



CITY OF LONG BEACH

DEPARTMENT OF FINANCIAL MANAGEMENT

R-27

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July 11, 2017

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Adopt Specifications No. RFP FM16-153 and award a contract to Kubra America West, Inc., of Tempe, AZ, for payment processing for City services, in an annual amount not to exceed \$820,330, authorize a 20 percent contingency in the amount of \$164,066, for a total annual contract amount not to exceed \$984,396, for a period of three years, with the option to renew for two additional one-year periods; and authorize the City Manager, or designee, to execute all documents necessary to enter into the contract, including any necessary amendments. (Citywide)

Authorize the City Manager to eliminate the utility bill convenience fee for credit/debit cards and electronic checks as soon as implementation to Kubra America West, Inc. is complete. (Citywide)

DISCUSSION

City Council approval is requested to enter into a contract with Kubra America West, Inc. (Kubra), for providing payment processing for City services.

Kubra has proposed a significantly lower pricing model when compared to the City's current vendor, Fidelity National Information Systems, Inc. (FIS). Kubra also offers a reporting system that is anticipated to increase staff efficiency with enhanced reporting and data analysis capabilities. The single source solution offered by Kubra is important to minimize City administration and management costs and to help avoid customer service issues.

A Request for Proposals (RFP) was advertised in the Long Beach Press-Telegram on June 16, 2016, and 4,422 potential proposers specializing in payment processing were notified of the RFP opportunity. Of those proposers, 61 downloaded the RFP via the City's electronic bid system. The RFP document was made available at the Purchasing Division, located on the seventh floor of City hall, and the Division's website at www.longbeach.gov/purchasing. An RFP announcement was also in the Purchasing Division's weekly update of Open Bid Opportunities, which is sent to 22 local, minority and women-owned business groups. Eleven proposals were received on August 17, 2016. Of those 11 proposers, two were Minority-owned Business Enterprises (MBEs), two were Women-owned Business Enterprises (WBEs), two were certified Small Business Enterprises (SBEs), and one was a Long Beach business (Local). The selection

committee determined that Kubra America West, Inc., of Tempe, AZ (not an MBE, WBE, SBE or Local), was the most qualified firm to provide the services.

An interdepartmental Selection Committee was formed to review the proposals. Based on evaluations of each proposal by the Selection Committee, the three most qualified vendors were invited to make presentations. After extensive further evaluation of the proposals, presentations and reference checks, Kubra was selected based on their comprehensive experience specializing in electronic payment processing, demonstrated competence in the industry, and a cost proposal that will benefit both the City and its customers.

The contract with Kubra will allow the City to continue to provide credit/debit card and electronic check (eCheck) processing, as well as retail store location cash payments for City services. These services allow customers the ability to make payments to the City in-person, by phone, online, and at various locations throughout the City.

Recommended New Approach to Paying for Credit/Debit Card Services

In addition to the contract award, staff is recommending that convenience fees for utility customers be discontinued from any form of payment of utility bills, except for payments made at retail store locations. This elimination of convenience fees for utility bills would address customer complaints and encourage use of the internet for utility bill payment. The gas, water, sewer, and refuse utilities would absorb these costs into their respective budgets and the cost of processing credit/debit cards and eChecks would be passed on to customers in the general rate structure. The cost of processing checks and cash payments is already included in the general rate structure.

The City currently offers customers several payment options to pay utility and other City bills. A number of these payment options are free, including electronic options that make use of the internet. Other payment options, including credit cards and eChecks, have customer costs in the form of convenience fees. As customers continue to shift to electronic modes of payment, there is a demand for fast, convenient, low or no-cost payment options. Customers prefer not to incur convenience fees and would also like to take advantage of rebates that are offered by some credit card companies.

The application of convenience fees in California for utility payments varies. A survey of over 30 California municipal and private utilities found that some public utilities (including Southern California Edison and Southern California Gas Company) charge convenience fees, as do several larger cities. There are, however, both larger and smaller cities that do not charge a convenience fee.

Table 1 on the following page is a summary of the overall payment methods available under the current and proposed payment processing contract. The table also identifies who pays the cost of the transaction.

Table 1: Customer Payment Options

Payment Method	Rate and Payee	
	Current Contract	Proposed Contract
No Charge Options		
EZ Pay (auto deduct from bank account)	No Charge	No Charge
Banking Service via Internet (customer's own bank)	No Charge (usually)	No Charge (usually)
In-Person at City Hall (any payment method)	Various - City	Various - City
Utility Bills eCheck via Internet	\$0.95 - Customer	\$0.17 - City
Utility Bills eCheck via Phone	\$0.95 - Customer	\$0.32 - City
Utility Bills Credit/Debit Card via Internet	\$3.75 - Customer	0.13%+\$1.035 - City
Utility Bills Credit/Debit Card via Phone	\$3.75 - Customer	0.13%+\$1.185- City
Mail-In (personal checks)	No Charge	No Charge
Convenience Fee Options		
Online Bill Pay Vendors (e.g. Quicken) - not controlled by City	About 2% to 4% - Customer	About 2% to 4% - Customer
Retail Store Locations	\$1.50 - Customer	\$1.49 - Customer
Business License Credit/Debit Card	\$5.00 - Customer	\$1.95 - Customer
Animal Care License Credit/Debit Card	\$1.59 - Customer	\$1.59 - Customer
Garage Sale Permit Credit/Debit Card	\$1.59 - Customer	\$1.59 - Customer
Most Other General Fund Bills	\$5.00 - Customer	\$1.95 - Customer
eCheck	\$0.95 - Customer	\$1.95 - Customer

Kubra's proposed contract provides a considerable reduction in cost to the customer. The utility customer would avoid paying \$3.75 per payment if using a credit/debit card and \$0.95 if using an eCheck.

Table 2 identifies the cost to the City for the proposed contract with and without the collection of utility convenience fees from customers, at the assumed higher volume of usage.

Table 2: Cost Increase for Proposed Contract

Payment Option	Cost to City
Proposed Contract - With Utility Convenience Fees	\$101,295
Proposed Contract - No Utility Convenience Fees	\$820,330
Cost to the City for Eliminating Utility Convenience Fees	\$719,035

Staff does not recommend eliminating convenience fees for non-utility payments as the City has no way to absorb these costs. The elimination of non-utility convenience fees would likely have an adverse impact on provision of City services. However, under the proposed contract, the convenience fees for non-utility payments using credit/debit cards would stay the same or decrease. For business licenses and some other General Fund related bills, the fee would decrease significantly from \$5.00 to \$1.95. The convenience fee for eChecks will increase from \$0.95 to \$1.95 to meet a credit/debit card provider contractual requirement (not under the control of the City or the payment processor).

Implementation: Cost and Timeframe

The implementation cost for the proposed contract is estimated to be \$600,000. This cost includes project management, software conversion and temporary staff support. A project management firm is expected to be in place in three to four months when implementation will begin and will take up to another 15 months to complete. The timeframe is based on the complexity and the many interfaces that need to be designed and tested. Convenience fees for utility customers will be eliminated once the system and interfaces are in place.

Should the City Council approve this item, staff will then proceed with the selection of a project management firm. Staff will also return to the City Council for authorization to extend the term of the payment processing contract with the current vendor to October 31, 2019 to allow time for conversion.

Local Business Outreach

In an effort to align the City's outreach goal, Long Beach businesses are encouraged to submit proposals for City contracts. The Purchasing Division also assists businesses with registering on the PlanetBids database to download the RFP specifications. Through outreach, 505 Long Beach vendors were notified to submit proposals, of which one downloaded and none submitted a proposal. The Purchasing Division is committed to continuing to perform outreach to local vendors to expand the bidder pool.

This matter was reviewed by Deputy City Attorney Amy R. Webber on June 19, 2017 and by Finance Director John Gross on June 13, 2017.

TIMING CONSIDERATIONS

City Council action to adopt Specifications No. RFP FM16-153 and award a contract concurrently is requested on July 11, 2017, to ensure that the contract is in place expeditiously.

FISCAL IMPACT

The City currently uses Fidelity National Information Systems, Inc. (FIS) for payment processing at a total combined cost of \$1,006,053 to the City and its customers. The total projected annual cost of the new contract and the recommended action to eliminate utility processing fees is \$934,531, a net savings of \$71,522. The cost to the City for the recommended action is estimated at \$820,330, an increase of \$752,016 over the existing vendor/convenience fee model. All estimates are based upon FY 16 data.

The elimination of convenience fees for utility bill credit/debit cards and eChecks will materially change the payment options customers use. Many customers are expected to stop using some of the free or lower cost services and move to credit/debit card payment to take advantage of the free payment options as well as various credit/debit card reward

programs. Staff estimates more than 25 percent of customers currently paying by check or other means will move to free credit/debit card or eCheck services. The percentage (and associated City costs) could eventually be significantly higher if usage of no-fee options increase. Annual costs would be based on volume, not the contract amount.

Implementation of the new payment processing plan is currently projected to cost approximately \$600,000. The estimated annual cost of \$820,330 (not including the 20 percent contingency) and estimated one-time implementation costs would be budgeted in various user departments and funds, primarily the utilities funds. Table 3 shows the allocation of both one-time and annual costs of the proposed recommendation.

Table 3: Allocation of Estimated Contract Costs

Fund	One-Time Implementation Cost	Annual Cost
General Fund	\$31,690	\$43,329
Water Fund	\$119,006	\$162,707
Sewer Fund	\$113,789	\$155,574
Gas Fund	\$183,303	\$250,614
Refuse Fund	\$152,212	\$208,106
Total	\$600,000	\$820,330

The recommended contract amount includes a 20 percent contingency for the potential of higher credit/debit card use than projected. The total annual contract amount, with 20 percent contingency, is \$984,396. An appropriation for the projected cost of the implementation will be requested in the next budget adjustment. There is no local job impact associated with this recommendation.

SUGGESTED ACTION:


Approve recommendation.

Respectfully submitted,



JOHN GROSS
DIRECTOR OF FINANCIAL MANAGEMENT

APPROVED:



PATRICK H. WEST
CITY MANAGER