



**DATE:** December 2, 2014

**CATEGORY:** Consent

**DEPT.:** Finance and Administrative Services

**TITLE:** **Increase Appropriations for Utility Payment Processing Fees**

### **RECOMMENDATION**

Increase appropriations \$70,000 in the Finance and Administrative Services Department Water Fund for utility payment processing fees. (Five votes required)

### **BACKGROUND**

The City implemented an online payment system for utility payments in January 2013. There is a charge for processing credit card payments. When the payment is collected in person at a City facility, this charge is a cost of doing business and cannot be passed on to the consumer except under limited circumstances. However, using a payment processor, the credit card processing charge can be passed onto the consumer. At the time the online payment system for utility payments was implemented, Council's direction was for the cost to do business online should not be higher to the consumer than doing business at City Hall. Therefore, the cost of the credit card processing is being paid by the City.

### **ANALYSIS**

Processing fees include a flat monthly fee for e-bills and a fee for the type of online payment used (either e-check or credit card). A per-transaction \$1.00 flat fee is charged for e-checks. Credit card fees are broken into two groups based on type of credit card:

1. A per-transaction flat fee for standard-type credit cards, and
2. A percent of volume (dollar amount charged) for commercial, business, specialty rewards cards, etc. ("specialty-type") credit cards.

There is an annual budget of \$60,000 for payment processing fees. Use of the online payment system has steadily increased since inception and thus, processing fees have

increased. For the first six months (Fiscal Year 2012-13), total processing fees were \$25,033. For Fiscal Year 2013-14, total processing fees were \$80,256. For the first three months of Fiscal Year 2014-15, processing fees were \$27,079

The fastest-growing and most volatile expense for processing fees is the dollar volume on specialty-type credit cards. Although Fiscal Year 2012-13 was only for six months, this type of credit card dollar volume, and hence cost, has increased and in Fiscal Year 2013-14 was 4.3 times higher than Fiscal Year 2012-13. In comparison, the number of standard-type credit card transactions in Fiscal Year 2013-14 were 2.6 times higher than Fiscal Year 2012-13. See table below for a comparison.

	Specialty-Type Credit Cards			Standard-Type Credit Cards		
Fiscal Year	\$ Volume	# Trans	Cost	\$ Volume	# Trans	Cost
<b>2012-13 – 6 months</b>	\$364,620	866	\$10,939	\$1,330,265	5,105	\$9,444
<b>2013-14</b>	\$1,563,365	1,950	\$46,901	\$3,111,560	13,394	\$24,779
<b>2014-15 – 3 months</b>	\$588,025	675	\$17,641	\$941,544	3,897	\$7,209

If trends continue, for Fiscal Year 2014-15 it is estimated specialty-type credit card dollar volume will increase 50.0 percent while standard-type credit card transactions will increase 16.0 percent. Based on this trend, it is estimated processing fee costs will reach \$110,000 for the fiscal year, \$50,000 greater than budgeted. Staff is requesting an additional \$20,000 due to continued increase in dollar volume and the uncertainty of dollar volume. The monthly costs can vary drastically based on dollar volume and have been as much as \$12,000 and low as \$500.

### **FISCAL IMPACT**

The increase in use of online utility payments results in increased costs. These additional costs will come from the Water Fund. There is sufficient funding available in the Water Fund which has a projected available balance of \$9.3 million as of June 30, 2015. Costs will be allocated to the Wastewater and Solid Waste Funds through the Water Cost Allocation Plan. These funds have a projected available balance of \$5.7 million and \$2.1 million, respectively, as of June 30, 2015.

**ALTERNATIVES**

1. Direct staff to review the cost of recovering all or a portion of the online payment processing by implementing a fee.
2. Discontinue the ability to process payments online once the fees reach the budget of \$60,000.
3. Approve an increase in appropriations for a lower or higher amount.

**PUBLIC NOTICING** – Agenda posting.

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541-12-02-14CR-E