CITY OF MOUNTAIN VIEW

MEMORANDUM

Finance and Administrative
Services Department

DATE: April 27, 2017

TO: City Council

FROM: Suzanne Niederhofer, Assistant Finance and
      Administrative Services Director
    Nicole Wright, Senior Deputy City Attorney
    Patty J. Kong, Finance and Administrative Services Director

VIA: Daniel H. Rich, City Manager

SUBJECT: **Credit Card Processing Fees—Update**

PURPOSE

The use of credit cards, and therefore the costs associated with credit card processing, has increased with the acceptance of online payments. Staff drafted a memo, included with the Fiscal Year 2015-16 Narrative Budget Report, summarizing possible credit card processing fees and potential complications in implementing a fee to recover costs (Exhibit A). At that time, Council was not interested in passing on a fee to the customer to recover the cost of credit card processing fees, stating the cost to do business online should not be higher than for other methods of transactions. In February 2017, Council reconsidered and directed staff to review the possibility of implementing a credit card processing fee for online and/or on-site transactions.

BACKGROUND

The City accepts credit cards as a form of payment at eight locations in the City: City Hall Finance and Administrative Services, Center for the Performing Arts (CPA), Library, Police/Fire Administration, the Community Center, Eagle Pool, Rengstorff Pool, and Shoreline Golf Links. In addition to on-site locations, the City also accepts online payments for utility bills, parking permits, CPA tickets, basic building permits (E-permits), recreation fees (e.g., classes, camps, lap swim, etc.), Library fees and fines, and golf fees and merchandise.

The forms of payment accepted for on-site payments are cash, check, credit card, and debit card. Credit cards, debit cards, and eChecks can be used for online payments. Also, the City has long had an auto debit program and accepts home banking payments for utility payments. For online utility payments, eCheck transactions are processed at no cost to the City.

A payment gateway or processor is required for the City to accept online credit card payments. A payment gateway is an e-commerce application service that authorizes credit card payments for e-businesses and online retailers. It is the equivalent of a physical point-of-sale terminal. A variety of different credit card payment processors are available for online transactions and each software application often partners with a particular payment processor. For example, the Shoreline Golf Links uses the EZLinks software system to book tee times, manage play at the course, and track payments. EZLinks partners with Electronic Transaction Systems Corporation (ETS) as its payment processor because it interfaces smoothly with their system.

The City does not have to choose ETS as the payment processor, but using a different payment processor may not be compatible with the receipting system. Some of the automated functionality of the system does not work, or work well, with another payment processor. Staying with the City's current merchant services would require manual keying and less-efficient processing. Although it may be beneficial to the City to only have one credit card payment processor, each software system partners with a payment processor to fully integrate with their system. Each payment processor sets up their fee schedule to recover all costs associated with credit card transactions and these fees may vary by processor.

The following payment processors are currently utilized in the City:

- Paymentus—online utility bill payments, business license renewals, and miscellaneous accounts receivables

- Paypal via ShoWare—both on-site and online CPA ticket purchases

- HarborTouch via Tessitura—both on-site and online CPA ticket purchases for Theatreworks events

- Stripe—online parking permit payments

- Cybersource—E-permits (for basic building, electrical, mechanical, and plumbing permits)

- Paypal—online Library fee and fine payments

- ActiveNet—both on-site and online recreation payments (classes, camps, lap swim, swim passes, and facility reservations)

- ETS—both on-site and online payments for golf fees and merchandise

Total fees paid by the City for credit card transactions for Fiscal Year 2015-16 were approximately $580,000, of which on-site transactions at City Hall, Library, and Police totaled approximately $296,000. Recreation, CPA, and Golf run all transactions through their payment processor whether on-site or online in order for their respective systems to work efficiently (as discussed above).

The City currently recovers a portion of credit card processing fees. With the implementation of the new Recreation system, for Fiscal Year 2015-16 Council approved a total of $90,000 for ActiveNet processing costs and a corresponding 3.0 percent increase in Recreation fees to recover these costs. The Golf Course budget includes approximately $52,000 for credit card processing costs and golf fees are set to recover costs, including these processing costs. Utility payment processing costs are also included in the budget and recovered through utility rates. The CPA bills credit card processing costs back to the client for the event; therefore, fees are recovered as a cost of the performance.

ANALYSIS

The rules and regulations for setting fees to recover the City's cost to process credit card transactions are complicated. Government Code Section 6159 authorizes the City to impose a fee for the use of credit cards as long as the fee does not exceed the City's cost to accept credit cards and is approved by City Council. The options available to Council depend on whether Council would like to recover the costs for utility or nonutility payments.

Utility Payments: The City can have the customer pay a processing fee for utility payments paid online, but not on-site. It is important to note that for utility payments, the City currently benefits from the Discount Utility Rate Program offered by payment brands (e.g., Visa, MasterCard, etc.). This program provides discounted credit card fees on utility payment transactions; however, it is only offered if credit card fees are absorbed by the utility agency. Each payment brand has its own discount depending on the type of card used and not all cards are eligible for the discount. If Council chose to pass the processing fee on to customers for online utility payments, the Discount Utility Rate Program would no longer be available.

For example, for online utility payments, the existing fee structure would change from $1.85 per transaction for standard credit cards and debit cards, 3.0 percent for specialty cards, and no cost for eChecks to an estimated charge of $5.95 per utility payment transaction, regardless of form of payment or amount.

Nonutility Payments: The City can also have the customer to pay a processing fee for nonutility payments paid online as well as credit card payments on-site. The City would need to preregister with the payment brands and specific requirements must be met to establish a fee, including disclosure of the fee to the consumer as a separate transaction.

A summary of utility and nonutility payment applicable features is summarized as follows:

Feature	Utility Payments*	Nonutility Payments
Applied to All Transactions Online	Yes	Yes
Applied to Credit Card Transaction On-Site	No	Yes
Can Be Fixed or Flat Fee	Yes	Yes
Can Be a Percentage Fee	No	Yes
Can Select the Type of Payment to Apply the Fee**	N/A	Yes
Uniform Fee Required for All Forms of Payments	Yes	No
Fee Can Be Shared between City and Customer	Yes	Yes

* If any portion of the processing cost is paid by the customer, the Discount Fee Program would no longer be available.

** For example, Transient Occupancy Tax payments, but not recreation fee payments.

As an alternative to a credit card fee, Council could consider increasing the price of some services to recover processing fees as is currently occurring for recreation, golf,

and utilities. However, certain payments cannot be increased to offset the cost of credit card fees such as Transient Occupancy Tax payments and Business License payments, as an increase would require voter approval because they are taxes.

Staff also reached out to the cities of Palo Alto, Sunnyvale, Milpitas, Cupertino, Santa Clara, and Redwood City to find out if they charge a fee for the use of credit cards. None of these cities currently charge a fee for either online or on-site credit card transactions.

SUMMARY/CONCLUSION

Costs for accepting credit cards for payments whether on-site or online are substantial and increasing. The City is incurring approximately $580,000 in gross credit card processing fees annually. Online payments require a payment gateway which is provided by a payment processor. The City can have the customer pay the processing fee for online payment transactions. For nonutility transactions, the City could establish a fee for on-site credit card payment transactions.

Staff is requesting direction from Council whether to develop options for fees to recover payment processing costs. If so, staff is seeking general policy direction on the following:

1. Whether full cost recovery or something less is desired.

2. Whether a fee should be charged for online transactions only or also to on-site credit card transactions.

3. Whether fees should be limited to certain categories of payments (e.g., Permit fees or Transient Occupancy Tax). If Council would want fee recovery for some, but not all, categories, are there certain categories Council would not want to charge a fee?

Staff can return to Council with some alternatives once general direction is given based on the information provided in this memo.

SN/PJK/3/FIN
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Exhibit   A.   April 28, 2015 Credit Card Processing Fee Memo