



City of Richmond

Report to Committee

To: General Purposes Committee

Date: March 30, 2016

From: Jerry Chong
Director, Finance

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Re: Credit Card Payment Service Fee Bylaw No. 9536

Staff Recommendation

That:

1. The City accept credit card payments for online property tax and online utility payments as a pilot project effective August 1, 2016.
2. The City charge a service fee of 1.75% for online property tax and online utility payments to recover the credit card fees, and that the rate setting be revisited at the completion of the pilot project.
3. The Credit Card Payment Service Fee Bylaw No. 9536 be introduced and be given first, second and third readings.
4. The City's 2016 Capital Budget be amended to include the Tempest Application Project in the amount of \$100,000 and the 5-Year Financial Plan (2016-2020) be amended accordingly.

Jerry Chong
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REPORT CONCURRENCE		
ROUTED TO:	CONCURRENCE	CONCURRENCE OF GENERAL MANAGER
Finance Department	<input checked="" type="checkbox"/>	
Law	<input checked="" type="checkbox"/>	
REVIEWED BY STAFF REPORT / AGENDA REVIEW SUBCOMMITTEE	INITIALS: DW	APPROVED BY CAO

Staff Report

Origin

The City has been utilizing ePost, an online bill delivery service offered by Canada Post, since 2002 to deliver property tax and utility bills to customers who registered to receive their property tax and utility bills online. As an incentive to switching to paperless transactions, the City's ePost customers were offered the option of paying by credit card through ePost.

There are currently 3,799 and 2,773 customer accounts subscribed for the City's property tax and utility ePost service respectively.

Due to the end of support of ePost by the City's property tax and utility software application (Tempest) in its upcoming system upgrade, the City's current arrangement with ePost will be terminated before the end of 2016.

The purpose of this report is to explain the implications of the termination of ePost services and to propose alternatives for the services currently offered by ePost.

Findings of Fact

- Paperless billing is becoming a widely acceptable means of bill delivery. Most major players in the utility and telecommunication industries are going paperless due to its efficiency (saves time and provides 24/7 accessibility), sustainability (saves trees and energy) and security (traditional paper mail is more prone to be intercepted or comprised).
- The electronic billing option is preferred by those customers that do not wish to receive their bills in the mail.
- An increasing number of city services are transacted electronically due to its convenience. Some of the services currently offered under the City's E-Services include applying for electronic home owner grant, paying for parking tickets and dog license renewals, renewing of business licence, registering for recreational programs and booking for facilities.
- Currently, customers also have an option to receive property tax and utility bills electronically by registering on "My Property Accounts" on the City's website.
- Continuing to offer property tax and utility customers with the electronic billing and electronic payment options are in line with the City's Digital Strategy, where a secured and integrated customer experience is provided to our constituents in an e-Commerce environment.
- The City is subject to credit card fees that vary between 1.30% and 2.60% for accepting online credit card property tax and utility payments.
- The City currently incurs \$175,000 annually in credit card fees for accepting online credit card payments through ePost for property tax and utility payments. (approximately \$10 million in property tax and utility payments are paid through credit card via ePost annually)
- For certain services, such as property tax payments the City collects on behalf of other agencies (about 50% of the property tax bill), when such payment is made by credit cards, any credit card charges associated with these third party payments are borne by the City and are non-recoverable from these outside agencies.

- Credit card fees are funded from the tax base, meaning credit card users are subsidized by non-credit card users.
- The City does not accept credit card payment in person.

Analysis

The termination of ePost services has the following two implications, which will be further discussed in the sections below.

- i) Subscribers to ePost will no longer be receiving their property tax and/or utility bills electronically.
- ii) The option to pay by credit card online through ePost will no longer be available.

E-Billing

An alternative e-billing option is currently available through “My Property Accounts” on the City’s website. Customers who were signed up with ePost and would like to continue to receive their bills electronically could do so by registering their property tax and/or utility accounts online.

The availability of e-billings through “My Property Accounts” will ensure that there will be no change in the level of available e-billing service offered to our property tax and utility customers.

Pay by Credit Card

Despite the popularity of using credit cards as a payment method, it has always been a challenge for non-profit agencies, governments and regulated entities to accept credit card payments due to the high credit card fees associated with accepting them in a not-for-profit operating environment.

As a general best practice, municipalities do not accept credit card for property tax and utility payments due to the potential credit card fees associated with accepting these high dollar value payment items. To promote online payments, municipalities encourage their customers to pay their property tax and utility bills using online banking or bill payment option (i.e. pay directly from the customer’s bank account) offered by the financial institutions that the customers bank with.

A few municipalities (as well as certain rate regulated entities such as BC Hydro) accept credit card bill payments through third party providers. This is an arrangement where customers are routed to the third party’s website in making their payments by credit cards, where they will be charged the original bill amount plus a service fee of between 2.0% to 3.0% as determined by the third party providers. Credit card payments will be processed and received by the third party provider, after which funds will be remitted back to the municipality from the third party provider. This outsourcing model, though available, is not typically endorsed by municipalities as the reliability of these providers are unknown and doing such will cause the municipalities to lose direct control over the security of payments received from the customers.

Considering the above factors such as general practices, customers' preferences, and payment security, the following are the alternatives that the City can consider with regards to accepting credit cards as a payment option for property tax and utility payments.

Alternative #1: Do not accept credit card payments

This option is consistent with the general practice of other cities in the Lower Mainland. Customers will be able pay at the bank/credit union, through online banking, over the phone, by drop boxes at City Hall, or pay in person by cash, cheque or debit card.

By not accepting credit cards for property tax and utility payments, the City will realize savings of at least \$175,000 annually (based on current program with ePost).

Alternative #2: Accept credit card for online property tax and utility payments, with a 1.75% service fee (Recommended)

Effective May 25, 2015, Visa Card released a new Visa Core Rule (rule 5.6.3.1) that allows Canadian merchants in permitted categories to impose a surcharge/convenience fee ("service fee") of up to 1.75% on credit card sales that are paid online. Some of these permitted categories that are relevant to the City include property tax payments and utilities. MasterCard also has a rule that allows for a convenience fee in an online environment.

Staff are proposing that a credit card service fee of 1.75% (as proposed in the attached Credit Card Payment Service Fee Bylaw No. 9536) be charged to customers who choose to pay their property tax and utility payments online. (e.g. to pay a \$2,000 property tax bill with a credit card online, the customer will be charged a service fee of \$35, for a total of \$2,035)

A credit card service fee of 1.75% is proposed because:

- Based on the City's credit card transaction history through ePost, the City is subject to credit card fees that vary between 1.30% and 2.60% for property tax and utility payments.
- There is a wide range of credit card fees (i.e. 1.30% to 2.60%) because transactions are assessed based on card types. Credit cards with minimal or standard rewards features ("standard cards") will be assessed at a lower credit card fee rate while credit cards with premium rewards and benefits ("premium cards") will be assessed at a higher rate.
- Various levels of sensitivity analysis were performed by staff to ensure that the 1.75% proposed credit card service fee is justifiable.
- Based on the projected credit card mix (50% standard cards and 50% premium cards), it is estimated that the City will be able to accept online payments for property tax and utility on a break-even basis with a service fee of 1.75%.
- In the worst case scenario where 100% of the online payments are paid by premium cards and the credit card fees average 2.25%, the City would have to incur a net cost of \$5,000 (2.25% - 1.75% = 0.50%) for every \$1,000,000 in payments received. This net cost would be justifiable as the acceptance of credit card payments would continue to provide flexibility to property tax and utility customers and would result in cost savings in the areas such as staff time serving the customers in person, cash handling time, insufficient funds, risk of error, etc.

Alternative #3: Accept credit card payments for property tax and utility payments, without a service fee

Every \$10,000,000 in property tax and utility payments that the City receives through credit cards will cost the City approximately \$175,000 in credit card fees.

By more widely accepting credit card payments (which is often a preferred option for customers due to the rewards associated with using credit cards), it will be very costly for the City and will result in tax impact as such fees will need to be funded from property taxes.

In addition, the City collects approximately \$190 million per year on behalf of other agencies and the credit card fees associated with these payments would be borne by the City as they are not recoverable from these agencies.

Based on the following evaluation criteria and analysis, staff are recommending Alternative #2 in accepting credit card for online property tax and utility payments with a service fee.

Evaluation Criteria	<u>Alternative #1</u> Do Not Accept Credit Card	<u>Alternative #2</u> Accept Credit Card with Service Fee (Recommended)	<u>Alternative #3</u> Accept Credit Card without Service Fee
Enhances customer service (at a minimum, current level of service should be maintained)	x	✓	✓
Aligns with City’s Digital Strategy in providing an integrated customer experience in an e-Commerce environment	x	✓	✓
Results in cost savings to the City	✓	✓	x
Aligns with Council Term Goal in ensuring that strategic financial opportunities are optimized	x	✓	x

By shifting the credit card fees back to the credit card users, the recommended Alternative #2 is deemed to be beneficial to both the customers and the City due to the fairness, convenience and flexibility it can bring to both parties.

Benefits for the customers

- Property tax and utility customers will be able to pay their bills conveniently in the comfort of their own home or business, thus avoiding wait times at City Hall or at the banks.
- Credit card users enjoy the benefit of interest-free payment from the time of purchase to the end of the credit card’s billing period.

- Credit card users receive rewards and benefits through the credit card program offered by their banks.
- Those customers that do not pay by credit card will not need to subsidize the credit card users through property taxes, thus user-pay principle is applied.

Benefits for the City

- Cost savings on credit card fees (fees paid by credit card users).
- No risks of poor creditworthiness of customers or insufficient funds.
- Reduced cash on hand, thus reducing risks associated with handling large sums of cash.
- Reduced cash handling time and costs (such as costs associated with counting cash at the end of the day and armoured transport etc.)
- By abiding to the card brand rules (i.e. Visa and MasterCard rules), the City would be able to continue to conduct in accordance with our merchant operating agreement on a cost neutral basis for accepting credit card online payments for property tax and utility, while offering our property tax and utility payers the convenience of the online credit card payment option.
- If this recommendation is accepted by Council, Richmond will be the first municipality in the Lower Mainland that accepts and administers credit card payments for online property tax and utility payments through its municipal website.

The amended credit card regulations provide this special exemption for the City to charge a service fee only for online property tax and utility payments. Under the operating rules of the credit card brands, the City will not be able to impose such service fee for in-person credit card payments. Therefore, this recommended credit card acceptance with a service fee is only applicable to online property tax and utility payments through the City's website. The City will continue not to accept credit card property tax and utility payments in person.

This recommended approach allows the City to be in full control of online property tax and utility payments received while operating within the card brand rules. Staff is therefore recommending that the proposed user-pay model of online payments (for property tax and utility payments only) be considered by Council.

It is recommended that the proposed model be rolled out as a pilot program, with an effective date of August 1, 2016. Advanced communication (on City's website and on property tax/utility notices) will be made to the public to inform them of the availability of this proposed user-pay online credit card payment option. The communication will ensure that customers will be able to make an informed choice in whether or not to select this as their payment method once it becomes available.

The City's online payment system will be designed to alert customers of the service fees during their online checkout process. Customers will be prompted with the option to cancel their transactions (with service fee separately shown in their shopping cart) before the final charges (with service fees) will be processed onto their credit cards.

Staff will provide an update by mid-2017 to assess the success of the program and determine if the mandated rate of 1.75% is achieving the break-even objective as intended.

If the above recommendation is accepted by Council, the attached Credit Card Payment Service Fee Bylaw No. 9536 will require adoption in order for the City to assess a service fee for online property tax and utility payments.

Financial Impact

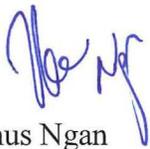
The potential annual savings of accepting credit card online payments under the user-pay model through the City's website is \$175,000 per year.

A one-time initial setup cost of approximately \$100,000 is required in configuring Tempest (City's property tax and utility system) in a manner that is acceptable to the credit card brands.

The proposed funding of \$100,000 will be accommodated by using available funding within the Finance Division's operating budget. The City's 2016 Capital Budget and the 5-Year Financial Plan (2016-2020) will be amended accordingly.

Conclusion

Staff is recommending that credit card acceptance (with a service fee of 1.75%) for the City's property tax and utility online payments be approved as a pilot program effective August 1, 2016. Credit Card Payment Service Fee Bylaw No. 9536 is attached for Council's consideration.



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City of Richmond

Bylaw 9536

Credit Card Payment Service Fee Bylaw No. 9536

The Council of the City of Richmond enacts as follows:

1. Where a credit card is used to pay for property taxes and utilities through any of the City of Richmond's online payment platforms, a service charge of 1.75% of the final transaction amount, net of all discounts and rebates, shall be assessed and charged to the payor in addition to the final transaction amount.
2. This Bylaw is cited as "Credit Card Payment Service Fee Bylaw No. 9536", and is effective August 1, 2016.

FIRST READING

SECOND READING

THIRD READING

ADOPTED

CITY OF RICHMOND
APPROVED for content by originating dept.
<i>IN</i>
APPROVED for legality by Solicitor
<i>[Signature]</i>

MAYOR

CORPORATE OFFICER