



**House  
Legislative  
Analysis  
Section**

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**SECRETARY OF STATE: NONCASH  
FINANCIAL TRANSACTIONS**

**House Bill 4040 (Substitute H-2)  
First Analysis (5-3-94)**

**Sponsor: Rep. Joe Young, Jr.  
Committee: State Affairs**

***THE APPARENT PROBLEM:***

Currently, the secretary of state is authorized by a number of laws to accept payment by credit card, instead of cash or checks, for vehicle fees and taxes, for boat registrations, and for items sold in the Michigan Historical Center store. However, the authorization for the Department of State to accept payment by credit card is piecemeal and scattered throughout a number of laws (the vehicle code, the Marine Safety Act, and Public Act 467 of 1988, which regulates the operation of state museum retail stores); there is no general law allowing the Department of State to accept credit card payments for all fees, goods, and services available through the department. Additionally, in the last 20 years the business and banking community have become much more sophisticated in the way they conduct financial transactions. The secretary of state's office needs to keep pace with technology by broadening the methods by which payment may be made, including instruments such as checks, drafts, credit or debit cards, electronic transfers, or other negotiable instruments. At the request of the secretary of state, legislation has been introduced that would do this.

***THE CONTENT OF THE BILL:***

The bill would create a new act to allow the Department of State to accept a monetary instrument (check, draft, credit or debit card, credit or debit card draft, electronic transfer, a facsimile of one of these, or other negotiable instrument) as payment for a tax, fee, price, or charge it collected. The secretary of state, with approval of the state administrative board, would decide which monetary instruments would be accepted and under what terms and conditions.

***FISCAL IMPLICATIONS:***

Fiscal information is not available.

***ARGUMENTS:***

***For:***

In addition to accepting credit card payments for boat and vehicle registrations, the bill would allow the secretary of state to accept credit card payments for snowmobile and off-road vehicle registrations, Uniform Commercial Code fees, Michigan History Magazine subscriptions, and repair facility license fees, among others. It would be a great convenience to the public to be able to pay the Department of State by credit card for any transaction with the department. As the state budget shrinks and departmental branch offices are closed, using credit cards will become an even more attractive way of avoiding going to a branch office and having to stand in long lines to complete one's transaction. Allowing the use of credit cards also would benefit the department, by saving it money and, in some cases, by increasing its sales. Unlike bad checks, credit card payments don't "bounce" and so the state is saved the time and expense of pursuing bad checks (reportedly, several thousand checks received by the department each year "bounce"). In addition, since the department accepts credit card payments only through the mail, and since these transactions are less costly to the department than those that take place at branch offices, the use of credit cards saves the department money even though the department has to pay a small (2.15 percent) service charge to a bank for these transactions.

In addition, allowing the use of credit card payments actually can increase revenues to the department because people are more likely to take advantage of the convenience of this method of payment. The department has set up a toll-free ("800") telephone number that allows people to use their credit cards to subscribe to the Michigan History Magazine published by the department. Reportedly, since setting up this service, subscriptions to the magazine have doubled. By enacting a general law enabling the department to

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accept credit card payments, both the public and the department would benefit.

Further, the bill would allow the department to accept other financial instruments, such as debit cards and electronic transfers. The department is exploring the use of modern technology, such as automatic teller machines and telephone answering machines that would give 24-hour service and eliminate the need to conduct such transactions in person at local secretary of state branch offices. Credit cards and other types of instruments would be needed with these kinds of transactions, and probably for others in the future. It makes sense to give the secretary of state general authority to allow the use of credit card payments, rather than granting this authority from year to year in piecemeal legislation.

***Against:***

The fees that the Department of State must pay to its financial agent may impede the state's ability to get federal matching funds. With the 90-10 matching funds offered by the federal government, \$100,000 in service fees, if taken from the Michigan Transportation Fund, means that the state will lose \$900,000 in matching federal dollars. If credit card transactions increase--and if the service charge increases (reportedly, some retail businesses pay as much as a five percent service charge for credit cards)--the state could lose even more federal money. If citizens want the convenience of using credit cards, let them pay the extra cost to the state (by adding, for example, a 2.15 percent service charge for each transaction), or let the Department of State issue its own credit cards and offer them for sale to anyone who wants that convenience.

***Response:***

It does cost money to collect taxes and fees, including those collected through the Department of State. The credit card service fee negotiated by the department represents a reasonable cost of collecting this revenue, and has the great advantage of making life just a little easier for thousands of citizens who do business with the state.

***POSITIONS:***

AAA of Michigan supports the bill. (5-2-94)