

Request for Permission to Charge a Value-added Fee for Electronic Submission of Various Licenses and Certifications under the Department of Inspections and Appeals

September 13, 2006

Business Purpose

The Department of Inspections and Appeals (Department) is a multifaceted regulatory agency charged with protecting the health, safety and well being of Iowans. The agency is responsible for inspecting, licensing and/or certifying health care providers and suppliers, restaurants and grocery stores, targeted small businesses, social and charitable gambling operations, hotels and motels, and barber and beauty shops, and other entities. In addition, DIA staff investigates alleged fraud in the State's public assistance programs and conducts contested case hearings to settle disputes between Iowans and various state government agencies.

Health professionals in the Department's Health Facilities Division inspect, license and/or certify under the Medicare and Medicaid Programs more than 4,000 health care providers and suppliers in the State of Iowa. Among the regulated providers and suppliers are long-term care facilities, assisted living programs, adult day services programs, elder group homes, hospitals, hospices, end-stage renal disease units, rural health clinics, and child-placing agencies.

The Social and Charitable Gambling Unit has responsibility over amusement devices, contests, casino nights, and commercial promotions operated in the state. In addition, the Unit regulates and licenses all games of skill and chance, bingo operations, raffles, and social gambling activities.

The Targeted Small Business (TSB) Certification Program certifies businesses owned, operated and actively managed by women, minority group members or persons with disabilities. Certified TSBs are eligible to apply for low-interest loans and equity grants through the Iowa Department of Economic Development (IDED). Also, TSBs are given consideration when bidding on for state contracts for goods and services.

The Food and Consumer Safety Bureau is responsible for administering and enforcing the state's Food Code. The purpose of the Iowa Food Code is to "safeguard the public health and provide to consumers, food that is safe, unadulterated and honestly prepared." To accomplish this, the Bureau licenses and inspects food establishments (grocery stores, restaurants, convenience stores, vending operations, temporary establishments, mobile food units, and farmers markets) and food processing plants. The Bureau also licenses and inspects hotels and motels and home food establishments.

Specific Transactions

The Department has made great strides in utilizing technology to make transactions with the Department more efficient, more customer-friendly and to utilize more e-commerce.

Many of these technology enhancements have been made possible through support and funding from IOWAccess. We are now ready to take the next step in enabling electronic transactions between constituents and the Department by allowing payment of license and certification fees by using credit cards or e-checks. These payment options would be available to any persons applying for a license or certification on-line.

The Health Facilities Division on-line licensing and payment system is ready to be activated once the value-added service fee has been approved. This system will allow an applicant to complete and submit a license application on-line and pay the license fee electronically. This system will allow the licensee to have 24/7 accessibility, reduce paper files, increase security of payments, increase accuracy in recordkeeping, and reduce turnaround times. It is anticipated that at least half of the 906 licenses issued annually will take advantage of the on-line licensing and/or e-payment system.

The an on-line licensing and e-payment system for the Social and Charitable Gambling Unit is currently under development and is expected to be live in late 2006. It will allow an applicant to complete and submit a license application on-line and pay the license fee electronically. This system will allow the licensee to have 24/7 accessibility, reduce paper files, increase security of payments, increase accuracy in recordkeeping, and reduce turnaround times. It is anticipated that at least half of the 3,336 licenses issued annually will take advantage of the on-line licensing and/or the e-payment system.

The system for the Targeted Small Business (TSB) Certification Unit is currently in User Acceptance Testing for the Phase 1 release. A fully functional system is expected to be live in late 2006. This system will allow a currently certified TSB to renew their certification on-line and pay the certification application fee electronically. This system will allow the certified TSB to have 24/7 accessibility, reduce paper files, increase security of payments, increase accuracy in recordkeeping, and reduce turnaround times. It is anticipated that at least half of the 321 annual applicants will take advantage of the on-line renewal and/or e-payment system.

The Food and Consumer Safety Bureau is currently in the planning stage for implementing an on-line renewal licensing and e-payment system. The system is expected to be live in late 2006. Like the others, this system will allow a current licensee to renew their license on-line and pay the license fee electronically. This system will have the same benefits as the others. It is anticipated that at least half of the 5,750 licenses issued annually will take advantage of the on-line licensing and/or the e-payment system.

Fee

With the exception of the Targeted Small Business Certification Program, whose fees are set through administrative rules, the licensing fees for all of the other noted programs are set by statute. The authorized licensing fees are collected and deposited directly in the General Fund. The Department then receives a General Fund appropriation to cover expenditures for the execution of these programs. Thus, none of the license fees are available to cover the added costs of the fees and charges generated by the e-commerce

payment options and the current appropriation is insufficient to allow us to cover these costs within our budget. Thus, the Department requests permission to charge a value-added service fee of 4% of the transaction's value. This fee would be in addition to the current license/certification fee.

The value-added service fee will allow the Department to recover its costs incurred in processing an electronic transaction, which include the ITE e-payment engine fee, the credit card fee, the authorization company fee and the bank-processing fee. Because these fees vary slightly due to a number of factors, the Department proposes to set the initial fee at 4% of the transaction value. It is the Department's intent that the percentage be reviewed semiannually and adjusted, if necessary, to ensure the Department is only recovering the costs incurred in processing the transaction. This percentage is based upon the estimates contained in the DAS-ITE e-Payment Fee Summary, which is attached.

For customers choosing to use electronic transfers (e-checks) instead of credit cards, the Department proposes offering a cash discount that reflects the reduced costs of this form of payment. That discount would result in a fixed fee of \$0.26 per transaction, regardless of the amount of the transaction.

DAS – ITE

e-Payment Fee Summary

The following lists the current charges, as understood by ITE. All information should be verified with the State Treasurer’s Office. Please note that it takes about three to four weeks to set up an account at both Wells Fargo and Authorize.net. The lead time required depends on the provider’s backlog of accounts to set up.

Credit Cards

One-time Initial Costs

State e-Payment set-up charge.

Actual hours will be charged. It is estimated at 5 hours @ \$84.59 per hour (current FY’ 06 rates).

\$422.95

Authorize.net set-up charge

\$199.00

Estimated One-time Cost

\$621.95

Ongoing Costs

State of Iowa e-Payment:

Per successful transaction \$0.26

Authorize.net:

Monthly fee \$25.00

Wells Fargo:

Monthly fee 0.25%

Applied to the month’s gross sales. There is no longer a minimum monthly charge.

For example, if an agency has gross sales of \$5,107 in a month, Wells Fargo will charge the agency \$12.77.

Visa and MasterCard

The type of card used (MasterCard or Visa and whether debit, consumer card, corporate or rewards card) and how soon after authorization the transaction is actually batched and settled determine the rate applied. (To get the lowest rates each agency should batch and settle daily, which is the standard practice for the state’s e-Payment engine.) The fees charged by the credit card issuers are:

Interchange Fees:

<u>Card Type</u>	<u>Low Fee</u>	<u>High Fee</u>
Consumer credit cards	0.80% + \$0.25	2.70% + \$0.10
Corporate/purchasing credit cards	1.70% + \$0.10	2.70% + \$0.10
Reward credit cards	1.65% + \$0.10	2.90% + \$0.10

Visa and MasterCard adjust their interchange fees annually, usually in April.

Assessment Fee:

<u>Card Type</u>	<u>% of transaction amount</u>
MasterCard	0.0950%

Visa 0.0925%

Chargeback Fee:

Occurs when a customer questions or disputes a transaction. **\$15.00 per disputed transaction**
State agencies do not typically have a lot of disputed transactions.

We estimate that the fees charged by the bank, Authorize.net and Visa/MasterCard (NOT counting any ITE fees) would normally equal 1.9-4.0% of an agency's gross credit card sales. It tends to be the higher percentage if an agency has many small dollar transactions. The percentage is lower if an agency has fewer, higher dollar transactions.

Electronic Checks

One-time Initial Costs

State e-Payment set-up charge.
Actual hours will be charged. It is estimated at 5 hours @ \$84.59 per hour (current FY' 06 rates). \$422.95

Ongoing Costs

State of Iowa e-Payment:

Per successful transaction \$0.26

At present the State Treasurer's Office absorbs any additional costs associated with the processing of electronic checks. That may change in the future.