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FILE

REPORTED OUT

MAY 07 2004

SENATE FINANCE COMMITEE

SENATE FINANCE COMMITTEE REPORT

DATE: 04/7/04

FURTHER:

DATE TURNED IN TO OFFICE: 7 May 2004

Finance Committee considered CS FOR HOUSE BILL NO. 494(FIN) am

HB 494 ELECTRONIC PAYMENT FOR STATE BUSINESS

"An Act relating to the methods of disbursement of money by the state, including employment compensation, unemployment payments, and permanent fund dividends, and to bank investments and deposits by the state; and providing for an effective date."

and recommends:

[✓] be replaced with S CS CS HB 494 (FIN)

[ ] adopt previous ________ CS CS forthcoming (________)

[ ] attached amendment(s)

[ ] adopt Letter of Intent by ____________ Committee

[ ] further referral to ____________ Committee

Senate Bill:
[ ] Same Title
[ ] New Title

House Bill:
[✓] Same Title
[ ] Technical Title Change
[ ] New Title w/ SCR #____

NEW FISCAL NOTE(S):

Department	Date	Fiscal	Indet.	Zero.	FN#

PREVIOUS FISCAL NOTE(S):

Department	Date	Fiscal	Indet.	Zero	FN#
H&SS Public Asst.	3/19/04			✓	#1
H&SS Info Tech	3/19/04			✓	#2
H&SS Admin Support	3/19/04			✓	#3
Labor Unempl. Ins	3/16/04			✓	#4
Labor Empl Svcs	3/16/04			✓	#5
Revenue	3/19/04			✓	#6
All - Admin	3/16/04	✓		✓	#7

[ ] APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	DO PASS	DO NOT PASS	NO REC	AMEND
Fred Dyson	✓			
[signature]			✓	
[signature]			✓	
Ben Stevens	X			
COCHAIR:				
COCHAIR: Gary Wilken	✓			

REPORTED OUT

MAY 0 7 2004

SENATE FINANCE COMMITTEE

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number: 7
Bill Version: CSHB 494(FIN)
(H) Publish Date: 3/24/04

Revision Date/Time (Note if correction):
Title: A bill relating to disbursement of money by the state
Sponsor: Rep. Kott and Hawker
Requester:

Dept. Affected: All
RDU: All
Component: All
Component No.:

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Personal Services						
Travel						
Contractual		(46.0)	(92.0)	(92.0)	(92.0)	(92.0)
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	(46.0)	(92.0)	(92.0)	(92.0)	(92.0)
CAPITAL EXPENDITURES						
CHANGE IN REVENUES ( )						

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Various in all state agencies		(46.0)	(92.0)	(92.0)	(92.0)	(92.0)
TOTAL	0.0	(46.0)	(92.0)	(92.0)	(92.0)	(92.0)

Estimate of any current year (FY2004) cost: 0.0
Mark this box (X) if funding for this bill is included in the Governor's FY 2005 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: *(Attach a separate page if necessary)*

This analysis assumes all state payroll would be made with electronic funds transfer, except for the first and last paycheck for each employee and a limited number of hardship exceptions for payroll. All savings from payroll direct deposit is predicated on replacing printed, mailed paper advices with online presentment information.

The cost of making vendor payments using EDI is calculated for all general warrants at effectively a wash because the cost of bank services is estimated at 32.5 cents each, which is essentially the cost of printing and mailing warrants. The set up effort for state agencies and vendors can be absorbed as long as the process is not mandatory for reluctant vendors or other situations not suited for electronic payments. Quickly increasing the number of EDI-capable vendors from the current 500 to over 50,000 would require substantial staff resources in each agency, as well as the central Finance and Treasury divisions.

Prepared by: Kim J. Garnero, Director — Phone 465-3435/465-5615
Division: Finance — Date/Time 3/16/04 7:08 AM
Approved by: Mike Miller, Commissioner — Date 3/16/2004
Agency: Department of Administration

(Revised 8/2003 OMB)

Analysis for general warrants under CSHB 494(FIN)

FY 2003 general warrants statistics

Warrants	414,496
EDI	10,793
Total	425,289

Analysis excludes all program specific warrant types such as PFDs, retirement, welfare payments, court warrants. Also excludes handwrite and field warrants.

Potential savings to mailroom chargeback for reduced costs of:

Paper used in paying warrants:

Warrants	415,000	0.01825	$ 7,574		
Envelopes	415,000	0.02063	$ 8,561		
			$ 16,135	annual usage ==>	$ 16,135

Postage: (first class pre-sort with bar code 27.8 cents per item) (1.5% @ 35.2 for non bar code)

Bar coded	408,775	0.278	$ 113,639		
Not bar coded	6,225	0.352	2,191		
			$ 115,831	annual usage ==>	$ 115,831

Total projected mailroom chargeback savings $ 131,966

Potential increased cost for ACH origination:

425,000 transactions at $.325 each (estimated 2 addenda totaling 500 chars) $ 138,125

Net potential cost on statewide basis: $ 6,159

REPORTED OUT

MAY 0 7 2004

SENATE FINANCE COMMITEE

Analysis for payroll warrants under CSHB 494(FIN)

Average payroll statistics (based on average of August and December payrolls)

	Mailed	Delivered	Total	Annualized
Warrants	1,439	390	1,829	44,000
Advices	12,279	1,809	14,088	340,000
Total	13,718	2,199	15,917	384,000

	Mailed	Delivered	Total
Warrants	9%	2%	11%
Advices	77%	11%	89%
Total	86%	14%	100%

Assumptions:

All new employees (about 5,000 per year) get their first payroll via warrant when the prenote test is done.

500 employees continue to receive warrants under the hardship exemption.

Total warrants still needed = (500 *24) + 5,000 = 17,000

Potential savings to mailroom chargeback for reduced costs of:

Paper used in paying payroll:

Warrants	27,000	0.01825	$ 493	(40,000 for $730)	
Advices	340,000	0.01683	5,722	(300,000 for $5,049)	
Envelopes	367,000	0.02063	7,571	(500,000 for $10,315)	
			$ 13,786	annual usage ==>	$ 13,786

Postage: (first class pre-sort with bar code 27.8 cents per item) (200 @ 35.2 for non bar code)

Bar coded	13,500	0.278	$ 3,753		
Not bar coded	200	0.352	70		
			$ 3,823	for 24 pay periods =	$ 91,762
				Less postage on 17,000 warrants annually =	(4,760)
					$ 87,002
				Total projected mailroom chargeback savings	$100,788

Potential increased cost to Division of Finance:

Direct deposit costs: (November invoice was $ [illegible],570 for 31,705 ACH txns)

New direct deposit costs:

1,329 @ 8.1 cents each = $ 108 for 24 pay periods = $ 2,584

Net potential savings on statewide basis: $ 98,204

REPORTED OUT

MAY 0 7 2004

SENATE FINANCE COMMITEE

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number: 6
Bill Version: CSHB 494(FIN)
(H) Publish Date: 3/24/04

Revision Date/Time (Note if correction):

Title	Electronic Payments for State Business
Sponsor	Representative Kott
Requester	House Finance
Dept. Affected:	Revenue
RDU	Revenue Programs & Services
Component	Treasury Division
Component No.	121

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0
CAPITAL EXPENDITURES						
CHANGE IN REVENUES ( )						

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2004) cost: 0.0
Mark this box (X) if funding for this bill is included in the Governor's FY 2005 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: *(Attach a separate page if necessary)*

Actual costs to the Treasury Division could vary significantly. If the division continues its current efforts to maximize payments made electronically, few or no additional costs may be incurred. If, however, we ensure that all payments are made electronically by 2006, an additional staff member, acting as project manager and ACH payments coordinator will be required by the division. This position would require a full time, temporary addition to the Cash Management staff, costing the division approximately $45.0 in FY05, $60.0 in FY06, FY07, and FY08, and $30.0 in FY09 in additional personal services costs. Further, contractual costs for additional programming enhancements of the state's electronic fund origination system, BEACHES, would likely also be incurred. These costs are estimated to be $25.0 in FY05, $60.0 in FY06, and $15.0 in each FY07, FY08, and FY09. We are assuming Treasury will cover the costs of making BEACHES ready to accept agency interfaces. The cost estimates above reflect those start-up costs. Each agency will have costs associated with modifications to their specific applications so that those applications will interface with BEACHES. We assume that the cost savings from not issuing warrants will exceed the cost of implementation of this legislation.

Prepared by: Tom Boutin, Deputy Commissioner — Phone 465-3669
Division: Treasury Division — Date/Time 3/19/04 5:16 PM
Approved by: Steve Porter, Deputy Commissioner — Date 3/19/2004
Agency: Department of Revenue

(Revised 12/2003 OMB)

REPORTED OUT

MAY 0 7 2004

SENATE FINANCE COMMITEE

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number: 5
Bill Version: CSHB 494(FIN)
(H) Publish Date: 3/24/04

Revision Date/Time (Note if correction):
Title: Electronic Payment for State Business
Sponsor: Representative Kott
Requester: Governor

Department: Labor and Workforce Development
RDU: Employment Security
Component: Employment Services
Component Number: 2275

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0
CAPITAL EXPENDITURES						
CHANGE IN REVENUES ( )						

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2004) cost: None

Mark this box (X) if funding for this bill is included in the Governor's FY 2005 budget proposal: [ ]

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: *(Attach a separate page if necessary)*

See Attached Analysis.

Prepared by: Thomas W. Nelson, Director — Phone 465-5933
Division: Employment Security — Date/Time 3/16/04 3:27 PM
Approved by: Greg O'Claray, Commissioner — Date 3/16/2004
Agency: Department of Labor and Workforce Development

(Revised 12/2003 OMB)

FISCAL NOTE #5

STATE OF ALASKA
2004 LEGISLATIVE SESSION

BILL VERSION: CSHB 494(FIN)

ANALYSIS: (continued)

This legislation would make disbursements issued under AS 23.20 subject to a new section of statute, AS 37.25.050. AS 37.25.050 provides that disbursements can only be made through an electronic funds transfer (EFT) or through an electronic payment card unless doing so would cause substantial hardship to the recipient.

The use of electronic fund transfers (EFT):
Employment Services prepares Trade Readjustment Allowance (TRA) and Needs Related Payment (NRP) requests. Currently warrants are processed through the Alaska State Accounting System (AKSAS). Two warrants are issued if a claimant has a Child Support Enforcement Division (CSED) garnishment, one to the claimant and the other to CSED. AKSAS does not currently have the ability to directly deposit the payments into the workers bank account, nor withhold a portion of the payment for IRS tax reporting purposes.

TRA falls under the Federal Unemployment Benefit Act (FUBA). If the claimant did not have a bank account in which the payment could be deposited or if a cost to the claimant were involved, such payment procedure may create an administrative barrier to the receipt of full benefits when due and therefore raise an issue with Section 301(a)(1), of the Social Security Act (SSA).

In addition, Employment Services provide Individual Training Accounts (ITAs) for training and supportive services that clients need in order to complete training and secure suitable jobs. Currently, ITAs are generated, and warrants are issued directly to the vendor or client through the State of Alaska Accounting System.

The total financial impact if electronic fund transfers are used would be minimal to the division as long as the program criteria in the above paragraphs are met.

The use of a debit card:
The total financial impact if a debit card system is used is estimated to be five new Community Development Specialist II staff positions totaling $325,000 per fiscal year. In addition, treasury systems and processes would have to be setup prior to implementation. The direct financial impacts of these systems are unknown at this time.

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MAY 0 7 2004

SENATE FINANCE COMMITEE

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number: 4
Bill Version: CSHB 494(FIN)
(H) Publish Date: 3/24/04

Revision Date/Time (Note if correction):
Title: Electronic Payment for State Business
Sponsor: Representative Kott
Requester: Governor

Department: Labor and Workforce Development
RDU: Employment Security
Component: Unemployment Insurance
Component Number: 2276

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0
CAPITAL EXPENDITURES						
CHANGE IN REVENUES ( )						

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2004) cost: None

Mark this box (X) if funding for this bill is included in the Governor's FY 2005 budget proposal: [ ]

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: *(Attach a separate page if necessary)*

See Attached Analysis.

Prepared by: Thomas W. Nelson, Director
Phone 465-5933
Division Employment Security Division
Date/Time 3/16/04 3:29 PM
Approved by: Greg O'Claray, Commissioner
Date 3/16/2004
Agency Department of Labor and Workforce Development

(Revised 12/2003 OMB)

COMMITTEE CO[illegible]

STATE OF ALASKA
2004 LEGISLATIVE SESSION

BILL VERSION: CSHB 494(FIN)

ANALYSIS: (continued)

This legislation would make disbursements issued under AS 23.20 subject to a new section of statute, AS 37.25.050. AS 37.25.050 provides that disbursements can only be made through an electronic funds transfer (EFT) or through an electronic payment card unless doing so would cause substantial hardship to the recipient.

Section 3304 of the Federal Unemployment Tax Act (FUTA) prohibits the use of Unemployment Insurance Trust Fund monies for any purpose other than the actual benefit payment.

The use of electronic fund transfers (EFT):
The Unemployment Insurance Program already provides an EFT option. Estimated annual increase in cost to have all claimants move to this option would be $30,000. This is based on set-up and monthly maintenance fees in the current direct deposit contract. The cost increase would be offset by savings from not having to produce printed benefit checks.

The use of a debit card:
Estimated initial implementation costs could be as high as $269,500. Annual costs thereafter are estimated at $63,000.

Other methods:
Amendments to AS 37.25.050 authorizes the Commissioner of Revenue to adopt regulations that would clarify when a state agency could use alternative disbursement methods. This provides an avenue for disbursing a paper check to a claimant if electronic disbursement would cause the claimant substantial hardship. Although it is not clear what constitutes "substantial hardship", this would not raise an issue with section 301(a)(1), of the Social Security Act.

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number: 3
Bill Version: CSHB 494(FIN)
(H) Publish Date: 3/24/04

Revision Date/Time (Note if correction):

Dept. Affected: Health & Social Services

Title: RELATING TO DISBURSEMENTS OF MONEY BY THE STATE

RDU: Departmental Support Services

Component: Administrative Support Svcs

Sponsor: KOTT

Requester: HOUSE (FIN)

Component No. 320

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0
CAPITAL EXPENDITURES						
CHANGE IN REVENUES (0)						

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1037 GF/Mental Health						
Other(Specify Type-do not abbreviate)						
Other(Specify Type-do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2004) cost:

Mark this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: *(Attach a separate page if necessary)*

CSHB 494 provides options to the vendors or clients to receive payments via electronic deposit or by receiving a state warrant for payment. No savings or additional costs will be incurred by DHSS.

Prepared by: Janet Clarke, Assistant Commissioner — Phone 465-1630
Division: Administrative Services — Date/Time 03/18/2004
Approved by: Joel S. Gilbertson, Commissioner — Date 03/19/2004
Agency: Department of Health and Social Services

(Revised 9/2002 OMB)

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MAY 0 7 2004

SENATE FINANCE COMMITEE

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number: 2
Bill Version: CSHB 494(FIN)
(H) Publish Date: 3/24/04

Revision Date/Time (Note if correction):
Dept. Affected: Health & Social Services

Title: RELATING TO DISBURSEMENTS OF MONEY BY THE STATE
RDU: Departmental Support Services
Component: Information Technology Services

Sponsor: KOTT
Requester: HOUSE (FIN)
Component No. 2754

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0
CAPITAL EXPENDITURES						
CHANGE IN REVENUES (0)						

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1037 GF/Mental Health						
Other(Specify Type-do not abbreviate)						
Other(Specify Type-do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2004) cost:
Mark this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: *(Attach a separate page if necessary)*

This CS for HB 494 eliminates the requirement for warrants to be used for issuance of state payments.

Currently the department's public assistance payments, e.g. portion of Adult Public Assistance caseload, all Food Stamp and Alaska Temporary Assistance benefits, are distributed via an Electronic Benefits Transfer (EBT) process. The department does not anticipate any change in the current process and will continue to process payments with state warrants for individuals who can not receive EBT payments.

There is no impact anticipated as a result of this legislative proposal.

Prepared by: Janet Clarke, Assistant Commissioner
Phone 465-1630
Division: Administrative Services
Date/Time 03/18/2004
Approved by: Joel S. Gilbertson, Commissioner
Date 03/19/2004
Agency: Department of Health and Social Services

(Revised 9/2002 OMB)

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SENATE FINANCE COMMITEE

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number: 1
Bill Version: CSHB 494(FIN)
(H) Publish Date: 3/24/04

Revision Date/Time (Note if correction):

Dept. Affected: Health & Social Services

Title: RELATING TO DISBURSEMENTS OF MONEY BY THE STATE

RDU: Public Assistance

Component: Public Assistance Field Svcs

Sponsor: KOTT

Requester: HOUSE (FIN)

Component No. 236

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0
CAPITAL EXPENDITURES						
CHANGE IN REVENUES (0)						

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1037 GF/Mental Health						
Other(Specify Type-do not abbreviate)						
Other(Specify Type-do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2004) cost:

Mark this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: *(Attach a separate page if necessary)*

This bill suggests that all disbursements of state money to be carried out electronically. This may include benefits disbursed by DPA for the Adult Public Assistance Program, Heating Assistance and General Relief. Food Stamp and Alaska Temporary Assistance Program benefits are currently disbursed electronically.

Because this bill does not require all disbursements to be made electronically, we assume few if any recipients will elect to switch to electronic disbursement.

Prepared by: Angela Salemo — Phone 465-3200
Division: Public Assistance — Date/Time 03/18/2004
Approved by: Joel S. Gilbertson, Commissioner — Date 03/19/2004
Agency: Department of Health and Social Services

(Revised 9/2002 OMB)

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LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH SERVICES
LEGISLATIVE AFFAIRS AGENCY
STATE OF ALASKA

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Juneau, Alaska 99801-1182
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<u>MEMORANDUM</u> May 7, 2004

SUBJECT: SCS CSHB 494(FIN) relating to the methods of disbursement of money by the state (Work Order No. 23-LS1754\V)

TO: Senator Lyda Green
Senator Gary Wilken
Co-Chairs, Senate Finance Committee
Attn: Mindy

FROM: TLB
Theresa L. Bannister
Legislative Counsel

This memo accompanies a final of the bill described above. The bill incorporates all of the changes that you requested.

Descriptive title problem. With one exception, the amendments to AS 14.40.841 raise a title issue because they are not directly related to methods of disbursement. The changes to the title of the fund (deleting "revolving") relate to the fund itself, which is a method of holding money, not a method of disbursing money. The new subsection (b)[1] generally does not fit because it deals with items that extend beyond methods of disbursement from the fund, including the custody of the fund, the fiduciary of the fund, reports on the fund, investments of the fund, and transfers to the corporation. The sentence allowing the corporation to make disbursements from the fund in accordance with AS 37.25.050 does fit within the title. It may be possible to argue that the fund itself is a method of disbursement to which all of these items relate, but this is a strained characterization and since the fund is also a repository for money, the changes appear to exceed what the title covers.

Adding provisions that do not fit the title raises an issue under the constitutional requirement that the title express what is in the bill. Since this bill is in the second house, a concurrent resolution to waive the applicable rules is needed so that the title can be changed to accommodate the new provisions without violating the Uniform Rules. Would you like a title resolution prepared?

If I may be of further assistance, please advise.

TLB:mdr
04-227.mdr

Enclosure

[1] This subsection is entirely new, even though the form of the amendment did not reflect this.

ADOPTED
SENATE FINANCE
COMMITTEE
Amendment Number: #1
Bill Number: HB 494
Sponsor: Wilken Date: 5/4/04
Logged In By: Mindy

Amendment

To: CS HB 494 am

Page 2, line 23

Sponsored by Sen. Wilken by request

Insert new *Sec. 4

* **Sec. 4.** AS 14.40.841 is amended to read:

Sec. 14.40.841. **Alaska Aerospace Development Corporation** [REVOLVING] **fund.** (a) The Alaska Aerospace Development Corporation [REVOLVING] fund is established in the corporation. The [REVOLVING] fund consists of appropriations made to the [REVOLVING] fund by the legislature, and rents, fees or other money or assets transferred to the [REVOLVING] fund by the corporation. Amounts deposited in the [REVOLVING] fund may be pledged to the payment of bonds of the corporation or expended for the purposes of the corporation under AS 14.40.821 – 14.40.990.

(b) The corporation shall have custody of the fund, and shall be responsible for its management. The corporation **is the fiduciary of the fund under AS 37.10.071 and** may invest amounts in the fund in accordance with an investment policy adopted by the corporation. **Notwithstanding AS 37.10.010 – 37.10.050, the corporation may make disbursements from the fund in accordance with AS 37.25.050. Notwithstanding AS 37.05.130 – 37.05.140, the corporation shall report disbursements from the fund annually in accordance with AS 14.40.866(b)(1).** An appropriation made to the fund by the legislature shall be transferred from the state treasury to the corporation for deposit in the fund.

Page 11, line 12. Replace with

* **Sec. 32.** Section 4 of this Act takes effect July 1, 2004. Sections 1-3 and 5-31 of this Act take effect January 1, 2006.

Explanation of Amendment to CS HB 494 am

Page 2, line 23

This amendment addresses challenges the Alaska Aerospace Development Corporation has had in responding to the financial reporting needs of its launch customers. AADC operates with no state general funds, and must account and invoice for launches in formats and timelines required by its customers. The corporation initiated a new accounting system that meets customer needs, and provides a clean audit, but must currently process all transactions on both the new system and on the State AKSAS system. OMB and the AADC attempted to address this problem through a Memorandum of Agreement earlier this year, but OMB found the memorandum would require AADC's exemption from certain state fiscal procedures and public finance provisions.

This amendment allows AADC to transact its business in-house, reporting transactions at aggregate levels on AKSAS and controlling and investing its own earned funds and making payments to its vendors from those funds. The corporation intends to continue to use state systems for payroll and benefits, and for federal transfers of funds through the state. AADC would continue to meet its reporting requirements to the legislature and administration in its annual report to the legislature.

SENATE FINANCE COMMITTEE

5 / 6 / 2004 COMMITTEE ACTION

Bill Number	HB 494	
Amendment	#1	
Motion	to adopt	
Motion by	Wilken	
Objection by	Wilken	
Removed	✓	
Second Objection by		
Committee Member	**Y**	**N**
Senator Dyson		
Senator Hoffman		
Senator Olson		
Senator Stevens		
Senator Bunde		
Co-Chair Green		
Co-Chair Wilken		
Tally		
Yea		
Nay		
Absent		
MOTION	ADOPTED	

accordance with the prescribed terms, or upon liquidation by foreclosure or other process, or upon receipt of interest, the money so received shall be turned over to the commissioner of revenue for deposit in the Alaska World War II veterans' revolving fund.

* **Sec. 14.** AS 34.45.720(c) is amended to read:

(c) AS 34.45.110 - 34.45.780 do not apply to a **disbursement** [WARRANT] for the payment of a permanent fund dividend.

* **Sec. 15.** AS 37.10.075(d) is amended to read:

(d) The Department of Revenue may deposit funds in banks inside or outside the state without requiring those banks in which the funds are deposited to pay interest on the deposits. It is the intention of the legislature that the department may compensate the banks for **handling** [CLEARING] state **disbursements** [WARRANTS] in a manner determined by the commissioner of revenue to be in the best interests of the state.

* **Sec. 16.** AS 37.10.078 is amended to read:

Sec. 37.10.078. Prohibited deposits and investments in certain banks. The commissioner of revenue may not make investments or deposits with a bank doing business in Alaska that has a general practice of

(1) charging a fee for **handling disbursements** [CASHING CHECKS OR WARRANTS] issued by the state**;** or

(2) refusing to **handle disbursements** [CASH CHECKS OR WARRANTS] issued by the state.

* **Sec. 17.** AS 37.10.100(b) is amended to read:

(b) **If** [HOWEVER IF] the sum recovered **as described in (a) of this section** belongs to a city, school district, or municipal government, the sum shall be transferred to it, less sums advanced by the state in the suit [,] and not already repaid to it. The Department of Administration may **disburse** [PAY] to the city, school district, or municipal corporation the sums belonging to it [, UPON WARRANTS DRAWN AS PROVIDED BY LAW]. The **disbursements** [WARRANTS] must be based upon vouchers approved by the attorney general.

* **Sec. 18.** AS 37.25 is amended by adding a new section to read:

Amendment #2 adopted

Sec. 37.25.050. Methods of disbursement. (a) Except as provided in (b) of this section, unless federal law requires otherwise, a state agency may not disburse money unless the disbursement is made

(1) by an electronic funds transfer to an account in a financial institution; or

(2) from an account established by the state agency by contract with a financial institution under which a person uses an electronic payment card issued by the financial institution to access the money.

(b) A state agency is not required to use the disbursement methods described in (a) of the section if

(1) another state law or federal law requires that disbursement be made by another disbursement method;

(2) use of the disbursement methods would cause substantial hardship to the recipient of the disbursement;

(3) not more than five disbursements will be made to a recipient, or, on average, to each recipient entitled to disbursement under the program for which the disbursements are made;

(4) a ~~person~~ vendor or grantee elects not to be paid by the disbursement methods;

(5) the disbursement is to a state employee and

(A) is the only disbursement that the state agency will make to the employee for the employment; or

(B) it is in the best interests of the state agency or the employee to use another disbursement method to pay the employee; or

(6) use of another disbursement method is in the best interests of the state agency.

(c) The commissioner of administration shall adopt regulations to implement (b) of this section.

(d) A state agency is not liable to pay a fee imposed by a recipient's financial institution for a disbursement made under (a) of this section.

(e) In this section,

(1) "disbursement" includes wages and other employment benefits;

* Sec. 23. AS 44.21.040(a) is amended to read:

(a) The Department of Administration shall keep books of account in permanent form of the claims presented and of the **disbursements made** [WARRANTS DRAWN]. These records must show

(1) the name of the claimant**;** [,]

(2) the amount of the claim**;** [,]

(3) the date of its presentation**;** [,]

(4) the date of its allowance or disallowance**;** [,]

(5) the date and number of each **disbursement made;** [WARRANT DRAWN ,]

(6) the name of the payee **;** [,] and

(7) the appropriation **from** [AGAINST] which the **disbursement** [WARRANT] is **made** [DRAWN].

* Sec. 24. AS 44.77.040(b) is amended to read:

(b) The department, after the hearing, may affirm, reverse, or modify its original decision. Upon acceptance by the claimant of the decision of the department or if the claimant does not obtain judicial review as set out in (c) of this section, the department shall **make** [ISSUE] a **disbursement from** [WARRANT AGAINST] the proper appropriation for the sum the department finds due the claimant.

~~* Sec. 25. AS 44.99.205(a) is amended to read:~~

~~(a) A state agency may not place a picture of an elected state official on an application form [, A WARRANT,] or a direct deposit notice provided by the agency.~~

~~* Sec. 26. AS 44.99.205(b) is amended to read:~~

~~(b) A state agency may not place a message on or with an application form [, A WARRANT,] or a direct deposit notice provided by the agency unless the message is~~

~~(1) from a state agency employee who is not an elected state official; and~~

~~(2) required by law, necessary for the operation of the document, related to seasonal health issues including flu shot reminders, or related to a program or activity of a state agency.~~

delete Sec.s 25 and 26

* **Sec. 27.** AS 45.95.020(d) is amended to read:

(d) Money loaned shall be delivered to the borrower as provided in AS 37.25.050 [THE FORM OF A WARRANT DRAWN ON THE TREASURY], vouchered in the manner prescribed for state disbursing officers, and charged against the small business revolving loan fund. Each voucher shall be approved by the commissioner or a bonded deputy authorized to act as a certifying officer. Upon repayment of loans by installments, or otherwise, in accordance with the prescribed terms, or upon liquidation by foreclosure or other process, or upon receipt of interest, the money so received shall be turned over to the commissioner of revenue for deposit in the small business revolving loan fund.

* **Sec. 28.** AS 47.25.265 is amended to read:

Sec. 47.25.265. Cancellation of disbursements [WARRANTS]. (a) **Disbursements** [WARRANTS] issued to a general relief assistance recipient after the date of death of the recipient shall be [RETURNED TO THE DEPARTMENT OF ADMINISTRATION AND] canceled.

(b) General relief assistance **disbursements made** [WARRANTS ISSUED] before the death of the recipient but not **collected by the recipient before** [NEGOTIATED AT] death shall be [RETURNED TO THE DEPARTMENT OF ADMINISTRATION, AND SHALL BE] canceled, unless claimed by the authorized representative of the estate of the recipient within 90 days **after** [OF] the date of death.

(c) The state is not liable to the estate, heirs, or creditors of the deceased general relief assistance recipient for payment on **disbursements** [WARRANTS] canceled under (a) and (b) of this section.

* **Sec. 29.** AS 47.25.460(d) is amended to read:

(d) Each award shall be paid on a monthly basis. In case it is impracticable by reason of slow or interrupted means of communication for a **disbursement** [WARRANT] covering a month's assistance to reach the recipient in due course, the department may transmit **disbursements** [WARRANTS] covering assistance for future months and may deliver all of them to the recipient at one time.

* **Sec. 30.** AS 47.25.515 is amended to read:

Sec. 47.25.515. Cancellation of disbursements [WARRANTS]. (a)

Alaska State Senate

Senate Finance Committee

Official Business

Mail Stop 3100
State Capitol
Juneau, Alaska 99801-1182

FAX COVER SHEET

DATE: 7 May 2004 TIME: 9:35am

TO: Legal Services

NUMBER OF PAGES, INCLUDING COVER SHEET: 5

FROM: MINDY ROWLAND
SENATE FINANCE COMMITTEE SECRETARY
PHONE: 465-4935
FAX: 465-2187

NOTES: Final Please
SCS CS HB 494 (FIN)
23-LS1754\U.A
Plus 3 amendments - attached

Thx

mindy

SENATE CS FOR CS FOR HOUSE BILL NO. 494(FIN)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-THIRD LEGISLATURE - SECOND SESSION

BY THE SENATE FINANCE COMMITTEE

Offered:
Referred:

Sponsor(s): REPRESENTATIVES KOTT, Hawker, Foster, Meyer, Dahlstrom, Lynn, Seaton

A BILL

FOR AN ACT ENTITLED

"An Act relating to the methods of disbursement of money by the state, including employment compensation, unemployment payments, and permanent fund dividends, and to bank investments and deposits by the state; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* **Section 1.** AS 03.20.030(a) is amended to read:

(a) Each agricultural and industrial fair association desiring to apply for an operation and maintenance grant shall apply to the commissioner before August 1 of the year preceding the fiscal year for which the grant is sought. It shall submit with the application a planned program of operation and maintenance of the proposed fair, the rules and regulations governing the fair, and a certificate signed by the president and secretary of the association [,] certifying that the association will spend for the proposed fair [,] a sum of money from their own funds equal in amount to the benefits requested under this chapter. When satisfied that the association is entitled to receive state aid under the provisions of this chapter, the commissioner shall <u>make a</u>

<u>disbursement to</u> [HAVE A WARRANT DRAWN IN FAVOR OF] the association [,] in the sum to which it is entitled. The commissioner shall pay annually the sum to be paid under the provisions of this chapter.

* **Sec. 2.** AS 03.20.035(a) is amended to read:

(a) Each agricultural and industrial fair association desiring to apply for a capital improvement grant shall apply to the commissioner before August 1 of the year preceding the fiscal year for which the grant is sought. It shall submit with the application a proposed long-term capital improvement plan of the fair covering five years from the time the application is submitted, which shall be certified by the president and secretary of the association as having been reviewed and approved by the governing body of the association. When satisfied that the association is entitled to receive state aid under the provisions of this section, the commissioner shall **<u>make a disbursement to</u>** [HAVE A WARRANT DRAWN IN FAVOR OF] the association [,] in the sum to which it is entitled.

* **Sec. 3.** AS 08.48.061(c) is amended to read:

(c) The board may make expenditures from appropriated funds for any purpose that is reasonably necessary for the proper performance of its duties under this chapter. This may include the expenses of the board delegates to meetings of councils of architect examiners, engineering examiners, land surveyor examiners, or landscape architect examiners, or any of their subdivisions. The total amount of **<u>disbursements</u>** [WARRANTS] issued in payment of the expenses incurred under this chapter may not exceed the amount of money appropriated by the legislature.

* **Sec. 4.** AS 14.40.841 is amended to read:

Amend #1

Sec. 14.40.841. Alaska Aerospace Development Corporation [REVOLVING] fund. The Alaska Aerospace Development Corporation [REVOLVING] fund is established in the corporation. The [REVOLVING] fund consists of appropriations made to the [REVOLVING] fund by the legislature, and rents, fees, or other money or assets transferred to the [REVOLVING] fund by the corporation. Amounts deposited in the [REVOLVING] fund may be pledged to the payment of bonds of the corporation or expended for the purposes of the corporation under AS 14.40.821 - 14.40.990.

#1

*** Sec. 5.** AS 14.40.841 is amended by adding a new subsection to read:

(b) The corporation shall have custody of the fund and shall be responsible for its management. The corporation is the fiduciary of the fund under AS 37.10.071 and may invest amounts in the fund in accordance with an investment policy adopted by the corporation. Notwithstanding AS 37.10.010 - 37.10.050, the corporation may make disbursements from the fund in accordance with AS 37.25.050. Notwithstanding AS 37.05.130 and 37.05.140, the corporation shall report disbursements from the fund annually in accordance with AS 14.40.866(b)(1). An appropriation made to the fund by the legislature shall be transferred from the state treasury to the corporation for deposit in the fund.

*** Sec. 6.** AS 22.05.140(b) is amended to read:

(b) A salary **disbursement** [WARRANT] may not be issued to a justice of the supreme court until the justice has filed with the state officer designated to issue salary **disbursements** [WARRANTS] an affidavit that no matter referred to the justice for opinion or decision has been uncompleted or undecided by the justice for a period of more than six months.

*** Sec. 7.** AS 22.07.090(b) is amended to read:

(b) A salary **disbursement** [WARRANT] may not be issued to a judge of the court of appeals until the judge has filed with the state officer designated to issue salary **disbursements** [WARRANTS] an affidavit that no matter referred to the judge for opinion or decision has been uncompleted or undecided by the judge for a period of more than six months.

*** Sec. 8.** AS 22.10.190(b) is amended to read:

(b) A salary **disbursement** [WARRANT] may not be issued to a superior court judge until the judge has filed with the state officer designated to issue salary **disbursements** [WARRANTS] an affidavit that no matter referred to the judge for opinion or decision has been uncompleted or undecided by the judge for a period of more than six months.

*** Sec. 9.** AS 22.15.220(c) is amended to read:

(c) A salary **disbursement** [WARRANT] may not be issued to a district judge or magistrate until the judge or magistrate has filed with the state officer designated to issue salary **disbursements** [WARRANTS,] an affidavit that no matter referred to the judge or magistrate for opinion or decision has been uncompleted or undecided by the judge or magistrate for a period of more than six months.

* **Sec. 10.** AS 23.10.040(a) is amended to read:

(a) **Except as otherwise provided by AS 37.25.050, an** [AN] employer of labor performing services in this state shall pay the wages or other compensation for the services with lawful money of the United States or with negotiable checks, drafts, or orders payable upon presentation without discount by a bank or depository inside the state.

* **Sec. 11.** AS 23.20.135(a) is amended to read:

(a) The commissioner of revenue is ex officio the treasurer and custodian of the fund and shall administer it as directed by the department. **Disbursements** [CHECKS OR WARRANTS] shall be issued **from** [ON] the fund in accordance with **AS 37.25.050 and** the regulations that the department adopts. The fund has three separate accounts:

(1) a clearing account,

(2) an unemployment trust fund account, and

(3) a benefit account.

* **Sec. 12.** AS 23.20.145(b) is amended to read:

(b) The department shall from time to time requisition from the unemployment trust fund amounts not exceeding the amounts standing to the state's account in the fund **that** [WHICH] it considers necessary for the payment of benefits for a reasonable future period. Upon receipt of an amount the department shall deposit the money to the benefit account. A [CHECK OR WARRANT FOR THE] payment [OF BENEFITS] may be **made** [ISSUED] solely from the benefit account.

* **Sec. 13.** AS 23.20.145(c) is amended to read:

(c) If money in the clearing account is not sufficient to provide for refunds of contributions erroneously collected and payable under AS 23.20.225 and 23.20.526(a)(11), the department shall withdraw from the unemployment trust fund the amounts not exceeding the amount standing to this state's account in the fund **that** [WHICH] are necessary for the payment of the refunds, but no amounts may be withdrawn from the unemployment trust fund for the refund of interest and penalty payments. Upon receipt, the department, or the designee of the department, shall deposit this money to the clearing account. A [CHECK OR WARRANT FOR THE] payment of a refund shall be **made** [ISSUED] from the clearing account.

* **Sec. 14.** AS 23.20.145(d) is amended to read:

(d) Expenditures of the money in the benefit account and refunds from the clearing account are not subject to provisions of law requiring specific appropriations or other formal release by state officers of money in their custody. [ALL CHECKS OR WARRANTS ISSUED BY THE STATE FOR THE PAYMENT OF BENEFITS AND REFUNDS SHALL BEAR THE SIGNATURE OF THE COMMISSIONER OF ADMINISTRATION AND COUNTERSIGNATURE OF THE AUTHORIZED AGENT OF THE DEPARTMENT FOR THAT PURPOSE.]

* **Sec. 15.** AS 26.15.040(d) is amended to read:

(d) Money loaned shall be **disbursed** [DELIVERED] to the borrower **from** [IN THE FORM OF A WARRANT DRAWN ON] the treasury, vouchered in the manner prescribed for state disbursing officers, and charged against the Alaska World War II veterans' revolving fund. Each voucher shall be approved by the commissioner of community and economic development or any bonded deputy authorized to act as a certifying officer. Upon repayment of loans by installments, or otherwise, in accordance with the prescribed terms, or upon liquidation by foreclosure or other process, or upon receipt of interest, the money so received shall be turned over to the commissioner of revenue for deposit in the Alaska World War II veterans' revolving fund.

* **Sec. 16.** AS 34.45.720(c) is amended to read:

(c) AS 34.45.110 - 34.45.780 do not apply to a **disbursement** [WARRANT] for the payment of a permanent fund dividend.

* **Sec. 17.** AS 37.10.075(d) is amended to read:

(d) The Department of Revenue may deposit funds in banks inside or outside the state without requiring those banks in which the funds are deposited to pay interest on the deposits. It is the intention of the legislature that the department may compensate the banks for **handling** [CLEARING] state **disbursements**

[WARRANTS] in a manner determined by the commissioner of revenue to be in the best interests of the state.

* **Sec. 18.** AS 37.10.078 is amended to read:

Sec. 37.10.078. Prohibited deposits and investments in certain banks. The commissioner of revenue may not make investments or deposits with a bank doing business in Alaska that has a general practice of

(1) charging a fee for **handling disbursements** [CASHING CHECKS OR WARRANTS] issued by the state**;** or

(2) refusing to **handle disbursements** [CASH CHECKS OR WARRANTS] issued by the state.

* **Sec. 19.** AS 37.10.100(b) is amended to read:

(b) **If** [HOWEVER IF] the sum recovered **as described in (a) of this section** belongs to a city, school district, or municipal government, the sum shall be transferred to it, less sums advanced by the state in the suit [,] and not already repaid to it. The Department of Administration may **disburse** [PAY] to the city, school district, or municipal corporation the sums belonging to it [, UPON WARRANTS DRAWN AS PROVIDED BY LAW]. The **disbursements** [WARRANTS] must be based upon vouchers approved by the attorney general.

* **Sec. 20.** AS 37.25 is amended by adding a new section to read:

Sec. 37.25.050. Methods of disbursement. (a) Except as provided in (b) of this section, unless federal law requires otherwise, a state agency may not disburse money unless the disbursement is made

(1) by an electronic funds transfer to an account in a financial institution; or

(2) from an account established by the state agency by contract with a financial institution under which a person uses an electronic payment card issued by the financial institution to access the money.

(b) A state agency is not required to use the disbursement methods described in (a) of the section if

(1) another state law or federal law requires that disbursement be made by another disbursement method;

(2) use of the disbursement methods would cause substantial hardship to the recipient of the disbursement;

(3) not more than five disbursements will be made to a recipient, or, on average, to each recipient entitled to disbursement under the program for which the disbursements are made;

(4) a vendor or grantee elects not to be paid by the disbursement methods; #2

(5) the disbursement is to a state employee and

(A) is the only disbursement that the state agency will make to the employee for the employment; or

(B) it is in the best interests of the state agency or the employee to use another disbursement method to pay the employee; or

(6) use of another disbursement method is in the best interests of the state agency.

(c) The commissioner of administration shall adopt regulations to implement (b) of this section.

(d) A state agency is not liable to pay a fee imposed by a recipient's financial institution for a disbursement made under (a) of this section.

(e) In this section,

(1) "disbursement" includes wages and other employment benefits;

(2) "state agency" means a department, institution, board, commission, division, authority, public corporation, committee, or other administrative unit of the executive branch of state government, including the University of Alaska.

*** Sec. 21.** AS 43.20.030(e) is amended to read:

(e) The department may credit or refund overpayments of taxes, taxes erroneously or illegally assessed or collected, penalties collected without authority, and taxes that are found unjustly assessed or excessive in amount, or otherwise wrongfully collected. The department shall set limitations, specify the manner in which claims for credits or refunds are made, and give notice of allowance or disallowance. When a refund is allowed to a taxpayer, it shall be paid out of the general fund **by a disbursement** [ON A WARRANT] issued under a voucher approved by the department.

* **Sec. 22.** AS 43.23.028(a) is amended to read:

(a) By October 1 of each year, the commissioner shall give public notice of the value of each permanent fund dividend for that year and notice of the information required to be disclosed under (3) of this subsection. In addition, the stub attached to each individual dividend **disbursement** [CHECK AND DIRECT DEPOSIT] advice must

(1) disclose the amount of each dividend attributable to income earned by the permanent fund from deposits to that fund required under art. IX, sec. 15, Constitution of the State of Alaska;

(2) disclose the amount of each dividend attributable to income earned by the permanent fund from appropriations to that fund and from amounts added to that fund to offset the effects of inflation;

(3) disclose the amount by which each dividend has been reduced due to each appropriation from the dividend fund, including amounts to pay the costs of administering the dividend program and the hold harmless provisions of AS 43.23.075;

(4) include a statement that an individual is not eligible for a dividend when

(A) during the qualifying year, the individual was convicted of a felony;

(B) during all or part of the qualifying year, the individual was incarcerated as a result of the conviction of a

(i) felony; or

(ii) misdemeanor if the individual has been convicted of a prior felony or two or more prior misdemeanors;

(5) include a statement that the legislative purpose for making individuals listed under (4) of this subsection ineligible is to

(A) obtain reimbursement for some of the costs imposed on the state criminal justice system related to incarceration or probation of those individuals;

(B) provide funds for services for and payments to crime victims and for grants for the operation of domestic violence and sexual assault programs;

(6) disclose the total amount that would have been paid during the previous fiscal year to individuals who were ineligible to receive dividends under AS 43.23.005(d) if they had been eligible;

(7) disclose the total amount appropriated for the current fiscal year under (b) of this section for each of the funds and agencies listed in (b) of this section.

* **Sec. 23.** AS 43.23.055(8) is amended to read:

(8) adopt regulations that establish procedures for an individual to apply to have a dividend **disbursement under AS 37.25.050(a)(2)** [WARRANT] reissued if it is [RETURNED TO THE DEPARTMENT AS UNDELIVERABLE OR IT IS] not **collected** [PAID] within two years **after** [OF] the date of its issuance; however, the department may not establish a time limit within which an application to have a **disbursement** [WARRANT] reissued must be filed;

* **Sec. 24.** AS 43.40.070 is amended to read:

Sec. 43.40.070. Refund disbursements [WARRANTS]. Upon approval of a refund claim by the department, a **disbursement** [WARRANT] shall be **made from** [DRAWN ON] the highway fuel tax account in the general fund in favor of the applicant in the amount of the claim.

* **Sec. 25.** AS 44.21.040(a) is amended to read:

(a) The Department of Administration shall keep books of account in permanent form of the claims presented and of the **disbursements made** [WARRANTS DRAWN]. These records must show

(1) the name of the claimant**;** [,]

(2) the amount of the claim**;** [,]

(3) the date of its presentation**;** [,]

(4) the date of its allowance or disallowance**;** [,]

(5) the date and number of each **disbursement made;** [WARRANT DRAWN ,]

(6) the name of the payee **;** [,] and

(7) the appropriation **<u>from</u>** [AGAINST] which the **<u>disbursement</u>** [WARRANT] is **<u>made</u>** [DRAWN].

* **Sec. 26.** AS 44.77.040(b) is amended to read:

(b) The department, after the hearing, may affirm, reverse, or modify its original decision. Upon acceptance by the claimant of the decision of the department or if the claimant does not obtain judicial review as set out in (c) of this section, the department shall **<u>make</u>** [ISSUE] a **<u>disbursement from</u>** [WARRANT AGAINST] the proper appropriation for the sum the department finds due the claimant.

#3 deleted two sections

* **Sec. 27.** AS 45.95.020(d) is amended to read:

(d) Money loaned shall be delivered to the borrower **<u>as provided</u>** in **<u>AS 37.25.050</u>** [THE FORM OF A WARRANT DRAWN ON THE TREASURY], vouchered in the manner prescribed for state disbursing officers, and charged against the small business revolving loan fund. Each voucher shall be approved by the commissioner or a bonded deputy authorized to act as a certifying officer. Upon repayment of loans by installments, or otherwise, in accordance with the prescribed terms, or upon liquidation by foreclosure or other process, or upon receipt of interest, the money so received shall be turned over to the commissioner of revenue for deposit in the small business revolving loan fund.

* **Sec. 28.** AS 47.25.265 is amended to read:

Sec. 47.25.265. Cancellation of <u>disbursements</u> [WARRANTS]. (a) **<u>Disbursements</u>** [WARRANTS] issued to a general relief assistance recipient after the date of death of the recipient shall be [RETURNED TO THE DEPARTMENT OF ADMINISTRATION AND] canceled.

(b) General relief assistance **<u>disbursements made</u>** [WARRANTS ISSUED] before the death of the recipient but not **<u>collected by the recipient before</u>** [NEGOTIATED AT] death shall be [RETURNED TO THE DEPARTMENT OF ADMINISTRATION, AND SHALL BE] canceled, unless claimed by the authorized representative of the estate of the recipient within 90 days **<u>after</u>** [OF] the date of death.

(c) The state is not liable to the estate, heirs, or creditors of the deceased general relief assistance recipient for payment on **<u>disbursements</u>** [WARRANTS] canceled under (a) and (b) of this section.

* **Sec. 29.** AS 47.25.460(d) is amended to read:

(d) Each award shall be paid on a monthly basis. In case it is impracticable by reason of slow or interrupted means of communication for a **<u>disbursement</u>** [WARRANT] covering a month's assistance to reach the recipient in due course, the department may transmit **<u>disbursements</u>** [WARRANTS] covering assistance for future months and may deliver all of them to the recipient at one time.

* **Sec. 30.** AS 47.25.515 is amended to read:

Sec. 47.25.515. Cancellation of <u>disbursements</u> [WARRANTS]. (a) **<u>Disbursements</u>** [WARRANTS] issued to a recipient of assistance under AS 47.25.430 - 47.25.615 after the date of death of the recipient shall be [RETURNED TO THE DEPARTMENT OF ADMINISTRATION AND] canceled.

(b) Assistance **<u>disbursements</u>** [WARRANTS] issued before the death of the recipient but not **<u>collected before</u>** [NEGOTIATED AT] death shall be [RETURNED TO THE DEPARTMENT OF ADMINISTRATION, AND SHALL BE] canceled, unless claimed by the authorized representative of the estate of the recipient within 90 days **<u>after</u>** [OF] the date of death.

(c) The state is not liable to the estate, heirs, or creditors of the deceased assistance recipient for payment on **<u>disbursements</u>** [WARRANTS] canceled under (a) or (b) of this section.

* **Sec. 31.** Sections 4 and 5 of this Act take effect July 1, 2004. #1

* **Sec. 32.** Except as provided by sec. 31 of this Act, this Act takes effect January 1, 2006.

Alaska State Legislature

Session: (Jan-May)
State Capitol, Room 208
Juneau, AK 99801-1182
(907) 465-3777
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Speaker of the House

SPONSOR STATEMENT

CSHB 494

"An Act relating to the methods of disbursement of money by the state, including employment compensation, unemployment payments, and permanent fund dividends, and to bank investments and deposits by the state; and providing for an effective date."

CSHB 494 makes necessary changes to the methods of how the State of Alaska disburses funds. This chang will save the state costs of issuing checks and warrants and resolve issues pertaining to time of disbursement and undistributed collections.

Currently, the state issues approximately 96,500 checks and warrants per month:

Unemployment Insurance Benefits:	28,000
Division of Finance to vendors & non-venders:	50,000
Child Support recipients:	13,000
PERS & TERS Retirees:	2,500
Payroll-Active employees	3,000

This legislation has the potential of saving the State of Alaska considerable funds when factoring in the reduction of check fraud, reissuing of lost or stolen checks, postage, check printing cost, reduced bank service fees, and reduced labor cost.

In addition, this would benefits businesses and citizens who receive funds direct deposit vs. mail delivery, no check cashing fees, reduces liability of check fraud, and customers may use Electronic Payment Cards like debit/credit card at businesses.

ELECTRONIC DISBURSEMENT OPTIONS

White Paper

Version 1.0

November 2003

ELECTRONIC DISBURSEMENT OPTIONS WORK GROUP
ELECTRONIC BENEFITS AND SERVICES COUNCIL

NACHA – THE ELECTRONIC PAYMENTS ASSOCIATION

Provided by Rep. Kott

TABLE OF CONTENTS

Electronic Disbursement Options White Paper

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E-DO Work Group
Electronic Benefits and Services Council

NACHA – The Electronic Payments Association
November 2003

I. PREFACE

A. Purpose and Scope

This paper describes the electronic disbursement options available to government agencies that disburse payments to citizens. This paper is primarily intended for state governments and may also provide useful information to federal and local governments.

Government agencies face increasing pressure to reduce costs while simultaneously improving service delivery to the public. Agencies can gain significantly by adopting electronic payment delivery. The high cost of issuing paper checks has already resulted in a dramatic increase in the use of Electronic Funds Transfer (EFT) to deliver payments. (EFT is any transfer of funds that is initiated through an electronic terminal, telephone, computer, or magnetic tape for the purpose of ordering, instructing, or authorizing a financial institution to debit or credit an account.) Direct Deposit, the primary example of EFT, provides a low-cost way to disburse payments. However, while Direct Deposit is the disbursement option of choice, it does not work for so-called "cash consumers" (i.e., consumers who do not have a bank account) or for consumers who do not sign up for Direct Deposit. To reach these recipients, states and the federal government have created new financial products, such as Electronic Benefits Transfer (EBT) cards and Electronic Transfer Accounts (ETA℠). Association-branded cards (Visa® and MasterCard®) have also been introduced and have recently gained rapid acceptance in the child support community.

This paper outlines the options for states to assist cash consumers in receiving electronic disbursements and discusses the features and capabilities for each option. The paper focuses specifically on the following disbursement options, with particular attention to card-based options:

- Direct Deposit
- EBT
- Electronic Payment Cards (EPCs), including Visa's Prepaid Card and the Prepaid MasterCard™ Card

This paper also describes the implementation considerations, costs, benefits, and challenges some government agencies have encountered in putting these options to work. The goal of this paper is to provide decision-makers, such as state controllers, treasurers, and high-level program managers, with the information they need to assess the available options and choose the best one for their applications.

B. Background

Federal, state, and local governments are responsible for issuing a large proportion of the recurring payments made to individuals today. In most cases, government agencies deliver cash benefits to their recipients, but some agencies serve as a trustee, passing payments such as child support from one party to another. Traditionally, these payments have been made in the form of a paper check or warrant, but recently the number that are delivered electronically using the Automated Clearing House (ACH) Network has increased substantially.

Government agencies are under tremendous pressure to cut costs while ensuring the identity of the payee and increasing the convenience, security, and timeliness of payment delivery. The cost of achieving these goals using paper checks has increased substantially in recent years, due primarily to the exponential growth of check fraud. To combat check fraud, banks and their customers now rely heavily on technology, for which consumers often foot the bill through check-cashing fees. As a result, the use of EFT has increased markedly. EFT is simpler to implement than the controls necessary to issue checks safely. It offers payees a quick, secure way to receive payments, while payers benefit from low cost.

Recent figures provided by the U.S. Department of the Treasury's Financial Management Service (FMS) demonstrate the cost savings that can be achieved by using ACH rather than checks. FMS issued almost 253 million checks during fiscal year 2002, at a unit cost of $0.745. FMS has determined the cost of an ACH disbursement to be $0.126, for a savings of $0.62.

Using checks is not only more expensive than using ACH, it also requires a high degree of human intervention to manage exceptions, which is time consuming, sometimes complex, and difficult to quantify. Check exception activities include checks returned as undeliverable, stale-dated or lost checks, and fraud (stolen, forged, counterfeit checks). The move away from checks to electronic delivery is cost-effective and provides additional benefits to both the payer and payee.

Today, consumers also have to wait for the mail to deliver their checks which may take 3 to 5 days. The consumer must then find a place to cash the check. Many custodial parents, for example, must go to a check-cashing location where fees between $5 and $10 may be charged. Electronic disbursement minimizes the interval between collection of funds and receipt of funds. In addition, the consumer usually can access the funds at many bank branches with, in many cases, no charge to the consumer.

Table 1 summarizes some costs of paper checks and payroll check exceptions.

Table 1: Some Costs of Paper Checks[1]

• Americans without bank accounts spend roughly $8 billion annually in check cashing and other financial services.
• Four million payroll checks are lost or stolen every year.
• Generating replacement checks and checks for the exception pay costs employers an average of $8 to $10 per check.
• Tracking and escheating[2] unclaimed paychecks is a difficult, costly, and inefficient process for employers.

Organizations are making significant progress in moving to electronic disbursements. Private employers have made impressive headway implementing payroll Direct Deposit and FMS succeeded in disbursing nearly 74 percent of its payments electronically during federal fiscal year 2002. The Food Stamp Program now delivers 95 percent of its non-cash benefits electronically using EBT cards that are issued to recipients. However, the overall percentage of cash benefits and other payments delivered electronically remains low. For example, it is estimated that only about 25 percent of child support payments nationally are disbursed electronically.[3]

One issue that has prevented government agencies from delivering more payments electronically is that authorizing Direct Deposit to a consumer-owned asset account remains a voluntary choice for the consumer; many consumers simply do not get around to a Direct Deposit authorization. Another issue is the number of cash consumers without bank accounts. According to the 2001 Survey of Consumer Finances, 9 percent of families do not have any type of transaction account and 12.7 percent do not have a checking account.[4] During the last decade, the government has made notable strides in delivering more payments electronically, especially to people without bank accounts. The federal government has sought to solve this problem by working with the financial industry to create the Electronic Transfer Account (ETA)[5].

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[1] Source: Visa USA, Inc., from "Payroll Cards: An Innovative Product for Reaching the Unbanked and Underbanked," Comptroller of the Currency white paper, October 2003.

[2] "Esheating" refers to state laws that provide that the state is entitled to certain types of abandoned property left in the hands of third parties after a specified period. Such property is said to "escheat" to the state. Deposit accounts are subject to escheat; banks, including national banks, are required in most states to file reports on escheated accounts.

[3] Based on an informal survey of State Disbursement Unit officials (child support) in 38 states, each state's EFT percent was applied to that state's "child support collections distributed to families" (OCSE, FFY 2001 statistics) to approximate the national percent (24.72 percent). A total of $16.6 billion in child support payments was distributed to families nationally during federal fiscal year 2002.

[4] *Recent Changes in the U.S. Family Finances: Evidence from the 1998 and 2001 Survey of Consumer Finances*, Ana M Aizcorbe, et al., Federal Reserve Bulletin, January 2003.

[5] An ETA is a low-cost account offered at federally insured financial institutions for recipients of federal payments. The ETA was developed by the U.S. Department of the Treasury to allow such recipients to access an account at reasonable cost and with the same consumer protections as other account holders at the same financial institution. The ETA is not discussed in any detail in this paper since it is limited to recipients of federal payments.

The banking community has recently developed a promising new product with low operating costs: an association- and network-branded card-based instrument with no credit history qualification requirement for the consumer. The Visa Prepaid Card and the Prepaid MasterCard Card are two examples of this product. The product, called an Electronic Payment Card (EPC) in this paper, operates on the existing commercial automated teller machine (ATM) and point-of-sale (POS) networks, offering worldwide access to cash and the purchase of goods and services. (The term EPC is used only for convenience in this paper; its use is in no way intended to establish an industry term.) EPCs closely resemble payroll cards currently used by employers. EPCs are gaining rapid acceptance among state government agencies. Some are backed by consumer-owned asset accounts (i.e., bank accounts), while some are not. Several states have used this product to deliver child support payments[6]; others are in the process of using it for other cash benefits, such as unemployment insurance.

It should be noted that these EPC services are so new to the market that features, commercial terms and governing regulatory environment are in flux. For example, the Federal Reserve Board has yet to determine the extent of current banking regulations that would apply to them. Financial institutions offering them might also alter their services or features in the near future. As a result, this paper can only describe these cards as they exist and are used today. These cards could have significantly different characteristics in a year.

This paper focuses on disbursement options available to governments. While a government transmits the payment to an EPC via Direct Deposit, EPCs are included in the *Card-Based Disbursement Options* section, instead of in the *Consumer Asset Accounts* section. Direct Deposit is not an option for a person without a bank account. If a government wants to make an electronic payment to a recipient without a bank account, its options are EBT cards and EPCs.

Card-based products—both EBT cards and EPCs—have stimulated the recent growth in electronic payments. EBT cards and EPCs offer access to benefits and/or cash, goods, and services with no qualification required on the part of the cardholder. They offer a high level of security to all stakeholders and protect the cardholder from the potential overdraft costs and negative credit ratings associated with checking accounts. Government agencies have used these cards to deliver payments electronically to recipients without bank accounts as well as to those recipients who do not sign up for Direct Deposit.

However, while there are compelling reasons to use cards, government agencies must consider tradeoffs and potential barriers. Such tradeoffs include a reduction in float on funds (e.g., resulting from the time involved in the check clearing process) and the potential to lose track of the cardholder's address. Agencies may face barriers such as reluctance on the part of payees to let go of the tangible paper check, the perception that disbursement costs are being shifted to the payee or that bank accounts are being forced upon the constituency, or difficulty in issuing the card to the payee due to the involvement of a third party, such as a private child support agency.

6 As of the writing of this paper, 9 states (Colorado, Connecticut, Georgia, Iowa, Idaho, Indiana, Maryland, Minnesota, and Washington) and Puerto Rico have or are planning programs to disburse child support payments using EPCs. Descriptions of the Colorado and Maryland programs can be found in Appendix A.

Agencies that have implemented these products demonstrate that the result is worthwhile if time is taken to consider the tradeoffs carefully and invest in the education necessary to overcome the barriers.

II. OPTIONS FOR ELECTRONIC DISBURSEMENT

A. Consumer Asset Accounts

As defined by Federal Reserve Board Regulation E (Reg E), account means a demand deposit (checking), savings, or other consumer asset account (other than an occasional or incidental credit balance in a credit plan) held directly or indirectly by a financial institution and established primarily for personal, family, or household purposes. One of the most popular types of bank accounts by far is the demand deposit account.

Traditional demand deposit accounts typically include numerous features: the ability to write checks, use a bank teller, have access to an ATM, and receive a monthly statement.

Fees are associated with some of these features, with fees varying among institutions. Some institutions charge a maintenance fee or a flat monthly fee, regardless of account balance. Others may charge a monthly fee if the minimum balance in the account drops below a certain amount any day during the month, or if the average balance for the month drops below the specified amount. Some charge a fee for every transaction, such as for each check written or each ATM withdrawal. Many financial institutions impose a combination of these fees.

1. Benefits of Demand Deposit Accounts

Consumers with traditional demand deposit accounts can benefit from the ACH Network. The ACH is a processing and delivery system that provides for the distribution and settlement of electronic credits and debits among financial institutions. The ACH was developed as an efficient electronic alternative to checks. The alternative discussed in this paper is Direct Deposit.

Direct Deposit is the electronic transfer of funds from a company or organization to the checking or savings account of an employee, retiree, vendor, or shareholder. The most common use of Direct Deposit is for payroll, but Direct Deposit can also be used for annuities, bonuses and commissions, dividend and interest payments, pensions, benefit payments from the federal and state governments, and travel expense reimbursements.

More than half of all American employees (55 percent) receive their pay using Direct Deposit, and the use of Direct Deposit continues to grow. In 2002, more than 40 million consumers used Direct Deposit to receive their tax refunds.

A Direct Deposit payment can be divided among several different accounts and, in many cases, between different financial institutions. Direct Deposit is the safe, reliable, and confidential way to make a payment. Employers offer Direct Deposit as a free service to their employees at minimal cost to the employer (just a few cents per transaction).

For more information on Direct Deposit, visit http://www.directdeposit.org/.

2. Challenges of Demand Deposit Accounts

There are several challenges that are presented by demand deposit accounts.

Some consumers are skeptical about the security of their money in a financial institution. However, contrary to popular belief, a financial institution is one of the safest places to deposit money, since an account is FDIC-insured for up to $100,000 per depositor.

Another challenge of demand deposit accounts is that they can be overdrawn. Financial institutions are permitted to impose fees for any overdrawn account.

Financial institutions also have the right to screen any consumer who applies for a bank account, regardless of the type of account. There is no guarantee that a consumer will be approved.

One additional challenge is that in the child support community, a third-party agency may be the payee recipient of a payment made on behalf of the parent receiving child support. Private Child Support Enforcement Agencies (PCSEAs) obtain a power of attorney from the parent receiving child support to receive payments from State Disbursement Units. PCSEAs then retain their fee and pass the remainder of the child support collection to the parent. State agencies implementing Direct Deposit for the payment of child support to parents who have contracted with a PCSEA should be aware of the additional information needed by the PCSEA to identify the non-custodial and custodial parent for each payment.[7] Third parties typically have multiple clients in each state (the largest has over 30,000 clients nationwide), and it would be impossible to identify the custodial parent to whom the funds belong if the only information provided is the name of the state disbursing the funds. Identification of the non-custodial parent is important as well. If a custodial parent receives child support payments from more than one non-custodial parent, the third party must determine whether the payment is from the non-custodial parent from whom the third party is trying to collect.

3. Legal Framework for Demand Deposit Accounts

The ACH process is bound from beginning to end by a series of legal agreements. The *NACHA Operating Rules* is the primary document addressing the rules and regulations for the

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[7] This requires the state agency to use either the CCD+ or CTX formats in order to include the DED (deduction) data segment that specifies payment-related information for child support payment deductions (Child Support Banking Convention). Cash Concentration and Disbursement/Plus (CCD) and CCD+ formats are used to initiate a credit or debit entry by an organization to consolidate funds of that organization from its branches, franchises or agents, or from other organizations, or to fund the accounts of its branches, franchises or agents, or of another organization. A CCD+ carries one addenda record with 80 characters of additional payment-related information. The Corporate Trade Exchange (CTX) format is used to initiate a credit or debit entry by an organization to effect a transfer of funds to or from the account of that organization or another organization and accompanied by remittance information formatted in accordance with ANSI ASC X12.5 and X12.6 syntax. The CTX is a NACHA format for use in the ACH payment system. Remittance information carried in the CTX must be formatted in a syntactically correct ANSI ASC X12 transaction set containing a BPR or BPS data segment.

commercial ACH Network. The *NACHA Operating Rules* set out the rights and responsibilities of parties to ACH transactions.

Federal government ACH payments are controlled by the provisions of Title 31 Code of Federal Regulations Part 210 (31 CFR Part 210). FMS is the agency responsible for establishing the federal government's ACH policy. 31 CFR Part 210 was revised in 1999 to reflect the federal government's adoption of the *NACHA Operating Rules* as the rules governing federal government payments. At that time, 31 CFR Part 210 exempted 11 specific provisions of the *NACHA Operating Rules* for which special rules have been established as a matter of federal law. As new NACHA rules are implemented, the Treasury Department determines whether to adopt them as part of 31 CFR Part 210. FMS also publishes *The Green Book*, a procedural manual for federal government ACH payments.

Other laws that have a direct bearing on ACH operations are the Uniform Commercial Code Article 4 (which governs check transactions) and Article 4a (which governs wholesale EFT credit transactions), and the Electronic Funds Transfer Act (EFTA) as implemented by Reg E. The EFTA establishes the rights, liabilities, and responsibilities of participants in electronic funds transfer systems. Reg E protects the rights of consumers in their dealings with these systems. Reg E applies to any EFT that authorizes a financial institution to debit or credit a consumer's account. Reg E protection includes monthly statements, access through conventional ACH processing, full EFT network access, and access to mainstream services.

Certain other activities related to ACH payments are affected by the Right To Financial Privacy Act, Regulation D Regarding Reserve Requirements, Regulation CC Regarding Funds Availability, and other regulatory agency directives. Relationships between consumers and their banks are generally governed by Reg E and the *NACHA Operating Rules*.

Direct Deposit, Direct Payment, TEL transactions, and WEB transactions are subject to the requirements of the *NACHA Operating Rules*, the EFTA, and Reg E.

To learn more about the *NACHA Operating Rules* visit http://pubs.nacha.org/.

B. Card-Based Disbursement Options

1. Overview of Primary Card-Based Options

Cards have been used for decades to initiate financial transactions. Cards are safe and convenient, and association-branded (Visa and MasterCard) cards can be used in millions of locations worldwide.

The two leading candidates for card-based electronic disbursement are EBT cards and EPCs.

a. Electronic Benefits Transfer Cards

EBT is the electronic delivery of government services and payments. Instead of giving beneficiaries food stamp coupons or paper checks, state governments provide them with a debit-type card that gives them access to their benefits. Given government restrictions on the Food Stamp Program, EBT is the only electronic option for delivering food stamp benefits. As of this writing, 95 percent of food stamp benefits are being delivered using EBT, and in September 2003, the federal government shredded all remaining food stamp coupons. Most states also use EBT to deliver cash benefits.

EBT cards are not tied to a consumer asset account. The cards can be used at POS terminals at grocery stores and non-food stores and at ATMs that bear the QUEST® Mark or a state mark. EBT transactions are initiated using a personal identification number (PIN; see discussion below, under Electronic Payment Cards).

States maintain close oversight of EBT programs. They maintain administrative terminals to monitor the program and receive detailed reports from their EBT contractors.

b. Electronic Payment Cards

Government agencies can also employ EPCs to disburse government funds. As with EBT cards, governments contract with a service provider for card issuance. To date, states have contracted with a bank to issue a card bearing the Visa or MasterCard mark, but other EPCs are issued by service companies and do not necessarily display a card association mark. The Visa and MasterCard branded cards can be used like other debit cards at any ATM or merchant that accepts that card.

As used in this report, EPC describes two types of cards. One type, the prepaid card, is tied to an aggregated account rather than to a cardholder's consumer asset account. The other type, an account-based EPC, is tied to a cardholder's consumer asset account. Different consumer protections may apply to the two types of EPCs. For example, the Federal Reserve Board is reviewing whether Reg E protections extend to EPCs and prepaid cards in general. Reg E coverage currently does not apply to prepaid cards. Since account-based EPC cards are tied to an individual consumer asset account, Reg E protections may already extend to this type of card. Whether Reg E protections apply to cards that are tied to an aggregated account is less clear.

States conduct little oversight over EPCs. As with Direct Deposit programs, the states' involvement is largely complete once it has transmitted a payment to the card issuer.

This paper views disbursement options from a government's perspective. Direct Deposit is only available to a government when a consumer has a bank account and chooses to authorize Direct Deposit. If the consumer does not have a bank account, the only electronic options open to a government are card-based options – EBT cards and EPCs. Thus, EPCs are addressed in this section, *Card-Based Options*, instead of in the *Consumer Asset Accounts* section of this paper, even though funds are transmitted to EPCs via Direct Deposit.

There are two ways for a cardholder to authorize an EPC transaction: a PIN or a signature. To authorize a transaction "online" using a PIN, the cardholder keys in a PIN on a PIN pad at the point-of-sale. Funds are immediately debited from the cardholder's account. The card issuer charges the merchant a fee (typically $0.10 to $0.30). This is a comparatively low-cost transaction for the merchant. PIN-based cards can be used at both merchant POS locations and ATMs. To authorize a transaction "offline" using a signature, the cardholder signs a paper receipt or electronic signature pad. Funds are not immediately debited from the cardholder's account but instead run through credit card networks. The merchant is charged a transaction fee that is a percentage of the total purchase amount. For merchants, this is a more costly transaction than a PIN-based transaction. Signature-based cards cannot be used at ATMs unless a PIN is assigned at the time of issuance.

c. Disbursements to Third Parties

It is also important to note that while cards are suitable for most disbursements, they are not viable when a third party is involved. In the child support community, a third-party agency (PCSEA) may receive a payment made on behalf of the parent receiving child support. PCSEAs obtain a power of attorney from the parent receiving child support to receive payments from State Disbursement Units. PCSEAs then retain their fee and pass the remainder of the child support collection to the parent. States that intend to pursue a mandatory EFT (card-based) program should be sure their systems allow for exceptions for payments to third parties.

2. Electronic Benefits Transfer Cards

a. Introduction

EBT was devised in the late 1980s to meet the needs of the Food Stamp Program and, optionally, some cash programs under the Administration for Families and Children. Its initial purpose was to transfer value electronically from the government to eligible recipients under certain entitlement and grant programs. During the early 1990s, several states successfully developed and implemented EBT projects and in 1996, EBT was federally mandated to be the benefit distribution method for all food stamp programs nationwide by the year 2002. Consequently, all 50 states, Puerto Rico, the Virgin Islands, and Guam now have or soon will have an operational EBT program. More than 10 million households regularly use an EBT card.

The basic requirements for a food stamp EBT program are found in the Federal Code of Regulations 7 CFR 274.12. All programs must conform to these requirements to be certified by the Food and Nutrition Service (FNS) and be usable for the distribution of Food Stamp Program benefits. Operating within the basic requirements for food stamps, states are allowed significant latitude in how they choose to implement EBT and in how they define the program content. Some states choose to implement a food-stamp-only program, while others choose to add certain cash programs to their EBT infrastructure.

As EBT has evolved, its merits over paper-based distribution for cost effectiveness, user acceptability, and program management have become apparent. States are now experimenting with an increasing number of value-transfer programs and are considering EBT the enabling platform for other citizen-to-government interactions (called "electronic service delivery" or ESD), in which the EBT card is used to verify participant identity but does not support an exchange of value. Examples of value-transfer programs that have used EBT infrastructure include child support payments, Women, Infants, and Children (WIC) benefits, energy assistance programs, and other state-sponsored aid programs such as general assistance. Examples of ESD include Medicaid eligibility and subsidized day care time and attendance.

The list of potential candidates for incorporation into an EBT-like program is extensive. Any time government uses a paper-based product (i.e., a check or a warrant) to transfer value to citizens (or accept value from citizens), there is a significant value proposition for accomplishing that transfer electronically. As a general strategy, EBT is most effective as a payment solution when the value transfer involves requirements specific to program policy or unique recipient needs that differentiate it from a simple payment product. Government specifies the characteristics of the EBT account, including access protocols. Government therefore has significant control over EBT and can impose policy restrictions or value-added design features as needed.

The government-specific features built into EBT should be considered in evaluating EBT as a solution for a specific payment process. Many or all of these features may not be needed for most mainstream electronic payments. Another consideration is the difficulty of commingling different cash payments within the same EBT cash "account[8]." When some payments require the unique EBT features and some do not, the result may be overly expensive, overly restrictive, or overly complex.

b. Card Characteristics and Features

One fundamental requirement for EBT is that, to the extent possible, the transfer should use the existing payment system infrastructure and closely resemble a private-sector consumer payment. EBT households are issued a magnetic stripe debit card secured by a PIN known only to the cardholder. This product is identical in look and technology to any bank-issued ATM or POS debit card. (This discussion does not include smart card strategies.) The card is linked to a centralized benefit record that reflects the cardholder balance. The records are typically held in a centralized database by an issuing processor under contract to the state government to provide EBT services.

i. Account structure

Government provides an EBT account to recipients of certain government benefits, generally by contracting with a third party entity to provide account management and transaction processing services. Consequently, government, within the overarching mandates of payment system processing, dictates the characteristics of the account. An EBT account is mandatory for the receipt of Food Stamp Program benefits.

Most EBT household accounts are divided into a food stamp account and a cash account. (A WIC account may also be included.) The EBT debit card is linked to all account types held by the household. That is, if the household has only food stamp benefits, the card is linked only to a food stamp account. If the household has both food stamps and cash, the card can be used to access benefits from both account types. However, one redemption transaction can only access benefits from one account type (e.g., a cash transaction cannot access benefits from a food stamp account).

EBT account structures and processing requirements are one of the major differentiators between EBT and other payment products. EBT accounts contain features imposed by government to satisfy program policy and meet the needs of a payment system.

Unique EBT account management features include the following:

- Multiple independent account types for a single household. The "day-of-draw" settlement process is separate for each account type (e.g., the food stamp settlement is separate from cash). Each account type has unique balances. In addition, transaction

[8] This white paper uses the term EBT "account" for descriptive purposes. In EBT card programs, cardholders do not have a consumer-owned asset account. EBT cards are linked to a benefit record in a database that reflects the cardholder balance.

processing is specific to each account type (e.g., a food stamp transaction may not access benefits in a cash account).

- Client account management at the individual grant (deposit) level. For example, a cash account balance may contain funding from multiple different benefit programs, such as Temporary Assistance for Needy Families (TANF) and General Assistance/General Relief (GA/GR), and multiple deposits from each funding source. Funds are debited from accounts in the order that funds are deposited in the account. A defined hierarchy of accounts is used so that withdrawals are prioritized and benefits of one type can be depleted before benefits of another are debited. Balances are reported and reconciled by benefit type and grant. A batch process can be used for benefit deposits with the capability to accept future-dated benefits and make them available to the recipient on a particular date, case by case. The account is aged and benefits expunged grant by grant.
- The ability to cancel or void benefits sent to EBT but not yet posted to the account.
- Support for non-electronic transaction approvals (voice authorizations) with the capability to hold recipient funds, settle funds based on receipt of a clear transaction, and return funds to the recipient account after a certain time period in the absence of the clear.
- Support for specialized adjustment rules and processing consistent with FNS regulations and state program policies.

ii. Use of Bank Acceptance Marks

To ensure consistency and commercial viability, EBT transactions are governed by a set of rules to which all participants must agree. Rules have been developed by the NACHA Electronic Benefits and Services Council for EBT and, although not mandated, have been adopted by 37 states, the District of Columbia, and Puerto Rico. These rules are published by NACHA under the trademark name "Quest." States who have not adopted Quest® Operating Rules operate under state-specific rules.

The Quest Operating Rules clearly define the agreements, roles, and responsibilities for the participants in EBT transaction processing. They mandate technical standards, consistent with general industry standards, for the exchange and processing of EBT transactions. Further, they feature an acceptance mark. The QUEST Mark is carried on EBT cards in participating states and is displayed at merchant or ATM locations that accept Quest transactions.

iii. Relation to ATM and POS Networks

One goal of EBT is to leverage the existing payment system infrastructure as much as possible. Consequently, EBT cards are used in the same manner and in many of the same locations as private sector ATM and POS debit cards. EBT transactions executed on privately-owned equipment are identical to commercial transactions. However, EBT has imposed certain unique processing requirements on participating locations:

- Back-up telephone transaction authorizations must be supported in case online authorization through POS equipment has been disrupted (e.g., because of phone line or power issues).
- Food stamp transactions are limited to FNS-certified retailers.
- Food stamp balances are printed on receipts.
- Food stamp return transactions are supported.

EBT transactions can use most ATM and POS networks. Depending on each network's rules, the nature of participation may be slightly different. Transactions that are processed through these networks as Quest transactions must conform to the Quest Operating Rules. ATM and POS locations that participate in Quest display the QUEST Mark to identify the location as one that accepts Quest transactions and agrees to the Quest Operating Rules.

FNS requires interoperability for food stamp benefits and makes funds available to cover the additional costs of interoperable transactions. EBT cash transactions are also interoperable between most commercial terminals nationwide, although interoperability may be limited between some government-provided terminals.

iv. Fee Structures

The general rule for food stamp EBT is that neither the client nor the merchant can incur any costs additional to the costs imposed by using paper coupons. Consequently, no EBT transaction fees are imposed on either party for a food stamp transaction. The only exception is for merchants who use commercial transaction processing services, wherein EBT transactions are commingled with other payment transactions. Such merchants may pay their service provider a transaction fee for the food stamp transaction. Otherwise, government absorbs all transaction costs related to food stamp transactions.

There are no such limitations on cash transactions. Consequently, EBT cash transactions tend to follow the same fee model as private sector transactions. The exception is any POS transaction fee paid by the retailer to the card issuer. Since cards are issued on behalf of the state, there is no equivalent fee for EBT transactions.

EBT programs provide access to ATMs consistent with state policies. It is up to each state to allocate the cost of ATM access between the state and the cardholder. In some states, the state pays all or part of these fees. In other states, the fee is paid by the recipient. Surcharges are allowable at both POS and ATM locations. Generally, these fees are paid by the recipient.

c. Implementation Considerations

i. Card Design

EBT cards are issued to clients on behalf of states, generally through a third-party service provider. The cards carry artwork and logos that brand them specifically to the state that issued the card. They also carry the QUEST Mark in states that have adopted the Quest Operating Rules .

The EBT cards are industry-standard magnetic stripe debit cards. The information on the front of the card varies by state. At a minimum, it includes the primary account number (PAN). It can also include the recipient name and case number. (Photos have been experimented with and deemed too expensive.) Some cards include holograms to improve security. The back of the card is required to carry a help desk number. Additi· ·al non-discrimination language is also a general EBT requirement.

Card use is protected by using an industry-standard PIN. Each cardholder is either assigned or selects a PIN, which is input and verified on all electronic redemption transactions. PINs are always transmitted in a secure, encrypted format and are never displayed.

EBT cards typically have no expiration date.

ii. Enrollment

A household account is established in the EBT system when a client is determined to be eligible for benefits under a participating benefit program. For food stamps, participation is mandatory; consequently, enrollment is automatic. For many participating cash programs, recipients often have the choice of receiving benefits through EBT or as a Direct Deposit. Households select their method of distribution during the eligibility process.

For households using EBT, the eligibility system creates an account set-up record that is transmitted to the EBT system, either as part of a nightly batch transaction or as an online transaction. Using this data, a household EBT "account" (e.g., a record in a database) is established, a card is issued, and a PIN is selected or assigned.

iii. Funds Transfer - Loading the Benefit Record

Eligibility systems create benefit data records that identify the receiving household, the benefit amount, the benefit type, and the date on which the benefit is to be made available to the client. This data is transmitted to the EBT system either as a nightly batch transmission or as an online transaction. The data is then posted to the household account.

Data transmission is both a daily and a monthly process. Newly eligible recipients may receive benefits on the day of eligibility. Recurring benefits are transmitted to the EBT system on a regular monthly schedule. Future-dated benefits received by the EBT system are withheld from the client until the issue date.

There are two major differences between the EBT data flow and other electronic solutions:

1. A government agency owns the account and therefore is able to define the business rules governing the account.

2. Benefit funds remain in government bank accounts until a client actually redeems all or part of the benefits at a retail or ATM location. Only the part that is redeemed is settled on that day (day-of-draw settlement process).

iv. Cardholder Services

One major differentiator between EBT and other payment systems is the level of customer service offered. Government prescribes the level of EBT customer service, which tends to be more encompassing than the service associated with most private-sector consumer accounts. The service requirement reflects perceived recipient needs and program policy requirements.

Service level options are determined by the individual states, and therefore, service levels can vary. The most commonly required options include the following:

- Same day account setup, card and PIN issuance, and benefit posting
- Expedited card replacement timeframes
- A 24-hour-per-day, 7-day-per-week full-service client help line supporting multiple languages (11 in California), with strict performance standards for call answering and time-on-hold, and regular quality measurements
- Receipts that print food stamp account balances
- Tools to manage, monitor, and assist clients
- Specialized dispute and adjustment processes
- Performance standards for benefit posting and transaction processing
- Cardholder training in multiple languages, including wallet cards, pamphlets, videos, and in-person training
- Multiple cards per household with individual PINs and unique account access privileges (food stamp only, cash only, or both)

v. Program Management

Reporting and data capture add significant value under an EBT program as compared to other payment systems. Reporting is designed to facilitate government management practices in many areas:

- Policy compliance
- Cost control
- Financial management
- Quality of service monitoring
- Error resolution
- Fraud detection and adjudication
- Outreach and cross-program management

d. Legal and Compliance

i. Pertinent Regulations

A large body of law and regulations govern EBT. Federal requirements are found at 7 CFR 274.12. Most states also have their own legislation enabling EBT. By contractual agreement, the Quest Operating Rules provide additional governing rules in most states.

The most significant regulatory difference between EBT and other electronic payment systems is the interpretation of Reg E, which is the body of federal regulations governing electronic payment transactions. This regulation, which primarily prescribes consumer protections under electronic payment systems, excludes "needs-tested" government-issued benefits. There is some disagreement about what needs-tested means. However, it seems clear that benefit programs for which recipients must prove eligibility based on income, such as food stamps and TANF, are excluded from coverage by Reg E. Child support and unemployment are not needs-tested and would not be excluded from Reg E if delivered electronically.

EBT systems generally do not conform totally to the requirements of Reg E. The requirement for a monthly statement and issuer liability for lost benefits are the two requirements most often excluded. Consequently, the commingling of needs-tested and non-needs-tested programs in one account can cause confusion. Applying Reg E to EBT becomes a cost issue.

This is not to imply that EBT sacrifices consumer protection for lower cost. The programs for which EBT was originally designed (food stamps and TANF) are supported by an extremely broad range of regulatory recipient rights that, along with state-contracted protections, ultimately provide a high level of consumer protection designed specifically for the needs of the targeted recipient population.

ii. Authentication (Know Your Customer)

Within traditional EBT, accounts are established only after completion of an extensive eligibility process wherein client credentials are scrutinized and verified. The process involves significantly more rigorous customer validation than do most private sector accounts.

iii. Patriot Act

The Patriot Act contains anti-money laundering provisions. However, these provisions probably are not germane to EBT systems, since deposits to EBT accounts are originated only by a government agency and the amounts tend to be relatively small. Under traditional EBT, a client cannot make personal deposits into an EBT account.

iv. Escheat

Traditional EBT systems generally expunge benefits after a certain number of days and return them to the government. Consequently, escheatment is not applicable to traditional EBT benefits. Commingling needs-tested programs with non-needs-tested programs in EBT accounts could subject non-government funds (such as child support) to expungement.

v. Fraud

EBT was conceived as a benefit distribution system, and all industry-standard electronic transaction fraud prevention methodologies were incorporated into the system. However, certain types of fraud do occur.

- Unauthorized use or theft of benefits. So far this has not been reported as a significant problem. Household accounts are PIN-protected, clients are educated to protect their benefits, and all industry standards for security are applied to EBT transactions.
- Unauthorized establishment and funding of an EBT account. While there have been cases of unauthorized accounts and deposits, the electronic footprint created by EBT makes such incidents easier to identify than under a paper-based system.
- Use of benefits inconsistent with specific program policy (e.g., food stamp trafficking).

One unique feature of EBT systems is the wealth of data that is made available to compliance officers and investigators to support the identification, verification, and prosecution of wrongdoers. The electronic audit trail left by an EBT transaction makes fraud visible and easier to track and prosecute.

e. Cost Considerations

i. Consumer Costs

By regulation, food stamps issued as part of an EBT system have no cost to the consumer. However, for cash programs, each state determines its own policy. Costs borne by the consumer might include the following:

- ATM interchange and switching fees
- ATM and POS surcharge fees
- ATM balance inquiry fees
- "Check cashing" fees paid to retailers providing this service
- Account setup and management fees
- Card replacement fees

In some states, the consumer is sheltered from all or some of these costs. In others, consumers participate fully in the cost of the program. Most EBT projects do seek to limit costs through negotiations with ATM providers and by actively seeking cost-free solutions within the open market.

Consumer costs create a policy enigma when needs-tested benefits are commingled with non-needs-tested benefits. On one hand, a household receiving public assistance is having to pay a portion of that assistance in order to receive the remainder. This may conflict with program policy and statutory requirements for aid. On the other hand, when the household is receiving non-needs-tested payments, the government may be subsidizing the receipt of those payments.

ii. Merchant Costs

Regulations require that merchants be able to participate in the EBT Food Stamp Program at no cost. However, many merchants making use of third-party processing arrangements pay modest fees to their processor consistent with those paid for other debit transactions. No fees are charged by the issuer.

Fees associated with EBT cash transactions are not specifically restricted and tend to be consistent with fee structures for private-sector electronic debit transactions. The exception is that the transaction fee normally paid to the issuer is waived (since a government is the issuer), making an EBT transaction less expensive than a private sector transaction.

iii. Agency Costs

Government pays the bulk of the costs associated with EBT, which include these elements:

- System design, development, and implementation
- Initial card issuance and card replacement
- Training (client, staff, retailers)
- Client and retailer help lines
- Account setup and management
- Transaction processing
- ATM interchange fees
- Settlement and reconciliation
- Management reporting
- Project management

States pay these costs using various models and payment points. The typical approach is to pay an EBT contractor a monthly fee for each case managed by the EBT system. The fee varies from about $2.00 to $4.50, depending on level of service, case load, and client cost-sharing. States incur additional costs for project management, system enhancements, oversight activities, monitoring, infrastructure development, and quality assurance. Such costs may add $0.50 to $1.50 per case, depending on how actively a state manages its EBT project.

Evaluation of these EBT costs versus other payment systems must take into consideration the value added by the control and management elements inherent in EBT. In addition, in a traditional EBT system, funds remain in the government agency's bank account, earning interest, until the money is actually spent by the client. In a California analysis, a daily average of about 9 percent of the funds deposited in client accounts during the month remain in the account.[9] That is, if $10 million is deposited in client accounts, an average of $900,000 will earn interest for 30 days. In contrast, funds disbursed using Direct Deposit are removed from government accounts on the first day.

iv. Vendor Costs

An EBT vendor provides services based on an arms-length contract with a state government agency. The contract defines the scope and terms of the EBT services that the vendor provides. It also specifies all payments due from the agency for provision of those services and any other fees allowable to the vendor related to provision of the services. Fees may include, for example, fees collected directly from the client, such as ATM charges or balance inquiry fees. The contract may also specify whether the vendor, operating as the state agency's card-issuing processor, can require merchants to pay transaction processing fees.

The vendor is responsible for all EBT service provision costs as contracted.

f. Challenges and Opportunities

i. Surcharges

A majority of ATM owners impose surcharges on EBT transactions. Most EBT projects allow the client to absorb this cost, based on the assumption that the client chose to use an ATM that imposed a surcharge. The same principal applies to clients that elect to use the services of a commercial check casher. Caveat emptor is the general rule.

However, EBT clients are sophisticated consumers and seek locations where they can access their benefits at little or no cost. In California, it has been found that about 26 percent of all ATMs used by clients do not surcharge and that over 50 percent of all ATM withdrawals come from surcharge-free ATMs.[10] Further, the percentage of cash benefits redeemed at POS locations, presumably at little or no cost, has been steadily rising, to over 30 percent. In fact, Texas has successfully operated a POS-only cash EBT program for a number of years.

EBT projects manage this problem by seeking to remove or reduce ATM surcharges for EBT transactions. Retailers are actively encouraged to provide cash access to clients, either as cash back on a purchase or as full cash back in a service lane. Clients are trained to actively seek these no-cost cash access locations.

[9] Source: California Department of Social Services.
[10] Source: California Department of Social Services.

ii. Losing Track of the Cardholder

Maintaining a client's current address is a concern. However, for traditional food stamp and TANF EBT systems, obtaining the household address is a component of the eligibility process. Eligibility rules require clients to provide any change of address or risk losing their certification. Further, households are recertified regularly, generally every 6 months, requiring a visit to the agency office. At this time, current addresses are verified. Consequently, EBT systems depend upon address updates coming from the eligibility systems and do not typically accept address changes directly.

3. Electronic Payment Cards

a. Introduction

EPCs offer government agencies an opportunity to move toward complete electronic payment. EPCs are either debit cards that are tied to a consumer bank account or prepaid cards that are not tied to a bank account owned by the cardholder. The Visa Prepaid Card and Prepaid MasterCard Card are two examples of EPCs. This paper refers to such services collectively as EPCs simply for convenience.

b. Card Characteristics and Features

EPC offerings are differentiated by the underlying account structure and the range of services offered. It should be noted that EPCs are an emerging product; therefore, their features may be modified as issuers and governments gain experience with them. This paper covers current cards only. Card characteristics could be significantly different in a year.

i. Account structure

Some current EPC offerings are debit cards supported by and based on a consumer-owned asset account at a financial institution (i.e., a bank account owned by the consumer). Other EPC offerings are prepaid cards, tied to a single, aggregated funding account that is owned by an issuer or bank and that supports multiple cardholders.

One issue raised by differences in account structure is Reg E protection. Reg E provides minimum standards for the rights and responsibilities of persons who access a bank or bank-type account using an access device defined by the regulation. Reg E applies to electronic fund transfers that authorize a financial institution to debit or credit a consumer account (an account that can be accessed as an asset account, not a credit account, and are established for personal, family, or household purposes). The regulation includes requirements for providing terms and disclosures at the time a consumer contracts for an electronic funds transfer service or before the first electronic funds transfer is made. Reg E also addresses electronic terminal receipt requirements, periodic statement requirements, error resolution, and limitations on liability.

While the question of Reg E protection is currently under review by the Federal Reserve, it appears that Reg E governs debit cards tied to a consumer-owned account because of the card's account structure (i.e., it accesses a consumer account). Reg E protection for cards tied to aggregated accounts is more in question. To date, state agencies using the prepaid card structure have provided for Reg E protection through their contract with the service provider.

Both types of EPC cards can support government payment needs, as service criteria (rather than the underlying account structure) appear to be more germane to the ultimate success of any EPC implementation. EPCs can effectively deliver recurring government payments, supporting such programs as TANF, child support, Unemployment Insurance, federal benefit payments, payroll and other repetitive payments. In most cases, one EPC could be used to deliver multiple payments to the client, enabling the client to receive both state and federal payments using the same EPC account. In addition, depending upon the structure and enrollment criteria, EPCs can also be used to receive Direct Deposit of payroll or other non-government payments, increasing the utility of the EPC to the client and expanding the "mainstreaming" benefit of the EPC in terms of financial service literacy and adoption.

ii. Use of Bank Acceptance Marks

MasterCard and Visa offline debit marks, the major innovation in the debit card service marketplace, enable improved delivery of services to clients. The incorporation of these banking association marks has several implications for use of EPCs by government and, ultimately, by low- and middle-income clients.

First, bank acceptance marks improve funds access. While most ATM/POS debit networks require PIN security for transactions, the MasterCard and Visa offline debit programs allow signature-based transactions. As a result, access at retail locations is expanded from approximately 3 million global locations for PIN-based debit to over 32 million global retail locations for MasterCard and Visa signature-based debit. Essentially, clients can use MasterCard- and Visa-branded debit cards at virtually every retail location that accepts MasterCard or Visa. MasterCard and Visa retailers not only provide "shopping" access to cardholders, but most also offer cash back with purchase. This feature provides clients with low-cost, convenient, and nearly ubiquitous access to their funds and minimizes their need to access funds at ATMs, which may impose a transaction surcharge.

Secondly, the use of the signature-based (offline) debit card at a retailer results in the payment of what is known as "interchange" to the issuer (i.e., the EPC financial institution or service provider). Because the retailer provides a supplemental revenue source to the issuer, EPC services can be more cost effective to the cardholder. Most EPC-related accounts do not charge cardholders for retail POS transactions. However, a surcharge may be levied if a cardholder uses an ATM not owned by the card issuer.

Lastly, the inclusion on a card of a bank acceptance mark means that clients are trained in and use mainstream financial services, including the global financial networks used by all categories of society. Government will not have to establish a separate retail and ATM network for its own debit services. Instead, government essentially acts as a purchasing agent on behalf of its clients to make this "account of last resort" available.

iii. Relation to ATM and POS Networks

EPCs offer client access to virtually every ATM and PIN-based debit retail location in the world, in addition to MasterCard/Visa signature-based network access. Access typically includes regional networks, such as STAR℠, PULSE®, NYCE, or SHAZAM®, and usually includes international networks, such as Cirrus® or PLUS®.

ATM access also provides clients with a less expensive and more convenient alternative to check cashing services. Most EPCs offer surcharge-free access at the ATMs owned or operated by the issuing financial institution. While many out-of-network ATM transactions may be subject to a surcharge, clients typically adapt to the new debit card environment and find the lowest cost, most convenient financial services practices.

iv. Fee Structure

Issuers and providers face certain costs when providing EPC services. Fee types typically include the following:

- Monthly account maintenance fee. A monthly fee charged to each active account for core transaction processing and support services, 24-hour-per-day, 7-day-per-week toll-free help line, account setup/training material delivery, unlimited free POS transactions, Web account access, monthly statement, initial card issuance and activation, one annual card replacement and activation, Reg E coverage and ACH processing.
- ATM withdrawal transaction fee. A fee levied on each successful withdrawal of cash from an ATM.
- Surcharge. A fee charged by the financial institution owning the ATM for use of the ATM by cardholders who are not customers of that financial institution.
- ATM balance inquiries fee. A fee charged for each account balance inquiry transaction at an ATM. Clients may elect to use ATMs to check their account balances, although ATM balance inquiry fees can be avoided. Free alternatives are available for balance inquiries (e.g.,Web account access, prior transaction receipt, help line).
- POS transaction fee. A fee charged for each POS transaction, providing access to funds at retailers with either PIN- or signature-based POS systems.
- ATM denial fee. A fee charged for each ATM transaction denied due to insufficient account balances (non-sufficient funds).
- International ATM transaction fee. A fee charged for each ATM withdrawal at an ATM located outside of the United States.
- Card replacement fee. A fee charged for each replacement card requested by a recipient. Policies frequently include one free replacement card per calendar year. Typically, overnight delivery of replacement cards can be requested by recipients for an additional fee.
- Expedited card replacement/check issuance fee. A fee charged for each expedited replacement card or check requested by a recipient for overnight delivery.
- Check issuance fee. A fee charged for each check requested by a client (usually requested to expunge account balances upon account closing).
- Card-to-card transfer fee. A fee charged for each transfer of funds from the primary card to a cash transfer card. The card-to-card transfer feature is currently in pilot, and fees for

this service may be subject to change with advance notice to states and to enrolled cardholders.

- Customer service call fee. A fee charged for each call to either an automated response unit or a live customer service representative. Such fees may be charged for the first call each month, for calls beyond a defined reasonable limit, or not at all.
- Account inactivity fee. A fee assessed on any account that has no deposit or withdrawal activity for a defined period. Such fees allow for recovery of maintenance costs by the issuer/provider and help eliminate nominal balance account support/escheatment costs by zeroing out abandoned balances.
- Overdraft fee. A fee assessed on any account that has overdrawn its cash balances during a particular month or other period of time.

These fees can be borne by the government or clients or shared. In most cases, the revenue derived from merchant POS interchange fees and float on funds has allowed card issuers to waive many of these fees. Some fees tend to be related, so that a lower monthly account maintenance fee (for example) is often tied to higher transaction fees (such as ATM withdrawals). It is possible to offer an account with no monthly maintenance fee in association with higher per-transaction fees.

v. Optional Features

Some providers offer additional services, such as Web account access services, automated bill payment, and acceptance of Direct Deposit of payroll. One service of particular interest is card-to-card transfer.

Card-to-card transfer is a cost-effective means for delivering funds from one consumer to another. The card-to-card transfer service allows the account holder of an EPC to establish a sub-account linked to the primary funds account and transfer a particular amount to this sub-account. A separate debit card and PIN allow a recipient to access the funds in the sub-account through an ATM or POS transaction. Through card-to-card transfer, the primary cardholder can allow a second recipient cardholder to access a defined amount of funds conveniently and at low cost (e.g., making funds accessible to a remote family member).

The card-to-card service allows for controlled and virtually immediate funds transfer, once the card or PIN is delivered to the recipient. Card-to-card transfers are especially effective for repetitive or frequent transfers and are far more cost-effective than historically available alternatives. The service is limited only by the requirement for ATM and POS access by the recipient and the need to deliver the recipient a card and PIN before completing the transfer.

c. Implementation Considerations

i. Card Design

The design of the EPC is the responsibility of the state government agency, subject to any constraints imposed by the financial institution, association, and EFT networks. If the agency elects to implement a program with MasterCard or Visa, the hologram of the selected company, along with their service mark, must appear on the front of the card. The remainder of the front of the card can be designed to meet agency-specific requirements. Other card design requirements are being implemented in 2004 as part of the associations' need to more clearly label signature–based or offline debit cards.

The back of the card must also display the appropriate service marks. In the case of MasterCard, service marks may include Cirrus® for ATM and Maestro® for POS access. Similarly, a Visa card may include PLUS® for ATM and Interlink® for POS access. Both companies publish marketing and card design standards with which all members comply.

At present, Quest only supports EBT-based card programs, and most EPCs do not have access under the Quest Operating Rules or QUEST Mark.

When a government agency wants to disburse payments electronically for multiple programs, it is not necessary that the same card or card design accompany each program. In many cases, separation of programs and program funds is desirable.

ii. Enrollment

By implementing an EPC program, the government agency is taking … tive to enroll recipients in EPC accounts. Recipients do not need to take that act … es.

The enrollment process involves a form that can be signed by the beneficiary. The form usually details the specifics of the program, its use, and any cardholder fees, and discloses the ability of the card issuer to debit funds from the cardholder to recoup overdraft or Reg E liabilities. In some instances, a signature on a form is not required. The cardholder accepts the terms and conditions by using the card.

Typically, the government agency transmits the enrollment data to the card issuer, who then opens the account and issues the card to the recipient. There are currently two methods available for transmitting the enrollment data: online Web-based entry and batch transmission. The Web-based application allows an agency representative to enter cardholder data online in real time. The batch approach allows cardholder data stored in the agency's computer system to be transmitted to the card issuer as a batch file. In some cases, both methods are employed to enroll and manage the cardholder accounts.

iii. Funds Transfer – Loading the Card Account

There are two ways to load the card account with funds.

One way to load a card account is for the government agency to use its current Direct Deposit process. ACH transactions contain the information necessary to load each individual cardholder's account. The advantage of this approach is that it allows a government agency to mainstream deposits to the EPC along with their current Direct Deposit processing to traditional bank accounts, thus minimizing change to current agency systems. Because this approach requires the agency to originate the ACH transactions through its financial institution, normal transaction fees for ACH transactions apply.

As an alternative, some card issuers will accept a file of individual load data along with an ACH transfer to the funding account for the total amount to be loaded. This method incurs no ACH origination fees. However, it may require additional reconciliation and monitoring by the government agency and the card issuer.

Regardless of how the card account is loaded, payments are deposited into an account at the bank, either an aggregated account for a prepaid EPC or an account owned by an individual for a debit EPC.

d. Legal and Compliance

EPCs can be used for almost any type of payment distribution or funds transfer, including payroll, incentives, rebates, disaster recovery, service provider reimbursements such as insurance and health care, tax refunds, child care, and child support payments. EPCs are subject to various consumer and other financial regulations such as the Patriot Act, the Bank Secrecy Act (BSA), the Money Service Business (MSB) Interim Final Ruling, Office of Foreign Assets Control financial sanctions, and escheatment requirements. The Federal Reserve Board is currently reviewing whether EPCs are covered by Reg E.

Minimal anti-money laundering/anti-terrorist financing risk is associated with a government agency using this payment vehicle. The source of the funds is a government agency and the recipients are identifiable. In any case, the Patriot Act specifically excludes government agencies and instrumentalities from the definition of customer for the purposes of identification and verification requirements. This means that EPCs provided to a government entity for distribution of payments to consumers are not subject to Patriot Act requirements. In this case, the government is the customer and there is no provision of formal banking relationship or services to a consumer. If the cards are being distributed with the ability to accept funds from sources other than a government agency, all identification and verification requirements clearly are applicable.

BSA applies to financial institutions that are subject to banking regulations. All BSA requirements are applicable when EPCs are provided by a financial institution to a consumer, when the source of funds is not a government agency or other financial institution, and/or when the consumer is a direct customer of the card-issuing financial institution. The Act has been amended by Section 326 of the Patriot Act Final Ruling. This amendment requires that financial institutions take the following actions:

- Implement reasonable procedures to verify the identity of any person seeking to open an account, to the extent reasonable and practicable.

- Maintain records of the information used to verify the person's identity.
- Determine whether the person appears on any lists of known or suspected terrorists or terrorist organizations provided to the financial institution by any government agency.

The ruling provides minimum requirements and a basis for a risk-based approach to determining requirements for identification and verification.

The MSB Interim Final Ruling is an amendment to the BSA issued by Treasury in April 2002. The Interim Final Ruling extended anti-money laundering and anti-terrorist financing requirements to financial institutions not previously subject to banking regulations, including:

- Mutual funds
- Operators of credit card systems
- Money service businesses
- Securities brokers and dealers registered with the SEC
- Futures commission merchants and brokers registered with the Commodity Futures Trading Commission

The MSB requirements, which are essentially the same as the BSA requirements, apply to EPCs issued both by the types of businesses listed above that are not subject to banking regulations and to those businesses that are established as part of a bank and are required to comply with the BSA.

Both the BSA as amended by the Patriot Act and the MSB Final Interim Ruling require the financial institution to establish an anti-money laundering program that at a minimum includes the following:

- The development of internal policies, procedures and controls, including verifying customer identification, filing reports, creating and retaining records, responding to law enforcement requests, and, when automated data processing systems are in use, integrating compliance procedures with such systems.
- The designation of a compliance officer.
- An ongoing employee training program.
- An independent audit function to test the program.
- Record keeping, reporting, and registration.

e. Cost and Benefit Considerations

i. Consumers

Payroll cards, which are virtually identical to EPC cards, have increased in use for cash consumers in the private sector. Table 2 below includes an evaluation of the types of fees associated with each type of financial service — payroll card/EPC, check casher and basic bank account. The annual costs shown in the table suggest that EPC services may represent the lowest cost package of financial services available to cash consumers.

Table 2: Financial Service Cost Comparison[11]

Costs	Payroll Card[12]	Check Casher	Basic Bank Account
Minimum monthly balance required	N/A	N/A	$0
Minimum deposit to establish account	N/A	N/A	$100
Check cashing fee	N/A	$8.77	0
Monthly fee (1)	$3.00	N/A	$5.95
ATM usage fee (2)	0	N/A	0
Money order fee (3)	$1.00	$1.00	N/A
Total monthly fees (4)	$6.00	$20.54	$5.95
Checks (box of 150)	N/A	N/A	$8.00
Total annual fees	$72.00	$246.48	$79.40

Using EPCs makes it unnecessary for the consumer to visit a bank to receive funds. Millions of POS locations are available at which consumers can make purchases and even receive cash back. There are also literally hundreds of thousands of ATM sites at which consumers can make a withdrawal, although some fees may apply. Managed properly, however, these fees can be minimized and will be less than the fees charged by check-cashing organizations. Furthermore, the consumer has the additional security of not having to carry large amounts of cash.

Use of EPCs can also streamline the process of making child support payments to custodial parents living in other countries. Funds can be accessed at terminals around the world. The

[11] Source: "Payroll Cards: An Innovative Product for Reaching the Unbanked and Underbanked," Comptroller of the Currency white paper, October 2003. The table assumes two paychecks of $400 each month and three payments needing money orders or checks each month. The bank account and check casher costs in this table were obtained from a large bank and a large check cashing outlet in Los Angeles. These costs fell in the middle of the range from five cities surveyed. Notes: (1) Uses an average monthly fee for payroll cards issued by large banks. Assumes checking account customer does not use direct deposit. These fees may be waived or reduced. (2) Assumes customer does not use foreign ATMs to withdraw cash. (3) Assumes checking account customer will write personal checks to pay bills. Assumes payroll card holders and check cashing customers purchase 3 money orders through the U.S. Postal Service. (4) Typical payroll card and bank account fees may be understated as they do not include negative balance and excessive phone inquiry fees for payroll cards and bounced check and below minimum balance fees for checking accounts.

[12] Payroll cards, frequently offered as MasterCard or Visa prepaid card products, are virtually identical to the classes of EPC services described in this document and are used for this consumer cost comparison as a proxy for EPCs.

government agency therefore does not have to make international payments or be concerned with exchange rates.

A monthly statement, either mailed or available through an Internet site, allows consumers to keep records of all purchases and manage their funds appropriately.

In terms of cost, most of the current EPC programs minimize cost to the cardholder by allowing at least one free ATM withdrawal per month and often providing POS purchases and balance inquiries at no cost. Often fees do apply for extraordinary services, such as expediting card replacement or issuing a check to close out an account.

ii. Merchants

Merchants realize certain benefits from electronic disbursement of payments, but they must also consider transaction fees when evaluating the benefits of such programs. POS purchases may be PIN-based or signature-based, and merchants are responsible for paying fees to the credit card companies and networks for each acquired transaction. Most financial institutions that issue a card branded with a MasterCard or Visa mark collect an interchange fee for every signature-based transaction processed. Signature-based transactions are more expensive than PIN-based transactions for the merchant, while the issuing institution realizes greater income through a signature-based transaction.

iii. Agencies

The primary benefit to government agencies is the opportunity to move away from paper checks to electronic delivery of payments. The cost of producing a check and the postage to send it are a major expense. If these costs can be eliminated or drastically reduced, the agency saves money. Additionally, when payment recipients relocate, delivering checks can become a problem and often funds are not available on schedule. For example, many child support payment checks to custodial parents are returned because the custodial parent moved away and did not inform the child support agency of a new address. EPCs can help states reduce this type of undistributed collection, which are a fiscal and political problem.

iv. Vendors

EPC "vendors," or card issuers, include banks, EBT contractors, and other service providers who know how to manage transaction-based payment card programs.

Providers of such a service can derive income from issuer interchange fees, float, and excess transaction fees. Issuer interchange fees are a percentage of the value of an offline (signature-based) retail debit transaction that is paid to the card issuer. Float refers to the benefits realized when collected funds are deposited in the card issuer's program. The funds remain in that bank account until a cardholder makes a purchase or ATM withdrawal. Finally, most states want cardholders to be allowed a certain number of free ATM transactions per month. When a cardholder exceeds the number of free transactions, additional revenue may accrue to the card issuer because subsequent transactions may be subject to a fee.

f. Challenges and Opportunities

i. Procurement

Government agencies interested in implementing an EPC program typically procure the product competitively and enter into an agreement with a card issuer. In light of how new these products are, the differences in underlying account structures, and the potential for rapid change, it is recommended that government agencies consider the following in their procurement process:

- The agency should clearly establish that the card issuer provides full Reg E type protections to cardholders, notwithstanding future legal or Federal Reserve Board decisions. This protects the agency and its clients.
- Card associations (Visa and MasterCard) typically offer a zero liability policy to their cardholders regarding fraudulent use of the card. While card issuers providing EPC today have extended this policy, contracts should state zero liability as an explicit policy.
- A set fee structure should be established for the term of the contract.
- Be aware of fee impacts to cardholders (e.g., surcharges or costs to close an account).
- An acceptable approach should be defined for inactive accounts and inactivity fees that cause an account to go negative. For example, regular child support payments cannot be guaranteed, and such an account may remain open for a long time with no payment. Closing the account due to inactivity defeats the purpose of an EPC.
- An acceptable approach to cardholder abuse of the account should be defined. A card issuer should only cancel an account as a last resort. An agency could require agency authorization prior to cancellation by the card issuer.
- Appropriate privacy protections and data-mining restrictions should be established.

Agencies are encouraged to ensure that they are dealing with a reputable vendor, especially if funds are held in an aggregated account rather than in individual consumer asset accounts. Any problems associated with vendor insolvency could be exacerbated if cardholder funds are held in an aggregated account.

ii. Implications of Retailers' Lawsuit

The lawsuit brought by retailers challenging the Visa and MasterCard associations' fee structure for offline debit transactions and their control over determining rules for those transactions resulted in an across-the-board reduction of the interchange rates that apply to EPCs. This reduction helps minimize the expense to retailers for supporting debit transactions and, over time, will help increase retail acceptance of EPCs.

However, the reduction also affects the costs borne by the client. Issuers seek a certain amount of revenue to offset the costs incurred to support EPC services. Float, one traditional source of banking revenue, is a minimal source of revenue to the issuer, given the low balances and immediate fund withdrawals associated with EPCs. Interchange fees, an important source of revenue paid by retailers, have been reduced as a direct result of the lawsuit. Client fees, therefore, are a potential source of revenue for EPC services.

Finally, the lawsuit resulted in an agreement to other important card labeling changes, with modified "debit" labeling requirements being phased in during 2004.

iii. Surcharges

ATM transactions may be subject to a surcharge (i.e., a fee charged by the financial institution owning the ATM for use of the ATM by cardholders who are not customers of that financial institution). These fees range from $1 to $2 but can be higher in certain locations such as airports, hotels, and casinos. Clients typically adapt to the new debit card environment and find the lowest cost, most convenient financial services.

iv. Losing Track of the Cardholder

To support EPC services requires innovative, non-traditional means of maintaining a banking or EPC relationship with the client. Government agencies also need to maintain contact with their clients—a challenge given the high level of mobility of the population involved. Often, the agency will work cooperatively with the EPC provider to mesh policies and databases for the clients and ensure that all parties' needs are met.

v. Account Overdrafts

Offline debit has developed rapidly over the past few years. One major reason for this development is the near-universal proliferation of online POS processing capability. As a result, merchants who previously were able to provide only offline authorization can now verify transactions online, which virtually eliminates the possibility of completing transactions that exceed the current account balance. As a result, there has been a dramatic decrease in costs to card issuers for fraud or overdraft losses.

However, in some circumstances an account overdraft can occur. These overdrafts generally are caused by "pay at the pump" pre-authorization practices, Internet purchases, and automatic debit payments (such as for magazine subscriptions). While issuers can control some of these conditions by limiting types of access (e.g., no "pay at the pump"), overdraft losses are still a consideration.

vi. FDIC Insurance

Another issue under review is whether both types of EPC cards (those tied to accounts and those that are not) are covered by FDIC insurance. Currently, the FDIC insures each account holder's total value of bank accounts held at an individual institution for a maximum of $100,000. The FDIC is currently reviewing how insurance should be handled for various products.

vii. Third-party agencies

Card-based disbursement options are not viable for payments to a recipient when a third-party agency, such as a PCSEA, is involved. Government agencies implementing mandatory card programs should be aware that the involvement of a PCSEA in a child support case may not be obvious. Thus, a card can be set up in the name of the parent but mailed to the third party. Obviously, the third party cannot use the card to retrieve the funds, and if the card is passed on to the parent, the third party is bypassed. Therefore, agencies that intend to pursue a mandatory card-based electronic funds transfer program should be sure that their systems allow exceptions for parents using a third-party agency.

4. Comparison of Electronic Benefit Transfer Cards and Electronic Payment Cards

Direct Deposit of payments to a traditional bank account is the preferred method for government agencies to disburse to recipients. However, the EBT card and EPC provide a means for government agencies to make payments electronically to recipients who do not have a bank account or who, for some reason, do not elect to have payments deposited directly to a bank account. These cards should be considered a "bank account of last resort," to be used only when Direct Deposit of payments to a traditional bank account is not possible.

a. Summary of Card Characteristics

The following table compares the characteristics and features of the EBT card to the EPC to help government agencies determine which card is best suited to a particular payment application.

Table 3: Comparison of EBT Card and EPC Characteristics

Issue	EBT	EPC
How is the card paid for?		
Government cost	Determined by contract. Bears primary cost through fee to EBT processor (card issuer).	Determined by contract. Typically bears little or no cost.
Cardholder cost	Little or none. There may be a fee for ATM access	Little or none. Most costs are fee-based. There may be fees for non-core or convenience-oriented services.
Merchant cost (for point-of-sale transactions)	None if a government-provided terminal is used. No POS interchange fee paid to card issuer by merchants. Third-party processor fees apply.	Standard POS interchange fee is paid to card issuer for signature-based transactions. Third-party processor fees apply.
Who owns the funds in the underlying account?	Government agency	Varies, but typically is the cardholder. This is still subject to regulatory opinion.
Does the government agency have access to cardholder's transaction history?	Yes	No
Who benefits from float in the underlying account?	Government agency	Card issuer
How are abandoned/unused payments typically disposed?	Expungement, responsibility of sponsoring government agency	Escheatment, responsibility of card issuer
Cardholder rights and responsibilities are governed by which operating rules?	Government policy and Quest/state operating rules	Government policy and association/network rules
Does Reg E apply?	Not for needs-tested programs	Under review by the Federal Reserve. Association and card issuer rules may also apply.

Issue	EBT	EPC
Can access to cash and purchases be restricted?	Generally, yes. Via their EBT processor and regional network operators, governments can restrict access to certain ATMs (e.g., in casinos) and POS merchant categories that accept the EBT card.	Generally, no. Most card issuers offer worldwide POS access wherever the association's card is accepted. Nationwide ATM access is typically provided.
Who provides customer service?	EBT contractor with service levels determined by government	Card issuer consistent with commercial consumer accounts
How are disputes managed?	By EBT contractor per government specification and oversight	By card issuer consistent with association/network rules
Where can the card be used?		
ATMs	For cash, generally yes. However in-state and national access may be limited and varies by state. Out-of-network surcharges may apply.	Yes, typically nationwide. Out-of-network surcharges may apply.
Teller line	No	Generally yes, at an association member bank
Merchants	At FNS authorized merchants for food stamps. Access at non-food merchants is fairly limited.	Typically anywhere the association debit card is accepted
Mail order houses	No	Yes, depending on merchant
Internet sites	No	Yes, depending on contract and merchant
Are PIN-based (online) transactions supported?	Yes	Yes
Are signature-based (offline) transactions supported?	No (unless technical difficulties prevent an online transaction)	Yes

b. Selecting a Card

It is often possible for government to mix and match features of "off the shelf" products to create a hybrid product. In some cases, this approach may be viable. However, it is recommended that government agencies not attempt to merge the characteristics of EBT cards and EPCs to create the ultimate hybrid. Rather, agencies are encouraged to respect the distinct differences between these two cards and make a choice based on the following criteria:

- Payment type
- Program making the payment
- Costs
- Agency policies and objectives

An agency may face a situation in which a single recipient is issued both an EBT card and an EPC, to receive payments from multiple programs. The temptation may be to put all payments on a single card. But a single-card approach may not be practical unless the multiple program payments are fully compatible. This situation illustrates one reason why Direct Deposit to a recipient's traditional bank account is the preferred method of electronic delivery, as it solves the multiple card issue.

i. Payment Type Considerations

In some instances, the type of payment will clearly dictate whether an EBT card or an EPC is the appropriate choice. In other instances, the choice will not be clear. For example, it would be costly for a card issuer to provide an EPC when needs-tested payments that are subject to expungement are commingled with non-needs-tested payments that are subject to escheatment. Instead, the agency may want to determine whether a payment is subject to expungement or escheatment and choose EBT or EPC accordingly. In the event that the payment could be subject to either expungement or escheatment, agencies might determine whether they must retain ownership of the funds (and if so use an EBT card), or whether they can give up ownership to the recipient (and deliver funds using EPCs).

ii. Program Considerations

When considering which card to use, government agencies must consider the nature of the program making the payments. If food stamps are being issued, EBT is the only option—the program mandates delivery using EBT. If an agency is considering how to deliver another non-cash needs-tested benefit where access is to be restricted, an EBT card is the only choice that provides this capability. Using an EPC is not viable.

There are distinct advantages to using an EPC to deliver non-needs-tested payments, such as child support. However, at least one state is successfully dispensing non-needs-tested payments using their EBT card.

It appears that needs-tested cash benefits could be dispensed using either card.

iii. Cost Considerations

When both approaches are equally suitable, cost can be used as a tiebreaker. In general, governments bear the cost of making payments using the EBT card, whereas, under the existing programs, governments generally do not pay much (if any) of the cost to make payments using the EPC. However, government agencies dispensing food stamps in addition to other payments must consider whether there is a cost advantage to issuing needs-tested and non-needs-tested payments using EBT cards. Delivering cash payments using EBT cards increases volume, which may reduce the overall cost of EBT or allow the cost to be spread among programs.

iv. Policy Considerations

Agencies must also consider whether the choice of a card for a particular payment has a public policy ramification. Agencies should consider the following parameters:

- Control over funds. EBT cards provide government agencies with a certain amount of control over payments. As a result, the agency earns float, and unspent funds are returned to the agency through the expungement process. If there are program requirements or the program must retain control, EBT is the better choice.
- Mainstreaming recipients into the commercial financial world. Since the EPC is a commercial product that operates on one of the two major association networks (Visa or MasterCard), the cardholder is indistinguishable from other mainstream credit and debit cardholders. An EPC provides the cardholder with the most flexibility and freedom over how funds are withdrawn and spent. Along with this freedom comes a greater degree of responsibility on the part of the cardholder. If the agency considers it advantageous to move their clients into the commercial financial world, the EPC has distinct advantages.
- Forcing recipients to use bank accounts. Since the EPC is a commercial banking product, there may be a perception that government is forcing recipients to embrace an unwanted responsibility. If politics or public perception issues along these lines would reflect negatively on the agency, EBT cards may have advantages over the EPC. However, it should be noted that an education program can also help to resolve this issue since EPC programs have no interest and do not require credit scoring.
- Stigma. Some states have reported that the EBT card, while overcoming the welfare stigma associated with paper food stamps, still carries a stigma for some recipients. If an agency is concerned about this issue extending to recipients of other payments made to an EBT card, an EPC may be preferable.
- Restricted access. Government agencies may decide that it is important for needs-tested cash benefits not to be used for certain purchases or withdrawn as cash from ATMs in certain places (e.g., in a casino). EBT cards offer advantages, since access cannot be restricted for EPCs.
- Ownership of funds. When an agency disburses non-public funds, those funds are typically "owned" by the recipient. In this case, the EPC offers distinct advantages over an EBT card.
- Enhanced customer service. Programs in certain states may require enhanced levels of customer service (e.g., customer service may be required in multiple languages). Special service requirements can be implemented as part of an EPC system, but they tend to burden the payment process with excessive requirements. EBT may be a better choice when such services are required.

III. SUMMARY

Checks are becoming a thing of the past. While many governments still rely heavily on checks, checks are expensive to issue and easily stolen, and they must be handled by a human from beginning to end. Checks are labor intensive, costly, and subject to fraud.

To disburse funds to clients electronically, Direct Deposit to a consumer-owned bank account is the preferred option. Direct Deposit is safe, reliable, and convenient and can be accomplished with a minimum of human intervention. When recurring payment amounts do not change, no additional human involvement is necessary once the required authorizations are in place and the process has been established. The cost for each Direct Deposit transaction is minimal (a few cents). Direct Deposit is also preferable because consumers select the bank account themselves. They make a conscious choice as to account characteristics, cost, and accessibility. In addition, there is no appearance that the government might be intruding into a citizen's private banking relationship.

If checks are becoming obsolete and Direct Deposit is preferred, why aren't more government payments delivered electronically? Perhaps the greatest impediments to accomplishing this goal are the significant number of citizens who do not sign up for Direct Deposit or who do not have bank accounts. A bank account is fundamental to receiving Direct Deposit of payments. Government cannot mandate that citizens establish a private and personal business relationship with a bank. As a result, adoption of Direct Deposit has generally remained voluntary.

One solution is for government to provide a card-based product to those who do not have a bank account or do not sign up for Direct Deposit. Cards provide the missing piece in the universal electronic delivery puzzle by allowing governments to strongly promote Direct Deposit while retaining the ability to enroll those who do not respond in an alternative account. Government agencies have therefore teamed with the banking community and the private sector to use debit-type cards for this purpose. These cards are non-qualifying and are virtually overdraft proof. This white paper looks at two different cards, Electronic Benefits Transfer (EBT) cards and Electronic Payment Cards (EPCs). Together, these two cards appear to offer government the necessary tools to pursue universal electronic payment delivery.

Since the two types of cards are distinctly different, government agencies must consider a number of factors, from political to financial, to determine which card is right for a particular payment application. Selecting the appropriate card requires multiple decisions.

Should the government make disbursements for a particular program using paper checks (or warrants) or electronically?

Various factors affect this decision, including the cost of associated systems changes, the type of client being served, the culture of the agency making the payment, and the support available to the agency in moving to electronic payments.

If the government opts for electronic disbursements, should it be mandatory to all recipients?

The federal government's experience in implementing the mandatory EFT provisions of the Debt Collection Improvement Act of 1996 indicates that it may be necessary to allow certain recipients to continue to receive a check (e.g., when the recipient lives outside the country or is mentally challenged). The presence of a third party in the payment stream is also a consideration. For example, a private child support enforcement agency may be an intermediary between a State Disbursement Unit and the parent. Issuing a card to this agent on behalf of the parent is unworkable.

If the government opts for electronic disbursements, should it use Direct Deposit to a traditional consumer-owned bank account or a card-based option?

Direct Deposit is the preferred approach. However, Direct Deposit is not an option for all clients or for all programs. In fact, Direct Deposit is impossible for clients who do not have a bank account. A card-based disbursement option will be necessary to reach these clients.

If the government opts for a card-based option, should it opt for EBT or an association- and network-branded card?

When consumers do not take advantage of Direct Deposit or have no bank accounts, an agency can consider both EBT cards and EPCs. For needs-based clients, EBT cards offer certain advantages. The government may want to play a role in overseeing the flow of funds, to protect the client. For example, the government may want a role in error resolution if too much money is mistakenly debited from a client's account. In addition, some states place restrictions on where TANF funds can be spent. Use of such funds at a casino, liquor store, or fireworks stand may be prohibited. If a card with an association mark is used instead of a government or QUEST Mark, it is doubtful that restrictions can be imposed. The EBT card may be the best option for agencies that want an oversight role in the flow of funds or that seek to restrict the use of funds.

For other cash payments, such as child support, government agencies do not have an interest in limiting use of the funds. For these types of payments, the EPC may be the most promising option. Clients have wide access to a variety of card acceptance terminals. They may be able to initiate a signature-based transaction and a PIN-based transaction, and the government may not have to assume a role in error resolution. Once the government sends an ACH file to the card-issuing financial institution, its responsibility for the payment has ended. For some types of cash payments, this may be desirable. For other types of payments, such as needs-tested payments, it may not.

If a government opts for an association- and network-branded card, how is it acquired?

To offer an association- and network-branded card, the government will have to enter into an agreement with a card-issuing financial institution or service company to enroll recipients and issue cards. Most government agencies have procured such products competitively to obtain the lowest cost for the agency and their clients. Since these products are very new, structural differences still exist between vendors. It is likely that these cards will change rapidly in the near future in terms of structure, features, and (potentially) how they are regulated.

Important provisions that government agencies should consider including in procurements and contracts include locking in fees for the term of the contract, clearly establishing Reg E protections to cardholders (notwithstanding future legal or Federal Reserve Board decisions), and locking in a "zero liability" policy for cardholders regarding fraudulent use of the card.

IV. APPENDIX A: ELECTRONIC PAYMENT CARD CASE STUDIES – COLORADO AND MARYLAND

Colorado and Maryland initiated card programs within a year of each other. The Colorado Family Support Registry (FSR) card began in January 2002 as a pilot project for child support payments and is now a permanent program. Maryland's CashPay® Card was launched in January 2003. Both states use the ACH to electronically transmit payments to a bank in the name of a custodial parent. Both states' cards display the same commercial acceptance marks, and cardholders can access their payments at any ATM or merchant that displays these marks.

Colorado's FSR Card and Maryland's CashPay Card are both issued by banks that have contracts with the state. In both instances, the state SDU sends an ACH PPD (Preauthorized Payment and Deposit) file to its bank to load funds onto the card. Since Colorado's PPD file specifies the same Depository Financial Institution account number for all FSR cardholders, an aggregated account is used, and the card is a prepaid card. The PPD file sent by Maryland specifies a distinct bank account number for each cardholder. Maryland's card is a debit card.

Features of the Colorado and Maryland Cards

Both states initiated their card programs as a way of expediting child support payments to unbanked custodial parents and reducing state expenses. The two cards share the following features:

- Custodial parents access their funds through ATMs and POS terminals at merchant locations.
- The cards are largely "overdraft proof." Neither state allows cardholders to write checks on the account. With rare exception, virtually all POS transactions verify an adequate balance before authorizing the sale.
- The cards display the same association mark. They can be used at any ATM, bank branch, or POS terminal that accepts the card worldwide.
- Transactions initiated with the cards are transparent to merchants. That is, transactions initiated with the Colorado FSR Card or the Maryland CashPay Card are no different for merchants than commercial transactions.
- Merchants that accept the cards pay the same discount fee to their acquiring bank as they pay for any other payment card carrying the same acceptance marks.
- Cardholders can receive cash back on PIN-based purchases.
- Cardholders receive all consumer protections accorded to the brand's other cardholders. Reg E coverage is required for Maryland's card since it is a debit card. Colorado's bank provided Reg E coverage as required by their contract.
- No line of credit is associated with the cards. Since there cannot be an overdraft, custodial parents do not have to undergo credit screening or meet other bank requirements to qualify for the card.

- The issuing bank assumes all liability for fraud and operating exceptions associated with the card, so the states do not manage errors or exceptions.
- Because POS transactions provide revenue for the issuing bank, both states anticipate that the cards will be self-funded through merchant fees and cardholder fees for ATM withdrawals.
- The issuing banks provide 24-hour-per-day, 7 day-per-week customer service.
- Transaction histories are available over the Internet and monthly account statements are mailed to the cardholder.
- Cardholders can transfer funds to any traditional savings or checking account in the United States.
- Cardholders can pay bills as recurring ACH debits (Direct Payment) or over the phone.

Both states' cardholders receive at least one free ATM transaction per month to access their funds. After using the free transactions, cardholders pay $1.50 per transaction.

Colorado Pilot

From January 2002 through January 2003, Colorado ran a pilot program for electronic disbursement of child support payments. The state sent out 10,000 random solicitations with their checks, and over 10 percent of the recipients applied for the card. During the pilot, the average benefit load was $146. Cash withdrawals (at ATMs) made up 18 percent of the activity (average withdrawal of $79) while POS transactions made up the other 82 percent (average purchase of $24). Cardholders maintained an average balance of $77 on their accounts, indicating that cardholders were not withdrawing the full payment amount. Merchant category statistics on POS activity are described in Table 4.

Table 4: Merchant POS Activity in Colorado EPC Pilot

Retail Outlet	% Activity
Supermarket	30
Fuel	12
Dining	10
Discount/drug stores	8
Telecom	8
Mail/telephone order	5

In May 2002, a series of focus group meetings were conducted to evaluate card acceptance and adjust the program if necessary. Custodial parents were interviewed and Colorado learned that users are quite happy with the card, see real benefits to having it, and would recommend using it to a friend. Users indicate that the card represents a more convenient way to make a purchase, builds self esteem, provides a solid budgeting tool for money management, and gives them a way to separate child support funds from other household money.

V. PUBLICATION ACKNOWLEDGEMENTS

This report was developed by the NACHA Electronic Benefits and Services (EBS) Council's Electronic Disbursement Options Work Group to discuss options for electronic disbursement and to describe card-based disbursement options. Publication of this document by NACHA does not imply the endorsement of any of the member organizations of NACHA.

NACHA wishes to thank the Electronic Disbursement Options Work Group members for their comments and contributions. Lead contributors to this report were:

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VI. ABOUT NACHA – THE ELECTRONIC PAYMENT ASSOCIATION AND THE ELECTRONIC BENEFITS AND SERVICES COUNCIL

NACHA – The Electronic Payments Association is the leading organization in developing electronic solutions to improve the payments system. NACHA represents more than 11,000 financial institutions through direct memberships and a network of regional payments associations, and 650 organizations through its industry councils. NACHA develops operating rules and business practices for the Automated Clearing House (ACH) Network and for electronic payments in the areas of Internet commerce, electronic bill and invoice presentment and payment (EBPP, EIPP), e-checks, financial electronic data interchange (EDI), international payments, and electronic benefits transfer (EBT). Visit NACHA on the Internet at www.nacha.org.

NACHA's Electronic Benefits and Services (EBS) Council (formerly the EBT Council) develops and maintains operating rules that lay the foundation for a nationwide electronic benefits transfer (EBT) system. The operating rules, known as the Quest® Operating Rules (the Rules) specify uniform rights and responsibilities for those involved in processing EBT transactions. Recently, the Council expanded its vision and mission statements to include governmental payments, beyond welfare, such as child support. The EBS Council is comprised of a broad cross-section of public and private sector EBT stakeholders and includes the Electronic Disbursement Options Work Group.

The Electronic Benefits and Services Council of NACHA has written this publication as an information resource concerning electronic disbursement options. The Electronic Benefits and Services Council, however, does not guarantee the accuracy, adequacy, or the completeness of any information, or fitness of any information for a particular purpose. Moreover, the materials in this publication do not offer any professional advice. If the reader requires the services of an attorney or other professional, the reader should seek a competent professional in the applicable field.

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SENATE COMMITTEE REPORT

DATE: 3/26/04

FURTHER: Finance

DATE TURNED IN TO OFFICE: 4/7/04

State Affairs Committee considered CS FOR HOUSE BILL NO. 494(FIN) am

HB 494 ELECTRONIC PAYMENT FOR STATE BUSINESS

"An Act relating to the methods of disbursement of money by the state, including employment compensation, unemployment payments, and permanent fund dividends, and to bank investments and deposits by the state; and providing for an effective date."

and recommends:

[ ] be replaced with ______ CS ______________ (______)

[ ] adopt previous ______ CS ______________ (______)

[ ] attached amendment(s)

[ ] adopt Letter of Intent by ______________ Committee

[ ] further referral to ______________ Committee

Senate Bill:
[ ] Same Title
[ ] New Title

House Bill:
[ ] Same Title
[ ] Technical Title Change
[ ] New Title w/ SCR #_____

NEW FISCAL NOTE(S):

Department	Date	Fiscal	Indet.	Zero	FN#

PREVIOUS FISCAL NOTE(S):

Department	Date	Fiscal	Indet.	Zero	FN#
H+SS	3/19/04			✓	1
H+SS	3/19/04			✓	2
H+SS	3/19/04			✓	3
L+WD	3/16/04			✓	4
L+WD	3/16/04			✓	5
DOR	3/19/04			✓	6
ADM/ALL	3/16/04	✓			7

[ ] APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	DO PASS	DO NOT PASS	NO REC	AMEND
John J. Cowdery			✓	
Fred Dyson				
Robert K. Stedman			✓	
CHAIR: Gary Stevens	✓			

SENATE FINANCE COMMITTEE

SIGN-IN

HB 494-ELECTRONIC PAYMENT FOR STATE BUSINESS

NAME: Debbie Bump Subject/Bill No:

Co./Dept./Title: DOA, Finance Admin Services Manager Phone: 465-5615

Address: Zip:

Do you wish to testify? ___Yes ___No X Respond To Questions

NAME: Subject/Bill No:

Co./Dept./Title: Phone:

Address: Zip:

Do you wish to testify? ___Yes ___No ___Respond To Questions

NAME: Subject/Bill No:

Co./Dept./Title: Phone:

Address: Zip:

Do you wish to testify? ___Yes ___No ___Respond To Questions

NAME: Subject/Bill No:

Co./Dept./Title: Phone:

Address: Zip:

Do you wish to testify? ___Yes ___No ___Respond To Questions

SFC-04
HB 494

5/7/04

SITE: Offnets COMMITTEE: SFIN DATE: 5/7/04	SUBJECT OF MEETING: BILL # HB494 UPDATE #:

PRINT YOUR NAME	COMMUNITY	REPRESENTING/AFFILIATION	DO YOU WANT TESTIFY Y or N
Pat Ladner		Alaska Aerospace	Y

SENATE FINANCE COMMITTEE

SIGN-IN

HB 494-ELECTRONIC PAYMENT FOR STATE BUSINESS

NAME: Kim Gamero Subject/Bill No: Electronic payments for State gov't

Co./Dept./Title: Director of Finance Phone: 465-3435

Address: Dept. of Administration Zip: ____

Do you wish to testify? ____Yes ____No X Respond To Questions

If it pleases the committee, I am available

NAME: ____ Subject/Bill No: ____

Co./Dept./Title: ____ Phone: ____

Address: ____ Zip: ____

Do you wish to testify? ____Yes ____No ____Respond To Questions

NAME: ____ Subject/Bill No: ____

Co./Dept./Title: ____ Phone: ____

Address: ____ Zip: ____

Do you wish to testify? ____Yes ____No ____Respond To Questions

NAME: ____ Subject/Bill No: ____

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Address: ____ Zip: ____

Do you wish to testify? ____Yes ____No ____Respond To Questions