

## 2.5 COST PROPOSAL

### Cost Proposal Narrative

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*The Respondent should provide a brief narrative (not longer than two pages) in support of each Cost Proposal item. The narrative should be focused on clarifying how the proposed prices correspond directly to the Respondent's Technical Proposal. For example, evaluators will expect detailed explanation of Maintenance and Support to correspond to Maintenance and Support items if described in the Technical Proposal. **Please compose and return this document in a PDF format, labeled as "Cost Proposal Narrative".***

NIC Indiana and the family of NIC companies have a long history of providing payment processing services to our government partners. In addition to providing a suite of payment products to complete a transaction across a variety of payment channels, NIC Indiana helps to navigate the cumbersome policies and billing procedures of the banks, card brands, and processors on behalf of our government partners. Through our extensive experience in working alongside government to process hundreds of millions of transactions annually, NIC Indiana has developed a streamlined payment processing fee structure that is common in many of our contracts across the country, has been successfully implemented in Indiana for more than 15 years, and provides significant cost savings to the users of INgov.

The primary objective of the fee structure for NIC Indiana is to ensure a fair price that covers the cost of third-party bank, card brand, and processor fees, while ensuring the products and services we provide to our partners are hosted, secure, supported and continually enhanced to improve the electronic government experience and to address the continually changing PCI DSS and other security requirements. Our aggressive pricing model will allow NIC Indiana to provide the world-class service Indiana is accustomed to while also reducing costs for citizens and government partners.

Additionally, NIC works to ensure the fee model is simple and easily understood by the constituents when State Entities choose to utilize the Convenience Fee Model. With the proposed models, constituents who choose to pay with a credit card or electronic check have a clear understanding of the fees associated with the payment regardless of the agency they are interacting with or the amount of the transaction. To ensure consistency across services for constituents, all credit card rates are uniform with the exception of payments greater than \$1M and services that accept American Express.

NIC Indiana's competitive pricing reflects our strong desire to continue supporting the State of Indiana in its digital government advancements, and is a sign of our continued commitment to help ensure the success of IN.gov and all agencies who will be leveraging the state's payment processing services.

### Scenario 1 – All Inclusive

With Scenario 1 of the cost proposal, the State is seeking an all-inclusive flat rate for credit card, debit card, or ACH (eCheck) regardless of leveraging the Convenience Fee Model or Merchant Model. NIC Indiana has priced the all-inclusive flat rate in line with the convenience fee model in Scenario 2, with a discounted rate beginning at 8 million annual transactions.

The vast majority of fees collected for credit card payment processing are to cover the third-party expenses from banks, card brands, and processors. These fees vary greatly depending on the type of card used, and depend on the card brand, card type and transaction amount. While the fee collected may not cover the full amount of the third-party fees assessed on a specific transaction, on average this amount is enough to cover the average expenses and ensure continued support of the payment services provided. Any remaining amount after the paying of interchange, banking fees, and other assessments is used by NIC to meet the requirements of the RFP, including

security assessments, hosting, operations, staffing, support and maintenance, enhancements, hardware, marketing services, and more.

ACH transactions are vastly less expensive than credit card transactions and are typically charged at a flat rate without percentage-based fees. NIC Indiana's pricing for eCheck transactions in Scenario 2 is representative of this fact and is priced much differently than credit/debit card transactions.

In Scenario 1, however, all payment types must use the same flat-rate fee amount. Given the number of eChecks and credit card transactions, and associated transaction amounts, are unknown until the secondary competitive phase of this request for proposal, and are subject to change over the life of the contract, NIC Indiana utilized a blended rate based on NIC's experience with similar contracts.

Scenario 1 may result in a much higher cost to the State and its citizens due to the reasons stated above, and it is NIC Indiana's opinion that Scenario 2 is in the best interest of the State.

## Scenario 2 – Merchant Model or Convenience Fee

### *Convenience Fee Model*

The Convenience Fee Model is common across a vast majority of the agencies within Indiana. This model allows government partners to pass on the payment processing fees to those customers who are choosing to pay electronically rather than use taxpayer dollars from all citizens to cover the costs. NIC Indiana is proposing a traditional Convenience Fee Model cost based on its experience across the country. This model utilizes a flat rate component and a percentage fee component for credit card transactions, and a flat rate component only for eCheck transactions.

Given that transaction amounts provided in the RFP reflect that over 75% of all transactions are under \$200, NIC Indiana is also proposing a rate plus percentage model for debit card transactions as this will provide a cost savings to the majority of citizens over a flat rate only model and will streamline fees for a simplified cost structure.

NIC Indiana not only drastically reduced the fees under this model but will also follow a discount schedule as defined in the Cost Proposal. This schedule will further decrease the per transaction rate fee once annual volume surpasses 8 million transactions. The result will be continued savings to the constituency as agencies choose to migrate their services to the NIC Payment Platform.

### *Merchant Model*

Payment processing under the merchant model provides a vehicle for agencies to provide payment processing services at no cost to the customer. This model is common in over-the-counter transactions, and NIC Indiana is highly experienced with this model due to providing services to the Bureau of Motor Vehicles which includes in-branch payment transactions across the state on more than 1,200 POS devices. NIC Indiana is offering a unique cost structure to the merchant model, wherein agencies will only pay a fixed rate per transactions as opposed to a fixed rate and percentage rate. The fixed rate will allow NIC Indiana to provide all services under this proposal with a fee that is easily understood and calculated for budgetary purposes.

## Other Proposed Transaction Fees

NIC Indiana is pleased to provide several of the Other Proposed Transaction Fees at no cost to the state. Chargebacks, Voice Authorization, Address Verification (AVS), Foreign Network Authorization, IVR, and NACHA Account Verification services will be provided at no cost. eCheck processing will be provided at \$0.50 per transaction, and Guaranteed Check services for existing services will be \$1.50 + 1.25%, as clarified in Attachment D.2 Cost Assumptions, Conditions and Constraints. Transaction over \$1 Million will be charged at 2.63%.