



# City of South Lake Tahoe

## Report to City Council

**Meeting Date: February 11, 2020**

**Title:** Credit Card Processing Cost Evaluation and Potential Award of Services Agreement to Paymentus for Credit Card Payment Processing

**Location:** Citywide

**Responsible Staff Member:** Debbie McIntyre, Administrative Services Director, (530) 542-7402

### **Background:**

The City of South Lake Tahoe Revenue division currently utilizes a financial system called CommunityPLUS, Version 9.1 and its on-line platform eGov provided by software company CentralSquare Technologies to collect on-line payments using PayPal as payment processor. When the system was originally set up, credit cards were a small percent of the City's overall payment type volume, and the City viewed credit card acceptance as a method of encouraging prompt and more guaranteed form of payment. In recent years, credit and debit cards have become so widely used that most customers expect to pay with a card.

The City processes over 5,000 online payments annually for business licenses, VHR permits and transient occupancy tax (TOT) revenue collection, for a total of over \$5,000,000. Currently, staff is also able to receive credit card payments at the counter and by phone in all City departments. The City pays between 2.1% and 2.4% in bank fees to process the credit card transactions which costs approximately \$150,000 per year.

In the past, cities were required by law to absorb the credit card processing fee. Several years ago, the laws changed, and cities can now pass the processing fee on to the consumer if the consumer chooses to pay with a credit/debit card.

### **Issue and Discussion:**

The City does not currently pass along any of the credit/debit card fees to customers as transaction or convenience fees, due to processing fee being against PayPal policy. Based on the increasing volume of high dollar credit card transactions and in keeping with Council's general direction to provide cost recovery, Finance staff performed a study of alternative payment processor providers and is presenting an option related to cost savings.

It is staff's recommendation that the customer pay a convenience fee (as a service fee), rather than the City absorbing the fee. After reviewing the data and options available to the City, staff selected Paymentus as the best provider for the City and community needs. Switching to Paymentus payment processor for part or all finance and land development type transactions would allow the City to recover and offset bank fees. The service fee will be paid directly to Paymentus when the customer completes an online, at the counter or phone

credit/debit card transaction. The City will never handle the fee, receiving only the actual amount paid toward the fees and tax revenue.

The project will be implemented in two phases with the first phase being a change for people paying business licenses, VHR permit fees, and TOT tax with a credit/debit card online. After successful implementation of the first phase, Finance will expand this payment model to other finance and land development related fees and permits (at the counter and by phone in Finance, Development Services and Public Works departments). If a customer does not wish to pay the 2.95% service fee, the online customer will now have the option to pay with an e-check at a flat fee of \$1.00 per e-check. If a customer calls or comes to the counter to pay with a credit card, staff will process their credit card transaction through Paymentus's online payment portal with the same 2.95% service fee rate; however, paying with checks or cash over the counter or by mail will not incur any fees.

The term of the proposed services agreement with Paymentus is five (5) years, with a three (3) year renewal period. The City Attorney has previously reviewed the agreement. If the contract is approved, work will begin immediately to change the online service to the new credit card payment processor, with full implementation, including installation of the Paymentus swipe devices at aforementioned locations expected by July 2020.

Once the system is fully operational and the City notifies its customers of their options, staff will evaluate the effect of the changes and recommend future adjustments as necessary.

**Financial Implications:**

The project requires changing of the payment processor from PayPal to Paymentus with a one-time cost of approximately \$10,000 which includes CentralSquare Technologies project implementation fees of approximately \$8,850 and purchase of swipe devices for the remainder of the total. Funding for this project is available in the current year's budget. The cost will be fully recovered in the first year of implementation and will then yield annual savings of between \$100k and \$150k per year by transferring credit card processing costs to the consumer.

**Environmental Considerations:** None

**Policy Implications:** Consistent with City's Financial Policies