



STATE OF WASHINGTON

OFFICE OF FINANCIAL MANAGEMENT

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October 30, 2019

TO: Honorable Steve Hobbs, Co-Chair
Honorable Curtis King, Ranking Member
Honorable Jake Fey, Co-Chair
Honorable Andrew Barkis, Ranking Member
Joint Transportation Committee

FROM: David Schumacher
Director

SUBJECT: CREDIT CARD COST RECOVERY REPORT TO LEGISLATURE

Pursuant to Section 103 of the 2019–21 transportation budget (Chapter 416, Laws of 2019), the Office of Financial Management, in coordination with the Office of the State Treasurer, was directed to evaluate, coordinate and assist in efforts by state agencies in developing cost recovery mechanisms for credit card and other financial transaction fees currently paid from state funds. I am transmitting a report on the phase 1 implementation plan and options to expand similar cost recovery mechanisms to other state agencies and programs, including Washington State Ferries.

History. In 2012, the state worked with credit card companies to begin cost recovery of credit card service fees (known as the Government Service Fee Program). Agencies that participate in this program are:

- Department of Licensing (in-person Vitalchek only)
- Department of Revenue (internet tax collection only)
- Department of Labor and Industries (internet only)
- Employment Security Department (internet – Paid Family Medical Leave Program only)
- Department of Health (internet)
- Department of Agriculture
- Department of Ecology

Department of Licensing. Currently, the Department of Licensing (DOL) charges credit card service fees on transactions in licensing service offices, vehicle vessel offices, prorated and fuel tax offices, and business and professions offices through a vendor called VitalChek. Customers who use DOL online services do not pay credit card fees. The agency requests an appropriation from transportation accounts to pay the fees.

Automated Clearing House banking transactions (electronic funds transfer) have no online fees. Cash and check transactions have no fees in a licensing service office. With the exception of business and professions automatic clearinghouse transactions, these options will continue to carry no fees after the implementation of cost recovery. DOL will pay the business and professions automatic clearinghouse fee of \$0.25 per transaction, effective November 2019.

If a transaction includes Sound Transit Regional Transit Authority fees, Sound Transit reimburses DOL for them. If a transaction includes transportation benefit district fees as part of vehicle fees, DOL is not reimbursed for the credit card fees.

As DOL tracks payment methods and online and in-person transactions, it will have a baseline to compare how citizens have changed their behavior with the implementation of credit card cost recovery. Initial data should be available in mid-2020. This data should provide more information on the cost burden to individuals and whether recovery causes behavior changes in payment methods.

Other state agencies. A number of state agencies and institutions accept credit cards as a form of payment. Different vendors are used for processing credit card transactions, as noted on the attached spreadsheet. If additional phases of credit card cost recovery are planned, options for implementation on an enterprise scale are limited. Each agency would need to complete computer updates with its vendor according to its business needs in its unique systems. Due to the number of vendors, this would happen in a piecemeal rather than a coordinated fashion. (Please see Attachment 1 for details.)

Funding needed to carry out proviso. According to a fiscal estimate prepared by DOL, \$184,600 in the 2019–21 biennium and \$30,600 each biennium thereafter will be required to implement credit card cost recovery at the agency. One-time costs include \$137,800 to hire contract programmers to modify DOL computer systems to add the new fee. Ongoing costs are for forecasting and other administrative costs related to the new fund. (Please see Attachment 2 for fiscal note details.)

Next steps. In accordance with the proviso, Washington State Ferries could be next to implement cost recovery. Using the transaction data provided in the attached spreadsheet, several additional agencies could be candidates for the next phase of credit card cost recovery. Criteria that may be used to consider candidates include implementation costs for computer upgrades, population affected by paying credit card fees, and whether the agency already does some cost recovery (i.e., currently does so for internet but not for in-person transactions).

For more information, please contact Veronica Jarvis, Budget Assistant, at 360-902-0649 or Veronica.Jarvis@ofm.wa.gov.

Attachments

cc: Kelly Simpson, Senior Staff Coordinator, Senate Transportation Committee
Mark Matteson, Staff Coordinator, House Transportation Committee
Dave Catterson, Coordinator, Joint Transportation Committee
Susan Howson, Administrator, Legislative Evaluation and Accountability Program Committee
Roger Millar, Secretary, WSDOT
Keith Metcalf, Deputy Secretary, WSDOT
Teresa Berntsen, Director, DOL
Meghann McCann, Deputy Director, DOL
Pat Lashway, Deputy Director, OFM
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