

ORDINANCE NO.

FILE OF CITY COUNCIL

BILL NO. 66 - 2018

OCTOBER 3, 2018

AN ORDINANCE

Amending the Business Regulation and Taxation Code of the Codified Ordinances by adding Article 401.02, Processing Fees for Returned Checks; setting the fee at Forty (\$40) Dollars and Eighty (\$80) for each subsequent returned check during any eighteen (18) month period.

BE IT ORDAINED BY THE COUNCIL OF THE CITY OF ALLENTOWN:

SECTION ONE: That the City Council amends the Business Regulation and Taxation Code of the Codified Ordinance by adding Article 401.02, Processing Fees for Returned Checks in the following manner:

401 FINANCE DEPARTMENT OPERATIONS FEES (15335 § 1 12/7/16)

401.01 PURPOSE

The purpose of this article is to establish unified ordinance for collection of fees for Finance Department operations.

401.01 REAL PROPERTY TAX CERTIFICATION FEES – The Finance Department is authorized to assess \$30 to process a tax certification request for a parcel of real property within the City of Allentown. Resulting proceeds are distributed into the General Fund.

401.02 PROCESSING FEES FOR RETURNED CHECKS – Whenever any association, corporation or natural person submits a check to the City for deposit for payment of any City tax, claim, fee, license or any other service or charge, whereby such check is returned to the City as unpaid for any reason, the Finance Department shall charge the maker of such check a returned check fee of Forty (\$40) Dollars. If the City receives notice that a subsequent check has been returned as unpaid by the same maker during any Eighteen (18) month period, the returned check fee for the subsequent check shall be Eighty (\$80) Dollars.

SECTION TWO: That this Ordinance will take effect ten (10) days after final passage.

SECTION THREE: That all Ordinances inconsistent with the above provisions are repealed to the extent of their inconsistency.

What Department or bureau is Bill originating from? Where did the initiative for the bill originate?

Revenue and Audit Bureau

- **Summary and Facts of the Bill**

The bill seeks to codify a processing fee for returned checks, which are those checks, submitted to us by customers for deposit, that have not been honored by their bank and returned to us as unpaid. The previous return check fee was set by Administrative Regulation in 1995 at \$20 and does not reflect the actual cost of processing these undesirable events, the most common of which being the customer submitting payment from a checking account with Non-sufficient funds.

The bill seeks to codify the return check fee at \$40. This amount was arrived at by virtue of a study conducted in the Revenue and Audit Bureau (Rev/Audit) during the months of June and July of 2018. TD Bank charges the city \$15 in bank fees for returning a check as unpayable. With the cooperation of the Treasury Bureau, Rev/Audit tracked the processing time of the City accountant, Revenue Operations Manager and three Clerks who all accrue labor costs to the City in the timely processing of these reverse credits. The data from the study is attached. The results were that the 13 returned checks in June cost the City \$39.64 per check to process and in July, we recorded a cost of \$41.45 per returned check. The cost study did not include materials, nor back-end customer service labor needed to recoup and process the recoupment payment.

Finally, the bill includes a punitive measure for those who submit multiple bad checks during an 18 month period that is set off from the date of the first return check. The processing fee for all subsequent bad checks will be \$80 until the 18 month period from the last bad check elapses

- **Purpose – Please include the following in your explanation:**
 - **What does the Bill do – what are the specific goals/tasks the bill seek to accomplish**
 - **What are the Benefits of doing this/Down-side of doing this**
 - **How does this Bill related to the City's Vision/Mission/Priorities**

The bill seeks to create a recovery fee that represents the actual cost of processing these bad checks. Moving to a \$40 fee also puts us on even footing with the Magisterial District Courts in Lehigh County, which are receivers of a substantial volume of payments, and currently charge \$40 for returned checks

The City received approximately 170 return checks from the time period beginning in January 2017 through the present, almost entirely for Real Estate and Business Privilege Taxes, Business and Rental Licenses, Permits, Sweep Tickets, EMS, Recreation and Trash Fees. 116 of those returned were as a result of Non-Sufficient Funds. The City should disincentivize the customer practice of issuing checks from accounts with uncertain balances. Furthermore, any habitual issuers of bad checks should incur an additional punitive fee as a deterrent for this practice

- **Financial Impact – Please include the following in your explanation:**
 - **Cost (Initial and ongoing)**
 - **Benefits (initial and ongoing)**

The bill seeks to neutralize labor cost, without any attempt to raise revenue in addition to what the processing of the returned checks actually costs the City in measurable dollars. Furthermore, it is certain that the actual cost is greater than \$40 considering the back-end processing time that cannot be measured on an individual check-by-check basis.

The increase in this fee will not be a substantial revenue producing measure. In 2016, we recovered \$1,160 in return check fees at the \$20 rate; in 2017, we recovered \$940 of the same. However, in 2017/2018, the City reversed \$102,000 in credits that were not honored. In most cases, a demand for recoupment of the reversed amounts was required in writing to ensure proper recovery.

A deterrence against customers making bad checks is another benefit.

- **Funding Sources – Please include the following in your explanation:**
 - If transferring funds, please make sure bill gives specific accounts; if appropriating funds from a grant list the agency awarding the grant.

Not applicable

- **Priority status/Deadlines, if any**

Council should pass promptly. We plan that an effective date of January 1, 2019, so that we can advertise the increase at the City Hall payment areas in advance

- **Why should Council unanimously support this bill?**

For all of the above reasons, the City should not realize a deficit in processing these undesirable events and notifying customers of the deficiencies. At a minimum, the processing fee should reimburse the City for the actual bank and labor costs incurred for a lack of due diligence on the customer's behalf. Furthermore, these deficiencies should be discouraged, so a punitive measure should exist for check makers who regularly exercise a lack of diligence when making payments to the City.