

# Electronic Benefits Transfer in Florida: An Exploratory Discussion

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## Introduction

In recent years, a great deal of emphasis has been placed on privatizing social (government) services—from prison to pension to public assistance programs. Traditionally a Republican pet project, now even the Democrats are jumping on this bandwagon of privatization, all in the name of downsizing the government and streamlining government bureaucracy. For example, Vice President Gore made public benefits delivery a cornerstone of his “Reinventing Government” plan (*ABA Banking Journal* 1994a). Acting on this plan, both federal and state officials have been exploring electronic benefits transfers (EBT) through private contractors as a mechanism to reduce administrative costs and fraud involved in the delivery of social benefits (Piskora 1995a; *Debit Card News* 1998b).

It is, therefore, no surprise that many large private companies are vying to capitalize on this push to privatize social programs. One report argues that by the year 2000, Lockheed Martin, the same company that practiced price gouging at the Pentagon by charging \$640 for a toilet seat, may be as familiar to mothers and social service bureaucrats as it is to the Pentagon’s top brass. The company is moving aggressively in this arena. Using its contract bidding in Texas as an example, Hartung and Washburn (1998:11) note: “Now that new federal block grants have ceded to state control, Lockheed Martin is betting that public assistance will be the next big prize.”

One social service area in which privatization—or the involvement of the private sector in its delivery—is proceeding at a rapid pace in many states is a wide range of public assistance programs that entails a total of more than \$110 billion in annual benefits

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payments. Of this amount, food stamps alone account for somewhere between 24 and 28 billion dollars in public disbursements (Blair 1997; Higginbotham 1996). One powerful force that is obviously propelling the push for privatization of public benefits delivery is what is commonly known as the electronic transaction revolution, currently sweeping through the consumer economy. Not only has this revolution made electronic transfers possible, but it has also made the involvement of the private sector more appealing and even logical (Armstrong 1996). After all, with respect to the electronic delivery of public benefits the private sector has a definite advantage over the public sector. Among the major players in the arena of electronic benefits transfer (EBT) to public assistance recipients are Citibank, Nations Bank, Deluxe Data Corporation, Gtech, and Lockheed Martin (*Bank Network News* 1998a).

One assumption behind the push for privatization is the messianic belief—whether justified or not—that when it comes to financial transactions and paperwork, the private sector is inherently superior, far more efficient and cost effective than the public sector: the government (Hogginbotham 1996; Hornbeck 1997; McGuire and Sentell 1996). Privatization is, therefore, seen as a cost containment strategy. "What we're seeing in the social service arena," says Paul Bracken, a Professor at the Yale School of Management, "is the move toward privatization serving as a containment strategy. You cap the amount of money given to run the program and you can be sure that the private sector will contain costs" (quoted in Hartung and Washburn 1998:16). In other words, what we can discern here is the convenient convergence of the government plan to cut the costs of public benefits delivery and the private interest to turn this vast pool of public assistance funds into a handsome source of profits, all mediated through the electronic transaction revolution.

With this general argument in mind, we provide in this article an exploratory discussion of the likely impact of EBT on the public assistance delivery system in Florida, or more specifically how the efficacy of EBT will be ultimately judged. Since check-cashing establishments are currently the most common financial outlets used by the state's public assistance recipients, the findings of a pilot study of these establishments is highlighted first in order to set the stage for the present discussion of EBT's effectiveness as an alternative delivery system.

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### Research Objective

As already indicated, in the past few years many states have implemented electronic benefits transfer (EBT) plans (for a detailed list, see *EFT Report* 1998). In the spring of 1996 when this research was conducted, the state of Florida was exploring EBT as an alternative way to deliver public benefits to its clients. This research is a product of the pilot study that the Florida Department of Health and Rehabilitative Services (HRS) commissioned on its EBT plan (see Gray, Benjamin, and Shrestha 1996). In other words, as part of the state's environmental mapping of its public assistance programs, the current study was carried out primarily to assess some of the concerns and issues related to EBT implementation vis-à-vis benefit recipients. One obvious concern was "to determine. . . where our welfare recipients. . . go to conduct their transactions so we can better assess where we need new terminals or where we can retrofit equipment" (Connie Reinhardt of HRS quoted in *ABA Banking Journal* 1994b).

Since check-cashing operations (CCOs) were the primary institutions to provide financial services to HRS clients across the state—in both urban and rural, big and small communities—the study was designed to find out how they use these services. Implicit here was the assumption that the efficacy of any alternative system would have to be measured against CCOs. One clear advantage that CCOs offer is geographical accessibility. In addition, they offer a variety of services to their customers. So both the question of accessibility and the diversity of services become important issues in consideration of any EBT approach to public assistance delivery to benefit recipients who are invariably limited in both their geographical mobility and ability to use larger and more formalized financial institutions such as banks. Certainly, the common argument in favor of EBT is that it will modernize the benefit issuance process by putting recipients in the economic mainstream as well as allow them to maintain some anonymity about being on welfare. And it is also expected to reduce the costs and fraud involved in the paper delivery of benefits, thereby saving money for the state of Florida. But the key question is: can EBT maintain, if not improve, the level of accessibility provided by CCOs, while at the same time offering services to benefit recipients at a reduced cost?

## **Survey Sites and Methodology**

For the purpose of this pilot study, we decided to conduct surveys in three general areas of Florida: Miami, Tampa, and the Big Bend. The rationale was that the Big Bend would cover the state's northern rural communities and small towns, whereas the Tampa and Miami regions would represent the metropolitan environment in central and southern Florida, respectively. In the Big Bend area, one check-cashing facility in Perry and one in Quincy were surveyed. In the Tampa Bay area, the survey was carried out in three check-cashing locations, two in Tampa and one in St. Petersburg. In Miami, a total of seven facilities were covered in three different sociodemographic areas: three in relatively poor inner-city locations, two in a suburban area with a middle-class status, and the remaining two in a somewhat mixed area. These three sites provided a good representation of the range of geographic and socioeconomic environments within which CCOs operate.

The survey instrument was designed to gather information on the demographics of the service users, the services used, user perception of the utility of the services provided, and the respondents' perception of proposed EBT plan. In all three areas, the survey was conducted by a team of MBA students from the School of Business & Industry at Florida A&M University over a two-day period. We were directly involved in the supervision of the survey interviews conducted by the students. Given the exploratory nature of the survey, no attempt was made to follow a random sampling procedure. Simply expressed, we interviewed only those service users who were willing to participate and who came during the time of our presence at the facility. Altogether 90 service users were interviewed: 18 in the Big Bend area, 32 in Tampa, and 40 in Miami. Although this study lacks the statistical advantages of a random sample of service users, it does reveal their general profile as well as a common tendency concerning the nature of services they use (for a detailed discussion, see Gray, Benjamin, and Shrestha 1996).

## **Survey Findings**

Tables 1 and 2 reveal the sociodemographic profile of survey participants. While Table 1 deals with age, marital status, sex, ethnicity, and household size, Table 2 focuses on participants' employment status. In terms of age, 70 % fell in the 26-35 and 36-45 age cohorts, with 14 % coming from the <25 group and 16 % from the

**Table 1**  
**Profile of Survey Respondents**

		Age				Marital Status			Sex		Ethnicity				Household Size			
Site	Total	<25	26-35	36-45	46+	M	S	NA	M	F	B	W	H	1-2	3-4	5-6	7+	
Big Bend (%)	18 100	4 22	6 33	5 28	3 17	12 67	6 33		5 28	13 72	8 44	10 56		3 17	12 67	3 17		
Tampa (%)	32 100	3 9	11 34	15 47	3 9	13 41	11 34	8 25	26 81	6 19	15 47	16 50	1 3	13 41	14 44	4 13	1 3	
Miami (%)	40 100	6 15	13 33	13 33	8 20	14 35	26 65		24 60	16 40	32 80	1 3	7 18	18 45	17 43	3 8	2 5	
Total (%)	90 100	13 14	30 33	33 37	14 16	39 43	43 48	8 9	55 61	35 39	55 61	27 30	8 9	34 38	43 48	10 11	3 3	

**Table 2**  
**Employment Status**

Site	Total	Employment Status		
		Employed	Not Employed	Self-Employed
Big Bend (%)	18 100	15 83	2 11	1 6
Tampa (%)	32 100	23 72	3 9	6 19
Miami (%)	40 100	32 80	7 18	1 3
Total (%)	90 100	70 78	12 13	8 9

45+ age bracket. For the marital status category, eight respondents (9%) did not indicate their marital status. Of the remaining 82 cases, married and single respondents were almost equally distributed: 43 vs. 48. With regard to sex division, 60 % constituted males and 40 % female participants.

Table 1 also shows survey participants' ethnic background and household sizes. The ethnic breakdown is as follows: 61 % African-Americans, 30 % whites, and 9 % Hispanics. The response to the household size question was heavily weighed toward the relatively standard American household size: 1-4 members. More specifically, 38 % of the participants had 1-2 members while 48 % came from a household size consisting of 3-4 members. Altogether these two groups constituted more than 85 % of the sample.

The findings regarding participants' employment status are presented in Table 2. Almost 80 % of the respondents were employed

compared to only 13 % who did not have employment. Ten out of 12 unemployed respondents were found in the urban settings of Miami and Tampa. The remaining 9 % belonged to the self-employed. On the surface, such a high rate of employment among the respondents is somewhat surprising. However, several factors may explain this finding. For example, CCOs are widely used by both employed and unemployed individuals. Additionally, it is likely that many of the respondents were actually engaged in some kind of informal sector employment, in which the cash transaction is the prevalent mode of wage payment, thus keeping the employment record off the books (Wiegand 1992). Such respondents could have considered themselves to be employed, for they are technically employed.

The survey also explored the types of services provided by CCOs and subsequently utilized by customers (Table 3). While several types of services were available, in terms of utilization check-cashing and money orders were the two most widely used in Miami and Tampa. In the Big Bend area, however, it was the title loans that were most dominant. Of the 125 cases of service utilization (this number is higher than the number of survey respondents because some respon-

**Table 3**  
**Types of Services**

Site	Total	Types of Service					
		Cash Checks	Buy Mo. Orders	Pay Bills	Do Inc. Tax	Title Loans	Other
Big Bend	19	6				13	
(%)	100	32				68	
Tampa	45	26	13	2	2		2
(%)	100	58	29	4	4		4
Miami	61	19	20	8	6		8
(%)	100	31	33	13	10		13
Total	125	51	33	10	8	13	10
(%)	100	41	26	8	6	10	8

dents used more than one type of service), 41 % involved check cashing and 26 % buying money orders. Although the 13 cases of title loans translate into only 10 %, they are considered important because of their concentration in the Big Bend area. Use of the title loan service was nonexistent in Miami and Tampa (Table 3).

Table 4 explores how survey participants rated the overall quality of services provided by check cashers. Almost 90 % rated the quality

**Table 4**  
**Quality of Services**

		Service Rating				
Site	Total	Excellent	Very Good	Good	Fair	Poor
Big Bend	18	10	4	2	2	
(%)	100	56	22	11	11	
Tampa	32	9	11	10	2	
(%)	100	28	34	31	6	
Miami	40	5	8	20	4	3
(%)	100	13	20	50	10	8
Total	90	24	23	32	8	3
(%)	100	27	26	36	9	3

to be at least “good” while 27 % said “excellent.” However, in Miami seven respondents gave a rating of “fair” or “poor” to the services offered by CCOs. When specifically asked whether they found the services valuable, 93 % said “yes.” Once again, five Miami respondents said “no.” There was one missing case.

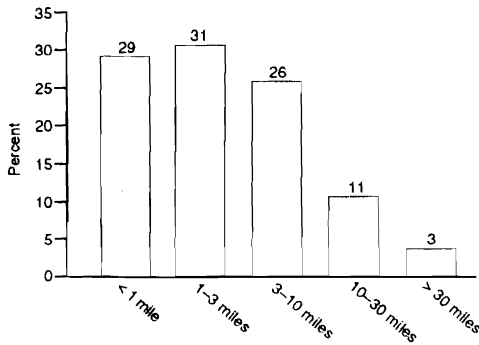
Next, the survey respondents were asked how far they traveled to obtain services provided by check cashing operations. The question was designed to derive pertinent information on the geographical accessibility of CCO services to their clients. Accessibility is a critical issue for most customers, especially for those with limited transportation facility. Table 5 shows that a large segment of the CCO service area falls within a 3-mile radius as 60 % of the users came from within that distance (Figure 1). This finding was not surprising at all, particularly in the context of urban areas such as Miami and Tampa where competition for such services is generally high. Furthermore, because of their high population density, CCOs tend to be distributed throughout the city in relatively close proximity; they do not necessarily require a large geographical market range for them to remain profitable. On the other hand, in rural communities and small towns, the geographical threshold is relatively high because of their sparse population distribution. It is no wonder, therefore, that in places like Perry and Quincy, 12 out of 18 survey participants came from beyond the 3-mile range, two actually traveling more than 30 miles to obtain services.

Finally, the survey explored participants’ opinion about the electronic transfer of benefits (Table 6). Although this was admittedly done in somewhat of an exploratory manner, the general response

**Table 5**  
**Distance Traveled to Obtain CCO Services**

		Distance Traveled to Obtain Services (in miles)				
Site	Total	<1	1-3	3-10	10-30	30+
Big Bend	18		6	7	3	2
(%)	100		33	39	17	1
Tampa	32	5	11	10	5	1
(%)	100	16	34	31	16	3
Miami	40	21	11	6	2	
(%)	100	52	28	15	5	
Total	90	26	28	23	10	3
(%)	100	29	31	26	11	3

**Figure 1**  
**Distance Traveled to Obtain OOC Services**



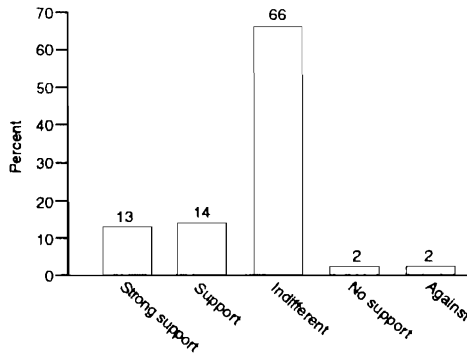
was deemed to be quite revealing. According to the preliminary findings presented here, 66 % of the respondents were indifferent or had no opinion, whereas 25 were found to be supportive/strongly supportive of EBT. Six were not supportive, four individuals being outright opposed to it (Figure 2). This discovery is quite interesting, especially in light of the fact that 93 % of the respondents had claimed CCO services to be valuable. This is perhaps a reflection of the costs of CCO services, which their customers generally regarded to be high. Our discussions with the managers of the check-cashing establishments where this pilot survey was carried out revealed that check-cashing fees were usually stated as a percentage of the face value of the check. In addition, it was common for check cashers to set



**Table 6**  
**General Opinion about EBT**

Site	Total	Opinion about EBT				
		Strong Support	Support	Indifferent	No Support	Against
Big Bend	18	1	2	14	1	
(%)	100	5	11	79	5	
Tampa	32	11	9	9	1	
(%)	100	34	28	28	3	
Miami	40		2	36		2
(%)	100		5	90		5
Total	90	12	13	59	2	2
(%)	100	13	14	66	2	2

**Figure 2**  
**Opinion about EBT**



a flat minimum fee per check. Based on the service charges posted inside the premises, the fees were generally higher in inner-city locations (also see Caskey 1994; Synergistics 1993). Irrespective of the reason(s), the fact that 95 % of the respondents were indifferent to, or supportive of EBT, suggests that HRS clients are open to an alternative system of public benefits delivery. Simply put, from the customers' perspective these findings bode quite well for Florida's EBT implementation.

### **Effectiveness of EBT: Concluding Remarks**

In view of time and budgetary constraints, the scope of the present study was limited. The findings should, therefore, be regarded as tentative and preliminary. One primary limitation of the study is that it is based on a small sample of 90 respondents at 12 check-cashing establishments in three different areas. Regardless of its limitations, the present findings do reveal some indicative patterns of services used by CCO customers as well as their general sentiments about EBT.

The findings that the vast majority of customers travel only short distances (except in rural communities) to obtain CCO services have a significant locational policy implication for the statewide implementation of EBT. The accessibility of basic financial services for HRS clients is, therefore, a critical issue. Then there is the question of safety. For public assistance recipients, it is not just a matter of receiving benefits, but also being able to cash them in a timely and secure manner. To be sure, accessibility comes with a cost—the cost of convenience. But the question is: how much or what is the fair cost? The findings pose an interesting dilemma. On the one hand, about 90% of the survey participants found the CCO services valuable and gave them a good rating. On the other hand, the high service cost was a serious concern. So the cost matters. Many sociological studies have revealed that the poor always pay more, virtually for everything, including check-cashing services (Caskey 1994; Synergistics 1993). “Nobody spends more to get their money or pays more to spend their money than poor people,” flatly declares Patrick McDonnell (quoted in Armstrong 1996b). During this survey some customers volunteered that service charges were too high. Check-cashing outlet owners associated with the Miami-based Florida Check Cashers Association admitted that the high cost was largely related to accessibility and convenience that they offered to their customers. To repeat, accessibility and costs are vital issues for the recipients of public assistance, for their mobility is limited due to the lack of reliable means of transportation.

So the challenge facing EBT as an alternative channel of public assistance delivery is to reconcile the utility and quality of financial services provided in poor communities and the high cost of accessibility, i.e., accessibility and safety at a reduced cost. Can EBT serve as a mechanism for providing such services in a manner that is both efficient and cost effective for the State as well as benefit recipients? We ask this question, not because EBT is still in the consideration

phase. EBT is already here in Florida, currently being implemented in the Pensacola area. Initially launched in October 1997, Citibank, the private contractor for Florida, plans to go statewide in the fall of 1998. While there is indication that the implementation is going fairly smoothly in Pensacola, the EBT system is still in its infancy. Independent studies have yet to be conducted to render any assessment of EBT's efficacy with a degree of statistical certainty. That is, we need to hear the voices of public assistance recipients to discover how satisfied they are with EBT or what aspects of EBT give them most satisfaction as well as concern them most (if any).

We ask the above question because, in the final analysis, the effectiveness of EBT will be judged, not only on the basis of how much money it saved for the state and whether it plugged the recipients of public assistance into the economic mainstream through electronic transactions. The verdict will ultimately be cast based on its ability to provide readily accessible service to benefit recipients at a cost that is lower than what check cashers charge. Moreover, since EBT is dominated by a handful of private contractors, it often engenders fear about its monopolistic tendency or control (*Bank News Network* 1998a; *Debit Card News* 1998a). "We support EBT, but we are concerned that we are putting way too much power in the hands of just a few government designated issuers who are now in the position to monopolize EBT and exclude other players who are otherwise active in the [electronic funds transfer] world" (Dale Dooley of Iowa Transfer System quoted in Piskora 1995b). Such monopolistic control fears will matter very little, however, if Florida's EBT contractor (Citibank) can provide a satisfactory answer to the above question in terms of its actual practice. If EBT can save money for the state of Florida by cutting the cost of public assistance delivery and at the same time distribute public assistance in a manner that is both efficient and cost-effective for benefit recipients, then the debate about EBT is pretty much over. In essence, everybody wins, and EBT can have a victory parade, thus paving the path for more privatization of public assistance funds. Otherwise the EBT system, one can be sure, will be filled with as many disgruntled noises as benefits transfer codes.

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