Government Payments: Have Fees Assessed or Absorb the Costs

A Guide for Government Finance Professionals

IntelliPay

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Executive Summary

This whitepaper explores the strategic choices government entities face when deciding how to handle payment card processing fees. Specifically, it examines whether these costs should be passed on to citizens—via service fees or convenience fees—or absorbed by the government agency as part of its operational expenses. Using best practices and real-world case studies, the paper analyzes the financial, operational, and citizen experience impacts of each approach.

This analysis aims to provide government finance officers with a framework for making informed decisions that align with their specific organizational needs, legal constraints, and community expectations.

Introduction

Payment card acceptance has become standard practice across the public sector, with government offices routinely accepting cards for taxes, utilities, fines, fees, and other services. While payment cards offer numerous benefits, including enhanced customer service, accelerated collections, and reduced processing costs, they also introduce significant expenses through interchange fees, processing charges, and compliance requirements.

Government entities must determine whether to pass these costs on to constituents through service or convenience fees or absorb them as operational expenses. This decision involves balancing financial sustainability, constituent expectations, legal requirements, policies, and strategic priorities.

The Evolving Landscape of Government Payments

Government payment processing is undergoing rapid transformation. A study of local government payment strategies shows there have been significant savings in time and money when they moved away from traditional payment models:

- Greenville County, South Carolina experienced a dramatic decrease in-person and mail in payments reducing wait times and hours spent processing paper checks.
- South Portland, Maine, eliminated credit card processing fees from its budget by having a service fee assessed to those who choose to pay with a credit card.
- Plano, Texas shifted in-office payments to online, eliminating wait lines, and reducing cashiering costs, and manual processes while streamlining and simplifying payment reconciliations.

These shifts create both opportunities and challenges for government finance officers.

Understanding Payment Card Processing Costs

Before examining fee models, it's important to understand the cost components of payment card processing:

Types of Processing Fees

1. Discount Rate: The percentage of each transaction charged by payment card service providers, consisting of:

- Interchange Fees: The largest component, paid to the card-issuing bank
- Assessment Fees: Smaller fees paid directly to the card network (Visa, MasterCard, etc.)

2. Merchant Service Provider Fees: Variable fees based on transaction value or fixed per-transaction fees

3. Administrative Fees: Various charges including statement fees, PCI non-compliance fees, chargeback fees, terminal fees, and settlement fees

Merchant Services Provider Pricing Models

Merchant service providers typically offer three pricing models:

1. Interchange-Plus: The most common structure where providers mark up the interchange fee charged by credit card companies (from example, if 2.75% + $0.10 is the interchange fee the processors adds 0.25% + $0.15 so that IC plus cost is 3.00% + $0.25)

2. Fixed Rate: A consistent fee per transaction, either as a fixed percentage, flat fee or combination

3. Blended/Tiered Pricing: Least transparent - three tiers based on card type, and how and where payment data was entered.

Compliance Costs

Beyond transaction fees, governments must also consider Payment Card Industry Data Security Standards (PCI DSS) compliance costs:

- Self-assessment questionnaires
- Staff training
- Network scans
- Documentation maintenance
- Potential third-party assistance

For further reading on PCI Compliance, see the PCI Complaince section in the appendix.

For Government Departments Paying the Processing Fees (Absorb Fee Model) Card Types

Credit cards generally have higher interchange fees than debit cards because credit transactions carry more risk for the issuing bank than debit transactions, where funds are immediately withdrawn from the customer's account.

Credit cards with the highest fees are reward cards, premium cards, and business credit cards. These higher fees help fund reward programs and compensate for issuers' increased potential risk.

Payment Processing Statement Analysis

Now, that you understand processing costs and that fees vary by card type, you are ready to look at how these costs translate into reality by comparing two monthly statements.

Statement 1- January

Description	Items	Amount	Rate %	Item Rate	Fee
MC COMM LG MKT DATA RT2	6	$3,633.00	2.5000	0.1000	$91.43
MC DATA RATE 2 BUS LEVEL 5	6	$3,584.50	2.2500	0.1000	$81.26
MC DATA RATE II BUS LEVEL 3	2	$862.00	2.1000	0.1000	$18.31
MC DATA RATE II BUS LEVEL 4	1	$247.00	2.2000	0.1000	$5.53
MC EMERG MKT GOV/EDU DBTMAX	1	$2,600.71	0.0000	2.0000	$2.00
MC ENH MERIT I	1	$246.00	2.1000	0.1000	$5.27
MC REGULATED BASE DBT	1	$5.00	0.0500	0.2100	$0.21
MC WORLD ELITE PUBLIC SRVCS	2	$1,554.00	1.5500	0.1000	$24.29
VS BUS PUR CNP PP	1	$247.00	2.6500	0.1000	$6.65
VS CORP NONTRVL CNP	1	$7,162.00	2.7000	0.1000	$193.47
VS CPS BUS CNP DBT	1	$456.19	2.4500	0.1000	$11.28
VS CPS GOVNMT CR	9	$3,501.68	1.5500	0.1000	$55.18
VS CPS US REGULATED BUS DBT	11	$6,748.73	0.0500	0.2200	$5.78
VS CPS US REGULATED DBT	11	$1,813.82	0.0500	0.2200	$3.31
VS PURCH NONTRVL CNP	17	$9,738.00	2.7000	0.1000	$264.65
VS US BUS TR2 PRD1	1	$460.00	2.8000	0.1000	$12.98
VS US BUS TR3 PRD1	3	$1,273.32	2.8500	0.1000	$36.59
VS US BUS TR4 PRD1	7	$3,303.32	2.9500	0.1000	$98.14
VS US BUS TR5 PRD1	35	$13,774.52	3.0000	0.1000	$416.74
					$1,333.07

Bus = Business CNP = Card Not Present CPS = Custom Payment Service DBT= Debit MC = Mastercard PP= Prepaid VS = Visa

Statement 2 - February

Description	Items	Amount	Rate %	Item Rate	Fee
MC COMM LG MKT DATA RT2	22	$18,363.43	2.5000	0.1000	$461.38
MC DATA RATE 2 BUS LEVEL 5	2	$519.32	2.2500	0.1000	$11.88
MC DATA RATE II BUS LEVEL 3	1	$185.00	2.1000	0.1000	$3.99
MC EMERG MKT GOV/EDU DBTMAX	1	$1,016.00	0.0000	2.0000	$2.00
MC REGULATED BASE DBT	1	$1,063.35	0.0500	0.2100	$0.74
MC WORLD ELITE PUBLIC SRVCS	4	$2,103.08	1.5500	0.1000	$32.99
VS BUS PUR CNP PP	1	$247.00	2.6500	0.1000	$6.65
VS CPS GOVNMT CR	5	$2,956.00	1.5500	0.1000	$46.31
VS CPS GOVNMT DB	1	$105.00	0.6500	0.1500	$0.83
VS CPS US REGULATED BUS DBT	13	$7,532.71	0.0500	0.2200	$6.61
VS CPS US REGULATED DBT	4	$707.00	0.0500	0.2200	$1.24
VS PURCH NONTRVL CNP	14	$7,784.00	2.7000	0.1000	$211.57
VS US BUS TR3 PRD1	6	$5,404.30	2.8500	0.1000	$154.63
VS US BUS TR4 PRD1	1	$675.00	2.9500	0.1000	$20.01
VS US BUS TR5 PRD1	28	$10,633.36	3.0000	0.1000	$321.80
					$1,282.63

Comparing the two months in the chart below:

Month	# of Card Types	Transactions	Fee $
January	19	116	$1,333.07
February	15	102	$1,262.63

Looking at the red rectangles in the statements above, we notice the Card (MC COMM LG MKT DATA RT2) had 16 more transactions in February than in January. The 'Rate %' on this card is higher, and one reason the government agency paid almost as much in fees in February compared to January's on 14 fewer transactions.

Deeper Dive

Diving deeper, the card (VS US BUS TR5 PRD1) has seven fewer transactions in February (right) than in January (left), resulting in a $3,000 month-to-month variance.

While past statements may provide this department with a baseline to budget its payment processing expenses, variations in card type, number of transactions, and payment channel are still wild cards.

For example, the Interchange (item) fee is higher for card-not-present than in-person payments using a credit card machine in a government office.

Look at the statements above for card descriptions ending in CNP (Card Not Present). The CNP 'Rate %' in the February statement is higher than the MC COMM LG MKT DATA RT2 'Rate %' we looked at earlier.

The examples above show that payment processing expense forecasting isn't as simple as picking one 'Rate %' and multiplying it by the estimated number of transactions.

So, how does a government agency account for this variability when setting its budgets? It uses its Net Effective Rate to calculate its actual payment processing cost.

Net Effective Rate

The net effective rate (NER) determines the actual cost of accepting credit card payments. It is calculated as follows:

Net Effective Rate = (Total Processing Fees / Total Sales Volume) × 100

This calculation provides the average percentage a merchant pays to process credit card transactions, including all fees such as interchange fees, assessment fees, and processor markups.

Net Effective Rate cont.
Let's calculate the NER using the values from the 'Card Summary' and the 'Fee Summary' in the examples below.

Card Summary

Card Type	Number of Sales	Amount of Sales
Visa	97	$48,478.58
Mastercard	20	$12,732.21
American Express	5	$3,695.00
Discover	0	$0.00
PIN Debit	0	$0.00
EBT	0	$0.00
Fleet	0	$0.00
TOTAL	**122**	**$64,905.79**

Fee Summary

Settlement/Discount	$32.45
Pass Through	$1,333.07
Processing Fees	$0.00
Other Fees	$354.88

Your Account Has Been Debited a Total in the Month of January 2025 for $1,720.40

We take the total fees paid from the 'Fee Summary" and divide by the total from the 'Card Summary' using the formula on page 3. It looks like this:

$1,720.40 / $63,905.79 = 2.65% NER

It's recommended to calculate the NER using at least three consecutive months of statements for a more accurate representation, as some fees may not appear on every statement. The NER range for local governments is between 2% and 3%.

Always use your NER vwhen calculating payment processing fee expenses for budgeting purposes and fee assessment.

To Pass or Not Pass Along Processing Costs to Constituents
Governments can implement three primary fee models to offset processing costs:

1. Convenience Fees: Charged when offering alternative, non-standard payment methods (e.g., online payments if in-person is standard)

2. Service Fees: Available exclusively to governments and educational institutions for specific merchant category codes (MCCs), including tax payments, government services, fines, and court costs.

3. Absorb Fee: Government pays all processing costs

Convenience Fee Processing
Convenience fees are additional charges applied when Constituents choose to pay through alternative, non-standard payment channels.

These fees typically apply when residents opt for the "Convenience" of paying with credit cards through online portals, or mobile applications rather than traditional methods like cash or check payments at government offices.

Key characteristics:

- Applied only to alternative payment methods
- Must be a flat fee (not percentage-based) for government entities
- Cannot vary based on payment amount
- Must be disclosed clearly before transaction completion
- Online only

Advantages of Convenience Fee Processing
1. Reduced Budget Impact
Convenience fees allow governments to reduce or lower processing costs otherwise be absorbed into departmental budgets.

2. Encourages Traditional Payment Methods
The structure can encourage cost-conscious residents to use traditional payment methods like in-person cash or check payments, which typically have lower processing costs for the government agency.

3. More Politically Palatable
Convenience fees affect only those choosing optional payment methods rather than all residents. One town found that implementing a $1.95 convenience fee for online payments was more acceptable to residents than raising utility rates across the board to cover processing costs.

Disadvantages of Convenience Fee Processing
1. Potential Negative Public Perception
Residents may perceive convenience fees as a government cash grab rather than legitimate cost recovery.

2. Card Network Restrictions
Convenience fees must be flat (not percentage-based), charged in one transaciton and disclosed before processing the online payment.

3. Complicated Accounting: The fee is added to the amount due during the transaction requiring extra steps to separate the fee from the payment amount.

4. *Administrative Burden: Government will need to pay processing fees and maintain the merchant account(s).*

5. May Discourage Digital Adoption
High convenience fees can discourage residents from using digital payment channels.

Service Fee Processing
Service fee processing is a revenue neutral option. Visa uses the term Service Fee to describe fees that can be charged on all card transactions, both in person and online. Only a select group of merchant category codes (MCCs) are eligible for the program.

Eligible government MCCs:
MCC 9311 - Tax
MCC 9222 - Fines
MCC 9211 - Court Costs
MCC 9399 - Miscellaneous Government Services

Governments must work with their acquirer/merchant services provider and follow these Visa rules and other regulations:

- Ensure the Service Fee amount is:
    - A fixed, or variable amount, regardless of the value of the payment.

Unique Features Simplifies Accounting
The merchant services provider collects service fees. To complete the transaction, cardholders use their chip cards twice: once to pay the amount owned and the second time to pay the service fee.

If the government is using IntelliPay, the cardholder uses their card once, and the fee is automatically separated from the amount due by the IntelliPay platform simplifying accounting. IntelliPay uses the service fee collected to pay the government's processing costs and maintain its merchant account(s).

Advantages of Charging Service Fees
1. *Revenue-Neutral:* Service fees are revenue neutral for all card payments.

2. *Budget Predictability:* By passing costs to users, governments avoid fluctuations in processing expenses affecting operational budgets.

3. *User-Pay Principle:* Those who benefit from the convenience of card payments bear the associated costs rather than distributing them across all taxpayers.

4. *Sustainability for Large-Volume Services*: Avoid the unsustainable financial burdens in high volume payment areas like utilities or taxes.

5. *Resource Allocation:* Funds that would otherwise cover processing costs can be directed toward core government services and infrastructure.

Disadvantages of Charging Service Fees
1. *Constituent Resistance:* Fees may discourage card usage, potentially reducing collection rates or increasing delinquencies.

2. *Equity Concerns:* Fees may disproportionately impact lower-income constituents or those with limited payment options. (See appendix section on equity considerations)

3. *Public Relations Impact:* Fees can generate negative public perception, particularly if poorly communicated or perceived as excessive.

Real-World Service Fee Example - South Portland ME

Policy Change
Prior Practice: South Portland historically absorbed credit/debit card processing fees as part of its budget, distributing the cost across all taxpayers. Cash and check payers were subsidizing the credit card payers.

New Policy (2024): The city passed a 2.95% service fee directly to card users to avoid subsidizing these costs through general tax revenue.

Key Drivers
Rising Processing Costs: The city's third-party payment processor increased fees, making it financially unsustainable to absorb the expense.

Equity Considerations: Officials noted that shifting the fee ensured residents paying by cash or check were not covering costs for card users.

Financial Impact
Pre-2024 Costs: The city previously paid 2.95% of all credit card transactions (e.g., $29.50 per $1,000 payment) from its budget.

Post-2024 Savings: By transferring the fee to users, the city eliminated this line-item expense entirely, redirecting funds to other services.

Absorb Fee Processing
Traditional way of accepting card payments, the government entity pays for all the processing costs.

Advantages of Absorbing Costs
1. Increased Payment Card Adoption: Without fees, constituents more readily embrace payment options, accelerating the transition away from manual and more costly cash and check processing.

2. Enhanced Constituent Experience: Absence of fees improves satisfaction and reduces payment friction.

3. Simplified Administration: Eliminating fee calculations, disclosures, and management reduces administrative complexity.

4. Competitive Service Delivery: Where applicable, maintaining fee-free payments keeps government services competitively positioned.

5. Potential Collection Improvements: Higher payment card usage may reduce delinquencies and improve overall collection rates.

Advantages of Absorbing Costs cont,
6. Equity and Accessibility: Removes potential barriers for lower-income constituents or those with limited payment options.

Disadvantages of Absorbing Costs
1. Budget Impact: Processing costs become a significant operational expense, particularly for high-volume payment departments.

2. Subsidy Issues: All taxpayers effectively subsidize the convenience of those using payment cards.

3. Unpredictable Expenses: Processing costs can fluctuate with transaction volumes and fee changes by card networks.

4. Resource Diversion: Funds allocated to processing costs reduce resources available for other government services.

5. Growth in Expenses: As payment card usage increases and higher-fee premium rewards cards become more common, costs will continue to rise.

Payment Models Comparison

The chart below provides a detailed comparison of three common fee structures utilized by local governments: service fees, convenience fees, and absorb fee pricing. Each pricing model has distinct implications for revenue collection, administrative processes, and customer experience. By analyzing these options side by side, this chart aims to help decision-makers understand the financial impact, operational considerations, and fairness of each approach. Whether prioritizing cost recovery, revenue-neutrality or enhancing convenience for constituents, this comparison serves as a valuable tool in selecting the most suitable fee strategy for your municipality.

	Convenience Fee	**Service Fee**	**Absorb Fee**
Merchant Category Codes (MCC)	All	Government and Education MCC’s	All
Fixed/Variable Fee	Fixed	Fixed or Variable	N/A
Credit/Debit	Credit and Debit	Credit and Debit	Credit and Debit
Ways of Acceptance	Outside merchant’s customary way of accepting payments	In-person, online, over-the-phone	In-person, online, over-the-phone
# of Transactions	Single – payment plus convenience fee	Two Trasnactions - original bill and a second for the fee	Single payment
Recurring Transactions	No	Yes	Yes

Legal and Regulatory Considerations

When determining fee strategies, governments must consider several legal and regulatory factors:

1. Federal, State and Local Laws: Governments should first with the merchant services provider for applicable laws.

2. Card Network Rules: Visa, MasterCard, and other networks have specific requirements for service and convenience fees.

3. Disclosure Requirements: Fee programs must include clear disclosure to cardholders before transaction completion with an opportunity to cancel without penalty.

Strategic Decision Framework
To determine the optimal approach, government entities should consider the following factors:

1. Financial Analysis
- Volume of transactions across payment channels
- Current and projected processing costs
- Administrative costs of fee implementation
- Potential impact on collection rates and delinquencies

2. Constituent Assessment
- Demographics and digital access within the community
- Constituent preferences and expectations
- Payment behavior analysis and trends (see trend data in appendix)
- Potential equity impacts

3. Operational Considerations
- Available technology infrastructure and integration
- Staff capacity for implementation and management

Strategic Decision Framework cont.
- PCI compliance capabilities (see PCI compliance detail in the appendix)

4. Legal Review
- State and local restrictions on payment card fees
- Card network compliance requirements
- Disclosure and implementation requirements

5. Strategic Alignment
- Digital transformation objectives
- Customer service priorities
- Financial sustainability goals
- Equity and accessibility commitments

Hybrid Approaches and Alternative Strategies
Beyond the binary choice of charging fees or absorbing costs, governments can consider several hybrid approaches:

1. Service-Specific Strategies
Apply different fee policies based on payment type, with potential approaches including:
- Absorbing costs for mandatory payments (taxes, utilities) while charging fees for discretionary services
- Implementing fees for online transactions but not in-person payments
- Setting fee thresholds based on transaction size

2. Optimization Strategies
Reduce processing costs to minimize the impact regardless of fee approach:
- Negotiate more favorable merchant services contracts to reduce on eliminate fees beyond non-negotiable interchange and assessments
- Regular review of merchant statements and annual rate reviews with providers

3. Alternative Payment Methods
Expand beyond traditional credit cards to include lower-cost options:
- Promote ACH, e-check and e-cash options which typically have lower processing fees

Policy Change
If you are currently not charging a service fee, you will need your local council, board or other governing body approve a policy change. You will need to build this process into your implementation timeline. While there is a specific process for you to follow for your situation, here's a generalized step-by-step approach for getting approval to implement payment card service fees. *For purposes of illustration, we will assume your entity is a county and you will need to appear before a council.*

Pre-Council Strategy

1. Gather compelling financial data

- Calculate the total annual credit card processing fees currently absorbed by your government. Then use the NER method to calculate your actual processing costs.
- Determine the percentage of transactions processed via credit cards
- Project annual savings if fees were passed to users

2. Research comparable jurisdictions

- Identify 3-5 similar counties that have implemented such fees
- Document their fee structures and implementation experiences
- Note any public response or usage pattern changes

3. Evaluate options

- Fixed fee vs. variable (percentage-based) options
- Consider service fee processing (charged regardless of payment method) vs. convenience fee (charged only for payment channels outside customary payment channels)
- Include analysis of each option's financial impact

4. Consult legal counsel

- Verify compliance with state laws regarding service fees
- Ensure alignment with credit card network regulations (Visa, Mastercard, etc.)
- Address any potential legal challenges

5. Building Your Case

1. Create a concise executive summary

- Leading with financial impact: "This change would save taxpayers approximately $X annually"
- Address citizen impact with alternatives: "Cash/check options remain fee-free"
- Emphasize fairness: "Ensures costs are borne by users of the service rather than all taxpayers"

6. Develop a detailed implementation plan

- Timeline for technology updates and staff training
- Public communication strategy
- Monitoring metrics to evaluate impact

Council Presentation

7. Request formal agenda placement

- Secure a slot during a regular meeting or work session
- Provide advance materials to council members
- Consider one-on-one pre-briefings with key members

8. Structure your presentation

- Begin with the financial burden of current policy
- Present benchmark data from peer jurisdictions
- Clearly outline implementation options with pros/cons
- Recommend a specific approach with justification
- Address potential concerns proactively

9. Anticipate and prepare for questions

- Impact on low-income residents
- Technical implementation challenges
- Citizen feedback mechanisms
- Alternative fee structures

10. Respond to council feedback

- Be prepared to modify your proposal based on council input - offer to bring revised proposals if necessary

11. Draft the policy language

- Work with legal counsel on specific ordinance language
- Include clear parameters for fee structure and exception

12. Create public education materials

- Develop clear messaging about the change and alternatives
- Prepare FAQs for customer service staff

Service Fee Implementation
If you choose a service fee approach, successful implementation requires careful planning and execution:

For Service Fee Implementation:

1. Clear Communication: Implement transparent messaging about fees before and during the payment process (see constituent communication in the appendix)

2. Multiple Payment Options: Maintain fee-free alternatives for those unable or unwilling to pay fees

3. Fee Reasonableness: Ensure fees are proportional to actual costs and perceived as fair

4. Staff Training: Prepare staff to explain the fee structure and *address constituent questions*

5. Regular Review: Periodically assess fee impacts on payment behavior and adjust if necessary

Conclusion

Strategic Insights
The decision to charge service fees or absorb payment processing costs is more than a financial calculation—it's a strategic opportunity to enhance government efficiency, improve constituent experience, and optimize resource allocation.

Key Findings

- Financial Flexibility: Payment processing strategies directly impact budgetary resources
- Constituent Experience: Fee approaches significantly influence public perception
- Technological Evolution: Payment technologies are continuously transforming

Recommended Action Plan
Immediate Actions (0-3 Months)

Financial Assessment

- Calculate Net Effective Rate (NER) using 3-6 months of transaction data to quantify current payment processing expense
- Identify total credit/debit card transaction volumes

Preliminary Research

- Benchmark against 3-5 similar government entities
- Review current payment channel usage
- Analyze constituent demographics and payment preferences

Short-Term Strategic Development (3-6 Months)
Comprehensive Strategy Development

- Draft initial fee implementation framework
- Develop cost-benefit analysis for different fee models
- Create preliminary communication strategy (See Constituent Communication in appendix)
- Consult legal counsel on regulatory compliance

Technology Evaluation

- Assess current payment processing infrastructure
- Identify potential technology upgrades
- Explore integration of lower-cost payment alternatives

Mid-Term Implementation (6-12 Months)

Governance Approval

- Prepare detailed proposal for governing body
- Develop comprehensive presentation materials
- Create implementation timeline
- Draft initial policy language

Pilot Program

- Select 1-2 departments or agencies for initial fee implementation
- Develop robust monitoring metrics
- Create feedback collection mechanisms

Long-Term Strategic Positioning (12-24 Months)

Continuous Optimization

- Establish annual review process for payment strategies
- Create ongoing constituent feedback loops
- Monitor emerging payment technologies

Broader Organizational Integration

- Align payment strategies with digital transformation goals
- Develop cross-departmental payment processing standards
- Create comprehensive staff training programs

Critical Success Factors

- Transparency in fee communication
- Flexibility in implementation
- Equity in payment options
- Continuous improvement

Final Recommendation
Payment processing is a dynamic strategic lever. Successful governments will view this not as a cost center, but as an opportunity to demonstrate fiscal responsibility, technological innovation, and constituent-focused service.

Next Immediate Step
Convene a cross-functional team to begin the financial assessment and strategic planning process within the next 30 days.

IntelliPay
IntelliPay has been has been providing Innovative Payment Solutions to municipalities, counties, states and other governmental agencies since 2004. Our cloud-based platform provides secure payment solutions and integration services, allowing you to connect with the management system of your choice.

Government offices faced with the challenge of collecting payments across many different locations risk a disjointed and cumbersome experience for administrators to have a holistic view of their revenue collections.

To learn more or for a free consultation, reach out to Adam Hensleigh, VP Government Sales - adam.hensleigh@intellipay.com or 855-872-6632 x 202.

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Appendix

PCI Compliance

Governments that accept any type of payment cards (credit/debit) must adhere to Payment Card Industry (PCI) standards. These standards are created by a consortium of credit card providers and along with the Security Standards Council (SSC), security standards are in place related to the protection of consumer data by merchants who accept credit cards. The standards apply to all organizations that accept payment cards – including governmental entities. These standards encompass where **account data (cardholder data and/or sensitive authentication data) is stored, processed or transmitted** and are in place to prevent payment card fraud and are in place for both electronic and physical (e.g., in-person) processes.

PCI compliance is the process by which the government verifies they meet all of the security standards set forth by the Payment Card Industry Security Standards Council. These standards are broken down into 6 goals and 12 requirements (Governments must utilize special terminals and specific processes necessary to ensure compliance with these standards. These standards are also subject to change and be enhanced, adding new requirements to governments that accept payment cards.

Governments that do not comply with these standards can have penalties assessed as the entity's practices may invite fraudulent transactions. To prove compliance with the standards, entities are required to complete Self-Assessment Questionnaires (SAQs). Each questionnaire is different based upon how entities accept credit cards and the risk associated with each type of transaction. The goal of the SAQs is to understand what risks an organization is taking with how they accept transactions and what is in "scope". "Scope" refers to the systems where credit card data is stored, processed or transmitted. If credit card data hit difference systems, then each system must be secured. The goal is to limit which systems touch credit card data, thereby limiting "scope", because it not only limits risk but limits the costs associated with ensuring the entity is secure.

It is important for each entity to do an organizational wide assessment of how they accept credit cards. For instance, accepting credit cards via terminal at a counter in a physical location is one type of SAQ.

However, accepting payments over the telephone requires a separate SAQ to be filled out because the risks are different. Ensuring security with terminal at a counter is functionally different than ensuring the phone system is secure. Oftentimes entities need assistance with the complicated process of understanding their PCI related risks and the places cardholder data touch in their systems.

Qualified Service Assessors (QSAs) are third party vendors that have been certified to help entities evaluate their PCI related risks. This can also be helpful training for internal IT staff. QSAs are also helpful in ensuring that governments are aware of updates to PCI compliance standards and necessary procedures that may have to be enacted due to these changes.

It is important to note that some PCI requirements may also be applicable to governments that outsource their payment operations. Governments that outsource their operations to third parties are responsible for ensuring that the account data is protected per PCI requirements.

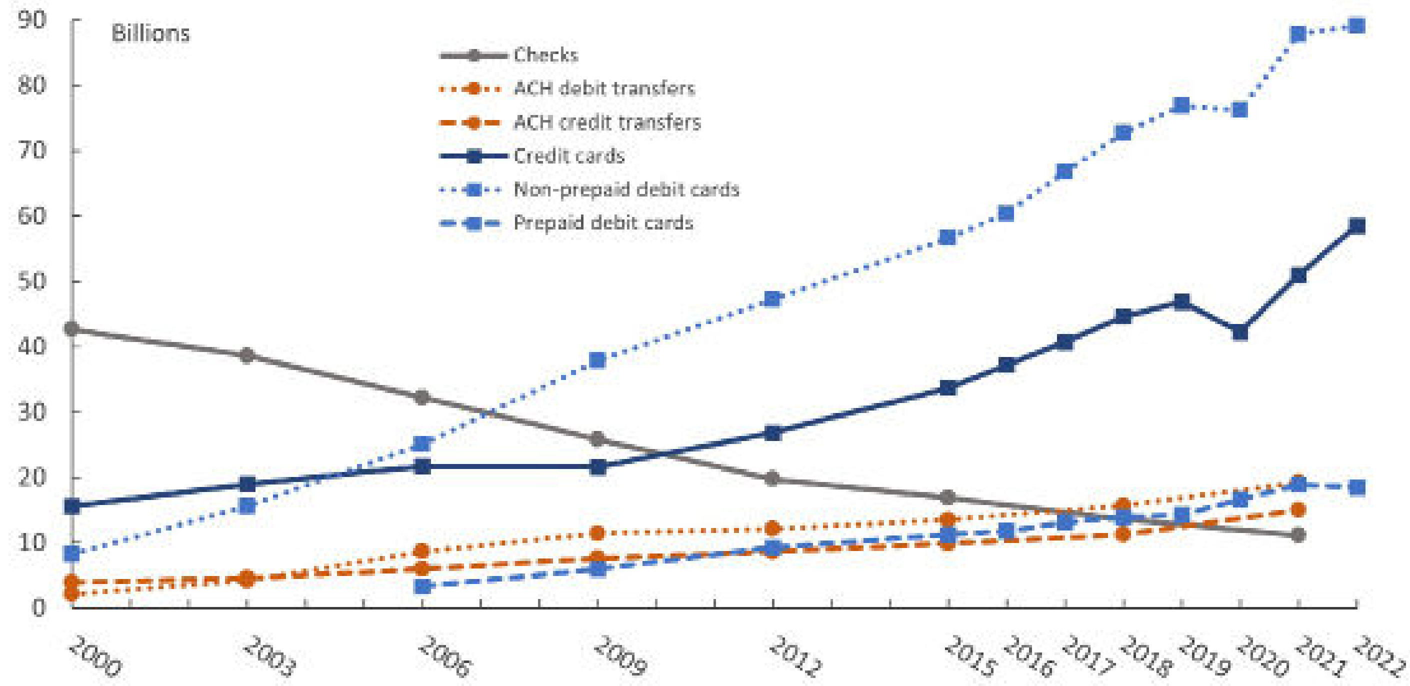
Other key government responsbilites include:

- Having internal and possibly external audits done to ensure compliance with PCI standards.
- Ensuring infrastructure is in place, including related to technology is appropriate and working with internal IT staff on these requirements
- Working with merchant services providers to know their procedures for PCI compliance, areas where they can assist governments with PCI compliance, and knowing the possible fees they can assess on entities for noncompliance.
- Training staff
- Establishing controls
- Ongoing PCI review and reporting. This may include engaging with QSAs.
- Knowing your infrastructure needs and how to portray and include these in merchant services RFPs and contracts.
- Maintaining awareness of new standards and compliance requirements.

Sources

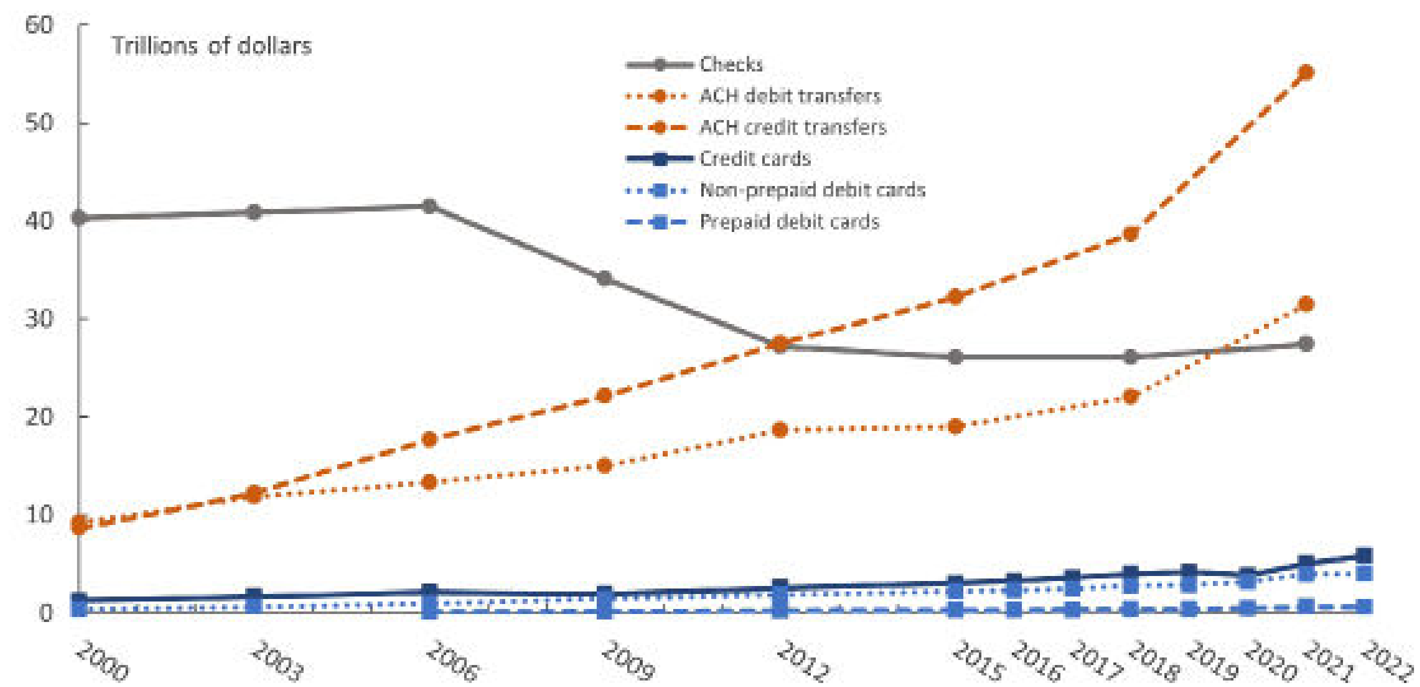
- GFOA
- PCI DSS – Payment Card Industry – Data Security Standards
- PCI Security Standards Council - (Pcisecuritystandards.Org)

Trends in non-cash payments 2000 – 2022 by number



Source: https://www.federalreserve.gov/paymentsystems/fr-payments-study.htm

Trends in noncash payments 2000 – 2022 by value



Source: https://www.federalreserve.gov/paymentsystems/fr-payments-study.htm

Constituent Communication

Constituent Communication: Best Practices

Effective communication is critical when implementing any change to payment processing fees. Research shows that clear, proactive communication can significantly reduce constituent resistance and improve overall adoption of new fee structures. This section outlines best practices for communicating fee changes to constituents.

Communication Timeline

Pre-Implementation (3-6 Months Before)

- *Internal Alignment:* Ensure all departments and staff understand the changes and can explain them consistently
- *Develop Key Messages:* Create clear, jargon-free explanations of why fees are being implemented and how they benefit the community
- *Communication Plan:* Create a comprehensive timeline for rollout across multiple channels
  Initial Notification: Announce changes through press releases, website updates, and social media
- *Detailed Information:* Provide FAQ documents and comparison charts showing payment options with associated costs
- *Staff Training:* Conduct comprehensive training sessions for frontline staff who will field questions

Implementation Phase

- *Visual Reminders:* Display signage at payment locations explaining the new fee structure
- *Digital Alerts:* Add pop-up notifications on payment portals before users begin transactions
- *Help Resources:* Offer live chat support or dedicated phone lines for questions about the new system

Post-Implementation

- *Feedback Collection:* Gather constituent feedback through surveys or comment cards
- *Response Adjustment:* Be prepared to clarify messaging based on common questions or concerns
- *Success Stories:* Share positive outcomes, such as improved services funded by reallocated processing costs

Key Message Components

1. Transparency About Reasons

Clear explanations about why fees are being implemented:

- "To ensure tax dollars go toward essential services rather than payment processing costs"

- "To maintain fairness by having service users cover processing costs rather than all taxpayers"

- "To comply with fiscal responsibility requirements while maintaining payment options"

2. Alternative Payment Options

Always emphasize free or lower-cost alternatives:

- Highlight no-fee payment methods (e.g., ACH, e-check, in-person cash/check payments)
- Create comparison charts showing all payment options and associated costs
- Provide clear instructions for using alternative payment methods

3. Fee Breakdown Transparency

Help constituents understand what they're paying for:

- Visual breakdown of how service fees are calculated
- Comparison to private sector convenience fees for context
- Explanation of how fees directly offset actual costs rather than generating revenue

Communication Channels

Direct Communications

- Bill inserts and statement messages
- Direct mail notifications
- Email newsletters
- Text message alerts (for constituents opted into notification systems)

Public Information Channels

- Government website (dedicated page with fee information
- Social media posts and campaigns
- Digital signage in government buildings
- Local media coverage (press releases and interviews)

Community Engagement

- Public information sessions (virtual and in-person)
- Presentations at community meetings
- Partnerships with community organizations for information distribution
- FAQ sessions with finance officers or elected officials

Sample Communication Templates

Website/Email Announcement

Important Update: Changes to Payment Processing Coming [Date]

Starting [implementation date], the [Government Entity] will implement a service fee of [fee amount] for credit and debit card payments. This change ensures that the costs of convenient payment options are covered by those who choose to use them rather than being subsidized by all taxpayers.

What This Means For You:

- Credit/debit card payments will incur a [fee amount] service fee
- Alternative payment methods remain available with no fees

- ACH/e-check payments online
- Cash or check payments in person
- Check payments by mail

Why We're Making This Change:
This policy change will save approximately [$X amount] annually in taxpayer funds that can be redirected to essential services. The service fee directly offsets the processing costs charged by financial institutions and is not revenue for the [Government Entity]. For more information, visit [website] or contact our customer service team at [phone/email].

Counter Card/Poster Template

PAYMENT OPTIONS & FEES

No-Fee Payment Methods:
- Cash (in-person)
- Check (in-person or by mail)
- ACH/e-check (online)

Service Fee Applied:
- Credit Card: [fee amount]
- Debit Card: [fee amount]

The service fee covers the cost of payment processing charged by financial institutions. Questions? Ask our staff or call [phone number].

Training Staff for Constituent Questions
Prepare staff with training and resources:

Talking Points Document: Provide consistent language for explaining the changes
- Common Questions Guide: Develop responses to anticipated questions
- Objection Handling: Train on how to respond to constituent concerns
- Escalation Protocol: Create clear guidelines for when to involve supervisors

Measuring Communication Effectiveness
Track the success of communication efforts:

- Constituent Surveys: Brief polls about awareness and understanding of changes
- Call Volume Metrics: Monitor customer service inquiries related to fee changes
- Social Media Sentiment: Track public reaction and address misconceptions
- Payment Method Shifts: Measure changes in payment channel usage following implementation

Case Study: Smithville County Communication Success
Smithville County implemented a 2.75% service fee for credit card payments in 2023. Their multi-channel communication approach included:

- A three-month notification period with multiple touch points
- Clear signage at all payment locations
- Staff training sessions with role-playing exercises
- Redesigned billing statements highlighting no-fee payment options

Results:

- 87% of constituents surveyed reported understanding the reason for the fee change
- Customer service calls about the fees decreased by 65% after the first month
- 31% of previous card users switched to no-fee ACH payments Overall collection rates remained stable with no negative impact

By employing these communication best practices, governments can implement fee changes with minimal disruption while maintaining positive constituent relationships.

Equity Considerations

Understanding Payment Equity Challenges
Payment processing fees can disproportionately impact:

- Low-income residents
- Seniors on fixed incomes
- Individuals with limited banking access
- Those without traditional credit/debit cards

Recommended Equity Mitigation Strategies

Multiple Payment Channels

- Maintain no-fee cash and check payment options
- Provide in-person payment alternatives
- Offer free digital payment methods like ACH/e-check

Fee Structuring

- Implement fee caps to limit impact on smaller transaction
- Exempt certain essential services from fees

Accessibility Support

- Provide free payment assistance for vulnerable populations
- Offer alternative payment support at government offices
- Create clear guidance for those with limited digital access

Transparent Communication

- Clearly explain fee rationale
- Highlight free payment alternatives
- Provide multilingual fee information

Equity Impact Assessment
Before implementing fees, governments should:

- Conduct demographic analysis of payment method usage
- Model potential financial impacts on different resident groups
- Develop mitigation strategies for most affected populations

Key Principle: Ensure payment convenience does not create financial barriers for any constituent group