



City of Richmond

Report to Committee

To: Finance Committee **Date:** October 26, 2020
From: Ivy Wong **File:** 03-0900-01/2020-Vol
 Acting Director, Finance 01
Re: **Credit Card Payment Service Fee Bylaw No. 9536, Amendment Bylaw No. 10217**

Staff Recommendation

That Credit Card Payment Service Fee Bylaw No. 9536, Amendment Bylaw No. 10217, which proposes an increase to the credit card payment service fee from 1.75% to 2.00%, as presented in the staff report titled "Credit Card Payment Service Fee Bylaw No. 9536, Amendment Bylaw No. 10217" dated October 26, 2020, from the Acting Director, Finance, be introduced and given first, second, and third readings.

Ivy Wong
 Acting Director, Finance
 (604-276-4046)

REPORT CONCURRENCE		
ROUTED TO:	CONCURRENCE	CONCURRENCE OF GENERAL MANAGER
Law	<input checked="" type="checkbox"/>	 Acting for A. Nazareth
SENIOR STAFF REPORT REVIEW	INITIALS: 	APPROVED BY CAO

Staff Report

Origin

Credit Card Payment Service Fee Bylaw No. 9536 imposes a 1.75% service charge for certain in-person and online municipal fees when a credit card is used as a payment method. Under this user-pay model, the service fee prescribed under Bylaw No. 9536 is added to the transaction amount which allows the City of Richmond (the City) to cover the credit card processing costs associated with the transaction. The collection of service fees allows the City to accept credit card payments on a cost-neutral basis without tax impact.

Staff is required to regularly monitor and review the credit card processing fees (commonly known as merchant fees) in order to ensure that the service fee imposed under Bylaw No. 9536 will continue to adequately cover the merchant fees paid by the City. Merchant fees are subject to change by credit card companies from time to time.

The purpose of this staff report is to propose an increase to the credit card payment service fee from 1.75% to 2.00% in order to reflect recent increases in merchant fees charged by credit card companies.

This report supports Council’s Strategic Plan 2018-2022 Strategy #5 Sound Financial Management:

Accountable, transparent, and responsible financial management that supports the needs of the community into the future.

5.1 Maintain a strong and robust financial position.

Analysis

2017 to 2020 Credit Card Acceptance Statistics

The City rolled out the credit card acceptance (with service fee) program in late 2016. The program has been cost-neutral where service fees collected adequately covered the costs associated with the processing of these credit card transactions up to June 2020.

The following table provides a summary of the yearly credit card transaction volumes and average effective merchant fee rates since 2017:

Year	Number of Credit Card Transactions	Total Amount of Credit Card Transactions	Average Merchant Fee Rate Paid by the City	Merchant Fees Covered by Credit Card Service Fee?
2017	3,365	\$ 5,184,832	1.70%	Yes
2018	4,422	\$ 6,792,360	1.70%	Yes
2019	10,659	\$ 11,483,197	1.70%	Yes
Q1 to Q2 2020	6,262	\$ 7,229,900	1.75%	Yes
Q3 2020	2,577	\$ 4,375,504	1.99%	No

Recent Changes to Visa and MasterCard Interchange Pricing

Interchange rates are set by the card brands (Visa, MasterCard, Amex etc.) where acquiring banks (retailers' financial institutions) must pay to the issuing banks (cardholders' financial institutions) whenever a transaction is processed on their network. Interchange rates are the same for all banks across Canada, as set by the card brands.

Both Visa and MasterCard announced changes to their program and fee structures effective July 2020. The changes imposed by the card brands have directly increased the City's effective merchant fee rate where the current credit card payment service fee charge of 1.75% will no longer cover the fees incurred by the City.

Several changes have resulted in noticeable increases in the City's processing costs, including:

- (i) Removal of government sector/emerging market program discounted pricing by MasterCard;
- (ii) Increase in interchange rates for digital e-commerce transactions, which represents the majority of credit card payments received by the City for property taxes and utility payments online; and
- (iii) Introduction of additional business and commercial credit cards types with higher interchange rates up to 2.25%.

The changes have resulted in an increase to the City's overall merchant fee rate as the City continues to accept credit card payments. Based on the City's credit card processing statistics from the past few years, it is anticipated that the recent changes to the interchange pricing will increase the overall effective merchant fee rate to 2.00%. Increasing the credit card service fee to 2.00% will reduce the possibility of a net credit card expense in the future. Staff will continue to review and monitor the City's merchant fee rates and will adjust the service fee charge accordingly from time to time as required.

It is therefore proposed that, effective January 1, 2021, the credit card payment service fee be amended from the current level of 1.75% to 2.00%. By increasing the service fee, it will ensure that the credit card processing costs are fully paid for by customers that choose to pay by credit cards and that these costs will not be passed onto or be subsidized by the general taxpayers.

The effective date of January 1, 2021 is recommended in order to ensure that the public is provided with adequate time to be informed of the increase and also to provide staff with adequate time to update the prescribed rates in all necessary communications before the new rate comes into effect.

Financial Impact

The City processed over \$11.6 million in credit card payments in the current year (up to and including September 30). The net cost incurred by the City in processing credit card payments (net of service fee recovery) is estimated to be \$11,000 for the current year.

Conclusion

Staff recommend that the credit card payment service fee be increased from 1.75% to 2.00% in order to ensure that the credit card acceptance program continues to operate on a cost neutral basis to the general taxpayers.



Venus Ngan, CPA, CA
Manager, Treasury and Financial Services
(604-276-4217)

Att. 1: Credit Card Payment Service Fee Bylaw No. 9536, Amendment Bylaw No. 10217



Credit Card Payment Service Fee Bylaw No. 9536, Amendment Bylaw No. 10217

The Council of the City of Richmond enacts as follows:

1. The Credit Card Payment Service Fee Bylaw No. 9536, as amended, is further amended by replacing the existing Section 1 with the following:

“1. Except as set out in section 2, when a credit card or a mobile device is used to pay for fees and charges payable to the City of Richmond in both card-present and card-not-present environments, a service charge of 2.00% 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, Amendment Bylaw No. 10217”, and is effective January 1, 2021.

FIRST READING

SECOND READING

THIRD READING

ADOPTED

Four horizontal lines for signature or date entry.

CITY OF RICHMOND APPROVED for content by originating dept. [Signature] APPROVED for legality by Solicitor [Signature]

MAYOR

CORPORATE OFFICER