Innovative Partnership for Digital Government Platform

Date: July 7, 2020
To: Executive Committee
From: Deputy City Manager, Corporate Services and Chief Financial Officer and Treasurer
Wards: All

SUMMARY

For the City of Toronto, it is clear that our current state and approach towards modernization requires critical acceleration and new innovative partnerships. The City has been working on a customer experience transformation for the past few years, however we are now required to work at unprecedented speed and scale, with greater impact and outcomes. Reimagining our service and facilities, the way we equitably interact with residents, businesses, and visitors, and our shift to digital is a prime focus.

Our digital government vision, is a connected and equitable Toronto with an affordable, accessible and resilient digital environment as a public service for all. Specifically:

- Digital service delivery to the public to improve the overall service experience;
- Digital equity and inclusion to bridge the digital divide and access to service for underserved communities;
- Digital resilience and agility to assure service continuity and adapt to shocks; and
- Digital partnerships and revenue-generation to drive financial sustainability and economic growth.

Now, more than ever, the need to scale delivery of digital government services and engagement is a focus. Public health standards, fiscal realities and customer expectations and increased comfort level for fully digital experiences require the City to accelerate at an unprecedented rate. "Business as usual" is not an option. The pandemic has pushed digital services to the forefront. Toronto residents, businesses and visitors want simple, convenient, and connected service from the City, similar to the way they interact with their banks. The City must take steps to transform our services to meet public expectations on digital experiences, leveraging technology and human-centered design, to create relationships built on trust and confidence.
Driving a digital government supports some key priorities of the City’s Corporate Strategic Plan, "Financial Sustainability" and "Well Run City". The City is committed to work and partner with stakeholders to ensure value and affordability for taxpayers, adequately fund municipal services and infrastructure. One step towards this goal is implementation of digital government platforms that accelerates the City's financial transformation, and offer more convenient payment options for customers, in a seamless and centralized approach. The City has an opportunity to leverage the industry for innovative partnerships, in particular those who have expressed openness in exploring potential for co-design and innovation with the City.

This report seeks City Council authority to enter into a non-competitive contract with PayIt that will transform how the public interact with the City. The Toronto digital government platform approach will drive consistent City-wide digital customer service experience. In the case of PayIt, both the City and PayIt recognize that the innovative partnership co-design model means the City's efforts will contribute to the quality of continuous service improvements for the City and potentially beyond. Staff is seeking authority so that negotiations with PayIt can include consideration of other valuable potential benefits to the City through the commercial arrangements with PayIt, including the co-development of innovative solutions to enable the scaling of digital platforms in the Canadian marketplace.

The following outcomes will be key benefits to the City:

1. **Improved Customer Experience** - Provide residents, businesses and visitors with a unified digital experience that brings services and information to the touch of their hand, flattening divisional silos and presenting services in a way that is intuitive, personalized and simplified – one identity and account, one digital wallet, one contact for notifications and e-bills for example (see Attachment 1, City’s Digital Customer Experience Vision).

2. **Payment Centralization & More Payment Options** – Financial transformation means providing more digital payment options to customers in a standardized way across the city, such as credit, debit, and Electronic Fund Transfer (EFT) and e-chequing, while phasing out more costly forms of payment, respecting access and equity concerns. A centralized payment and billing platform would replace the public-facing portion of the 22 systems that exist today and automate reporting and reconciliation across the City.

3. **Risk and Reward** - The proposed partnership with PayIt is attractive because they are compensated based on the City's digital adoption rate for payment. PayIt would front the capital investment and are rewarded based on shifting volumes to digital payment, meaning incentives are aligned and the City realizes significant reductions in operating costs.
RECOMMENDATIONS

The Deputy City Manager, Corporate Services and the Chief Financial Officer and Treasurer recommends that:

1. City Council authorize the Deputy City Manager, Corporate Services, in consultation with the Chief Financial Officer and Treasurer, to negotiate and execute a non-competitive agreement with PayIt for a three year term, plus two one-year renewals at the option of the City, to develop and deliver a digital government platform for City services, on terms and conditions to the satisfaction of the Deputy City Manager, Corporate Services and as generally outlined in this report, and in a form satisfactory to the City Solicitor.

2. City Council authorize the Deputy City Manager, Corporate Services, in consultation with the Chief Financial Officer and Treasurer to further negotiate and execute with PayIt, as part of the agreement contemplated in recommendation 1, or in a further amending agreement, such other potential benefits for the City that may be achieved through commercial arrangements with PayIt, such as the co-development of innovative solutions to enable the scaling of this platform in the Canadian marketplace, as may be deemed appropriate in the opinion of the Deputy City Manager, Corporate Services, in consultation with the Chief Financial Officer and Treasurer.

3. City Council authorize user fees for online card payments using the PayIt system at 2.35% of the payment amount for online credit card transactions, and 1.5% of the payment amount for online debit card transactions, commencing with online card payments for property taxes, utilities and parking fines, and direct the Deputy City Manager, Corporate Services, and the Chief Financial Officer and Treasurer to work with PayIt to expand the permitted services for which online card payment user fees can be charged, and authorize the necessary amendments to City of Toronto Municipal Code, Chapter 441, Fees and Charges and any other necessary Municipal Code Chapters as may be required.

4. City Council delegate authority to the Chief Financial Officer and Treasurer to establish polices and guidelines regarding payment methods for fees and charges to be accepted by the City, including ensuring such policies will always include a free payment method option for customers, as well as to reduce the burden of credit cards where possible, and to amend City of Toronto Municipal Code Chapter 441, Fees and Charges, and any other relevant Code Chapter, to delete the current acceptable payment methods of fees and charges.

FINANCIAL IMPACT

The partnership with PayIt lays the foundation for digital transformation on an unprecedented scale with meaningful and measureable improvements to the customer
experience and financial processes enabled by leveraging and integrating modern technology and new ways of working to rapidly co-design and innovate.

Through a partnership with PayIt, Toronto will augment its digital platform to enable residents, businesses, and visitors to interact with the City, simply and conveniently, for services and information through a more personalized digital experience. Features include a personalized account, digital wallet, notifications, e-billing, increased payment options and ability to upload documents. Not only will this improve the current fragmented experience people have navigating City services from one division to another, but it will help drive digital adoption, operating efficiencies and help improve the City's brand and customer service image.

The City is taking an agile approach to building out this partnership beginning with five key services in a way that is cost neutral to the City and sets the stage for future growth and transformation. PayIt fees were negotiated to ensure the City will be in a position to realize efficiencies above and beyond fees to PayIt. The objective is to break-even in year 1 with the launch of services for property tax, utility and parking fines, City Planning development and Toronto Building fees. Most of the savings will come from current fees the City pays to cover online credit card fees plus some operational efficiencies relating to greater automation for intake, data entry and payments processing. As the partnership evolves and the City gains experience, staff will be in a position to report back through the regular financial reporting process on updates and savings targets.

While the greatest benefit is to the experience residents, businesses and visitors have interacting with the City, this partnership will drive savings and cost avoidance in the many millions of dollars, specifically from:

- Savings resulting from increased automation of intake and reduction of mail outs and phone calls. Taking average counter costs of about $10.00 in Revenue Services compared to $3.00 for intake through the PayIt platform.
- Savings resulting from the standardization and centralization of revenue collection, billing and reconciliation. Reducing number of payment processes, touchpoint and system payment components, down from the 22 existing systems, over time.
- Savings resulting from the elimination of credit card fees borne by the City, as recommended by the Auditor General in the 2017 report, AU8.7.
- Capital cost avoidance for major technology implementation plus ongoing sustainment costs for licences and reduced PCI compliance costs. Initiatives of similar scope and size have cost the City millions.
- Additional 'upside' from monetizing the City's brand and product development, for example in the form of a ceiling once a threshold has been achieved.

Based on industry information on adoption rates for similar transactions, modelling and forecasting conducted by staff project a total estimated value of the contract identified in this report as $13.6M reflecting three full years for the contract (or 36 months). The value of the contract is variable to some extent because PayIt is compensated on a per transaction basis based on digital adoption of services and payments made through
their platform. There is no cost to the City if there is no adoption by the customer. There is a significant opportunity for an integrated digital government platform to be impactful in Toronto. As an example to demonstrate scale, recent historical volumes of services identified as early opportunities to offer on the PayIt platform are as follows: 4.3 million property tax payments, 1.6 million utilities payments, 1.6 million parking ticket payments, 4,669 City Planning application payments, and 51,043 Toronto Building permit payments (all approximate annual volumes). For context, $5M in annual PayIt fees for over 1.56 billion in collected revenues represents a .0032% collection rate.

The Chief Financial Officer and Treasurer has reviewed this report and agrees with the financial impact information.

**DECISION HISTORY**

On January 29, 2020, City Council considered a report on how the City will promote and support innovation through collaboration and the empowerment of multi-disciplinary innovative teams. City Council directed the Director, Toronto Office of Partnerships, the Chief Technology Officer and the Director, Customer Experience Transformation & Innovation (CXi) report back to the Executive Committee on the interim results of the Toronto Civic Accelerator Program and CivicLabTO in 2021.


Also on January 29, 2020, City Council adopted five (5) Working Principles and related vision statements as the guiding framework for the City's Digital Infrastructure Plan. City Council further directed staff to evaluate digital proposals (received before the full Digital Infrastructure Plan is adopted by Council) with existing policies, processes, along with Digital Infrastructure Plan work done so far. City Council also directed staff to consult on certain topics in the development of the Digital Infrastructure Plan.


On April 26, 2017, City Council requested the Chief Building Official and Executive Director, Toronto Building to review the current payment methods and explore ways to minimize credit card processing fees. Considerations should be given to reducing the maximum threshold amount for credit card payment and exploring other low-cost online payment methods on its web-based business portal. City Council further requested the Treasurer to review the current payment methods used by various divisions and explore ways that can reduce credit card processing fees without negatively impacting customer services.

For the City of Toronto, it has become clear that our current state and approach towards modernization requires critical acceleration and new innovative partnerships. The City has been working on customer experience transformation for the past few years, however we are now required to work at an extraordinary speed and scale, with greater impact and outcomes. Reimagining our services and facilities, the way we equitably interact with the public, and our shift to digital has become a prime focus.

The pandemic has brought the need to scale delivery of digital government services and engagement into focus. Public health standards, fiscal realities and customer expectations and increased comfort level for fully digital experiences require the City accelerate at an unprecedented rate.

This report emphasizes the importance of accelerating digital government through innovative partnerships. A digital government platform will help accelerate financial transformation, digital transformation, and yield measurable outcomes faster to improve customer experience and operational efficiency. The PayIt platform is an important building block to this transformation.

The Future of Customer Service

The City has been focused on modernizing government and has built a customer experience transformation program. The program has developed a clear customer service vision "The City of Toronto will improve the lives of its residents, businesses, and visitors by providing simple, reliable, and connected services that anticipate changing customer needs". The program is focused on four key objectives; providing consistent customer service experience, maximizing self-service, optimizing customer service delivery and building trust and confidence in city services.

Aligning to the customer service objectives is the digital government vision "a connected and equitable Toronto with an affordable, accessible and resilient digital environment as a public service for all". Specifically:

- Digital service delivery to the public to improve the overall service experience;
- Digital equity and inclusion to bridge the digital divide and access to service for underserved communities;
- Digital resilience and agility to assure service continuity and adapt to shocks; and
- Digital partnerships and revenue-generation to drive financial sustainability and economic growth.

Toronto's Digital Customer Service Experience Vision is described in Attachment 1.

We have also been forced to rethink service delivery in our current environment and the planning for a post-pandemic future. The pandemic has had unprecedented implications on the City. We now live in a world of extreme shifts – with social distancing; employment loss and uncertainty; remote working; child care pressures;
online education; virtual weddings/funerals; vulnerable populations becoming ever more so, and declining health outcomes overall (physical / mental). The Pandemic has resulted in a digital surge in online shopping, banking and virtual interactions for health and public services. The financial industry in the last two decades has already been investing into digitization and innovation so they meet customers' expectations, managing risk and so they are not left behind. We have an opportunity to effectively shift our service users to self-service digital options and enable seamless, safe, and accessible digital connection from anywhere, at any time, and through any digital channel or device, while always offering channel choice. This is an opportunity to have more direct impact on service and outcomes.

Financial Transformation Acceleration

A key pillar City's Corporate Strategic Plan is Financial Sustainability, where the City is committed to work and partner with stakeholders to ensure value and affordability for taxpayers, adequately fund municipal services and infrastructure, make needed investments in the City, and improve our financial health. One approach is to leverage innovation to develop a modern, agile, and transformative organization. Working with PayIt is aligned with this goal by implementing a digital government platform that accelerates the City's financial transformation, and offer more options for customer financial interactions, in a seamless and centralized approach. This partnership will also provide the City with an opportunity to reduce the burden of credit card fees as an expense of the City, as recommended by the Auditor General in her 2017 report, AU8.7.

Currently, the City of Toronto Municipal Code Chapter 441, Fees and Charges codifies methods of payment acceptable to the City for all fees and charges. As we take action to modernize the City's financial platforms, different services (i.e. fee programs) will be on-boarded in a phased approach, the payment methods accepted for each fee programs may be changing. For example, Electronic Fund Transfer (EFT) and online debit payments are not currently captured under Chapter 441 as accepted payment methods. As those options become available, staff need agility roll out those payment methods for various services.

In order to maintain strong governance over the acceptable payment methods, while keeping momentum with implementation progress, this report recommends replacing the prescribed list of acceptable payment methods in Chapter 441 with a delegated authority to the Chief Financial Officer and Treasurer to establish the policies and guidelines regarding payment methods for fees and charges to be accepted by the City. This approach will provide the agility that is required to allow the City to efficiently offer additional payment methods to the customers while effectively minimizing any disruptions in services. Alternatively, under the current structure, staff may need to seek authority to amend Municipal Code Chapter 441, Fees and Charges, with each deployment, which would hinder the speed to transform and limit the City's ability to meet customers' needs. As an additional form of control, the Chief Financial Officer and Treasurer will ensure there will always be an option for customer to pay no transaction fee, thus not placing an additional burden on the public.
Innovative Partnerships

Collaborative solutions to complex City challenges can accelerate delivery for public benefit. Actively seeking partnerships to deliver a well-run City is aligned with Toronto's Corporate Strategic Plan and the Digital Infrastructure Plan working principles. Being open to innovative and collaborative partnerships with the industry creates a creative ecosystem that drives innovation in the broader Toronto market. Countries and cities that have been successful in driving a digital economy have been those with ecosystems that included; government, academia, private and start-ups/innovators.

Creating a digital government platform through a partnership with PayIt allows the City to build on a successful Proof of Concept project. The City can take the opportunity to augment traditional vendor models to break "business as usual" and find space to provide benefit delivery to all parties. In the case of PayIt, both the City and PayIt recognize that the innovative co-design model means the City's efforts will contribute to the quality of PayIt's platform. Staff is seeking authority so that negotiations with PayIt can include consideration of other potential benefits to the City through the commercial arrangements with PayIt, including the co-development of innovative solutions to enable the scaling of this solution in the Canadian marketplace.

Partnering with PayIt

The powerful capabilities of the PayIt Platform in a "myToronto" portal would be an integral building block as a foundation to the modernization of City services.

Now, more than ever, the need to scale delivery of digital government services and engagement has come into focus. Public health standards, fiscal realities and customer expectations for fully digital experiences require the city accelerate at an unprecedented rate.

Staff have conducted the following analysis and engagements to support the case for a non-competitive procurement:

- The City has quickly categorized all public facing services and is developing a roadmap for digitization. 86% of services can be digitized in full or in part. Requirements to digitize City services align to PayIt's platform capabilities, including payments, online submission, online account, status and e-notifications.
- Staff conducted a market assessment through a third party (Gartner) and favourably ranked PayIt as unique in its offering and of two providers that cross the 'fintech and govtech' space as the most 'forward-leaning' digital government platform.
- After receiving an unsolicited proposal from PayIt and seeing value, staff completed a successful proof of concept (liaised through support by the Office of Partnerships) with PayIt in February 2020 which demonstrated agility and customer experience (CX) focus by completing set-up for three revenue services in six weeks.
The City’s new technology strategy focuses on acceleration and enablement by providing standards for integrating new platforms and leveraging innovative partnerships for the City to meet its goals faster. The opportunities are:

- Gain speed in time to market, or the time it takes to deploy a solution, for new services, shortening the time to deploy this solution from years to months
- Provide ‘best-in-breed’ digital tools to enhance the experience, such as mobile app, digital wallet and account, payment and notifications, aligned with our Digital Customer Service Experience Vision (Attachment 1),
- Transfer risk of large technology initiatives and capital expenditures required to a partner,
- Align costs associated with the partnership to the City’s desired outcomes, i.e. shifting services to self-serve,
- Explore the potential for additional benefits to the City through a partnership arrangement with the partner leveraging the City’s size in the marketplace

Benefits of the PayIt partnership with the City include:

1. Scale and acceleration through a common, best-practice platform and interoperability with City technology architecture (easily connect to existing City platforms)
2. Significantly advances unified customer experience across the City (account, wallet, notifications, identity, payment, e-billing on all digital modes including ‘myToronto app’)
3. Avoid capital investment and implementation risks as like projects have cost the city millions
4. PayIt compensated via reasonable transaction fees for services with payment transacted through the new platform (shifted to lower cost, self-serve). For example margin for Revenue Services estimated at 7% per transaction going from counter to new platform.
5. Aligns to financial modernization goals with the opportunity for the City to move to standardized, centralized, and effective payment policy, including shifting risk and cost around PCI compliance to PayIt related to card processing.
6. Openness to exploring potential for co-design and innovation with the City
7. PayIt is keen to explore structuring different arrangement with the City that allows the City to realize the ‘upside’ of partnership and business development, for example, a fee reduction as the platform scales more widely in the Canadian marketplace
8. Province is also in discussions with PayIt – potential for the City to lead approach towards common platform and cross government customer experience
9. PayIt willingness to voluntarily invest in Toronto by leveraging local tech talent and willingness to explore a local presence

This report recommends that authority be delegated to the DCM, Corporate Services, in consultation with the CFO, to negotiate and enter into an agreement with PayIt to provide this digital government platform to the City. The agreement will be on the following terms:
• An initial three year term, with 2 one year renewal options for the City, for a potential total term of five years;
• The initial services to be provided are payment of property taxes, utility fees, parking fines, development fees, and building permit fees;
• The possible expansion of the service to payment of other City fees and fines, and other City services commencing in the second year of the initial term, such as business licences and permits, pet licences, film permits, parking permits, and transportation permits
• Pricing is to be on a per-transaction basis and includes varying pricing for different payment methods.
• Potential additional benefits to the City through a partnership arrangement based on co-development of innovative solutions to enable the scaling of this solution in the Canadian marketplace;
• Compliance with all relevant regulatory and legal requirements, including PCI compliance and Card Brand Rules compliance;
• Meeting requirements on privacy and security, such as ensuring customer data is secure and handled appropriately in transit and at rest, and all Toronto data is housed on Canadian server instances;
• Such other terms and conditions to the satisfaction of the DCM, Corporate Services.

Currently in Canada, credit card companies allow service fees (such as the proposed 2.35% online credit card processing fee and the 1.5% online debit card processing fee for PayIt) to be passed on to customers for utilities, taxes and parking fines only. In order to pass on service fees for other fee types, a waiver with authorization from the credit card companies is required. PayIt has indicated it will coordinate and apply for such a waiver on the City’s behalf. A waiver is not guaranteed to be granted, and this process could take some time (likely a few months). In the event that this waiver is not obtained when City Planning development and Toronto Building fees are deployed, the Chief Financial Officer and Treasurer, through the authority recommended to be delegated to her in Recommendation 4 of this report, may establish a policy precluding online card processing acceptance by the City for City Planning development and Toronto Building fee transactions, provided such a policy is in compliance with the Card Brand Rules. The City is supportive of this approach.

CONCLUSION

This report emphasizes the importance of accelerating digital government through innovative partnerships. A digital government platform, with building blocks such as PayIt, will help accelerate financial transformation and digital transformation, and improve customer experience and operational efficiency.

The pandemic has brought the need to scale delivery of digital government services. Public health standards, fiscal realities and customer expectations and increased comfort level for fully digital experiences require the city accelerate at an unprecedented
rate. A partnership with PayIt can quickly transform the public interactions with the City and the City's overall corporate priorities.

PayIt is a company that specializes in partnering with governments to transform the customer experience and making government more modern, convenient and mobile-first. Earlier this year CXi and Technology Services staff explored a concept validation with PayIt to deliver a building block of the City's digital government and payment platform. The concept is to strengthen the City's relationship with the public through positive customer service experience, leading to higher trust and confidence. This platform would be an integral building block as a foundation to the digital transformation.

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Signature

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Heather Taylor, Chief Financial Officer and Treasurer

Attachment 1: The City's Digital Customer Service Experience Vision
The City’s Digital CX Vision

A single, mobile-first government experience that brings together all of the most valuable interactions. Supported by phone and digital assist interactions.

Secure Identity & Profile – single, easy to use sign in
City Services – transact digitally
Secure Payment & Profile – saved in a wallet – enter it once
Notifications – proactive reminders for bill payments, waste calendar, classes
Engagement – relevant news, community resources and civic engagement

“Notify Me”
“Make it convenient for me”
“Make it About Me”
“Hear Me”
“Remember Me”
“Engage Me”
“Support Me”