



## **MEMORANDUM**

**To:** Kurt Triplett, City Manager

**From:** Michael Olson, Director of Finance and Administration  
Sri Krishnan, Deputy Director of Finance and Administration  
George Dugdale, Financial Planning Manager  
Nida Haroon, Budget Analyst

**Date:** October 19, 2022

**Subject:** Credit Card Fees

The purpose of this memo is to provide background on credit card fees, describe the current status and provide an update to City Council to comply with the City's Fiscal Policy.

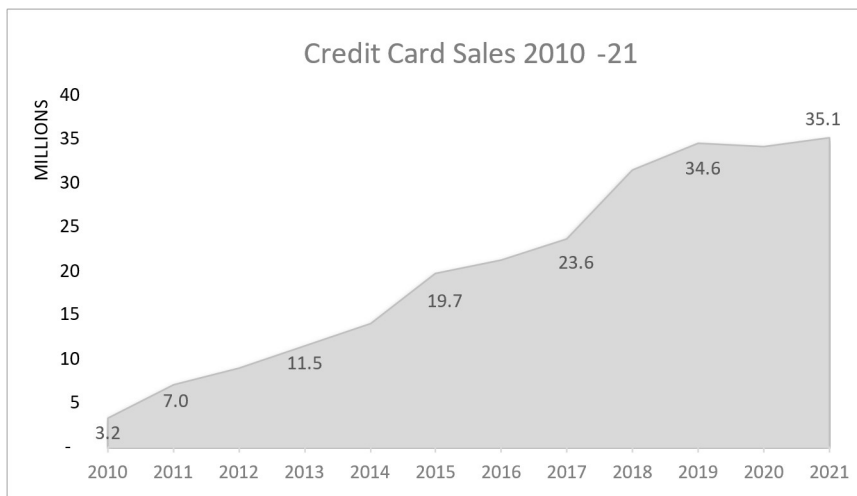
### **Background**

The City's Fiscal Policies under Revenue and Expenditure Policies states that "Credit card fee surcharges, cash discounts and online payment methods shall be reviewed and evaluated every two years as part of the biennial budget process to ensure that the cost of service is being covered and the City is taking advantage of improving technology."

The City began accepting credit cards as an appropriate method of payment for services in 2005. Benefits for the City by accepting payment with credit card include: quicker payments for utilities, reduced number of shut-off for non-payment; convenience for the community in payment for Parks Programs, Moorage, Parking and other City services; reduced returned checks for non-payment as customers are much less likely to void a credit card charge than write a bad check; and increased collections from those who owe fees or late on payments to the City, because of the convenience of payment by credit card.

Accepting payments by credit card results in the City incurring a variety of processing fees, the exceptions are the Court and Jail which use a third party for some services that charge fees. In most cases departments build an estimate of card fees into their budgets in order to pay these fees and these costs are built into fees for services charged to all customers. As the dollar volume of card payments increase, fees also increase and can result in the need to adjust budgeted amounts. Credit card fees are included in the full cost calculation of development fees, but in those cases the credit card fees are spread across all applicants not just those using credit cards. The use of credit cards for payments has increased over the years.

The graph below shows how the dollar volume of receipts from credit card sales has grown from 2010 to 2021. The exception is in 2020 when the sales decreased by 1% because City Hall was closed to the public due to COVID-19 pandemic and several accounts located within City Hall were not used.



The City accepts card payments for utilities, fines and court payments, recreation programs, permits, and parking. Details for 2021 activity are listed in the table below.

| Division             | Total Sales          | Transactions   | Total Fees        | Fees as a % of Sales | Total Revenue         | Credit Receipts as a % of Total Revenue |
|----------------------|----------------------|----------------|-------------------|----------------------|-----------------------|---|
| Utilities            | 23,009,052           | 79,913         | 215,879           | 0.9%                 | 74,957,986            | 30.7%                                   |
| Development Services | 9,272,246            | 10,176         | 214,194           | 2.3%                 | 17,120,178            | 54.2%                                   |
| Parks & Rec          | 1,350,896            | 11,319         | 38,669            | 2.9%                 | 1,749,523             | 77.2%                                   |
| Municipal Court      | 487,293              | 3,311          | 5,552             | 1.1%                 | 1,446,429             | 33.7%                                   |
| Cemetery-Licensing   | 388,700              | 1,408          | 7,199             | 1.9%                 | 5,133,079             | 7.6%                                    |
| Parking              | 304,780              | 148,594        | 49,757            | 16.3%                | 294,352               | 103.5%                                  |
| Pet Licensing        | 111,547              | 4,739          | 3,425             | 3.1%                 | 166,772               | 66.9%                                   |
| Moorage              | 107,839              | 4,650          | 4,764             | 4.4%                 | 94,978                | 113.5%                                  |
| <b>Grand Total</b>   | <b>\$ 35,032,353</b> | <b>264,110</b> | <b>\$ 539,439</b> | <b>1.5%</b>          | <b>\$ 100,963,297</b> | <b>34.7%</b>                            |

In 2021, the City accepted a total of 264,110 card-based transactions incurring \$539,439 in fees for \$35,032,353 in receipts. Card servicing fees are expensed to the department accepting payment by card and are generally recovered by fees.

The number of transactions by credit card has more than tripled since 2010, primarily due to increased use of e-permits online and the acceptance of credit cards for permits at the counter. Fees associated with card transactions have grown more than 8 times since 2010 and do not appear to be leveling off. Total credit card sales have increased 2 percent since the last budget issue paper was written in 2019, despite City Hall being closed during 2020 and part of 2021.

### Convenience Fee and Surcharge Programs

Visa and MasterCard rules do not allow merchants to set monetary limits to transactions, nor do they allow the merchant to accept some card types and not others. Merchants who wish to avoid the negative stigma of charging transaction fees to card paying customers generally build such fees into the price of providing services. Therefore, all customers bear the burden of the fee. Wrestling with how to budget the transaction costs for credit cards, some municipalities began assessing transaction fees for services paid

with 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.

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.

### **Credit Card Fee Recovery Policy Changes**

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 surcharge fees to credit card transactions, thereby allowing the merchant to offset the impact of fees incurred.

Regulations regarding this policy are stringent and would 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.

### **Neighboring Cities**

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

Bellevue does not charge additional fees for the use of credit cards for any city services, incorporating these costs into the service fees. Redmond also does not charge convenience fees or surcharges for customers paying with a credit card for city services. Credit card fees are considered part of the overall cost of providing a service and incorporates these costs into service fees.

### **Potential Impacts of Implementing Credit Card Acceptance Fees by Department**

Shifting the cost of accepting credit cards for payment to the customer will have varied affects for each department. The following summarizes the input received from each department regarding the potential impacts of making this change. Regardless of the method, implementing credit card acceptance fees for payment could lead to increased customer complaints, decreased credit card usage and increased delinquencies and collections, which could create additional workload for staff. Implementing surcharge fees would also lead to increased administrative monitoring and scrutiny as staff ensures the City is correctly operating under Visa and MasterCard's complicated rules and regulations.

Utilities – The City is considered a “merchant.” Merchant accounts for utility payments are allowed a reduced fee for utility transactions. Currently the City uses a vendor who charges \$1.65 per \$600 transaction. The utility merchant account would no longer be eligible for the reduced fee if the City attached a convenience fee, resulting in overall fees of approximately 2.95 percent of receipts. Implementing an additional charge for credit card fees would result in some customers shifting to cash or check payments. The online payment portal for utilities allows a customer to pay via ACH, with a reduced fee of \$0.40 per transaction to the City. An addendum signed in July 2021, reduced the fee to \$0.04 per

transaction in the original executed contract. Currently 30.7% percent of all utility billings are paid by card. For some customers, the convenience of paying online will outweigh the impact of the fees on the individual and they will continue to pay by credit card. A portion of the utility customers could become quite upset and register their complaints with the City.

Development Services – Development services is an area of service where assessing credit card processing fees will not likely affect business as a whole. While some customers may complain, the department believes that additional fees will not significantly influence building or development services revenues. To provide additional options to customers, Development Services began accepting e-checks in August 2020.

Parks & Recreation –The business model for Parks and Recreation encourages people to use an online registration system for most parks and recreation programs, services, and rentals. Approximately 62% of all transactions are completed online. Credit card payments account for over 90% of the department’s revenue processed through this registration system. Currently, prices are set to meet specific cost recovery targets defined by City Council. All costs, including credit card fees, are taken into consideration when setting fees. Staff resources have been adjusted to accommodate primarily online registration. Resources might have to be increased if additional fees are assessed to the customer, which would result in serving more people in person. Considering the populations that participate in the City’s recreational programs and services, an additional fee could result in disparate treatment for some, such as senior citizens, teens, and low-income individuals. Assessing a fee for credit card payments could alter these populations’ habits but the effect is unknown at this time. Many customers might consider a different payment type or might choose to spend their recreation dollar elsewhere.

Court Fines – Implementing additional fees for credit card payments could result in a greater number of unpaid fines and pose a greater challenge for court customers to pay off their fines. Unpaid fines would negatively affect accounts receivable and the budget. It would also increase court employees’ workload as collection attempts are managed. The Court’s customers are often upset about receiving fines and would be increasingly difficult to serve should additional fees be assessed.

Cemetery & False Alarm Reduction Program – Implementing fees for the cemetery could result in decreased card payments as individuals who use this method for convenience would simply mail in a check instead. Customers that have time-sensitive needs would likely continue to make their payment via card over the phone as there is no online option. Last minute or urgent payments are often done over the phone and these customers are usually overwhelmed to begin with. The City could experience an increase in complaints and mailed payments.

Business Licensing - As of December 2018, the City of Kirkland moved to an online portal, managed by the Washington State Department of Revenue, for Kirkland business license fees. The Department of Revenue charges businesses a convenience fee of \$90 when applying for a new business license or City endorsement and \$10 when completing the annual renewal. The fees assessed by the Department of Revenue cover the merchant fee costs along with the maintenance of the online portal. The City of Kirkland is not charged any fees for credit card transactions for business licenses. Staff review applications and collect additional fees due for a Kirkland license for past years, if applicable. The implementation of additional fees could discourage timely credit card payments, leading to additional check payments being received. This potential increase would require additional staff time to receive and process.

Parking is driven by convenience and changes in pricing due to shifting the cost of credit card payments will likely will not affect consumption, especially since the City’s parking consultant has deemed the current hourly parking rates too low and recommends increasing them. This being said, some people will choose to avoid increased parking fees and may avoid downtown or park on residential streets near their destinations creating additional congestion on those roads. The impact of adding fees to parking is more

apparent than other categories because the fee as a percentage of revenue is much higher than other categories at 22 percent, due to the very small size of each transaction.

**Moorage** – Credit card payments comprise 100% percent of moorage revenues, and 98% of boat launch revenues collected at the pay station. Due to low usage, the higher average cost of moorage transactions, and security concerns regarding cash storage in the pay stations, cash payment was eliminated as an option at the Marina and 2nd Ave Docks in 2019. Cash is still an option for the boat launch. An additional fee for credit cards likely will not affect boat moorage in Kirkland due to the low cost of City moorage rates compared to local alternatives.

**New Developments**

As of August 1, 2020 the eCityGov Alliance implemented eChecks as a form of payment for developers. eChecks, together with PayPal and MyBuildingPermit (MBP), allow developers and those paying for permits 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 now 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 transaction fee based on the total dollar of payments processed. In 2021, the City paid a monthly account fee of \$49.95 and a per transaction fee of \$0.5 for eChecks. The total transactions made using e-checks were 692 and total fees charged for these transactions was \$969.

Staff have reported that the Development services customers have not used e-checks as much as anticipated. For those who do, they often run into processing issues with PayPal. For example, if a customer mistypes during a transaction, the payment is not collected, and PayPal does not honor it. Since the customer has paid online and received an e-permit right away, it can be difficult and time consuming for the staff to resolve the issue.

Credit cards continue to be the preferred method for payments for E-Permits. In 2021, 10,136 transactions were made using credit cards for permits with which had total revenue of \$9.17 million. The total fees applied on these credit card transactions was \$212,221.

**Charging Fees on Security Deposits**

Staff are evaluating applying credit card fees to payments for security deposits. By accepting and then refunding the security deposit, the City is losing approximately 3% for each payment. However, there are administrative and other considerations that will be considered before determining any decisions on applying fees or requiring all security deposits to be paid by check. The table below shows the security deposits from 2017.

| Year         | Deposits   | Performance/<br>Maintenance<br>Deposit. | Admin<br>Deposit   | Total              |
|--------------|------------|---|--------------------|--------------------|
| 2017         | 173        | \$1,875,271                             | \$449,452          | \$2,324,723        |
| 2018         | 165        | \$879,749                               | \$281,565          | \$1,161,314        |
| 2019         | 176        | \$685,168                               | \$222,750          | \$907,918          |
| 2020         | 130        | \$500,647                               | \$211,570          | \$712,217          |
| 2021         | 166        | \$984,358                               | \$118,212          | \$1,102,570        |
| <b>Total</b> | <b>810</b> | <b>\$4,925,193</b>                      | <b>\$1,283,549</b> | <b>\$6,208,742</b> |

**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 but would result in more complicated administration within the City. Credit card fees are currently built into the base fees charged by the City. Given the current impacts of the Covid-19 pandemic and the widespread adoption of credit card use, staff recommends not adding additional fees

that would be incurred by Kirkland customers. This discussion will be revisited at the next biennium, as required by the City's fiscal policies.