



MANAGER'S MEMORANDUM

Prepared for: **Naperville City Council**

By: City Manager's office

5/23/2024

A. MANAGER'S MEMORANDUM

Source:	Subject:	Action:
1. Ray Munch, Finance Director Nick Krueger, Budget Analyst	Credit Card Fee Policy Analysis	FYI
2. Dick Dublinski, Director of Public Works	Mosquito Abatement Program Update	FYI

**CITY OF NAPERVILLE
MEMORANDUM**

DATE: May 23, 2024

TO: Doug Krieger, City Manager

THROUGH: Raymond Munch, Finance Director

FROM: Nick Krueger, Budget Analyst

SUBJECT: Credit Card Fee Policy Analysis

PURPOSE:

The purpose of this memorandum is to provide the City Council with the report requested during the 2024 budget workshops regarding the City's policy around credit card fees, including unique considerations related to this type of policy decision.

BACKGROUND/DISCUSSION:

Naperville offers customers several methods for payment of utility bills, taxes, and fees, including paper (checks and cash) and electronic (automatic bank drafts and credit cards). The use of credit cards – defined as all payment card types that incur transaction fees - has increased in recent years due to ease, security, and efficiency. Credit card payments provide the City with several benefits, including reducing outstanding amounts due as well as administrative costs associated with traditional paper payment methods.

The City accepts credit card payments for all utility bills, commuter parking fees, local taxes (food and beverage, hotel/motel, gas, and real estate transfers), permits, parking citations, admission to events and programs at Naper Settlement, library services, and various other fees a customer may incur, such as a utility turn-on fee.

The City's policy is to absorb credit card transaction fees as a business cost. There are two exceptions: the utility bill pay-by-phone system and commuter parking pay station/mobile application; this is due to these systems having a pass-along fee model as part of their platform. Transaction fees cost the City nearly \$2 million per year, which is 2% of the total revenue collected through card payments. Most of these fees are incurred in the Electric Utility Fund and Water Utilities Fund.

In 2023, 17 separate credit card merchant accounts were maintained to collect payments across all lines of business, including the Naperville Public Library. Staff has attempted to reduce the number of processors used; however, the relationship between software companies and merchant card providers is complex. In most cases, the City has little control over the merchant card provider servicing any one of the many technology platforms accepting payments across the City.

Staff reviewed historical fee collections, surrounding communities' policies, and considerations taken into account when a business chooses to pass these types of fees onto customers as part of this analysis.

Historical Collections

The below table outlines the revenue collected through credit card payments and the fees associated from 2021 to 2023. Additionally, information on credit card fees as a percentage of revenue collected is provided.

Year	Revenue Collected	Credit Card Fees	% of Revenue
2021	\$79,798,825	\$1,654,247	2.1%
2022	\$82,346,461	\$1,751,756	2.1%
2023	\$86,785,114	\$1,885,754	2.2%

\$ in millions

The amount of fees as a percentage of revenue collected has been consistent over the past two years while revenue from card payments has increased. Since 2021, the revenue collected by credit card payments has increased by nearly \$7 million, while the credit card fees the City pays has increased by roughly \$218,000. That increase was largely due to the migration of local tax payments to an online portal, which allowed these taxes to be paid with a credit card.

A breakdown of 2023 merchant card fees and revenues collected, by payment type, is below.

Credit Card Fees by Type (2023)

Payment Type	Revenue Collected	Fees Incurred
Utility Billing (Online/eBill)	\$76,746,095	\$1,648,833
Commuter Parking (Pay-by-Phone/Pay Stations) *	\$644,835	\$81,036
Utility Billing (Over the counter)	\$3,293,625	\$53,492
Local Taxes (Online)	\$1,245,679	\$31,556
Misc. Finance Payments (Over the counter)	\$1,294,482	\$28,192
Police Department (Citations, bail bonds)	\$167,456	\$13,446
Library (All)	\$170,827	\$12,344
Misc. Online (Refuse carts, tree sales, CPR)	\$270,750	\$10,715
Enterprise Permitting and Licensing	\$269,060	\$6,141
Utility Billing (Pay-by-Phone) **	\$2,682,305	\$0
Total	\$86,785,114	\$1,885,754

\$ in millions

*City collects the fee as a revenue and then pays the merchant

**Fees paid directly to the merchant by the customer

Naperville's credit card fee absorption policy was put into place for both ease of customer transactions as well as minimizing outstanding customer balances. The ease of card payments results in a higher likelihood of on-time payments and subsequent continuous

revenue streams. As of the end of February, outstanding utility bill amounts totaled \$745,615, which is less than 0.5% of billed 2023 utility charges.

Comparable Communities

With the prevalence of electronic payments, various businesses and governments have begun passing on the cost of credit card fees to customers or implementing collection of a separate fee to offset this expense. Staff surveyed comparable communities and private utility providers on current practices around credit card fees. The table below indicates whether responding entities pass along fees for utility billing and other payment types.

Organization	Utility Billing	Other Payments
Aurora	No	Yes
Schaumburg	Yes	Yes
St. Charles	Yes	Yes
Rockford	Yes	No
Plainfield	No	Yes
Lisle	Yes	Yes
Joliet	Yes	Yes
Winnetka	No	No
Woodridge	No	No
Downers Grove	No	No
Wheaton	No	No
DuPage County	Yes	Yes
Will County	Yes	Yes
Nicor	No	-
ComEd	No	-

Considerations

The primary goal of passing fees along to the customer is cost recovery. However, there are other factors to consider with this type of shift in policy, including customer equity and administrative impacts.

Customer Equity

Disparity in income may result in card fee cost recovery disproportionately impacting lower-income individuals. Passing along a fee could potentially create a barrier for low-income customers to pay their bills in full and on time, resulting in a less stable year-round revenue stream for the City. Additionally, low-income customers are more likely to have their utilities shut off for non-payment. Often those customers have little choice but to pay the balance of their account with a credit card to resume utility service.

In addition, studies have shown that low-income households are less likely to use check or bank draft (EFT) payments due to lack of access and cash flow issues. A 2019 Federal Reserve survey found that low-income consumers were over 3.5 times more likely to not have a bank account than consumers overall. Not having a bank account leaves these

households without access to alternative online payments methods like EFT. Lower income individuals are also less likely to use any type of autopay method aside from credit cards because of the concern over the amount of cash they have on hand. These individuals may need to wait to pay their bills once they have sufficient cash in their account, and as a result, they are less likely to use EFT, e-checks, or other direct autopay methods.

Administrative Impact

Changing customer payment behavior presents unique administrative challenges. For example, a rise in in-person or mailed utility bill payments could result in increased customer foot traffic. This could result in the need for a staffing realignment and subsequent reduction in other services performed, such as quality assurance checks for account accuracy.

All utility billing transactions come with a cost to the City, whether third-party printing or technology platforms, card transaction fees, direct employee service, or processor and bank lockbox fees. All of this is considered as part of the cost of doing business and is utilized when setting customer utility rates. A significant shift to other payment methods, such as check, would still result in some type of administrative fee to the City.

Maintaining compliance with applicable federal and state laws around a fee pass through must also be considered. Although passing credit card fees onto customers is legal in Illinois, there are several states where that is not the case. Staff would need to gain an understanding of how these fees can be passed and what would be required to ensure the City stays within compliance guidelines.

Summary

Use of a credit card for payment towards City services continues to increase in popularity due to ease, security, and efficiency. Naperville's current policy is to absorb transaction fees for such payments as part of the cost of doing business. Various organizations have started passing through these fees to customers or charging a separate fee to recoup costs.

Transaction fees cost the City nearly \$2 million per year, which is 2% of the total revenue collected through card payments. Revenue growth has increased, while the percentage of card fees as part of that total revenue has remained stagnant. Surrounding communities utilize a variety of fee policies, including no merchant fee pass through to customers, fee pass through for all transactions, and fee pass through for only certain transactions.

RECOMMENDATION:

Please distribute this memorandum to the City Council through the Manager's Memorandum.

CITY OF NAPERVILLE MEMORANDUM

DATE: May 23, 2024

TO: Doug Krieger, City Manager

FROM: Dick Dublinski, Director of Public Works

SUBJECT: Mosquito Abatement Program Update

Purpose:

The purpose of this memorandum is to provide information regarding the mosquito abatement program.

Discussion:

The mosquito abatement program began in early May. The City of Naperville employs several strategies to control the mosquito population. The four strategies we employ are listed below:

1. Source reduction is the practice of permanently eliminating breeding sites. City crews inspect for and remove standing water where possible.
2. Larviciding targets the mosquito in the larval stage. Chemicals are used to treat ponds and marsh areas, as well as all the catch basins throughout the city.
3. Monitoring the mosquito population is done on a weekly basis with mosquito traps. The traps monitor the effectiveness of our larval control and provide an early warning when adult populations are rising. The City tests mosquitoes caught in traps for the presence of the West Nile Virus. The outcome of the test and the number of mosquitoes caught in the traps indicate when spraying is needed.
4. Spraying is the method most familiar to the public. Controlling the population of adult mosquitoes with chemicals is sometimes necessary. The City uses the safest chemicals available in very low volumes and sprays only as needed. All products used by our program are registered for use in residential areas by the EPA and are recommended by the EPA and CDC to mitigate outbreaks of mosquito-borne disease.

DPW staff sets 11 gravid traps citywide, and mosquitoes from those traps are tested on a weekly basis for West Nile Virus. Our mosquito technicians will also treat breeding sites throughout the city as needed. The mosquito populations are low at the present time. We will be testing our traps every Wednesday for the rest of the summer.

Treatment of the 8,000 catch basins throughout the city will be completed by the end of June. Catch basins are treated once per year with larvicide briquettes, which prevent mosquitoes from developing into biting adults.

The DuPage County Health Department has an extensive mosquito trapping program throughout the county and maintains one gravid trap in Naperville. DuPage County will notify the City if the trap tests positive.

A press release will be sent out before Memorial Day weekend informing residents about our program and encouraging them to take the necessary precautions to avoid mosquito bites and to eliminate potential mosquito breeding areas from around their homes.

Staff will continue to provide updates on the mosquito abatement program throughout the season.

Recommendation:

I recommend that this information be shared with the City Council through the Manager's Memorandum.