



Recommended Practice

Acceptance of Credit and Debit Cards (1999, 2002, and 2008) (CASH)

Background. Acceptance of credit and debit cards (herein referred to as “cards”) as a payment method has become virtually universal within the private sector, and more common within the public sector. Cards are now accepted at the point of sale (POS) for even the smallest transaction. In fact, many customers expect the ability to use cards for any transaction. Governments have realized significant benefits from card acceptance, such as the following:

- Increased certainty of collection
- Reduced return check processing costs
- Accelerated payments and the availability of funds
- Improved audit trail
- Reduced cashing costs
- Enhanced customer convenience
- Increased participation in government programs and services
- Improved overall cash flow
- Reduced collection costs

Recommendation. The Government Finance Officers Association (GFOA) recommends that governments evaluate whether acceptance of cards as a payment option is reasonable and appropriate for the type of charge or fee being paid and the customer service level desired. The evaluation should include the following considerations:

1. **State, provincial and local laws.** Governments should first review applicable laws to determine whether card acceptance is an option.
2. **Merchant discount fees.** The costs charged by the card issuer per transaction typically vary between one and three percent of the value of the transaction. Governments should negotiate the lowest possible fee to minimize the financial impact to the government or to the consumer, whichever party will ultimately pay the fee. With adequate controls in place, discount fees may be recovered by using a third party to process the payment.

Governments should weigh the cost of paying the merchant discount fee versus the cost of processing cash, checks, fees for checks returned for insufficient funds, and collection efforts. In order to make this comparison, governments need to have a solid understanding of their dollar volume of transactions, number of transactions, and potential participation rate among customers.

3. **Type of payment.** Governments should consider whether they want to accept cards for mandatory charges for which citizens must pay (such as taxes and utility bills), for discretionary charges which citizens elect to pay (such as recreation fees and performing arts admissions), or both. Acceptance of cards as a method of payment for mandatory charges may not significantly increase the amount of revenue received by the government, and may actually reduce net expected revenues if the government pays the merchant discount fee. Acceptance of cards as a method of payment for discretionary charges and absorption or payment of the related merchant discount fees may facilitate collection of such charges. The volume of Internet transactions may increase as a result of the acceptance of cards.

4. **Administrative costs.** Governments should consider the costs of equipment and the associated personnel necessary to process card transactions, including associated costs for payment card industry (PCI) compliance. They should also consider the administrative cost savings compared to receiving and processing cash or check transactions.
5. **Convenience fees.** Governments should consider whether or not to charge a convenience fee for transactions. The advantage of convenience fees is that they can be used to recoup the cost of merchant fees. A disadvantage of convenience fees is that they may deter some users from paying with a card. In addition, card companies have strict regulations that limit the use of convenience fees (for example, payments made by telephone or via a third-party processor).

In most instances, the major card companies do not allow governments or businesses to pass on merchant fees directly to customers.

6. **Request for Proposal.** Governments may want to consider using the RFP process when selecting a vendor. This process allows a government to compare prices. In addition, governments may want to consider issuing a joint RFP with other jurisdictions because larger card volumes generally result in lower fees. Governments may also want to include a section on merchant services in their banking RFP. Third-party processors, such as commercial automated services capable of processing card transactions seven days per week, 24 hours per day, should be considered as part of the evaluation because they may prove to be essential in recovering discount fees. GFOA further recommends that a card acceptance agreement be made as a bank services agreement administered by the public official in charge of the treasury function.
7. **Payment Card Industry (PCI) Compliance.** Governments are responsible to ensure that transactions are PCI compliant to avoid significant financial penalties.

References

- *An Introduction to Treasury Management Practices*, GFOA, 1998.
- *An Introduction to Electronic Commerce: Government Cash Management Programs*, GFOA, 1998
- *Banking Services: A Guide for Governments*; GFOA, 2004.
- GFOA Recommended Practice: Electronic Commerce and Cash Management (CASH) (2008).
- Payment Card Industry Standards: <https://www.pcisecuritystandards.org/>.
- “The Payment Card Industry Data Security Standard: Where to Begin”, *Treasury Management Newsletter*, GFOA, January 2008.

Approved by the GFOA’s Executive Board, February 22, 2008.