




HISTORIC
FRANKLIN
TENNESSEE

FINANCE 11/29/11
ITEM #9

MEMORANDUM

November 21, 2011

TO: Board of Mayor and Aldermen

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

SUBJECT: **TRANSACTION FEES – CREDIT and DEBIT CARDS**

PURPOSE

The purpose of this memorandum is to inform the Board of fees paid for processing credit/debit cards and to obtain guidance for future actions to facilitate customer choice and obtain the desired outcome of accepting credit/debit cards for obligations to the City.

BACKGROUND

The City of Franklin operates and provides utility services, delivers a myriad of goods/services, collects taxes, issues permits/licenses for certain privileges and obtains payments for Court Fees/Fines for traffic and code violations.

FINDINGS: Our customers tell us that they want the convenience of paying by credit/debit card. We currently accept credit/debit cards for online payments of utility bills, property taxes and yard sale permits and the customer pays a fee to the processor. We also offer phone in payment for City Court fees/fines (fee applies) and for payments in the office where the fee is absorbed as part of the Court Cost applied.

Financial institutions charge a fee for processing credit/debit cards. These fees vary based on (1) where the transaction occurs (face-to-face or online) (2) tax or nontax (3) credit or debit transaction (4) card type (VISA, MC, Discover, American Express, etc) (5) issuer (e.g. BOA, FTB, Chase) (6) merchant (the “business”) or merchant service provider (third party) (7) Pin or signature (8) convenience, fixed fee, fixed rate (percent of sales value) and/or combination and (9) product/service. These fees can vary but generally are in the 2-5% range for general credit card transactions. Small dollar transactions typically have a minimum and so the fee charged (on a percentage basis) can be considered quite high. Specific challenges arise because the firm branding the service (particularly VISA) have certain rules which could restrict our ability to conduct business as we desire – e.g. we can’t charge a different rate for card transactions than cash transactions and we can’t “cap” a product or service line (i.e. we only accept if less than “x \$”). Lastly, data breaches are inherent in accepting credit cards and customer data security is paramount in our decision process.

Enclosed is a summary spreadsheet of information pertinent to this issue. The fundamental challenge is to determine “who pays the credit/debit card processing fees charged”?



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MEMORANDUM

FINANCIAL IMPACT

The fees paid to our processor for Court fees last fiscal year was less than \$5,000 on about \$150,000 in payments made in the office. In addition, customers called in and paid about \$110,000 over the phone and paid the fee. This cost was offset by a significant reduction in bad checks and increased payments. Since customers paid the online fees, there was no cost to the City for those payments.

ALTERNATIVES

The alternatives considered include:

1. Continue the same course
2. Extend options to accept credit/debit cards with the City paying the fee for payments made in the office
3. Extend options to accept credit/debit cards with the customer paying the fee for payments made in the office.
4. Extend options to accept credit/debit cards with the City paying the fee for payments made online
5. Extend options to accept credit/debit cards with the customer paying the fee for payments made online
6. Extend options on a case-by-case basis using recommendations from Department Heads
7. For fees paid by the City, review costs of service delivery and revise the Municipal Code accordingly to recover the costs and obtain the desired outcome

RECOMMENDATION

It is recommended that the Finance Committee accept this status report and that guidance be provided to pursue options 6 and 7.



November 21, 2011

TO: Board of Mayor and Aldermen

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

SUBJECT: **BAD DEBTS**

PURPOSE

The purpose of this memorandum is to inform the Board of efforts to collect outstanding debts owed the City.

BACKGROUND

The City of Franklin operates and provides utility services and performs activities to ensure customers who do not pay their pay have adequate opportunity. These actions include application of late fees, disconnection for nonpayment and transfer of the account to a third party Collections Agent. We also transfer NSF instruments (checks and drafts) to this agent. Outstanding taxes are pursued thru separate actions as are permits/licenses. We pursue outstanding court obligations using our inhouse counsel.

FINDINGS: We have very few obligations from utility operations that are not met. In FY 2011, we presented over 51,000 late notices - about 19% of the bills got a late notice. Of those, we disconnected 1,948 customers, or about 0.7% of our billed customers. We turned over 465 accounts with about \$77,000 in outstanding indebtedness to the Collections Agent. We had 289 NSF instruments presented for utility bills. Property taxes are transferred to the Clerk & Master to pursue. Permits/licenses are paid at the time the permit or license is issued and should any check not be honored, we revoke the license and inform the payee to honor the instrument with cash. Court obligors are provided additional notices, with fees applied, should the obligation not be met. If not met, we inform the State which takes action to suspend the driver's license (ONLY for certain traffic offenses). Local code violations are pursued using the legal system. However, State law does not afford us the option of transferring the outstanding indebtedness to a Collections Agent unless we follow certain actions, including selecting a vendor thru a competitive bid.

FINANCIAL IMPACT

Uncollected obligations affect the rates and fees charged to all customers. There was about \$146,000 in outstanding utility bills at the end of FY 2011 and about \$650,000 in outstanding obligations owed the Court last fiscal year.

ALTERNATIVES

The alternatives considered include:

1. Continue the same course and not pursue outstanding court fees.
2. Pursue legal actions using our Legal Department.
3. Pursue using a competitively bid contract to pursue outstanding obligations.

RECOMMENDATION

It is recommended that the Finance Committee accept this status report and that guidance be provided to pursue option 3.