



AGENCY: Finance & Administration

MEETING DATE: August 24, 2023

DEPARTMENT: Finance

PRESENTED BY: Isaac Whippy

AGENDA ITEM SUMMARY

TITLE:

RECEIVE REPORT ON CREDIT CARD FEES/PROCESSING FEE SET-UP FOR NON-UTILITY PAYMENTS

SUMMARY:

The City is expanding the opportunity for its customers to pay for permits and services online using credit cards. While convenient and efficient, these transactions require the City to pay fees to the credit card company, the payment-processing vendor, and the bank. To mitigate the significant and growing revenue loss, Staff recommends a 3% convenience fee be charged on all non-utility permit and business license tax credit card payments.

BACKGROUND:

Online payment opportunities are expanding to provide more convenient and efficient payment options for the City's customers, resulting in more customer credit card payments. Before April 2022, the City of Fort Bragg only accepted credit cards for utility payments. Credit card fees for municipal water payments are charged very low, so the enterprise fund can absorb these costs. In April 2022, the Finance Department installed a credit card terminal at the Finance counter to accept credit card payments for all types of charges and City services, such as building permits, water deposits, printing, and business licensing.

The Finance Department will deploy an online portal to accept payment for city services and charges in the coming weeks. The number of credit card transactions is expected to continue increasing as more payment activity transitions to online payments. Although online credit card payments offer multiple benefits to the City and its customers, the City must pay fees for each transaction to the credit card companies, the City's payment processing vendor, and the bank. These fees cannot be incorporated into the City's cost-recovery charges for services or permits since they only apply to credit card transactions.

To mitigate the growing fiscal impact of credit card fees on business tax and permit fee revenue, Staff evaluated establishing a convenience fee for persons who pay the City by credit card. Convenience fees are often applied to credit card payments as a percentage of the base charge to offset revenue losses.

Government Code 6159 permits the City to "impose a fee for the use of a credit or debit card or electronic funds transfer, not to exceed the costs incurred by the agency or agent in providing for payment by credit or debit card or electronic funds transfer." Alternatively, the City can implement a service/convenience fee, where cardholders can pay the merchant fees directly. While the precise amount of the service/convenience fee varies, it is generally based on the number of transactions and the average transaction amount.

Currently, the City's credit card processor's breakdown of charges are:

Transaction Breakdown (e.g, a \$67 transaction)	Billing Source	Cost
Per Transaction	Springbrook	\$1.00
Gateway Transaction Fee	Bluefin	0.30
Processor Fee 45 Basis Points	Bluefin	0.31
Variable Rate.0.9-1.9% (Based on 1.9%)	Bluefin	1.27
Total		\$2.88

While most charges are nominal, fees for Building Permits and Transient Occupancy Tax (TOT) can incur over \$400 per transaction. Average monthly transaction costs range from 2.28% to 3.03%. This is also expected to increase if we accept TOT payments online. Average monthly costs range between \$400 to \$800. The estimate for this year is \$6,500 without TOT costs. Transactions are expected to increase substantially once the municipal payment system is implemented. Next year, transaction fees are estimated to exceed \$50,000 if the City accepts all payments by credit card.

Staff is not proposing to apply a Transaction Processing Fee to utility transactions, since their fees are already very low. For this purpose, the Transaction Processing Fee would apply to Planning, Engineering, Building, and Code Enforcement permits, Business Licenses, Transient Occupancy Taxes, and other City items paid for by credit card, debit card, or eCheck (ACH).

FISCAL IMPACT:

At a minimum, approval of a Transaction Processing Fee for the use of credit cards, debit cards, and eCheck (ACH) will result in an annual revenue increase of approximately \$40,000 and offset associated costs. As more payments are made online through the Municipal Payment system, Transaction Processing Fee revenue will increase, offset by a similar increase in processing costs.

RECOMMENDED ACTION:

Following the Committee's review and discussion, Staff recommends referring this item to the City Council for a public hearing to review fees and consider adoption of the following:

1. A 3% transaction processing fees applied to non-utility payments with a \$25,000 limit.
2. Extend the \$5 staff time convenience fee for phone payments processing to non-utility payments. While this would create minimal revenue for the City, it would encourage customers to use the online payment system to create staff efficiencies.

ALTERNATIVE ACTION(S):

Conduct the review and direct Staff to provide additional analysis.

ATTACHMENTS:

1. Transaction fees range by dollar amount.
2. Historical Credit Card Costs
3. Projected Credit Card Costs

IMPLEMENTATION/TIMEFRAMES:

The new fees cannot become effective until at least 60 days after adopting the resolutions pursuant to the California Government Code Section 66017(a). If approved at a public hearing, the

fee changes will become effective 60 days after approval by City Council. The Consolidated Fee Schedule will be updated, distributed to City staff, and posted on the City's website.