

City of Culver City, California
City Council Agenda Item Report

Meeting Date: 11/14/07		Item Number: <u>A-7</u>	
AGENDA ITEM: Approval of an Amendment to an Existing Agreement with HDL Companies (Diamond Bar, CA) to Support the Implementation of Online Business Tax Renewals; and Discussion and Direction Regarding the City's Policy related to Credit Card Transactions and Fees.			
Contact Person/Dept.: Michele Williams/IT Department Nagam Rao/City Treasurer's Office		Phone Number: 310-253-5959 310-253-5889	
Fiscal Impact: Yes ☒ No ☐		General Fund: Yes ☒ No ☐	
Public Hearing: ☐		Action Item: ☒ Attachments: ☐	
Public Notification: Master Notification List on 11/07/07			
Department Approval: John Richo (11/07/07) Crystal Alexander (11/07/07)		City Attorney Approval: Carol Schwab (by H. Iker) (11/07/07)	
Fiscal Impact Review: Marlee Chang (11/07/07)		City Manager Approval: Jerry B. Fulwood (11/08/07)	
<u>RECOMMENDATION:</u> Staff recommends that the City Council approve an amendment to the existing agreement with HDL Companies to purchase software and professional services to support the implementation of online business tax renewals. <u>BACKGROUND:</u> On July 24, 2006, City Council approved entering into agreements with various vendors to begin accepting online payments via the City's website. Citizens currently have the ability to pay for parking tickets and recreation class registrations online. Beginning on November 12, with the launch of the new website, online permitting will also be expanded. This new functionality will include the ability to pay for over-the-counter permits (permits not requiring a plan check) and the ability to view the permit status and inspection results. The staff report of July 24, 2006 also stated that staff would be returning to City Council at a later date to obtain approval for renewing business tax certificates via the City's website.			

City of Culver City, California
City Council Agenda Item Report

DISCUSSION:

The City currently uses software from HDL Companies to track business tax certificates. This software has been in place (with upgrades) and functioning very well since 1999. The vendor has also been very supportive with making modifications to the software as the business needs of the City have changed over the years.

In early 2007, HDL released a software module to facilitate online business tax certificate renewals. Each year, businesses are to report to the City their business taxes and renew their business tax certificate. Currently this is a manual process. The renewal forms are printed and mailed to each business entity. The renewal is typically mailed back or returned in person to the City with the payment. Staff in the City Treasurer's Office are responsible for data-entering various information from the renewal form into the HDL software. Implementing the option of renewing via the City's website would make the renewal process more convenient for businesses and it would also alleviate the burden of manual data entry.

During the period December 1, 2006 to November 5, 2007, the Treasury Division manually processed payments for 11,434 accounts for a total revenue of \$9,203,380. These payments were made by check, cash or by credit card, and received either over the counter or through the mail. The 1,370 credit card transactions with a total value of \$1,107,437 and an average value of \$808.35 per transaction, accounted for 11.98% of the total transactions by number and 12.03% by value.

The credit card transactions are subject to a fee by the processing bank, generally referred to as discount fee, which is currently 2.54% of the transaction value. This fee is approximately \$20.53 per transaction on our average transaction value of \$808.35. An analysis of the amounts received by any mode of payment (i.e., cash, check or credit card) shows that approximately 89% of the transactions are below \$1,000, and 97.6% are below \$5,000.

It is estimated that the Business Tax staff spends approximately 14 minutes on average in processing an application. Accepting Business Tax payments over the Internet would reduce the time spent on manually entering the details of the renewals into the HdL software. However since they would still need to approve the transactions in the system before they are "posted", significant cost savings are not expected during the renewal year 2008. As the number of credit card transactions increases with time, savings of up to 5 minutes out of the current 14 minutes are expected. The resultant savings for 1,500 transactions would total about 125 hours. The threefold benefit from transitioning to on-line processing would be:

City of Culver City, California
City Council Agenda Item Report

- (1) reducing manual data entry, leading to a possible reduction in worker's compensation injuries,
- (2) making the funds available for investment at an earlier date,
- (3) freeing up staff time for other revenue generating activities, such as auditing tax returns, and identifying new sources of tax revenues.

The following is a list of local agencies that have implemented or are in the process of implementing HDL's web module. Staff spoke with Riverside County and the City of Carson to obtain their experiences. The references from these agencies were exceptional and both commented on the superior consulting services received from HDL.

Agency	Status of Implementation
Riverside County	First installation, went live in Feb 2007
City of Rancho Cucamonga	Went live 9/24/07
City of Carson	Plan to launch late November 2007
City of Coronado	Implementation in process
City of Temecula	Implementation in process

Staff recommends amending the current agreement with HDL to purchase the web module for business tax renewals and to obtain professional services to support the implementation.

FISCAL ANALYSIS:

The amendment to the existing contract with HDL Companies (Diamond Bar, CA) to support online business tax renewals would result in an expenditure of \$10,800. Sufficient funds have been allocated in the Financial System Enhancement CIP Budget – 42000636 for these expenditures.

The City of Culver City currently accepts payment by credit card at the terminals located at City Hall, the Recreation Registration Center, the Veterans Memorial Building, and the Police Station. As the City Council is aware, all organizations that accept credit cards (including the City) pay a "discount fee." The following table provides some information on the amount of the discount fees paid by the City in prior fiscal periods.

City of Culver City, California
City Council Agenda Item Report

Year	No. of Transactions	Amount Processed	Discount Fees Paid
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
July 2007 to Sept 2007	2,774	\$530,043	\$13,658

The discount fees on these credit card transactions are absorbed by the City. The discount fees on the Business License transactions are estimated to be \$28,128.90 at the current average discount fee rate of 2.54% on \$1,107,437.

The on-line renewal processing capability is expected to be initially utilized mainly by the group of customers who are already using the credit card as the mode of payment. These customers are expected to grow by about 8% to 10% by numbers and 26% to 30% by dollar value during the renewal year 2008. This would mean the number of transactions going up to 1,500 with a dollar value of approximately \$1,440,000, with a discount fee of \$36,576.

The two main factors which we need to consider are:

- (1) The prospect of our incurring the discount fee due to customers charging high value transactions to their credit card, and
- (2) Whether it would be appropriate to revisit an earlier City Council Policy of totally absorbing the credit card discount fees.

Staff carried out an online survey of finance officers across the state and of the 18 responses, 5 respondents had a cap on the amount that could be charged per transaction, varying from \$500 to \$10,000, and of these only 2 charged a convenience fee, one at 3% of the transaction amount and the other at a flat rate of \$7.50 per transaction.

It appears that whether a cap can be set on a transaction is dependent upon the service provider. In our case we have been told that the existing provider's software does not presently permit a cap to be applied on a transaction. Regarding the convenience fee our provider has indicated that we would not be allowed to charge a convenience fee as a percentage of the transaction amount (a flat amount would be allowed) and wanted to know what we were planning to charge as a convenience fee. Based on direction from the City Council, staff would need to have more

City of Culver City, California
City Council Agenda Item Report

detailed discussions with our service provider if Council would like to consider this option.

Therefore, the City Council may wish to consider setting a policy for the maximum that can be paid via credit card. In so doing, the City will achieve the maximum time savings (assuming the time for each transaction is equal, no matter the amount of the transaction) and the least lost revenue through the discount fee. About 97.6% of the business tax transactions are under \$5,000. If the cap is set somewhere between \$5,000 and \$10,000, the City will achieve the correct balance between time savings and lost revenue, especially if the cap applies to all payment transaction types, which it should.

With the introduction of this new program and the plans for future expansion of online/credit card transactions, the City Manager's Office recommends the City Council direct staff to update the City policy related to credit card transactions in general, and specifically consider implementing a transaction cap and/or convenience fee to recover the significant costs the City incurs in accepting credit card transactions.

ATTACHMENTS:

None.

MOTION:

That the City Council:

1. Approve an amendment to the existing Agreement with HDL Companies in an amount not-to-exceed \$10,800.00 (plus applicable sales tax) for the purchase of HDL's web module and for professional services to support the implementation; and
2. Authorize the City Attorney to prepare the appropriate documents and the City Manager to execute such documents on behalf of the City; and
3. Provide direction on the subject of a convenience fee on City-wide credit card transactions; and,
4. Direct Staff to draft a policy for City Council consideration setting the maximum cap for City-wide credit card transactions and/or implementation of a credit card transaction convenience fee.