



Government Payments: Charge Fees or Absorb the Costs

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Executive Summary

In 2026, accepting digital payments is the standard not the exception. The real question for city managers and finance directors has shifted from "How do we take the money?" to "Who's covering the processing fees?"

We'll look at how places like Greenville County, SC, saved millions by modernizing their approach, giving you a clear roadmap to keep your agency's or utility's budget healthy while staying fair to your community.

Introduction

Government offices accept cards for taxes, utilities, fines, and fees — and for good reason. Offices get paid faster, paperwork shrinks, and constituents get a smoother experience.

But accepting cards comes with real costs: processing fees, compliance overhead, and added accounting complexity.

With digital payments now the norm and budgets under pressure, decision-makers face a key question: absorb those costs as operational expenses, or pass them on to constituents through service or convenience fees?

The answer depends on balancing financial sustainability, constituent expectations, legal requirements, and strategic priorities.



The Evolving Landscape of Government Payments

Government payment strategies need to keep pace — and the agencies making changes are already seeing results:

Greenville County, South Carolina saw a dramatic drop in in-person and mail-in payments, cutting wait times and the hours spent processing paper checks by shifting to online payments.

South Portland, Maine eliminated credit card processing fees from its budget entirely by assessing a service fee to constituents who choose to pay by card.

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

2026 Payment Statistics

About 89% of US adults now use some form of digital payment, and mobile payments have more than quadrupled since 2018 averaging 11 transactions per person per month.

Government agencies are feeling this shift as people increasingly expect to pay online or by phone. The federal government's 2025 mandate to phase out paper checks points to a broader move toward faster, cheaper payment systems that local governments will eventually tap into as well.

Understanding Payment Card Processing Costs

Before you think about how to recover costs, it's important to understand exactly what those costs are.

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. Processor 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

Understanding Processor Pricing Models

Payment processors typically use one of four pricing structures:

- **Interchange-Plus:** The processor passes through the card network's actual cost and adds a fixed markup. This is the most transparent model—you see exactly what you're paying and why.

- **Flat Rate:** A single rate applies to every transaction (e.g., 2.9% + \$0.30). Simple to understand, but you overpay on lower-cost cards like debit.

- **Subscription/Membership:** A monthly fee plus interchange at cost with no percentage markup. Added costs for next day funding or ACH processing are possible, read the fine print.

- **Tiered:** Transactions are sorted into "qualified," "mid-qualified," and "non-qualified" buckets. This is the least transparent model—most cards downgrade to the highest tier, inflating your costs.

Why It Matters for Government and Utilities

Your pricing model matters even when passing processing fees on. Interchange-plus typically saves 20% or more versus flat-rate or tiered pricing. Even if your entity isn't footing the bill, they still have to answer for it.

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

Credit cards have higher interchange fees than debit cards. Credit cards require the bank to take on more risk unlike with a debit card, where the money comes out of a bank account. Rewards, premium and corporate credit cards have the fees. Those extra fees help pay for things like rewards programs and cover the bank's added 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

Businesses
CNP = Card Not Present
CPS = Custom Payment Service
DBT = Debit
MC = Mastercard
PRD1 = Period 1
PRD2 = Period 2
PRD3 = Period 3
PRD4 = Period 4
PRD5 = Period 5
\$1,333.07

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

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.

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.

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:

$$\text{NER} = (\text{Total Processing Fees} / \text{Total Sales Volume}) \times 100$$

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.

Fee Guide

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:

$$\$1,720.40 / \$64,905.79 = 2.65\% \text{ NER}$$

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 when 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, educational institutions, and Utilities 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 for Visa transactions; however, Mastercard's Government/Education program permits flat, percentage-based, or tiered fees. Cannot vary based on payment amount
- Must be disclosed clearly before transaction completion
- Applies only to alternative channels (online, phone, IVR) with no recurring transactions allowed under Visa, though Mastercard's government/education program does permit them — verify each network's rules with your processor

Advantages of Convenience Fee Processing

1. Reduced Budget Impact

Shifts processing costs away from departmental budgets to the cardholders who choose to pay electronically.

2. Encourages Lower-Cost Payment Methods

Cost-conscious residents may opt for cash or check, which carry lower processing costs for the agency.

3. More Politically Palatable

Only affects residents who choose optional payment channels — for example, one town found a \$1.95 online convenience fee was far more acceptable than raising utility rates across the board

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

Under Visa rules, convenience fees must be flat (not percentage-based), charged in one transaction and disclosed before processing the online payment. Can't be charged on auto pay or recurring transactions.

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/utility MCCs:

MCC 9311 - Tax
MCC 9222 - Fines
MCC 9211 - Court Costs
MCC 9399 - Miscellaneous Government Services
MCC 4900 Utilities (as of 10/25)

Important 2025–2026 Update: Visa's expansion of service fee eligibility to MCC 4900 coincides with its Commercial Enhanced Data Program (CEDP), which went live in April 2025. CEDP replaces the legacy Level 2 interchange programs which sunset in April 2026 with stricter data-quality requirements.

Government entities and utilities that process commercial or business card payments and do not submit qualifying Level 3 data will see interchange costs rise by an estimated 1.0%–1.5% on that volume. If your agency handles commercial card payments (landlord accounts, corporate accounts, inter-agency charges), talk to your processor about CEDP compliance now.

The payment processor collects service fees. To complete the transaction, cardholders use their chip cards twice: once to pay the amount owed and the second time to pay the service fee. IntelliPay's patented solution avoids the double dip by constituents.

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.

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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 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. Please note: That under VISA rules, recurring or auto pay transaction are not permitted using convenience fees.

	Convenience Fee	Service Fee	Absorb Fee
Merchant Category Codes (MCC)	All (Visa general rules); Government and Education MCCs only (Mastercard Convenience Fee Program)	Government, Education and Utility 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 Transactions - original bill and a second for the fee*	Single payment
Recurring Transactions	"No (Visa); Yes (Mastercard Govt/Education program)"	Yes	Yes



Legal and Regulatory Considerations

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

- 1. Federal, State and Local Laws:** *Federal, State and Local Laws: Governments should first consult with their merchant services provider and legal counsel on applicable laws. Several states restrict or cap fees on card transactions — rules vary by state and by fee type (surcharge vs. convenience fee vs. service fee)*
- 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.

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

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 or 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. Another option is Dual Pricing, where the agency posts two prices a lower cash/ACH price and a higher card price so constituents can see the actual cost of card acceptance and choose accordingly

Fee Guide

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 no 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/commission.

Pre-Council /Commission 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/Commission Presentation

1. Request formal agenda placement

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

2. 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

3. Anticipate and prepare for questions

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

4. Respond to council/commission feedback

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

5. Draft the policy language

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

6. 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

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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 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.

Disclaimer

This guide is provided by IntelliPay for general informational and educational purposes only. It does not constitute legal, financial, tax, or regulatory advice. Laws, card network rules, and regulations governing payment processing fees, surcharges, convenience fees, service fees, and dual pricing vary by state, card network, merchant category, and specific use case — and are subject to change.

Government entities should consult with qualified legal counsel, their acquiring bank, and their payment processor before implementing any fee program or pricing model.

While every effort has been made to ensure accuracy, IntelliPay makes no representations or warranties regarding the completeness or applicability of the information contained herein to any specific situation. Case studies and examples referenced in this document are for illustrative purposes and may not reflect the results your entity will achieve.

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Appendix

PCI Compliance



PCI DSS Compliance for Government Entities

Governments that accept any type of payment card — credit or debit — must adhere to the Payment Card Industry Data Security Standard (PCI DSS), currently version 4.0.1. These standards are maintained by the PCI Security Standards Council (PCI SSC), which was founded in 2006 by Visa, Mastercard, American Express, Discover, and JCB International. PCI DSS establishes security requirements for the protection of cardholder data wherever it is stored, processed, or transmitted, covering both electronic and in-person payment channels. The standards apply to all organizations that accept payment cards, including governmental entities.

As of March 31, 2025, all requirements under PCI DSS v4.0.1 are fully mandatory. This version — the most significant update in over a decade — added 64 new sub-requirements and shifted the standard's philosophy from periodic, checklist-based validation to continuous security monitoring. Government finance managers should treat this not as a one-time compliance exercise but as an ongoing operational responsibility.

What PCI Compliance Means for Your Agency

PCI compliance is the process by which a government entity verifies it meets the security standards set by the PCI SSC. The standards are organized into six goals and twelve core requirements:

Goal 1: Build and Maintain a Secure Network and Systems

- Install and maintain network security controls
- Apply secure configurations to all system components

Goal 2: Protect Account Data

- Protect stored account data
- Protect cardholder data with strong cryptography during transmission over open, public networks

Goal 3: Maintain a Vulnerability Management Program

- Protect all systems and networks from malicious software
- Develop and maintain secure systems and software

Goal 4: Implement Strong Access Control Measures

- Restrict access to system components and cardholder data by business need to know
- Identify users and authenticate access to system components
- Restrict physical access to cardholder data

Goal 5: Regularly Monitor and Test Networks

- Log and monitor all access to system components and cardholder data
- Test security of systems and networks regularly

Goal 6: Maintain an Information Security Policy

- Support information security with organizational policies and programs

Under these twelve requirements sit over 500 specific sub-requirements. Governments must use approved terminals, follow specific processes, and maintain documentation to demonstrate compliance. These standards are subject to change — the PCI SSC updates them as new threats and technologies emerge — and each update can add new obligations for entities that accept payment cards.

Key Changes Under PCI DSS v4.0.1

Government entities should pay particular attention to the following requirements that became fully mandatory on March 31, 2025:

Multi-factor authentication (MFA) is now required for all access to the Cardholder Data Environment (CDE) — not just remote access or administrator accounts. If staff access payment systems from anywhere, including within the agency's own network, MFA must be in place.

Password requirements increased to a minimum of 12 characters with complexity. Agencies should update their internal password policies and any systems that touch cardholder data accordingly.

Phishing protection training is now a formal requirement. Staff with access to payment systems must receive training on identifying phishing attempts and verifying sender identity.

Script management on payment pages requires agencies that accept online payments to maintain a complete inventory of all scripts running on payment pages, authorize each one, and continuously verify their integrity to prevent e-skimming attacks.

Continuous monitoring replaces the old model of periodic validation. The standard now expects real-time or near-real-time visibility into changes to payment page content, unauthorized access attempts, and system vulnerabilities — not just annual or quarterly reviews.

Customized compliance approach — PCI DSS v4.0.1 introduced a new option allowing organizations to design their own security controls to meet the intent of each requirement, rather than following only the prescriptive "defined approach." This can be useful for government entities with unique infrastructure, though it requires more rigorous documentation and validation by a Qualified Security Assessor.

PCI Compliance

Self-Assessment Questionnaires

Governments that do not comply with PCI DSS can face penalties, including fines assessed by the card brands through the acquiring bank, as non-compliant practices invite fraudulent transactions and data breaches. To demonstrate compliance, entities are required to complete Self-Assessment Questionnaires (SAQs). Each SAQ is tailored to how the entity accepts payment cards and the risk profile associated with each transaction type.

The purpose of the SAQs is to identify what risks an organization takes on based on how it accepts transactions and what is in "scope." Scope refers to the systems where cardholder data is stored, processed, or transmitted. If cardholder data touches multiple systems, each one must be secured. The goal is to limit which systems handle cardholder data — thereby limiting scope — because it reduces both risk and the cost of maintaining a secure environment.

It is important for each agency to conduct an organization-wide assessment of how it accepts payment cards. For example, accepting cards via a terminal at a counter in a physical location requires one type of SAQ. Accepting payments over the telephone requires a separate SAQ because the risks are different — securing a point-of-sale terminal is a fundamentally different challenge than securing a phone system. Online payment portals carry their own distinct risks and SAQ requirements as well.

Getting Help: Qualified Security Assessors

Navigating PCI compliance can be complex, and many government entities need assistance understanding their risks and identifying everywhere cardholder data touches their systems. Qualified Security Assessors (QSAs) are third-party firms certified by the PCI SSC to help organizations evaluate their PCI-related risks, conduct formal assessments, and validate compliance. Engaging a QSA can also serve as valuable training for internal IT staff and helps ensure that governments stay current with updates to PCI compliance standards and any new procedures that must be implemented.

Outsourcing Does Not Eliminate Responsibility

It is important to note that PCI requirements still apply to governments that outsource their payment operations. Even when a third-party processor handles the transactions, the government entity remains responsible for ensuring that cardholder data is protected per PCI DSS requirements. Agencies should request proof of PCI compliance from their service providers, clearly document shared responsibilities in contracts, and periodically verify that providers maintain compliance.

Key Government Responsibilities

- **Conducting internal** and, where appropriate, external audits to verify compliance with PCI DSS
- **Ensuring technology infrastructure** is appropriate and working with internal IT staff to meet current requirements, including the new MFA, password, and monitoring standards
- **Working with merchant services providers** to understand their PCI compliance procedures, areas where they can assist the agency, and any fees they may assess for non-compliance
- **Training staff** including the new mandatory phishing protection training for anyone with access to payment systems
- **Establishing and documenting** security controls and policies
- **Performing ongoing PCI review** and reporting, which may include engaging with QSAs for periodic assessments
- **Understanding infrastructure needs** and incorporating PCI requirements into merchant services RFPs and contracts
- **Maintaining awareness of new standards** and compliance requirements as the PCI SSC continues to update PCI DSS

Sources

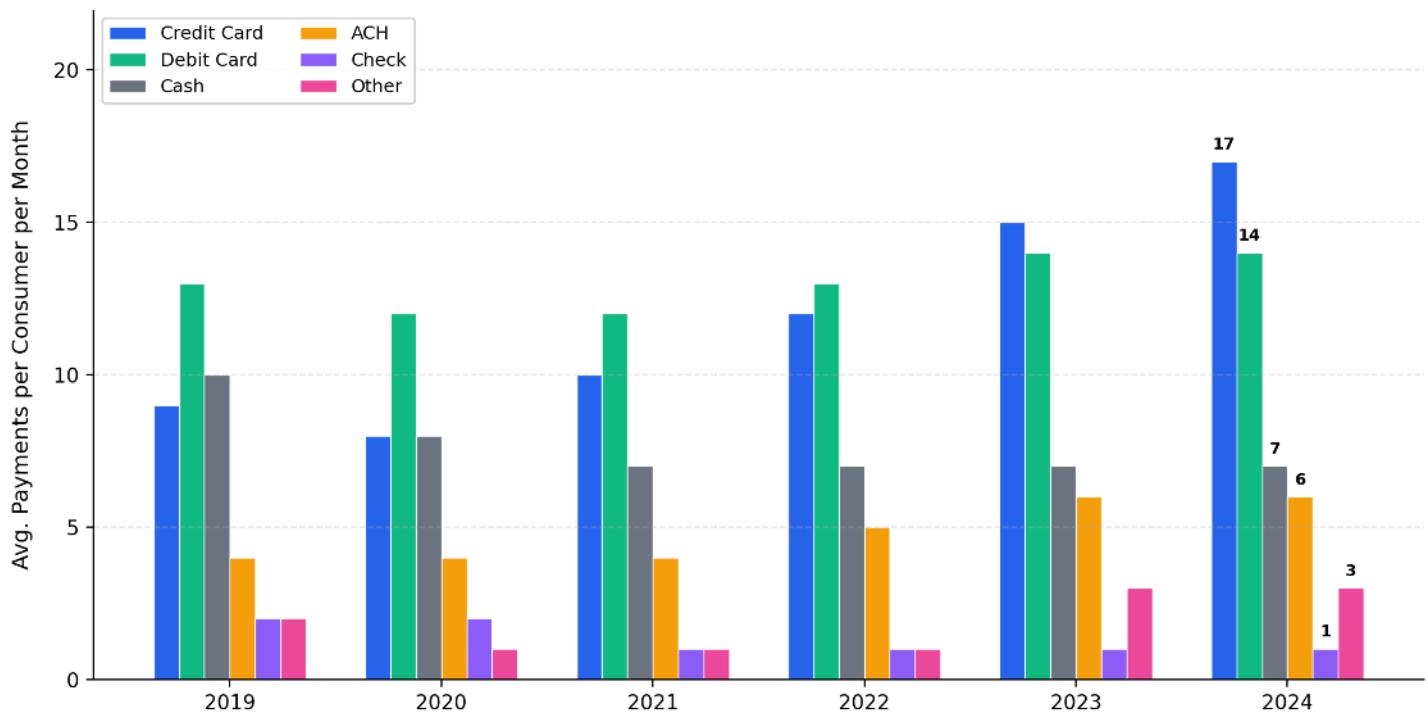
PCI Security Standards Council — pcisecuritystandards.org

PCI DSS v4.0.1 (June 2024) — available in the PCI SSC Document Library

Government Finance Officers Association (GFOA)

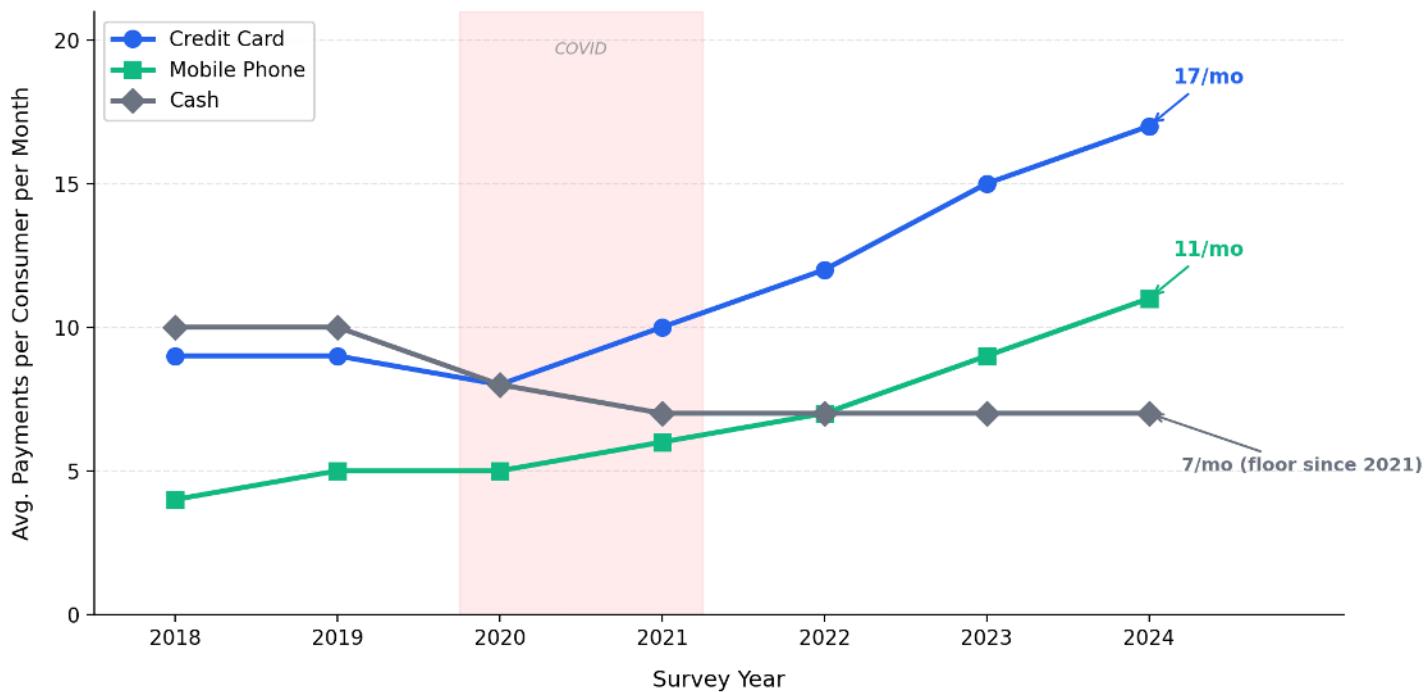
Payment Behavior and Trends

How Americans Pay: Monthly Payments by Type 2019-2024



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

The Shift: Credit Cards & Mobile Surge, Cash Holds Steady 2018-2024



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 front line 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

Constituent Communication

- 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