Appendix E: Comparison between City actuals to date and RFP estimated amounts

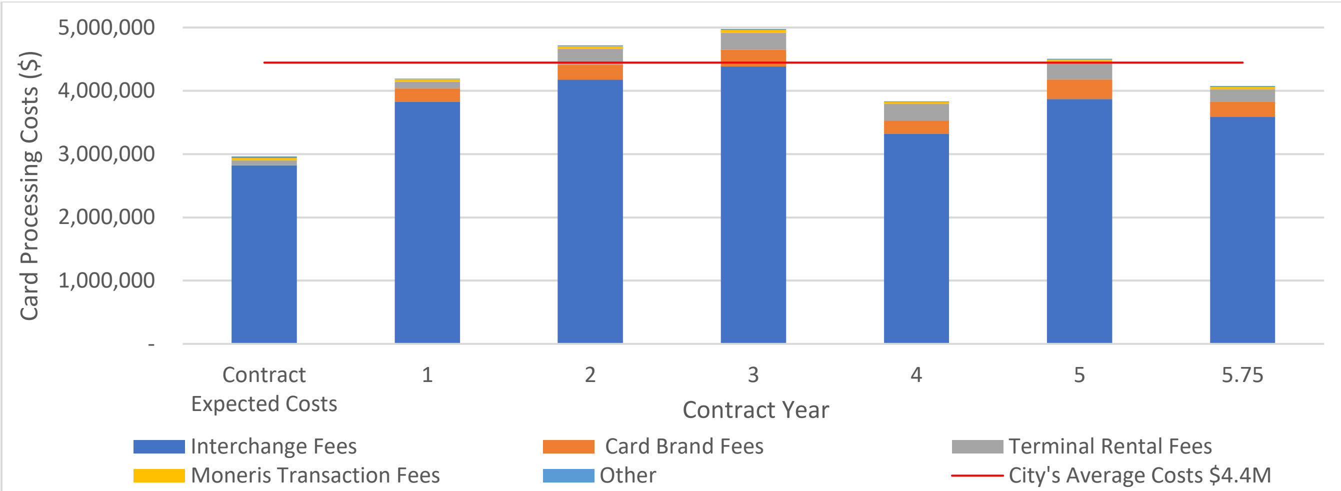
The City's contract maximum for card processing fees was determined using City activity from 2013 to 2015. The City has deviated significantly from the initial estimates, which did not factor in growth in card payments, increases in rates and additional services or requirements, such as PCI compliant equipment at City offices and kiosks.

Figure E.1: Cumulative Card Processing Costs Comparison

	Cumulative ($)		
Contract Year	Request For Proposal	Purchase Order Amendment (Year 6)	Actual
1 to 5	14,825,659.00	14,825,659.00	22,233,932
6	17,789,965.80	19,355,491.00	26,950,608 (Projected)
7	20,754,272.60	-	-
8	23,718,579.40	-	-
9	26,682,886.20	-	-
10	29,647,193.00	-	-

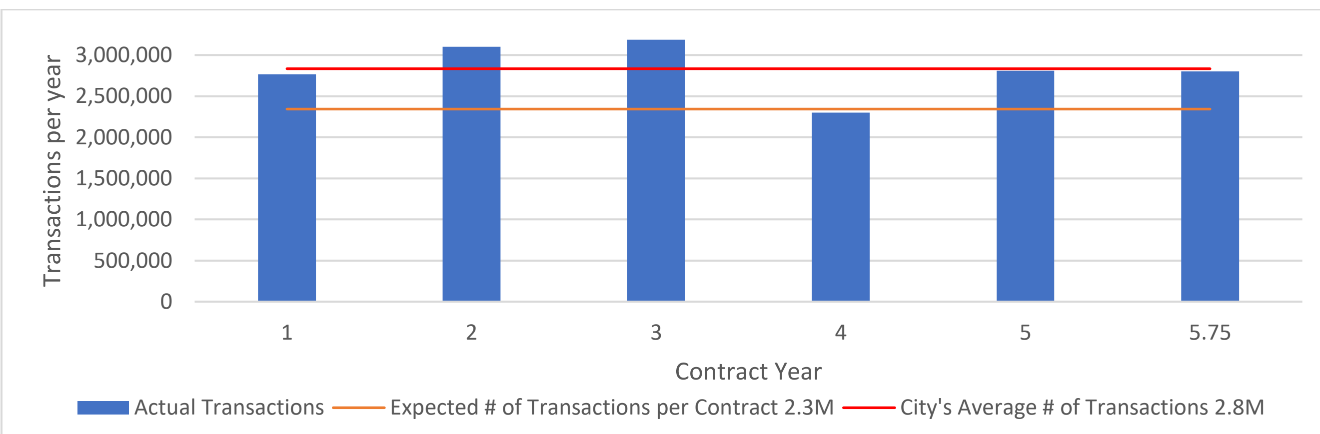
Council authorized $14.8M for the first 5 years of the contract and an additional amount of $2.9M for each of the 5 subsequent option years (annual maximums). When the contact was extended for its first 1-year option period (Year 6), a Purchase Order Amendment (POA) was issued to increase the purchase amount by $4.5M, bringing authorized spend to $19.3M. The City has exceeded the target amounts from the RFP and POA as outlined in Figure E.1. However, the card processing fees imposed by third parties should not have been included in the contract maximum. The amount of card processing costs that the City incurs each year is affected by a variety of factors, most of which are not in the City's control. While an annual amount can be projected, it is an estimate. The credit card industry is dynamic and it is difficult to hold the City to an annual confine without disrupting business. See Figures E.2 through E.5 for further comparison of City actuals vs RFP estimates.

Figure E.2: Card Processing Costs compared to expected annual amounts



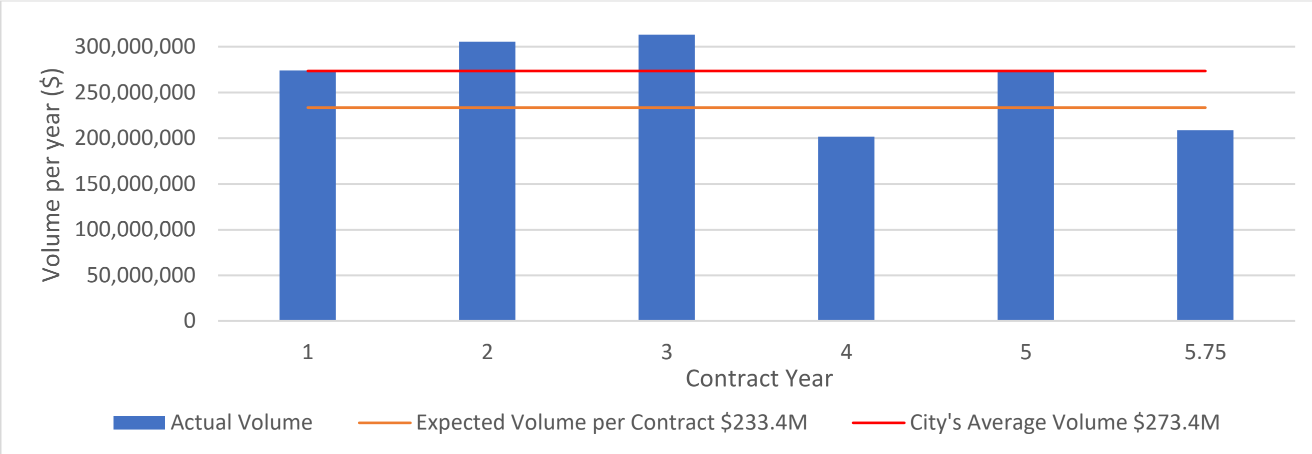
When the contract was entered into, $2.96M in card processing costs were predicted to be incurred by the City each year. The expected costs per year included costs for Moneris transaction fees, interchange fees, payment terminal and gateway set-up, and terminal rental fees. At the time, card brand fee estimates were not factored in the contract maximum. Despite that, all fees that the City incurs for card processing, except for fines imposed by card brands and chargeback fees, are incorrectly accumulated towards the ten year contract maximum by Moneris. From Year 1, the City's costs have exceeded the expected amount ($2.96M) with the average fees incurred per year being $4.4M. This shows that the estimated payment activity used to set the contract maximum in 2016 was not representative of the City's actual payment activity.

Figure E.3: Transaction comparison between RFP expected values and City actuals



The City's card payment transactions have exceeded the expected amount every year, except for Year 4, when COVID was declared a pandemic and some City services were shut down. The City has been averaging 500K more transactions per year than expected which shows that the City's consumers have been adopting cards as a preferred method of payment. The increase in transactions has affected the City's card processing costs. In addition to the Moneris transactional fees being impacted, more transactions equates to more payments being processed by the City, which is a driving factor in the interchange and card brand costs that are incurred.

Figure E.4: Payment volume comparison between RFP expected values and City actuals



Similar to the number of transactions, the payment volume in dollars has been greater than expected for every year other than Year 4, which was heavily impacted by the pandemic. The City's average over the past 5 years is approximately $40M higher than the payments expected each year. The City's two largest card processing fees, interchange and card brand fees are determined by applying rates to the City's volume of payments and account for 94% of the costs incurred. Therefore having higher volumes than what was anticipated has contributed to the City's accelerated exhaustion of the contract maximum that incorrectly included these fees.

Figure E.5: City's actual terminal rental fees incurred vs the expected annual fees per the contract

The fees that the City pays to rent POS terminals for payments collected at City counters, kiosks and through telephone, have exceeded estimates when the contract was first established. Terminal rental fees estimated over the ten-year life of the contract was $816K, and as of October 2022 (Q3 of Year 6), $1.4M has been incurred. The predominant driver of increased rental fees is the City making the transition to POS terminals that are Payment Card Industry (PCI) compliant. This switch occurred in 2018; a condition of the City's agreement with Moneris was to become PCI compliant by the end of that fiscal year, which was expected by the card brands, given the City's volume of transactions. PCI compliance is a security standard for organizations that handle credit and debit card information. This PCI compliance requirement was not taken into consideration when the RFP was issued and the costs associated with these devices were not incorporated in the contract value. However, it is important to note that the City's PCI compliance status not only enhances security of cardholder information, but mitigates the risk of cardholder breach and associated penalties and fines imposed by the card brands. Maintaining a PCI compliant environment is essential to the City's continued acceptance of credit cards as a form of payment.