

COUNCIL ACTION FORM

SUBJECT: MASTER SERVICES AGREEMENT FOR PROCESSING OF CREDIT AND DEBIT CARD PAYMENTS ON UTILITY ACCOUNTS

BACKGROUND:

Early in 2003, in response to customer requests to make utility payments by credit card online, the City sought out services for third-party credit card payment processing. Due to the expected small volume of transactions, only one company, Official Payments Corporation (OPC), was interested in entering into an agreement with the City. A third party process agreement is preferred for utilities since the utility customers do not need to absorb the cost of credit card fees and discounts, and the City already offers a very inexpensive automated payment through automated check handling (ACH) payments. This policy is consistent with most other public utilities.

In July 2003, the City entered into an agreement with Official Payments Corporation (OPC) to process credit and debit card payments for our utility customers. OPC provides a website and an Interactive Voice Response (IVR) so our customers can make credit/debit card payments 24 hours a day, seven days a week. OPC provides this service at no cost to the City by charging our customers a convenience fee. The convenience fee is \$4.95 per transaction with a maximum transaction amount of \$500. The agreement with OPC continues in place and can be cancelled at any time.

Customers have provided consistent feedback that the convenience fee is too high, and OPC was contacted to see if they would lower the convenience fee. They offered to lower the convenience fee to \$4.50 with a maximum transaction amount of \$250, or to lower it to \$3.95 with a maximum transaction amount of \$150. Based on the response from OPC, City staff sought informal quotes from other service providers and found one, Paymentus, that offered more favorable terms.

Paymentus has requested a three-year initial term for a Master Service Agreement to process credit and debit card payments for our utility customers. The initial three-year term was requested to allow the company to recoup the up-front costs for establishing a website and IVR system to handle payments made to the City while keeping fees as low as possible. After three years, the agreement can be terminated by either party upon six months' written notice. Although there is no cost to the City for this agreement, it is being submitted to Council because of the three-year initial term.

Paymentus Corporation provides the same services as OPC and has offered to provide services at no cost to the City, charging our customers a \$3.50 convenience fee per transaction with a maximum transaction amount of \$350. Paymentus will also provide the City with an enhanced method for verifying payments made by customers.

Over the past 18 months, 98.3% of the 12,800 credit/debit card payments received have been for \$350 or less. Those customers would have saved \$1.45 per transaction for a total savings of \$18,240 under the Paymentus fee structure compared to the current OPC fee structure. The 1.7% of customers who made payments over \$350 would have incurred an additional fee of \$2.05 per transaction for a total additional cost of \$453.

ALTERNATIVES:

1. Approve the master service agreement with Paymentus Corporation for the processing of utility customers' credit/debit card payments.
2. Do not approve the master service agreement with Paymentus Corporation and continue using OPC for the processing of utility customers' credit/debit card payments.

MANAGER'S RECOMMENDED ACTION:

Paymentus Corporation will provide the same service as is currently being provided by OPC at a lower overall cost to our customers. Over 98% of utility customers paying their bills by credit/debit card will save money if the City cancels its agreement with OPC and enters into an agreement with Paymentus Corporation.

Therefore, it is the recommendation of the City Manager that the City Council adopt Alternative No. 1, thereby approving the master service agreement with Paymentus Corporation for the processing of utility customers' credit/debit card payments.