

City of Hesperia

STAFF REPORT



DATE: February 18, 2020

TO: Mayor and Council Members
Chair and Board Members, Hesperia Housing Authority
Chair and Commissioners, Community Development Commission
Chair and Board Members, Hesperia Water District

FROM: Nils Bentsen, City Manager

BY: Casey Brooksher, Director of Finance
Keith Cheong, Financial Analyst

SUBJECT: Credit Card Service Fees and Convenience Fees

RECOMMENDED ACTION

It is recommended that the City Council, Hesperia Housing Authority, Community Development Commission, and Hesperia Water District Council/Board/Commissions approve Joint Resolution No. 2020-10, HHA 2020-02, CDC 2020-01, and HWD 2020-06 to charge service and convenience fees for the acceptance of credit and debit cards (credit cards).

BACKGROUND

The City, which includes the Water District, offers its citizens the option to remit payment in the form of cash, checks, cashier's checks, money orders, debit cards, and credit cards. The City has been paying the fees charged by the credit card networks, as well as those charged by the payment processors related to the acceptance of debit/credit cards. The individual credit card fees charged to the City varies based upon the number of credit card/debit card transactions, the dollar amount of the transaction, the actual card type used, and the associated benefits provided to the cardholder for the use of the credit/debit card. Table 1 shows the historical credit card related expenses paid by the City. It should be noted that as the City experiences economic recovery with development, the City's credit card expenses have increased accordingly.

| Table 1 | Credit Card Fees | | | | |
|---------------------------------------|------------------|--------------|---------------|---------------|---------------|
| | FY 2014-15 | FY 2015-16 | FY 2016-17 | FY 2017-18 | FY 2018-19 |
| City of Hesperia | \$ 13,631.95 | \$ 20,171.32 | \$ 57,976.79 | \$ 83,904.35 | \$ 63,886.46 |
| Water District | 45,735.80 | 49,035.17 | 52,901.68 | 64,403.19 | 68,205.01 |
| TOTAL | \$ 59,367.75 | \$ 69,206.49 | \$ 110,878.47 | \$ 148,307.54 | \$ 132,091.47 |
| Cumulative (%) Percentage Increase | N/A | 17% | 87% | 150% | 122% |

The City's current credit card processing was setup while the City utilized Citizen's Business Bank, for its banking needs, which dated back to 1997. As approved by the City Council on June 18, 2019, the City awarded its banking service to US Bank. With US Bank as the bank of the City, all credit card processing must be transitioned from Citizen's Business Bank to Elavon. Both US Bank and Elavon Inc. are subsidiaries of U.S. Bank Corp.

ISSUES/ANALYSIS

In order to offset the rising costs associated with the acceptance of credit/debit cards, the City can choose to pursue a service fee and convenience fee program. This is allowed by Government Code §6159(h), which states that public agencies may impose fees for the use of credit or debit cards.

There are two options presented for City Council consideration with respect to accepting credit cards from customers. Staff's recommendation, Option 1, is to charge a service or convenience fee, essentially passing the cost of credit card processing onto the card user. Option 2 is to continue to absorb the credit card processing fees, which in recent years has been increasing. It should be noted that with both options, the City will continue to accept Cash, Check, Money Orders, and Cashier Checks free of charge.

Option 1 – Implement Service Fee and Convenience Fee

Based upon the City and Water District's average annual credit card/debit card dollar volume and the number of transactions, develop a fixed percentage service fee of 2.25% for Government-type transactions, and a \$3.50 fixed amount convenience fee for Utility-type transactions (Utility). Based upon these fees, the City would recover costs charged by the credit card.

| Table 2 | Fee Type | Fee |
|---------------------|-------------|------------------------|
| Utility Payments | Convenience | \$3.50 fixed amount |
| Government Payments | Service | 2.25% fixed percentage |

The rules regarding service fees and convenience fees are established by the credit card networks, who each have their own set of rules and criteria that must be adhered to and followed in order to allow fees to be charged. By not adhering to the network rules, the City can lose the ability to accept credit cards as a form of payment. Of all the credit card networks, VISA has the most stringent rules. Complying with VISA's rules, ensures compliance with the other credit card providers.

Convenience Fee

The VISA network dictates that all utility payments, which include water and sewer service, can only be charged a convenience fee. Further, the convenience fee cannot be assessed to face-to-face transactions. Meaning, for water/sewer service payments accepted at the central cashier counter, no fee can be assessed. Essentially, the fee is assessed for providing the convenience of accepting credit/debit cards via the telephone or by the internet. Finally, the convenience fee must be disclosed to the customer and an opportunity to "opt-out" and cancel the transaction must be provided prior to the transaction being processed.

Based on the analysis of utility based credit/debit card revenue and the associated processing fees, the City would assess a \$3.50 convenience fee.

Service Fee

For all non-utility payments, the City can assess a percentage based service fee. The VISA network allows the service fee to be assessed to all transactions, which include face-to-face, online, or by telephone; so long, as the payment is not for utilities. Based on the analysis of non-utility based credit card revenue and the associated processing fees, the City would assess a 2.25% service fee.

Option 2 – No Fees

As mentioned, the City currently pays all processing fees. With Option 2, the City will continue this practice. As shown in Table 1, these costs have been on the rise as development continues in the City.

FISCAL IMPACT

With Option 1, the City can save upwards of \$148,000 annually in credit card processing fees by passing these costs onto the consumer. As mentioned, the City will continue to accept all cash, check, money order, and cashier check payments with no added fee.

With Option 2, there will be no additional fiscal impact, as the City currently budgets for the credit card fees. Should Option 2 be selected, the City will continue the current practice and include such costs in its annual budget.

ALTERNATIVES

1. Provide alternative direction to staff

ATTACHMENT(S)

1. Joint Resolution 2020-10, HHA 2020-02, CDC 2020-01, and HWD 2020-06