



Credit Card Processing & Cost Recovery Options

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Background

- The City of Denton has processed credit card payments for over 25 years, budgeting annually for these costs.
- **2011:** Convenience fees were previously applied to online transactions but removed in 2011 across all payment portals.
- **2014:** Rising costs (due to commercial cards with higher interchange rates) led to a 2.7% convenience fee for commercial utility accounts paying online or by phone.
- **2019:** Card brand rules changed, restricting convenience fees to flat amounts only.
- **2020:** City Council directed convenience fees to be removed when the City adopted a new card processing contract with Wells Fargo Merchant Services (WFMS) since a percentage was no longer allowed.

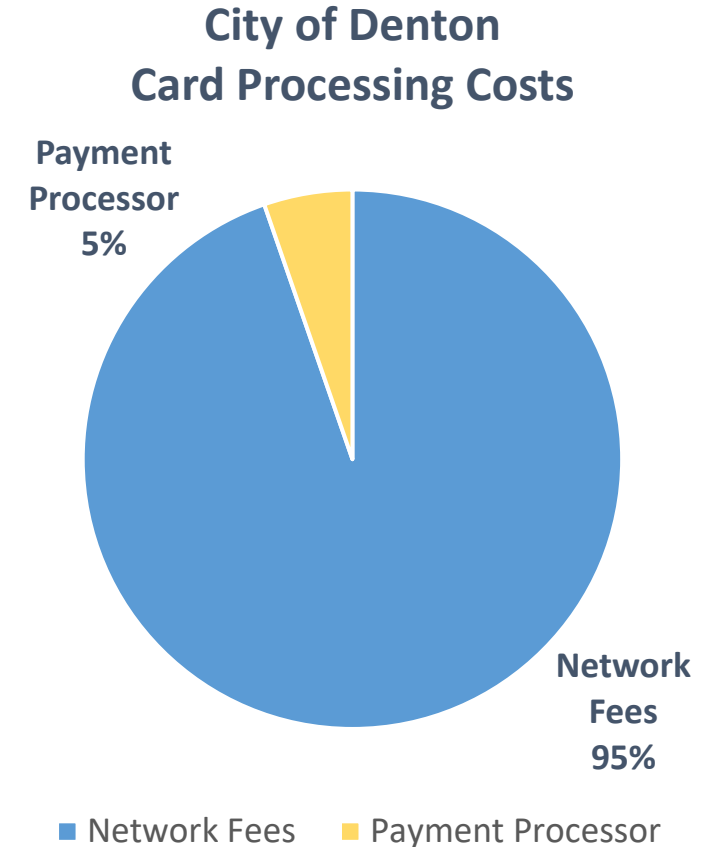
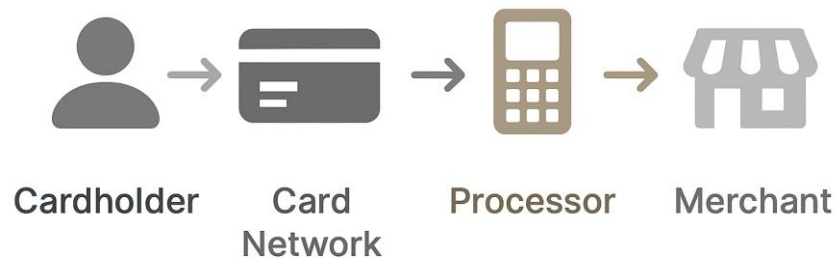
Card processing costs are absorbed by departmental budgets and funded through City revenues.
- **2025:** Card brand rules changed in Oct. 2025 presenting a new fee option that can be implemented on a percentage basis.



Current Card Processing Costs

Three cost components:

1. **Interchange Rate:** Non-negotiable, ~1.51% + \$0.10 per transaction.
2. **Card Network Assessment:** Non-negotiable, ~0.12%–0.15% of monthly sales.
 - Set by the payment networks (card brands) such as Visa, Mastercard, American Express, and Discover.
3. **Payment Processor Fee:** Fixed by contract (WFMS).



Why Revisit Fees?

- Customer Service (Utility Billing) = 70% of the City's annual card processing costs, primarily from online payments, and account for approximately \$1.57 million annually in expense.
- Costs continue to significantly increase, up 20% from \$1.31M to \$1.57M (FY 2024 vs. FY 2025).
- Utility payments are governed by MCC 4900.
 - Merchant Category Codes (MCC) are assigned by card networks (e.g., Visa, Mastercard) to categorize merchants for transaction processing, fee calculation, and compliance.
 - "MCC 4900" identifies transactions as utility-related payments.
 - Reduced interchange rates compared to retail merchants.
- Previously, only a **convenience fee** was permissible with MCC 4900, but it provides limited flexibility in how the fee is applied.
- Changes in card processing rules (Oct. 2025) now allow for a **service fee** option with MCC 4900.



Fee Options

	Convenience Fee	Service Fee
Allowed for MCC 4900	✓ Yes	✓ Yes
Fee Type	Flat fee only	Flat or percentage
Online Transactions	✓ Yes	✓ Yes
Includes Recurring Payments	✗ No	✓ Yes
Rate Can Be Tiered	✗ No	✗ No
Segregation by Account Type	✓ Yes	✓ Yes
Includes eChecks	✓ Yes (must apply to <u>all</u> payment types)	✗ No



Fee Options

1. Convenience Fee (Current Rules):

- Flat fee only.
- Applies to all payment types (including eChecks).
- Excludes recurring payments.



Estimated rate to recover
100% of costs:

\$2.90 flat fee

2. Service Fee (New Visa Rules – Oct 2025):

- Percentage or flat fee.
- Includes recurring payments.
- Excludes eChecks.
- Estimate provided by WFMS.



1.55% (all card payments)
or
2.60% (commercial only)



Online Card Volumes by Utility Customer Type

Fiscal Year 2024

	Number of Transactions	Amount Processed	Average Payment Amount	Fees Paid By City
COMMERCIAL	27,998	\$ 34,966,645	\$1,248.90	\$ 895,904
RESIDENTIAL	553,175	\$ 91,653,493	\$165.69	\$ 415,903
FY 2024 Total	581,173	\$ 126,620,138		\$ 1,311,807

Fiscal Year 2025

	Number of Transactions	Amount Processed	Average Payment Amount	Fees Paid By City
COMMERCIAL	32,619	\$ 44,282,327	\$1,357.56	\$ 1,076,323
RESIDENTIAL	631,679	\$ 106,896,692	\$169.23	\$ 499,659
FY 2025 Total	664,298	\$ 151,179,019		\$ 1,575,982
YoY Increase	+ 83,125	\$ 24,558,881		\$ 264,175



Implementation Timeline

If direction is provided to proceed with implementing a fee:

- Staff will initiate a marketing campaign to educate customers on the fee and payment methods which do not incur card fees (e.g., eChecks).
- Staff will work with our vendors to implement the fee modules.
- Estimated time to implement is approximately 6 months.
- Fees would begin with the start of the new fiscal year, October 1, 2026.



City Council Direction

City Council direction on the recovery of credit card processing costs:

Option 1 (Status Quo) – Maintain cost recovery through utility department budgets.

- The cost is recovered in utility base rates.

Option 2 – Implement a convenience fee.

- A flat fee assessed for non-recurring online payments, including eChecks.

Option 3 – Implement a service fee.

- A flat fee or percentage for all online payments, excluding eChecks.

Additionally, determine if the fee is to be applied to residential, commercial, or both.

The Public Utilities Board (PUB) recommended Option 3 - implementation of a service fee of approximately 1.55% on all residential and commercial card transactions at the March 9, 2026 meeting.



Questions

