

Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536

SFA**BILL ANALYSIS**

Telephone: (517) 373-5383
Fax: (517) 373-1986
TDD: (517) 373-0543

Senate Bill 467 (Substitute S-2 as passed by the Senate)
Sponsor: Senator Michael J. Bouchard
Committee: Families, Mental Health and Human Services

Date Completed: 7-11-97

RATIONALE

The monthly cash benefits caseload of the Family Independence Agency (FIA) is about 162,000 and the cost of each payment warrant, including postage, is approximately 51 cents, for a total cost of around \$82,600 each month. With the advances in financial transaction technology in recent years, funds can be transferred between financial institutions and accounts electronically at a much lower cost than is involved in printing and mailing checks. It has been estimated that transferring FIA benefits electronically would cost only about seven cents per transaction. Some people feel that the FIA should be required to phase in a program to provide all assistance paid under the Social Welfare Act by electronic means, and the Agency reportedly is pursuing the transition from paper payments to electronic transfers.

CONTENT

The bill would amend the Social Welfare Act to require that, if cost effective, no later than the beginning of fiscal year 2002, the Family Independence Agency provide all assistance paid to clients under the Act by electronic means, including, but not limited to, the use of an electronic benefit transfer (EBT) system.

Proposed MCL 400.10c

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

In today's world of modern technology, electronic transfers of funds are used widely in various forms of financial transactions. Loan payments can be transferred from a person's saving or checking account; a worker's salary can be transferred

directly to one or more accounts or payments; and a shopper can even pay for his or her groceries through an electronic transfer of funds at some retail stores. This efficient method of making payment is more accurate and secure and is faster than physically transferring paper between the parties to a financial transaction. Just as electronic transfers have proven efficient and beneficial in collecting wages and making payments, an EBT system would provide for the disbursement of public assistance benefits more quickly than the issuance of paper checks. Using an EBT system also could eliminate, or at least minimize, problems with lost or stolen checks.

Response: While the bill apparently would codify the FIA's current efforts in developing an EBT system, legislation may not be necessary. The FIA reportedly plans to implement an EBT pilot project beginning March 1, 1998, and expects to have a statewide system by October 1, 1998.

Opposing Argument

Some people who receive public assistance payments may not have an account at a financial institution. This would preclude their ability to receive payments via an EBT system. The bill should include a provision for an assistance recipient to opt out of receiving his or her payment through an EBT, perhaps by filing with the FIA a written affirmation that he or she did not have an account in which to receive the electronic transfer.

Response: Allowing an opt-out would be inefficient because the FIA would have to maintain dual payment systems and assistance recipients could be discouraged from accepting their payments by EBT. In addition, according to testimony before the Senate Committee on Families, Mental Health and Human Services on a similar bill dealing with support order payments, in counties whose Friend of the Court offices currently use electronic transfers to make support payments,

banks have offered free accounts to those individuals who cannot afford to open or maintain them. Perhaps the State could negotiate a similar arrangement with financial institutions with respect to assistance recipients.

Legislative Analyst: P. Affholter

FISCAL IMPACT

The bill would have an indeterminate fiscal impact on State government expenditures. If the Family Independence Agency continues its current plan to implement the Michigan Electronic Benefits Transfer system, this bill would codify that plan. The FIA is in the development stages of implementing the system with a pilot project scheduled to begin March 1, 1998, in Jackson County at an approximate cost of \$1,700,000. It is estimated that the statewide system will begin October 1, 1998, at an estimated cost of \$7,900,000. The FIA cost projections estimate that by FY 2000 to 2004 the system's cost will be approximately \$10,100,000 per year. By FY 2005 this cost will be in the FIA's base appropriation. However, additional costs could be incurred for inflationary increases.

The estimated saving to the State would be reflected in the cost of warrants issued versus the cost for EBT transactions. The latest FIA cash benefits caseload is approximately 162,022. The cost of each warrant, including postage, is approximately \$.51, or \$82,631.22 each month for all warrants. An EBT transaction costs approximately an average of \$.07, for a total cost of \$11,341.54 per month. The saving, therefore, would be approximately \$855,500 for the year. However, taking into account that caseloads are dropping, the saving would be adjusted downward as long as caseload reduction continued to happen.

It appears that the bill would have no fiscal impact on local government.

Fiscal Analyst: C. Cole

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.