

CITY COUNCIL STUDY SESSION

Discussion and direction on Utilities billing policies

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Utilities Department

DIRECTION NEEDED FROM COUNCIL**DIRECTION**

Staff is seeking Council direction regarding two Utilities Department policies, transitioning to monthly billing and recovery of credit card processing costs, and to prepare the necessary legislation for adoption at a future meeting.

RECOMMENDATION

Direct staff to transition to monthly billing and recover credit card processing costs through a fee on all customers who choose to pay by credit card, and to prepare the necessary legislation for adoption at a future meeting.

BACKGROUND & ANALYSIS

During the 2023-2024 budget development process, the Utilities Department identified two policy topics related to customer billing; transitioning from bi-monthly to monthly billing and recovering the cost of credit card processing.

Over the course of 2023, the Utilities Department will implement a new billing system, as well as complete the implementation of its Advanced Metering Infrastructure (AMI) program. Both initiatives are pre-requisites to making any changes to the existing policies.

The Environmental Services Commission (ESC) reviewed both policy topics in 2022. The Commission unanimously recommended transitioning to monthly billing. After much discussion, the majority of the Commission voted to recommend charging a fee to all customers who pay with a credit card.

Monthly Billing

Currently, water meters are read manually every two months, and customers are billed bi-monthly. Once AMI implementation is completed, Utilities has the opportunity to offer monthly billing. This has been a longstanding request of customers, and a national trend in the utility industry. Utilities will have the technology to support monthly billing with the upgrade to the new customer information and billing system; to be completed in 2023.

In addition to being a customer-requested option, there are a number of reasons why Utilities is considering this change:

- Enhance customer service. The utility bill is the primary touchpoint Utilities has with its customers, and reducing the lag between water usage and the bill for that use can avoid misunderstanding and confusion for ratepayers.

- Manageable household budgeting. Most household bills are monthly. Monthly billing aligns with a typical monthly household budget and is less challenging to manage than a larger, less frequent bill which can catch customers by surprise. This is particularly important considering higher summer bills. This is one reason the American Water Works Association (AWWA) recommends monthly billing as a measure that can assist low-income customers.
- Reduce delinquency issues. Monthly billing reduces the size of each bill, which makes it easier for a customer to get back on track after a delinquency.
- Support ESI goal of promoting water conservation. Longer billing cycles make promoting conservation challenging because there can be a lag of as much as three months between when water use occurs and when a customer receives a bill. With AMI and monthly billing, a customer has the information to modify their behavior in a timely manner. Additionally, a more frequent billing cycle can result in earlier identification of leaks or other meter issues.
- Improve revenue stability. A monthly billing cycle improves revenue stability for the utility.

Monthly billing is requested by customers, and a standard industry practice, but it does have additional costs for producing, sending, and processing bills. This is discussed in the Fiscal Impact section below.

Credit Card Processing Cost Recovery

Currently, Utilities customers can pay using cash, check, bank bill-pay services, Automated Clearing House (ACH)/eCheck, or 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
<i>Commercial Bank-to-Bank</i>	\$0.05
<i>Bank Bill Pay</i>	\$0.25
<i>ACH/eCheck</i>	\$0.95
<i>In-person Payments</i>	\$19.00
<i>Credit Card</i>	\$5.00 - \$1,400

The average cost per transaction for credit cards is significantly higher than other payment methods and can vary greatly depending on the type of card used. However, credit card companies require us to accept all card types, including high-reward cards, which have high transaction fees.

Credit card transactions make up approximately 30 percent of utility bill payments and will cost Bellevue Utilities approximately \$1.1 million in 2024.

Single-Family customers make up 96 percent of bills paid by credit card and cost approximately \$650,000 in processing costs.

Charging single-family customers for use of a credit card has the following considerations:

- 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.

- 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.
- 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.

Commercial and multi-family customers account for four percent of bills paid by credit card and cost the Utility approximately \$450,000 in processing costs. Because of the higher value of transactions and type of cards used, they have a significantly higher per-transaction cost to Bellevue Utilities.

- 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, the 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 perceive a degradation of value similar to single-family customers.

Despite the differing impacts, City policy and state law require any potential credit card fee policy apply to the entire customer class. This means that we cannot apply the policy only to large accounts.

Credit Card Processing Cost Options

There are three options for recovering the cost of credit card processing.

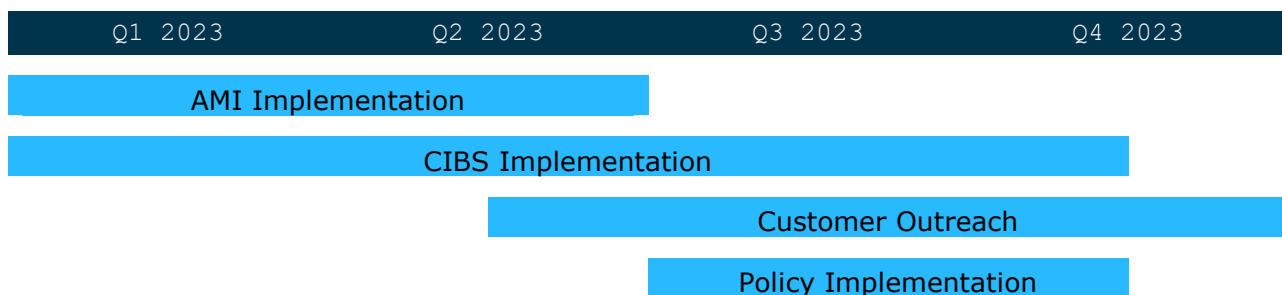
- 1) Processing costs paid by all customers through rates (status quo). This is how Utilities currently recovers credit card processing costs. Customers may not be aware that there are significant costs related to using a credit card to pay their utility bill. This option does not fully recover costs from the individual customers driving the higher credit card payment costs.
- 2) Commercial and multi-family pay a fee for credit card use. Utilities has the option to apply a fee to specific customer classes. This policy choice would affect approximately 500 customers who currently use credit cards to pay their utility bills, but who make up a disproportionate amount of the processing cost due to the size of bills being paid.
- 3) Fee recovery from all credit card users. Charging a fee to all customers when they pay with a credit card will result in fully recovering the cost of credit card processing.

Options	Pros	Cons
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 all customers regardless of credit card use
2: Fee on Comm / Multi-Family	<ul style="list-style-type: none"> Cost recovered from customer classes that cause the highest processing costs Impact limited to approximately 500 customers 	<ul style="list-style-type: none"> Doesn't recover costs generated by single-family credit card payments May negatively impact small commercial/multi-family customers
3: Fee on All Credit Card Users [ESC & Staff Recommendation]	<ul style="list-style-type: none"> Costs recovered from all customers using credit cards 	<ul style="list-style-type: none"> Will impact approximately 10,000 credit card users, and has the potential for significant customer dissatisfaction

A credit card processing fee of less than 3 percent will fully recover all credit card processing costs. For a typical single-family household choosing to pay with a credit card, this will result in a fee of approximately \$5.87 per month applied to their bill in 2024. For a low-income household in the Utility Rate Relief program, the additional fee is \$1.76 per month. Details of the cost of each option are discussed in the Fiscal Impact section below.

Next Steps

Both of these policies require the following steps to implement:



Policy Implementation Steps

- Contracts. Secure necessary approvals or amendments to existing contracts such as banking contracts.
- Public Outreach. Communicate policy changes to customers beginning in Q2 2023. This outreach will include education to encourage customers to transition to lower-cost payment methods.
- Ordinances. Council adoption of amended rate ordinances.

POLICY & FISCAL IMPACTS

Policy Impact

State Law

RCW 35.92.010 and .020 requires that customers of the same class be charged the same rates. The proposed policy options are consistent with these requirements.

City Code

City Code (BCC 24.02.270, BCC 24.04.270, and BCC 24.06.115) states that the City Council shall establish rates for water, sewer, and storm and surface water service. Additionally, it provides that the utility shall develop and implement the procedures and systems pertaining to billing and collecting services charges and fees.

No changes to Code are necessary to enact the policy changes being considered. Ordinances establishing revised water, sewer, and storm and surface water rates will be necessary to enact either or both of the proposed policy changes.

City Financial Policies

The City's Comprehensive Finance and Asset Management Policies direct that charges for services that benefit specific users should recover full costs. The recommended billing policy is consistent with this existing policy.

Fiscal Impact

Monthly Billing

The fiscal impact of monthly billing is summarized in the table below.

Category	2024: Baseline	+ Monthly Billing	2024: Total
<i>Bill Printing</i>	\$67,000	\$67,000	\$134,000
<i>Postage</i>	\$85,000	\$85,000	\$170,000
<i>Check / ACH / Bill Pay</i>	\$57,000	\$57,000	\$114,000
Subtotal	\$209,000	\$209,000	\$418,000
<i>Credit Card Processing</i>	\$786,000	\$288,000	\$1,074,000
Total	\$995,000	\$497,000	\$1,492,000

Please Note:

- The \$209,000 of costs required to implement monthly billing is already included in the adopted budget and rates.
- Per ESC recommendation, the \$288,000 of credit card processing costs associated with monthly billing is not included in the adopted budget and rates.

Credit Card Processing Fee

The fiscal impact of the credit card processing options with monthly billing are summarized in the table below.

Category	Option 1 Status Quo	Option 2 Comm / Multi-Family	Option 3 All Credit Card Users
<i>Customers Impacted</i>	<i>n/a</i>	<i>500</i>	<i>10,000</i>
<i>Cost Recovery</i>	<i>n/a</i>	<i>\$454,000</i>	<i>\$1,074,000</i>
<i>Ratepayer Equity</i>	<i>Sub-optimal</i>	<i>Improved</i>	<i>Maximized</i>
<i>Fiscal Impact</i>	<i>+\$288,000</i>	<i>-\$166,000</i>	<i>-\$786,000</i>
<i>Rate Impact</i>	<i>+0.2%</i>	<i>-0.1%</i>	<i>-0.6%</i>
<i>Typical SF Customer Impact</i>	<i>+\$0.45 / month</i>	<i>-\$0.22 / month</i>	<i>-\$1.34 / month</i>

If monthly billing is approved, but credit card fee recovery is not approved, an additional \$288,000 will need to be added to the 2024 budget and recovered through rates. Under options 2 and 3, the additional cost is offset by the new fee revenue and will result in a reduction of the 2024 adopted rates.

OPTIONS

1. Direct staff to transition to monthly billing and recover credit card processing costs through a fee on all customers who choose to pay by credit card, and to prepare the necessary legislation for adoption at a future meeting.
2. Provide alternative direction to staff.

ATTACHMENTS

N/A

AVAILABLE IN COUNCIL LIBRARY

N/A