City of Culver City, California

City Council Agenda Item Report

Meeting Date: 12/7/2007		Item Number: A-3
AGENDA ITEM: Adoption of a Resolution Establishing a Convenience Fee for the Processing of all Payments Made to the City through Use of a Credit or Debit Card.		
Contact Person/Dept.: Nagam Rao / Treasury Division	Phone Number: (310) 253 5889	
Fiscal Impact: Yes [X] No []	General Fund: Yes [X] No []	
Public Hearing: []	Action Item: [X]	Attachments: [X]
Public Notification: Master Notification List on 12/12/2007		
Department Approval: Crystal C. Alexander (12/10/2007)	City Attorney Approval: Carol Schwab (by H. Baker) (12/11/07)	
Fiscal Impact Review: Jeff Muir (by M. Noller) (12/11/07)	City Manager Approval: Jerry B. Fulwood (12/13/2007)	

RECOMMENDATION:

Staff recommends the City Council adopt a Resolution establishing a convenience fee of 3% for the processing of all credit card transactions and a convenience fee of fifty cents for each debit card transaction.

BACKGROUND:

The City currently accepts over the counter payments by credit cards issued by Visa or MasterCard at the terminals located at City Hall, the Recreation Center, the Veterans Memorial Building, and the Police Station.

On July 24, 2006, City Council approved entering into a contract with various vendors to begin accepting online payments via the City's website. In addition to being able to pay for parking tickets and recreation class registrations online, beginning November 12, 2007, with the launch of the new City website, online permitting for the Building Safety Division was expanded. In addition, the Treasury Division is implementing a process to accept business tax certificate renewal applications and payments online for the 2008 renewals beginning on January 7, 2008.

The credit/debit card transactions of the Building Safety Division and the Treasury Division (for business tax) are processed at the City Hall terminal which has registered a growth of 36.8% in the number of transactions processed and 16.4% in dollar value in the two year period between 2004/05 and 2006/07. The following table provides additional data related to card transactions:

Monthly Average Transactions by Credit Card Terminal				
	City Hall		City Wide 4 Terminals	
Year	No./ month	$ / transaction	No./ month	$ / transaction
2004/05	163	$360.60	761	$149.64
2005/06	203	$408.28	822	$174.47
2006/07	223	$419.63	844	$194.69

Treasury Division: The Treasury Division had 1,302 credit card transactions during 2006/07 with a total value of $416,866 and a median value of $108 per transaction. Approximately 55% of the transactions were less than $100. Credit card transactions accounted for 11.85% by number and 4.53% by value of the total number of transactions of the division.

The median value (defined as the number in the middle of a set of numbers) was chosen as being more representative than a simple average because numbers were not uniformly distributed but significantly "skewed" to one side. Please see Attachment # 1 for details.

Building Safety Division: Since the figures for the Building Safety Division credit card transactions could not be generated by the software, staff manually analyzed the figures for the month of October 2007, and observed that there were 61 transactions during the month for a total value of $22,604, with a median value of $150 per transaction. On an annualized basis the number of credit card transactions is estimated to be 732. Credit card transactions were estimated to account for 20.75% by number and 11.06% by value of the total number of transactions of the Building Safety Division. Please see Attachment # 2 for details.

The ease and convenience of use, coupled with the additional benefits and rewards that the user may derive in using them, have all contributed to the increased use of credit/debit cards as a mode of payment. This has, in turn, contributed to an increased cost to the City to process credit card payments (which cost is not associated with cash payments and the great majority of check transactions).

Staff carried out an online survey of finance officers across the state and spoke to staff in several cities, as well as representatives of Visa, MasterCard and the banks to arrive at an understanding of current industry practices regarding credit card usage.

It was found that cities were concerned with the use of credit cards for high value transactions which would result in the payment of excessive discount fees, totally out of proportion to any benefit accruing. With a view to controlling the discount fees payable, cities sometimes resorted to restricting the use of credit cards to certain categories of fees and charges which were usually for low dollar amounts like utility billing. One city reported having to absorb the discount fee of 3% due to their inability to restrict one of their customers from paying the monthly utility bill of about $40,000 by credit card. In most cases, payments such as a hotel's monthly transient occupancy taxes could not be paid by credit card. Some cities had resorted to putting an upper limit on the amount that could be charged to a credit card. Since this practice was circumvented by customers sending multiple smaller payments resulting in time being spent on reconciling the additional entries, it was not generally followed. Both Visa and MasterCard informed us that fixing minimum and maximum limits to the use of credit cards was a violation of their credit card policies and if they received complaints from customers the merchants were potentially liable for fines.

DISCUSSION:

Government Code Section 6159 provides the authority for cities to authorize the acceptance of a credit card or debit card for the payment of fees and charges. Additionally, the same Section provides the following:

> "…a…city…may impose a fee for the use of a credit or debit card…not to exceed the costs incurred by the agency in providing for payment by credit or debit card…These costs may include, but shall not be limited to, the payment of fees or discounts… [paid to the card issuer for the right to accept the card.]"

The fiscal impact to processing of various permits and business tax renewals (and all other transactions paid with a credit or debit card) would be in large part due to the discount fees payable by the City for processing the credit/debit card transactions. There would also be additional recoupable costs associated with reconciling payments made by credit/debit card with the City's other banking records and general ledger.

During the last five years, credit card payments to the City have registered an increase of nearly 43% by number and 92% by value. The annual discount fee paid to the bank has also increased to $50,683, which is approximately 2.57% of the transaction amount. During the fiscal year 2006/07 there were 10,125 transactions processed at the City's four credit card terminals for a total amount of $1,971,278. Additional details related to credit/debit card transactions are contained in the following table:

Year	No. of Transactions	Amount Processed	Discount Fees Paid
July 2002 to June 2003	7,089	$1,024,676	$21,389
July 2003 to June 2004	7,868	$1,193,164	$26,677
July 2004 to June 2005	9,131	$1,366,367	$32,045
July 2005 to June 2006	9,868	$1,721,640	$39,988
July 2006 to June 2007	10,125	$1,971,278	$50,683

With the introduction of online processing and payment for building permits and business tax renewals, the amount paid as a discount fee is expected to rise at a higher rate in the future. The discount fee rate which is borne by the merchant varies from 1.5% to 4.5% and is dependent upon the benefits that are passed onto the customer by the credit card company in the form of airline miles or cash back bonuses. The discount rate has gone up by nearly 11% to 2.57% in 2006/07 and at that rate would cross the 3% mark in less than 2 years.

Pursuant to the authority granted the City Council in Government Code Section 6159, staff recommends the City Council impose a convenience fee in the following amounts:

For credit cards:	3.00% of the base transaction
For debit cards:	$0.50 per transaction

At the above rates, members of the public paying the median fee of $150 online for a building permit with a credit card would be required to pay an additional $4.50 as a convenience fee. A business paying with a credit card to renew their business tax certificate at the median fee of $108 would be required to pay an additional $3.24 as the convenience fee.

OTHER CITIES' PRACTICES:

For the Council's reference, a summary of credit card fees for selected other cities is attached.

FISCAL ANALYSIS:

The amount that may be received by the City as a convenience fee would vary with the amounts to be paid and the actual convenience of this mode of payment to the individual involved, and is therefore difficult to measure at this point of time. There are only a handful of payments made with debit cards, so this analysis will be based on the credit card convenience fee. Also, the City now charging the convenience fee may also cause a decrease in the number of credit card transactions from those who elect not to pay the convenience fee. Assuming approximately $1.9 million in credit card payments annually (consistent with the 2006/07 amount), the City would realize $57,000 in convenience fee revenue.

ATTACHMENTS:

1. Number of Business License Renewals received during 2007
2. Credit Card Payments received by the Building Safety Division during October 2007.
3. Summary of Credit Card Fee Procedures from Other Cities
4. Proposed Resolution.

MOTION:

That the City Council:

<u>Adopt the Resolution establishing a convenience fee for the processing of all payments made to the City with a debit and credit card.</u>