

Innovative Partnership to Accelerate Digital Services with Payments

Date: April 15, 2021

To: Executive Committee

From: City Manager, Deputy City Manager, Corporate Services and Chief Financial Officer and Treasurer

Wards: All

SUMMARY

In February 2021, City Staff presented a report for information to City Council that detailed the competitive Swiss Challenge Negotiated Request for Proposals (“SC-nRFP”) process and outlined next steps for negotiation with the successful supplier, Paylt LLC.

The SC-nRFP sought a supplier that could help accelerate and scale the City’s digital payment process and simplify the customer experience. This call to market was representative of the City’s strategy to respond to evolving customer expectations, while modernizing and centralizing revenue collection and technology platforms.

Negotiations between the City and Paylt LLC took place between February and April 2021. City staff ensured that negotiations addressed concerns raised by City Council previously, such as rent-seeking, data storage and security, and technology lock-in. With the negotiation stage now complete, this report is requesting that Council approve the award of the contract to Paylt Digital Government Inc. (“Paylt”), a Canadian entity. This report provides more details on value to residents and the City, as well as the scope of work, phasing, term of contract and ability to terminate, risk management, and financial impact of the recommended commercial relationship.

Together, Paylt and the City of Toronto will design services under a single City of Toronto branded digital experience and platform (“Platform”), beginning with the launch of property tax, utility bill, and parking violation payments in summer 2021. Further services, such as building permits, licenses, and court fines, will be integrated onto the same Platform in subsequent phases. The Platform will not only provide residents with greater digital payment options, it will offer self-service features that people expect from modern mobile and web applications in a digital era. From personalized bill reminders to scheduling payments, to storing account documents and saving preferred payment methods through one digital wallet, the Platform will make the experience of accessing City services and paying bills much simpler.

While the City has demonstrated incredible resilience in standing up contactless services in response to the COVID-19 pandemic, the customer experience remains fragmented. A typical Toronto family might have numerous payments and touchpoints with the City annually, from paying their property taxes to their utility bills, to applying for a building permit for a porch, to street parking permits or a pet license. Yet, in order to successfully complete what could be 20+ transactions, they must access a minimum of 11 different touch points across the City. Oftentimes, customers access the service and the payment process separately, with available payment options differing widely across divisions and services.

Residents, businesses, and visitors to Toronto want a simple, consistent, and connected experience with the City. PayIt enables these experiences by offering all types of payments through a personalized digital experience for citizens. PayIt LLC provides cloud-based and mobile-first technologies to government in 16+ states across the United States, with a growing list of government partners, including Memphis, Tennessee, State of North Carolina, and Kansas City, Kansas. PayIt LLC serves over 80 million citizens annually. Its Canadian subsidiary is headquartered in Toronto, Ontario.

The agreement with PayIt also presents significant benefits for the City. City staff conservatively estimate that the City will realize a Return on Investment (ROI) of approximately \$11 million over a 5 year agreement, net of fees paid to PayIt. This positive ROI can be reinvested in other City priorities. Estimated savings come from a reduction in office visits, mail outs, credit card service fees to the current payment provider, revenue processing and reconciliation, and a rationalization of technology.

This relationship moves the City away from traditional approaches to technology builds where the City bears the risk, and shifts it to a cloud-based Software-as-a-Service ("SaaS") model where the supplier bears the risk of investment, as well as accountability for sustainment, ongoing innovation, and adherence to Canadian data requirements and the City's privacy and security standards. The City also benefits with certainty of time to market and a compensation model where fees to PayIt are tied to outcomes and customer adoption. Overall, fees to PayIt are estimated to be 0.49% of total City revenue collected.

PayIt is paid on a per transaction basis only when a customer makes a payment to the City via the Platform. PayIt will be responsible for the deployment, hosting, configuration, integration, testing, management, training, and ongoing support of the Platform for City services. PayIt will also assume capital investment for development and integration of the platform, and will cover costs of technical and customer support services. The City has also negotiated revenue generation opportunities where it will be rewarded for generating value for customers and PayIt in terms of business development.

The agreement with PayIt is flexible and includes provisions to reduce the likelihood of 'supplier lock-in'. The initial term of the agreement is for 3 years, with two additional one-year extensions entirely at the City's discretion to grant, for a potential total term of 5 years. The City will (prior to the end of the initial 3-year term) evaluate the relationship

against key performance measures in order to determine if it is appropriate to grant the first extension. Paylt is required to adhere to the privacy, information, and data security policies set by the City.

RECOMMENDATIONS

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

1. City Council authorize and direct the Chief Technology Officer to enter into and execute an agreement and any ancillary documents required to give effect thereto with Paylt Digital Government Inc., being the top-ranked proponent of SC-nRFP (identifier) for the provision of digital services with payments for a period of three (3) years, plus two (2) one year options at the discretion of the Chief Technology Officer, in the estimated amount of \$20.5 to \$25.1 million, on terms and conditions satisfactory to the Chief Technology Officer, and in a form satisfactory to the City Solicitor.
2. City Council amend City of Toronto Municipal Code Chapter 441, Fees and Charges, and any other relevant Code Chapter(s), to delete the current acceptable payment methods of fees and charges, and delegate authority to the Chief Financial Officer and Treasurer to establish policies and guidelines regarding payment methods for fees and charges to be accepted by the City, including accepted payment methods under the recommended agreement with Paylt Digital Government Inc., and ensuring such policies always include a free payment method option for customers.
3. City Council authorize user fees for online card payments processed pursuant to the recommended agreement with Paylt Digital Government Inc. at the lesser of (i) 2.35% of the payment amount for online credit card transactions and 1.5% of the payment amount for online debit card transactions, and (ii) the amount permitted to be charged to users by the card brand rules, commencing with online card payments for property taxes, utilities and parking fines as may be permitted by the card brand rules, 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.

FINANCIAL IMPACT

The Paylt partnership gives the City an opportunity to enter into a cost-effective and competitive commercial relationship that meets many of the City's larger objectives, including city-wide digitization of services and the shift to an outcomes-based partnership model.

The City needs to seek opportunities for more innovative partnership 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 the commercial relationship with Paylt will be a single, modern digital government experience for residents and businesses, there is also a positive financial ROI.

City Staff have estimated that the ROI of all cash flows to the City will be \$11 million over the first 5 years. This value consists of both operational savings and capital cost avoidance that will result from the adoption of the Platform across Phases 1 to 4 (See Table 1 for phased approach to implementation) This includes a reduction in current processing fees and counter volumes, as well as decreased resource needs for the City to maintain disparate payment systems.

Table 1: Phased Approach, 2021-2022

Phase	Phase 1	Phase 2	Phase 3	Phase 4
Services	Property Taxes Utility Bills Parking Violations	City Planning Fees Toronto Building Permits	Pet Licenses Business Licenses Temporary Parking Permits Regular Parking Permits Street Allowances Film Permits	Court Fines
The City has the discretion to add further services to the phases above or in the future.				

Not all costs are fully represented in this single figure, as many savings will only be realized in the long-term, as back-office structures and processes align with customer behaviour. This figure does not include all direct and indirect operating costs that will be realized in the long-term, nor does it include cost avoidance if the City attempted to replicate the Platform on its own. This lends itself to the conservative nature of the ROI.

The total contract value is estimated to be between \$20.5 million to \$25.1 million over 5 years. A range has been provided since actual contract value is dependent on fees paid to Paylt, which are dependent on customer adoption. Annual costs will vary as different phases of services are on-boarded to the Platform at different time periods, and contract value is likely to grow incrementally at the same time as user adoption.

In order to quantify the contract value and costs and savings, City staff have used past customer behaviour to predict the number of users expected to make a payment via the Platform (rate of adoption), as well as their payment method of choice. These predictions were used to inform the negotiation process. It is important to note that Paylt

was required to submit a pricing schedule during the SC-nRFP competitive process, and that the City has placed downward pressure on these rates during negotiations.

The City has negotiated competitive fees with Paylt that allow the City to achieve margins beyond payment of fees, with thresholds in place to mitigate against rent-seeking opportunities. For example, for property tax and utility bills (which represent significant City revenue and growth potential for Paylt), the City has negotiated thresholds with a graduated reduction in fees above that thresholds. This means that as volume increases, the fees paid to Paylt will decrease, thereby limiting the ability for rent-seeking.

The negotiation process also addressed concerns raised by City Council during previous sessions, such rent-seeking, data storage and security, and technology lock-in.

Below we have provided more details on payment to Paylt, benefits for the City, and card payment processing fees.

Paylt Fees

The commercial relationship with Paylt is based on an innovative model that puts the City of Toronto at the forefront of digital government and municipal contracting. Unlike traditional technology partnerships, Paylt will assume responsibility for all capital investment of platform hosting, software licenses, ongoing support and maintenance, enhancements to services, and integration with City architecture.

Costs to the City are instead determined by a combination of (1) transaction fees and (2) payment processing fees that have been negotiated with Paylt. The only time Paylt receives a fee is when a customer makes a payment to the City via the Platform. For example, each time a resident or business uses the Platform to make a payment, Paylt will charge the City a transaction fee. This transaction fee is a fixed fee, with the amount depending on the City service.

In addition, there is a payment processing fee charged by Paylt to settle financial transactions. In the case of EFT, this is a flat fee of \$1.50, which is paid by the City to Paylt. For credit and debit card payments, it is 1.5% of the payment amount for debit card, or 2.35% of the payment amount for credit card, which is charged to the customer.

Paylt will not charge customers nor the City for use of other features, including: customer sign-up, log-ins, lookups and reminders, and the scheduling of payments, as well as e-billing (option in future).

Phase 1, property tax, utility, and parking violation payments, represents the largest source of revenue collected by the City, totalling \$8.3 billion annually. As of today, 94% of residents and businesses pay their property and utility bills through their banks, via online banking, mortgage, or pre-authorized payments, with the remainder paid primarily through mailed-in cheques. Paying by credit card is not currently an option.

The proposed agreement with Paylt will now provide customers with the option to pay by credit card, debit card, or EFT via the Platform. They will also have the option to

continue to pay through their banks (outside of the Platform). If customers choose to pay by debit or credit card, they will agree in advance to pay a payment processing fee of 1.5% and 2.35%, respectively (see more about card payment processing fees on page 8). If they pay by EFT via the Platform, customers will not pay a payment processing fee and the City only pays a flat payment processing fee to Paylt.

As such, research shows that most residents will choose to pay using EFT given the high dollar amount of payments, as the average property tax payment is \$1453.00 and the average utility payment is \$828.00. Under this scenario, the City will cover the payment processing fee and there is no charge to the customer.

We also anticipate that most customers will continue to pay property and utility bills via their banks. The City’s model forecasts a 10% adoption rate for property and utility bills for the first couple of years of the contract since shifting customer behaviours from current methods of payment (through their bank) to a new platform takes time. Above 10% adoption, the City has negotiated a limit and graduated reduction to Paylt fees in order to prevent 'rent-seeking' behaviours.

As the Platform expands to include more services, and the partnership with Paylt generates significant value for the City and its residents and businesses, staff anticipate adoption to grow. For Phases 2 to 4, as well as parking violations in Phase 1 (where 96% of payments are via credit card), City Staff predict much higher adoption rates. See Table 2 for an estimated breakdown of Paylt fees as a percentage of annual City revenue collected via the Platform.

Table 2: Forecasted Platform Fees as % of Annual Revenue, by Phase and Division

Phase (Implementation between 2021 and 2022)	Forecasted Annual City of Toronto Revenue Collected via Platform (millions)	Forecasted Total Annual Platform Fee (millions)	Fee as a Percentage of Revenue Collected
Phase 1: Property Taxes, Utility Bills, Parking Violations	\$707.5	\$5.0	0.71%
Phase 2: Toronto Building Permits and City Planning	\$818.2	\$0.64	0.08%
Phase 3: Licenses (Pet, Business), Temporary and Regular Parking Permits, Street Allowances, and Film Permits	\$52.2	\$1.4	2.64%

Phase 4: Court Fines	\$48.3	\$0.98	2.03%
TOTAL	\$1,626.3	\$8.0	0.49%

Total Benefits

The objectives of this partnership are not only to 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. Compared with the traditional model, the City will reduce the time to benefit from digital services, avoid costs associated with financial regulations and technology upgrades, and benefit from the flexibility that comes from a cloud-based platform to scale use up and down based on specific needs.

While there will be extensive back-end reconciliation and centralization work required at the beginning of implementation, real savings will be realized when divisions take an end-to-end digital approach to the provision of services. 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.

It is estimated that the total savings for the City net of costs to Paylt is \$11 million for Phases 1 to 4 of a 5-year contract, adjusted to the present value of all cash-flows. This value is derived from division savings, which will come from a reduction in:

- Counter transaction volumes;
- Payment processing costs, including a reduction in cash handling and cheques;
- Fees to the City's current payment provider; and
- Mailing and postage costs, where the Platform can support e-billing and digital documents.

The City will also accrue savings and reduce risk from:

- Centralization of the number of payment intake systems and standardization across the City;
- Shift in financial processing, reconciliation, and Payment Card Industry ("PCI") compliance costs to Paylt who are PCI-1 compliant and specifically provide these services at scale. This means that the City will decrease the volume and frequency of credit card numbers that will be in its possession;
- Reduced traffic to offices and calls to support staff; and
- Decrease in technology operational costs used to sustain existing payment intake systems.

In addition, PayIt will assume responsibility for providing technical and business support to the City and users, as well as ongoing maintenance and enhancements to the Platform at no additional cost to the City. As a value add, the City has also negotiated that PayIt will pay an adoption fee to the City when City Agencies, Boards, Commissions and Corporations or Broader Public Sector entities (such as other municipalities, agencies, or the Province) enter into an adoption agreement with PayIt for PayIt services.

Overall, there is a lower opportunity cost for the City in partnering with PayIt than with other traditional IT infrastructure partners, whereby the City pays for up-front and ongoing costs with no guarantee of customer adoption. A traditional supplier, where the City pays for technology upfront, would not lead to a positive net savings. The cost to maintain current processes and systems is also likely greater in cost and risk for the City in the long-term.

The City also gains significant savings from speed/time to market and customers. Attempting to replicate the Platform would take years and the City would pay capital and fixed operating costs, regardless of whether there is adoption or not.

Debit and Credit Card Payment Processing Fees

The City currently pays the fees charged by card brands (e.g., Visa, Mastercard) for the processing of credit and debit card payments for certain city services. In 2019, fees resulted in total costs to the City of \$5 million. General taxpayer revenue is, in essence, subsidizing and paying the fees for those who choose to use credit and debit as payment. These costs will only continue to increase as more service payments are put online, making it financially unsustainable for the City to continue to cover these fees.

As part of better financial management, and a policy of fairness and transparency, the City will no longer be covering these costs through taxpayer revenue, and will be passing on credit and debit card payment processing fees to those customers who choose to use this payment method. It is important to note that the City will always offer a convenient, free, and accessible payment option (EFT) to customers.

Accordingly, the City will transition to charging payment processing fees for credit and debit card payments using the Platform. If a customer chooses credit or debit to make a payment via the Platform, the customer will pay the payment processing fee to cover the processing component of that payment method payable to PayIt as permitted by the card brand rules.

This transition is aligned with the actions of other municipalities and levels of government. For example, both the City of Mississauga and City of Ottawa charge a \$1.50 administrative fee to users who choose to pay their parking tickets online. The City of Calgary charges a \$3.00 fee for online payment of parking ticket. What is unique in the City's approach is that a free digital option is also available and charges only apply to payments via credit or debit card.

While historically the card brands have largely prohibited merchants from passing on credit and debit card payment processing fees to their customers, a recent legal

settlement has resulted in an industry-wide change that will be implemented by the card brands within the next 18 months. This change in the card brand rules will allow the City much greater flexibility to pass on credit and debit card payment processing fees.

Where card brand rules continue to prohibit passing on such fees to City customers in the short-term, the City will determine which payment methods it will accept. In Phase 1, the City will only permit card payments by card brands that allow the payment processing fee to be paid by the customer. As mentioned earlier, 94% of customers currently use payments through their banks to pay for property taxes and utility bills, and credit and debit card use is much more prevalent in the payment of parking fines, building permits, and licenses.

PayIt will only be paid and customers will only be charged, the lesser of (a) 2.35% on credit cards payments and 1.5% on debit card payments, and (b) the maximum amount the card brand rules allow to be passed on to the customer. The agreement states how these fees will be presented to customers, and we will ensure that customers are notified at the beginning of the transaction, as well as before completion, about the presence of any applicable fees. PayIt will ensure that all disclosure and notice requirements of the card brand rules are met.

DECISION HISTORY

In February 2021, a Council report provided an update on the Swiss Challenge Negotiated RFP process and outlined next steps with the successful supplier, PayIt LLC. That report was adopted, with amendments.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2021.DM30.1>

In July 2020, a Council report outlined the opportunity to 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

Citizens are digital customers; they engage and transact online every day. They are accustomed to participating in relevant and seamless experiences, with brands that anticipate customers' goals and needs. As customers' expectations escalate and evolve in the commercial sphere, so too do their expectations for how they engage with government. But to transform itself and meet this shift in expectations, a digital government must go beyond bolting technology on to their existing systems and processes. Instead, governments must use technology as an enabler for change.

The City has taken concrete steps towards becoming a digital, contactless government. COVID-19 has transitioned more people online than ever before, accelerating the City's digital transformation. Over 60% of the City's operational services are now delivered remotely, either by phone or online. The adoption rates of digital payment options have increased across city services since the start of the pandemic, with 94% and 99.2% of property tax and utility payments made through electronic transfer payments in 2020, respectively.

While there are technologies in the marketplace that can handle payment processing transactions, these offerings are not the same as a full-featured digital platform that provides customers with end-to-end services in a single location, whether on the Web or via a native mobile app.

It is within this context that the City sought a third-party partner—with proven experience modernizing government services—to offer a single digital experience and platform. Through a competitive call to market, PayIt was selected as the successful supplier. After extensive negotiations, this report requests approval for the contract to be awarded to PayIt and for City Staff to move forward to execute the terms and scope of that contract.

Swiss Challenge Negotiated Request for Proposals Process

A Swiss Challenge Negotiated Request for Proposals ("SC-nRFP") was issued to the market in September 2020. The intended purpose of a Swiss Challenge is to drive an open, fair, and transparent process that can evaluate a counter proposal against an unsolicited proposal to achieve the procurement of quality services. The negotiated aspect of the Swiss Challenge is intended and was used to ensure that the best value-for-money is achieved with the Successful Supplier.

The SC-nRFP sought an outside organization to provide a cloud-based platform that would help unify the residential experience for services and payments across the City. Prospective suppliers were evaluated against a combination of technical and organizational capabilities, which included a combination of the following three components:

1. Scale and acceleration

- A platform that can interoperate with the City's technology ecosystem
Proven record of digital acceleration in other jurisdictions and rapid deployment capabilities

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

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 unsolicited proposal from Paylt LLC.

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.

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 were required to pass each stage in order to proceed to the subsequent stage

Both the proposal from Paylt LLC and the counter-proposal passed the mandatory requirements set out in Stage 1 and Stage 2A of the SC-nRFP requirements. But after evaluation of Stage 2B, only the Payl LLC proposal earned a score that met the evaluation threshold required to advance to the next stages of the evaluation process, and ultimately quality for the negotiation stage.

About the Supplier

Paylt LLC was founded in November 2013 with a mission to simplify government and has delivered on this mission with an industry-leading digital government platform that enables all types of payments through a personalized experience for constituents. And has provided cloud-based and mobile-first technologies and solutions to government clients in 16+ states across the United States, with a rapidly growing list of government partners in some of the largest and most complex agencies. This includes active platform services in Florida, North Carolina, and Michigan. Paylt LLC serves 80 million citizens annually. In Q4 2020, as a result of COVID-19 restrictions, its clients saw a 40% growth in digital service adoption.

Paylt LLC has offices across North America, including the Canadian headquarters of Paylt Digital Government Inc., the Canadian subsidiary in Toronto, Ontario with which the agreement is proposed.

Experience

Client: North Carolina Transportation Secretary

- Currently provides digital services and payments for Department of Motor Vehicles (DMV) services, including vehicle registration and license renewals. Recently launched an online Driver's Licence and voter registration services.
- The State of North Carolina had a self-developed licence renewal system that constituents found confusing and challenging to use. The internal management of the system was a burden on the Department of Transportation's IT department, costing millions in overhead for staff to continuously manage the system
- City Staff have spoken directly to the Secretary, who says that digitization has been welcomed by constituents, with the digital platform seeing 40-50% adoption rates
- Biggest benefit from Paylt relationship has been the reduction in office traffic and simplification of financial processing, settlement, and reconciliation. Team of 12 full-time employees have been redirected from trying to manage complex financial processing and evolving financial and PCI compliance regulations, to other organization priorities

Client: City of Grand Rapids, Michigan

- Provides digital services and payments for Property Tax, Utilities (water, solid waste), parking citations, and community development loans since 2017, representing 1.3 million transactions processed annually
- Initial implementation of services was successful in just over 3 months from kickoff

- Cited results:
 - 15% to 20% increase in revenue collected each year
 - 24% reduction in manual cheques processed
 - 12%+ decrease in walk-in traffic

Agreement with Paylt

Contract Details

The initial term of the agreement is for 3 years with two additional one year extensions, entirely at the City's discretion to grant, for a potential total term of 5 years. Prior to the end of the initial 3 year term the City will evaluate the relationship against key performance measures in order to determine if it is appropriate to grant the first extension. Throughout the initial term and any extension term, the City retains the ability to terminate the agreement for any reason, on thirty (30) days written notice to Paylt.

A Service Level Agreement has been included in this agreement that identifies minimum Service Level Requirements ("SLR") that Paylt is required to consistently meet or exceed. These SLR range from software performance to accessibility standards to levels of customer support. If these SLR are not met, Paylt is required to reimburse the City financially for diminished value of services in the form of prescribed Service Fee Credits, which are intended to encourage Paylt to provide consistent and timely delivery of services to the City.

Paylt is responsible for hosting, configuration, integration, testing, deployment, management, and ongoing support of the Platform for City services, using a "Platform-as-a-Service" (PaaS) model. A PaaS model is a cloud computing model where a third-party provider delivers hardware and software tools to users over the internet. Under a PaaS model, Paylt will host the platform on its own infrastructure, allowing City users access to its functionalities via a mobile or web application.

Paylt will also provide to the City:

- Regular access to daily Transaction Reports and Settlement Reports
- Co-created back-office functionality and dashboards (e.g. report, dashboard, etc.)
- 24/7 access to an on-demand Administrative Portal, where authorized users can access reporting capabilities with daily transaction data and view transaction and settlement reports
- User analytics (e.g. Google Analytics)
- A multi-channel marketing strategy and plan that drives adoption to the new platform, including collaboration with the city on branding, social media, mailed inserts, banners, and Search Engine Optimization (SEO)
- End User Support by telephone and email, with resources capable of resolving requests, supplying technical support, and undertaking additional investigation.
- Training for the City's customer support and technical staff, including web-based online tools for City personnel and 24/7 direct means of contact for emergency situations

- Processing of EFT non-sufficient funds, refunds, and chargeback transactions, including where applicable, payments to users

Payments Collection and Remittance

PayIt is required to remit the amounts collected for the City through the Platform to the City on a daily basis, with remittance amounts deposited to the City's bank accounts by next business day for the previous 24 hour period. For each daily deposit, PayIt will provide to the City a daily deposit record that provides an itemized list of all remittance amounts included in each day's deposit. PayIt is responsible for safeguarding and security related to all payments collected for the City.

To protect the City and its responsibility for managing taxpayer's money, the agreement requires PayIt to provide to the City a letter of credit starting at \$1 million, increasing to \$2 million a year later. When the average daily amount of City revenue processed through the Platform (for 10 consecutive days prior) passes \$2 million, PayIt is required to increase the amount of the letter of credit to \$4 million. The Letter of Credit requirement serves as an important security measure to safeguard against the loss of revenues collected by PayIt. The City can immediately draw on the letter of credit should PayIt fail to remit the prior day's payments collected through the Platform, or in the event of a bankruptcy of PayIt or other default.

Benefits to Customers

PayIt and the City of Toronto will work together to design and launch the Platform, with the City of Toronto as the primary brand. The Platform will include features that customers expect from modern mobile and web apps. These features go beyond simple payment processing. Customers will be able to:

- Create individual profiles and enable availability for any service from any division, and sign in using authenticated or guest mode
- Complete payment transactions using their preferred payment method: credit card (Visa, Mastercard, Discover, American Express), debit card, or EFT, when permitted by card brand rules
- Set preferred payment methods in the Wallet section of the Application
- Access all payment history and receipts in one location
- Receive confirmations and reminders in the application or via email
- Review transaction and payment history, and keep transaction receipts and other documents in the Wallet section of the Application
- Pre-schedule standalone or recurring payments
- E-billing notifications
- Access customer and user support by phone or email

Phased Integration

Integration of the Platform will be undertaken in 4 phases over the course of 2021 and 2022, with integration of all phases before the end of Year 3 of the agreement. See Table 1 for more details on the phased approach to integration.

The City’s phased approach balances speed to market with the execution of high quality experiences and potential revenue generation for Paylt. Revenue Services was chosen for Phase 1 as it represents the highest volume of collected revenue by the City, and was identified as being in the greatest need of transformation and centralization. City Planning and Toronto Building are the next largest, single source of City revenue in terms of dollar amounts, and represent diverse groups of high dollar amounts and low dollar amounts per transaction. As such, these services will benefit from more low cost options for collection of funds.

Table 1: Phased Approach, 2021-2022

Phase	Phase 1	Phase 2	Phase 3	Phase 4
Services	Property Taxes Utility Bills Parking Violations	City Planning Fees Toronto Building Permits	Pet Licenses Business Licenses Temporary Parking Permits Regular Parking Permits Street Allowances Film Permits	Court Fines
The City has the discretion to add further services to the phases above or in the future.				

Risk Management

The Paylt partnership will contribute to the City’s technology ecosystem in a complementary manner, as the agreement focuses on integration with existing technology platforms, as well as transfer of risk for investment, execution, and sustainment.

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. Other systems that make up the City’s digital government platform include SAP for finance and human resources, Salesforce for 311 and Customer Relationship Management, ACTIVE Class system for Parks & Recreation plus other legacy systems, all of which are traditional licensing agreements.

As with any technology procurement, there can be concerns that the City could be 'locked in' or beholden to a third-party supplier once the system is designed to operate within the City's technology ecosystem. To mitigate against future supplier stickiness, the Platform will be designed as a modular piece that can easily be replaced by an alternative supplier. City staff will have access to a configuration dashboard where they can make changes to the low-code platform, without the need for PayIt staff.

The City will also build interfaces for their systems that are secure and reusable so that supplier systems are "decoupled" from the City system. This means that if the City needs to exit, these interfaces could be used by a different supplier in the future, or even by an internal City team to build a services and payments platform in-house, if desired.

As part of the City's broader digital government approach, PayIt has been required to meet the common standards and principles set out in the City's Digital Infrastructure Plan ("DIP"). The SC-nRFP specifically included requirements that technology proposals comply with the working principles of the DIP, as well as existing policies, processes and procedure, as Council intended.

The DIP report was brought to City Council in January 2020. On pages 1 and 2 of that report, staff stated:

"The City has a number of internally focused policies which regulate specific digital infrastructure topics. However, there is currently no cohesive policy or plan for the management of this infrastructure. Using existing policies as a foundation, Toronto can lead by developing a comprehensive plan that also serves as an outward evaluation tool for external proposals with digital elements.

Developing the DIP will be an iterative process that will allow further guidelines and processes to be established as the plan evolves. The Working Principles and processes can also be applied to digital infrastructure proposals going forward and as additional details are created and further consultations conducted. The current stage, with the proposed Working Principles and existing supporting processes, sets for the foundation for this continued work."

The DIP will provide a guideline that can be applied by City and Staff as they move forward with the process of designing, procuring, or implementing projects or programs that involve the use of digital infrastructure—such as the Platform.

Data Privacy and Security

The City is committed to protecting the personal information of its residents, businesses, and those that interact with the organization across all divisions and channels. When interacting with or in contact with the City's technology premises, all suppliers, including PayIt, must comply with City standards, procedures, and directives relating to confidentiality, privacy, security, and access to information.

PayIt will host, process, and obtain access to no more user data than is required to allow customers to manage and complete payments. All data and the Platform itself

must be hosted in Canada, i.e. all data at rest must be held on Canadian servers. Paylt is responsible for the security of stored information, and assumes liability for maintaining and ensuring compliance with valid Payment Card Industry (PCI) Data Security Standards, and for providing the City with assurance of continued compliance with PCI standards. The City will audit compliance on an annual basis.

As with any municipal technology implementation, the City and Paylt will be subject to the laws regarding the use of personal information set out under the Municipal Freedom of Information and Protection of Privacy Act (MFIPPA). Under MFIPPA, Paylt may only collect personal information from the user with the user's consent, and may only use that information to carry out the intended purpose of enabling payments between the user and the City.

The City's security procedures require each individual who is given access to the City's networks or systems to sign an agreement that has them acknowledge the confidentiality, privacy, and security obligations set out in the agreement and agree to act in accordance with them. The City reserves the right to prohibit any of Paylt's Representatives who do not comply with such rules, procedures, and policies from obtaining any physical or electronic access to the City's premises, infrastructure, or systems.

Conclusion

This report provides details on and seeks authority to enter into the recommended agreement with Paylt, and seeks authority to charge payment processing fees to customers choosing to pay by credit or debit card. Additionally, this report provides more information on the significant value of the proposed agreement to residents and the City.

The City has an opportunity to be a leader, not just in the municipal space but across government more broadly. The proposed relationship with Paylt delivers value for our customers and the administration of the City. The business model is innovative, forward-thinking, and cost-effective, leveraging a cloud-based vendor to scale and accelerate digital services with more payment options and an end-to-end experience designed around our customers. It transfers risk and ensures the City only pays for value created, i.e. digital adoption. If successful, it will allow the City to scale and provide an opportunity for other public sector organizations to join, creating an additional revenue stream for the City.

While the status quo is always an option, it is not one that will meet the expectations of residents and businesses in the City, nor will it allow the City to demonstrate greater operational effectiveness. As of now, customers to the City must navigate multiple portals, platforms, and channels to access services and make simple payments. Each access point provides a different level of service and different payment options. This relationship will help to centralize and modernize this experience so that customers have greater trust in the services provided to them by the City of Toronto.

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