

## Fiscal Impact Review 2017 General Assembly Session

**Date:** February 6, 2017

**Bill number:** HB 2208: Food stamp program; electronic benefit transfer (EBT) card

**Review requested by:** Chairman Orrock, House Health, Welfare, and Institutions

### JLARC Staff Fiscal Estimates

JLARC staff do not concur with the fiscal impact statement for HB 2208 prepared by the Department of Planning and Budget (DPB). JLARC staff estimate that the fiscal impact of HB 2208 would be higher than the DPB estimate.

HB 2208 requires that each electronic benefit transfer (EBT) card issued to a Supplemental Nutrition Assistance Program (SNAP) recipient display a photograph of the recipient. The DPB estimate does not account for all of the costs that would likely be incurred by the Department of Social Services to implement this bill. The DPB estimate also does not account for costs that would be incurred by the Department of Motor Vehicles to share driver's license photos or state ID photos of SNAP recipients for placement on the EBT card. The DPB estimate is less than what many other states have estimated for implementing photo EBT cards.

*An explanation of the JLARC staff review is included on the pages that follow.*

**Authorized for release:**



**Hal E. Greer, Director**

**Bill summary:** HB 2208 would require that each electronic benefit transfer (EBT) card issued to a Supplemental Nutrition Assistance Program (SNAP) recipient display a photograph of the recipient. The bill directs the Department of Social Services (DSS) to establish procedures to ensure that all authorized persons are able to access benefits from the account as necessary. The bill also directs DSS to enter into agreements with other state government entities, including the Department of Motor Vehicles (DMV), to share photographs, when available.

**Discussion of fiscal implications:** HB 2208 would impose additional costs to the state's SNAP program (formerly known as the food stamp program). The fiscal impact statement prepared by the Department of Planning and Budget (DPB) includes initial implementation costs of \$1.8 million in FY18 and ongoing annual costs of \$64,671 beginning in FY19. State general funds would be used to cover half of these costs per year because the federal government pays half of the costs to administer the SNAP program.

JLARC staff estimate that the cost to implement photo EBT cards in Virginia could be significantly higher. Massachusetts—which discontinued its use of photo EBT cards in 2004—estimated that initial costs to reinstate photo EBT cards in 2013 would be \$5-7 million, and ongoing costs would be \$4.4 million annually.

#### Background on federal regulations for SNAP

Federal regulations affect the usefulness of photo EBT cards in reducing SNAP fraud. To participate in the program and receive federal funding (which pays for all benefit costs and half of the administrative costs incurred by states), state programs must comply with federal regulations. The U.S. Department of Agriculture, which administers the SNAP program at the federal level, issued regulations in December 2016 that clarify that anyone with a valid PIN may use the EBT card even if he/she is not pictured on the card, and that households have the right to permit other individuals to use the household's EBT card on an ad hoc basis. Further, federal regulations prevent retailers from asking to see a recipient's photo EBT or other photo ID card unless they ask this of all customers making electronic payments.

#### DPB fiscal impact statement likely underestimates cost of implementing photo EBT cards

JLARC staff do not concur with the fiscal impact statement prepared by DPB because it underestimates some costs and includes some unnecessary costs (Table 1).

**TABLE 1: DPB estimates do not account for all costs that will likely be incurred and include some unnecessary costs**

Expense area	DPB cost estimate		JLARC analysis of DPB estimate
	FY18	FY19	
Vendor system changes	\$250,000		Excludes other ongoing costs to vendor for increased services
New cards for all recipients (FY18)	\$967,435		Excludes costs to notify retailers and recipients about new cards Excludes costs to local DSS offices for camera and other equipment for recipients without DMV photo
Cards for new recipients (ongoing)		\$57,171	Reasonable
Replacement cards			Excludes costs to issue replacement cards
Temporary cards (local DSS)	\$612,000		Unnecessary expense
MOA with DMV	\$7,500	\$7,500	Excludes costs incurred by DMV
<b>Total</b>	<b>\$1,836,935</b>	<b>\$64,671</b>	

NOTE: MOA, memorandum of agreement.

*Vendor system changes: DPB estimate excludes ongoing cost of increased level of service*

The cost estimate of \$250,000 for EBT system modification in FY18 is a reasonable estimate, but it is subject to change during the formal contract negotiation process. The estimate was provided by the vendor that currently operates the EBT card system in Virginia and provides cards to recipients in Virginia. The \$250,000 would cover the vendor's costs to modify its current systems and sub-contract with another vendor to print EBT cards with photos.

The DPB fiscal impact estimate excludes costs to compensate the vendor for an increased level of service beyond what it already provides to DSS. It is likely that the contract price would increase to account for additional maintenance, repair, equipment, and staffing resources that would be needed to provide EBT cards with photos.

*New cards for current recipients: DPB estimate excludes notification costs and costs for non-DMV photos*

DPB estimated a cost of \$967,435 in FY18 for issuing new photo EBT cards for current cardholders. DSS staff indicated that they would provide one photo EBT card per

household (377,462 cards), and additional new cards for approximately 10 percent of SNAP households that have an authorized representative who is entitled to a card, for a total of 415,208 cards. The cost to produce each card was estimated by the vendor to be \$2.33, which is \$1 more than the cost to produce the current card.

JLARC staff believe the costs to replace EBT cards of current cardholders may be higher. The DPB estimate does not include the cost to notify retailers and SNAP recipients of changes to the cards.

The DPB estimate also does not include the cost to obtain photos of recipients who do not have a DMV photo. JLARC staff assume that, where possible, photos will be obtained from DMV. This is similar to the process for obtaining photos by the program in Massachusetts. If Virginia has a similar experience as Massachusetts, approximately 25 percent of cardholders would not have a driver's license or ID card through DMV. In Massachusetts, cardholders without a photo from their motor vehicle agency go to the local social services office to have their picture taken. If Virginia were to follow this model, all 120 local DSS offices would need to purchase the necessary equipment for taking the photo. Equipment costs could be \$500 per office for a digital camera, camera stand, and backdrop, based on an estimate generated for a proposal in North Carolina. Some ongoing costs would be incurred to replace the equipment, and the vendor may incur additional system costs to ensure they can obtain and use these photos.

*Cards for new recipients: DPB estimate is reasonable*

The DPB cost estimate of \$57,171 in annual costs for issuing cards with photo IDs to new SNAP households beginning in FY19 is reasonable, according to JLARC staff analysis. Based on DSS estimates, 15 percent (57,171) of the caseload in 2016 is composed of new applicants. The additional cost to provide new applicants with a photo EBT card would be \$1 per card.

*Replacement cards: DBP estimate excludes costs*

The DPB estimate excludes costs of providing cards to households that need a replacement. Additional costs of approximately \$3,000 annually would be incurred beginning in FY18 for issuing replacement cards. DSS staff indicated that the vendor printed an average of 722 replacement cards per month since March 2016, for an estimated 8,664 replacement cards in a 12-month period. Recipients currently pay a \$2 per card replacement fee (deducted from their SNAP account) unless the need for a replacement meets certain criteria. This means an additional cost of \$0.33 (the \$2.33 cost for the new card less the \$2 replacement fee) per replacement card could be

incurred unless DSS increased the replacement fee. Massachusetts and Pennsylvania currently charge higher fees for replacement cards (\$5 and \$2.50, respectively).

*Temporary cards: DPB estimate includes unnecessary costs for printing temporary cards with photos*

DPB estimates that an initial cost of \$612,000 in FY18 would be necessary to replace the printers at local DSS offices so that the temporary cards they issue would have photos. Local DSS offices issue temporary cards to new applicants in need of expedited services or who apply late in the monthly benefit period. JLARC staff believe that these costs would not be necessary because DSS could continue its current process of issuing temporary cards without photos, using its current equipment. While HB 2208 requires each EBT card to have a photo, it also requires DSS to establish procedures to ensure eligible households have access to benefits as necessary. Federal regulations specifically require states to exempt photos from cards for households meeting the expedited criteria. DSS could implement the policy of providing temporary cards to applicants who apply late in the benefit period to ensure that benefits can be accessed in a timely manner.

*Memorandum of agreement: DPB estimate excludes costs for DMV*

In its fiscal impact statement, DPB estimates that HB 2208 would result in \$7,500 annual costs for entering into a memorandum of agreement with DMV to share client data and photographs. JLARC staff believe this cost estimate is too low because it does not include costs that would be incurred by DMV. DSS staff indicated that the cost estimate covers only DSS costs for the programming and testing required to establish and maintain the interface with the DMV system.

DPB cost estimates are lower than estimates to implement photo EBT cards in other states

The estimates prepared by DPB are less than what many other states have estimated for implementing photo EBT cards (Table 2). JLARC staff think the cost for implementing photo EBT cards could be as much as the cost estimated for Massachusetts' program. Their estimate may be the most reliable because it is based on pricing information from New York's program. Massachusetts also has prior experience in providing photo EBT cards and understands resource needs.

**TABLE 2: Estimated total cost for implementing photo EBT cards in Virginia is less than estimates produced for other states**

<b>State</b>	<b>Initial costs</b>	<b>Ongoing costs, per year</b>
<b>Virginia</b>	<b>\$1.8M</b>	<b>\$65,000</b>
Georgia	\$8M	n.a.
Illinois	\$2-4M	n.a.
Massachusetts	\$5-7M	\$4.4M
North Carolina	\$25	\$2.3M
Tennessee	\$1.4-4.4M	n.a.
Wisconsin	\$7M	\$2.0M

SOURCE: JLARC staff review of research literature.

NOTE: Cost estimates from Maine and New York were not readily available. Costs are total costs. States are responsible for half of total costs; federal government is responsible for the other half.

A number of states recently considered requiring photo EBT cards, but very few (Maine, Massachusetts, and New York) appear to use them because their reviews found the costs would outweigh the benefit gained from fraud reduction. Missouri implemented photo EBT cards in 2000 and discontinued them in 2001 after a report by the state auditor determined that the photo EBT cards did not generate enough savings to be continued. Although Massachusetts has reinstated its program, the state stopped requiring photos on EBT cards in 2004 because of insufficient staffing to process cards and findings that photos were not a deterrent to fraud.

**Budget amendment necessary?** Yes, budget amendments would be necessary starting in FY18 to reflect higher general fund and non-general fund costs for DSS, local departments of social services, and DMV.

**Agencies affected:** Department of Social Services, local departments of social services, and Department of Motor Vehicles

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