

State of Washington  
Joint Legislative Audit & Review Committee (JLARC)



# **Analysis of the Costs and Benefits of Accepting Bankcards at WSDOT**

**Report 10-4**

April 21, 2010

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alternative formats for persons with disabilities.*

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JLARC's non-partisan staff auditors, under the direction of the Legislative Auditor, conduct performance audits, program evaluations, sunset reviews, and other analyses assigned by the Legislature and the Committee.

The statutory authority for JLARC, established in Chapter 44.28 RCW, requires the Legislative Auditor to ensure that JLARC studies are conducted in accordance with Generally Accepted Government Auditing Standards, as applicable to the scope of the audit. This study was conducted in accordance with those applicable standards. Those standards require auditors to plan and perform audits to obtain sufficient, appropriate evidence to provide a reasonable basis for findings and conclusions based on the audit objectives. The evidence obtained for this JLARC report provides a reasonable basis for the enclosed findings and conclusions, and any exceptions to the application of audit standards have been explicitly disclosed in the body of this report.

# TABLE OF CONTENTS

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<b>Report Summary</b> .....	<b>1</b>
<b>Introduction</b> .....	<b>3</b>
Merchants, Including Government Agencies, Experience Different Costs When Accepting Different Forms of Customer Payments .....	3
Cost Implications of Different Methods of Payment .....	4
<b>Audit Results</b> .....	<b>5</b>
WSDOT’s Card Transaction Fees Have Been Increasing .....	5
No Payment Method Was Consistently the Least Costly .....	6
Cost Implications of Contracting Toll Collections .....	8
Other Benefits from Accepting Bankcards.....	8
Options for Reducing the Costs of Bankcard Transactions .....	9
State Agencies Lack Guidance on Options for Reducing Bankcard Fees .....	10
Recommendations.....	10
<b>Appendix 1 – Scope and Objectives</b> .....	<b>11</b>
<b>Appendix 2 – Agency Responses</b> .....	<b>13</b>
<b>Appendix 3 – Study Methodology</b> .....	<b>25</b>

**Committee Approval**

On April 21, 2010, this report was approved for distribution by the Joint Legislative Audit and Review Committee.

**Acknowledgements**

We appreciate the assistance provided by staff from the Department of Transportation, Office of the State Treasurer, and the Office of Financial Management in conducting this study. We would like to thank them for their availability and responsiveness during a very busy time.

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Costs and Benefits  
of Accepting  
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STATE OF WASHINGTON  
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REVIEW COMMITTEE

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## REPORT SUMMARY

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### **Popular Option Provides a Variety of Benefits to WSDOT and Its Customers, but Opportunities to Lower Revenue Collection Costs May Exist**

Customers of the Washington State Department of Transportation (WSDOT) increasingly use credit and debit cards (bankcards) to pay for services such as fares on Washington State Ferries, tolls on the Tacoma Narrows Bridge and State Route 167, and vehicle permits issued by the Commercial Vehicle Services Office. The acceptance of bankcards is providing a variety of benefits to both WSDOT and its customers. Benefits of accepting bankcards include improved customer convenience, decreased risk of cash thefts, and improved operational efficiency. However, these benefits are not without cost. As a consequence of the growing use of bankcards, WSDOT's costs for card transaction fees have been increasing rapidly, more than doubling from about \$1.1 million in FY 2006 to over \$2.9 million in FY 2009.

JLARC analyzed WSDOT's costs for accepting customer payments using bankcards and compared those costs to the cost of accepting other forms of payment, such as cash or checks. This review focuses on Washington State Ferries, Tolling Operations, and Commercial Vehicle Services because those three areas accounted for nearly all of the department's costs for accepting bankcards. This review also focuses on department operating costs, excluding capital costs because they represent "sunk" costs that cannot be eliminated, regardless of any future policy decisions concerning the form of customer payments that will or will not be accepted.

Our analysis found that the least costly method of accepting customer payments varied for the three areas. For State Ferries, the average cost for a bankcard transaction was more expensive than the average cost for a cash transaction. On the other hand, for Commercial Vehicle Services, the average cost for a bankcard transaction was less than the average cost for other payment methods.

Tolling Operations was the one area where the average cost for a bankcard transaction was appreciably greater than the average cost for a cash transaction. However, our review suggests this cost difference has more to do with the volume and type of transactions being conducted using bankcards than any inherent cost difference between forms of payment. After adjusting for the size of the tolling transactions, the cost to collect a given amount of toll revenue was approximately the same for both bankcards and other payment types.

As a part of our review, JLARC also considered options for reducing the fiscal impact of accepting bankcards at WSDOT. Two options may lower revenue collection costs. As an alternative to bankcards for some kinds of transactions, the broader use of lower-cost electronic transfers using the Automated Clearing House (ACH) network could potentially reduce WSDOT's bankcard fees. ACH offers the lowest cost per transaction of any payment method, and it is especially well suited for transactions that occur over the Internet.

In addition, although they can be difficult to implement, convenience fees paid by customers using bankcards could potentially provide an option to defray the cost of bankcard fees.

### **Recommendation 1**

**As it develops plans for the future, such as the expansion of tolling, the Washington State Department of Transportation should work with the Office of Financial Management and the State Treasurer's Office to identify alternatives for reducing bankcard fees.**

Alternatives may include developing ACH options that function by themselves or in conjunction with a bankcard program, or establishing convenience charges. The Department should also investigate the reasons why so few customers are using ACH transfers and should address any barriers that are identified.

### **Recommendation 2**

**Because other state agencies also face increasing costs for accepting bankcards, the Office of Financial Management and the State Treasurer's Office should develop statewide guidance for all state agencies relating to the use of ACH transfers, use of convenience charges, and any other factors OFM and the Treasurer's Office identify that could reduce state agency costs for accepting customer payments.**

# INTRODUCTION

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## **Merchants, Including Government Agencies, Experience Different Costs When Accepting Different Forms of Customer Payments**

Merchants, including state agencies, experience a variety of costs from accepting different payment methods from their customers. State agencies that accept credit and debit cards (bankcards) incur fees paid to banks to process transactions. These costs are explicit and visible, while other costs, such as the labor costs associated with handling cash and checks, may be less obvious.

### ***Cash and Checks***

The labor-intensive process of handling cash and checks contribute to the costs of this form of payment. These costs result from the time required to reconcile payments at the end of the day and prepare deposits using appropriate methods including segregation of duties to safeguard funds collected. Smaller agencies may have their employees deliver cash deposits to their financial institution, while larger agencies often require armored transportation services to make deposits on their behalf. In addition, financial institutions charge fees for cash deposits, cash withdrawals, and coin ordering. With approval from the State Treasurer's Office, agencies may also wait a few days before making cash deposits at their financial institution, and it may be one to two business days before their account is credited. Consequently, they incur an opportunity cost from not earning interest on their cash holdings in registers and vaults or while in transit.

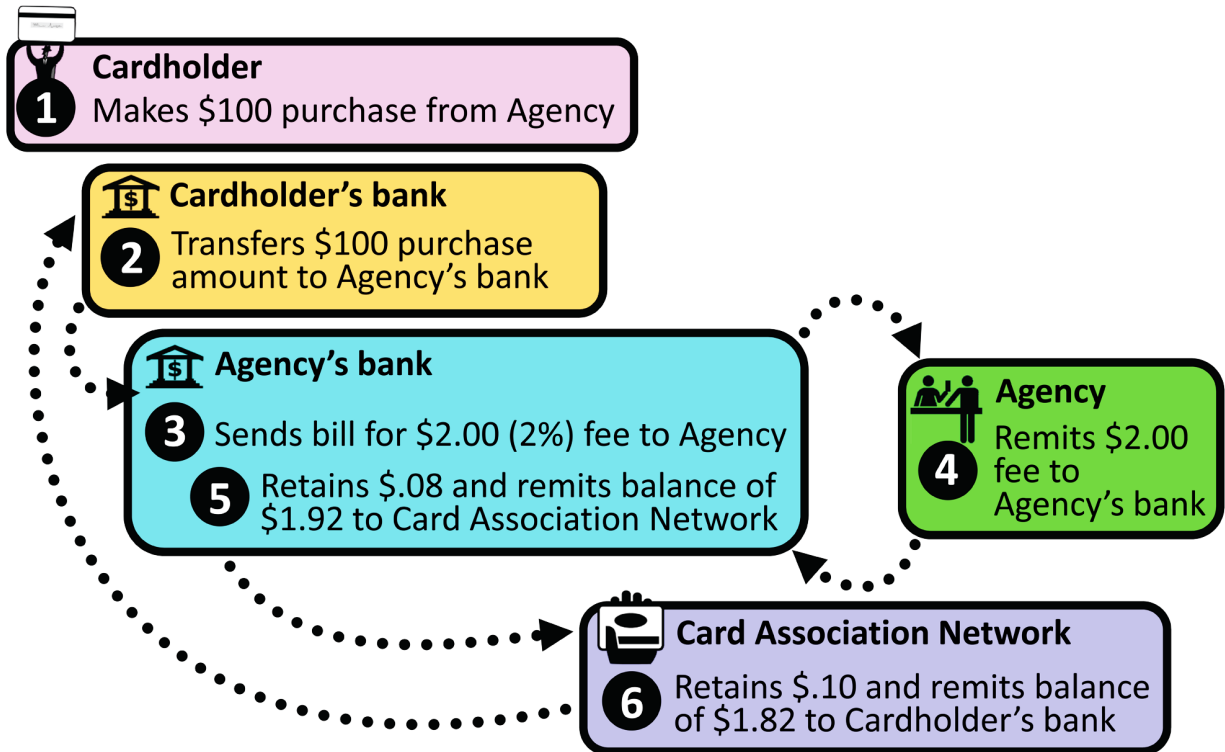
### ***Bankcards***

Unlike with cash or check payments, agencies must use payment processing services from a financial institution when they accept bankcards. Although there is a fee charged for these services, agencies may benefit from the increased efficiency of electronic processing since there is less labor required for card payments than for cash or check payments.

When a cardholder makes a purchase from an agency with a bankcard, the cardholder's bank transfers the purchase amount to the agency's bank. Subsequently, the agency receives a bill from the agency's bank for payment processing services. The fee, typically about 2 percent of the purchase amount, is distributed among the agency's bank, the card association that processes the transaction, and the cardholder's bank.

In the example shown in Exhibit 1, the cardholder makes a purchase of \$100 from an agency. The agency's account receives that amount from the cardholder's bank, but the agency receives a bill from its own bank for \$2 for payment processing. The agency remits the \$2 fee to the agency's bank, which retains part of the fee (8 cents) and remits the balance (\$1.92) to a card association (e.g., Visa, MasterCard, American Express, or Discover). The association keeps a small part of this remittance (10 cents) to cover the costs of processing the transaction and remits most of it (\$1.82), in turn, to the cardholder's bank.

## Exhibit 1 – Credit and Debit Card Fees



Source: JLARC analysis.

Agencies that accept payment cards agree in their contracts with their banks to be bound by card association rules. These rules include restraints that limit an agency's ability to impose a surcharge, also known as a "convenience" fee, for the use of a bankcard.

### **Automated Clearing House (ACH)**

The ACH network is a secure payment transfer system that connects all U.S. financial institutions. The ACH network acts as a central clearing facility for all electronic fund transfers that occur nationwide. Direct deposit is the transaction most commonly associated with ACH. However, ACH can also be used by agencies to collect funds, and it has an advantage of lower cost when compared to bankcard transactions. ACH transactions cost an average of 2.5 cents each to process, regardless of the purchase amount. This compares to an average cost of 2 percent of the transaction amount for bankcard transactions. For example, when a cardholder makes a \$100 purchase from an agency with a credit card, the agency pays a fee of \$2. However, if the same purchase had been processed as an ACH transaction, the state's cost would have been 2.5 cents, paid for by the State Treasurer's Office.

### **Cost Implications of Different Methods of Payment**

The means of payment has implications for an agency's overall costs for processing customer payments. Labor costs are highest for cash and check payments. On the other hand, bankcard payments require less labor, but they result in an added cost for payment processing services. Whether or not an agency realizes a net savings from accepting bankcards depends on its ability to reduce labor costs enough to offset the fees incurred to process card transactions.



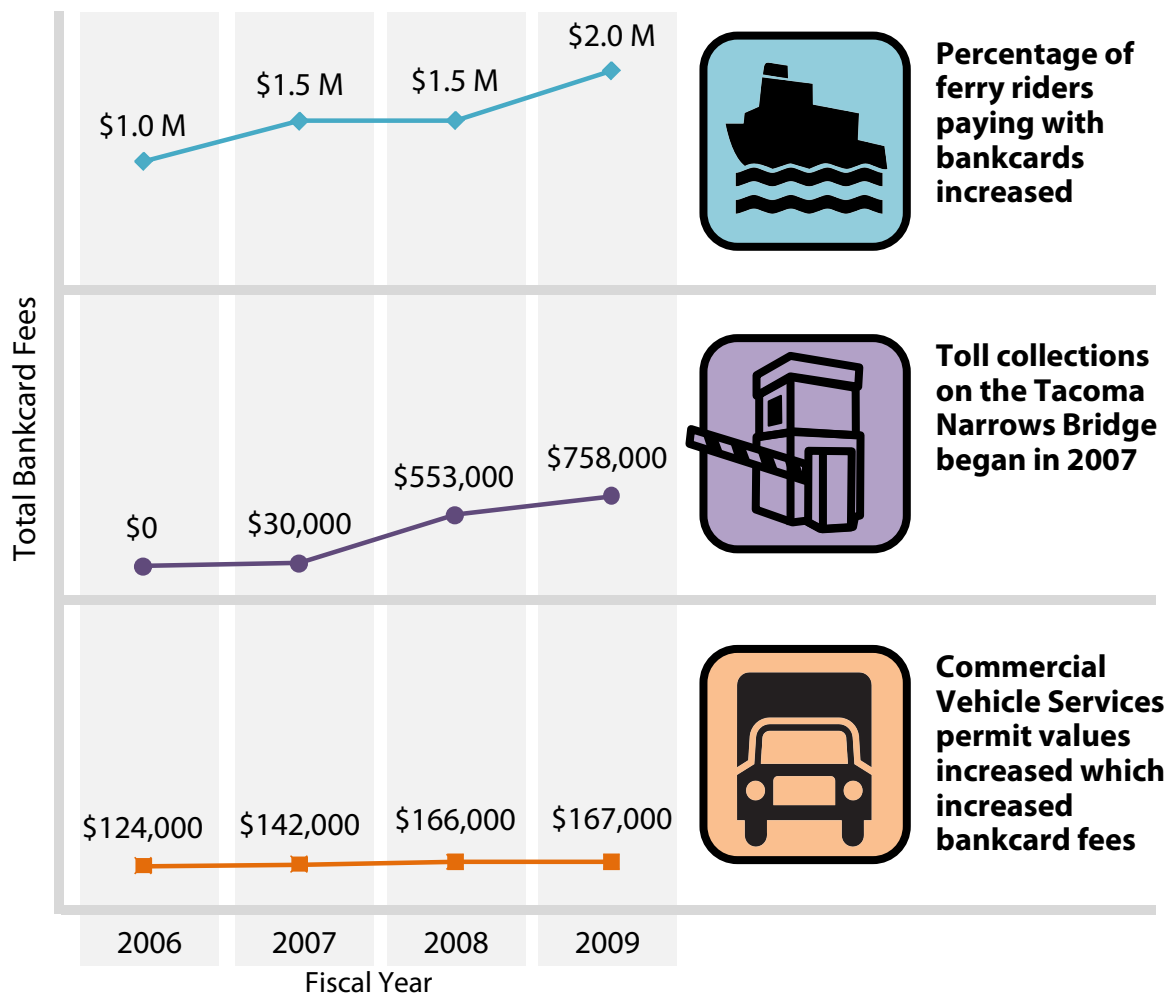
# AUDIT RESULTS

## WSDOT's Card Transaction Fees Have Been Increasing

WSDOT's transaction fees for bankcards have been increasing as sales increase and as a greater proportion of customers elect to pay with bankcards. In FY 2009, the combined transaction fees for State Ferries, Tolling Operations, and Commercial Vehicle Services, which account for nearly all of the department's costs for accepting bankcards, totaled \$2.9 million. This was an increase of \$1.8 million from the FY 2006 total of \$1.1 million.

The largest part of this increase was due to increased fees at State Ferries, where the percentage of riders paying with a bankcard increased from 23 percent to 32 percent during this period. The next largest part of this increase was due to increased fees for Tolling Operations, because tolling on the Tacoma Narrow Bridge began during this period. Commercial Vehicle Services contributed the smallest amount to the increase, but it also experienced higher fees driven by an increase in the value of permits sold during the period.

Exhibit 2 – Main Reasons for Increase in Credit Card Transaction Fees Varied by WSDOT Section



Source: JLARC analysis of WSDOT data.

## **No Payment Method Was Consistently the Least Costly**

JLARC analyzed WSDOT's costs for accepting customer payments using bankcards and compared those costs to the costs for accepting other forms of payment, such as cash or checks. The least costly method of accepting customer payments varied for the three areas within the department. In some circumstances, average revenue collections costs were higher for bankcard transactions; in other circumstances, those costs were lower. This section of our report discusses the resources used for accepting customer payments in the three major areas within the department accepting bankcards.

### ***Washington State Ferries***

Passengers on State Ferries have several options for purchasing tickets. They can purchase tickets at terminal ticket booths, or they can buy single-trip and multiple-trip tickets unassisted on the Internet or at kiosks. Even with the option of using a bankcard to purchase tickets unassisted on the Internet or at a kiosk, most ferry tickets continue to be purchased at ticket booths, and two out of three transactions are cash transactions.

State Ferries' largest cost for accepting customer payments is for the ticket sellers at 13 terminals and contract staff for five island terminals. There are additional administrative costs incurred for processing cash transactions (e.g., preparing and reconciling deposits, processing refunds, armored car services, and banks charges for cash deposits).

Bankcard purchases make up about one third of all transactions, but their popularity is increasing. Costs for accepting bankcards include costs for personnel who sell tickets, as well as bank fees and some administrative activities.

The average cost for a bankcard transaction was about 25 percent more expensive than the average cost for a cash transaction (\$1.50 versus \$1.20). However, the bankcard transactions were for larger amounts (\$28 versus \$9), suggesting the public prefers the convenience of paying for more expensive tickets with a bankcard.

While card purchases tend to streamline administrative procedures and reduce those costs, these savings have not been enough to offset the labor costs in fare booths and the transaction fees that apply to card purchases.

### ***Commercial Vehicle Services***

Unlike State Ferries, where payment collection is a simple and discrete activity, the process for issuing commercial vehicle permits is complex and integrated with payment collection. For that reason, we were unable to isolate the cost for collecting payment from the overall cost of issuing a permit. Even so, we determined the average cost for acquiring a permit using a bankcard transaction (\$15) was about 12 percent less than the average cost for a cash or check transaction (\$17). It is important to understand that these amounts should not be directly compared to the amount previously described for State Ferries. The amount for Commercial Vehicle Services represents the cost of issuing a permit, including the cost of accepting payment; the amount for State Ferries represents only the cost of accepting payment.

Bankcards are the most popular choice for commercial vehicle companies purchasing permits, with 89 percent of all permits sold in FY 2009 paid for using a bankcard. Bankcards are the only payment option provided by WSDOT for companies submitting an application via fax (the most common type of transaction), and bankcards are often used by companies purchasing permits in person. For Commercial Vehicle Services, the average cost for a bankcard transaction (including the bankcard fee) is less than the average cost for a cash or check transaction, and bankcards are providing a convenient and popular payment option. The remaining 11 percent of permits are purchased using checks or cash.

Commercial Vehicle Services provides an option for firms to “self-issue” permits using a bankcard, and 25 percent of the bankcard transactions were for these kinds of transactions. Permits issued this way require little or no staff time and may help explain why bankcard transactions overall were less costly to process than other forms of payment.

### ***Tolling Operations***

The business process for tolling is different than either State Ferries or Commercial Vehicle Services because toll collection operations are primarily handled by a contractor, not by state employees. It is the contractor that is responsible for processing customer payments, either at toll booths, at a customer services center, or on-line. WSDOT pays a set amount (\$6.9 million in FY 2009) for these services, and the department pays an additional amount (\$758,688 in FY 2009) for the bank fees associated with bankcard use.

Bankcard transactions were significantly more expensive (average cost of \$2.71) to process than were cash or check transactions (average cost of \$0.60). Like State Ferries, bankcard transactions were larger (average of \$21.26) than cash transactions (average \$4.69). Unlike State Ferries, however, where bankcards are used to purchase more costly trips, the larger tolling transactions were actually “bulk” purchases – typically customers recharging their prepaid accounts, purchasing multiple trips.

Because analyzing costs on a per transaction basis does not take into account this “bulk” purchase distinction, and to offer a second perspective on Tolling Operation costs, we also calculated transaction costs as a percentage of the amount collected from customers. This ratio was 13 percent for both bankcard transactions and cash transactions. Viewed from this perspective, costs to collect toll payments were about equal for bankcards compared to cash and check transactions.

WSDOT’s tolling operations currently offer an Automated Clearing House (ACH) payment option for drivers who have established prepaid accounts and who have equipped their vehicles with transponders. Transponders allow vehicles to bypass toll booths and make electronic fare collection possible. However, because of the way WSDOT has organized the process for establishing and recharging accounts using ACH, this has not proved to be an attractive option. The web site provides little information about ACH or why someone would want to use it. Moreover, even if someone wanted to use ACH, it is not possible to make that arrangement on-line. A driver first has to print out a form that is available on the website, then complete the form and mail it for processing. On the other hand, if a customer chooses to use a bankcard, an

account can be established entirely on-line. Additionally, with the ACH option, accounts are automatically replenished twice each month to the \$60 level. Bankcard accounts offer other replenishment options, including allowing customers to add an additional amount of their choosing on a date of their choosing.

## **Cost Implications of Contracting Toll Collections**

Despite the added cost of bank fees, agencies may achieve overall cost savings if bankcards make it possible to automate payment collection and reduce labor costs. Both State Ferries and Commercial Vehicle Services have been able to reduce their costs for accepting customer payments through automation which has been facilitated by their acceptance of credit cards. State Ferries reduces its labor costs when passengers purchase tickets with bankcards either on-line or at ticket kiosks. Similarly, Commercial Vehicle Services reduces its labor costs when carriers use bankcards to self issue permits on-line.

However, similar labor cost savings are not possible for Tolling Operations because of the terms of the current toll collection contract. Tolling Operations pays its toll contractor a fixed fee for toll booth operations on the Tacoma Narrows Bridge. Consequently, encouraging tolling customers to establish transponder accounts and replenish those accounts on the Internet using a bankcard could reduce toll booth labor costs for the tolling contractor, but it would not reduce Tolling Operation's costs. To the contrary, in this case automation actually increases the agency's costs. Tolling Operations' costs increase because it is the agency rather than the contractor that pays the bankcard fees, so increased use of transponders paid for with bankcards raises the agency's costs.

In the 2009 session, legislation was passed to authorize a future expansion of tolling to the SR-520 bridge. The contract terms and ACH incentives in future tolling contracts can offer opportunities to control WSDOT's administrative costs when tolling expands.

## **Other Benefits from Accepting Bankcards**

In a 2008 report, the Government Accountability Office (GAO) noted the ability to accept bankcards provided a variety of benefits to federal entities, including greater customer satisfaction and improved internal operations.<sup>1</sup> This report stated that accepting bankcards also has enabled federal entities to conduct business over the Internet, which can reduce labor costs associated with sales and also can provide greater convenience to customers. The report indicated that, by accepting cards, federal entities incurred less expense in transporting cash, lower losses from theft of cash, and had fewer bad check expenses. The federal entities GAO contacted were unable to provide comprehensive data on any cost savings from accepting cards.

WSDOT staff reported benefits of accepting cards similar to those described in the GAO report, including improved customer convenience, decreased risk of cash thefts, and streamlined administrative operations.

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<sup>1</sup> GAO-08-558, available at [www.gao.gov](http://www.gao.gov).

## **Options for Reducing the Costs of Bankcard Transactions**

### ***ACH Collections***

As described in the background section of this report, ACH is a less commonly used and less expensive option for accepting customer payments. Transactions received by a financial institution during the day are stored and processed later in a batch mode. Rather than sending each payment separately, ACH transactions are accumulated and sorted by destination for transmission during predetermined time periods.

There are certain kinds of transactions that could as easily be processed as either an ACH or bankcard transaction. ACH is well suited for transactions that occur over the Internet and for recurring transactions. Face-to-face transactions usually do not work as well with ACH.

ACH costs compare favorably with the processing costs for other forms of payment. During FY 2009, the Office of the State Treasurer collected over \$1.3 billion using ACH at a total cost of under \$8,000. Had those transactions been processed as bankcard purchases, the bank fees would have been nearly \$27 million. All banking fees for ACH use by state agencies are currently paid by the State Treasurer, resulting in no transaction costs to individual agencies.

Although ACH offers the lowest cost per transaction of any payment method, there are some challenges in implementing this option. A typical bankcard setup is fairly easy to do, where an ACH setup can require more programming by the agency. ACH payments require the agency to collect and retain banking information from their customers and to safeguard that data.

### ***Convenience Charges***

Because of the fees incurred to accept bankcards for payments, some state agencies have looked into imposing a convenience fee for the use of bankcards. A convenience fee is an additional charge that is added to the transaction amount by the agency if the customer chooses to pay with a bankcard. Assessing a convenience fee poses some challenges, however, because each bankcard association (Visa, MasterCard, Discover, and American Express) has different rules that govern convenience fees. Visa makes imposing a convenience fee especially difficult, as its rules require agencies to charge the same fee for all payments accepted electronically. This means that an agency offering both bankcards and ACH payment options would have to charge the same convenience fee for both forms of payment, even though ACH payments cost the agency far less than the bankcard payments. In addition to this rule, Visa also does not allow a percentage or tiered pricing convenience fee model. A Visa convenience fee is required to be a flat fee (per transaction) only.

In addition to these contractual limitations, there may be other constraints to an agency's ability to independently impose convenience fees without modified legal authority. For example, Initiative 960, passed in 2007, requires legislative approval of fee increases, and the Transportation Commission has fee-setting authority for ferries and highway tolls.

## State Agencies Lack Guidance on Options for Reducing Bankcard Fees

Although both the Treasurer’s Office and OFM provide technical support and assistance, neither has provided formal guidance on when ACH or convenience charges may be cost-effective alternatives. Under state law, OFM is authorized to approve state agencies’ use of electronic means to transfer funds (RCW 43.41.180). Under this statute, OFM was required to adopt rules specifying the manner in which electronic means are available to state agencies. Under the rules subsequently developed, electronic means include, but are not limited to, bankcards and ACH (WAC 82.20.010). The rules provide clear direction regarding the steps necessary for approval once an agency has decided it wants to accept an electronic fund transfer method. However, the rules provide no guidance about how an agency should make the decision about accepting bankcards, ACH, or both. The rules also provide no guidance concerning the use of convenience fees as a way to defray the cost of transaction fees applied to card payments.

### Recommendations

#### Recommendation 1

**As it develops plans for the future, such as the expansion of tolling, the Washington State Department of Transportation should work with the Office of Financial Management and the State Treasurer’s Office to identify alternatives for reducing bankcard fees.**

Alternatives may include developing ACH options that function by themselves or in conjunction with a bankcard program, or establishing convenience charges. The Department should also investigate the reasons why so few customers are using ACH transfers and should address any barriers that are identified.

<b>Legislation Required:</b>	None
<b>Fiscal Impact:</b>	JLARC assumes that this can be completed within existing resources.
<b>Implementation Date:</b>	July 1, 2010

#### Recommendation 2

**Because other state agencies also face increasing costs for accepting bankcards, the Office of Financial Management and the State Treasurer’s Office should develop statewide guidance for situations where ACH transfers, convenience charges, or other options may be suitable for reducing state agency costs to accept customer payments.**

<b>Legislation Required:</b>	None
<b>Fiscal Impact:</b>	JLARC assumes that this can be completed within existing resources.
<b>Implementation Date:</b>	July 1, 2011

# APPENDIX 1 – SCOPE AND OBJECTIVES

## **CREDIT AND DEBIT CARDS: COSTS AND BENEFITS ASSOCIATED WITH ACCEPTANCE OF CARDS AT WSDOT**

### **SCOPE AND OBJECTIVES**

JULY 22, 2009



STATE OF WASHINGTON  
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REVIEW COMMITTEE

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## **Why a JLARC Study of the Costs and Benefits Associated With WSDOT's Acceptance of Credit and Debit Cards?**

The 2009-11 Transportation Budget (Engrossed Substitute Senate Bill 5352) directed the Joint Legislative Audit and Review Committee (JLARC) to conduct an analysis of the cost of credit card payment options at the Washington State Department of Transportation (WSDOT). The Legislature's assignment to JLARC comes at a time when WSDOT's costs for accepting credit and debit cards have been increasing.

## **WSDOT Pays a Fee When It Accepts Credit and Debit Cards**

A merchant, including a government entity, that accepts a credit or debit card for payment of goods and services incurs a cost for card payment processing services. WSDOT accepts credit and debit card payments for a number of goods and services, including fares on Washington State Ferries, tolls on the Tacoma Narrows Bridge and State Route 167, and permits issued by the Commercial Vehicle Services Office. Typically, merchants pay about \$2 in payment processing fees for every \$100 credit or debit card purchase. Last year, WSDOT's costs for accepting credit and debit cards increased by about \$700,000, or 36 percent, from just under \$2.0 million in fiscal year 2008 to over \$2.6 million in fiscal year 2009.

## **Statute Provides a Framework for Agencies Wanting to Accept Credit and Debit Cards**

In Washington, state agencies share the responsibility for managing acceptance of credit and debit cards with the State Treasurer and the Office of Financial Management (OFM). The State Treasurer represents the state in all contractual relationships with financial institutions and is responsible for ensuring effective cash management of public funds (RCW 43.08.015). State agencies wanting to accept credit and debit cards must first obtain approval from OFM (RCW 43.41.180). For approved agencies, the State Treasurer is required to coordinate the acceptance and use of credit cards and other payment methods (RCW 43.88.160(5)(d)).

## Study Scope

JLARC will identify and compare WSDOT’s full costs for accepting credit cards, debit cards, and other forms of customer payments, including the direct costs for contracted services, labor, and materials and the indirect costs of support activities. In addition, JLARC will examine how these costs are paid and determine benefits other than cost.

## Study Objectives

The study will answer the following questions:

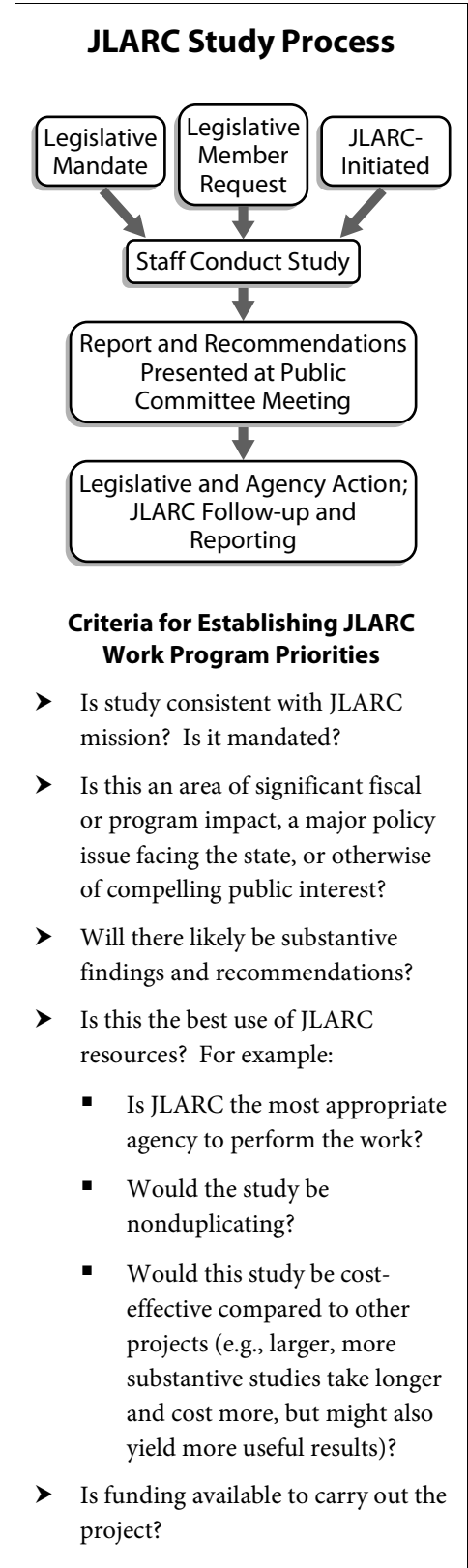
- 1) What are the current direct and indirect costs per transaction to process customer payments using credit cards, debit cards, and other forms of customer payments?
- 2) How do these costs per transaction compare to each other?
- 3) What are the historical and projected total aggregate costs for processing all forms of customer payments?
- 4) What are the customer service, administrative, and revenue collection benefits that result from the acceptance of credit and debit cards?
- 5) Are there other options for accepting customer payments that should be considered?
- 6) What are the existing options for funding the costs of administering different customer payment methods?
- 7) What has been the experience of other state agencies and transportation programs in other states with respect to electronic payment methods?

## Timeframe for the Study

Staff will present the preliminary report in January 2010 and a proposed final report in February 2010.

## JLARC Staff Contact for the Study

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## APPENDIX 2 – AGENCY RESPONSES

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- Washington State Department of Transportation
- Washington State Treasurer's Office
- Office of Financial Management





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February 18, 2010

Ms. Ruta Fanning, Legislative Auditor  
Joint Legislative Audit & Review Committee  
PO Box 40910  
Olympia, WA 98504

Dear Ms. Fanning:

Thank you for meeting with us last week for our exit conference. We appreciate the opportunity to respond to the Joint Legislative Audit and Review Committee's (JLARC) Preliminary Report on *Analysis of the Costs and Benefits of Accepting Bankcards at Washington State Department of Transportation*. I have attached our formal response.

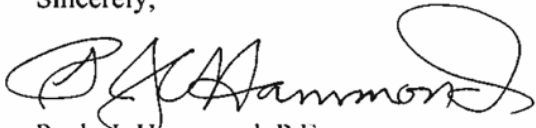
We are pleased that this study found that the Washington State Department of Transportation (WSDOT) and its customers receive benefits from the acceptance of bankcards. "*Benefits of accepting bankcards include improved customer convenience, decreased risk of cash thefts, and improved operational efficiency.*" Additionally, the acceptance of bankcards allows WSDOT to conduct business over the Internet and at kiosks, which helps prevent added facility capacity and infrastructure costs. JLARC also noted another important factor in the study. While the use of bankcards tends to streamline administrative procedures and reduce costs, these savings have not always been enough to offset the labor costs and the transactions fees that apply to credit card transactions.

As we discussed in our exit conference, we appreciate the ACH recommendation and are already working with the Office of the State Treasurer (OST) to determine best practices for ACH collection. While factors such as the nature and size of a transaction weigh heavily on the ability to collect via ACH, we look forward to incorporating the concept into our systems where we can. For example a \$20 receipt transaction collected at a ferry ticket booth may not have the same level of acceptance for the use of ACH as much larger transactions collected by OST on behalf of another state agency. Individual fare sales at a ferry ticket booth often occur at a fast pace as customers pay and prepare for boarding, and may also not be conducive to obtaining the customer banking information and pre-authorization necessary to fulfill an ACH transaction.

Ms. Ruta Fanning  
February 18, 2010  
Page 2

Finally, we would like to express our appreciation to the JLARC staff. We appreciate their professionalism and flexibility in working with us during the 2010 Legislative session and accompanying supplemental budgets.

Sincerely,



Paula J. Hammond, P.E.  
Secretary of Transportation

PJH:jaa  
Enclosure

cc: Steve Reinmuth, WSDOT  
Bill Ford, WSDOT  
David Moseley, WSDOT  
Craig Stone, WSDOT  
Bob Covington, WSDOT  
Anne Ford, WSDOT  
Jean Baker, WSDOT  
Dillon Auyoung, WSDOT  
Lloyd Brown, WSDOT  
Steve McKerney, WSDOT  
David Dean, JLARC

Washington State Department of Transportation  
Official Agency Response to the JLARC Preliminary Report on:  
*Analysis of the Costs and Benefits of Accepting Bankcards at WSDOT*  
Page 1 of 3

### **Recommendation 1:**

**As it develops plans for the future, such as the expansion of tolling, the Washington State Department of Transportation should work with the Office of Financial Management and the State Treasurer's Office to identify alternative for reducing bankcard fees.**

Alternatives may include developing ACH options that function by themselves or in conjunction with a bankcard program, or establishing convenience charges. The Department should also investigate the reasons why so few customers are using ACH transfers and should address any barriers that are identified.

### **Agency Position:**

The Agency concurs with the recommendation.

### **Comments:**

To implement the study's recommendations, the action steps below are already underway or will be pursued. As action steps are further developed, an evaluation of the fiscal impact will be considered. To implement some action steps additional funding may be required. In addition, since the recommendation requires WSDOT to develop internal plans and also work with OST and the Office of Financial Management (OFM) to develop plans, work will likely continue beyond JLARC's estimated completion date, with implementation coinciding with the commencement of the new Tolling Customer Service Center. WSDOT recognizes that quicker implementation of measures to shift customers to other electronic forms of payments may result in quicker reductions in bankcard fees.

As described below, WSDOT has and will continue efforts to support cost effective collection alternatives.

### **Tolling:**

- As demonstrated in the June 15, 2009 Request for Proposal (RFP) for a new Tolling Customer Service Center, WSDOT recognizes the need to minimize costs associated with collection of customer payments. The RFP included requirements that will maximize adoption of ACH payments to the degree possible. This will include initial identification of ACH as a payment option, allowing the entire transaction to be completed on-line, and providing more convenient payment terms similar to those available via credit card (e.g., one time payments).

Washington State Department of Transportation  
Official Agency Response to the JLARC Preliminary Report on:  
*Analysis of the Costs and Benefits of Accepting Bankcards at WSDOT*  
Page 2 of 3

- WSDOT is collaborating with the OFM and OST to determine if “On-Line Banking Services” might be viable payment collection methods and if such methods would be cost effective.

**Ferries:**

As recognized by JLARC, most Ferries revenue transactions are conducted in person at a Ferries ticket booth, which generated \$2 million of WSDOT’s \$2.9 million dollars in bankcards fees. Due to the volume of in person payment transactions, the viability of ACH appears to be limited to those transactions executed on-line. WSDOT is investigating the cost of systems modifications that would be required to support ACH as an on-line payment method for Ferries transactions. Once complete, WSDOT will evaluate the cost/benefit of making such a solution available for this service offering.

**Commercial Vehicle Services (CVS):**

WSDOT is investigating the cost of systems modifications that would be required to support ACH as a payment method for CVS transactions. Once complete, WSDOT will evaluate the cost/benefit of making such a solution available for this service offering.

**Convenience Fees:**

Imposing convenience fees could generate additional revenue, although it would likely come at the expense of driving customers away from on-line self service transactions, which would negatively impact service delivery. It is important to note that due to Visa merchant requirements, any convenience fee would also be required for other forms of payment which would negatively impact our ability to increase adoption of ACH.

**WSDOT Action Steps:**

- As WSDOT moves forward in working with the new tolling vendor to begin operations, maximizing adoption of ACH as a payment option for collection via the internet will be a primary goal.
- WSDOT will look at ACH options and the barriers for using ACH in existing programs, to include additional funding that may be required to implement new options (as described in comments above).
- WSDOT will meet with OFM, OST, and the Department of Information Services (DIS) to explore alternative methods of accepting electronic payments as well.

Washington State Department of Transportation  
Official Agency Response to the JLARC Preliminary Report on:  
*Analysis of the Costs and Benefits of Accepting Bankcards at WSDOT*  
Page 3 of 3

**Recommendation 2:**

**Because other state agencies also face increasing costs for accepting bankcards, the Office of Financial Management and the State Treasurer’s Office should develop statewide guidance for situations where ACH transfers, convenience charges, or other options may be suitable for reducing state agency costs to accept customer payments.**

**Agency Position:**

This recommendation is beyond the control of the Department. WSDOT defers this recommendation to the OFM and OST.

**Comments:**

WSDOT is willing to participate with the OFM and OST on state-wide initiatives to reduce fees or increase revenues associated around the use of bankcards or alternative methods of customer payments, such as ACH.

**WSDOT Action Steps:**

- No WSDOT action steps required.





Appendix 2 – Agency Responses



**JAMES L. McINTIRE**  
State Treasurer

State of Washington  
Office of the Treasurer

DATE: February 19, 2010

TO: Ruta Fanning, Legislative Auditor  
Joint Legislative Audit and Review Committee

FROM: James L. McIntire  
Washington State Treasurer

SUBJECT: Preliminary Report – Analysis of the Costs and Benefits of Accepting Bankcards at WSDOT

Thank you for the opportunity to review and comment on the preliminary report referenced above. We would like to present the following comments on the recommendations included in the report.

Recommendation	Agency Position	Comments
<p>1. As it develops plans for the future, such as the expansion of tolling, the Washington State Department of Transportation should work with the Office of Financial Management and the State Treasurer’s Office to identify alternatives for reducing bankcard fees.</p> <p>Alternatives may include developing ACH options that function by themselves or in conjunction with a bankcard program, or establishing convenience charges. The Department should also investigate the reasons why so few customers are using ACH transfers and should address any barriers that are identified.</p>	Concur	The Office of the State Treasurer (OST) will continue working with the Washington State Department of Transportation (WSDOT) and the Office of Financial Management (OFM) to identify alternatives for reducing bankcard fees.
<p>2. Because other state agencies also face increasing costs for accepting bankcards, the Office of Financial Management and the State Treasurer’s Office should develop statewide guidance for all state agencies relating to the use of ACH transfers, use of convenience charges, and any other factors OFM and the Treasurer’s Office identify that could reduce state agency costs for accepting customer payments.</p>	Concur	OST will work with OFM staff to develop more explicit statewide guidance for all state agencies that may reduce costs in accepting customer payments.

In addition, the Cash and Checks section on page 3 states: “With approval from the State Treasurer’s Office, agencies may also wait a few days before making cash deposits at their financial institution, and it may be one to two business days before their account is credited. Consequently, they incur an opportunity cost from not earning interest on their cash holdings in registers and vaults or while in transit.”

In accordance with RCW 43.01.050, OST periodically grants exceptions to agencies from making daily cash deposits if not administratively practical or feasible. OST considers the true cost associated in making such deposits which most often far exceeds the opportunity cost associated with forgone interest earnings.

If you have any questions, please contact Shad Pruitt at [Shad.Pruitt@tre.wa.gov](mailto:Shad.Pruitt@tre.wa.gov) or 360-902-8904.

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STATE OF WASHINGTON  
OFFICE OF FINANCIAL MANAGEMENT

Insurance Building, PO Box 43113 • Olympia, Washington 98504-3113 • (360) 902-0555

January 29, 2010

**TO:** Ruta Fanning, Legislative Auditor  
Joint Legislative Audit and Review Committee

**FROM:** Victor A. Moore   
Director

**SUBJECT: PRELIMINARY REPORT – ANALYSIS OF THE COSTS AND BENEFITS OF ACCEPTING BANKCARDS AT WSDOT**

Thank you for the opportunity to review and comment on JLARC’s preliminary report, “Analysis of the Costs and Benefits of Accepting Bankcards at WSDOT.” We would like to present the following comments on the recommendations included in the report.

Recommendation	Agency Position	Comments
<p>1. As it develops plans for the future, such as the expansion of tolling, the Washington State Department of Transportation should work with the Office of Financial Management and the State Treasurer’s Office to identify alternatives for reducing bankcard fees.</p> <p>Alternatives may include developing ACH options that function by themselves or in conjunction with a bankcard program, or establishing convenience charges. The Department should also investigate the reasons why so few customers are using ACH transfers and should address any barriers that are identified.</p>	Concur	The Office of Financial Management will continue working with the Washington State Department of Transportation (WSDOT) and Office of the State Treasurer (OST).
<p>2. Because other state agencies also face increasing costs for accepting bankcards, the Office of Financial Management and the State Treasurer’s Office should develop statewide guidance for all state agencies relating to the use of ACH transfers, use of convenience charges, and any other factors OFM and the Treasurer’s Office identify that could reduce state agency costs for accepting customer payments.</p>	Concur	We will work with staff from the State Treasurer’s Office to develop more explicit guidance to state agencies exploring the option of electronic payments. We plan to provide this additional guidance as we consult with agencies. We also will include it in the <i>State Administrative and Accounting Manual (SAAM)</i> and on our resources website.

Ruta Fanning  
January 29, 2010  
Page 2

If you have questions, please call Sadie Hawkins at (360) 725-0179 or [Sadie.Hawkins@ofm.wa.gov](mailto:Sadie.Hawkins@ofm.wa.gov).

cc: Sadie Rodriguez-Hawkins, Senior Assistant Director, Office of Financial Management

## APPENDIX 3 – STUDY METHODOLOGY

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At the direction of the Legislature, JLARC conducted an analysis of the costs and benefits of accepting bankcards at the Department of Transportation. JLARC staff analyzed the department's costs for accepting customer payments using bankcards and compared those costs to the cost of accepting other forms of payment, such as cash and checks. This review focused on Washington State Ferries, Tolling Operations, and Commercial Vehicle Services because those three areas accounted for nearly all of the department's costs for accepting bankcards. For each of the three major areas within the department accepting bankcards, JLARC staff obtained an understanding of relevant business processes, determined activity costs, the number of transactions by payment type, and calculated per transaction amounts. JLARC staff obtained and analyzed data on payment method trends and processing costs and considered likely changes in payment methods in coming years. JLARC staff reviewed a federal audit conducted by the Government Accountability Office that identified the customer service, administrative, and other revenue collection benefits that result from the acceptance of bankcards. JLARC staff also asked department managers to describe how the ability to accept bankcards has benefited their programs. Finally, JLARC staff met with personnel from the Office of Financial Management and the Office of the State Treasurer to inquire about the process that agencies must follow to get approval to accept bankcards and to inquire about other options for accepting customer payments.



