992, the Disability Assistance Loan Program was called General Public Assistance.
## EXHIBIT 1.1
### PROJECT CHRONOLOGY

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
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<tbody>
<tr>
<td>August 1988</td>
<td>OMB approves DHR's proposal for a statewide EBT demonstration.</td>
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<tr>
<td>November 1988</td>
<td>DHR issues Request for Proposals for the EBT contract.</td>
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<td>February 1989</td>
<td>DHR awards $25.8 million contract to TransFirst Corporation.</td>
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<td>November 1989</td>
<td>EBT implemented in Park Circle, a district of Baltimore City.</td>
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<td>January 1991</td>
<td>ACF disapproves statewide expansion and continuation of pilot.</td>
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<tr>
<td>September 1991</td>
<td>TransFirst contract assigned to Deluxe Data Systems.</td>
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<tr>
<td>December 1991</td>
<td>Memorandum of Understanding signed among FNS, ACF, and DHR.</td>
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<tr>
<td>January 1, 1992</td>
<td>EBT implemented in Cecil County.</td>
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<tr>
<td>March 1, 1992</td>
<td>EBT implemented in Montgomery County.</td>
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<tr>
<td>March 6, 1992</td>
<td>DHR switches to three-day staggered issuance for cash and food stamps.</td>
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<tr>
<td>March 24-27, 1992</td>
<td>Functional demonstration of the Deluxe EDGE system.</td>
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<tr>
<td>April 1, 1992</td>
<td>EBT implemented in Prince Georges County. Return to single-day issuance.</td>
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<tr>
<td>May 26-29, 1992</td>
<td>State acceptance test of the EDGE system.</td>
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<tr>
<td>June 1, 1992</td>
<td>EBT implemented in Baltimore County and the Liberty Garrison and Steuart Hill districts of Baltimore City.</td>
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<tr>
<td>June 5-8, 1992</td>
<td>Federal acceptance test of the EDGE system.</td>
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<tr>
<td>July 1, 1992</td>
<td>Staggered issuance schedule reinstated.</td>
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<tr>
<td>July 17-20, 1992</td>
<td>Conversion from the TransFirst to the Deluxe system.</td>
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<tr>
<td>August 4, 1992</td>
<td>FNS halts September expansion.</td>
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<tr>
<td>September 1, 1992</td>
<td>EBT implemented in Carroll, Hartford and Howard counties and the Clifton, Govans-Waverly and Orangeville districts of Baltimore City.</td>
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<tr>
<td>September 16, 1992</td>
<td>Final implementation schedule approved.</td>
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<tr>
<td>April 1993</td>
<td>Statewide roll-out completed.</td>
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</table>
Administration (later renamed the Administration for Children and Families, or ACF, and hereafter referred to as ACF). Federal approval would be contingent on the project's cost-effectiveness.

TransFirst's EBT system "went live" in Park Circle in November 1989, serving about 5,000 recipients. By February 1990, the program had reached a steady state of operations. Preliminary cost analysis findings, issued in October 1990, revealed that although the pilot program was cost-effective overall and had the potential to reduce food stamp issuance costs if implemented statewide, the system would not be cost-effective for AFDC issuance. Based on this information, ACF officials disapproved the expansion of the project and the continuation of the pilot in January 1991.\textsuperscript{11} In response, TransFirst attempted to terminate its contract immediately, arguing that it could not afford to operate the system as a pilot. A legal battle between TransFirst and the State ensued over the termination of the Park Circle project.

At this point, OMB organized a federal task force of top-level FNS and ACF administrators to get the Maryland project back on track. Between March and August of 1991, the group worked intensively with OIM staff to restart the project. To resolve ACF's cost concerns, a new cost-sharing agreement was negotiated between DHR, FNS and ACF, making the project cost-neutral to both federal agencies. In settlement of the legal issues, TransFirst sold its EBT contract to the Government Services Group of Deluxe Data Systems, a Milwaukee-based company, in August 1991.\textsuperscript{12} TransFirst continued as a subcontractor to Deluxe, processing EBT transactions and adding recipients until Deluxe developed its own EBT system. TransFirst's obligations would end with the conversion of the Maryland EBT caseload to the Deluxe EBT system. The conversion occurred on July 17-20, 1992, after which the Deluxe system was expanded statewide. By the end of April 1993, every county had switched to the new issuance system. By September 1993, the system was issuing $58 million in benefits per month to 168,000 households.

The expanded Maryland demonstration is important for a number of reasons. In comparison with previous EBT projects, the Maryland demonstration is by far the most ambitious, serving almost

\textsuperscript{11} ACF did not have the regulatory authority to approve computer systems that were not projected to be cost-effective for Health and Human Services programs.

\textsuperscript{12} Several core EBT staff left TransFirst in 1990 to form Deluxe Data's Government Services Group. The Group's vice president negotiated and signed both the original TransFirst contract and Deluxe's novation of that contract.
ten times the number of recipients in either the New Mexico or the Ramsey County demonstrations. The Maryland demonstration is also the first project to implement EBT statewide, introducing EBT technology to rural as well as urban and suburban areas. This is also the first demonstration to include an evaluation of EBT's effects on cash assistance programs.

Recent changes in food stamp issuance policies have also heightened state and federal interest in the Maryland demonstration. The Food, Agriculture, Conservation and Trade Act of 1990 allowed states to begin using EBT systems on a nonexperimental basis as their regular food stamp benefit issuance systems, as long as the EBT system cost no more than existing coupon-issuance systems. Since then, more than half of the states have begun planning their own EBT systems. State EBT initiatives were boosted by the Secretary of Agriculture's pledge in May 1993 to initiate EBT in every state by 1996. In his report on the National Performance Review, Vice President Gore supported USDA's commitment to issue food stamps electronically, arguing that it could "eliminate billions of checks, coupons, and all the other paperwork, record keeping and eligibility forms that clutter the welfare system."  

1.2 **OBJECTIVES OF THE EVALUATION AND THIS REPORT**

The evaluation of the expanded Maryland EBT demonstration has four major objectives:

1. To describe the process by which the expanded Maryland EBT system was designed, developed, and implemented statewide.

2. To determine whether it is possible to design and operate a large-scale, multi-program EBT system that costs no more than current benefit issuance systems, yet is secure and acceptable to participants.

3. To assess the impact of the Maryland EBT system on agency loss within the food stamp and cash assistance programs and on benefit diversion within the Food Stamp Program.

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13. Regulations implementing this portion of the Act were issued April 1, 1992. See "Food Stamp Program: Standards for Approval and Operation of Food Stamp Electronic Benefit Transfer Systems." *Federal Register* 57, no. 63, 1 April 1992.

(4) To assess the impact of the Maryland EBT system on recipients, retailers, and financial institutions, with a focus on the costs these groups incur to participate in the food stamp and cash assistance programs.

This report addresses the first objective. Volume 2 of the evaluation's final report addresses the second and third objectives, and Volume 3 addresses the fourth objective.

The first research objective of the evaluation—the process analysis of the Maryland demonstration—has two interrelated goals. The first is to document the steps taken to design, develop, and implement Maryland's Deluxe EBT system on a statewide basis. The second is to provide a complete and comprehensive description of the characteristics and operation of the statewide EBT system. By documenting the development and implementation of the Maryland demonstration, this report seeks to assist in the development of other state and national EBT systems.

1.3 Research Methods

A number of data collection methods were used to meet the research requirements outlined above. Our data collection efforts included:

- In-person and telephone interviews with key project participants;
- Interviews with recipient and merchant advocacy groups;
- Observation of key project activities;
- Analysis of merchant and recipient survey data; and
- Review of project documents and cost reports.

Much of the information required to describe and evaluate the project came from two rounds of in-person interviews with project managers and staff at the federal and state levels. At the same time, interviews were conducted with representatives of the project's EBT vendors (see Appendix B for a list of respondents). The first round of interviews occurred during the fall of 1992, covering the first 12 months of the project, and focused on the EBT system's design, development and early implementation, and the conversion from the TransFirst to the Deluxe system. The second round of in-person interviews with the same personnel occurred one year later, during the fall of 1993, and focused on the statewide expansion of the project and its steady-state operations.
Two rounds of interviews were also conducted with recipient advocacy groups and retailer organizations (see Appendix C for a list of organizations and respondents). In-person interviews were conducted in the spring of 1992 to determine these groups' views about the quality of recipient services in the paper-based benefit systems, the level of discrimination and stigma in paper issuance systems, and clients' expectations for the new EBT system. Follow-up interviews were completed with the same groups in the fall of 1993 to determine their reactions to the new system and their perceptions of the quality of service and level of stigma under the new system.

Information about the implementation of the EBT system at the local level came from one round of site visits to a sample of 14 county or district offices, conducted during the spring of 1993. The sites were chosen to represent a mix of urban and rural locations, pre-conversion and post-conversion implementation, and caseload size.

The descriptive analysis also drew heavily upon observations of key project activities and events. Evaluation staff attended the Deluxe EBT system's functional demonstration and acceptance test at the vendor's operations facility in New Berlin, Wisconsin. Staff were also present at the operations center the weekend of July 17-20, 1992, when EBT processing responsibilities were shifted from TransFirst to Deluxe; they also attended EBT training sessions for staff and clients, EBT kick-off events, and DHR EBT task force and EBT merchant focus group meetings. In addition, evaluation staff visited the state's staff Help Desk and personal computer service center, and observed a number of administrative EBT functions in local offices, including ongoing training and card issuance for new clients, and card replacement for ongoing recipients.

The EBT project's documentation was drawn from a wide variety of existing sources, including:

- Project progress memos, problem reports, quarterly program reviews;
- Various contractual and planning documents, including the State's Request for Proposals (RFP) for EBT services, the Memorandum of Understanding (MOU) between the State and federal agencies, the State's Advanced Planning Document (APD) for the EBT system, vendor contracts, and merchant agreements;

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15. Two rounds of interviews with numerous retailers and recipients were conducted as well, to gather data on the EBT system's impacts on these groups. These data are presented in Volume 3 of the evaluation's final report.
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- Draft and final system design documents, operations manuals, user guides, and other training materials;
- Draft and final system test plans, scripts, incident reports, and other test results;
- Focus group and task force meeting minutes;
- Project press releases, newspaper and journal articles, other media coverage; and
- Local Department of Social Services (DSS) office memos, status reports, and caseload statistics.¹⁶

Finally, as appropriate, information gathered from the monitoring surveys of recipients and merchants and DHR and Deluxe cost reports were used to corroborate the information provided through other data sources.

1.4 Organization of the Report

This report consists of six chapters, including this Introduction. Chapter Two opens with a general description of the Maryland EBT system and how it operates. The system is then described from the perspective of its various participants—recipients, merchants, financial institutions, state DHR and local DSS welfare staff, and the EBT vendor. Chapter Three covers the first six months of the project, during which Deluxe took over the TransFirst EBT contract, the federal MOU was negotiated, and the Deluxe EBT system was designed, developed, and tested. Chapter Four describes the operation of the TransFirst EBT system and the conversion to the Deluxe EBT system. The fifth chapter describes the key activities and issues of the project's second year, during which the Deluxe system was expanded statewide. The final chapter summarizes the lessons learned from the previous chapters, highlighting the information gained from the Maryland demonstration. Several appendices follow, detailing EBT system functions, technical terms, and key respondents.

¹⁶ In Maryland, the state welfare department is called the Department of Human Resources; the local welfare departments (which are part of the state department) are called Departments of Social Services.