

STAFF REPORT

DATE: February 4, 2025

TO: Bel Aire City Council

FROM: Barry Smith, Finance Director

RE: Payment Card Processing Fees



BACKGROUND:

On January 1st, 2025, the City implemented a 2.5% fee for all utility payment transactions. Staff encountered some challenges with the processing software after Mayor Benage and a resident raised concerns regarding debit transactions. Initially, we sought clarification from Tyler Technologies, who told us we could implement the fee in the first place, like most of their utility billing customers across the country do.

A significant issue faced by Tyler Technologies and other cities is the inability of software to differentiate between debit and standard credit cards for fee application. After several discussions, we uncovered the root of the issue. Tyler Tech explained that 'Pin Debit' transactions are treated like cash and cannot incur fees. However, debit cards can be processed as credit cards by swiping them without entering a PIN. This also applies to online payments, where no PIN is required, making them technically credit transactions. Once this was explained, staff immediately suspended all fees connected to payments to gather more information on the topic.

This topic can become extremely confusing with many factors coming into play such as federal law, state law, and card network rules that VISA, Mastercard, and Discover require their merchants to adhere to. Another aspect of confusion is the fee type terminology and how each type is defined. The three main fee types are surcharges, service fees, and convenience fees. The following types of additional fees and their respective payment channels and payment types are outlined below.

FEE TYPES:

Surcharges: An additional amount added to the credit card transaction to pass along all processing costs to the customer. This fee type applies to the following payment channels and types:

Payment channels: Online, IVR (phone), text to pay, and POS (point of sale/in-person).

Payment types: Credit cards.

Service fees (VISA): A modified form of convenience fee added to transactions by certain allowable merchants (government being one of them) to recoup processing costs. This fee type applies to the following payment channels and types:

Payment channels: Online, IVR (phone), text to pay, and POS (point of sale/in-person).

Payment types: Credit cards, Debit cards, and ACH.

Convenience fees: Additional amount added to transactions for a bona fide convenience using non-standard payment channels. Convenience fees must be a reasonable and fixed amount across all non-standard payment channels. This fee type applies to the following payment channels and types:

Payment Channels: Online, IVR (phone), and text to pay.

Payment Types: Credit Cards and Debit cards

OPTIONS:

Option 1: Continue to absorb all processing fees:

The City has historically absorbed all processing fees derived from payment card transactions (credit/debit cards). The City's previous payment card processing fees averaged between 4.5% and 5.5% totaling approx. \$160,000 in processing costs for FY24. Our new Tyler Payments processing fee is 2% plus all interchange and card brand fees, which after one month of processing, is approx. 2.5676% of all payment card transactions. If the city chose to continue absorbing all fees our annual payment card processing costs could range from \$75,000 to \$90,000.

Option 2: Explore charging a convenience fee:

The City could explore charging a convenience fee for non-standard payment types as defined above to reduce the overall cost of payment card processing. Staff is confirming if this fee type would require the City to register and enroll in VISA's program for select government entities. Mastercard and Discover convenience fee programs for government entities do not require registration. The fee must be a reasonable and fixed amount.

A meeting with Tyler Technologies has been scheduled for 2/3/25 to discuss option 2.