



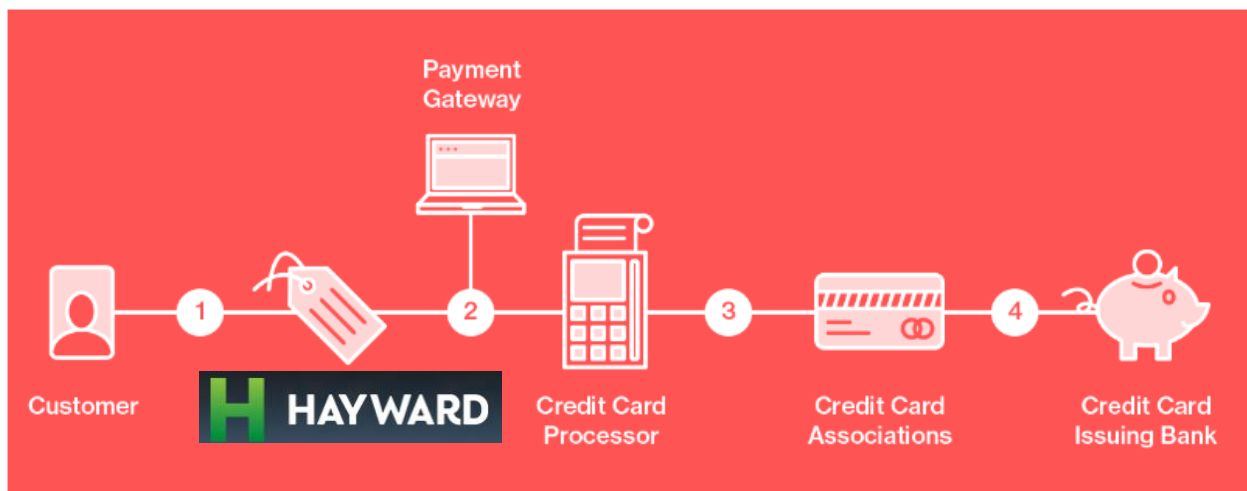
DATE: March 7, 2018
TO: Council Budget and Finance Committee
FROM: Director of Finance
SUBJECT: Credit Card Fees

RECOMMENDATION

That the Committee reviews and provides comment on this report.

BACKGROUND

When a consumer uses a credit or debit card (card) to pay for a transaction at the point of sale or online, hidden in the background are processing fees for the transaction. This fee is paid for the transaction to be processed and has multiple components as demonstrated in the graphic below.



When a customer makes a payment using a card at City Hall, the customer's card is swiped and the information is sent immediately through the Payment Gateway and on to the Credit Card Processor. Currently, the City uses a company named Elavon to process the payments. At the time of processing, depending on the type of card used and fees associated based on the Credit Card Association, funds are deducted and the net balance is deposited in the City's bank account.

Elavon, the City's Credit Card Processor, is paid for their portion of the expense for processing these transactions using General Fund resources. In each of the previous three fiscal years

this expense has increased and, as more customers use cards to pay bills, growth of this expense is expected.

DISCUSSION

The fee from Elavon to process a card payment is 2.65% of each transaction. Currently, the City charges a convenience fee of \$3.95 to customers who pay utility bills by card online, but has no fee for in-person transactions.

As shown in the table below, the amount the City expended in card processing in the General Fund has increased over the past three fiscal years, and is expected to continue to rise in future fiscal periods as cards are the most commonly used payment method in the City:

Department / Division	FY 2017	FY 2016	FY 2015
Hayward Police Dept. (includes Animal Services)	\$4,998.88	\$4,874.39	\$4,700.18
Library	\$1,611.89	\$2,186.37	\$1,812.53
Development Services	\$37,639.12	\$26,915.63	\$29,368.50
Revenue	\$19,044.55	\$24,833.12	\$16,785.43
TOTAL	\$63,294.44	\$58,809.51	\$52,666.64

The issue of increasing card processing fees is not just affecting Hayward; other jurisdictions are grappling with this issue as well. An informal survey of agencies in the state in 2015 showed that more than 20% of agencies charge some form of a card processing fee(s). Four of these agencies are local to the City of Hayward: the City of San Francisco (2.25%); the City of San Leandro (2.5%); Union City (2.25% for transactions over \$2,500); and County of Alameda (2.5%). Unfortunately, more recent survey information was not available at the time of this report, but at the time the survey was taken, at least ten of the jurisdictions indicated that they were exploring the implementation of a service charge.

To offset this expense, staff is recommending a card service charge. There are two different methods recommended to manage a card service charge: agency-managed and processor-managed.

- An agency-managed service charge, could defray up to 100% of the expense to the City. A percentage service charge would be added to all payments, and that revenue flows directly into the General Fund. Card processing fees themselves are not lessened by this service charge, but the revenue generated by the service charge would recover all or a portion of the processing expense.
- Conversely, a processor-managed service charge would be completely handled by the card processor. If a processor-managed service charge were to be employed, a percentage-based fee would be added to each card payment and would be paid directly to the Credit Card Processor – it would offset 100% of the processing fees.

With this method, card processing fees paid by the City would be eliminated without City action.

ECONOMIC IMPACT

If implemented, it is not anticipated that either of the methods discussed above will have a significant economic impact on Hayward customers.

FISCAL IMPACT

In FY 2017, the General Fund expended more than \$63,000 in card processing. This amount is expected to increase in FY 2018 due to transaction volume. The implementation of a processor-managed or agency-managed service charge would eliminate or reduce credit card processing fees and allow for the resources to remain in the General Fund.

NEXT STEPS

Committee comments will be considered and if supported, a program will be created to defray the expenses related to the processing of payments using cards.

Prepared and Recommended by: Dustin Claussen, Director of Finance

Approved by:



Kelly McAdoo, City Manager