

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0294-01
Bill No.: HB 164
Subject: Public Assistance
Type: Original
Date: January 11, 2017

Bill Summary: This proposal prohibits temporary assistance for needy families (TANF) benefit cards from being used at ATMs or to access cash, and limits the items that may be purchased with TANF benefits.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
General Revenue	(\$373,029)	\$0	\$0
Total Estimated Net Effect on General Revenue	(\$373,029)	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 10 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
Federal*	\$0	\$0	\$0
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

* FY 2018 income and expenditures exceed \$200,000 and net to \$0.

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
Total Estimated Net Effect on FTE	0	0	0

☒ Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

§208.024 - Prohibition on TANF card use

Officials from the **Department of Social Services (DSS), Family Support Division (FSD)** state this bill prohibits temporary assistance for needy families (TANF) benefit cards from being used at ATMs or to access cash, and limits the items that may be purchased with TANF benefits.

Section 208.024.1.

Federal law passed in 2012 (42 U.S.C. 608(a)(12)) requires states to implement policies and practices to prevent Temporary Assistance (TA) benefits from being used in any liquor store, casino, gambling casino, gaming establishment, or adult-oriented entertainment establishment. FSD has established blocking of TANF EBT purchases at establishments by Merchant Category Code (MCC). FSD has created a claims process, and procedures are in place if eligible TA participants make an EBT purchase in violation of section 208.024. The recipient is currently required to reimburse the state at each offense. This policy is in place and being practiced.

However, additional systems updates will be needed to disqualify the recipient at the third offense or more for a period of two years.

While current law and procedure is in place for TANF to prohibit transactions in restricted locations, if an establishment is an authorized Food and Nutritional Services (FNS) retailer, a participant can use their food stamps to purchase FNS qualifying items. Food Stamp EBT cards do not allow the purchase of liquor, tobacco, pornography, and/or lottery tickets. However, there is no way to block ineligible TANF purchases of liquor, tobacco, pornography, and/or lottery tickets at non-restricted EBT retailers such as gas stations, grocery or convenience stores.

Section 208.024.5 – Using EBT Cards at ATM Machines

A small portion of TANF participants who receive their benefit via direct deposit into a personal checking or savings account would not be affected.

To implement this legislation, EBT TANF could only be accessed via a cash purchase transaction performed on a POS (point of sale) terminal. All other cash transactions would be turned off or denied.

ASSUMPTION (continued)

Currently, Missouri's online EBT systems are interoperable through the QUEST® network, which is sponsored by the Electronic Benefits and Services Council. QUEST® sets the rules for the distribution of government benefits. However, if Missouri limits TANF transactions to purchases only, it will be in violation of QUEST® operating rules. Missouri must remove any QUEST® logos from all Missouri TANF and TANF/SNAP combination EBT cards.

To limit EBT TANF transactions to purchases only, replacement Electronic Benefit Transfer (EBT) cards will have to be issued for every active TANF eligibility unit in the state. In addition, replacement Food Stamp EBT cards will have to be issued for every active TANF/Food Stamp combination case, as Food Stamp benefits are issued on EBT cards in Missouri. These participants will now receive their TANF and Food Stamp benefits on separate EBT cards.

Fidelity National Information Services (FIS), the Missouri EBT contractor, has provided a cost estimate to implement the changes of this legislation. These estimates are based upon the following assumptions:

Recipient training and notification

The State will provide their Temporary Assistance (TA) recipients with notice of the change in the way they can access their cash assistance benefits. Notice will be given prior to implementation of the change. The State will provide FIS with a copy of any notice or mailing given to the TA recipients to prepare the Recipient Help Desk [USA800] for any calls that they may receive.

The State will no longer be able to be QUEST. Issuance of new EBT cards without the QUEST logo will be required.

Re-contracting will be needed with every EBT-Only merchant, Third Party Processor (TPP) and Network if the State is no-longer QUEST. All current contracts are QUEST contracts.

No special reporting needs are required by the State.

Assisted and non-assisted testing will not be required between FIS and the State.

Number of Billable Cases	Nov-16
Cash-Only Cases	2,017
FS + Cash Cases	12,725
FS-Only Cases	341,230
Total Cases	355,972

ASSUMPTION (continued)

Start Up Cost:

Development & Implementation **\$ 3,686**
Computer programming updates and testing

Notification to TPPs, Networks & EBT Processors **\$ 2,438**
Vendor mailing costs

Help Desk Call Support Cost:

Client Help Desk Call Support (assume will not be needed) **\$ 0.75 per minute**

The State will be charged a Recipient Help Desk call minute surcharge if the total Missouri monthly call minutes increase by 10% or more over the average call minutes for the preceding three months. The state will be subject to this surcharge from the implementation of this project through final card replacement. The surcharge will be charged only for the call minutes in excess of 110% of the previous three-month average. FSD assumes the calls will not exceed 110% of the average calls received the previous three months.

Costs Associated with Switch to Non-Quest State:

Switching from a QUEST State to a non-QUEST state will require the State to reissue all of their EBT cards to remove the QUEST logo from the back of the card. The following quotes are based on the current number of active cards on FIS' ebtEDGE System. These counts are being used for example purposes only. Final pricing will be calculated based on the actual count at the time this project is implemented.

Development/Implementation for Card Reissuance **\$ 84,578**
Write program to generate new cards for existing cardholders

Card Issuance **\$170,280**
Cost includes: card plastic, embossing/encoding replacement cards, designing new card carriers, batch job handling, card carriers and card envelopes.

Recontracting services with EBT-only merchants, TPP and Network **\$165,728**
In November 2016, FIS was contracted with 5,000 merchants. Each of these would require recontracting.

Postage to mail new cards **\$ 23,756**
Postage for each card mailed is at least \$0.49. New cards that must be 'drop-ship' via Federal Express have a higher cost. FedEx ground rates obtained online estimates each shipment at \$7.99. FSD estimates 5% of these cards require drop shipments via FedEx to the local offices. Combination FS and TA cases would receive two mailings, one for FS EBT and one for TA EBT.

ASSUMPTION (continued)

In November 2016, FIS invoiced Missouri for 12,725 food stamp and TA combination cases, and 2,017 TA cash only cases. Of these, 1,373 will be drop shipments ($12,725 \times 2 \text{ cards} = 25,450 + 2,017 = 27,467$ total cards; $5\% \text{ of } 27,467 = 1,373$ (rounded down)).

Cost to mail cards is \$12,786.06 ($27,467$ total cards - $1,373$ drop-ship cards = $26,094$ mailed cards $\times \$0.49 = \$12,786.06$)

Cost to 'drop ship' cards via Fed Ex is \$10,970.27 ($1,373$ drop-ship cards $\times \$7.99 = \$10,970.27$).

Total cost to mail new cards is \$23,756 ($\$12,786.06 + \$10,970.27 = \$23,756.33$ rounded down)

Postage to mail recontracting **\$7,000**

Postage for each re-contract mailed may be as high at \$1.40 per envelope for each contract. FIS estimates 5,000 re-contracts would be mailed.
 ($5,000 \times \$1.40 = \$7,000$)

Unusable card stock costs **\$ 0**

Normally, the cost to destroy unusable card stock is \$1.50 per card; FSD assumes existing card stock could be used for SNAP only EBT cards, therefore, no cost would be incurred for this service.

Postage for One Time Notice **\$7,224**

Because this section is changing how an Electronic Benefit Transfer (EBT) cards can be used, the FSD would need to notify each TA household of this change. Using the amount provided by FIS, 14,742 ($12,725 + 2,017$) families received TA on an EBT card in November 2016. Each of these households will require prior notification of the change. Mailing costs provided by the Office of Administration puts each notice at \$0.49 cents each. Therefore, the FSD estimates the cost to mail this one time notice to be \$7,224. ($14,742 \times \$0.49 = \$7,223.58$ rounded up)

Total costs:

Development & Implementation	\$3,686
Notification to TPPs, Networks & EBT Processors	\$2,438
Costs to switch to non-quest state	\$84,578
Card Issuances	\$170,280
Recontracting	\$165,728
Mailing costs for cards and drop shipments	\$23,756
Mailing costs to re-contract	\$7,000
One time notice	\$7,224
TOTAL:	\$464,690

ASSUMPTION (continued)

Therefore, the total estimated contracted costs FSD would incur is \$464,690. The cost is calculated at 55% GR, 45% Federal, matching the way EBT is claimed, for a total of \$255,579 GR and \$209,111 Federal.

DSS, FSD provided the following response for the Office of Administration, Information Technology Services Division (ITSD)/DSS:

It is assumed that every new IT project/system will be bid out because all ITSD resources are at full capacity.

ITSD will have extensive changes to the to the EBT system to automatically check purchase details looking for banned items. These purchases are then passed to the Claims and Restitution system (CARS) for repayment. EBT will also have to notify FAMIS that a sanction/disqualification from any TANF/SNAP benefits for two years has occurred.

EBT system changes

GR Cost: \$75hrs x 1,501.2hrs = \$112,590

FAMIS system changes

GR Cost: \$75hrs x 64.8 hrs = \$4,860

Total GR costs: \$117,450

§208.182 – EBT Pilot Program

This section removes the language that created a pilot program that allowed EBT cards to get cash at ATM or point of sale terminals.

Officials from the **DSS, Division of Legal Services (DLS)** anticipate that this bill could result in an increase of hearings. DLS will absorb the cost of hearings with existing staff.

Bill as a whole

Officials from the **Joint Committee on Administrative Rules (JCAR)** state the legislation is not anticipated to cause a fiscal impact to JCAR beyond its current appropriation.

Officials from the **Office of the Secretary of State (SOS)** state many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain

ASSUMPTION (continued)

amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what the office can sustain with the core budget. Therefore, the SOS reserves the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process.

<u>FISCAL IMPACT - State Government</u>	FY 2018 (10 Mo.)	FY 2019	FY 2020
GENERAL REVENUE FUND			
<u>Costs - DSS (§208.024)</u>			
Reissuance of EBT cards, recontracting and mailing costs	(\$255,579)	\$0	\$0
<u>Costs - OA, ITSD (§208.024)</u>			
System updates	<u>(\$117,450)</u>	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON THE GENERAL REVENUE FUND	<u>(\$373,029)</u>	<u>\$0</u>	<u>\$0</u>
FEDERAL FUNDS			
<u>Income - DSS (§208.024)</u>			
Program reimbursements	\$209,111	\$0	\$0
<u>Costs - DSS (§208.024)</u>			
Reissuance of EBT cards, recontracting and mailing costs	<u>(\$209,111)</u>	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON FEDERAL FUNDS	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Local Government

FY 2018
(10 Mo.)

FY 2019

FY 2020

\$0

\$0

\$0

FISCAL IMPACT - Small Business

This proposal may impact small business retailers if they do not re-sign with the State and recipients can't use their benefit cards in those establishments.

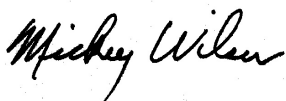
FISCAL DESCRIPTION

This bill changes the law regarding the use of Temporary Assistance for Needy Families (TANF) and Supplemental Nutrition Assistance Program (SNAP) benefits via electronic benefit transfer (EBT) transaction. The bill adds pornography to the list of items that are prohibited from being purchased with TANF or SNAP benefits using an EBT card. The bill requires that upon any third or subsequent violation of the prohibition against using TANF or SNAP benefits via an EBT card in a prohibited establishment or to purchase prohibited items, a TANF recipient must lose his or her TANF benefits for two years. The bill prohibits a recipient of TANF or SNAP from using his or her EBT card at any automated teller machine (ATM), to receive cash back on a purchase, or to otherwise access the benefits as cash.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Social Services -
 Family Support Division
 Division of Legal Services
Joint Committee on Administrative Rules
Office of Administration -
 Information Technology Services Division/DSS
Office of Secretary of State



L.R. No. 0294-01
Bill No. HB 164
Page 10 of 10
January 11, 2017

Mickey Wilson, CPA
Director
January 11, 2017

Ross Strobe
Assistant Director
January 11, 2017