



City of Miami Beach, 1700 Convention Center Drive, Miami Beach, Florida 33139, www.miamibeachfl.gov

COMMISSION MEMORANDUM

TO: Honorable Mayor Steven Meiner and Members of the City Commission

FROM: Rickelle Williams, Interim City Manager

DATE: June 26, 2024

SUBJECT: **A RESOLUTION OF THE MAYOR AND CITY COMMISSION ACCEPTING THE RECOMMENDATION OF THE FINANCE AND ECONOMIC RESILIENCY COMMITTEE (FERC) AT ITS MAY 24, 2024 MEETING TO AUTHORIZE THE IMPLEMENTATION OF A MODIFIED HYBRID PAYMENT SERVICE FEE MODEL**

BACKGROUND

This item stems from an October 13, 2021 referral initially sponsored by then Commissioner Ricky Arriola and now sponsored by Commissioner Alex Fernandez.

The City is implementing a modern payment service to enhance the processing of utility billing (UB) and other financial services for both residents and businesses. This initiative aims to provide a consolidated, one-stop shopping cart experience in the Resident Access Portal, thereby modernizing, and streamlining the city's digital services. The following outlines the proposed service, including an exploration of service fee structure options, industry standards, and the financial implications of these options. Traditionally, the city has employed a segmented approach to collecting payments for various services, including utilities, permits, parking and fines. This method often resulted in inefficiencies, a higher administrative burden, and a less user-friendly experience for city residents and businesses. Recognizing the shift towards digital solutions and the growing expectation for convenient and integrated service platforms, the City initiated a review to identify opportunities for improvement. This led to the proposal for a modernized payment system that aligns current technological capabilities with customer expectations.

ANALYSIS

Modern Payment Service Overview

The payment service will offer a seamless online experience for users to manage and pay for multiple services through a single interface. This platform will support various payment methods, including credit cards and e-check/ ACH (Automated Clearing House) transfers, among others.

Fee Structure Options

1. City Absorbing Transaction Fees (current model): This model involves the city covering all transaction fees, which encourages residents to use credit cards instead of lesser expensive transactional processes such as e-checks/ACH processing. This approach promotes ease of use and may increase customer satisfaction; however, it also results in the City incurring financial burdens, particularly with credit card transactions that have higher fees. Absorbing credit card fees effectively subsidizes card users at the expense of those who pay with e-checks/ ACH, cash, or other methods.
2. Passing Fees to Customers: Alternatively, the City could pass transaction fees directly to customers. This method is transparent about the actual costs associated with various payment methods but might discourage some residents from utilizing the digital payment service, especially for high-fee payment methods like credit cards.
3. Hybrid Approach: A compromise that involves absorbing nominal e-check/ACH transaction processing fees, with relatively lower cost, and passing on relatively higher credit card transaction processing fees to customers. This approach balances financial impact with customer convenience and is aligned with current practices at the county, state, private sector, and in other municipalities.

Most modern digital payment platforms offer flexibility in handling transaction fees. It is becoming common practice for businesses and government entities to employ a hybrid fee structure. According to industry standards, the average cost for processing credit card payments ranges from 2.5% to 3.5% of the transaction amount. Alternately, e-check/ACH fees are typically much lower, and as a general guideline, interchange fees for these transactions can range from around 0.05% to 1.5% per transaction.

Cost Analysis

City Absorbing Transaction Fees Model (current model):

- .4% (negotiated from .5%) per transaction total plus \$0.30 (negotiated from \$0.50) on point of sale and online transactions.
- IVR phone payments add \$0.50 fee per transaction for utility billing and general billing transactions.
- e-Checks carry a \$0.95 fee per transaction (negotiated from \$1.95).
- Interchange rates are determined by credit card providers.

Passing Fees to Customers Model:

- No per transaction fees for the City.

- Customers 3.5% (negotiated from 3.9%) per transaction total with a minimum of \$2.50 on any utility billing, general billing, and non-Tyler Technologies applications.
- IVR phone payments add \$0.50 fee per transaction for utility billing and general billing services.
- E-Checks carry a \$1.50 fee per transaction (negotiated from \$1.95)
- Permitting, Planning, and Code charge a per transaction rate of 3.9% with a \$2.50 minimum.

After consideration of the options and analysis of industry standards, the Administration's recommendation was to adopt the hybrid fee structure for the City's new payment service. This hybrid model promotes the adoption of digital payment services by balancing user convenience with financial sustainability. Additionally, it aligns with industry standards and practices, providing a competitive and user-friendly payment solution for city residents and businesses. This model allows for a continued no cost payment processing option via e-check/ACH while passing on expensive credit card fees to those customers that choose that option.

Hybrid Approach (Recommended by Administration at FERC):

- City covered cost:
 - No per transaction fee to the City for credit card transactions.
 - E-Checks carry a \$1.50 fee per transaction (negotiated from \$1.95)
- Customer covered cost:
 - Customers 3.5% (negotiated from 3.9%) per transaction total with a minimum of \$2.50 on any utility billing, general billing, and non-Tyler Technologies applications.
 - IVR phone payments add \$0.50 fee per transaction for utility billing and general billing services.
 - Permitting, Planning, and Code charge a per transaction rate of 3.9% with a \$2.50 minimum.

After discussions at the April 19, 2024 Finance and Economic Resiliency (FERC) meeting regarding allowing UB customers with smaller bills, such as single-family homes, to not incur the credit card fees, a path that would limit City's exposure to the high credit card fees while allowing some accounts holder to use a credit card with the City absorbing the fee was found. After additional discussions with Tyler, a limit in the amount allowed to be charged on a credit card can be put in place. This would allow UB customers with smaller bills to still use a credit card free of fees while larger accounts would not have access to use the credit cards feature but would use the free to the customer e-check or paper check payment method. The average single family home's monthly utility bill which includes water, sewer, stormwater, and sanitation is \$289.79.

It should be noted that any system with a credit card limit, auto-payment would be

limited to non-credit card payment methods. This is to ensure that a customer's bill isn't partially paid and leave an unpaid balance that would accrue penalties and fees.

At the May 24, 2024 FERC meeting after discussions of the proposed modified hybrid payment service model, Commissioner Bhatt motioned to have this item be heard at Commission with a favorable recommendation to utilize the hybrid approach for transaction fees for all non-Utility Billing transactions as allowable and for the City to absorb all transaction fees for Utility Billing with a limit on credit card charges of \$300 per transaction. The motion failed with a 2-2 split vote with Commissioner Fernandez and Commissioner Rosen Gonzalez opposing. The item is returning to Commission with an unfavorable recommendation.

Modified Hybrid Approach (Motioned by FERC):

- City covered cost:
 - Transaction fees for UB Credit card payments only limited to \$300.00 per transaction.
 - E-Checks fees of \$1.50 fee per transaction. (negotiated from \$1.95)
- Customer covered cost:
 - Customers 3.5% (negotiated from 3.9%) fee per transaction total with a minimum of \$2.50 on any general billing and non-Tyler Technologies applications.
 - IVR phone payments add \$0.50 fee per transaction for general billing services.
 - Permitting, Planning, and Code transactions incur a per transaction fee rate of 3.9% with a \$2.50 minimum fee.

CONCLUSION

The Administration recommends the City Commission approve the implementation the modified hybrid fee approach for transaction fees for all non-Utility Billing transactions as allowable and for the City to absorb all transaction fees for Utility Billing with a limit of \$300.00 per transaction on credit cards charges.

LOBBYIST DISCLOSURE

In accordance with Resolution No. 2023-32857, adopted by the City Commission on December 13, 2023, the following information has been provided by the Administration as it relates to the subject resolution:

Was agenda item initially requested by a lobbyist which, as defined in Code Sec. 2-481, includes a principal engaged in lobbying? (No)

If so, specify name of lobbyist(s) and principal(s): (N/A)