LEGISLATIVE FISCAL OFFICE
Fiscal Note

Louisiana Legislative Fiscal Office
Fiscal Notes

Fiscal Note On: **HB 638** HLS 15RS 1156
Bill Text Version: **REENGROSSED**
Opp. Chamb. Action: **w/ SEN COMM AMD**
Proposed Amd.:
Sub. Bill For.:

Date: June 8, 2015 1:08 PM
Author: IVEY
Dept./Agy.: Treasury
Subject: State Transactions
Analyst: Travis McIlwain

STATE AGENCIES RE1 SEE FISC NOTE SG RV See Note

Provides for the collection of fees associated with payments to state agencies by credit cards, debit cards, or other forms of electronic payments

Current law authorizes the collection of a convenience fee on credit card transactions authorized for the Department of Public Safety & Corrections. Proposed law provides that the convenience fee may be a uniform dollar amount, a percentage of the transaction or a tiered amount based on the transaction amount. Current law only authorizes Revenue, Transportation & Development, Public Safety & Corrections, Wildlife & Fisheries and Environmental Quality are only state agencies currently eligible to accept credit/debit transactions. Proposed law allows any state agency, board or commission to offer credit/debit card transactions. This legislation provides any other forms of electronic payment are acceptable (electronic checks). Proposed law provides for the agency convenience fee proposal be reviewed and recommended by the state treasurer.
Proposed law also provides that 3 significant OMV debts be declared final delinquent debt after 60 outstanding days. The debts impacted include: failure to appear in court, insurance cancellations, and violation of proof of insurance. Proposed bill provides for these debts to be turned over to the Office of Debt Recovery and the first $25 M of collection from these 60+ days old debt be dedicated to the Office of State Police.

EXPENDITURES	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**5 -YEAR TOTAL**
State Gen. Fd.	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	
Agy. Self-Gen.	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	
Ded./Other	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	
Federal Funds	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total						

REVENUES	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**5 -YEAR TOTAL**
State Gen. Fd.	$0	$0	$0	$0	$0	**$0**
Agy. Self-Gen.	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	
Ded./Other	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total						

EXPENDITURE EXPLANATION

If a state agency chooses to accept credit/debit card transactions, this could result in an indeterminable increase in state expenditures that may be borne by consumers through convenience fees. This bill allows (does not mandate) all state agencies, board and commissions the ability to accept credit/debt card payments as opposed to a select few. Currently, only Revenue, Transportation & Development, Public Safety & Corrections, Wildlife & Fisheries and Environmental Quality are allowed to accept this form of payment. To the extent a state agency, board or commission chooses to offer credit/debit card transactions as an acceptable form of payment, there may be a cost increase depending upon the method chosen for implementation. As discussed below, the 1st method will result in an increase in start up costs and transactional interchange fees (to be offset with a convenience fee paid by the consumer), while the 2nd method would require $0 startup costs and $0 interchange fees as a vendor selected through RFP (third party solution) would incur the costs, which in turn will be recouped through fees paid by the consumer.

1st Method: The first method, which will require start up costs, includes paying a $500 fee to State Treasury for the creation of its payment gateway (Pay Point). State Treasury currently has a statewide contract in place with First Data (state's third party processor) for all credit/debit card transactions. This method will require the state agency to purchase credit card readers, pin machines and pay interchange fees. These costs would be offset by a convenience fee that is allowed to be collected from the payor to the agency.

Below is an example of the potential costs to be incurred by a state agency utilizing the 1st method for a typical credit card swipe and how much the convenience fee would need to be in order for the state agency to cover its costs for a $100 transaction (Based upon the current state contract with First Data:
$0.05 Per transaction paid to First Data (State contract rate with State Treasury)
$0.15 Per transaction amount paid by utilizing Pay Point (payment gateway discussed above)
$1.80 Interchange rate paid to credit card companies (All rates are different and 1.8% is the average among the companies)
$0.02 Per transaction Trans Armor services (Service provided to protect information gained from swipe - see page 2)
$2.02 Total Transactional Costs

*Based upon the example above, a $100 swipe would result in a $2.02 convenience fee that will be paid by the consumer in addition to the normal fees to be paid by the consumer. This $2.02 would be the convenience fee.

REVENUE EXPLANATION

As discussed in the expenditure section above, the method chosen for choosing to offer credit/debit care transactions determine the revenue impact. If method 1 is utilized, the state agency will collect convenience fees (to offset expenditures) in accordance with State Treasury's contract with First Data. If method 2 is utilized, there will no impact upon state revenue collections as the third party solution vendor will be collecting the fee on behalf of the state and keeping the agreed amount based upon per transaction rates included in the contract. The consumer will pay for these costs of the vendor through fees. **(See page 2)**

Senate	Dual Referral Rules	House
☐ 13.5.1 >= $100,000 Annual Fiscal Cost {S&H}		☐ 6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}
☐ 13.5.2 >= $500,000 Annual Tax or Fee Change {S&H}		☐ 6.8(F)(2) >= $500,000 Rev. Red. to State {H & S}
		☐ 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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CONTINUED EXPLANATION from page one:

2nd Method: The second method will require $0 for start up costs and $0 merchant fees. This requires the state agency to issue an RFP for a third party solution. This type of vendor will pay for all start up costs, merchant fees and recoup these costs through a negotiated per transaction rate. This transaction will be borne by the consumer. Current law allows DPS, Revenue, DOTD, DEQ, Insurance and Wildlife & Fisheries to enter into such agreements. According to information provided to the Legislative Fiscal Office by the Office of Technology Services (OTS), state agencies could utilize the services of a third-party processor. To the extent a state agency utilizes a third-party vendor to allow for credit/debit card acceptance, the agency would not incur any start up costs. The start up costs incurred include implementation of web or mobile applications to accept electronic payments online. The vendor will recoup these startup costs and interchange fees (fees paid to Master Card, Visa, Discover, & AMEX) through the negotiated transactions.

Note: Method 1 and method 2 previously discussed are related to online transactions that only involve the use of credit/debit cards.

Quality Security Assessment (QSA) Costs: The credit card industry currently has in place 4 different levels of data security standards. These standards are based upon the number of annual transactions. Based upon the current annual transactions, under the statewide contract with the State Treasury the security standard is a level 4 (lowest). To the extent this bill is enacted and more state agencies (especially the smaller ones) begin accepting credit/debit cards, the state will more than likely increase its level to at least a level 2 (1 million to 6 million transactions). This increase in security level will require an additional vendor to provide QSA analysis on the safety of the information included within each of those transactions on an annual and/or quarterly basis. The specific costs of a vendor performing this work in unknown at this time. However, to the extent the state were to include Trans Armor (service provided by First Data to protect credit/debit card information), the QSA costs would be less than if the state did not have such a service. Current rate for Trans Armor is $0.02/transaction.

REVENUE EXPLANATION CONTINUED:

Office of Motor Vehicle 60-day Debt: Declaring some outstanding OMV debts as "final delinquent debt" and turning such debt over to the Office of Debt Recovery (ODR) may result in an indeterminable increase in statutory dedicated revenues flowing into the Debt Recovery Fund. The specific amount of such an increase is entirely dependent upon the collection success of the Office of Debt Recovery, which was recently created via Act 399 of 2013. If the Office of Debt Recovery (ODR) is more successful in collecting these delinquent collections than the procedures currently practiced by DPS, delinquency collections will increase.

According to the Office of Motor Vehicles, the potential aggregate universe of outstanding debts that would be turned over to the ODR once this bill is enacted is approximately $653 million ($565.7 M - insurance cancellation, $10.0 M - notice of violation, $77.0 M - failure to appear in court). Currently, the majority of these fee collections are classified as either OMV SGR or, pursuant to Act 641 of 2014, are classified as Insurance Verification System Fund revenues (only the increase portion from Act 641 of 2014). The originating source of every $1 the agency collects from these 3 broad fee sources is from current year debt, debt that is less than 60 days old and debt that is 60+ days old. Therefore, turning these 60+ day old debts over to the ODR could result in some amount less of SGR/Insurance Verification System Fund revenues flowing to the OMV (SGR) or to the statutory dedication (Insurance Verification System Fund). The specific amount that would not flow to these sources is unknown at this time. However, pursuant to R.S. 47:1676(E)(1), non-tax debt monies collected by ODR are to be transferred to the Debt Recovery Fund and are to be used by the referring agency, in this case OMV, as if those revenues had been collected timely. Thus, the potential revenue reduction in SGR/Insurance Verification System Fund could be offset by the amounts collected on behalf of OMV deposited into the Debt Recovery Fund. Based upon the proposed bill, before the Debt Recovery Fund and the OMV receives these Debt Recovery Fund resources, $25 M is dedicated to State Police. Thus, this bill is essentially a $25 M State Police dedication of 60+ day old OMV debt that would have otherwise flowed into either OMV SGR or the Insurance Verification Fund.

According to information provided to the Legislative Fiscal Office by the Department of Public Safety (DPS), the agency contends this bill could result in additional revenue collections of the Debt Recovery Fund in the amount of $178 M. According to DPS, this calculation is based upon a collection rate of 25% of the current outstanding debt ($652.7 x 25% = $163.2 M) and a 25% collection rate in subsequent fiscal year of outstanding debt that is annually generated ($59.8 M x 25% = $14.9 M). However, the Office of Debt Recovery was created via statute in 2013, the office has not actually collected any significant non-tax related state agency debts since its creation. Therefore, the department's projections could be **significantly overstated** as ODR is currently still in its infancy stage.

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