

Senate Fiscal Agency
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Senate Bills 505 and 506 (as enrolled)
Sponsor: Senator Bev Hammerstrom
Senate Committee: Families, Mental Health and Human Services
House Committee: Family and Children Services

PUBLIC ACTS 193 and 194 of 1999

Date Completed: 1-26-00

RATIONALE

The Federal Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996, which implemented some of the Federal welfare reform efforts, specifies that each state must establish an electronic benefit transfer (EBT) system by October 1, 2002, as an alternative to issuing food stamp coupons and checks for benefits. An on-line EBT system is a computer-based system in which authorization for benefits is received from a central computer. Once certified, benefits can be electronically loaded into the central computer account each month.

Michigan has entered into a contract with City Bank EBT Services (a national company that has established EBT systems in several other states) to establish such a system. The Family Independence Agency (FIA) plans to launch the system with a pilot program this year. The State's traditional benefit programs have handled food stamps in the form of paper coupons and public assistance in the form of checks, so the State Food Stamp Distribution Act and the Social Welfare Act reflect this model. It was suggested that these statutes should accommodate the move from paper documents to the new EBT system.

CONTENT

Senate Bill 505 amended the State Food Stamp Distribution Act to specify that it applies to the distribution of food stamps through the issuance of paper coupons. It does not apply to distribution by means of an EBT system, except as provided by Federal law.

Senate Bill 506 amended the Social Welfare Act to include the use of an "access device", and aiding a person to attempt to obtain assistance fraudulently, in the Act's prohibition against fraudulently obtaining public assistance. "Access device" means that term as it is defined in the Michigan Penal Code's food stamp fraud provision (750.300a), i.e., any card, plate, code account number, or other means of

access that may be used, alone or in conjunction with another access device, to obtain payments, allotments, benefits, money, goods, or other things of value, or that may be used to initiate a transfer of funds.

Under the Social Welfare Act, any person who by means of willful false statement or representation, or by impersonation or other fraudulent device, does either of the following is guilty of a misdemeanor if the amount involved is \$500 or less, or of a felony if the amount involved is more than \$500:

- Obtains or attempts to obtain, or aids or abets any person to obtain assistance or relief to which that person is not entitled.
- Obtains or attempts to obtain, or aids or abets any person to obtain a larger amount of assistance or relief than that to which the person is entitled.

The bill included in the prohibition use of an access device to commit a violation. The bill also added to those provisions aiding or abetting a person to attempt to obtain assistance to which the person is not entitled.

In addition, the bill specifies that the penalties apply to any officer or employee of a county, city, or district family independence agency who authorizes or recommends relief to persons known to the officer or employee to be ineligible or to have fraudulently created their eligibility. The Act previously referred to an officer or employee of a county, city, or district department of social welfare.

MCL 400.751 (S.B. 505)
400.60 (S.B. 506)

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

The bills bring two Michigan statutes into conformity with Federal requirements that states establish EBT systems by October 1, 2002, to distribute public assistance benefits, including food stamps. The bills also comply with current FIA efforts to develop such a system in Michigan. Banking and shopping practices have changed a great deal during the past two decades. More people conduct their personal finances by electronic transfers, rather than in person or by check. The establishment of an EBT system will allow FIA recipients to join in this popular trend. For instance, to obtain benefits, eligible households may be given magnetic-striped plastic cards, similar to credit or bank debit cards, and have accounts maintained at authorized food retailers. Checkout lanes at these retailers may be equipped with terminals that can verify the validity of a person's identification and the amount of available benefits, obtain authorization, debit the household's account, and credit the retailer's account when transactions occur.

In addition, the use of an EBT system will have other benefits. For example, retailers will save both time and money in the form of increased efficiency, since they will not have to process food stamps separately in check-out lanes. Also, recipients will be free from the stigma of publicly handing over food stamps in grocery stores. The FIA anticipates administrative savings, as well, since it expects the automatic deposit of benefits to result in fewer inquiries regarding lost, stolen, or late benefits, thus freeing staff time for other duties. Further, in states where EBT systems have already been established, the new systems reportedly tend to increase aid recipients' self-confidence, and foster a

greater sense of responsibility toward the handling of money.

Supporting Argument

The shift from paper documents to the EBT system will drastically reduce an area of welfare fraud involving illegal traffic in food stamp coupons. Food stamp trafficking occurs when buyers, or "runners", pressure food stamp recipients into selling their coupons, often at a discount of up to 50%, and then sell the coupons to unscrupulous retailers. Reportedly, stores that participate in these activities typically pay from 75 to 80 cents on the dollar for the coupons, and then "launder" the coupons by redeeming them at face value from the Federal government. Food stamp coupons also have become an alternate form of currency, and evidently are used in drug and gambling activities on the streets. This type of activity occurs, despite the fact that traffickers in food stamp coupons can face severe penalties.

Opposing Argument

The establishment of an EBT system for the State's food stamp program raises some concerns. It is not clear, for example, whether banks will be allowed to charge fees for the service of disbursing funds, how recipients who do not speak English will manage, or how recipients who are homebound or blind will handle the new system.

Response: The FIA apparently has stated that banks may charge fees in the same manner as they assess fees for such services as writing checks. Once the EBT system is established, a hotline will be available 24 hours per day, seven days a week, to answer questions in English, Spanish, and Arabic. Current services for those who are homebound will continue, so that, for example, a guardian or aide may be authorized to handle a recipient's financial dealings. Provisions for recipients who are blind apparently have not yet been established.

In addition, since the FIA plans to operate a pilot project for the EBT system, details pertaining to these types of concerns should be resolved before statewide implementation of the system.

Legislative Analyst: P. Affholter

FISCAL IMPACT

Senate Bill 505 will have no fiscal impact on State or local government.

Senate Bill 506 will have an indeterminate fiscal impact on State and local government. In 1997, there were 356 offenders convicted of violating or attempting to violate MCL 400.60 (fraudulently obtaining assistance). Of those convictions, only two offenders were sentenced to a prison term. There

are no data to indicate how many more people will be convicted with the definition of “access device” added to the violation. Because most violators are not sentenced to State prison, any changes in conviction rates will primarily affect local units of government.

The bill will have no fiscal impact on the Family Independence Agency.

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.