

***CREDIT CARD TASK FORCE***

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***Recommendations & Options to Facilitate the Use of  
Electronic Payments***

*A report submitted to the 2007 Legislature pursuant to Laws 2006,  
Chapter 219*

*January 17, 2007*

January 17, 2007

*Legislative Committee Chairs and Interested Parties:*

*The members and participants in the credit card task force are pleased to present this report for consideration by the 2007 Legislature. You will notice a number of themes repeat throughout this report and have an impact on the recommendations and options we are presenting. First, the credit industry is a multi-billion dollar industry that is undergoing significant change. A second theme is the increasing demand by customers to allow the use of credit and debit cards for government transactions. And finally, the credit card industry rules have the impact of reducing the options available to government for accepting payments by credit and debit cards.*

*This report contains recommendations (section VIII) which have unanimous support from task force members. Most, if not all, of these recommendations can be implemented without legislative change but may require policy initiatives at the state and local level.*

*Section IX includes four options to facilitate the additional use of credit cards, especially for transactions where the revenue is shared between the state and its acceptance agents. Because of the diverse membership on the task force, a preferred option is not identified. Individual members of the task force may not be supportive of some or all of the options identified. All task force members are concerned with adding additional costs on consumers, but also are aware that allowing credit and debit card transactions increases the costs to any state agency, local government, or agents of the state accepting the payment.*

*The task force members look forward to discussing the recommendations and options included in the report.*



Mr. Jerry Engebretson  
Task Force Co-Chair  
Department of Finance



Mr. Ron Mavetz  
Task Force Co-Chair  
Department of Finance

## *Executive Summary*

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### Creation

The 2006 Legislature created the task force to study the advantages and disadvantages of accepting credit and debit card payments for governmental transactions. Representatives of local government entities requested the creation of the task force as it had become clear that customers expected to be able to use credit and debit cards at their offices and counters.

### Task Force

The task force met from July 2006 through January 2007 and has submitted this report to the 2007 Legislature. The task force was made up of state agency representatives, local government representatives and individuals who serve as agents of the state. The task force took testimony from the credit card industry and local governments.

### Current Credit and Debit Card

#### Acceptance

At both the state and local level a significant number of transactions are being completed using credit and debit cards. In Fiscal Year 2006, the state collected approximately \$273 million in credit card receipts. Of that amount, \$129 million was collected in over-the-counter transactions and \$144 million through internet transactions.

Counties, cities and other governmental entities also accept credit card payment in a number of areas. Examples include park and recreation fees and permits, utility payments, corrections fees, and property taxes.

### Barriers to accepting credit and debit cards

The task force quickly identified that the most significant barrier for accepting credit and debit cards was in face-to-face transactions where there is shared revenue. An agent or merchant accepting a credit payment must pay a transaction fee to the card issuer. In areas where one governmental agency or agent accepts a payment and revenue for that payment is shared between two or more levels of government, the fee issue has become a barrier to acceptance.

### Recommendations

The Task Force identified seven recommendations for any entity or agency to follow related to accepting credit and debit cards. These recommendations include issues related to security, reconciliation, providing low/no cost options or alternatives to accepting credit and debit.

## ***Executive Summary (cont.)***

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### Options

The Task Force also identified four options for consideration by the Legislature. These options identify steps that could be taken to facilitate acceptance of credit and debit for additional governmental transactions. The options include:

- The Legislature could choose to not make any changes to the current laws related to acceptance of credit and debit cards. Any agency, local government or agent could accept credit and debit cards and charge a service fee when allowed by credit card companies (when payment is made through an alternative payment channel) and accept credit and debit on face-to-face transactions if they were willing to pay the transaction fees assessed by the credit card companies.
- The Legislature could add an additional fee, paid by the customer and kept by the agency, local government or agent of the state, to the cost of certain licenses, services or transactions to offset the additional costs incurred to accept credit and debit cards on face-to-face transactions.
- The Legislature could add an additional fee, paid by the customer, to the state portion of certain licenses, fees or payments collected to offset the additional costs incurred to accept credit and debit cards on face-to-face transactions.
- The Legislature could amend state statute to require state agencies to absorb the credit transaction fee for its share of any shared revenue transaction that is collected by agents of the state. Under this option, the credit/debit card transaction fee on the portion kept by any local government or agent of the state would be the responsibility of that agent or governmental unit.

### Summary

The Task Force looks forward to presenting its findings and working with the Legislature, state agencies, local governments, and agents of the state to meet the growing demand for credit and debit card acceptance.

## SECTION I: Authorizing Legislation

The task force was created pursuant to Laws 2006, Chapter 219. It was charged with studying the advantages and disadvantages of using credit and debit cards for transactions with state and local government from both the government's and the consumer's point of view. The task force is also tasked with identifying options to facilitate the use of credit and debit cards for state and local government transactions and the fiscal impacts of those options. Its findings and recommendations are to be reported to the 2007 Legislature.

Below is the enabling legislation:

*Section 1. CREDIT AND DEBIT CARD TASK FORCE.*

*Subdivision 1. Creation of task force; membership. There is created a task force to study the use of credit and debit cards for transactions with state and local governments where payment is for taxes, licenses, permits, or other statutory fees. The membership of the task force shall consist of:*

- (1) the commissioner of public safety or a designee;*
- (2) the commissioner of natural resources or a designee;*
- (3) the commissioner of finance or a designee;*
- (4) a representative designated by the League of Minnesota Cities;*
- (5) a representative designated by the Association of Minnesota Counties;*
- (6) a representative designated by the Minnesota Deputy Registrar Association;*
- (7) a representative designated by the Minnesota Association of County Auditors, Treasurers, and Finance Officers; and*
- (8) a representative of the Consumer Division of the Office of the Attorney General.*

**Subd. 2. Task force duties; report.** The commissioner of public safety or a designee shall call for the time and place of the first meeting of the task force. The task force shall elect a permanent chair from among its members. The task force shall study the advantages and disadvantages of the use of credit and debit cards for transactions with state and local government from both the government's and the consumer's point of view. The task force shall identify options to facilitate the use of credit and debit cards for transactions and identify the fiscal impacts of those options. The task force shall solicit testimony from representatives of state and local government, consumers, and the credit card industry. The task force shall report its findings and recommendations to the 2007 legislature as provided for in Minnesota Statutes, section 3.195. The report shall also be provided to the chairs of the senate committee on state and local government operations, the House of Representatives committee on local government, and the House of Representatives committee on governmental operations and veteran's affairs. The task force held a total of seven meetings, beginning in July of 2006 and completing its work in January 2007. The first meeting was convened by Ms. Mary Ellison, Department of Public Safety Deputy Commissioner. The task force selected Jerry Engebretson & Ron Mavetz, representing the Department of Finance to serve as the permanent co-chairs of the task force.

The July meeting of the task force focused on identifying the need or problem the task force was created to address. County officials noted the task force legislation was created by counties who saw the need to collaborate on solutions to accepting credit and debit transactions in face-to-face counter transactions. The credit card industry rules and the relationship between individuals who act as agents of the state to accept payment for licenses or fees where the revenue is shared between the agent and the state created barriers to the acceptance of debit and credit cards. The growing desire by customers to pay by credit and debit has necessitated the discussion of how to facilitate their acceptance for governmental transactions.

The task force met again in August and heard testimony from Hennepin County on their experience accepting credit for certain deputy registrar and drivers license agent transactions. Hennepin County, like many other counties, accepts credit cards for a number of services in the areas of health care, parks, property taxes (via the internet) and courts. Unlike most local deputy registrar's they have begun accepting credit payments in their license or service centers. Hennepin County absorbs the cost of the credit industry transaction fee by selling ad revenue on message boards in each center.

The third meeting of the task force in September was devoted mainly to testimony from representatives from VISA and MasterCard. A discussion of the industry can be found later in the report. Also, the task force heard from Sherburne County on their more limited use of credit and debit cards for driver's license transactions. The task force also appointed a subgroup to begin drafting the report and possible recommendations.

Beginning with the October meeting, the task force spent each meeting discussing the current use of electronic payments in state and local government and among agents of the state. The meetings were used to discuss possible recommendations and the fiscal impact of each.

The task force completed its work at its January meeting and has delivered its recommendations to the 2007 Legislature as required. Below is a list of individuals who participated in the task force:

State Government Officials

Ron Mavetz, Dept. of Finance  
Jerry Engebretson, Dept. of Finance  
Mary Ellison, Dept. of Public Safety  
Pat McCormack, Dept. of Public Safety  
Larry Ollila, Dept. of Public Safety  
Joe Bowler, Dept. of Public Safety  
Linda Notch, Dept. of Natural Resources  
Joan Kopcinski, Dept. of Public Safety  
Scott Wiggins, Dept. of Public Safety  
Lee Nelson, Department of Employment and Economic Development  
Marc Klein, Dept. of Public Safety  
Steve LaPierre, Attorney General's Office

County Officials

Steve Rohlik, Steele County, Minnesota Association of County Officers  
Kevin Corbid, Washington County, Minnesota Association of County Officers  
Cindy Geis, Scott County, Association of Minnesota Counties  
Keith Carlson, Minnesota Inter-County Association

City Officials

Scott Neal, Eden Prairie, League of Minnesota Cities  
Lori Economy-Scholler, City of Bloomington  
Jennifer O'Rourke, League of Minnesota Cities

Deputy Registrar

Molly Hintz, Rochester, Minnesota Deputy Registrar Association

## **SECTION II: Current State Law Related to Credit/Debit Card Acceptance**

General authority for the state and counties, cities and townships to receive payments via credit or debit cards or other electronic means are provided by MS 16A.626 and 471.381, respectively. Hennepin County is provided similar authority under MS 383B.116. All three statutes allow a “convenience fee or a “service fee” or “service charge” to be imposed except the convenience fee is prohibited in those instances where the Department of Revenue requires payment via electronic funds transfer (EFT).

Specific authority is granted to public safety officers to accept credit card payments of traffic citations by non-Minnesota residents under MS 169.983, to DHS to accept credit card payment of MNCare premium payment under MS 256L.15, and to the courts to accept credit card payment of fines, assessments, surcharges, attorney reimbursement obligations, or restitution obligations under MS 609.103.

The Department of Revenue is granted authority to accept payment of (1) taxes; (2) estimated tax deposits; (3) penalties; (4) interest; (5) additions to taxes; and (6) fees by financial transaction cards and to impose a fee equal to the department’s cost of the financial transaction card’s use under MS 270C.425. (Note this authority relates to voluntary payments of state taxes to the department via financial transaction cards as distinguished from required electronic payment of state taxes or estimated tax deposits required of certain larger taxpayers, where as previously mentioned no fee can be imposed for payment via EFT.)

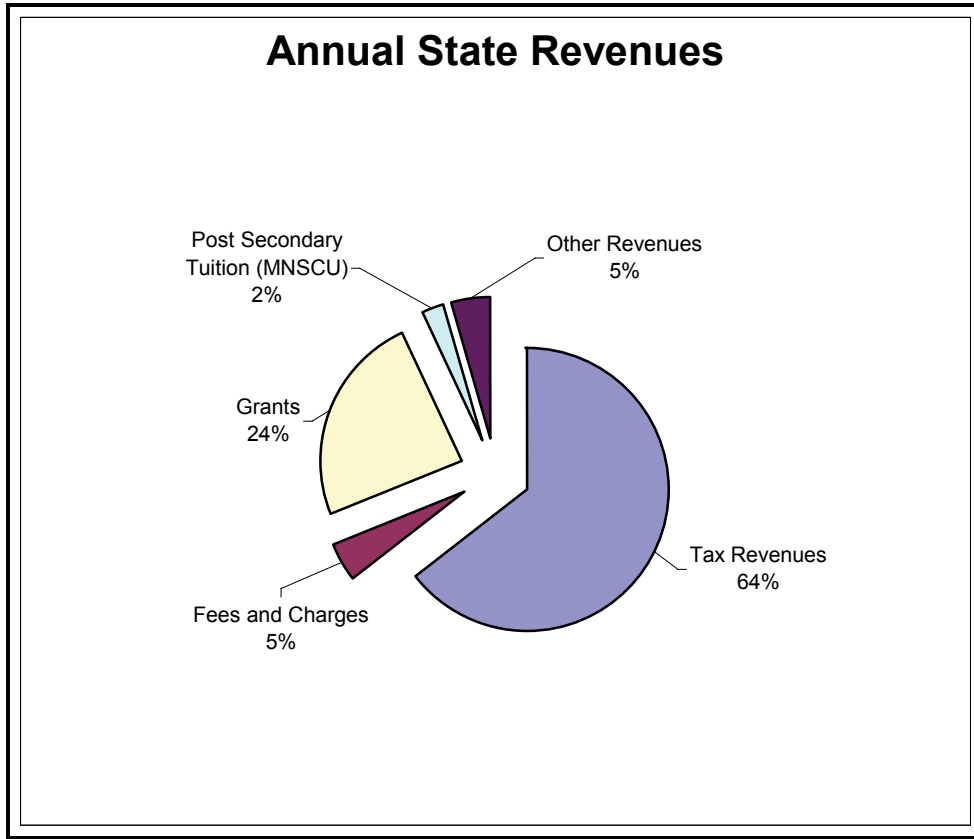
MS 276.02 allows county boards to authorize the payment of real property taxes by credit card. The statute requires a fee to be imposed for the cost of the credit card’s use. This supercedes the optional imposition of a service fee on credit card transactions under MS 471.381, the general authority for counties, cities and townships to accept credit and debits cards or payment via or other electronic means. Finally, MS 84.027 implicitly authorizes the use of credit cards in conjunction with the DNR electronic licensing system.

Please see appendix A for a copy of each statute identified above.



### SECTION III: State Government Credit Activity

The State of Minnesota routinely collects nearly \$26 billion in annual revenues. About \$17 billion is comprised of tax revenues, \$6.1 billion in grants, \$1.2 billion in fees and charges, \$0.6 billion in post secondary tuition, and \$1.2 billion in other revenues.



The revenues are collected through many channels including mail, cash and checks, IVR (interactive voice response), over-the-counter credit cards—which are defined as receipts collected through face-to-face and IVR business transactions—and Internet payments. Checks are the primary means of customer payment.

In Fiscal Year 2006, the state collected approximately \$273 million in credit card receipts. Of the \$273 million, \$129 million was collected through over-the-counter/IVR credit card transactions and \$144 million was collected through Internet transactions.

#### **Over-the-Counter/Face-to-Face Credit Card Receipts**

Currently, fifteen agencies accept over-the-counter credit card transactions. The fifteen agencies collected \$129 million from October 1, 2005 to September 30, 2006. The Minnesota State Colleges and Universities collected the largest amount of receipts totaling \$82 million, and the Department of Education collected the smallest amount

totaling \$9,000. The chart below identifies the fifteen agencies and the credit card receipts collected by each.

**Over-the-counter/Face-to-face Credit Card Receipts by Agency**

**For period 10/1/05 to 9/30/06**

Rounded to nearest thousands

	<b>Receipts</b>	<b>Credit Card Fees</b>
MN State Colleges and Universities <sup>1</sup>	\$82,259	\$2,216
Trial Courts	28,945	427
Natural Resources	5,417	125
Zoo	5,038	94
Iron Range Resources & Rehabilitation	2,564	48
Health	1,255	27
Transportation	1,157	25
Commerce	661	13
Administration	628	13
Corrections	433	9
Human Services	395	9
Historical Society	220	6
Center for Arts and Education	128	3
Agriculture	33	1
Education	9	0
<b>Total</b>	<b>\$129,141</b>	<b>\$3,026</b>

State agencies conducting over-the-counter credit card transactions are currently absorbing the credit card fee as Visa rules prohibit merchants from passing credit card fees in face-to-face transactions. Agencies give customers the option of paying with cash, check, or credit cards to facilitate transactions.

**Internet Credit Card Receipts**

The state has an enterprise Internet solution that simplifies the payment process and encourages agencies to conduct business over the Internet. While most agencies utilize this enterprise solution, the Departments of Revenue and Natural Resources contract with a vendor to provide additional services that better suit their departmental needs (see pages 6-7 for more information).

In 2006, 26 state agencies conducted business over the Internet and accepted credit card payments. These agencies collected \$144 million in credit card receipts with the largest agency being MNSCU at \$91 million in secondary tuition fees and the second largest being the Department of Public Safety who collected \$22 million in licensing fees. Six agencies passed the credit card fees to their customers by adding a “convenience fee” to

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<sup>1</sup> Estimate of credit card activity at member institutions (most of this activity is non-tuition payments)

the transactions as allowed under MS 16A.626. The chart below illustrates the agencies who accepted credit card receipts via the Internet in 2006 and identifies those who passed a “convenience fee” to their customers.

**State Internet Credit Card Receipts**  
**For Period 10/1/05 thru 9/30/06**  
**Rounded to nearest Thousands**

<u>Agency</u>	<u>Receipts</u>	<u>Credit Card Fees</u>	<u>Fees Absorbed</u>
MN State Colleges and Universities	91,171	1,368	Yes
Public Safety	22,381	285	No
Human Services	7,846	91	Yes
Revenue	7,300	170	No
Nursing Board	3,595	59	Yes
Transportation	3,340	54	Yes
Medical Practices Board	3,070	51	Yes
Commerce	1,702	31	No
Secretary of State	1,142	22	No
Dentistry Board	471	6	Yes
Social Work Board	454	7	Yes
Chiropractic Examiners Board	393	5	Yes
Agriculture	354	8	No
Labor and Industry	226	7	Yes
Veterinary Medicine Board	156	3	Yes
Education	155	3	No
Administration	105	2	Yes
Physical Therapy Board	102	2	Yes
Nursing Home Administration Board	94	3	Yes
Marriage & Family Therapy Board	45	1	Yes
Accountancy Board	31	1	Yes
Pollution Control Agency	29	0	Yes
Natural Resources	28	0	Yes
Podiatric Medicine Board	9	0	Yes
Optometry Board	0	0	Yes
Dietetics & Nutrition Practice	0	0	Yes
<b>Total</b>	<b><u>\$144,201</u></b>	<b><u>\$2,121</u></b>	

**Minnesota Department of Revenue Credit Card and Electronic Funds Transfer Programs**

The Department of Revenue in Minnesota has contracted with the Official Payments Corporation (OPC) to allow constituents to pay Individual and Business taxes via the internet and IVR (telephone system) with credit cards.

This payment service is provided at no cost to the Minnesota Department of Revenue. The taxpayers are provided with two ways of using the system. One system is an IVR where the constituent can call an 800 number provided by OPC (1-800-2paytax) and walk through a phone payment to pay the applicable tax owed. The other process is via the internet. The Minnesota DOR provides a link from their website to OPC so that the individual can make a payment. OPC charges the user a convenience fee of 2.5% of the total amount to use either system. This money is collected by OPC as a separate transaction from the tax owed.

For the period October 1, 2005 thru September 30, 2006, the Department of Revenue collected \$7.3 million in tax receipts thru the OPC solution on approximately 9,000 transactions. Convenience fees collected by OPC during this period were \$170,000.

In addition to the credit card payment option through OPC, the department accepts electronic payments via automated clearing house (ACH) transfers and Fed Wire Transfers. Payments via ACH can be made by ACH Debit at no additional cost to the taxpayer or by using ACH Credit. ACH Debit where the taxpayer instructs the department to debit his or her bank account can be done via the department's IVR system or the department's eFile system accessible through the department's web site. ACH Credit is where the taxpayer uses his bank product/procedures to send the department the payment using a standard TXP addenda record. Some taxpayers elect to send their payments electronically using same day Fed Wire transactions. In FY 2006 the department received 2,727,328 electronic payments totaling \$13,774,073,616.00. Out of these payments, 1,704,629 totaling \$7,995,497,513.09 were from the eFile (ACH Debit) system.

## **Department of Natural Resources**

The Department of Natural Resources (DNR) accepts credit card receipts for many activities including Game and Fish licenses; registrations; nursery tree sales; state parks permits and merchandise; aerial photos; DNR Volunteer magazine donations and non-game wildlife donations. The credit card receipts are collected both over the counter and thru the Internet. No additional fees are collected for the credit card charges. These fees are absorbed as an operating cost.

Legislation was enacted to allow the agents to keep an issuing fee for each license or registration sold. These fees range from \$1.00 per new license and \$.50 for replacement license for game and fish licenses; \$7.00 per new registrations and \$4.50 for renewals of watercraft, ATV, ORV, OHV; and \$2.00 for snowmobile registrations. Minnesota statutes provide legal authority for the issuance of these fees.<sup>2</sup>

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<sup>2</sup> : M.S.97A.485 subd. 6, M.S.84.8205 subd. 5, M.S.84.788 subd. 3(e), M.S.84.798 subd. 3(b), M.S. 84.922 subd. 2(e), M.S. 86B.415 subd. 8, M.S. 86B.870 subd. 1 (b).

The Department of Natural Resources licenses and registrations (snowmobile, ATV, OHV, etc.) are sold through a system that was implemented in November of 1999. The electronic licensing system (ELS) was put in place to allow the DNR to record the receipts of licenses in a timely manner.

Currently, the DNR has 1,756 Game and Fish agents and 173 Registration agents participating in the ELS program. Game and Fish agents include retail merchants, resort owners, and some Deputy Registrars. Registration agents are comprised of Deputy Registrars. ELS agents can offer their customers the convenience of using a credit card, however it is not required; and the agent must absorb all credit card fees. The agent is required to deposit the cash for all transactions, including credit card sales, in the agent's bank account so the DNR can collect the full amount.

**Internet and IVR** - DNR has also contracted with its ELS vendor to handle telephone and internet sales. These transactions are paid by credit card only; and M.S.84.027, subdivision 15 (3) allows the ELS vendor to charge an additional transaction fee, not exceeding \$3.50.

In addition to the issuing fee, M.S.84.027, subdivision 15 (4) gives the Commissioner of Natural Resources the authority to collect a commission to recover costs involved in providing the electronic licensing system. The fee amount ranges from \$.75 to \$2.40 per license. This statute does not give the DNR authority to cover the cost of credit card fees.

### **Department of Public Safety**

The Department of Public Safety (DPS) accepts credit card receipts for on-line motor vehicle registration renewals through its web site. No other transactions are currently available for on-line processing and no over-the-counter transactions at the 95 Driver and Vehicle Services (DVS) exam sites accept credit card receipts. Individuals who renew their motor vehicle's registration on-line are currently charged an additional fee to cover the costs associated with the credit card charges.

DVS also uses the services of 173 Deputy Registrars and 124 Driver License Agents to accept motor vehicle and driver license applications throughout the state. DVS has recently notified all of its agents of their ability to accept credit cards for over-the-counter transactions provided that the agent absorb all credit card fees and not pass on to the consumer any portion of that fee as well as meet the industry standards for security of both the financial and transactional data. The Driver License Agent office operated by Sherburne County and the seven Deputy Registrar/Driver License Agent offices operated by Hennepin County currently accept credit card receipts for their over-the-counter transactions. These fees are absorbed as operating costs by Sherburne County and Hennepin County uses advertising revenue generated at its license bureau sites to pay the credit card fees.

Current law allows the Deputy Registrar offices to retain a \$4.50 filing fee for each registration renewal processed and \$8.50 for all other types of transactions<sup>3</sup> and Driver License Agents to retain \$5.00 for each application as a service fee<sup>4</sup>. These fees are used by these offices to pay all of the operating costs (e.g. staff, rent, utilities, etc.) for the office.

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<sup>3</sup> M.S.168.33, subd. 7

<sup>4</sup> M.S. 171.061, subd. 4

## **SECTION IV: Local Government Credit Activity**

In early November 2006, the memberships of the Minnesota Government Finance Officers Association, League of Minnesota Cities, Minnesota Association of County Auditors, and Minnesota Deputy Registrar Association were requested to complete a survey formulated by the Report Committee. Information was requested on total dollar sales, number of transactions, percentage of credit and debit card sales to total revenues, types of credit and debit cards accepted, and method of credit and debit card payments (in person, by telephone, mail, voice response system, and internet). Additional questions were asked on how the municipal organizations approached the credit and debit card fees. The information requested was for the period of January 2003 through September 2006.

Responses to the survey were received from twenty-seven (27) municipal organizations: nine (9) counties, fifteen (15) cities, and three (3) other municipal organizations.

For a complete list of the responding municipal organizations and their related business activities that accept credit and debit cards please see appendix B. A summary of the findings for the various levels of local government follows.

### **Counties**

The highest use of credit and debit cards sales are for park and recreational activities. These sales are for smaller dollar amounts and occur in person, over the telephone, and through the mail. The credit and debit card fees are absorbed as a cost of doing business.

Most of the surveyed counties will only take credit and debit cards for property taxes over the internet and the fees for this service are passed onto the customer. Overall, property tax credit and debit card sales total sales are very low at approximately 1%.

### **Cities**

Cities accept credit and debit cards for a variety of business activities. The highest use for most cities tended to be park and recreational related activities. Plymouth had the highest use of credit and debit card sales to total sales through September 2006 at 69.65% for Park and Recreation. All cities accept VISA and MasterCard and only a few accept American Express and Discover. Transactions mostly occur in person, over the telephone and by mail. A few cities have a voice response system. For all the cities surveyed the fees relating to the credit and debit card sales are absorbed as a cost of doing business. A few cities stated that they reviewed these fees when establishing the business service rate for the following year.

### **Other Municipal Organizations**

The municipal organizations that provide information in this category included Metro Transit, Three Rivers Park District, and the Metropolitan Airports Commission. These municipal organizations accepted transactions from VISA, MasterCard, American Express, and Discover. Again the highest use of credit and debit cards sales to total sales were for park and recreational activities. The highest dollar volume of sales was for

Metropolitan Airport Commission for public parking. How the sales occurred differ between organizations. The transaction fees for these three municipal organizations are absorbed as a cost of doing business.



## SECTION V: Credit Card Industry<sup>5</sup>

While many merchants accept a number of credit cards the industry is dominated by the two largest companies VISA and MasterCard.

VISA began in 1958 as an association of members organized under the name Bank of America. They issued Bank of America cards up until 1976 when the organization changed its name to VISA. Today VISA continues to be owned by more than 20,000 member financial institutions throughout the world. VISA claims to have 1.46 billion cards in circulation throughout the world and processes \$4.3 trillion in sales each year worldwide of which \$1.3 trillion is from the United States. Through the early 1980's VISA transactions were mostly face-to-face transactions between cardholders and merchants. In the mid-1980's banks began to issue large numbers of debit cards that allowed cardholders to have access to cash at the rising number of Automated Teller Machines (ATM's). In the 1990's the internet became an increasingly popular channel for making purchases utilizing credit cards.

MasterCard was founded in 1966 as Interbank Card Association and was not renamed MasterCard until 1979. MasterCard claims that nearly 800 million MasterCards have been issued by its 25,000 customer financial institutions worldwide. There are nearly 32 million MasterCard transactions made per day worldwide. Until just recently MasterCard was also owned by an association of financial institutions. In 2006, MasterCard went public and is currently traded on the New York Stock Exchange.

In October of 2006 VISA also announced that it would be following the lead of MasterCard and going public. A restructured VISA company will also be a publicly traded company. The recent transitions to publicly traded companies may have a significant impact on the credit industries rules by which these companies operate.

The industry has also made a major move into the bill pay area. Prior to the mid-1990's, credit transactions were limited to those purchases that were one-time events, not recurring payments. The industry saw an ability to increase its transactions by working with businesses that were collecting either monthly or recurring payments from their customers. The first merchants they worked with were the grocery stores and supermarkets. They then moved into the areas of telecommunications and energy companies and about five years ago began working with state and local governments.

The transition to working with these additional vendors through an increasing number of payment channels has led to some changes in Visa and MasterCard's rules related to convenience fees and rates.

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<sup>5</sup> Credit Card Industry information gathered from testimony by Peter Matino, VISA, Lynn Dederich, USBank, and Jim Reed, MasterCard to the task force on September 27, 2006. Additional data from "Trends in the Use of Payment Instruments in the United States, written by Geoffrey Gerdes and Jack K. Walton II in the Spring 2005 Federal Reserve Bulletin.

## Fees

A business or government entity that wishes to accept credit and debit card transactions does not deal directly with either Visa or MasterCard. Instead they must work through an acceptance agent. Acceptance agents are often banks or other financial institutions, or private businesses that specialize in these types of transactions. The business or merchant that is accepting payments must pay a discount rate as a cost of accepting that transaction. For example, a customer makes a purchase of \$100 and uses a credit card to complete the transaction. That merchant has negotiated a fee or rate that they must pay to accept that card, with the fees often being in the 1.0%-4% range. The merchant agrees to pay that amount for each transaction, with the merchant paying these fees most often on a monthly basis.

Credit card companies have also allowed convenience fees to be added to credit/debit card transactions in limited circumstances. A convenience fee is a fee paid by the customer that is added by the merchant to the individual transaction in order to pay for the cost of that transaction. As a general rule, the credit card companies only allow a convenience fee to be added when an alternative payment channel is used (i.e. phone orders, internet, IVR) and the card is “not present” when the purchase is made. One of the first businesses to utilize the convenience fee was Ticketmaster. When Ticketmaster makes a sale, a convenience fee is added that in part covers the fees it must pay to the credit card companies. A convenience fee is not allowed to be added when a customer is completing a “face-to-face” transaction or a “card present” transaction.

As payment methods and channels for making purchases have grown, the credit card industry has adapted by creating rules to govern the imposition of fees. In order to understand the options, you must understand a few basic rules of the industry:

1. In “face-to-face” transactions with the card present, a merchant may not charge a fee for using a credit or debit card unless the identical fee is charged for all payment types including cash and check.
2. A convenience fee is allowed to be added to the transactions and paid by the customer in “card not present” transactions that is completed through a payment channel that adds convenience to the customer, for example using the internet, an interactive voice response (IVR) system or purchases by phone.
3. When a convenience fee is allowed when using an alternative payment channel, the same fee charged to utilize a credit/debit card must also be charged for all payment types. For example, if a 2% fee is charged to utilize a credit card, that same 2% fee must be charged to utilize an electronic check.

The credit industry has allowed exceptions to these basic rules through the use of pilot projects with individual clients or industries. For example, VISA is currently conducting a pilot project with the federal government where the convenience fee is passed along to the customer in non-face-to-face transactions. VISA is also conducting a pilot project that allows local governments collecting property tax via the internet to charge a different

fee for credit cards than for electronic check. VISA may also be allowing convenience fees to be imposed in face-to-face transactions for payment of property taxes if the governmental unit is part of the VISA tax payment pilot project. A number of Minnesota counties are currently operating under the pilot with many charging a percentage fee for credit cards and a flat fee, around \$1-\$2, for the use of an electronic check on internet transactions. No counties are currently accepting credit card payments for property taxes over the counter.

MasterCard also is operating a pilot project that allows higher education, court and state and local governments to charge a different fee for ACH, e-check and credit card payments. Under this pilot however, MasterCard holders can not be charged a higher fee than the fee charged to other credit card holders. In practice, this eliminates the acceptance of VISA by the merchants who are operating under this MasterCard pilot.

In testimony provided to the working group, a representative from MasterCard also outlined a pilot project that would allow governmental agencies to charge a convenience fee that is passed on to the customer in face-to-face or counter transactions if a separate line was used for these credit transactions. The provision allowing other credit cards to be accepted using the same fee structure would still be required.

The pilot projects implemented by the two major credit card companies have been helpful in providing additional lower cost options for government merchants, but significant barriers still exist as it relates to fees on face-to-face transactions.

#### American Express & Discover

American Express & Discover both offer different acceptance options from either VISA or MasterCard. However, there are two major concerns that have minimized the acceptance of these cards for governmental transactions. The first is the difficult reconciliation and balancing procedures that are required when accepting these cards. Secondly, neither has nearly the number of cardholders of VISA and MasterCard.

#### The Trend Toward Electronic Payments

The Federal Reserve Bulletin released in the Spring of 2005 documents the rise of credit and debit card and automated clearinghouse (ACH) transactions. Research performed by the Federal Reserve shows that the number of paper checks being written in the United States began to decline in the 1990's, and that decline has accelerated since 2000. In 2003, the number of electronic payments exceeded the number of check payments for the first time.

In 2003, the Federal Reserve study showed that 36.6 billion payments were made by check and 44.3 billion payments were made by electronic payments (debit card, credit card and ACH transactions). Government offices are increasingly being asked if they accept debit and credit cards. More and more customers do not carry checkbooks and often can not complete a transaction if they do not have a sufficient amount of cash.

## SECTION VI: Advantages/Disadvantages of Credit/Debit Payments

Any state agency, local government or merchant that decides to accept credit and debit card payments must weight the advantages and disadvantages. This section of the report will briefly summarize the advantages and disadvantages to accepting credit and debit card payments.

### Advantages

1. *Meets the expectations of customers.*

There is clearly an increasingly rapid transition away from cash and checks and towards electronic payments. Many consumers no longer carry a checkbook and the number of checks written is decreasing. Customers without sufficient cash or a checkbook often times must leave and return to a government office in order to complete a transaction, which results in increasing the transaction time and inconveniencing the customer. For example, a survey of customers visiting a Scott County service center showed that over 75% stated they would prefer to use a credit/debit card if they could for the transaction they were completing.

2. *Provides for guaranteed payment.*

When any merchant takes payment in either cash or check, the merchant accepts the liability for those funds. If the cash ends up being counterfeit, or the checking account is closed or has insufficient funds (NSF), the merchant is either out the funds or must try to collect from the customer. When a payment is accepted by credit or debit card, the liability for delinquency is held by the bank that issued the card. The acceptance of credit and debit cards may reduce substantially the amount of NSF checks.

3. *Ability to Reduce Paper.*

The transition to electronic payments will help reduce the amount of paper processed in offices. For example, administrative time to balance checks and cash may be replaced by a more efficient balancing of electronic transactions.

4. *Reduces opportunity for "cash shrinkage".*

This is a term used by merchants to identify the possibility that cash payments are more susceptible to theft. If a merchant accepts less cash, this liability is reduced.

### Disadvantages (to merchant)

1. Cost

The fees paid to the bank and credit card company are not insignificant and must be considered as part of any business decision to accept credit and debit cards.

2. Change in balancing, reconciliation processes.

A merchant will need to adjust its balancing and reconciliation processes to accommodate the differences between accepting only cash and check, to accepting electronic forms of payment.

Disadvantages (to customer)

1. Cost

In order to accommodate the acceptance of credit and debit cards and fund the cost of this acceptance, governments will have to recover the costs in other ways, either through increased fees paid by the customer or by funding the costs through its administrative budget.

2. Increased Debt.

The task force recognizes the potential for increasing the debt load of consumers by allowing more governmental transactions to be made by credit or debit card. However, payments made to government would still only be a small fraction of the total credit card debt assumed by customers each year.

## SECTION VII: Security Issues

In reviewing the security issues associated with credit card transactions, the task force members discussed the need to clarify how to secure transactional personal and financial information, which is collected by various agents, including government entities and private business operations. The task force supported developing uniform and consistent policies on the how transactional data is handled, transmitted, stored, and destroyed by all parties.

### 1. Transactional Data

In the course of any transaction completed by a governmental agency or an agent acting on behalf of a governmental agency, certain personal information may be collected. This transactional data must be handled, transmitted, stored, and destroyed in a manner that complies with all federal and state data privacy laws and regulations. An annual audit is recommended to be completed at the expense of the party collecting the information that validates compliance with these standards. The results of the audit must be maintained by the governmental body and made available to interested parties. If the party collecting the transactional data is acting as an agent of a governmental body, the results of all such audits must be maintained at a central location named by that governmental body.

### 2. Financial Data

The security of payment account data is the responsibility of every entity that is connected to the payment process and/or system process, including the merchants, government agencies or agents, payment device and services vendors, processors and financial institutions, as well as the credit card company.

Currently, a Payment Card Industry (PCI) Data Security Standard (DSS) is used by all card brands to assure the security of the financial data gathered. There are six PCI security standards:

1. Build and maintain a secure network by having a firewall that will protect consumers' data and not use defaults provided by software vendors for system passwords.
2. Guard cardholder information by making sure all stored data is protected and by encrypting the transmission of that data on public networks.
3. Protect the network by having an anti-virus software program that is regularly updated and by developing and maintaining secure systems and applications.
4. Control access by only allowing access to the system on a need-to-know basis, by having unique identification passwords for all employees who have access to the system, and by limiting employees' physical access to all cardholder data.

5. Test and monitor networks regularly through the use of a complete tracking and monitoring system connected to network systems and to cardholders' data, and by performing security tests on network systems.
6. Maintain information security policies and continually affirm employees' knowledge of information security policies.

Credit card companies validate that vendors are abiding by the PCI compliance regulations. The volume of transactions and the risk determined by the credit card company determines the validation rating for the merchants and institutions accepting credit/debit and pay cards. Along with requiring participating businesses and service providers to complete a self-assessment questionnaire, MasterCard and Visa perform on-site visits and/or a network scan to validate compliance. The task force recommends that a record of compliance be maintained in a central location by the government agency that is the responsible party for the information collected by the agency itself or its agents.

## SECTION VIII: Recommendations

**Recommendation: If any local government or state agency chooses to accept credit and debit card payments for transactions for which they control the cost of the service, product or fee, they are expected to manage the costs of allowing the credit and debit payment option.**

Rationale: There are payments made to state agencies and local governments where the entity determines the amount of the payment, i.e. annual park permits, admission to parks, utility payments, probation fees, etc. In most of these cases, the entire payment is also kept by the governmental agency that imposed and collected the fee. In these cases, the decision to accept credit and debit is a pure business decision. Each unit would have the ability to raise the fee or payment to cover the business cost of allowing credit and debit payments, reduce its costs related to that service, or fund those costs through its general budget authority. In these cases, the state does not need to play a role in funding or sharing any of the costs.

It is important to remember that in order to increase many of these types of fees, a revision of state statute or amendment to an ordinance or local board resolution is needed. The public impacted by any fee increase would have the opportunity through these public processes to influence any fee decision.

**Recommendation: All state or local agencies that accept payment by credit card, debit card, or other electronic methods should review their reporting, balancing and settlement processes and procedures to ensure they adequately reflect the differences between the processing of electronic payments and cash or check payments.**

Rationale: Merchants or governments that accept electronic payments including credit and debit cards should adjust their operations to reflect the differences between those payment methods and that of cash and checks. For example, the credit card companies will often times not provide the funds to the merchant until the second day following the purchase by the customer. If some of the funds from those transactions are subsequently shared with another governmental entity, this could have an impact on those reporting, balancing, and settlement procedures. It should be noted that funds from purchases made by check are also not available immediately to the merchant that accepted the payment.

For example, deputy registrar's acting as agents of the state are required to deposit all state funds from one day of business activity into a bank account within 24 hours of the close of business. If credit and debit payments were accepted, the funds from those transactions would not reach the agent until 24-48 hours after the transaction. This will not allow the funds for those transactions to be deposited within the current 24-hour requirement.



Fiscal impact: This recommendation does not have a direct fiscal impact on the state or local governments and deputies. There could be a fiscal impact if a process change lead to the state receiving its funds a day later than they currently do because of the lost interest on those funds.

**Recommendation: State agencies, local governments or agents of the state should consider forming partnerships in order to maximize their negotiating power and ultimately secure lower transaction costs for their customers.**

Rationale: Merchants with larger transaction amounts and those that do a large amount of business are often able to negotiate a lower transaction fee with their banks or third party payment provider. There are numerous examples of governments joining cooperatives or joint powers agreements in order to maximize their negotiating strength.

Fiscal impact: If the State of Minnesota would serve as the entity to coordinate this type of collaboration amongst local governments or agents of the state it could possibly have the fiscal impact of lowering the credit card transactional costs for state agencies, local governments and agents of the state.

**Recommendation: All state agencies, local governments or agents of the state must meet current industry standards related to the security of all financial, transactional, and personal data that may be collected during a credit card, debit card or other electronic payment transaction. Applicable compliance reports should be kept on file by each business entity and provided to the state agency by its agents on behalf of the entity who is actually processing the electronic payment transaction.**

Rationale: It is imperative that the financial, transactional, and personal information collected by any state agencies, local government or agent of the state be protected. Industry standards have been created and compliance is mandatory for all merchants and service providers who accept electronic transactions on behalf of the payment card vendors. The state needs a copy of the compliance reports in order to be assured that service providers or vendors are legitimate and in compliance with applicable industry standards.

Fiscal Impact: Meeting the security requirements that are expected are a part of the cost of doing business. In most cases private vendors are providing services to the state, local governments and agents of the state and those vendors will be required to meet the security requirements. The vendor's cost to provide this level of security will be part of the contract payment. While this may increase the costs to accept credit card payments, the cost of not protecting the financial, transactional, or personal data related to these transactions would be much greater.

**Recommendation: State agencies, local governments and agents of the state should consider providing a no cost/low cost electronic payment option for customers when using alternative payment channels (i.e. internet purchases, IVR, etc.) whenever feasible or possible. This could include automated clearing house (ACH) transactions or pin-less debit card transactions that do not include a service fee or have a low service fee.**

Rationale: More customers are expecting to use electronic payments and there are a number of benefits to the merchant who accepts electronic payment. Research also shows that a fee added to the cost of an item or transaction makes it less likely for that payment to be made using the electronic method. The fees for some electronic payment forms have become similar to the cost of handling checks or cash. In order to encourage the use of electronic payment methods merchants should consider offering these lower cost alternatives (lower than the transaction fee paid on credit card transactions).

It should be noted that industry requirements related to the consistency of fees charged for alternative payment methods on face-to-face transactions significantly reduces the opportunities to provide these lower cost options. The industry has begun to loosen their fee consistency rules as they apply to internet or over-the-phone transactions, allowing for increased usage through these payment channels. In addition, the task force heard from banking representatives that some states have passed legislation that requires any service fee charged directly to the customer not exceed the transaction cost for that transaction. In these states, merchants are not able to charge a similar fee for credit card and ACH payments over the internet. It is unclear if this legislative restriction, along with the credit card industry rules, has allowed for these lower cost options to be implemented in those states.

Fiscal Impact: If any state agency, local government or agent of the state allows for this low cost or no cost alternatives it could have an impact on their revenue or budget. Currently, if an entity is recovering the cost of providing ACH payment options through the imposition of a convenience fee paid by the customer, its costs would increase under this option.

**Recommendation: State agencies, local governments and agents of the state should consider the use of Automated Teller Machines located in their offices to reduce the need or demand for credit and debit card transactions.**

Rationale: There are a number of private vendors that offer very low or no cost alternatives for merchants to install an ATM machine in their place of business. The vendors are paid through a service charge (often in the \$2 range) charged to each customer who withdraws cash from the machine.

Fiscal Impact: The fiscal impact of this recommendation is borne by the customer. Customers are accustomed to paying a number of fees for the use of an ATM machine under certain circumstances. The customer can make a choice to pay the fee or return with cash or check to complete a transaction or make a payment.

**Recommendation: State agencies, local governments, and agents of the state that currently do not accept credit and debit payments in certain business areas should consider participation in the convenience fee pilot program offered by MasterCard. Participants in the pilot program will be permitted to charge a convenience fee for MasterCard transactions for face-to-face transactions through a kiosk or dedicated in-office line that only accepts card payments.**

Rationale: Participation in this program would allow government agencies and their third-party agents to accept credit card payments and pass the convenience fee along to the consumer who wishes to use a credit card without passing higher fees along to those consumers who choose not to use a credit card. Participants in the program will also be allowed to charge differentiated convenience fees in non-face-to-face transactions such as internet, phone, or mail order versus alternate forms of electronic payments (such as ACH and echeck). Since the latter two have lower costs associated with them it is reasonable to provide those consumers who use those options lower fees than those who choose to pay by credit card. Participation in this program would limit the choice of credit card to one with a MasterCard logo and would require either a separate card payment line or kiosk be established within each office accepting card payments. Those who are currently accepting credit and debit payments would probably not choose to participate in this pilot because of the restriction of only accepting MasterCard. In addition, for agencies currently accepting credit cards nearly 80% of customers utilize a Visa and only 20% a MasterCard. This pilot program would only be beneficial to those customers who carry a MasterCard. For additional information on this program, see Appendix E.

Fiscal Impact: This recommendation would have a fiscal impact on the consumer who chooses to transact their business with a credit card as that consumer would be paying the entire bill for that convenience. Consumers without credit cards or those who choose not to pay with a credit card option would not be affected. There could be a fiscal impact on the government office or third-party agent depending on each office's configuration and the feasibility of establishing a dedicated credit card payment line or pay the cost to obtain and maintain a kiosk for these payments.

## **SECTION IX: Options to Facilitate or Increase Use of Electronic Forms of Payment on Shared Revenue Transactions**

The legislation authorizing the creation of this task force tasked the group with identifying options to facilitate the use of credit and debit cards for transactions and identify the fiscal impacts. This section provides a number of options for the Legislature to consider. Some options may facilitate additional use, but those options also may have greater fiscal impact either on the governmental unit or on its customer.

As stated in the beginning of the report, it is important to remember the task force was comprised of a diverse group of individuals with different interests. The options below are just that, options and they may not be supported by all members. All members of the task force desire to minimize the impact on consumers from increased fees, but also understand that by allowing these transactions, the costs incurred by agencies, local governments and agents of the state who accept credit and debit cards will increase.

**Option 1: The Legislature could choose to not make any changes to the current laws related to acceptance of credit and debit cards. Any agency, local government or agent could accept credit and debit cards and charge a service fee when allowed by credit card companies (when payment is made through an convenient payment channel) and accept credit and debit on face-to-face transactions if they were willing to pay the transaction fees assessed by the credit card companies.**

Discussion: As noted in the body of the report, governments are currently accepting credit and debit card payments in a number of areas and for a substantial number of transactions. In those cases, the agencies or local government have chosen to either absorb the cost of the credit card transaction fee or pass that fee along to the customer when allowable under the credit card industry rules. In each of these cases, the agency or local unit of government has determined that it makes good business sense to allow these types of payments even though it may have a cost. For example, the ability to collect a court fine as the offender is leaving the courtroom through the use of a credit card may lead to higher rates of collection rather than trying to collect the fee after they have left the facility. Also, others may decide that absorbing the fees charged by the credit card industry are offset by the costs savings they enjoy from fewer NSF checks or traditional banking fees.

Under current law any state agency, local unit of government or agent of the state could choose to allow the use of credit and debit cards if they are willing to absorb the cost. This option does not address the situations where one level of government is collecting funds that are subsequently transferred to another. In these circumstances, the entity collecting the fee often is paid a processing or administrative fee that is a small portion of the total. In these cases the collecting entity is unable to afford to absorb the entire credit card fee on the total transaction. Because of this limitation, this option will most likely

not lead to a large number of additional transactions taking place through electronic means.

Note that this recommendation would not change state law that requires a service fee be charged for credit card transactions for property tax payments, or the state laws that do not allow the courts to pass on any fees and the restrictions on the Department of Natural Resources that limit the ability to pass on a fee for certain transactions.

Fiscal Impact: As noted in the report, if an agency, local unit of government or deputy of the state chooses to take credit or debit cards and absorbs the fees, they are normally paying between 1-4% of the total transaction cost to the credit company as a transaction fee. The credit card transaction fee is currently having an impact on net revenues in each of the areas where credit and debit cards are accepted.

**Option 2: The Legislature could add an additional fee, paid by the customer and kept by the agency, local government or agent of the state, to the cost of certain licenses, services or transactions to offset the additional costs incurred to accept credit and debit cards on face-to-face transactions.**

Discussion: There are a number of situations where local governments or private merchants act as agents of the state and collect money on behalf of the state. Examples include:

- a) Deputy registrars that collect motor vehicle, driver's license, and game and fish fees from customers and submit a large majority of the funds to the state. Each deputy keeps a transaction fee with the amount of fee dependent upon the type of transaction.
- b) County auditors, treasurers, and recorders collect mortgage and deed tax, conservation fees, and recording fees on each document recorded with the County Recorder/Registrar of Deeds Offices. In each of these cases, a portion of the funds (ranging from 97% of all deed and mortgage tax to \$11 from a standard \$46 recording fee) are submitted to the state treasury.
- c) Local governments collect fees for vital records including birth certificates, marriage certificates, and death certificates. Again in each case a portion of the funds are shared with the state.
- d) Cities and counties also may collect certain permit fees, with a portion of the revenue going to the state.

Additional examples of shared revenue collected by county governments or counties acting as agents of the state are included in appendix C.

In these cases, the local government or agent of the state keeps a portion of the transaction payment, most often identified as the acceptance fee. In almost all cases, the acceptance fee amount is set in state statute or the percentage split between the acceptance agent and the state is also set in state law. In most of these cases where revenue is shared with the state, the collecting entity is unable to absorb the full cost of accepting a credit or debit card transaction. For example, for some transactions

completed by deputy registrars in license centers throughout the state, the fee paid to the credit card company would surpass the amount of the entire processing fee kept by that office for that transaction.

For example, if a customer to a deputy registrar office pays the sales tax on a transaction where a used car was purchased from a private entity by using a credit card. In this transaction, the sales tax equals \$1000. In addition to the sales tax, the customer would most likely be purchasing registration tabs for \$99, paying the \$3.50 public safety vehicle fee, a \$10 transfer tax, and a \$5.50 fee for the Minnesota title. The total payment that goes to the state equals \$1118. The deputy accepting these funds collects a fee of \$8.50, which is intended to cover the total operating costs related to that transaction, including staff costs, supplies, technology, and space. In this example, the credit card transaction cost would equal \$22.53 (assuming a negotiated rate of 2%), exceeding the entire filing fee retained by the deputy. In this example, it would cost the accepting deputy a net loss of \$14.03.

If the Legislature chooses to consider this option, the working group suggests it focus on the deputy registrar, vital records and permit fees. The increasing use of electronic recording will force the possibility of accepting alternative payment methods for mortgage and deed tax and recording fees, but that issue may be more appropriately addressed in the E-record task force.

Under this option, the Legislature would approve acceptance fee increases to those statutory fees to offset the cost of paying the credit card transaction fees.

A negative to this option, is that depending on the mixture of transactions and the percentage of transactions being completed by credit or debit card, the fee added may not approximate each agent or local government's costs of acceptance. In some cases, it may provide additional revenue if a smaller percentage of transactions are completed by credit or debit payments, while in areas with higher usage the fee may fall short. The fee selected would need to be the best estimate of credit card costs based on estimates of credit and debit usage and the types of individual transactions.

**Fiscal Impact:** This option is designed to cover the aggregate cost of accepting credit and debit payments by increasing the consumer fee. However, because the fee increase would need to be determined by calculating an average cost per transaction, an individual agency or agent may experience a positive, negative or neutral financial impact based on the number of transactions made by credit or debit card. This additional fee to offset the cost of allowing the option of paying by credit or debit cards would be paid by the customer. It may be possible that a customer could choose to not purchase a service or license because of the increased fee, but that is probably unlikely in most circumstances. This method of funding the cost of using credit to pay for purchases is not unlike the experience occurring everyday for private merchants. The cost of allowing credit is added to the item being purchased.

The additional fee added to the filing fee collected and retained by the office providing the service would depend on the service provided. For driver's license transactions, the additional fee would be fifty cents or less added to the current \$5.00 filing fee. This figure is based on the approximately \$20,313,845 collected in driver license fees annually from the 1,122,843 who renew or obtain a driver's license each year.

The reinstatement fees collected after a driver's license has been suspended, revoked, or cancelled would need to be raised by an additional \$1.75 to \$6.50 from their current levels of \$20.00, \$30.00, and \$680.00 depending on the percentage of individuals estimated to use a credit card to pay their reinstatement fee. For instance, if one-half of the total dollar amount collected in reinstatement fees was paid for by a credit card, DVS would incur approximately \$201,661.91 in credit card fees which would have to be absorbed in the underlying fee. If the fee were passed through in the form of a higher reinstatement fee to all individuals paying such a fee, the reinstatement fee would need to be raised by approximately \$3.25. DVS collects approximately \$20,166,191 in reinstatement fees annually from 61,444 individuals, and the increased fee is based on these individuals sharing the entire cost regardless of their reinstatement fee.

The additional filing fee for motor vehicle transactions would depend upon the scope of the program to accept credit cards. If the acceptance of credit cards was limited to the renewal of passenger class motor vehicle registrations, the filing fee increase could be limited to \$2.25 on top of the existing \$4.50 filing fee. However, if transactions involving sales tax payments or truck class registration renewals were added to the equation, the current \$8.50 filing may need to be raised by as much as \$30.00.

Any system that would raise the filing fee to cover the convenience fee costs would be born by all consumers, even those who do not pay by credit card, for the benefit of those who choose to pay by credit card.

**Option 3: The Legislature could add an additional fee, paid by the customer, to the state portion of certain licenses, fees or payments collected to offset the additional costs incurred to accept credit and debit cards on face-to-face transactions.**

Discussion: The discussion of this option is very similar to that in Option 2. The major difference is that instead of increasing the portion kept by the acceptance agent or local government, the increase is made on the state portion. For example, for license center transactions instead of increasing the share kept by the deputy, the increase is made to actual fee for the license renewal or tab renewal. The increased revenue to the state from the fee increase would be used to offset the costs incurred by the state to have its agents accept credit and debit card transactions.

Under this option, if an agent was collecting on behalf of the state, it would remit to the state its share of all funds collected, net the costs of credit and debit card acceptance. For example, if the state funds collected by an agent for a single day were \$100,000, of which \$25,000 was collected via credit card (with a transaction cost of 2%), the agent would

only remit \$99,500. The remaining \$500 would be used to pay the credit card transaction fee.

If this option is adopted, the task force recommends that any agent or agency accepting payment for a service or fee that has been increased to offset this credit and debit card cost, must allow for the payment by credit and debit card. This will allow for a continuity of payment options within similar offices throughout the state.

**Fiscal Impact:** The fiscal impact of this option would fall mostly on consumers who would be paying the increased fees, but also would have an impact on state agencies because of additional administrative costs. Driver and Vehicle Services has estimated that an additional fee for every motor vehicle transaction of between \$2.00 and \$7.50 would be necessary in order to cover the costs of providing the convenience of credit card use to customers depending on the estimate of the number of applicants who would choose to use the credit card payment option. The state would need to negotiate a master contract so that each government office or third-party agent was charged the same transaction cost. To obtain the estimated figures used in this example, transactions from three deputy registrar offices located in Shakopee, Brainerd, and South Saint Paul were reviewed. These offices accepted a total of 741 applications and \$271,071.85 in fees and taxes on December 8, 2006. If one-half of the customers choose to pay their taxes and fees by credit card, the convenience fees would total approximately \$2,710.72 based on a 2% transaction fee. To cover the added credit card convenience fee, every customer would be assessed an additional \$4.00 per application. While these offices did collect filing fees in the amount of \$4,991.50, those fees currently pay for the salaries, rent, utilities, etc. for the operation of the office.

In addition, each state agency whose agents collect fees and taxes on its behalf would need to establish an audit system of each office to ensure that the proper amount of money is submitted to the state depository and is retaining or billing the state agency only for the amount needed to pay their credit card transaction costs related to the shared revenue transaction that was accepted by that agent. Hiring additional employees at the state level would be necessary.

**Option 4: The Legislature could amend state statute to require state agencies to absorb the credit transaction fee for its share of any shared revenue transaction that is collected by agents of the state. Under this option, the credit/debit card transaction fee on the portion kept by any local government or agent of the state would be the responsibility of that agent or governmental unit.**

**Discussion:** This option requires state agencies to absorb the credit card fees within their budget or could allow agencies to net the fees against revenues. State agencies who



utilize agents of the state, such as the Department of Public Safety, would be required to absorb agent's credit card fees for the revenues collected on behalf of the state.

The task force believes this option would not be viable because agencies with large transaction volumes would not be able to absorb the fees within their current budgets and existing laws prevent agencies from netting costs from revenues. State agencies would also have the administrative burden of auditing their agents' credit card activity.

**Fiscal Impact:** The estimate of the impact of this option just on revenue collected by the Department of Public Safety approaches nearly \$8 million per year. If you netted these Public Safety costs against revenues, this could create an \$8 million shortfall in the Highway Users Fund. If you added in the cost of other shared revenue transactions, this estimate of state costs goes up very quickly. If the use of credit and debit cards were restricted to certain transactions or to transactions under a certain dollar threshold, the fiscal impact on customers, as well as the state, could be lowered significantly. For example, credit card usage could be restricted so that businesses making purchases from the state or its agents would not be allowed to use credit or debit cards.

**CURRENT STATE LAW RELATED TO ELECTRONIC PAYMENTS**

**16A.626 Electronic payments.**

(a) For purposes of this section, the terms defined in this paragraph have the meaning given them. "Agency" means a state officer, employee, board, commission, authority, department, entity, or organization of the executive branch of state government. "Government services transaction" means the conduct of business between an agency and an individual or business entity where the individual or business entity is paying a license or permit fee or tax or purchasing goods or services.

(b) Notwithstanding any other provision of law, rule, or regulation to the contrary, an agency may accept credit cards, charge cards, debit cards, or other method of electronic funds transfer for payment in government services transactions, including electronic transactions.

(c) The commissioner of finance shall contract with one or more entities for the purpose of enabling agencies to accept and process credit cards and other electronic financial transactions. All agencies shall process their credit card and other electronic financial transactions through the contracts negotiated by the commissioner of finance, unless the commissioner of finance grants a waiver allowing an agency to negotiate its own contract with an entity. These contracts must be approved by the commissioner of finance.

(d) Agencies that accept credit cards, charge cards, debit cards, or other method of electronic funds transfer for payment may impose a convenience fee to be added to each transaction, except that the Department of Revenue shall not impose a fee under this section on any payment of tax that is required by law or rule to be made by electronic funds transfer. The total amount of such convenience fee must be equal to the transaction fee charged by a processing contractor for such credit services during the most recent collection period. An agency imposing a convenience fee must notify the person using the credit services of the fee before the transaction is processed. Fees collected under this section are appropriated to the agency collecting the fee for purposes of paying the processing contractor.

(e) A convenience fee imposed by an agency under this section is in addition to any tax, fee, charge, or cost otherwise imposed for a license, permit, tax, service, or good provided by the agency.

(f) credit card, charge card, debit card, or other method of electronic funds transfer account numbers are nonpublic data not on individuals as defined in section [13.02](#), subdivision 9, or private data on individuals as defined in section [13.02](#), subdivision 12.

**84.027 Powers and duties.**

Subd. 15. Electronic transactions. (a) The commissioner may receive an application for, sell, and issue any license, stamp, permit, pass, sticker, duplicate safety training certification, registration, or transfer under the jurisdiction of the commissioner by electronic means, including by telephone. Notwithstanding section [97A.472](#), electronic and telephone transactions may be made outside of the state. The commissioner may:

(1) provide for the electronic transfer of funds generated by electronic transactions, including by telephone;

(2) assign an identification number to an applicant who purchases a hunting or fishing license or recreational vehicle registration by electronic means, to serve as temporary authorization to engage in the activity requiring a license or registration until the license or registration is received or expires;

(3) charge and permit agents to charge a fee of individuals who make electronic transactions and transactions by telephone or Internet, including issuing fees and an additional transaction fee not to exceed \$3.50;

(4) establish, by written order, an electronic licensing system commission to be paid by revenues generated from all sales made through the electronic licensing system. The commissioner shall establish the commission in a manner that neither significantly overrecovers nor underrecovers costs involved in providing the electronic licensing system; and

(5) adopt rules to administer the provisions of this subdivision.

(b) The fees established under paragraph (a), clause (3), and the commission established under paragraph (a), clause (4), are not subject to the rulemaking procedures of chapter 14 and section [14.386](#) does not apply.

(c) Money received from fees and commissions collected under this subdivision, including interest earned, is annually appropriated from the game and fish fund and the natural resources fund to the commissioner for the cost of electronic licensing.

HIST: 1943 c 60 s 2; 1953 c 382 s 1; 1969 c 1129 art 10 s 2; 1976 c 96 s 1; 1986 c 444; 1988 c 628 s 1; 1993 c 172 s 32; 1994 c 509 s 1; 1995 c 233 art 2 s 39; 1995 c 248 art 11 s 6; 1996 c 385 art 2 s 1; 1997 c 7 art 1 s 20; 1997 c 216 s 58; 1998 c 366 s 53; 1999 c 92 s 1; 1999 c 231 s 83; 2003 c 128 art 1 s 12; 2004 c 221 s 2; 2004 c 243 s 3; 2004 c 255 s 3; 2005 c 146 s 2,3; 1Sp2005 c 1 art 2 s 13,14

**169.983 Speeding violation; credit card payment of fine.**

- (a) The officer who issues a citation for a violation by a person who does not reside in Minnesota of section [169.14](#) shall give the defendant the option to plead guilty to the violation upon issuance of the citation and to pay the fine to the issuing officer with a credit card.
- (b) The commissioner of public safety shall adopt rules to implement this section, including specifying the types of credit cards that may be used.

HIST: 1991 c 204 s 3; 1992 c 464 art 1 s 22; 1996 c 455 art 1 s 7

**256L.15 Premiums**

Subd. 1a. **Payment options.** The commissioner may offer the following payment options to an enrollee:

- (1) payment by check;
- (2) payment by credit card;
- (3) payment by recurring automatic checking withdrawal;
- (4) payment by onetime electronic transfer of funds;
- (5) payment by wage withholding with the consent of the employer and the employee; or
- (6) payment by using state tax refund payments.

At application or reapplication, a MinnesotaCare applicant or enrollee may authorize the commissioner to use the Revenue Recapture Act in chapter 270A to collect funds from the applicant's or enrollee's refund for the purposes of meeting all or part of the applicant's or enrollee's MinnesotaCare premium obligation. The applicant or enrollee may authorize the commissioner to apply for the state working family tax credit on behalf of the applicant or enrollee. The setoff due under this subdivision shall not be subject to the \$10 fee under section [270A.07](#), subdivision 1.

HIST: 1995 c 234 art 6 s 20; 1998 c 407 art 5 s 39; 1999 c 245 art 4 s 99-101; 2001 c 203 s 16; 1Sp2001 c 9 art 2 s 65; 2002 c 220 art 15 s 24,25; 2002 c 379 art 1 s 113; 1Sp2003 c 14 art 12 s 83-85; 2005 c 10 art 1 s 57; 1Sp2005 c 4 art 8 s 74-76

**270C.425 Financial transaction cards; payment of taxes; appropriation.**

- (a) The commissioner may allow taxpayers to use financial transaction cards, as defined in section [325G.02](#), subdivision 2, to pay any of the following which are payable to the commissioner:

- (1) taxes;
- (2) estimated tax deposits;
- (3) penalties;
- (4) interest;
- (5) additions to taxes; and
- (6) fees.

(b) The commissioner may impose a fee on each transaction under paragraph (a). The fee is equal to the fee the commissioner is required to pay for the taxpayer's use of the financial transaction card. This fee must be deposited in the general fund and is appropriated to the commissioner for the purpose of paying the transaction card fee.

(c) The types of financial transaction cards that will be accepted shall be determined solely by the commissioner. The selection of transaction card vendors shall be made through a request for proposals process. Before issuing a request for proposals, the commissioner shall review the request for proposals and any specifications with the commissioner of finance. The commissioner shall select the transaction card vendors from among those which meet the operational and cost requirements of the department. The commissioner may limit the number of different types of financial transaction cards that will be accepted.

(d) If the commissioner allows taxpayers to pay taxes with financial transaction cards, the commissioner shall report quarterly on the status of this program to the chairs of the house tax and appropriations committees and the chairs of the senate tax and finance committees.

HIST: 2005 c 151 art 1 s 51

#### **276.02 Treasurer to be collector.**

The county treasurer shall collect all taxes extended on the tax lists of the county and the fines, forfeitures, or penalties received by any person or officer for the use of the county. The treasurer shall collect the taxes according to law and credit them to the proper funds. This section does not apply to fines and penalties accruing to municipal corporations for the violation of their ordinances that are recoverable before a city justice. Taxes, fines, interest, and penalties must be paid with United States currency or by check or money order drawn on a bank or other financial institution in the United States. The county board may by resolution authorize the treasurer to impose a charge for any dishonored checks.

The county board may, by resolution, authorize the treasurer and/or other designees to accept payments of real property taxes by credit card provided that a fee is charged for its use. The fee charged must be commensurate with the costs assessed by the card issuer. If a credit card transaction under this section is subsequently voided or otherwise reversed, the

lien of real property taxes under section [272.31](#) is revived and attaches in the manner and time provided in that section as though the credit card transaction had never occurred, and the voided or reversed credit card transaction shall not impair the right of a lienholder under section [272.31](#) to enforce the lien in its favor.

HIST: (2075) RL s 879; 1983 c 222 s 15; 1986 c 444; 1987 c 229 art 5 s 1; 1993 c 375 art 3 s 28; art 10 s 11

**383B.116 Payment procedures and accounting.**

Subd. 6. May take credit, debit card or funds transfer.

The county may accept payment by use of a credit card, debit card, or all forms of electronic or wire funds transfer. Subject to any other law to the contrary, the county may add to the amount due a service charge for the acceptance of a payment method authorized in this subdivision. The county shall adopt policies and procedures regarding the payments.

HIST: 1979 c 198 art 2 s 6; 2000 c 475 s 1,2

**471.381 City, town, and county obligations and payments.**

Subdivision 1. **Payment methods.** Payments of claims and obligations of a statutory or home rule charter city, town, or county may be made by warrant, check, or all forms of electronic or wire funds transfer. If the city, town, or county may make investments, it may make electronic or wire transfers

of funds notwithstanding any other law to the contrary.

Subd. 2. **Authority to accept payment by credit card or other methods.** A statutory or home rule charter city, town, or a county may accept payment by use of a credit card, debit card, or all forms of electronic or wire funds transfer. Subject to any other law to the contrary, the city, town, or county may add to the amount due a service charge for the acceptance of a payment method authorized in this subdivision. The city, town, or county shall adopt policies and procedures regarding the payments. The payment of property taxes by credit card is subject to section [276.02](#).

Subd. 3. **Electronic approval.** "Electronic approval" means any electronic identifier intended by the person making, executing, or adopting it to authenticate and validate a city, town, or county administrative action. Notwithstanding any other general or special law to the contrary, a statutory or

home rule charter city, a town, or a county may use electronic approvals, which have the same validity and consequences as an actual signature. The city, town, or county must establish policies and procedures to ensure the validity of electronic approvals.

HIST: 2001 c 13 s 2; 2004 c 152 s 1

**609.103 Payment by credit card.**

The court may permit the defendant to pay any fine, assessment, surcharge, attorney reimbursement obligation, or restitution obligation by credit card. The discount fees assessed by the credit card company shall be borne by the county, except that in a judicial district under section [480.181](#), subdivision 1, paragraph (b), the cost shall be borne by the state.

HIST: 1993 c 192 s 106; 2001 c 78 s 1

## APPENDIX B

### Credit & Debit Card Utilization Survey Results

The responding municipal organizations and their related business activities that accept credit and debit cards are as follows:

<b>Counties</b>	<b>Business Activities</b>
Anoka	Fiscal Services Collection Department
Carver	Parks Department/Office Campgrounds
Clay	Vital Statistics
Clearwater	Long Lake Park & Campgrounds
Dakota	Employment and Economic Assistance Parks Environmental Management Transportation Property Taxes
Hennepin	Licensing Service Center Property Taxes
McLeod	Property Taxes
Sibley	Property Taxes
Washington	Surveyors Corrections Collections Parks Property Taxes
<b>Cities</b>	<b>Business Activities</b>
Albert Lea	Utility Billing Assessments Other
Apple Valley	Liquor Stores Golf Course Pools & Recreation



<b>Cities</b>	<b>Business Activities</b>
Bloomington	Utility Billing Senior Center Business Licenses/Assessing Aquatics Park & Recreation Golf Courses Building & Inspections
Columbia Heights	Public Works Police Utility Billing Liquor Stores Recreation Fire Assessing Community Development Murzyn Hall
Duluth	Utility Billing Golf Courses Parking
Fairmont	Liquor Stores Aquatic Park
Fridley	Utility Billing Liquor Stores Recreation
Mahtomedi	Utility Billing Building Permits Other
Minneapolis	Convention Center Utility Billing Fire Department Regulatory Services Library Park Board Parking Ramps Block Events
Northfield	Liquor Stores

<b>Cities</b>	<b>Business Activities</b>
Plymouth	Park & Recreation Ice Center Activity Center
Saint Michaels	Building Permits Licensing & Other
Saint Paul	Utility Billing Park & Recreation Public Works Code Enforcement Impound Lot Municipal Athletics
Shoreview	Utility billing Community Center Park & Recreation Planning Other
West Saint Paul	Golf Courses
<b>Other Municipal Organizations</b>	<b>Business Activities</b>

Metropolitan Council	Metro Web
Metropolitan Airport Commission	Parking
Three Rivers Park District	Golf Courses Ski Hill Concession Operations Administrative Center Permits Parking Nature Centers

The following sections provide an overview of the responses from each municipal organization:

**Counties:**

**Anoka County** accepts VISA and MasterCard credit and debit card transactions for Fiscal Services. The credit and debit card sales have grown each year and represent less than 5% of total sales for each of the four time periods. Payments are accepted in person,

by telephone and through the mail. The fees for these transactions are absorbed as a cost of doing business.

**Carver County** accepts VISA and MasterCard credit and debit card transactions within their Parks Department Campground office. Carver County started taking these types of payments in 2004 and these sales started at 33% of total sales and have grown consistently through September 2006 as credit card sales are at 38% of total revenue. Payments are accepted in person, by telephone and through the mail. Some of the fees are absorbed as a cost of doing business and some fees are passed onto the customer.

**Clay County** accepts VISA, MasterCard, American Express, and Discover credit and debit card transactions for Vital Statistics. The credit and debit card sales have grown each year and represent less than 4% of total sales for each of the four time periods. Payments are accepted by telephone, through the mail and internet. The fees for these transactions are passed on to the customers.

**Clearwater County** accepts VISA and MasterCard for their Long Lake Park and Campgrounds transactions. Payments are accepted in person and over the telephone. These credit and debit card transactions in 2003 represented 25% of the total sales and have risen to over 37% of total sales through September 2006. Fees for these transactions are absorbed as part of the cost of doing business.

**Dakota County** accepts VISA and MasterCard for the following business activities Employment and Economic Assistance collections, Parks, Environmental Management, Transportation, and Property Taxes. For Property Taxes they also accept American Express and Discover credit and debit card transactions. The percentage of card utilization to total sales was not available for the survey but the total dollars volume has increased in most business activities. Some of the fees are absorbed as a cost of doing business and some fees are passed onto the customer.

**Hennepin County** accepts VISA and MasterCard for the Licensing Service Center activity new in 2006. Through September 2006 the Licensing Service Center has experience a rate of 27% for credit card and debit card sales to total sales. For Property Taxes they also accept American Express and Discover credit and debit card transactions. The percentage of card utilization to total sales has steadily grown for Property Taxes but represents less than 1% percentage of total sales. The fees associated with the credit acceptance on face-to-face transactions at the license centers are paid by advertisement revenues and the fees associated with the property tax payments are passed onto the customer.

**McLeod County** accepts VISA, MasterCard, American Express, and Discover for Property Tax collections over the internet. These credit and debit card sales are insignificant compared to total sales and the fees associated with these transactions are passed onto the customer.

**Sibley County** accepts VISA, MasterCard, American Express, and Discover for Property Tax collections through a voice response system and over the internet. These credit and debit card sales are insignificant compared to total sales and the fees associated with these transactions are passed onto the customer.

**Washington County** accepts VISA and MasterCard credit and debit card transactions for Surveyor sales, Corrections, Miscellaneous Collections, Parks, and Property Taxes. The two business activities that have experienced the largest growth in credit card utilization have been Corrections and Parks. Credit and debit card sales as a percentage of total sales for Corrections have grown from 40% in 2003 to 52% through September 2006 and Parks are averaging 30-40% of total sales each period. The percentage of credit and debit card utilization to total sales has steadily grown for Property Taxes but represents less than 1% percentage of total sales (started in 2005). Transactions are made in person, over the telephone and through the internet. Fees for transactions (other than Property Taxes) are absorbed as a cost of doing business. Credit and debit card transaction fees related to internet Property Taxes are passed onto the customer.

**Cities:**

**Albert –Lea** accepts VISA and MasterCard credit and debit card transactions for Utility Billing, Assessments, and Other sales starting in 2006. These transactions are occurring in person and over the telephone. The credit and debit card fees relating to the transactions are absorbed as a cost of doing business initially but are reviewed when establishing the annual business activities rates.

**Apple Valley** accepts VISA, MasterCard, and Discover credit and debit transactions for their Liquor Stores, Golf Course, and Parks and Recreation Programs. The Liquor Stores have experienced the highest utilization of credit and debit card sales compared to total sales at 49% in 2003 to 59% through September 2006. The Golf Course utilization of credit and debit card sales to total sales averaged 56% each of the time periods. The largest growth Apple Valley experience in the utilization of the credit and debit card transactions were for Park and Recreation Programs which were 21% in 2003 to 39% through September 2006.

**Bloomington** accepts VISA and MasterCard credit and debit card transactions for Utility Billing, Creekside Senior Center, Business Licenses/Assessing, Aquatics, Park and Recreation, Golf Courses, and Building/Inspections. The recreational activities for Aquatics, Park and Recreation, and the Golf Courses have the highest overall utilization at an average 40% of credit and debit card sales to total sales. Most transactions are in person except for Utility Billing which accepts credit and debit card transactions over the telephone. All transaction fees associated with these business activities are absorbed as a cost of doing business.

**Columbia Heights** accepts VISA and MasterCard credit and debit card transactions for Public Works, Police, Utility Billing, Liquor, Recreation, Fire, Assessing, Community Development, and Murzyn Hall. Discover card transactions are also accepted at Liquor

Stores. Liquor has the highest utilization of credit and debit card sales to total sales with 28% in 2003 to 40% through September 2006. All transactions are accepted in person and only for Utility Billing, Recreation, and Murzyn Hall are transactions accepted by telephone. Transaction fees for all business activities are absorbed as a cost of doing business.

**Duluth** accepts VISA and MasterCard credit and debit card transactions for Utility Billing, Golf, and Parking. Utility Billing has credit and debit card transactions to total sales has averaged less than 4% over the period of time surveyed. Credit and debit card transactions are accepted both in person and over the telephone and the related transaction fees are absorbed as a cost of doing business.

**Fairmont** accepts VISA and MasterCard credit and debit transactions for their Liquor Store and Aquatic Park. Liquor has the highest utilization of credit and debit card sales to total sales with 12% in 2003 to 24% through September 2006. They accept credit and debit card transactions in person, over the telephone and through the mail and the related transaction fees are absorbed as a cost of doing business.

**Fridley** accepts VISA and MasterCard for Utility Billing, Liquor Stores, and Recreation. The Liquor Stores also accept Discover. Both the Liquor Stores and Recreation have the high credit and debit sales to total sales. Liquor Stores were at 39% in 2003 and 48% through September 2006 while Receptions were at 43% in 2003 and 49% in September. Transactions are accepted in person and over the telephone for Utility Billing and Recreation. Liquor Store transactions are only in person. All transaction fees are absorbed as a cost of doing business.

**Mahtomedi** started accepting VISA and MasterCard credit and debit card transaction in September 2006 for Utility Billing, Building Permits, and Other miscellaneous activities. Card transactions are made in person, over the telephone, through the mail and by the internet.

**Minneapolis** accepts VISA, MasterCard at all business activities and American Express a just a few. The business activities are Convention Center, Utility billing, Fire Department, Regulatory Services, Library, Park Board, Parking Ramps, and Block Events. Regulatory Services and Park Board have the highest utilization of credit and debit card sales to total sales. Since 2003 Regulatory Service grew from 11.59% to 21.57% in 2006 (September) and Park Board grew from 28.35% to 49.15%. How transactions are accepted differentiates between business activities, all are accepted in person, only Regulatory Services through the mail, Utility Billing utilizes a voice response system, and several utilize the Internet. Initially all fees related to the credit card sales are absorbed as a cost of doing business. However, the following years business rates analysis reviews all costs of providing the service including the credit card fees.

**Northfield** accepts VISA, MasterCard, and American Express at their Liquor Store (since 2005). In 2005 the credit and debit card sales to total sales was 52% and through September 2006 the utilization was 48%. Transactions are only accepted in person.

**Plymouth** accepts VISA, MasterCard, and Discover for Park and Recreation, at their Ice Center, and their Activity Center. Park and Recreation has the highest utilization of credit and debit card sales to total sales through September 2006 at 69.65%. Credit and debit card transactions are made in person, over the telephone, and by mail. For Park and Recreation they also accept transactions through a voice response system and the internet. Credit and debit card fees are initially absorbed as a cost of doing business but are considered when setting the business rates for the following year.

**St. Michaels** accepts VISA and MasterCard for their Building Permits, Licenses, and other miscellaneous activities starting late 2005. Credit and debit card sales to total sales through September 2006 are 2%. Sales occur in person and over the telephone and fees are absorbed as a cost of doing business.

**St. Paul** accepts VISA and MasterCard for their Water Utility. They also accept American Express and Discover for Park and Recreation, Public Works, Code Enforcement, Impound Lot, L.I.E., and Municipal Athletics. Through September 2006 the credit and debit card sales to total sales for all of the activities is less 7%. Depending on the business activity transactions occur in person, over the telephone, through the mail, and on the internet. Fees are absorbed as a cost of doing business.

**Shoreview** accepts VISA and MasterCard for Utility Billing, Community Center, Parks and Recreation, Planning, and miscellaneous. Parks and Recreation have the highest credit and debit sales to total sales at 55%. Depending on the business activity transactions occur in person, over the telephone, through the mail, and on the internet. Fees are absorbed as a cost of doing business.

**West St. Paul** accepts VISA and MasterCard for their Golf Course operations since 2004. Through September 2006 the credit and debit sales to total sales is just under 33%. Transactions occur in person and card fees are absorbed as a cost of doing business.

#### **Other Municipal Organizations:**

**Metropolitan Airports Commission** accepts VISA, MasterCard, American Express, and Discover transactions for Public Parking. These credit and debit card sales have been steadily growing and through September represent 26% of total sales. Transactions occur in person and fees are absorbed as a cost of doing business.

**Metro Transit** accepts VISA, MasterCard, American Express and Discover for their Transit activities. Credit and debit card transactions are insignificant to total sales. Sales occur in person, over the telephone, by mail, through a voice response system, and on the internet. Credit and debit card fees are initially absorbed as a cost of doing business but are considered when setting the business rates for the following year.

**Three Rivers Park District** accepts VISA, MasterCard, and Discover for their Golf Courses, Concessions, Permits, Parking, and Nature Center. These credit and debit card sales have been steadily growing and through September represent 41% of total sales. Transactions occur in person, over the telephone, through the mail and on the internet. Credit and debit card fees are absorbed as a cost of doing business.

## APPENDIX C

### SHARED REVENUE PAYMENTS RECEIPTED BY A COUNTY

<b>Agency</b>	<b>Payment Types</b>
MN DOR	Deed Tax Mortgage Registration Tax
Dept Public Safety	Sheriff Office: Carry Permit (gun)
Motor Vehicle	Drivers License State ID Cards Drivers License Permit Fees Disability Parking Permit Plate & Sticker Fees Title Transfers (includes sales tax)
DNR	Boat & Snowmobile License/Titles (includes sales tax) Game & Fish Licenses State Park Passes
Dept of Finance	Marriage Certificate Filing Fees for recording documents Conservation Fees state building official Surcharge fee on all building permits
Secretary of State	Notary Filing Fees
Dept of Health	Well Certificate Birth Certificate Death Certificate
OTHER Counties	Jail: Out of County Warrants - can be paid to any County - will then get forwarded to the appropriate charging County
Courts (under the Judicial Branch of the State)	Fines; part of which goes to Cities, Highway patrol, Dept of Public Safety, and Game and Fish



### GLOSSARY

**Acceptance Agent:** A bank, financial institution or private business that enters into an agreement or contract with a business or government entity to provide the ability to process credit or debit card transactions.

**ACH:** A method of transferring funds by which a regional banking institution transfers funds between the client's and merchant's banking institutions.

**Alternative Payment Channel:** A method by which to provide payment in lieu of the standard in person or mail. This includes payments made on phone orders, internet transactions or IVR.

**AMC:** Association of Minnesota Counties

**ATM:** Automated Teller Machine that allows customers to make banking transactions anywhere, anytime.

**ATV:** All Terrain Vehicles

**Cash Shrinkage:** A term used to define a public or private business's reduction in cash revenue due to theft, loss or error.

**Compliance Report:** A report that is to be completed by all service providers that process credit and debit card transactions which confirms all PCI Data Security Standard compliance. The report is submitted to the credit card company (VISA, Mastercard, Discover etc).

**Convenience Fee:** A fee either paid by the customer or consumed by the business or government entity that is added to the cost of the transaction by the merchant. The fee may be a fixed amount, percentage based or tiered amount based upon the cost of the transaction.

**Debit Card:** Cards that debit money directly out of the cardholder's bank account.

**DNR:** Department of Natural Resources

**DOR:** Department of Revenue

**DPS:** Department of Public Safety

**DVS:** Driver Vehicle Services

**E-Check:** An electronic transfer of funds in which money is taken from a customer's bank account, typically a checking account. The account's routing number and account number are used to draw funds from the account.

**EFT:** Electronic Funds Transfer

**Electronic Payment:** An electronically processed payment not using cash or checks.

**ELS:** Electronic Licensing System

**IVR:** Interactive Voice Response - A telecommunications system, prevalent with PBX and voice mail systems, that uses a prerecorded database of voice messages to present options to a user, typically over telephone lines.

**Kiosk:** An interactive computer terminal that is available for public use with site specific information or internet access capabilities.

**LMC:** League of Minnesota Cities

**MACO:** Minnesota Association of County Officers

**MDRA:** Minnesota Deputy Registrar Association

**Merchant:** The business or government entity who allows credit or debit card payments from clients to pay for goods, services, or any other type of monetary transaction.

**MICA:** Minnesota Inter-County Association

**MNSCU:** Minnesota State Colleges and Universities

**OHV:** Off Highway Vehicles

**OPC:** Official Payments Corporation

**ORV:** Off Road Vehicles

**Payment Card Industry (PCI) Data Security Standard:** The required business standard that streamlines and mandates security requirements, compliance criteria and validation processes in order to protect all cardholder information.

**Reinstatement Fee:** A type of fee that is paid by a person who had driving privileges previously revoked or suspended and are now able to file for reinstatement of the privilege.

MASTERCARD PILOT PROJECT LETTER

To: AAMVA Members

*From*

Faye Surrette  
MasterCard Worldwide  
US Commerce Development  
AAMVA Member

*Date*

December 1, 2006

*Subject*

Expansion of Convenience Fee Program in Education and Government Categories

**Summary of MasterCard's Expanded Convenience Fee Program**

Effective immediately and running until March 31, 2008, MasterCard is undertaking a convenience fee program for participating, pre-certified government and education entities or their third-party agents. Participants in the program will be permitted to charge a differentiated convenience fee for MasterCard transactions in non face-to-face environments (internet, phone or mail order) versus alternative forms of electronic payments (such as ACH and echeck) provided that the conditions outlined in the attached Sell Sheet are satisfied.

Additionally, a kiosk or a dedicated in office line that only accepts card payments may charge a convenience fee.

In order to participate in this program, all entities must be registered to participate whether they have already started a card acceptance program or are launching a new program. Your Acquirer/card processor will be able to determine whether your institution or public sector agency is eligible for the MasterCard Convenience Fee Program. Once that determination has been made, your Acquirer will need to register you for the program.

If you have any questions concerning this program please contact me at 603-887-7863, I would be happy to discuss the details of the convenience fee program with you.

Sincerely

Faye Surrette  
MasterCard Worldwide

# The MasterCard Convenience Fee Program



MasterCard is undertaking a convenience fee program for participating, pre-certified government and education entities, or their third-party agents. Participants in the program will be permitted to charge a differentiated convenience fee for MasterCard transactions in non-face-to-face environments (Internet, phone, or mail order) versus alternative forms of electronic payments (such as ACH and echeck) provided that the conditions set out below are satisfied. This program is in effect through March 31, 2008.

## **Program Participation Eligibility and Requirements**

The MasterCard Convenience Fee Program is open to the following educational institutions and public sector merchant categories:

- Elementary and secondary schools
- Colleges, universities, professional schools, and junior colleges
- Local, state, and federal courts of law that administer and process court fees, alimony, and child support payments

- Government entities that administer and process local, state, and federal fines
- Local, state, and federal entities that engage in financial administration and taxation
- Government Services; merchants that provide general support services to the government.

Additionally, a kiosk or a dedicated in-office line that only accepts card payments may charge a convenience fee.

Your acquirer (see “How to Get Started” on the next page) will be able to determine whether your institution or public sector agency is eligible for the MasterCard Convenience Fee Program. Once that determination has been made, your acquirer will need to register you for the program—whether you have already started a card acceptance program or are launching a new program.

As a participant in the program, your organization must also meet these additional requirements:

- Participants that store or process MasterCard account data for Internet-based transactions must provide evidence of compliance with the MasterCard Site Data Protection (SDP) program's underlying Payment Card Industry (PCI) Data Security Standard to their acquirer. Evidence of compliance must include a successful quarterly scan report from a MasterCard approved scanning vendor and a compliant annual self-assessment questionnaire.
- Participants using a third-party agent for storage and processing of MasterCard account data must document such on their registration form so MasterCard can ensure that the agent is SDP-compliant.
- Registration of PCI compliance is an annual requirement. All participants must initially validate compliance by December 31, 2006. Failure to certify within this time period may result in program participation ineligibility.

### **Processing Requirements/Best Practices**

- Cardholders must be notified of the convenience fee at the time of payment and be given the opportunity to opt out of the sale. In no case may the entity collecting payment be allowed to charge the fee without disclosure to the cardholder prior to finalizing payment.
- Payments and convenience fees must be processed under the correct and same merchant category code that is associated with one of the eligible merchant categories.
- To minimize customer service inquiries, it is strongly recommended that the convenience fee charged be processed as a separate and unique transaction and not be imbedded in the total amount for the product or obligation paid for.
- A customer service number must be included in the merchant city field for both the payment and the convenience fee collected.

- The convenience fee charged must not be advertised by the collecting entity or its third-party agent as an offset to the merchant discount rate.

### **Eligible Payments and Allowable Convenience Fees**

- Eligible payments include payments collected by the entity from individuals and businesses that are eligible to be collected on a payment card.
- The convenience fee charged may be a fixed dollar amount, a fixed percentage on the amount owed, or a tiered rate based on differing levels of amounts owed. A MasterCard cardholder cannot be assessed a convenience fee that is higher than any other card-based payment offered through the same payment channel. Other non-card-based payments (such as ACH or echeck) need not adhere to the same fee.

### **How To Get Started**

If you already accept MasterCard payment cards, contact your acquirer for more information about the program.

If you don't currently accept MasterCard credit and debit cards, it's easy to begin. Your first step is to obtain an "acquirer," which is simply a financial institution that is a licensed MasterCard member providing services such as card payment processing, hardware and software, and monthly statements.

Speak to your current commercial financial institution about card processing services. Or register to receive referrals to acquirers that can help you begin accepting payment cards by visiting [www.mastercardmerchant.com](http://www.mastercardmerchant.com).

### **To Learn More**

To learn more about the MasterCard Convenience Fee Program, contact your acquirer or send an e-mail to [public\\_us\\_acceptance@mastercard.com](mailto:public_us_acceptance@mastercard.com).