CONGRESSIONAL BUDGET OFFICE
PAY-AS-YOU-GO ESTIMATE

February 7, 2000

S. 1733

Electronic Benefit Transfer Interoperability and Portability Act of 1999

As cleared by the Congress on January 31, 2000

SUMMARY

CBO estimates that enacting S. 1733 would cost the federal government $4 million over the 2000-2004 period. S. 1733 would require that electronic benefit transfer (EBT) systems in the Food Stamp program allow recipients to use the benefits in any state, not just the state in which the benefits are issued. The federal government would pay 100 percent of the fees to switch and settle interstate transactions, up to $500,000 each year. Costs that exceed the $500,000 threshold would be matched by the federal government at the 50-percent match rate for administrative costs.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated impact of S. 1733 on direct spending is shown in the following table. The costs of this legislation fall within budget function 600 (income security). For the purposes of enforcing pay-as-you-go procedures, only the effects in the current year, the budget year, and the succeeding four years are counted.

	By Fiscal Year, in Millions of Dollars									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Changes in outlays	0	1	1	1	1	1	1	1	1	1
Changes in receipts	Not applicable									

BASIS OF ESTIMATE

Requiring portability of electronically issued benefits across all states would result in costs to complete interstate transactions. Because S. 1733 provides for limited payments to reimburse states for such costs, enacting this legislation would increase direct spending.

Current Law

Public Law 104-193, the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, required all states to deliver Food Stamp benefits through an EBT system by October 1, 2002, unless granted a waiver by the Department of Agriculture (USDA). In an EBT system, Food Stamp recipients receive a plastic card, similar to a bank card, instead of paper coupons. Benefits are transferred electronically, and recipients redeem their benefits at terminals in authorized stores. Over half the states are operating statewide EBT systems, with the remaining states in various stages of planning or implementation.

State Food Stamp agencies usually negotiate with an EBT contractor to procure their own EBT systems. Most contracts only cover the costs of transactions performed within an individual state, although some states have formed regional coalitions allowing interstate transactions within the coalition. The contract for a state participating in a coalition includes the switching and settling of interstate transactions within the coalition. Switching involves transmitting the details of the transaction for authorization, and settling is the electronic movement of funds from the issuer to the retail food store. The federal government pays 50 percent of the costs of state EBT systems, as long as the costs do not exceed the costs under the paper coupon issuance system.

Direct Spending Effects of S. 1733

S. 1733 would require USDA to set national standards for interoperability of EBT systems, and states would have to comply with these standards by October 1, 2002, with some exceptions that take into account contract expiration dates and technological barriers. The federal government would pay 100 percent of the costs of switching and settling interstate transactions, up to $500,000 each year. Costs that exceed the $500,000 threshold would be matched by the federal government at the 50 percent administrative match rate. CBO estimates that enactment would cost less than $500,000 in fiscal year 2000, and $1 million each year from 2001 through 2009.

CBO estimates that there would be about five million interstate transactions in 2001, growing to about eight million by 2004 as states implement interoperability. These estimates are based on results from a pilot project on interoperability involving 23 states. CBO assumes that EBT processors would charge an average of 10 cents per interstate transaction, based on conversations with state and federal Food Stamp officials and representatives of the contractor community. The act would prohibit the costs of interoperability from being imposed on retail stores, and there would be some additional costs to the federal government if retail stores claim any costs. CBO expects that these additional costs would not be significant.

ESTIMATE PREPARED BY: Valerie Baxter

ESTIMATE APPROVED BY:

Peter H. Fontaine
Deputy Assistant Director for Budget Analysis