



MEMORANDUM

To: Kurt Triplett, City Manager

From: Michael Olson, Director of Finance and Administration
Tom Mikesell, Financial Planning Manager
Lori Wile, Budget Analyst

Date: September 29, 2018

Subject: CREDIT CARD FEES

The purpose of this memo is to provide an update on credit card transactions and fees.

Background

The City began accepting credit cards as a method of payment for services in 2005. Accepting payments by credit card results in the City incurring fees imposed by the credit card companies. There are rules imposed by the credit card companies and how merchants (e.g. the City) can recoup credit card fees from the customer (see further discussion below). The Municipal Court accepts credit card fees for over-the-counter transactions while on-line payments are handled by a third-party vendor with fees being assessed to the customer through their transaction fee. The Kirkland Jail also uses a third-party vendor for accepting payments with fees being assessed directly to the customer. In some cases, departments build an estimate of card fees into their budgets to cover the fees (e.g. development services, utilities and parks). Other miscellaneous General Fund fees are paid from the non-departmental budget (e.g. Municipal Court over-the-counter payments and pet licenses). As the dollar volume of credit card payments increases, fees also increase and may exceed budgeted amounts. However, the increase in credit card fees is resulting from higher-than-anticipated revenue that covers the credit card fees.

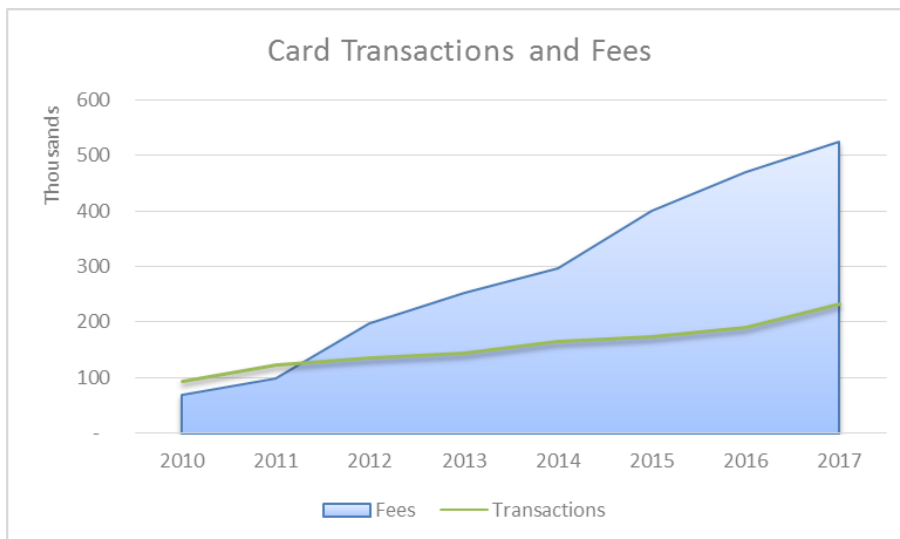
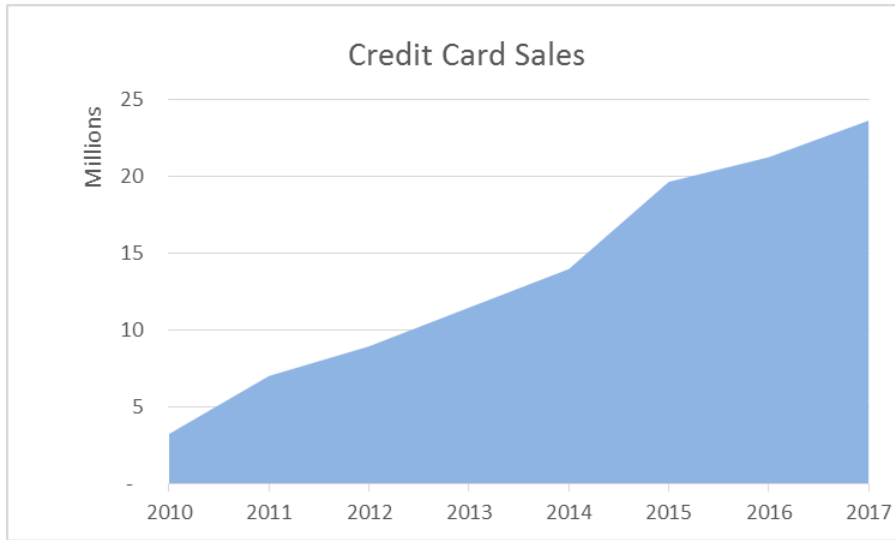
The City accepts card payments for services such as utilities, Municipal Court fines and fees, recreation programs, permits, and parking. A summary of 2017 activity is shown in the table below.

	2017					
	Credit Card Sales Volume	Transactions	Total Fees	Fees as a % of Sales	Total Revenue	Credit Receipts as a % of Total Revenue
Utilities	9,913,521	39,682	154,123	1.6%	56,040,613	17.7%
Dev Services	10,382,450	8,392	260,071	2.5%	14,731,246	70.5%
Parks & Rec	1,744,533	14,396	41,386	2.4%	2,505,857	69.6%
Cemetery & Licensing	699,698	2,654	14,107	2.0%	4,185,152	16.7%
Parking	358,406	159,571	44,819	12.5%	477,509	75.1%
Court Fines	347,560	1,984	4,415	1.3%	1,645,755	21.1%
Moorage	91,540	3,699	2,666	2.9%	110,721	82.7%
Total	23,537,707	230,378	521,586	2.2%	79,696,852	29.5%

In 2017, the City processed a total of 230,378 credit card transactions. The City incurred \$521,586 in fees for \$23.5 million in receipts.

The number of transactions by credit card has more than doubled since 2010, primarily due to increased use of credit cards for electronic permit processing and the acceptance of credit cards for permits at the counter. The annexation that occurred in June 2011 also contributed to the growth in transactions and sales.

The first graph below shows the growth in the dollar volume of receipts from credit card sales from 2010 to 2017. The second graph shows the increase in fees incurred by the City compared to the number of credit card transactions from 2010 to 2017.



Credit card fees as a percentage of total transactions has increased due, in part, to the larger number of smaller transaction amounts paid with a credit card (e.g. parking fees). Credit card fees are a percentage of the transaction. Smaller transactions have relatively higher credit card fee as a percentage of the transaction than larger fees (e.g. permit fees).

Convenience Fees and Surcharges

Visa and MasterCard rules do not allow merchants to set monetary limits on transactions, nor do they allow the merchant to accept some card types and not others. Merchants who do not want to charge transaction fees to card-paying customers generally build credit card fees into the price of providing services. Therefore, all customers pay a portion of the fee.

Some municipalities began assessing transaction fees for services paid with credit cards. This practice ended in 1993 when Visa and MasterCard became aware of this practice and began enforcing their bylaws which prohibit such action. The result was that Visa and MasterCard ordered banks to cut off service to those entities assessing transaction fees.

In November 2012, the federal district court approved a settlement that resolves interchange and merchant acceptance rules in the U.S. and its territories via the *In re Payment Card Interchange Fee and Merchant Discount Antitrust Litigation* (MDL 1720) class action suit against credit service providers. As a result of this settlement, merchants can now assess surcharges for credit card transactions thereby allowing the merchant to offset the impact of fees incurred. Regulations regarding this policy are stringent and require an increased level of scrutiny when accepting card payments as regulations prohibit surcharges on debit cards regardless of the method used to process the card.

Since that time, Visa and MasterCard have both developed programs designed for higher education and government agencies to assess convenience fees to the public. The distinction between a transaction fee (surcharge) and a convenience fee is an important one because Visa and MasterCard have strict regulations regarding this issue. A transaction fee (surcharge) is a fee collected to directly offset the cost of allowing the customer to pay with a card. A convenience fee is a fee assessed to the customer for the convenience of using a specific payment mode. In order to participate in these programs, the City must be sponsored by their merchant services bank.

As discussed earlier in this memo, credit card fees can be included in the base fees charged for a service. For instance, credit card fees are included in calculating the full cost of development fees. In those cases the credit card fees are spread across all applicants not just those using credit cards and are considered a cost of doing business. The advantages of allowing credit card payments for City Services are the customer convenience, prompt receipt of funds by the City and less staff time needed for processing manual checks with insufficient funds.

Neighboring Cities

The City of Kirkland often compares its policies and operations to those of Bellevue and Redmond in order to better determine regional municipal trends.

Neither Bellevue nor Redmond charge additional fees for the use of credit cards for any city services, incorporating these costs into the charges for service. King County used to charge fees for credit card use for development services but has since discontinued this practice opting to build the cost into permit fees. Credit card fees are considered part of the overall cost of providing a service and are incorporated into service fees.

Since the last update to City Council, eChecks have emerged as a viable alternative form of payment that could reduce the amount of fees the City pays. The eCityGov Alliance is planning to implement an eCheck option for MyBuildingPermit (MBP) transactions as part of their 2018 work plan and hope to implement this payment option during 2019. eChecks allow permit customers to pay for permits using a streamlined payment process without the City incurring a credit card fee. With developers often having payments that would exceed a credit card limit, eChecks would alleviate the need to mail or hand deliver a check to the City. This in turn could lower the City's administrative time spent handling checks. Instead of a credit card fee, there is a small fixed fee associated with an eCheck transaction.

There are challenges associated with implementing eChecks related to existing state law regarding the handling of public funds. ECheck transactions must settle within five days and funds can only be deposited in an approved Washington State Depository (RCW 39.58.080 and RCW 43.09.240). PayPal is the preferred vendor for MBP since it is the payment processor currently used by MBP and all agencies that offer MBP have existing agreements in place with PayPal for credit card transactions. The Alliance has been informed through an email from PayPal that they can meet the five-day processing limit. Likewise, the Treasurer for each agency may waive the Washington State Depository requirement by ensuring that any financial institution temporarily holding funds during transaction processing has proper safeguards in place. Although these issues appear to be manageable, a legislative update that recognizes the increased use of electronic payments may facilitate electronic transactions while still ensuring the safeguarding of public funds.

Summary

Credit card fees are increasing as this payment method becomes more popular. Recent changes in industry policies now allow merchants to charge fees to offset the cost of providing card payment services. However there are complex administrative requirements for the City. The availability of eChecks is expected to mitigate credit card fees. Staff is recommending no change to current practices other than to allow for eChecks when that option is available.