

Oregon State Treasury Statewide Credit Card Processing Overview

Joint Committee on Ways and Means
General Government Subcommittee
May 26, 2015



Presented by:

Cora Parker, Director of Finance

Sharon Prentice, Cash Management Policy & Planning Manager

Agenda

- ▶ Cash Management Services/Payment Acceptance Options
- ▶ Contract Overview
- ▶ Merchant Card Fee Components
- ▶ State of Oregon Merchant Agency Activities
- ▶ Other Considerations:
 - PCI Security Compliance
 - Public Funds Compliance
 - Other Payment Processing Services
- ▶ Local Government Participation?
- ▶ Alternatives/Improvements?

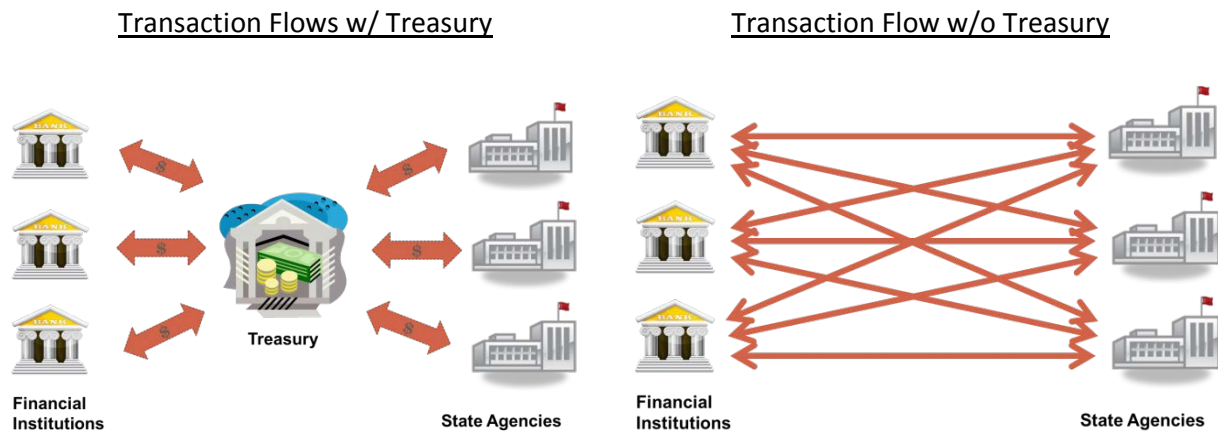
*Additional information found in March 17, 2015, memo to Legislative Fiscal Office re: Merchant Card Services Information Request.



Cash Management Services

Treasury is the interface between all state agencies and universities and roughly 20 banking institutions.

- ▶ Treasury maintains banking services contracts with financial services institutions, providing for a “many-to-one” and “one-to-many” relationship structure, instead of “many-to-many” approach. This approach results in *significant dollar savings* to the State due to volume pricing. It also allows for a *rapid deployment of funds* into the Short Term Fund where it can be put to work earning interest.



Payment Acceptance Options

- ▶ The Oregon State Treasury supports a range of cash management services for state agencies, including a variety of Payment Acceptance Options:
 - Cash
 - Checks
 - Wires
 - Automated Clearing House (ACH) transactions
 - ACH transactions originated by agencies debiting customer accounts
 - ACH transactions originated by agency customers and received by agencies
 - Electronic transfers between state accounts
 - Lockbox and Remote Deposit (facilitate processing of cash and checks)
 - **Credit and Debit Cards**
- ▶ It is an agency business decision to use any or all of the above.
 - Customer/client base, product/service, volumes, resources available, etc.
 - Costs associated with all of these options; some more discretely visible than others



Current Contract Overview

- ▶ Treasury maintains Master Agreement for Merchant Card Services (aka credit card acceptance) for use by state agencies.
 - U.S. Bank/Elavon
 - Initial agreement September 26, 2005
 - Latest renewal period began October 2012
 - Last amendment May 2015
 - Current end date October 2016
- ▶ Covers acceptance by agencies of VISA, MasterCard and Discover, as well as PIN Debit acceptance.
- ▶ Separate agreement with American Express for the acceptance of that card type by agencies.



Current Contract Overview

- ▶ Agencies enter into tri-party agreement with Treasury and U.S. Bank/Elavon when they elect to use services.
 - Elect the type of acceptance service:
 - Card Present – aka Point-of-Sale, where card is physically swiped through a card terminal.
 - Card Not Present – any transaction where the card cannot be swiped, including internet transactions, phone or mail order transactions, keyed into a terminal.
 - Agree to comply with terms of service to ensure merchant card transactions are completed accurately and in a secure manner.
 - Makes hardware choices if appropriate.
 - Elect additional payment processing services where it fits the agency's business model and need.



Current Contract Overview

- ▶ Merchant Card Acceptance Fees (to U.S. Bank/Elavon)
 - Agencies are charged a Processing Fee of \$0.07 per transaction (regardless of size of transaction or method of acceptance)
 - Hardware costs and software costs, if any (point-of-sale devices, etc.).
 - Other service provision costs, if any.
 - Treasury pays no additional ongoing fees to U.S. Bank/Elavon beyond fees charged to agencies for provision of services.
- ▶ Please note: Interchange and Assessment fees are established by the Industry and are non-negotiable – More about this later!



Current Contract Overview

- ▶ Other “value-add” from statewide contract:
 - Statewide volume pricing and economies of scale, instead of individual agency volume.
 - A variety of fees and charges typical to such contracts that we are simply not charged for.
 - Agencies receive same day funding into Treasury’s primary account.
 - Immediately available for deployment to OSTF.
 - Most private sector firms must wait at least 48 hours for funds to be deposited into their accounts.
 - Annual evaluation and strategic analysis of our account
 - Recommendations for how to improve agency processing.
 - Training.



Merchant Card Fee Components

▶ Interchange Fees

- Paid to card-issuing bank.
- Makes up approximately 90 percent of total acceptance costs to merchants.

▶ Assessment Fees

- Paid to card association (Visa, MasterCard, Discover, or American Express).
- Makes up approximately 7 percent of total acceptance costs to merchants.

▶ Processing Fees

- Paid to merchant services provider.
- Makes up approximately 3 percent of total acceptance costs to merchants.



Merchant Card Fee Components

▶ Interchange:

- A percentage plus a per transaction fee.
- Set by the card associations (Visa, MasterCard, Discover and American Express)
- Factors that impact Interchange rates are the following
 - Card Brand: Visa, MasterCard, Discover, American Express
 - Card type: Consumer, commercial, rewards, credit, debit, etc.
 - Industry type: Retail, Government, E-commerce, etc.
 - Processing environment: Card-present, card-not-present, swipe, key-enter
 - Transaction Size
- Paid to cardholder's card issuing bank.
- Non-negotiable.
 - Merchants can control to a certain extent by following best practices.
- Makes up approximately 90 percent of total acceptance costs to merchants.



Merchant Card Fee Components

▶ Assessment Fee:

- Set by the card associations (Visa, MasterCard, Discover and American Express)
- Paid to the card associations.
- Non-negotiable.
- Assessment is a fixed at the card association level, and does not change based on card type accepted (e.g., consumer, commercial, rewards, etc.)
 - Visa 0.11 percent + \$0.0025
 - MC 0.11 percent + \$0.0195 (.12 percent for transactions over 1K)
 - Discover 0.1055 percent + \$0.0185
- Other assessments may be charged for Misuse of Authorization, Zero Floor Limit, etc.
- Makes up approximately 7 percent of total acceptance costs to merchants.



Merchant Card Fee Components

▶ Processing Fee:

- This is the portion of the fee to the merchant that is negotiated with the merchant services provider.
- For State of Oregon agencies, it is currently \$0.07 per transaction.
- Fixed cost and does not vary by transaction.
- Paid to the merchant services provider.
- Makes up approximately 3 percent of total acceptance costs to merchants.



Merchant Agency Activities

Merchant Accounts

- ▶ 70 agencies, including universities, accepting credit/debit cards.
- ▶ 752 active accounts (merchant IDs) through which cards are being processed and funds are being accepted.
- ▶ Cards are accepted at the Point of Sale, Online, through the Mail, or by Telephone (agency business decision).

Payment Products Utilized

- ▶ Visa
- ▶ MasterCard
- ▶ Discover
- ▶ American Express
- ▶ PIN Debit
- ▶ Voyager Cards



Merchant Agency Activities

Merchant Card Sales and Fees by Agency Merchant Groups Calendar Year 2014

2014 Totals				
Agency Groups	Net Sales	Item count	Merchant Card Fees*	Discount Effective Rate VISA M/C
Courts	\$36,413,986.45	309,945	\$409,669.13	1.125%
DAS Egovernment	\$148,039,967.43	766,029	\$2,503,165.22	1.722%
OLCC	\$286,179,081.21	8,943,562	\$4,390,089.19	1.812%
Parks	\$19,931,932.80	406,323	\$313,424.12	1.572%
Universities	\$175,382,572.26	2,439,975	\$2,970,828.67	1.728%
All Other Agencies	\$175,991,345.98	1,095,107	\$2,520,942.00	1.657%
	\$841,938,886.13	13,960,941	\$13,108,118.33	
Avg Effective Rate 2014				1.603%



Merchant Agency Activities

Example of Point of Sale Merchant Card Acceptance

- ▶ Oregon Liquor Control Commission
 - Retail, fast-paced, in-person purchases
 - 221 liquor stores, 547 payment card terminals
- ▶ Costs:
 - Merchant Card Fees – Interchange, Assessment and Processing Fees
 - Hardware fees for leasing or purchasing of payment card terminals



Merchant Agency Activities

Example of Online Merchant Card Acceptance

- ▶ Oregon State Board of Nursing
 - Professional Licensing Fees
 - Payments accepted via online website hosted by DAS E-Government solution.
- ▶ Costs:
 - Merchant Card Fees – Interchange, Assessment and Processing Fees



Other Considerations

Compliance

- ▶ Agencies, and third parties working on their behalf, must comply with the provisions of state public funds laws including:
 - Compliance with public funds law (ORS 295).
 - Where funds can be held.
 - Who can hold funds.
 - When funds “owned” by the State of Oregon.
 - Compliance with payment industry data security standards.



Other Considerations

Compliance: Oregon Public Funds Laws

- ▶ The purpose of ORS chapter 295 is to provide collateral for public funds deposits in the event of a bank's insolvency.
 - ORS 295.002 provides that "each public official shall deposit public funds in the custody or control of the public official in one or more depositories currently qualified pursuant to ORS 295.001 to 295.108."
 - DOJ has advised agencies that moneys over which a state agency has contractual control, even though it does not have custody of the moneys, are public funds. For example, if an agency contracts with a third party to hold, manage or collect moneys on behalf of the agency or an agency directs through its contract how moneys may be used in order to fulfill an obligation of the agency, such moneys are probably public funds.



Other Considerations

Compliance: Importance of Data Security

- ▶ Customers rely on us to protect their personal financial information from unauthorized use and disclosure. Failure to do so can result in:
 - Termination or privilege restrictions imposed by U.S. Bank and/or credit card companies.
 - Fines and increased compliance requirements.
 - Customer lawsuits and complaints.
 - Additional costs associated with customer notification, reissuance of debit/credit cards, and fraud resulting from the data breach.



Other Considerations

Compliance: PCI Data Security Overview

- ▶ The Payment Card Industry Data Security Standard (PCI DSS) is a set of requirements designed to ensure that **ALL** entities that **process, store or transmit** credit card information maintain a secure environment.
- ▶ The PCI Security Standards Council (PCI SSC) was launched on September 7, 2006 to manage the ongoing evolution of the PCI security standards with focus on improving payment account security throughout the transaction process.
- ▶ Each merchant is required to validate that it is compliant with the Standard, depending upon the card capture method it utilizes.
- ▶ Merchants not adhering to the standard are subject to substantial fines levied by the card associations.
- ▶ Most agencies want to remove card processing from their networks to reduce scope for compliance with PCI DSS, and choose to contract with third parties to process transactions on their behalf.



Other Considerations

Compliance: PCI Data Security Guidelines

1. Install and maintain a firewall configuration to protect cardholder data
2. Do not use vendor-supplied defaults for system passwords and other security parameters
3. Protect stored cardholder data
4. Encrypt transmission of cardholder data across open, public networks
5. Use and regularly update anti-virus software
6. Develop and maintain secure systems and applications
7. Restrict access to cardholder data by business need-to-know
8. Assign a unique ID to each person with computer access
9. Restrict physical access to cardholder data
10. Track and monitor all access to network resources and cardholder data
11. Regularly test security systems and processes
12. Maintain a policy that addresses information security



Other Considerations

Compliance: Varying Acceptance Solutions

- ▶ Agencies choose payment methods and vendor solutions with approvals from Treasury for compliance with public fund laws and payment industry standards.
- ▶ The majority of agencies work with vendors who are working on their behalf
- ▶ A few agencies work with third parties that are working on behalf of an agency's customer and not the agency.



Other Considerations

Compliance: Varying Acceptance Solutions

- ▶ Example:
 - DMV accepts online payments via the DAS E-Government solution.
 - The DAS E-Government Service Provider, NIC, works on behalf of DMV providing online payment processing services.
 - Because NIC works on behalf of DMV, the services must comply with ORS 295 and the provisions of the state's merchant contract with U.S. Bank/Elavon.
 - The transactions process through U.S. Bank/Elavon and are deposited directly into the state's bank account.



Other Considerations

Compliance: Varying Acceptance Solutions

- ▶ Example:
 - DOJ Division of Child Support (DCS) has structured contracts with vendors who are agents for Child Support obligees (**NOT** DCS) for remitting child support payments.
 - Since these vendors are acting on behalf of the obligees, the funds are not subject to ORS Chapter 295 until the monies are remitted to DCS.
 - Additionally, the third party has their own merchant services relationship and does not process through the state's contract with Elavon.
 - Monies are deposited into the vendors bank account and subsequently remitted to the state per contract terms.



Other Considerations

Other Payment Processing Services

- ▶ Agencies need to also consider other processing service needs that they might have:
 - Online portal and website development or maintenance needs?
 - Need to link to licensing, inventory, or other systems?
 - Other?
- ▶ Not uncommon to consider 3rd Party Service Providers for these services.
 - Agency Business Decision!
 - Master contract includes some services, but not mandated if business need supports other provider.
 - Compliance always a factor.
 - Who is provider acting on behalf of ? [Legal question!]
 - Resources and cost always a driver.
 - Prevalence of like industry solutions.



Local Government Participation?

- ▶ Such an approach is almost certainly negotiable.
- ▶ Considerations include, but are not limited to:
 - Transaction volumes?
 - Types of transactions?
 - Compliance capacity?
 - Other processing needs?
 - Administrative burden?
 - Etc.



Alternatives / Improvements?

- ▶ Agencies can choose which payment options to make available to their customers including:
 - Cash
 - Checks
 - Wires
 - Automated Clearing House (ACH) transactions
 - Electronic transfers between state accounts
 - Lockbox and Remote Deposit (facilitate processing of cash and checks)
 - **Credit and Debit Card Acceptance**



Alternatives / Improvements?

- ▶ Per ORS 293.525 agencies can choose to write a rule mandating electronic payments and the type of payments, e.g., ACH and Credit Cards
- ▶ Agencies can choose to charge a convenience or service fee to their customers to offset costs associated with acceptance of electronic payments.



Alternatives / Improvements?

- ▶ Payment acceptance options should be economically feasible; therefore, when making decisions agencies need to take the following factors into consideration:
 - ▶ What are the agencies goals and business objectives?
 - ▶ Who are the agency customers? Corporate or consumer?
 - ▶ What services are being provided?
 - ▶ What is the volume and dollar amount of payments?
 - ▶ What are the costs of accepting and processing physical payments (cash and checks) versus electronic payments?
 - ▶ Payment acceptance must comply with state public funds laws and banking depository requirements.
 - ▶ Merchant card acceptance must comply with PCI standards.



Questions?

