



MEMORANDUM

To: Kurt Triplett, City Manager

From: Michael Olson, Director of Finance & Administration
Kevin Pelstring, Interim Financial Planning Manager
Nida Haroon, Budget Analyst
Kate Marie Colmenares, Accountant

Date: October 10, 2024

Subject: **REPORT ON CREDIT CARD FEES**

RECOMMENDATION:

Staff recommends City Council considers implementing a processing fee on credit card payments beginning with development services permits and security deposit payments.

EXECUTIVE SUMMARY

- Dollar volume of receipts from credit card sales has grown from 2010 to 2023. In 2023, the City collected \$52.0 million in credit card sales, a 30% increase from the prior year.
- The City processed a total of 330,010 card-based transactions in 2023, generating \$51.8 million in revenue from major departments that accept credit card payments. The City incurred \$861,659 in fees, which represents 1.7% of the total credit card sales.
- Neighboring cities Bellevue and Redmond have started to implement processing fees on credit card payments since the last issue paper in 2022. Kirkland includes the estimated cost of the credit card fees in the total overall rate setting for most fees.
- Analysis on potential impact of implementing credit card fees in the City shows it could lead to increased customer complaints, decreased credit card usage and increased delinquencies and collections, which could create additional workload for staff.

BACKGROUND:

The City's Fiscal Policies under Revenue and Expenditure Policies states that "Credit card fee surcharges, cash discounts and online payment methods shall be reviewed and evaluated every two years as part of the biennial budget process to ensure that the cost of service is being covered and the City is taking advantage of improving technology."

[In 2022](#), as part of the 2023–2024 budget process, the City evaluated credit card fees by analyzing data from City revenues, credit card sales, and credit card fees between 2010 and 2021. The City recommended against imposing additional fees on credit card payments for Kirkland customers.

Benefit of Accepting Credit Card Payments

The City began accepting credit cards as an appropriate payment method in 2005. Accepting credit card payments offers several benefits to the City, including faster utility payments, fewer shut-offs for non-payment; increased convenience for the community when paying for Parks Programs, moorage, parking, and other City services; fewer returned checks for non-payment as customers are less likely to void a credit card charge than write a bad check; and improved collection rates from those with overdue fees due to the ease of credit card payments.

Cost of Accepting Credit Card Payments

Accepting credit card payments incurs various processing fees for the City, except for the Court and Jail, which use a third party for some services that charge fees directly to the customer. For those departments which do not add a processing fee, departments estimate these fees in their budget to cover the costs, which are then included in the service fees charged to all customers. As the volume and dollar amount of card payments increases, the associated fees also increase, potentially requiring adjustments to budgeted amounts.

Convenience Fee and Surcharge Programs

Visa and MasterCard rules do not allow merchants to set monetary limits to transactions, nor do they allow the merchant to accept some card types and not others. For example, some Visa and Mastercard types incur greater processing fees, such as business credit cards or reward cards. Merchants who wish to avoid the negative stigma of charging transaction fees to card paying customers generally build such fees into the price of providing services. Therefore, all customers bear the burden of the fee. Wrestling with how to budget the transaction costs for credit cards, some municipalities began assessing transaction fees for services paid with cards. This practice ended in 1993 when Visa and MasterCard became aware of this practice and began enforcing their bylaws which prohibit such action. The result was that Visa and MasterCard ordered banks to cut off service to those entities assessing transaction fees.

Since that time Visa and MasterCard have both developed programs designed for higher education and government agencies to assess convenience fees to the public. The distinction between a transaction fee (surcharge) and a convenience fee is an important one because Visa and MasterCard have strict regulations regarding this issue. A transaction fee (surcharge) is a fee collected to directly offset the cost of allowing the customer to pay with a card. A convenience fee is a fee assessed to the customer for the convenience of using a specific payment mode. In order to participate in these programs, the City must be sponsored by their merchant services bank.

Credit Card Fee Recovery Policy Changes

In November 2012, the federal district court approved a settlement that resolves interchange and merchant acceptance rules in the U.S. and its territories via the *In re Payment Card Interchange Fee and Merchant Discount Antitrust Litigation* (MDL 1720) class action suit against credit service providers. As a result of this settlement, merchants can now assess surcharge fees to credit card transactions, thereby allowing the merchant to offset the impact of fees incurred.

Debit Card Surcharges Prohibited

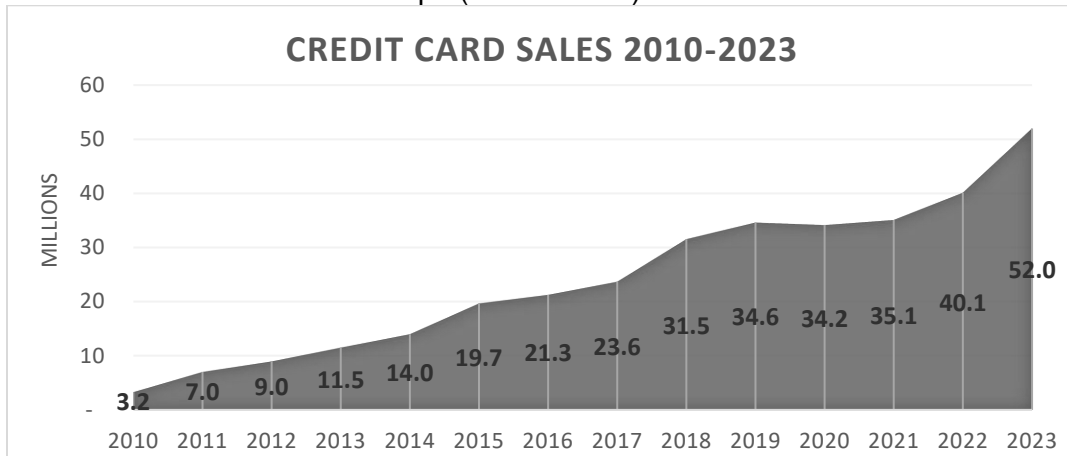
Regulations regarding this policy are stringent and would require an increased level of scrutiny when accepting card payments. Regulations prohibit surcharges on debit cards regardless of the method used to process the card, requiring the City to distinguish debit and credit card use.

DISCUSSION/ANALYSIS:

Credit Card Sales in City of Kirkland

The City accepts credit card payments for utilities, fines and court payments, recreation programs, development permits, boat moorage and parking. As shown in the graph below, the dollar volume of receipts from credit card sales has grown from 2010 to 2023.

I. Credit Card Sales Historical Graph (2010 – 2023)



The graph also shows the increase in credit card sales in the two most recent years. In 2022, the City collected \$40.1 million in credit card sales, a 14% increase in prior year. The significant increase is related to economic recovery post COVID-19 pandemic, where programs and facilities re-opened, and activities picked up. This is backed by the 1% decrease in credit card sales in 2020 from the City Hall closure during the COVID-19 pandemic and the 3% slow growth observed in 2021. Prior to the pandemic, a continuous increase in credit card sales was noted.

In 2023, the City collected \$52.0 million in credit card sales, a 30% increase in prior year. The increase was traced from development services collecting \$17.4 million, which represents 63% increase in credit card sales collected by the Department. This was then offset by six percent and 11% decrease in credit card sales from pet licensing and miscellaneous revenues, respectively.

Credit Card Sales and Total Revenues

Table I, on the following page, summarizes credit card sales as part of the total revenues collected by all departments accepting credit cards as their customers' mode of payment. Other payments accepted in these departments are cash and checks. Except in 2021, credit card sales as a percentage of total revenues have an upward trend from 2010 to 2023. Payments from credit card were at 38% and 42% of these departments total revenues in 2022 and 2023, respectively.

Table I: Credit Card Sales and Total Revenues

Year	Sales in (Millions)	Total Revenue	Credit Card Sales as % of Total Revenue
2010	3,248,063	49,044,725	7%
2011	7,025,179	57,527,516	12%
2012	8,950,142	69,678,338	13%
2013	11,469,720	80,094,245	14%
2014	13,978,324	82,622,412	17%
2015	19,657,991	85,733,935	23%
2016	21,257,180	91,881,770	23%
2017	23,644,150	91,936,716	26%
2018	31,508,685	98,813,491	32%
2019	34,579,832	95,370,095	36%
2020	34,156,347	90,053,085	38%
2021	35,104,679	100,936,321	35%
2022	40,091,500	104,223,099	38%
2023	51,980,870	125,185,573	42%

Analysis on credit card sales indicates a steady increase in customer preference for credit card payments over cash or check transactions. Barring any changes to the City's payment processing procedures, this trend is expected to continue.

Credit Card Fees

As noted in the previous section, accepting credit card payments incurs certain costs. These costs can be offset by implementing fees on credit card transactions. Currently, the City does not impose credit card fees on customers. Instead, departments budget for these fees and include them into the overall cost of service, which is then charged to all customers, regardless of their payment method.

Table II, on the following page, lists the major departments accepting credit card payments and the relationship between these departments' credit card sales, fees, and total revenues in 2023. During the year, the City accepted a total of 330,010 card-based transactions incurring \$861,659 in fees for \$51,838,023 in receipts.

The number of transactions by credit card has more than quadrupled since 2010, primarily due to increased use of e-permits online and the acceptance of credit cards for permits at the counter. Fees associated with card transactions have grown more than 13 times since 2010 and do not appear to be leveling off. Total credit card sales have increased 48% percent since the last budget issue paper was written in 2022.

Table II: Credit Card Sales, Fees, and Total Revenues in 2023

Department	Credit Card Total Sales	Credit Card Transactions	Credit Card Total Fees	Fees as a % of Sales	Total Revenue	Credit Receipts as a % of Total Revenue
Utilities	30,521,894	100,908	250,251	0.8%	73,562,152	41%
Development Services	17,416,304	11,123	458,451	2.6%	21,250,665	82%
Parks & Rec	2,363,597	21,469	71,214	3.0%	5,436,327	43%
Municipal Court	572,229	3,952	9,749	1.7%	1,679,800	34%
Cemetery-Licensing	349,168	1,098	7,889	2.3%	6,462,736	5%
Parking	396,587	188,402	56,117	14.2%	508,094	78%
Pet Licensing	100,355	2,450	3,530	3.5%	133,729	75%
Moorage	117,890	3,608	4,457	3.8%	117,890	100%
Grand Total	\$ 51,838,023	333,010	\$ 861,659	1.7%	\$109,151,391	47%

Neighboring Cities

The City of Kirkland often compares its policies and operations to those of Bellevue and Redmond in order to better determine regional municipal trends.

In 2023 and 2024, the [City of Bellevue](#) implemented fees on credit card payments for utilities, business licenses, and registration fees. [City of Redmond](#) will also implement convenience fees for processing credit card payments on utilities starting October 2024.

Potential Impacts of Implementing Credit Card Acceptance Fees by Department

Shifting the cost of accepting credit cards for payment to the customer will have varied affects for each department. The following summarizes the input received from each department regarding the potential impacts of making this change. Regardless of the method, implementing credit card acceptance fees for payment could lead to increased customer complaints, decreased credit card usage and increased delinquencies and collections, which could create additional workload for staff. Implementing surcharge fees would also lead to increased administrative monitoring and scrutiny as staff ensures the City is correctly operating under Visa and MasterCard’s complicated rules and regulations.

Utilities – The City is considered a “merchant.” Merchant accounts for utility payments are allowed a reduced fee for utility transactions. Currently the City uses a vendor who charges \$1.65 per transaction on qualified credit cards and debit cards, and 2.95% up to \$600 per transaction on non-qualified credit cards and debit cards. The utility merchant account would no longer be eligible for the reduced fee if the City attached a convenience fee, resulting in overall fees of approximately 2.95 percent of receipts. Implementing an additional charge for credit card fees would result in some customers shifting to cash, or debit card, or check payments. The online payment portal for utilities allows a customer to pay via ACH, with a fee of \$0.40 per transaction to the City. Currently 30.7% percent of all utility billings are paid by card. For some customers, the convenience of paying online will outweigh the impact of the fees on the individual and they will continue to pay by credit card. A portion of the utility customers could become upset and register their complaints with the City.

Development Services – Development Services is an area of service where assessing credit card processing fees will not likely affect business as a whole. While some customers may complain, the department believes that additional fees will not significantly influence building or development services revenues. To provide additional options to customers, Development

Services began accepting e-checks in August 2020. The City is not restricted from charging credit card fees on transactions associated with security deposits or on credit card payments related to other services.

Parks & Recreation –The business model for Parks and Recreation encourages people to use an online registration system for most parks and recreation programs, services, and rentals. Approximately 80% of all transactions are completed online. Credit card payments account for 86% of the department’s revenue processed through this registration system. Currently, prices are set to meet specific cost recovery targets defined by City Council. All costs, including credit card fees, are taken into consideration when setting fees. Staff resources have been adjusted to accommodate primarily online registration. Resources might have to be increased if additional fees are assessed to the customer, which would result in serving more people in person. Considering the populations that participate in the City’s recreational programs and services, an additional fee could result in disparate treatment for some, such as senior citizens, teens, and low-income individuals. Assessing a fee for credit card payments could alter these populations’ habits but the effect is unknown at this time. Many customers might consider a different payment type or might choose to spend their recreation dollar elsewhere.

Court Fines – Implementing additional fees for credit card payments could result in a greater number of unpaid fines and pose a greater challenge for court customers to pay off their fines. Unpaid fines would negatively affect accounts receivable and the budget. It would also increase court employees’ workload as collection attempts are managed. The Court’s customers are often upset about receiving fines and may be increasingly difficult to serve should additional fees be assessed.

Cemetery & False Alarm Reduction Program – Implementing fees for the cemetery could result in decreased card payments as individuals who use this method for convenience would simply mail in a check instead. Customers that have time-sensitive needs would likely continue to make their payment via card over the phone as there is no online option at this time. The City is exploring implementing an online payment capability. Last minute or urgent payments are often done over the phone and these customers are usually overwhelmed to begin with. The City could experience an increase in complaints and mailed payments.

Business Licensing – As of December 2018, the City of Kirkland moved to an online portal, managed by the Department of Revenue, for Kirkland business license fees. The Department of Revenue charges businesses a convenience fee of \$50 when applying for a new business license or City endorsement and \$5 when completing the annual renewal. The fees assessed by the Department of Revenue cover the merchant fee costs along with the maintenance of the online portal. The City of Kirkland is not charged any fees for credit card transactions for business licenses. Staff review applications and collect additional fees due for a Kirkland license for past years, if applicable. The implementation of additional fees could discourage timely credit card payments, leading to additional check payments being received. This potential increase would require additional staff time to receive and process.

Parking is driven by convenience and changes in pricing due to shifting the cost of credit card payments will likely not affect consumption, especially since the city’s parking consultant has deemed the current hourly parking rates low and recommends increasing them. This being said, some people will choose to avoid increased parking fees and may avoid downtown or park on residential streets near their destinations creating additional congestion on those roads. The impact of adding fees to parking is more apparent than other categories because the fee as a percentage of revenue is much higher than other categories at 22 percent, due to the very small size of each transaction.

Moorage – Credit card payments comprise 100% percent of moorage revenues, and over 99% of boat launch revenues collected at the pay station. Due to low usage, the higher average cost of moorage transactions, and security concerns regarding cash storage in the pay stations, cash payment was eliminated as an option at the Marina and 2nd Ave Docks in 2019. Cash was still an option for boat launch payment through the end of 2023 but was phased out in early 2024 due to extremely low usage (less than 1% of all revenue received for the boat launch). An additional fee for credit cards likely will not affect boat moorage in Kirkland due to the low cost of City moorage rates compared to local alternatives. Raising moorage rates slightly to account for the increased credit card fees is another option.

Payment Options

As of August 1, 2020 the eCityGov Alliance implemented eChecks as a form of payment for developers. eChecks, together with Paypal and MBP, allow developers and those paying for permits a streamlined payment process without the City incurring a credit card fee. With developers often having payments that would exceed a credit card limit, eChecks now alleviate the need to mail or hand deliver a check to the City. This in turn could lower the City’s administrative time spent handling checks. Instead of a credit card fee, there is a transaction fee based on the total dollar of payments processed. The City pays a monthly account fee of \$49.95 and a per transaction fee of \$0.50 for eChecks. In 2023, the total transactions made using e-checks were 700 and total fees charged for these transactions was \$987.

Development Services customers have not used e-checks as much as anticipated. Staff have reported a steady amount of returned e-checks in the past years. In 2023, 19 transactions were returned. The City incurred a total of \$38 in return fees as a result. These returns are associated with payments from insufficient funds and processing issues with Paypal. Processing issues occur from customer mistypes when making e-check payments since Paypal does not honor and collect payments for these transactions. Since the customer has paid online and received an e-permit right away, it can be difficult and time consuming for the staff to resolve the issue.

Charging Fees on Security Deposits

Staff are assessing credit card fees to payments for security deposits. By holding the funds, the City is losing approximately 3% for each payment. However, there are administrative and other considerations that will be considered before determining any decisions of assessing fees or requiring all security deposits to be paid by check. Table III shows the security deposits from 2019. [The](#) City is not restricted from charging credit card fees exclusively to security deposits.

Table III: Security Deposits (2019 – 2023)

Year	Deposits	Performance/ Maintenance Deposit	Admin Deposit	Total
2019	176	\$ 685,168	\$ 222,750	\$ 907,918
2020	130	\$ 500,647	\$ 211,570	\$ 712,217
2021	166	\$ 984,358	\$ 118,212	\$ 1,102,570
2022	240	\$ 1,908,038	\$ 224,435	\$ 2,132,473
2023	292	\$ 1,181,023	\$ 365,920	\$ 1,546,943
Total	1004	\$ 5,259,234	\$ 1,142,887	\$ 6,402,121

NEXT STEPS

Overall, staff still recommends that the customer service and administrative benefits of not charging processing fees outweigh the financial benefit that comes from charging the fees. This assumes the City remains diligent in incorporating the cost of the credit fees into the overall cost recovery calculations. However, with the growing acceptance of processing fees for the use of credit cards, if the Council wishes to try a pilot to ascertain community response and administrative impact, staff recommends establishing a credit card processing fee for development permits and security deposits as a starting point. Staff will be seeking Council direction on whether to initiate a pilot.

ATTACHMENTS:

None