



## Legislative Fiscal Bureau

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April 24, 2003

Joint Committee on Finance

Paper #771

### **Convenience Fees for Credit Card Payments (DOT -- Motor Vehicles)**

[LFB 2003-05 Budget Summary: Page 431, #3]

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#### **CURRENT LAW**

DOT is authorized to allow the payment by credit card of any motor vehicle- or driver licensing-related fee that the Department collects. With the exception of the renewal of a vehicle registration by telephone, the Department is required to pay credit card transaction charges to the credit card companies. In the case of telephone registration renewal, the applicant for renewal pays a fee, in addition to the registration renewal fee, that is used for the administration of registration renewals. The statutes require the Department to establish this additional fee by rule at a level that approximates the cost of providing the renewal service. The revenue generated from the fee is credited to a PR appropriation and used to pay a private vendor for maintaining the computerized renewal service, which includes the cost of paying credit card fees. The Department offers an internet registration renewal option, which also requires an additional fee, under the statutory authority for telephone renewal.

Vehicles are generally required to receive a permit if they exceed statutory weight or size limitations. Fees are charged for permits, which are issued on a single-trip, multiple-trip, consecutive month, or annual basis. The Department is currently in the process of developing an automated oversize/overweight permit system that would allow motor carriers to apply for and receive permits via the internet, and would allow permits to be paid for by credit card. DOT expects the development of the system to be substantially complete during 2003-04.

#### **GOVERNOR**

Authorize DOT, if the Department permits the payment of single-trip oversize and overweight permit fees by telephone or the internet using a credit card, to charge an additional fee for each transaction. Specify that the additional fee shall be established by rule and shall

approximate the cost to the Department of providing the service. Authorize DOT to require any applicant for an annual, consecutive monthly, or multiple-trip oversize and overweight permit to pay the cost of any special investigation undertaken to determine whether a permit should be approved or denied and to pay an additional fee of \$5 per permit if a telephone call-in procedure is used for the permit. This currently applies only to applicants for a single trip permit.

Modify DOT's PR appropriation for the collection of credit card transaction fees on vehicle registration renewals conducted by telephone to: (a) increase the type of revenues that are credited to the appropriation to include internet and telephone credit card transaction fees associated with any motor vehicle or driver licensing fee and any money received for convenience fees; and (b) specify that the appropriation is for the purpose of paying vendor and internet charges, instead of, under current law, for the administration of registration renewals conducted by telephone.

## **DISCUSSION POINTS**

1. Credit card companies charge a fee to businesses and governments that accept payments by credit card. The amount of the fee varies by card type and type of transaction, but is typically between 1.5% and 3% of the transaction amount. Under current law and the policies of the Depository Selection Board (attached administratively to DOA), state agencies are allowed to accept payment of fees by credit card and charge a convenience fee to cover credit card charges, unless a different method of payment is specified in law. However, a specific provision applying to DOT allows the Department to charge a convenience fee only for vehicle registration renewal transactions conducted by telephone or internet. For all other credit card payments, DOT must pay the credit card fees.

2. The purpose of allowing the Department to collect a convenience fee for the use of the automated permit issuance system is so that the users of the system would pay for the credit card charges. Without the ability to pass along the credit card charges, DMV would be required to pay the credit card fees. Since DMV does not currently accept credit cards for most types of permits, funding for paying credit card fees is not included in the Division's base budget. In addition to the credit card charges, the Department indicates that a portion of the fee may go towards the costs of a third-party vendor to manage the transactions. The details of how the system will be established have not yet been determined in enough detail to know whether a third-party vendor may be involved in the transactions.

3. The Department's automated permit issuance system has not been completed, but the Department is currently, on a pilot-project basis, issuing some single-trip permits to a limited number of motor carriers to operate on certain highways. The Department accepts credit card payments for these permits and pays the credit card charges, but since the volume of these transactions is low, the payment of the credit card fees is not a significant expense. Once the automated system has been completed, it will be able to issue more types of permits, including many types of single- and multiple-trip permits. At that point, the Department expects the volume

of permits issued through the system to increase substantially.

4. The Department's intent is to establish a flat convenience fee by rule for all transactions. Consequently, the fee would be set at a level that would equal the average cost of the transaction, in order to produce enough revenue to pay the total amount of associated credit card charges and vendor fees (if any) for all permits issued through the system. The Department indicates that the fee will be established based on an estimate of the number and type of permits that will be issued. Although the Department has not yet done these estimates, DOT believes the fee would be between \$4 and \$10.

5. Currently, the Department has a procedure whereby motor carriers may receive a single-trip oversize or overweight permit through a telephone call-in procedure. Carriers must be pre-approved to participate in the program and receive an invoice for the permit fee. In addition to the regular permit fee, motor carriers are assessed a \$5 fee for each permit issued through this service, which is intended to cover the cost of administering the program. The automated permit issuance system, like the telephone call-in procedure, will allow motor carriers to receive a permit without mailing an application to the Department or appearing at the permit counter in DOT's central office in Madison. The automated system, however, will allow motor carriers to apply for and receive a permit during non-business hours and will allow the issuance of single- and multiple-trip permits. In some respects, therefore, the convenience fee would be similar to the \$5 telephone call-in procedure fee that the Department currently charges.

6. Several other state agencies that accept credit card payments of fees or taxes also charge convenience fees. DNR, for instance, charges a \$1.00 fee on any transaction that only involves the purchase of permit or license applications and a \$3.00 fee for a transaction that involves the purchase of permits or licenses or the combination of applications and permits or licenses. The Department of Revenue allows the payment of taxes by credit card and charges a 3% convenience fee for the service.

7. In certain circumstances, state agencies allow payments to be made with credit cards, but do not charge a convenience fee. For instance, the Departments of Financial Institutions and Regulation and Licensing allow credit card payment of some types of fees and pay the credit card transaction fees out of their respective budgets.

8. Allowing credit card payments without charging a convenience fee may be advisable in cases where an agency wants to increase electronic transactions in order to save on administrative expenses. However, this would only be the case if the amount of administrative savings is greater than the amount that the agency would pay in credit card fees. DOT indicates that, while DMV may experience some administrative savings associated with the system, the credit card charges may be greater. Although, as noted above, the amount and type of permits issued through the system is unknown, DOT estimates that the amount of credit card payments that DOT would be required to make if no convenience fee is charged is \$85,000. DOT also estimates that the system may result in savings equivalent to 2.0 FTE positions in 2004-05. Although the salary and fringe benefit savings associated with the elimination of these positions has not yet been determined

(since they would result as partial workload reductions across several different position classifications that would, in total, equal two positions), it is not likely to be more than \$85,000.

9. It should also be noted that while the system may result in administrative savings equivalent to 2.0 FTE positions, the bill would eliminate a total of 70.75 DMV positions during the biennium. This reduction, since it significantly outweighs the savings associated with the system, may make it difficult for the Division to reallocate those savings toward the payment of credit card fees.

10. If it is determined that no convenience fee should be charged, but that allowing permit applicants to pay by credit card is desirable, the Committee could provide an amount in DMV's budget for paying credit card fees, instead of authorizing the Department to charge a convenience fee. As noted, the \$85,000 estimate is somewhat speculative. This amount could be provided in 2004-05, but be placed in unallotted reserve and be restricted to expenditures for credit card fees associated with the automated issuance system. Any unused amounts would lapse to the transportation fund at the end of the fiscal year.

11. As introduced, the bill would allow a convenience fee to be charged only for single-trip permits, although the intention was to allow such a fee to be charged for all types of permits. If the Committee wishes to approve the convenience fee, therefore, the bill would require several technical modifications to accomplish this intent and to correct other unintentional changes to permit fees made by the bill. In reviewing the statutory changes in the budget, the Department has suggested other changes that would allow the telephone call-in procedure fee, in addition to the convenience fee, to be established by rule. (DOT had requested this change in the Department's budget request.) The Committee could also adopt this provision, which would potentially allow the Department to establish that fee at a level higher or lower than the current \$5, although the fee would have to be established at a level equal to the approximate cost of providing the service. This change, however, would not be necessary if the intent is to only make the technical corrections to the convenience fee provision.

12. If the Governor's provision is deleted, then the Department would not be able to collect a convenience fee to pay for credit card charges. In this case, the Department could decide to allow credit card payments and absorb the cost of the credit card fees, or the Department could decide to not accept credit card payments for permits issued using the system.

13. DOT currently charges a \$2.50 convenience fee for internet and telephone vehicle registration renewals. The \$2.50 is deposited in a PR appropriation and is paid to a vendor to maintain the renewal service, which includes the cost to pay for the credit card fees, as well as the vendor's cost to maintain the internet and telephone links to the Department's motor vehicle and financial databases. DOT does not retain any portion of the \$2.50 convenience fee, which generates about \$750,000 per year. Only about 6% of registration renewals are conducted by telephone or the internet.

14. It has been suggested that the volume of internet and telephone renewal transactions

could be increased if the Department would not charge a convenience fee and, instead, paid the credit card transaction fees out of DMV's budget. Although this could be done as a service to renewal applicants, it would likely cost more for the Department to pay the associated credit card charges than the amount that would be saved by encouraging internet and telephone renewals. This is because the cost of paying the credit card fees would be higher than the cost of processing renewals done through the mail, which account for about 70% of renewals. Mailed renewal applications are processed by a third party through the state's banking contract, at an average cost of \$0.26 per renewal. Credit card charges vary depending upon the registration fee, but if the credit card charge was 1.6%, which is the average rate under the state's banking contract, the charge for a \$45 automobile registration renewal would be \$0.72.

## ALTERNATIVES

1. Approve the Governor's recommendation, with technical modifications, to authorize DOT to charge an additional fee for each transaction involving the payment of oversize and overweight permit fees by telephone or the internet using a credit card and to make modifications to the Department's PR appropriation for the collection of convenience fees for registration renewal transactions to also allow for the collection of convenience fees on permits paid for by credit card.

2. Approve the Governor's recommendation, with technical modifications, and also approve changes requested by the Department to allow the telephone call-in procedure fee to be established by rule.

3. Delete the Governor's recommendation to authorize DOT to charge an additional fee for each transaction involving the payment of oversize and overweight permit fees by telephone or the internet using a credit card and to make modifications to the Department's PR appropriation for the collection of convenience fees. Instead, provide \$85,000 in unallotted reserve in 2004-05 for the payment of credit card charges. Prohibit the DOA Secretary from allotting this amount for purposes other than the payment of credit card fees associated with permits paid for by credit cards and issued through the automated permit issuance system.

<b><u>Alternative 3</u></b>	<b><u>SEG</u></b>
<b>2003-05 FUNDING</b> (Change to Bill)	\$85,000

4. Delete provision.

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