

CITY & COUNTY

SEA CHANGE

Municipal bonds are being rocked by the waves of problems affecting a global credit market. p.30



BREATHING ROOM

Traffic flows with congestion pricing p.36



TIPS FROM THE TOP

31 ways to help communities blossom p.42



Processing options

Credit card rule changes expand local government choices.

By Jim Plunkett

The author is the government credit card acceptance program manager for Scarborough, Maine-based Nationwide Payment Solutions.

In 1996, when MasterCard, Visa and American Express began allowing governments to charge a convenience fee for residents' online credit card payments, many local governments that had never accepted credit cards began allowing them for online transactions. However, more than 50 percent of all local governments still do not accept credit cards for payments made in their offices because they would have to absorb the transaction costs.

In November, MasterCard announced a new program that allows local governments to assess a convenience fee to residents in face-to-face credit card transactions. American Express followed suit in March, leaving only Visa, which is expected to change its rules before year-end. The programs represent the card companies' acknowledgement that they would not grow in the local government sector unless

More than 50 percent of local governments do not accept credit cards for payments.

cities and counties could assess fees to offset transaction costs.

Cities and counties that have been accepting credit cards and absorbing the fees now can eliminate those costs from their budget, but many still may be hesitant to assess a convenience fee because they are concerned about the public's perception. A public relations effort can explain that the new policy reduces residents' overall taxes, charging only the individuals that use their cards instead of the entire tax base, which is a potential liability as more governments are scrutinized for their spending. Additionally, residents should know that the banks that

issue the credit cards receive 75 percent of the convenience fees for floating the transaction for 30 days and assuming the risk of collecting payment.

MasterCard recommends that governments charge the convenience fee as a separate transaction to insulate themselves from customer service issues related to the fee. That requires newly available technology that authorizes two separate transactions with one card swipe. A payment processor that offers the technology collects the convenience fees in one account and the residents' payments in another, remitting payment to the government quickly and separately man-

aging transaction fee payments in their own deposit account. Payment processing companies that offer traditional retail terminals require cities and counties to collect the fee themselves and then pay their credit card processor.

Alternatively, local governments can contract with third party service

providers that have been collecting online payments for several years and now are offering to process in-person payments. The companies set up merchant accounts with their payment processing partners and collect residents' money and the convenience fees, then transfer payments electronically to the government. The third parties may cost more than if the government managed the collection itself, and they can often take three to seven days to remit payment to the government, but they assume all responsibility for collecting and processing bills.

Cities and counties that do not accept credit cards for in-person payments are no doubt feeling the heat to change their policies. By assessing convenience fees to residents who use cards, local governments can cut expenses, collect payments quickly and use the extra interest on the income as an additional revenue.

ACC

