

DATE: September 1, 2022

TO: Environmental Services Commission

FROM: Nav Ota, Utilities Director
Uma Singh, Acting Assistant Director – Resource Management and Customer Service
Andy Baker, Fiscal Manager

SUBJECT: **Policy Issue: Credit Card Fees**

ACTION REQUIRED

Staff is seeking the Commission's recommendation to City Council regarding a Credit Card Fee policy.

BACKGROUND / ANALYSIS

On July 7, staff reviewed the proposed 2023-2024 budget and a policy issue (monthly billing) with the Commission. The Commission concurred with staff's recommendation on the proposed budget and monthly billing. However, the Commission requested that staff bring back policy options to recover costs related to processing credit card payments.

Currently, customers can pay utility bills using cash, check, bank bill-pay services, Automated Clearing House (ACH)/eCheck, or using debit and credit cards. Each payment method has an expense associated with it -- in many cases a per-transaction cost, and in some cases a per-transaction plus percentage cost. Collectively, these payment processing costs are referred to as *transaction fees* in the Utilities budget.

Payment Method	Est. Cost per Transaction
Credit Card	\$5.00 - \$1,400.00
In Person Payments	\$19.00
ACH/eCheck	\$0.95
Bank Bill Pay	\$0.25
Commercial Bank-to-Bank	\$0.05

The average cost per transaction for credit cards is significantly higher than other payment modes. Credit card transactions make up approximately 30% of utility bill payments but result in over 90% of the annual transaction fee cost to Bellevue Utilities, projected to be approximately \$1.1 million in 2024.

Different credit card types have different transaction costs. However, credit card companies prohibit the exclusion of specific card types, such as high-reward (and high transaction fee) cards.

Several options are available to Utilities to help manage the impact of transaction fees, including restricting customer classes from using cards, or charging a fee on some or all customer classes.

Policy Considerations

Bellevue Utilities' Council-adopted fiscal policies require that rates be uniform for all utility customers of the same class of service, and the Revised Code of Washington 35.92.010 requires that no rate be charged that is less than the cost of service to the class of customers served.

Single Family Customers:

Single Family customers make up 96 percent of bills paid by credit card. However, the cost of processing single family utility bills is lower, due to the lower value of the bill amounts and often the type of card used.

The following considerations apply for single family customers:

- Potential to impact socioeconomic equity. Single family customers who struggle to make ends meet may rely on credit cards to be able to make their utility payments. Adding a fee to single family customers would further increase this burden. Removing the ability to use a credit card could increase delinquencies or cause these customers to rely on higher-cost options like pay-day loans.
- Consistency with utility industry practice. While some government agencies charge credit card fees on transactions, Bellevue is not aware of any peer utilities that charge this fee. Puget Sound Energy does not charge a transaction fee on single-family payments, but does charge a fee on non-single family credit card payments, due to the higher dollar amount and cost to the utility of those transactions.
- Perception of value. Anecdotally, customers currently appreciate that no fee is charged regardless of their preference of payment type. Adding a credit card fee could erode that value from a customer service perspective, creating a perception of 'nickel and diming' the customer.

Commercial and Multi-family Customers:

Commercial and multi-family customers account for four percent of bills paid by credit card, but because of the higher value of transactions and type of cards used, they have a significantly higher per-transaction cost to Bellevue Utilities.

There are a broad range of types of commercial and multi-family customers, making it important to consider how a policy may impact a range of customer size.

- Large commercial and multi-family. Large commercial businesses and multi-family accounts have the business processes in place to make payment by check or commercial bank-to-bank a frequent choice. However, a small subset of these large businesses choose to pay by credit card, and when they do, the size of the bill results in significant transaction costs for Bellevue Utilities. Some of these customers choose to pay by credit card in order to generate rewards, either as cash back, airline miles, or other similar value, at the cost of the higher fees paid by Bellevue Utilities. Currently that higher cost to Bellevue Utilities is paid for by all customers through rates, regardless of their decision to use a credit card.
- Small business and multi-family. Mom-and-pop businesses and small-scale multi-family customers such as duplexes may find the convenience and flexibility of payment with a credit card to be of more importance. Considerations of the degraded perception of value discussed above for single family customers will also apply to these customers.

Despite the differing impacts, City policy and state law requires that any potential credit card fee policy apply to the entire customer class.

Options

There are four primary policy options, with varying ways to implement the options across the classes of customers.

- 1) Transaction fees spread across the rate base (status quo) - This is how the Utilities currently pays credit card processing costs. Customers may not be aware that there are significant costs related to use of a credit card to pay their utility bill. This option does not fully recover costs from the individual customers driving the higher credit card payment costs.
- 2) Commercial/multi-family not allowed to pay using credit cards – The Utility has the option to restrict credit card use for individual customer classes. The most common solution in the utility industry is to restrict the use of cards by commercial customers. Enacting this policy would affect approximately 500 customers who currently use credit cards to pay their utility bills. These customers would still have a variety of payment options available, including automated clearing house (ACH), bank bill-pay, and check. The majority of commercial/multi-family customers (86%) currently choose to use these other, lower-cost options.
- 3) Commercial/multi-family pay a fee for credit card use - If retaining the convenience of credit card payment for commercial/multi-family customers is preferred, a fee could be added to offset the cost of the use of the credit card.
- 4) All customers using credit cards pay a fee - Charging a fee to all customers when they pay with a credit card will result in recovering the cost that result from those transactions.

Pros/Cons

Options	Pros	Cons
Option 1 – Status Quo	<ul style="list-style-type: none"> No customer disruption All customers can pay via credit card with no perceived impact. 	<ul style="list-style-type: none"> Cost of credit card processing is paid for by people who do not benefit from it
Option 2 – Exclude (Comm/MF)	<ul style="list-style-type: none"> Selectively excludes the customer class that incurs the highest transaction fees Impact limited to approximately 500 commercial/multi-family card payers 	<ul style="list-style-type: none"> It will impact small commercial/multi-family customers Takes away a customer service feature Doesn't address the costs generated by single family credit card payments
Option 3 – Charge Fee (Comm/MF)	<ul style="list-style-type: none"> Recovers costs from the customer class that incurs the highest transaction fees Impact limited to approximately 500 commercial/multi-family card payers All commercial/multi-family customers retain the ability to pay via credit card 	<ul style="list-style-type: none"> It will impact small commercial/multi-family customers Doesn't address the costs generated by single family credit card payments
Option 4 – Charge Fee (All customers)	<ul style="list-style-type: none"> Recovers costs from all customers using credit cards All customers retain the ability to pay via credit card 	<ul style="list-style-type: none"> Approximately 10,000 customers would pay a new fee Potential significant customer backlash May adversely impact low-income customers who may rely on credit cards to pay their bill

Implementation Considerations

There are a number of challenges in implementing a credit card fee option.

- Existing systems do not support this functionality. These systems are planned for replacement over the next two years, and the fee could not be implemented until after that is complete.
- Requires approval from credit card companies, who have stringent requirements for charging fees.
- Existing contracts, such as banking contracts may need to be modified.
- Utilities may be the only City department charging a fee.

POLICY ISSUES

The Commission requested that staff bring back policy options to recover costs related to processing credit card payments. Should the City adopt a policy to recover costs related to processing credit card payments?

Four primary policy options are considered:

- 1) Transaction fees spread across the rate base (status quo);
- 2) Commercial/multi-family not allowed to pay using credit cards;
- 3) Commercial/multi-family pay a fee for credit card use; or
- 4) All customers using credit cards pay a fee.

Based on consideration of the benefits, risks, and costs discussed above, if the Commission recommends that Utilities implement a fee, then staff recommends Option 4 as a percentage fee applied to all credit card transactions. This is the only option that will ensure that all customers paying with credit cards bear a proportional share of the resulting transaction fees. This option can be implemented based on either full or partial cost recovery.

FISCAL IMPACT

The fiscal impacts of the policy options are summarized below. The cost recovery options of 50%, 75%, and 100% represent example levels of cost recovery that the Commission could recommend to Council.

% of Cost Recovery	Fee Amount	Cost Recouped	COB Cost	Customer Impact
Option # 1 - Status Quo				
0%	Status Quo	\$ -	\$ 1,100,000	Medium
Option # 2 - Commercial/Multi-Family cannot use credit cards				
100% Comm/MF	Exclude COMM/MF	\$ 450,000	\$ 650,000	Low
Option # 3 - Commercial/Multi-Family pay a fee				
100% Comm/MF	2.65% Fee	\$ 450,000	\$ 650,000	Low
Option # 4 - All customers using credit cards pay a fee				
50%	1.35% Fee	\$ 550,000	\$ 550,000	High
75%	2.00% Fee	\$ 825,000	\$ 275,000	High
100%	2.65% Fee	\$ 1,100,000	\$ -	High