



CITY OF KIRKLAND
Department of Finance & Administration
 123 Fifth Avenue, Kirkland, WA 98033 425.587.3100
 www.ci.kirkland.wa.us

MEMORANDUM

To: David Ramsay, City Manager

From: Tracey Dunlap, Director of Finance and Administration
 Michael Olson, Deputy Director of Finance and Administration
 Sri Krishnan, Senior Financial Analyst

Date: October 3, 2007

Subject: Development Fee Update – Credit Card Considerations

Recommendation:

City Council review background information regarding credit cards, such as the fees paid by the City and estimated credit card usage, in preparation for the development fee discussion on November 7. There has been a lot of customer interest in the City accepting credit cards for in-person development services transactions, in addition to online transactions (E-Permits, Utility On-Line, and Parks & Recreation programs) for which the City currently accepts credit cards.

Credit Card Rates

There are three (3) components that make up the credit card charges: interchange, assessment, and transaction fees. The first two are set by the credit card associations (Visa and MasterCard) and the last is set by the City's bank (Bank of America). The associations, Visa and MasterCard, have various rates depending on the type of card. In fact, Visa has 13 or more different card types and related fees while MasterCard has 9 or more different card types and related fees. Table 1 lists the fees charged by Visa for ten (10) types of cards and the associated transaction fees charged by Bank of America.

Table 1
Interchange, Assessment and Transaction Fees by Visa Card Type

VISA Card Type	Interchange		Assessments	Transaction Fees		Total Per Item	Total % Rate
	% Rate	Per Item	% Rate	% Rate	Per Item		
CPS Retail (Card Present)	1.54%	\$0.10	0.09%	0.07%	\$0.10	\$0.20	1.70%
CPS Retail Debit (Card Present)	1.03%	\$0.15	0.09%	0.07%	\$0.10	\$0.25	1.19%
CPS Retail Key Entered	1.85%	\$0.10	0.09%	0.07%	\$0.10	\$0.20	2.01%
CPS Retail 2 (Card Present)	1.43%	\$0.05	0.09%	0.07%	\$0.10	\$0.15	1.59%
CPS Retail 2 Debit	0.80%	\$0.25	0.09%	0.07%	\$0.10	\$0.35	0.96%
CPS Visa Utility	0.00%	\$0.75	0.09%	0.07%	\$0.10	\$0.85	0.16%
Commercial Card Rate II	1.90%	\$0.10	0.09%	0.07%	\$0.10	\$0.20	2.06%
Standard debit	1.90%	\$0.25	0.09%	0.07%	\$0.10	\$0.35	2.06%
Commercial Card Electronic	2.20%	\$0.10	0.09%	0.07%	\$0.10	\$0.20	2.36%
Commercial Card Standard	2.70%	\$0.10	0.09%	0.07%	\$0.10	\$0.20	2.86%

Based on the current rates, the total per item charge would range from \$0.15 to \$0.85 and 0.16% to 2.86% of the transaction amount. These charges are paid by the City each time a customer opts to pay a bill with a credit card. Note that the cost is considered a "cost of doing business" and the Visa and MasterCard agreements preclude the City from directly passing it on to the individual customer. Common practice for development permits is to build the charges into all of the fees, which would increase fees by about 1.1% as described later.

Table 2 illustrates the charges paid by the City for all the credit card transactions that the City currently accepts during the first eight months of 2007.

**Table 2
Credit Card Fees January – August 2007**

Account	Total Sales	Discount Fee	Other Fees	Total Fees	% of Sales
Utilities Counter	\$ 234,263.88	\$ 221.74	\$ 1,426.20	\$ 1,647.94	0.70%
Cemetery	\$ 71,262.18	\$ 50.28	\$ 1,084.46	\$ 1,134.74	1.59%
Utility On-Line	\$ 506,203.99	\$ 371.30	\$ 3,309.28	\$ 3,680.58	0.65%
E-Permits	\$ 63,663.14	\$ 49.35	\$ 1,455.51	\$ 1,504.86	2.29%
Parks & Recreation	\$ 353,482.64	\$ 273.57	\$ 5,711.88	\$ 5,985.45	1.62%
KirklandParks.NET	\$ 313,773.08	\$ 238.28	\$ 5,027.25	\$ 5,265.53	1.60%
Parking	\$ 45,374.05	\$ 798.36	\$ 4,909.76	\$ 5,708.12	10.82%
Municipal Court*	\$ 208,876.98	\$ 811.23	\$ 32.13	\$ 843.36	0.02%
Totals	\$ 1,796,899.94	\$ 2,814.11	\$ 22,956.47	\$ 25,770.58	1.43%

* Only debit cards are accepted for fines imposed buy the Municipal Court.

The current average credit card fee associated with permits is 2.29% of the transaction amount. The credit card fees associated with Parking is well above this average because of the smaller total transaction amount and the fewer number of transactions. The Municipal Court accepts debit cards only on-site; the Court's on-line credit card transactions are processed through a third-party card service provider. An additional fee is charged to the customer for this convenience. This convenience fee is particularly onerous on people charging smaller amounts. Table 3 represents the convenience fees charged by the vendor, Official Payments, as a percent of Municipal Court fine/charge.

**Table 3
Convenience Fee as a Percent of the Municipal Court Charge**

Transaction Amount	Convenience Fee	Convenience Fee as a Percent of the Transaction Amount (% to top of range)
\$0-\$99	\$ 6.95	>7%
\$100-\$199	\$ 9.95	>5%
\$200-\$499	\$15.95	>3.2%
\$499-\$1000	\$25.95	>2.6%
\$1000-\$99,999	\$29.95	n/a

Expected Credit Card Usage

Staff estimates that approximately 5% of the City's utility customers pay their bills using credit and debit cards. The City accepts credit cards for all online transactions (E-Permits, Utility On-Line, and Parks & Recreation programs) currently. An initial survey of other jurisdictions indicates that up to 50% of development services customers may prefer credit cards to checks or cash. Over time, customers have requested that the City revise its current policy of not accepting credit cards for development services-related charges. The estimated total service charges would be approximately \$50,000 per year ($\$4.5 \text{ million in development revenues} \times 50\% \times 2.29\% = \$51,525$) if credit cards were accepted for development services-related charges. As part of the development fee update process, staff discussed this issue with the Finance Committee. The Finance Committee directed staff to proceed with the implementation of this new policy of accepting credit cards for in-person development services-related transactions by incorporating this additional cost into the development fee model and to present this background information to the full Council. Assuming costs of \$50,000, this would equate to a 1.1% increase in fees.

October 3, 2007

Page 3

Summary

Credit card charges vary by the issuer (Visa or MasterCard) and the type of cards in addition to the transaction fee charged by the City's bank (Bank of America). Staff estimates that the cost of accepting credit cards for in-person development services-related transactions would be approximately \$50,000 per year. Per the Finance Committee's direction, staff is including this cost in the evaluation of new development services fees which will be brought to the Council later this year.

cc: Sandi Hines, Financial Planning Manager