

ITEM#: 26
DATE: 10-10-23
DEPT: Finance

COUNCIL ACTION FORM

SUBJECT: IN-PERSON ACCEPTANCE OF CREDIT/DEBIT CARDS BY CUSTOMER SERVICE

BACKGROUND:

In September 2022, staff submitted a report to the City Council concerning the acceptance of credit card payments for utility fees and parking tickets (original report attached). That report was in response to the Council's request for information regarding the City's ability to facilitate in-person credit card payments.

To provide additional context, the City currently accepts credit cards as a payment method for the following locations and purposes:

- Community Center (In person and Online)
- Homewood Golf Course (In person)
- Furman Aquatic Center (In person)
- Ice Arena (In person)
- Finance Office (In person)
- Ames Public Library (In person and Online)
- CyRide (In person)
- Police Records (In person)
- Resource Recovery (In person)
- Animal Control (In person and Online for donations)
- Administrative Services (In person and Online)
- Rental Housing (In person and Online)
- Parking Tickets (Online)
- Utility Billing (Online)

In each of the above-noted areas the City absorbs the card processing fee with the exception of Parking Tickets and Utility Billing. The processing fees vary, but on average, the per-transaction fee is approximately 2.62% of the total transaction.

The City currently offers the following payment methods for both utility bills and parking ticket payments:

1. Check/Money Order (by mail, in person at City Hall, and the drive-up drop boxes at City Hall and Welch Avenue)
2. Cash (in person at City Hall)
3. Credit card payments (online only; customers are assessed a fixed fee of \$3.00 for parking tickets and \$3.50 for utility bills)

Additionally, for utility bills only, there are two additional options:

1. Automated Clearing House (ACH, which is the most economical method for the City to collect recurring payment at approximately \$0.09/transaction)
2. Bill payment services offered by financial institutions

In FY 2022/23, a total of 102,000 online credit card payments were processed for Customer Service, an increase of 27% over the prior year. As a comparison, in FY 2022/23, 43,000 in-person payments were received at the Customer Service counter.

The major obstacle to providing credit card acceptance is the question of how to address per-transaction fees. Because these costs are not integrated into the City's utility rate structure, and because the fees can become substantial when assessed on large transactions, staff has explored several potential fee structure options. The most cost-effective approach appears to be to utilize the services of the City's existing financial software provider, CentralSquare. Its system would enable Finance Customer Service to accept credit cards at the counter for a cost of \$2.99 per transaction.

In order to maintain consistency and prevent undue costs to the City, staff recommends passing this charge along to the customer as a convenience fee, mirroring our online credit card payment system. **It is important to note that due to the use of a fixed fee instead of a percentage of the transaction, CentralSquare imposes a total transaction limit of \$450.**

Security remains a significant concern when it comes to collecting and transmitting credit card data. **The proposed system will not involve the City in the retention or storage of any sensitive information, and all data transmission will be encrypted through the credit card company's system. This model significantly reduces the City's vulnerability and protects customers who opt for this payment method.**

CentralSquare has offered two credit card readers to the City at no cost and has committed to implementing the necessary system changes within the available hours, building on a previously completed project. Consequently, there is cost to the City to implement the in-person acceptance of credit cards. Once Council approval is received, staff anticipates a timeline of approximately two weeks for implementation.

Because this new credit card acceptance arrangement does not involve payment between the City and the financial system vendor, the Council is not being asked to approve a contract. Instead, Council is being asked to provide direction regarding the fee arrangement staff has proposed, or to direct staff to pursue an alternative (e.g., absorbing the fees instead).

ALTERNATIVES:

1. Direct staff to accept over-the-counter credit card payments, with the transaction fee initially established at \$2.99 per transaction (paid by the customer) and the transaction limit initially established at \$450 per transaction.
2. Direct staff to evaluate alternate payment methods and models related to credit card transactions.
3. Direct staff to accept over-the-counter card payments while absorbing the card processing fees, and to present a proposal for increased utility rates and parking fines to account for the increased expenses.
4. Continue to accept online card payments, but not over-the counter.

CITY MANAGER'S RECOMMENDED ACTION:

Credit card acceptance has increased dramatically over the past several years. It is increasingly the preference of Ames' customers to be able to pay using this method. However, accepting credit cards can expose the City to significant per-transaction costs. Staff has identified a solution that provides for credit card transactions and allows those wishing to use the card to pay the transaction cost, rather than spreading these costs to all utility bills and parking tickets. Therefore, it is the recommendation of the City Manager that the City Council adopt Alternative #1, as described above.

Staff Report

**ACCEPTANCE OF CREDIT CARD PAYMENTS
FOR UTILITY FEES AND PARKING TICKETS**

September 2, 2022

BACKGROUND:

At the June 14, 2022 City Council meeting, the Council requested a memo from staff regarding the capability to accept credit/debit cards in City Hall for utility and parking ticket payments.

It should be noted that credit card payments currently are accepted, but only online (in-person credit card payment is not currently made available). One of the key policy issues related to the acceptance of credit cards are the per-transaction fees associated with accepting credit card payments. The fees associated with credit card payments are substantial and can be expected to increase if the availability is expanded. Currently, customers paying online with a credit card pay an additional fee for credit card processing. The cost associated with the credit card processing is therefore not absorbed into the utility rate structure.

This staff report will provide information regarding current payment options and additional payment methods along with estimates of potential costs and other impacts.

PAYMENT OPTIONS AND COSTS:

There are several different methods available to pay utility bills and parking tickets.

1. Check (by mail, in person at City Hall, the drive-up drop box at City Hall)
2. Cash (in person at City Hall, the drive-up drop box at City Hall)
3. Credit card payments (online only)

Additionally, for utility bills only, there are two additional options:

1. Automated check handling (ACH, often referred to as auto bank debit)
2. Bill payment services offered by financial institutions

Credit card companies charge a fee to merchants for acceptance of credit card payments; in the credit card industry this fee is referred to as a “merchant discount rate.” The fee is a percentage of the transaction amount and varies based on certain factors such as how the card is presented, type of card, etc. The typical cost of this fee to the City is around 3 to 4 percent of the transaction. With a 3% fee, the cost to process a typical \$120 residential utility bill is \$3.60. **The City’s two vendors providing online credit card processing for utilities and parking tickets assess customers a**

fixed fee (\$3.00 for parking tickets and \$3.50 for utility bills) rather than a percentage.

In comparison, providing for automated check handling (ACH) payments of recurring utility bills is a highly cost-effective option. The current fee for processing a payment through the ACH system is \$0.09 per transaction.

It is important to note that parking and utility credit card systems are different. The entire parking enforcement and billing system was integrated into a single vendor that specializes in parking enforcement in 2020. Therefore, changes to how credit cards are accepted for utilities will not affect how credit cards are accepted for parking tickets (and vice versa), unless the City takes action to implement changes to both systems.

If the Council wished to accept credit cards for utility payments in person, one policy decision is whether to absorb the cost of the merchant discount fee within the utility rate structure or to decide to charge a fee to the customer as we currently do with the third-party credit card payment arrangement.

Assuming the payments received via ACH and bank bill pay continue to be paid in that manner, the remaining utility transactions (cash, check, and existing credit card), if converted 100% to credit card transactions processed by the City, would generate approximately \$1,000,000 in card company fees owed by the City. Additionally, per-transaction charges totaling over \$100,000 would be incurred to the City's utility billing vendor to connect to the card processor systems.

These are significant costs and would need to be included in the utility rate structure. For some perspective, it currently costs about \$1.8 million for utility customer service, including all the costs to read meters and billing processing and collection. The open acceptance of credit cards is estimated to increase the cost of this service by 55%.

For parking tickets, the same question applies. However, at the time the third-party online credit card servicer was made available, staff's desire was to offer the most convenient and cost-effective method of processing parking tickets. Given the challenging financial status of the Parking Fund, it was important that any costs to the City be kept to a minimum.

ENVIRONMENTAL IMPACT OF PAYMENT OPTIONS:

To meet the Council Value of environmental sustainability, the Council may want to consider providing incentives or disincentives to reduce the frequency of customer travel to City Hall to conduct business that can be done electronically (such as making payments). Making payments at City Hall at the counter or drive through at the drop box are the least environmentally sustainable options since most customers drive to conduct these transactions.

Options also exist that eliminate printing and mailing of monthly bills. The option for billing notice by e-mail in combination with ACH payment is by far the least expensive and most environmentally friendly billing and payment option.

OPTIONS AVAILABLE TO ACCEPT CREDIT:

If the City Council wished to accept credit cards in person at City Hall, the following options are available:

1. **Full acceptance of credit cards for all types of payment.**
This could include in person at City Hall, online fully integrated into the utility customer account system and automated payment. This option would require additional security for storing credit card information on the same system with other personally identifying information. Software and hardware upgrades would be necessary. Under this option the City could consider placing a transaction dollar limit to help control fees; however, other utilities have found that some customers will simply make multiple payments to get around the limits.
2. **Add a payment kiosk in City Hall.**
This option will allow customers to come to City Hall with their credit card and make a payment to the existing third-party vendors rather than doing so online, which may be helpful if those customers do not have routine access to the internet. The kiosks are widely available and have the potential for the addition of payments for other services the City offers.
3. **Accept cards at the counter in City Hall but through a third party.**
This option would likely involve charging fees equivalent to what customers would be charged if they paid with a credit card online. Some hardware and software upgrade costs would be expected with this option, but these are likely less than Option 1.

With all these options, the Council would need to determine whether to continue to charge processing fees as a separate cost, or to increase utility rates and parking fines and absorb the processing fees into the Customer Service operation.