

# Credit Card Processing & Cost Recovery Options

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# Background

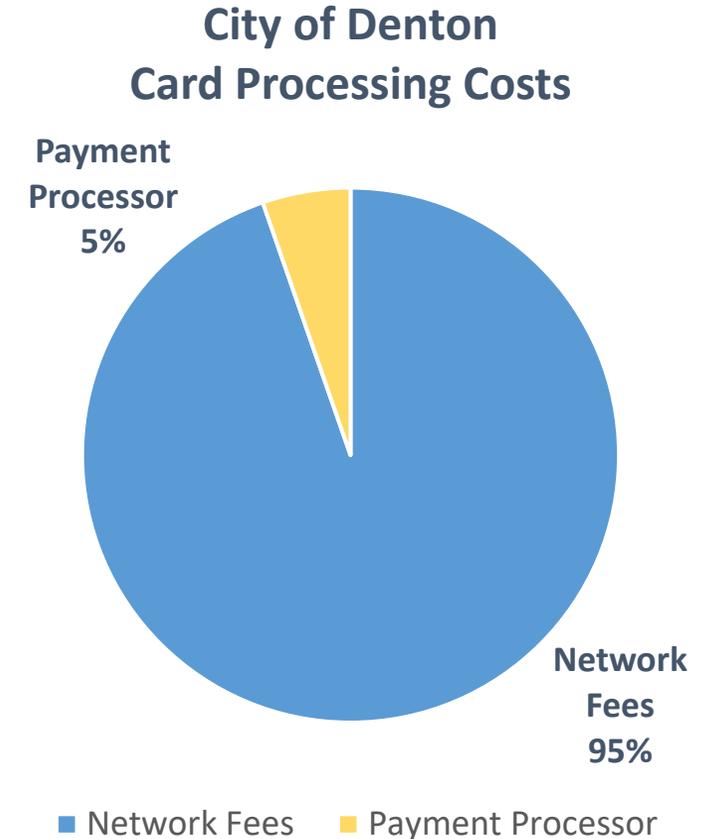
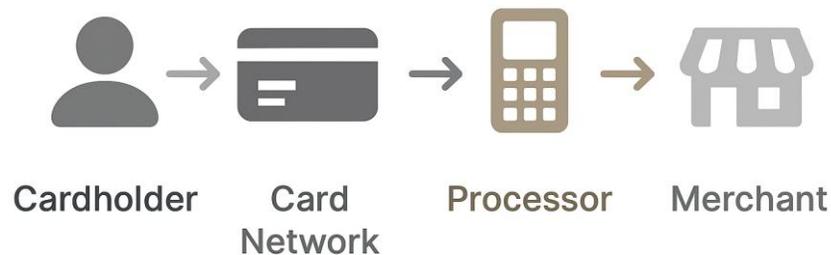
- The City of Denton has processed credit card payments for over 25 years, budgeting annually for these costs.
- **2011:** Convenience fees were previously applied to online transactions but removed in 2011 across all payment portals.
- **2014:** Rising costs (due to commercial cards with higher interchange 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
<b>FY 2024 Total</b>	<b>581,173</b>	<b>\$ 126,620,138</b>		<b>\$ 1,311,807</b>

## 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
<b>FY 2025 Total</b>	<b>664,298</b>	<b>\$ 151,179,019</b>		<b>\$ 1,575,982</b>
<b>YoY Increase</b>	<b>+ 83,125</b>	<b>\$ 24,558,881</b>		<b>\$ 264,175</b>



# Implementation Timeline

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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.



# PUB Direction

PUB 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.



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# Questions

