



## Legislative Fiscal Bureau

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May 8, 2003

Joint Committee on Finance

Paper #407

### **Food Stamp Retailer Transaction Fee (DHFS -- Departmentwide)**

[LFB 2003-05 Budget Summary: Page 187, #2 (part)]

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#### **CURRENT LAW**

Since November, 2000, Wisconsin has distributed food stamp benefits electronically through an electronic benefits transfer (EBT) system under which beneficiaries use a single plastic card, a "Quest" card, to make food purchases. The Department of Health and Family Services (DHFS) currently contracts with Citicorp Electronic Financial Services, Inc., to provide the EBT system.

EBT equipment may be supplied by either the retailer or by DHFS. For those retailers without equipment, DHFS is required to provide the appropriate equipment or manual transaction capability. For retailers with their own equipment, DHFS, through Citicorp, pays a fee of \$0.08 per transaction to retailers through an electronic fund transfer once per month.

#### **GOVERNOR**

Delete \$500,000 (\$250,000 GPR and \$250,000 FED) annually to eliminate the food stamps transaction fee to retailers.

#### **DISCUSSION POINTS**

1. Under HFS 252.10, the administrative rules for EBT, during the first two years of EBT operations, DHFS is required to pay a fee of \$0.08 per food stamp purchase and merchandise return transactions, and balance inquiries conducted on point-of-sale (POS) terminals owned or leased by retailers that have signed an agreement with Citicorp to use such equipment. During the two-year period, DHFS is required to commission a study by an independent entity to determine actual EBT costs incurred by retailers and any offsetting savings from the elimination of paper food

coupon handling. Based on the study results and other relevant factors, DHFS must determine by the end of the two years if a transaction fee will continue to be paid and, if so, at what amount. DHFS is required to publish its decision in the Wisconsin Administrative Register. If, for reasons directly attributable to actions of DHFS or its agents, DHFS cannot make the decision by the end of the two years, it will continue to pay the fee at the established rate until publication of the decision in the register.

2. As required under these rules, DHFS contracted with MAXIMUS, Inc., to study the costs to retailers for accepting and processing paper food stamps, known as food coupons, and the costs associated with accepting and processing electronic food stamps. This study was completed in May, 2002. The study found that the overall average cost per food coupon transaction was \$0.773 and the overall average cost per EBT transaction is \$0.218.

3. DHFS has continued to pay the EBT transaction fee since the publication of this study but under the bill, would cease paying that fee beginning in 2003-04. Under administrative rules, DHFS is required to publish this decision in the Register.

4. In 2002, six other states were paying EBT transaction fees to retailers. These states and the fee amounts are shown in Table 1.

**TABLE 1**

**States Paying EBT Transaction Fees to Retailers**

<u>State</u>	<u>Fee Amount</u>
Illinois	\$0.02
Indiana	Not yet determined
Minnesota	.04
New Jersey	0.014
South Carolina	0.02
Texas	0.02
Wisconsin	0.08

5. At the time beneficiaries used paper food stamps, retailers were not reimbursed for their transaction costs. Therefore, it could be argued that retailers are better off with electronic food stamp benefits, with or without the payment of the transaction fee, since the per transaction cost for food coupons (\$0.773 per transition) in Wisconsin is higher than the per transaction cost for food stamps under EBT (\$0.218 per transaction). In addition, compared to the cost of using other forms of payment (cash, credit cards, debit cards, checks, or WIC checks), the cost per transaction for EBT in Wisconsin is less than the per transaction cost of other forms of payment. Table 2 presents the results of a study by the Food Marketing Institute Survey in 2000, which shows the cost per transaction in the Midwest and for all stores in their survey based on the transaction type.

**TABLE 2**

**Cost Per Transaction by Type of Transaction**

<u>Type of Transaction</u>	<u>Cost Per Transaction (Midwest)</u>	<u>Cost Per Transaction (All Stores)</u>
Cash	\$0.26	\$0.12
Checks	0.37	0.36
Food Stamp Coupons	0.25	0.35
WIC Checks	0.56	0.46
Credit/Off line Debt Cards	0.72	0.72
Online Debt Cards	0.37	0.34
EBT	0.29	0.24

6. Some concern has been expressed that, with the elimination of the transaction fee, fewer retailers will accept food stamps, thus reducing access for food stamp recipients. However, it could be argued that food stamp recipients bring business to retailers that those retailers would not otherwise receive. In January, 2003, \$18,753,500 of food was purchased statewide in 683,771 purchases through the food stamp program. The average purchase amount was \$27.43.

7. Additionally, there have been concerns expressed that with the elimination of the transaction fee, more retailers will refuse to use their own equipment for food stamp transactions and instead request that DHFS install food stamp-only equipment for their retail center. This could then reduce the number of lanes that would accept Quest cards, which may result in food stamp recipients feeling that they are being treated differently than other consumers.

8. Administrative rule HFS 252.11 states that DHFS will afford all authorized retailers, including non-traditional retailers, the opportunity to participate in the EBT system. By federal regulation, DHFS may not require authorized retailers to pay costs essential to, and directly attributable to, EBT system operations as long as the equipment or services are provided by the EBT vendor or its agent (Citicorp) and are utilized solely for food stamp benefit issuance.

If DHFS must provide equipment to a retailer to afford the opportunity to participate in the EBT system, the retailer must have \$100 or more per month in food stamp redemption activity and have the capability to support operation of the terminal. The number of terminals is determined by a formula that is based on the food stamp redemption activity as a percentage of total food sales.

9. Under its current policy, DHFS will not provide a state terminal if the retailer has its own POS terminal. However, it is not clear if this is permissible under the administrative rule. If the Committee wishes to ensure that there is no conflict between the Department's current policy and the rule, it could modify the statute to require retailers that have POS equipment to use that

equipment if they receive food stamps.

10. LFB Issue Paper #406, dated May 8, 2003, includes an estimate of the cost of the EBT contracts in the 2003-05 biennium. This contract amount includes funding for the transaction fee. Therefore, if the Committee approved the Governor's recommendation to eliminate the retailer transaction fee, funding in the bill would need to be reduced by \$254,400 (all funds) in 2003-04 and by \$422,100 in 2004-05.

## ALTERNATIVES

1. Approve the Governor's recommendation to eliminate the EBT food stamp transaction fee to retailers. Reduce funding in the bill by \$254,400 (-\$127,200 GPR and -\$127,200 FED) in 2003-04 and by \$422,100 (-\$211,100 GPR and -\$211,100 FED) in 2004-05 to delete the additional funding provided for the transaction fee under the EBT contract reestimate.

<u>Alternative 1</u>	<u>GPR</u>	<u>FED</u>	<u>TOTAL</u>
<b>2003-05 FUNDING</b> (Change to Bill)	- \$338,300	- \$338,300	- \$676,600

2. Delete the Governor's provision and increase funding in the bill by \$500,000 (\$250,000 GPR and \$250,000 FED) annually to continue funding the current EBT food stamp transaction fee to retailers.

<u>Alternative 2</u>	<u>GPR</u>	<u>FED</u>	<u>TOTAL</u>
<b>2003-05 FUNDING</b> (Change to Bill)	\$500,000	\$500,000	\$1,000,000

3. In addition to Alternative 1 or 2, require retailers who accept food stamps and own or lease point-of-sale terminals to use that equipment for electronic food stamps. Specify that DHFS may only provide equipment to retailers for electronic food stamp transactions that do not own or lease point-of-sale terminals.

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