# Swiss Challenge Negotiated Request for Proposals for a Digital Government Platform

**Date:** January 27, 2021
**To:** City Council
**From:** City Manager, Deputy City Manager, Corporate Services and Chief Financial Officer and Treasurer
**Wards:** All

## SUMMARY

The COVID-19 pandemic is a once in a generation event that has accelerated the need for a new customer service model for the City of Toronto, one that is digital, accessible, and secure. City staff, residents, and businesses have adapted and demonstrated tremendous resilience (for example, quickly enabling contactless services). And while 2021 shows potential to be the year of a return to 'normality', this does not mean returning to pre-pandemic ways. Governments must seize the opportunity to fast forward innovation, create greater resiliency to respond to future challenges, reinforce new behaviours, and leverage digital for better customer experience and operating efficiencies.

At the corporate-level, the City has developed a new strategic approach to offering services in an integrated, convenient, and increasingly personalized way, similar to the services they receive from their financial institutions and now their health care providers. It is about pivoting the organization to an 'outside-in' approach that improves customer experience, accessibility, and engagement, while implementing a more effective city-wide approach with standards on service design, business process engineering, enabling technology, privacy, and security.

As an important step in the City's transition to offer more services digitally, the City of Toronto is seeking a relationship with a partner—with proven experience modernizing government services—to offer digital services and a payment platform. The City of Toronto will work with this partner to bring together digital services (commencing with revenue services) in an accelerated, but phased approach so that residents, businesses, and visitors can seamlessly interact with the City of Toronto and access services across any device or medium.

In July 2020, a Council report outlined the opportunity to seek a commercial relationship with PayIt LLC ("PayIt"), an organization that had submitted an unsolicited proposal to the City on a digital government platform to accelerate the customer service

transformation. That report (EX15.5), Innovative Partnership for Digital Government Platform, was referred back to the City Manager for further consideration.

In response, the Purchasing and Materials Management Division (PMMD) and the Office of Partnership recommended a Swiss Challenge procurement process—the appropriate approach to ensure a fair and transparent consideration of the unsolicited proposal from PayIt. A Swiss Challenge takes the unsolicited proposal and effectively puts it to market using a Request for Proposal procurement vehicle that invites other suppliers to submit a counter-proposal that may meet or exceed the original unsolicited proposal. If a supplier's counter-proposal is able to meet or exceed the original unsolicited proposal, the supplier of the original unsolicited proposal has an opportunity to meet the counter-proposal.

The City Manager, Deputy City Manager of Corporate Services, and the Chief Financial Officer and Treasurer agreed with this approach, and a Swiss Challenge Negotiated Request for Proposals (SC-nRFP) was issued to market in September 2020. To ensure that the process was conducted in a fair and transparent manner, a third party Fairness Monitor was retained and the City's Internal Audit Division was asked to oversee the process.

The purpose of this report is to provide an update on the SC-nRFP process and outline next steps. The competitive procurement process is ongoing, but the evaluation stages have been completed. Twenty-two suppliers confirmed their intent to participate in the SC-nRFP, with six suppliers attending an optional information and question meeting. At the time of deadline, the City received one counter-proposal to be evaluated against the PayIt proposal.

Both the PayIt proposal and the counter-proposal passed the mandatory requirements set out in Stage 1 and Stage 2A of the SC-cRFP requirements. But after evaluation of Stage 2B, only the PayIt proposal earned a score that met the evaluation threshold needed to advance to the next stages of the evaluation process, and ultimately quality for negotiation. Staff will now begin negotiations with the successful supplier, PayIt, over the course of February and March 2021. Based on the success of the negotiations, Staff will return to Council in April 2021 to seek approval to award the contract.

There is an opportunity for the City to enter into a cost-effective, high-impact commercial relationship that meets many desired objectives. The City is seeking opportunities for more innovative relationship models with all sectors given the current fiscal situation, as outlined in EX17.1, Towards Recovery and Building a Renewed Toronto. While the greatest benefit of this relationship will be a modern and integrated experience for residents and businesses, there must also be a viable financial return on investment (ROI) where potential savings can be reinvested in other City priorities.

The move to a unified digital experience will be undertaken in phases, beginning with the integration of property tax payments, utility bill payments, and revenue collection services across one digital payment platform. The platform will be scalable and the experience iterative, gradually integrating a range of residential City services, such as permits and licensing, program registrations, integration with 311, and more. The

objective is to allow residents and businesses to transact, interact, and engage with the City of Toronto in the way they want and when they want, all in one place.

## RECOMMENDATIONS

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

1. City Council receive this report for information.

## FINANCIAL IMPACT

There is an opportunity for the City to enter into a cost-effective and high-impact commercial relationship that meets multiple City objectives, including the shift to an outcomes-based relationship (and compensation) model. While this proposal focuses primarily on the benefits of a modern and integrated customer experience for the City, there also needs to be a viable and compelling business case for a city-wide digital payment platform (where potential savings could be reinvested in other City priorities). The business case will be influenced by the transaction fees negotiated with PayIt and digital adoption of services.

Ideally, this commercial relationship will be a catalyst for broader transformation and the net benefit to the City will grow over time as self-serve interactions are optimized, business processes are automated, and staff structures adapt. Savings drivers include:

- **Operational efficiencies**
  - reduction in counter volumes, mailing, and customer calls
  - shift in financial processing, reconciliation, and Payment Card Industry (PCI)
  - compliance costs to the vendor
  - reduction in sustainment costs, moving from 22 to 9 payment systems

- **Capital and sustainment cost avoidance**
  - avoiding up-front capital and ongoing licensing costs to suppliers

- **Incremental revenue-generation**
  - additional revenues and/or discounts on fees resulting from City's value contribution to the supplier platform through co-design and supporting business development

The objectives of this partnership will be to not only demonstrate a significant improvement in customer experiences for residents and businesses, but to drive efficiencies and reduce the City's cost structures so we can reinvest in other City priorities. As digital adoption matures, self-serve interactions are optimized, service delivery models are transformed, and organizational structures adapt, the City's ability to drive compelling efficiencies should increase.

Staff will be returning with a detailed business case in the April report, as well as a ROI forecast based on short and long-term savings measures.

## DECISION HISTORY

In July 2020, a Council report outlined the opportunity seek a commercial relationship with the market on a digital government platform to accelerate the City's customer service transformation. That report (EX15.5), Innovative Partnership for Digital Government Platform, was referred back to the City Manager for due diligence on how to best engage the market on this opportunity in a fair, transparent, and competitive manner.

http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2020.EX15.5

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.

https://www.toronto.ca/legdocs/mmis/2020/ex/bgrd/backgroundfile-141661.pdf

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.

http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2020.EX12.2

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.

http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2017.AU8.7

## COMMENTS

**Context**

Our digital government vision is a connected and equitable Toronto with an affordable, accessible, and resilient digital environment as a public service for all. While the City has been working on digital customer experience transformation for the past few years, 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.

As the City of Toronto transitions to becoming a "Digital Government", this does not mean the City is only accessed through digital channels (e.g. self-service via web or mobile app). It means that technology and digital capabilities are the foundations upon which we serve our customers, access and secure their information, and provide integrated and seamless experiences, regardless of the channel from which they choose to interact. Establishing digital government foundations enables the City of Toronto to improve the front-end customer experience across all channels and is a catalyst for financial systems transformation and back-office centralization.

In July 2020, a Council report outlined the opportunity to seek a commercial relationship with PayIt, who had submitted an unsolicited proposal to the City, on a digital government platform to accelerate the City's customer service transformation. That report (EX15.5), Innovative Partnership for Digital Government Platform, was referred back to the City Manager for further consideration.

In response and as stated above, the Purchasing and Materials Management Division (PMMD) and the Office of Partnership recommended a Swiss Challenge procurement process—the appropriate approach to ensure a fair and transparent consideration of the unsolicited proposal from PayIt.

The procurement of a single digital payment and customer platform is an integral part of a city-wide strategy to create a single, consistent digital government experience for all residents and businesses, combining technology scale and acceleration with high quality customer experiences, and long-term partnership benefits for the City.

While there are technologies in the marketplace that can handle payment processing transactions, these offerings are not the same as a full-featured customer experience platform that provides customers with interactive services in a single location, whether on the Web or via a native mobile app. From personalized bill reminders to scheduling payments, to storing account documents and saving preferred payment methods through one digital wallet, an industry-leading digital government platform will make the experience of paying and handling bills much simpler for residents, and for the City.

The complementary management of critical business and technology platforms is a key component of the City's digital government and technology strategies, and requires the interoperation of both private sector capabilities as well as existing City capabilities. Consistent with the City's technology strategy to mitigate enterprise risk and align to

best practice architecture standards, a third-party platform that can be integrated into the City's environment to deliver payment and digital services, will do just that. This modernized approach offers an opportunity to scale and integrate with current and emerging solutions to improve and sustain the delivery of City services.

Below, we have included the potential benefits of a single digital service and payment platform and an integrated experience for both the City and its residents:

**Contactless and unified** – The entire customer journey will be offered online without the need for in-person visits: to residents will appear as one account, single sign on and password, digital wallet, one contact for notifications, and personalized e-bills, while retaining non-digital channels for those who need it.

**Improved customer experience and trust** – Customers will be provided with a unified digital experience that brings services and information to the touch of their hand, presenting services in a way that is intuitive, personalized, and engaging. This will build trust in digital services and improve the perception of government services providing value for taxes paid.

**More payment options** – Multiple payment options provided to customers in a standardized way across the city, such as credit and debit, and an equally free option in Electronic Fund Transfer (EFT), while phasing out more costly forms of payment, such as cash and cheques.

**Technology Scale, Acceleration, & Interoperability** – An integrated platform will enable rapid deployment of payment and digital services across the City. Benefits include scale, standardization, acceleration, and access to industry-leading 'best of breed' features.

**Back-end efficiencies and consolidation** – A centralized payment and billing platform will reduce the number of public-facing systems that exist today, from 22 to 9, creating efficiencies of scale and cost-savings in reporting and reconciliation across the City.

**Innovative partnership model** – Moving away from traditional contracts where the City bears all of the risk when projects fail or go over budget. With this proposal, the supplier is compensated on a transaction basis only when digital adoption is achieved, meaning the City does not have to front capital or ongoing licensing costs. The supplier must also propose value-added financial models that generate revenue for the City and recognize its size and brand.

**The Procurement Approach**

An Unsolicited Proposals Process allows for a competitive and market driven process where counter-proposals and the unsolicited proposal are evaluated against rated evaluation criteria through the issuance of a Swiss Challenge to the market. The intended purpose of a Swiss Challenge is to drive an open, fair, and transparent process that can evaluate the unsolicited proposal against other counter proposals and to achieve the procurement of quality products and/or services, at the best value-for-money.

A Swiss Challenge involves seeking competing counter-proposals to an unsolicited proposal. Once the process closes, the counter-proposals are evaluated and the highest evaluated proposal is selected. If it is determined that the successful counter proposal is superior to the original unsolicited proposal, the unsolicited supplier has the opportunity to match or improve on the selected competing counter-proposal. A Swiss Challenge can be in the form of a Request for Quotation or a Request for Proposal depending on the complexity of the unsolicited proposal. More information on the Swiss Challenge process is outlined in the City of Toronto's Unsolicited Quotations for Proposals Policy.1

**Ensuring an Open, Fair, and Transparent Procurement Process**

The following steps were taken to ensure an open, fair, and transparent procurement process:

- The City procured a third-party Fairness Monitor from P1 Consulting to review and monitor communications and evaluations (including consensus meetings), and to participate in decision-making processes (i.e., the review of the draft and finalized published documents, evaluative guidelines, etc.). P1 Consulting has produced a fairness report attesting to the fairness of the process [See Appendix 1].

- The City's Internal Audit team reviewed the procurement approach and an observer from the Internal Audit team was present during all steps of the process, including call to market and the evaluation stage.

- A diverse City of Toronto evaluation team was chosen to evaluate the proposals, with members from Technology Services, Revenue Services, Strategic Policy and Planning, and Customer Experience and Innovation. Only one out of the ten evaluation team members had been involved or worked on the sole source initiative before beginning the evaluation. The remaining team members had no involvement in the previous process.

- Technology Services Division was engaged throughout the procurement process to validate technology standards and approaches, as well as to give input to ensure the supplier solution would align with the City's technology vision, strategic pillars, and policies and standards.

**Call to Market**

Staff issued on the City's website a notice of intended procurement on August 24, 2020 to alert the market that the City would be issuing the SC-nRFP shortly thereafter. Staff also publicized the notice on the City's social media (Twitter) channel on August 25, 2020. The SC-nRFP was issued to the market on September 17, 2020. The call was on the market for six weeks, after a two week extension was granted at the request of a supplier and through consultation with the Fairness Monitor. The team also referred a

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1 https://www.toronto.ca/business-economy/doing-business-with-the-city/process-for-receiving-and-reviewing-unsolicited-quotations-and-proposals/

number of suppliers who were interested in working with the City on payment initiatives to the SC-nRFP call documents.

Twenty-two suppliers confirmed their intent to participate in the SC-nRFP, with six suppliers attending an optional information and question meeting. The suppliers were given multiple opportunities to submit questions about the process and the SC-nRFP, and had the opportunity to contact the procurement team. As a result, the City issued five addenda to respond to questions from prospective suppliers.

In consultation with the Fairness Monitor, it was decided that the unsolicited supplier, PayIt, would provide a new proposal to meet the requirements as outlined in the SC-nRFP. As such, all suppliers would be assessed in a consistent and fair manner.

On October 30, 2020, after six weeks on the market, the SC-nRFP closed. The City received one counter-proposal, SQL Power Group Inc., to be considered against the PayIt proposal.

**The Evaluation Process**

The evaluation of the SC-nRFP was split into two stages, with the second stage further divided into five sub stages. The first stage was a review of mandatory submission requirements. This stage consisted of submitting by the closing time through the City's Online Procurement System, with the appropriate Bid Submission Form, Technical Proposals and Qualification Form, Pricing Form and Mandatory Technical Submission form. Stage 1 was a pass/fail section.

The second stage had five sub-stages consisting of:

- **Stage 2A** – Mandatory Technical Requirements (Pass/Fail)
- **Stage 2B** – Organizational Capabilities (Rated with a Technical Threshold)
- **Stage 2C** – Functional Technical Capabilities (Rated)
- **Stage 2D** – Proof of Concept (Rated)
- **Stage 2E** – Rated Financial & Lowest Proposed Financial

All suppliers are required to pass each stage in order to proceed to the subsequent stage. A stage may consist of simply a pass/fail requirement or have a scored evaluation in which a supplier is required to meet a predetermined score in order to proceed. For instance, Stage 2B required that a supplier score a minimum of 70% (70 out of 100) in order to proceed to Stage 2C. Supplier proposals that passed Stage 2B would have their scores reset to 0 and the final ranking of preferred suppliers would be based on a combined minimum of 70% in total from Stages 2C, 2D and 2E. The SC-nRFP provided flexibility to reduce the threshold to 60% (at most) to allow up to three proposals to advance.

**See more details on each stage below:**

**Stage 2A** – Mandatory Technical Requirements was a pass/fail section and ensured that the proposed platform would meet certain technical requirements such as (1) compliance with the Accessibility for Ontarians with Disabilities Act (AODA), (2)

compliance with valid PCI Data Security Standards (DSS), and (3) an acknowledgement of a list of mandatory items which were to be encompassed by the proposed platform, for example: customer experience/technology/access requirements and other related items including the signing of a Non-Disclosure Agreement.

**Stage 2B** – Organizational Capabilities intended to establish the level at which the prospective supplier organization has demonstrated outcomes in this particular space, and thus, whether they qualified for further evaluation in the proceeding stage, for an assessment of their detailed functional and technical capabilities.

Stage 2B evaluated a supplier's organizational capabilities, including a summary of corporate history, whether the organization had an approved supplier diversity policy and/or certification by a Supplier Diversity Organization. As well as the organization's experience and capabilities in driving digital adoption, details on the platform's capabilities as a turnkey solution, and requested examples of previous implementations of a digital government platform.

**Stage 2C** – Functional Technical Capabilities evaluated core components of the proposed digital platform, including:

**1. Scale and acceleration**
- A turnkey platform with interoperability, rapid deployment capabilities, and proven experience in other jurisdictions

**2. Industry-leading features**
- Inclusive functions in one application or platform that provides high quality customer experience, such as account setup, web/native app modes, e-billing, reminders, and alerts, and two-way communication and feedback channels, as well as data analytics for business teams

**3. Outcomes-focused model**
- Business model that compensates the supplier achieving digital adoption (paid on a per transaction basis), allowing the City to shift risk of implementation and avoid up-front capital and ongoing licensing costs
- Financial value add proposal(s) that recognize and reward the City for its brand, size, and value contribution, such as through co-design

Only those suppliers who progressed through the first three sub-stages of evaluation would proceed to **Stage 2D** – Proof of Concept and undertake an eight-week Proof of Concept (POC) with the City. The POC would demonstrate the end-to-end experience from the time the customer first uses the platform and creates an account, to the completion of a payment and saving a receipt. The POC would be evaluated based on customer experience, technology, and innovative approaches to driving customer adoption.

**Stage 2E** – Rated Financial & Lowest Proposed Financial was an evaluation of the financial proposal. An average cost was calculated based on each supplier's proposed total cost for delivery, divided by a projected transaction volume for each service.

Suppliers also had an opportunity to present value-add proposals to the agreement that would represent innovative value to the City beyond the per-transaction costs.

Both the PayIt proposal and the counter-proposal passed the mandatory requirements set out in Stage 1 and Stage 2A. After the evaluation of stage 2B – Organizational Capabilities, only the PayIt proposal earned a score that met the evaluation threshold of 70% needed to advance to Stage 2C. As noted, the SC-nRFP contemplated the City's ability to lower the technical threshold from 70% to 60% in order to allow up to three proposals to move to the next stage. Staff reviewed this discretion, but a lowered threshold did not allow for the counter-proposal to continue.

The evaluation team scored the PayIt proposal for both Stage 2C and 2E and the team found that the submission met all thresholds to qualify to proceed to the negotiation stage. The SC-nRFP made it clear that PayIt would be exempt from Stage 2D as they had originally completed a POC as part of their unsolicited proposal.

The Fairness Monitor has attested that the process was conducted following the principles of fairness and transparency. The Fairness Monitor's attestation letter is attached as Attachment 1. Internal Audit has also confirmed that the process was conducted as set out in the SC-nRFP.

**Next Steps**

Staff will now move forward to the negotiation stage of the SC-nRFP with the successful supplier, PayIt. A negotiation strategy document has been created that outlines the proposed negotiation team, along with key negotiation items and potential outcomes for each area, to allow the team to structure the negotiation as a series of topic driven sessions with PayIt over the course of February and March 2021. Based on the success of the negotiations, Staff will return to Council in April 2021 to seek approval to award the contract.

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## SIGNATURE

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Josie Scioli, Deputy City Manager,
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Heather Taylor,
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## ATTACHMENTS

Attachment 1:  Fairness Attestation – Swiss Challenge Negotiated Request for
Proposals (SC-nRFP)