

ELECTRONIC VALUE TRANSFER CONTRACT (EVT)

CREDIT CARD SETTLEMENT

Credit card settlement is the process by which authorized transactions are submitted to card issuers for payment. Unlike authorization, which is typically performed in real time, settlement is a batch process. Prior to settlement, payment information for authorized transactions is "captured" to create a settlement record for each authorized transaction. These captured transactions are stored on batch files either on KMS' system (termed "host capture") or on the agency's payment device or third party processor's device (termed "terminal capture"). Whether using host or terminal capture, batch settlement files are processed by KMS, which routes, or "outclears" these transactions to the appropriate issuing entity (i.e., Visa or MasterCard member banks or American Express or Discover) to initiate payment to the agency.

Host Capture vs. Terminal Capture

Host and terminal capture, which refer to the location in which a settlement file is created, are described in the following table.

Attribute	Host Capture	Terminal Capture
Creating Settlement File	Batch settlement files containing authorized transactions are created on KMS' system.	Batch settlement files containing authorized transactions are created on the payment devices used by the agency (e.g., point-of-sale terminal). In the case of an Internet application using any approved third party Internet payment gateway, KMS gateway or agency designed gateway, the gateway's server will act as the terminal storing transaction information for settlement.
Initiating Settlement	The mechanism for notifying KMS to outclear a settlement file to the card issuing entities can be either "merchant initiated" or "time initiated". For merchant initiated settlement, the agency transmits the transaction totals (number of items and net dollar amount) to KMS. If the totals match, KMS outclears the transactions to the card issuing entities. For time initiated settlement, KMS closes the batch and outclears the transactions at a predetermined time each day.	The agency can submit settlement files to KMS at its own discretion. Depending on the payment device used, settlement files can be manually submitted to KMS or the process could be automated. If using an Internet payment gateway or other third party processor, time initiated settlement will typically be used.
File Size/Frequency of Submission	There is no limit to the size of the settlement file which can be created at KMS. Whether merchant initiated or time initiated, outclearing of settlement files typically occurs once per day.	Limitations to settlement file sizes will be determined by the particular payment device or third party processor. High volume programs which exceed file size limitations will need to make multiple submissions to KMS on a daily basis. Additionally, agencies may wish to make multiple daily submissions to support their business process (e.g., submitting at the end of each staff shift).

Batch Balancing

The process of comparing settlement file totals (i.e., number of transactions and net dollars) to a separate file or log of authorized transactions is known as batch balancing. Batch balancing is performed prior to settlement to verify that the settlement file contains the correct number and dollar value of transactions.

Agencies should work with KMS to develop batch balancing procedures for their payment program.

Voiding Transactions

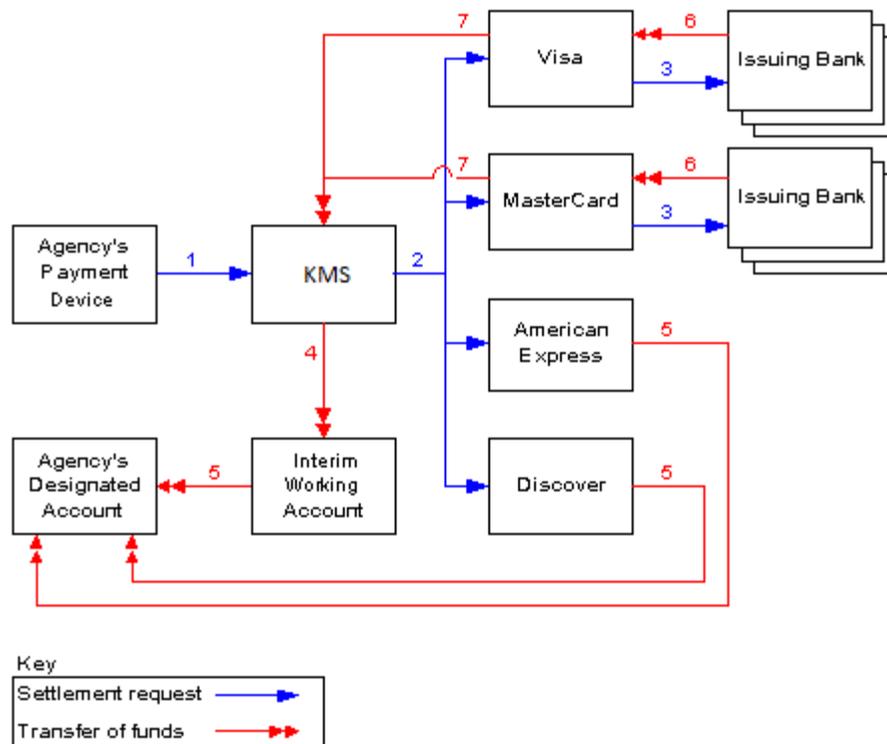
A void transaction is used to entirely back out a purchase transaction on a current batch which has not been submitted for settlement. These are commonly referred to as "same day voids" since they must be performed before the batch is submitted for settlement, which typically occurs at the end of each processing day. Agencies should be aware of the effect voids will have on a cardholder's "open-to-buy". The open-to-buy amount applies to cards with credit limits, and is the amount of the credit limit minus both the amount of the credit limit used and the amount of authorized transactions. Since authorizations are valid for thirty days, the cardholder's open-to-buy will be lowered by the amount of the voided transaction for that thirty day period as the voided transaction does not reverse the authorization request.

Agencies should work with KMS or their Internet payment gateway to establish protocols and controls for voiding transactions.

Settlement Process Flow

The following diagram depicts the settlement process from submission of the settlement file to receipt of funds in the agency's designated account.

Diagram 1., Credit Card Settlement Process



1. The agency submits the settlement file to KMS (terminal capture) unless the settlement file has already been created on KMS system (host capture). Submission of settlement files typically occurs at the end of each processing day.
2. KMS system outclears the settlement file, forwarding the transactions to the Visa and MasterCard associations and to American Express and Discover.
3. The Visa or MasterCard associations route the transactions to their member banks which issued the cards.
4. For agencies not opting to use an interim working account, KMS will deposit Visa and MasterCard funds directly into the agency's designated bank account. For agencies opting to use an interim working account, KMS will first deposit Visa and MasterCard funds into the interim working account and will then transfer the funds onto the agency's designated account.
5. Monies are received in the agency's designated account from the interim working account if used (for Visa and MasterCard transactions) and from American Express and Discover.
6. Visa and MasterCard issuing banks transfer funds to their parent association.
7. The two associations reimburse KMS for Visa and MasterCard transactions.

Interim Working Account

As seen in Diagram 1 above, funds for Visa and MasterCard transactions may first be transferred to an interim working account at Key Bank, a partner of KMS under the EVT Contract. While the interim working account is not a state account (the funds are not state monies until they are received in the designated state account) the agency will have inquiry capabilities into this account using KMS' software. This software is available through the EVT Contract with KMS. Use of the interim account is not mandatory for any user of the EVT Contract and there is a significant cost associated with its use.

Designated State Account

The agency must designate an account for receipt of settlement funds from:

- Visa and MasterCard funds (via transfers from the interim working account or via direct transfer from KMS),
- American Express (via direct transfer from American Express), and
- Discover (via direct transfer from Discover).

While two separate accounts could be designated for each of these sources, using the same account for all sources will facilitate the reconciliation process. If the agency's designated account is at Key Bank, the agency will receive funds the same day they are deposited into the interim working account, which will generally be a day sooner than if the agency's designated account is at a different financial institution. Also, Fedwire transfer fees, which are charged each time funds are transferred from an interim working account to a non-Key Bank designated State account, will not be incurred.

Timeliness of Settlement

Settlement of batch transactions should occur daily. For terminal capture, batches must be closed out and submitted to KMS for settlement by 3:00 a.m. EST in order to receive funds timely. (KMS suggests submission should occur by 2:00 a.m. EST to allow for any slippage in processing times at KMS). For host capture, settlement files will generally be closed out to meet KMS' 3:00 a.m. cut off. There are additional costs imposed on transactions which are not settled timely. Furthermore, delays in settling transactions timely leads to a greater possibility of the transaction being denied for payment due to an account having been closed between the time of authorization and settlement.

Funds Availability

Funds for **Visa and MasterCard** transactions can, at the option of the agency, be either (1) transferred directly into their designated account or (2) transferred into an interim account from which funds will be transferred to their designated account. The availability of Visa and MasterCard funds will, under either option, depend on whether or not the agencies designated account is with Key Bank. The following tables provide the anticipated days; funds will be received into agencies' designated accounts depending on whether or not an interim account is used and whether or not a Key Bank designated account is used.

Visa and MasterCard Funds Availability				
Processing Day [1]	Day funds are deposited into Interim Account	Day funds are initiated for transfer to designated account [2]	Day funds are received into designated account [3]	
			KMS account [4]	Non-KMS account [5]
Using Interim Working Account				
Monday	Tuesday	Wednesday	Wednesday	Wednesday
Tuesday	Wednesday	Thursday	Thursday	Thursday
Wednesday	Thursday	Friday	Friday	Friday
Thursday	Friday	Monday	Monday	Monday
Friday	Monday	Tuesday	Tuesday	Tuesday
Saturday	Monday	Tuesday	Tuesday	Tuesday
Sunday	Monday	Tuesday	Tuesday	Tuesday
Not Using Interim Working Account				
Monday	N/A	Wednesday	Wednesday	Friday
Tuesday	N/A	Thursday	Thursday	Monday
Wednesday	N/A	Friday	Friday	Tuesday
Thursday	N/A	Monday	Monday	Wednesday
Friday	N/A	Tuesday	Tuesday	Thursday
Saturday	N/A	Tuesday	Tuesday	Thursday
Sunday	N/A	Tuesday	Tuesday	Thursday
Notes				
<ol style="list-style-type: none"> 1. Agencies have until 2:00 a.m. the following day to submit transactions to KMS to meet the cut-off time for the current processing day (e.g., the cut-off time for the Monday processing day is 2:00 a.m. Tuesday). Note: Host environments may have the same or different cut-off times than KMS'. For example, PayPal transmits settlement files to KMS at 2:00 a.m. to meet their cut-off, while Authorize.Net uses a 6:00 p.m. cut-off time. 2. KMS is obligated to initiate transfers by 6:00 a.m. each business day (excluding bank holidays). 3. The day funds will be received into agencies' designated accounts is partially dependent on the institutions used to move the funds and on the depository practices of their financial institution. Therefore, agencies may receive deposits differentially than portrayed above. Note: KMS is only obligated to meet the timeframe for initiating transfer to designated accounts and not the timeframe for receipt of funds. 4. For agencies with designated accounts at Key Bank, the transfer is performed internally at Key Bank. 5. For agencies with designated accounts at financial institutions other than Key Bank, funds are transferred via Fedwire if an interim account is used or via ACH if an interim account is not used. 				

Under the EVT Contract, KMS offers a pre-funding service for Visa and MasterCard settlement amounts. Under pre-funding, settlement amounts will be transferred from the interim working account one day sooner than that shown in the table above. An interest fee is assessed for this service.

Funds for **American Express** transactions will be transferred directly by American Express to an agency's designated depository account. The following tables provide the anticipated days funds will be received into an agency's designated account assuming they are using KMS as their processor.

American Express Funds Availability (using KMS as Processor)			
Processing Day [1]	Transmitted by KMS to American Express [2]	Day funds are initiated for transfer to designated account[3]	Day funds are received in designated account [4]
Monday	Tuesday	Thursday	Monday
Tuesday	Wednesday	Friday	Tuesday
Wednesday	Thursday	Saturday	Wednesday
Thursday	Friday	Monday	Wednesday
Friday	Saturday	Tuesday	Thursday
Saturday	Sunday	Wednesday	Friday
Sunday	Monday	Wednesday	Friday

Notes

- 1. Agencies have until 2:00 a.m. the following day to submit transactions to KMS to meet the cut-off time for the current processing day (e.g., the cut-off time for the Monday processing day is 2:00 a.m. Tuesday). Note: Host environments may have the same or different cut-off times than KMS. For example, PayPal transmits settlement files to KMS at 2:00 a.m. to meet their cut-off, while Authorize.Net uses a 6:00 p.m. cut-off time.
- 2. KMS will transfer settlement file to American Express by 6:00 p.m. on each day.
- 3. American Express is obligated to initiate transfers by 6:00 p.m. each day (excluding Sundays and bank holidays) for transactions received by 6:00 p.m. on the adjacent day in the previous column (e.g., transactions received by 6:00 p.m. on Tuesday must be initiated for transfer by 6:00 p.m. Thursday). Funds will be transferred via ACH.
- 4. The day funds will be received into agencies' designated accounts is partially dependent on the institutions used to move the funds and on the depository practices of their financial institution. Therefore, agencies may receive deposits differentially than portrayed above. Note: American Express is only obligated to meet the timeframe for initiating transfer to designated accounts.

Funds for **Discover** transactions will be transferred directly by Discover to an agency's designated depository account. The following tables provide the anticipated days; funds will be received into an agency's designated account assuming they are using KMS as their processor.

Discover Funds Availability (using KMS as Processor)			
Processing Day [1]	Transmitted by KMS to Discover [2]	Day funds are initiated for transfer to designated account[3]	Day funds are received in designated account [4]
Monday	Tuesday	Wednesday	Friday
Tuesday	Wednesday	Thursday	Monday
Wednesday	Thursday	Monday	Wednesday
Thursday	Friday	Monday	Wednesday
Friday	Saturday	Monday	Wednesday
Saturday	Sunday	Tuesday	Thursday
Sunday	Monday	Tuesday	Thursday

Notes

1. Agencies have until 2:00 a.m. the following day to submit transactions to KMS to meet the cut-off time for the current processing day (e.g., the cut-off time for the Monday processing day is 2:00 a.m. Tuesday). Note: Host environments may have the same or different cut-off times than KMS'. For example, PayPal transmits settlement files to KMS at 2:00 a.m. to meet their cut-off, while Authorize.Net uses a 6:00 p.m. cut-off time.
2. KMS will transfer settlement file to Discover by 6:00 p.m. on each day.
3. Discover is obligated to initiate transfers by 7:00 p.m. each day (excluding Sundays and bank holidays) for transactions received by 7:00 p.m. on the adjacent day in the previous column (e.g., transactions received by 7:00 p.m. on Tuesday must be initiated for transfer by 7:00 p.m. Wednesday). Funds will be transferred via ACH.
4. The day funds will be received into agencies' designated accounts is partially dependent on the institutions used to move the funds and on the depository practices of their financial institution. Therefore, agencies may receive deposits differentially than portrayed above. Note: Discover is only obligated to meet the timeframe for initiating transfer to designated accounts.