



MEMORANDUM

September 8, 2010

TO: Board of Mayor and Aldermen

FROM: Eric Stuckey, City Administrator
Russ Truell, Assistant City Administrator/CFO
Steve Sims, Asst. Recorder and Court Clerk

SUBJECT: Payments – Credit Cards and Online Payments

PURPOSE

The purpose of this status report is to update the Board of Mayor and Aldermen (BOMA) and obtain guidance for pursuing use of credit cards by customers when making payments to the City of Franklin.

BACKGROUND

The City currently accepts credit/debit cards for selected online applications, as well as payments in the office for court fees/fines. We currently allow online payments for utility bills, property tax payments and yard sale permits. We have seen relative good success for utility bills but we have seen limited success for property taxes and yard sales. The success is limited due the fee paid by the customer and to promotion for yard sales. In addition, requests have come from customers to accept payments in the office as well as from Department Heads who wish to accept payments by credit/debit card for certain payments in the office.

There is a real cost associated with processing/accepting any payment. This cost is in fees paid to financial institutions and staff time to process the transaction. Processing receipts electronically allow us (1) better internal controls (2) reduced costs (3) increases customer choice among various payment channels and (4) speed cash flow to the City (as compared to check processing).

FINDINGS: The Revenue Management office receives and deposits about 300,000 payments annually. Of these, about $\frac{3}{4}$ of them are receipted and processed electronically as files. The payments received are driven by collection of our utility service bills as about 79% of our total receipts are for utility bills. The charts at the end of this paper depict these receipts and show what our customers pay for and how they make those payments.

- **UTILITY SERVICES**
 - The customer who makes an online payment incurs a fee (\$3.50).
 - We do not accept credit/debit cards at the counter; customers desire this option, particularly for situations where water may be disconnected.
 - Transaction fees could be absorbed in our operating costs but would impact our overall costs; in FY 2010, we received about \$3/4 million in online credit card payments; this would result in about \$20,000 in transaction fees.
- **PROPERTY TAXES**
 - We have very few who choose to pay their property taxes by credit card.
 - Customers say the fee is too much (3%); the County Trustees have partnered across the State and have negotiated a reduced rate (appears to vary by jurisdiction – 2% for Williamson County).
 - We are not legally able to pass this on due to provisions in State law.
 - Delinquent taxes are not a significant issue.
 - A significant number pay thru the mortgage companies.
- **YARD SALES (and other permits)**
 - We allow customers to obtain permits online and the permit includes rain date.
 - The fee is \$3, in addition to the \$5 permit.
 - Saves time & travel expenses associate with trip to City Hall.

- Has seen limited success and could use additional marketing efforts.
- Model could be used to expand to other permit offerings.
- Credit cards are not accepted in the office.
- CITY COURT
 - We accept credit cards at the counter without a fee; we absorb the fee in our court costs as we have them there and if we can obtain payment, then it's better than pursuing later (many show up unprepared to pay).
 - We accept payments by credit/debit card by phone in the office; this incurs a fee paid by the person making the payment (\$3.50).
 - Online payments are feasible with a change to our existing software; our current provider has recently deployed an option that may meet our short term needs to deploy online payments.
- ADDITIONAL CONSIDERATIONS - There are issues that need to be considered such as (1) who pays the transaction fee (2) merchant vs. third party processor (3) revenue management software (4) regulatory environment (5) payment portal.
 - The transaction costs (estimated at about 2.5% of gross payments made by card) are real and must be paid by some party if cards are to be accepted.
 - Transactions costs vary based on (1) type of card (VISA, MasterCard, Discover, AMEX) (2) bank issuing the card (3) type of service being paid (e.g. taxes have a different rate than utility services).
 - We need to determine if we want to be viewed as the merchant or allow a third party to act on our behalf.
 - The regulatory environment has changed tremendously due to credit laws.
 - Acceptance of cards inhouse is something our customers tell us they want to be able to do but current provisions limits our ability to pass on a fee to a customer in a face-to-face transaction.
 - There are challenges with our current software so these become rather labor intensive to accept (dual processing – card payment application and the revenue management software).
 - The payment portal should consider registration to allow the City to use the tool for other purposes – e.g. emergency notifications, general notices, bill presentment, and access to other city services.
 - Payment by card reduces our financial risk as we should not see bad debts and collection actions (assuming we are not serving as the merchant).
 - There could be development costs for the customer portal.
 - Several departments, most notably BNS, have the need and volumes to justify expanding credit/debit card payments to their department.

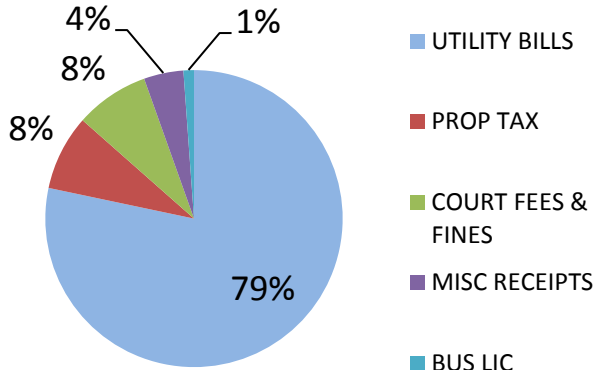
FINANCIAL IMPACT

The financial impacts are determined by the path chosen by the Board. To accept the recommendations will result in some increase in expenses but will be more than offset in increased collections and reductions in receivables.

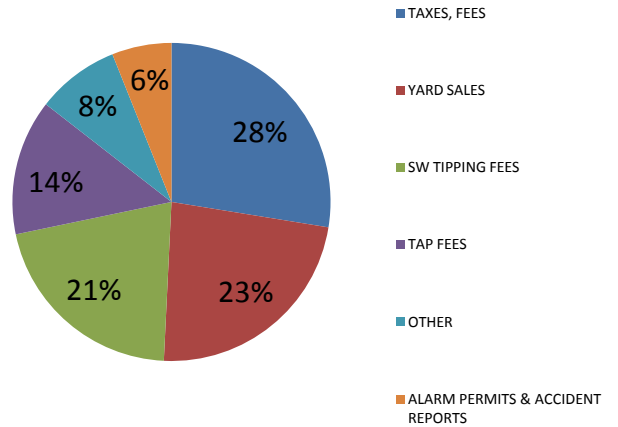
RECOMMENDATION

It is recommended that the Finance Committee accept this status report and entertain a discussion about the impacts of the various issues. Based on that discussion, we will develop an RFP to meet the Board's desires. It is anticipated that an RFP could be issued in October for implementation the first of the year.

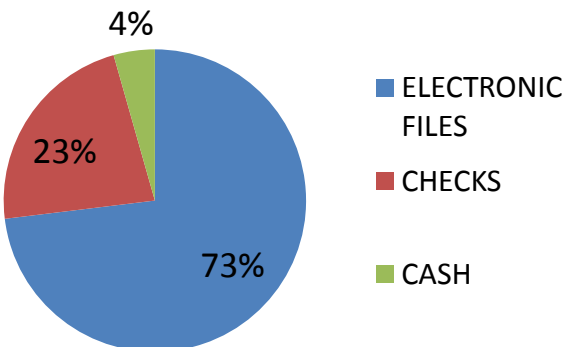
REVENUE PURPOSE (Primary)



REVENUE PURPOSE (Misc Receipts ONLY)



PAYMENT METHOD (All sources of revenue)



PAYMENT METHOD (Electronic Files ONLY)

