CITY OF SEBASTOPOL CITY COUNCIL
AGENDA ITEM REPORT FOR MEETING OF: October 20, 2026

==

To:	Honorable Mayor and City Councilmembers
From:	Ana Kwong – Administrative Services Director
Responsible Department:	Administrative Services
Subject:	Credit Card Processing Cost Analysis and Consideration of Convenience Fees

==

RECOMMENDATIONS:

Staff recommends that the City Council receive the updated credit card processing cost analysis and provide direction on whether to continue absorbing processing fees or direct staff to return with a formal policy and implementation plan to recover some or all credit card processing costs from customers.

If Council directs staff to pursue a customer-paid fee, any future proposal would identify the payment types and services to which a fee would apply, preserve no-fee payment alternatives, and be reviewed by the City Attorney and the City's payment processors before implementation.

PROCESS OF AGENDA ITEM:

- Presentation of agenda item by staff
- Questions and discussion from Councilmembers
- Public comment period
- Council discussion
- Direction to staff

EXECUTIVE SUMMARY:

The City reviewed merchant processing activity during the two-year period from July 1, 2024 through June 30, 2026. During that period, the City processed 22,424 credit card transactions totaling $7.3 million and incurred $116,970.92 in merchant processing fees. In-person payments had a higher average processing cost than online payments.

Staff used July 2026 activity to provide a one-month example. During July, the City processed 589 card transactions totaling $221,633.81 and incurred $4,758.17 in processing fees, for an overall effective rate of 2.15%. In person accounts processed 76 transactions totaling $10,993.38 and incurred $340.17 in fees, for an effective rate of 3.09%. Online accounts processed 513 transactions totaling $210,640.43 and incurred $4,418.00 in fees, for an effective rate of 2.10%.

Most online payment activity is associated with utility bill payments processed through Bluefin/CivicPay. The related processing costs are paid by the Water and Sewer Enterprise Funds. Processing costs associated with in person card payments for permits, licenses, citations, and other City services are generally paid by governmental funds.

Under the current approach, these processing costs are paid by City funds rather than by the individual customer using a credit card. The policy question before the City Council is whether to continue absorbing these costs or direct staff to explore options for recovering some or all of the costs from customers who choose to pay by card.

BACKGROUND:

The City accepts credit card payments for utility bills, permits, licenses, and other services through onsite terminals and online payment systems. The City currently absorbs most processing fees. Utility bill payments are processed through the City's Bluefin/CivicPay system, and the related processing costs are paid by the Water and Sewer Enterprise Funds. Processing costs associated with onsite credit card terminals used for permits, licenses, citations, and other City services are generally paid by governmental funds.

Historically, the City has not charged customers for most credit card processing costs. One exception was adopted as part of the FY 2019-20 User Fee Schedule, which authorized a 3% transaction fee on permit payments exceeding $5,000.

CITYWIDE CREDIT CARD COST ANALYSIS

The two-year analysis is summarized below:

Payment Method	Transactions	Sales	Fees Paid	Average Cost per Transaction	Average Processing Cost Rate
Onsite	4,519	$1,163,065.70	$34,542.54	$7.64	2.97%
Online	17,905	$6,156,592.20	$82,428.38	$4.60	1.34%
Total	**22,424**	**$7,319,657.90**	**$116,970.92**	**$5.22**	**1.60%**

Note: The analysis is based on merchant processing statements. Because merchant statement periods and bank withdrawal dates do not always align, general ledger amounts recorded in a particular month may differ from merchant statement activity for that same month.

While the City's overall effective processing rate during the two-year review period was approximately 1.6%, the rate in any given month may vary depending on transaction volume, payment types, and the mix of onsite and online payments. July 2026 is provided as a recent example of actual activity and associated processing costs.

To illustrate current costs, staff reviewed credit card activity for July 2026. During that month, customers made 589 credit card payments totaling approximately $222,000. The City paid approximately $4,758 in processing costs related to those transactions.

JULY 2026 MONTHLY EXAMPLE:

Payment Location/System	Transactions	Payment Volume	Fees	Effective Rate
Police (In Person)	31	$1,811.15	$38.13	2.11%
Building & Planning (In Person)	21	$2,793.50	$96.98	3.47%
City Hall (In Person)	24	$6,388.73	$205.06	3.21%
Total Onsite	**76**	**$10,993.38**	**$340.17**	**3.09%**
SmartGov (Online)	41	$18,232.76	$531.41	2.91%
Bluefin/CivicPay (Online)	472	$192,407.67	$3,886.59	2.02%
Total Online	**513**	**$210,640.43**	**$4,418.00**	**2.10%**
July 2026 Total	**589**	**$221,633.81**	**$4,758.17**	**2.15%**

The effective rates shown above are historical averages based on actual July 2026 activity. Differences between departments do not reflect different contracts or fees charged to customers. Rates vary depending on factors such as payment volume, transaction size, card type used, and monthly account charges.

DISCUSSION:

Since implementation of the permit transaction fee, the City has collected approximately $5,986 through FY 2025-26:

- FY 2020-21: $500
- FY 2021-22: $0
- FY 2022-23: $177
- FY 2023-24: $1,991
- FY 2024-25: $1,934
- FY 2025-26: $1,384

The existing permit fee has recovered only a small portion of the City's overall processing costs. This provides context for Council's consideration of whether the current approach should be maintained or modified.

A survey of nearby agencies found mixed practices. Santa Rosa and Cloverdale charge percentage-based transaction fees with minimum charges. Cotati absorbs its credit card processing fees and does not charge customers a separate credit card fee.

STAFF ANALYSIS:

Continuing to absorb fees preserves the current customer experience but requires the City to continue paying these processing costs through its operating funds, including the Water and Sewer Enterprise Funds. Passing some or all of the cost to customers would reduce the amount paid by City funds, but it may result in customer concerns, changes in payment behavior, and additional administrative work.

If Council directs staff to develop a customer-paid fee, possible approaches include a percentage-based fee, a flat fee, or a targeted fee applied to selected payment channels or City services.

Staff recommends returning with a detailed implementation proposal after confirming system capability, legal requirements, notice requirements, no-fee alternatives, and the estimated amount that each option would recover.

OPTIONS IF THE CITY WANTS CUSTOMERS TO PAY THE CONVENIENCE FEE:

Option	Definition
Percentage-Based Fee	Customers pay a convenience fee that is calculated as a percentage of the transaction amount. The higher the payment amount, the higher the fee. For example, a $100 payment with a 3% fee would result in a $3 convenience fee, while a $1,000 payment would result in a $30 convenience fee.
Flat Fee	Customers pay the same convenience fee regardless of the transaction amount. For example, every credit card transaction could be charged a $2 fee whether the payment is $25 or $500.
Targeted Fee	Convenience fees are charged only for certain services, payment types, or payment methods. For example, the fee could apply only to online credit card payments or to specific permit and license transactions.

July 2026 Activity as an Illustration

- Payment Volume: $221,633.81
- Transactions: 589
- Processing Fees Incurred: $4,758.17

The following examples are provided solely to illustrate how different fee structures may affect cost recovery. Staff is not recommending a specific convenience fee amount at this time.

Illustrative Recovery Scenarios

Option	Example Fee Structure	Potential Fee Recovery (July 2026 Activity)
Percentage-Based Fee	2.0% of transaction amount	$4,433
Percentage-Based Fee	2.5% of transaction amount	$5,541
Percentage-Based Fee	3.0% of transaction amount	$6,649
Flat Fee	$2 per transaction	$1,178
Flat Fee	$3 per transaction	$1,767
Flat Fee	$5 per transaction	$2,945
Actual City Processing Cost	N/A	**$4,758**

Based on July 2026 activity, the City processed 589 credit card transactions totaling approximately $221,634 and incurred approximately $4,758 in processing fees. The examples above illustrate the potential fee recovery under various fee structures using the same transaction volume and are provided for discussion purposes only.

Actual fee recovery could differ based on customer behavior, payment method selection, system capabilities, and applicable card network rules. If a convenience fee is implemented, some customers may choose to pay by cash or check rather than credit card, which could reduce both processing costs and the amount of fees collected. As a result, actual collections may not fully offset the City's processing costs.

IMPLEMENTATION CONSIDERATIONS

If the City directs staff to pursue a convenience fee, staff would return with a detailed implementation plan addressing:

- Legal requirements and City Attorney review.
- Payment processor and software capabilities.
- Fee structure options and affected services.
- Customer notification and disclosure requirements.
- Operational and financial impacts.

BUDGET COMMITTEE REVIEW & ENTERPRISE FUND OVERSIGHT COMMITTEE REVIEW

This item is scheduled for review by the Budget Committee at its September 9, 2026 meeting.

CITY COUNCIL GOALS, PRIORITIES, AND/OR GENERAL PLAN CONSISTENCY:

This agenda item represents the City Council goals/priorities as follows:
Not Applicable

FISCAL IMPACT:

During the two-year review period from July 1, 2024 through June 30, 2026, the City incurred $116,970.92 in merchant processing fees, averaging approximately $58,500 per year. In July 2026 alone, the City incurred $4,758.17 in processing fees on $221,633.81 in payment volume.

A customer-paid fee could reduce the share of processing costs paid by City funds. The amount recovered would depend on the adopted structure, eligible transactions, payment processor requirements, and changes in customer payment behavior. Fee collections should be treated as cost recovery and evaluated against actual processing expenses.

COMMUNITY OUTREACH:

This item has been noticed in accordance with the Ralph M. Brown Act and was available for public viewing and review at least 72 hours prior to the scheduled meeting date. The City has also used social media to promote and advertise the City Council Meeting Agenda Items.

As of the writing of this agenda item report, the City has not received any public comment. However, if staff receives public comment from interested parties following the publication and distribution of this agenda item report, such comments will be provided to the City Council as supplemental materials before or at the meeting.

RESTATED RECOMMENDATION:

Staff recommends that the City Council receive the updated credit card processing cost analysis and provide direction on whether the City should continue absorbing credit card processing fees or direct staff to return with a formal policy and implementation plan to recover some or all processing costs from customers.

If Council directs staff to pursue a customer-paid fee, staff would return with a detailed proposal addressing the fee structure, affected services and payment types, no-fee payment alternatives, legal and processor requirements, customer notification, and anticipated financial and operational impacts.

ATTACHMENT(S):

None

APPROVALS:

Department Head Responsible for Agenda Item: Approval Date: 9/1/26
CEQA Determination (Planning): Approval Date: N/A
Administrative Services (Financial): Approval Date: 9/1/26

Costs authorized in City Approved Budget: ☐ Yes ☐ No ☑ N/A
Account Code (if applicable) ____________________________

City Attorney Approval Approval Date: pending
City Manager Approval: Approval Date: pending