

Innovative Partnership to Accelerate Digital Services with Payments (response and report-back to motion 23.2 May 20, 2021)

Date: November 22, 2023

To: General Government Committee

From: Interim Deputy City Manager, Corporate Services and the Controller

Wards: All

SUMMARY

In May 2021 Council approved a three-year contract with Paylt Inc. with options to extend up to two additional years, which was signed on June 3, 2021. The partnership with Paylt was meant to improve residents' payment experience and provide access to digital payment alternatives compared to traditional channels, while increasing efficiencies for the City. More specifically, the objectives of the partnership are:

- (1) Accelerate digital services leveraging a purpose built and cloud-based platform to scale faster and benefit from continuous improvements;
- (2) Offer integrated and modern payment features as well as more payment options for residents and businesses;
- (3) Drive internal efficiencies from reducing paper mail outs to financial processing, reporting and reconciliation supporting the goal of revenue process standardization and centralization;
- (4) Utilize a different business model whereby the City pays fees based on adoption instead of capital investment by shifting risk of implementation and ongoing product enhancements to vendor;
- (5) Revenue share from future growth and adoption by other public sector organizations.

This report for information provide an update on Phase 1 (Revenue Services) of MyToronto Pay (MTP), a City-branded and customized version of Paylt, as the work with Revenue Services Division (RSD) nears completion which included the launch of Property Tax, Utilities, e-Billing, and Pre-Authorized Payments (phase 1) on the platform. Included are updates on the approach taken with Paylt, key performance metrics and evaluation of various aspects of the partnership against the contract.

In summary, the approach implemented with Paylt was more measured and less ambitious than detailed in the approved report May 2021. There were four reasons for

this; a) efforts required to integrate and customize the PayIt platform, b) City capacity and prioritization vis a vis other priority initiative, c) City's evolving strategy towards a 'One TO' experience and how PayIt fits in, d) responding to concerns from Council, specifically vendor-lock-in.

A summary of analysis from five Strategic Value Drivers shows objectives outlined in the May 2021 Report against progress and experience to date.

Table 1.1 Strategic Value Drivers & 2023 Status

Strategic Value Drivers	2021 Report Drivers & 2023 Status	Reasoning
Customer Experience (CX)	<ul style="list-style-type: none"> ● Modern, integrated payment experience ● More payment options (online debit, credit, Electronic Funds Transfer) ● Modern Customer Experience (CX) features with City branding 	<ul style="list-style-type: none"> ● MTP not expanded to divisions beyond Revenue Services ● Close to 1M payments and 400k accounts ● Value add modern CX features
Operational Efficiencies	<ul style="list-style-type: none"> ● Payment processing efficiencies ● Reduce misapplied payments ● Reduction in counter, call, & correspondence costs 	<ul style="list-style-type: none"> ● Adoption for property tax and utilities below 10% ● Operational productivity achieved but not scaled
Technology & Scale	<ul style="list-style-type: none"> ● No capital cost and risk transfer of technology build ● Compliance, standards, & service-levels ● Scale & acceleration (e.g. speed of delivering services) ● Integrated back-end systems 	<ul style="list-style-type: none"> ● Cost avoidance for a payment system is +\$2.5M ● Industry and City integration standards met ● Required additional effort to integrate, resulting in higher integration costs (approx. \$1M)
Revenue Centralization	<ul style="list-style-type: none"> ● PCI compliance cost & risk transfer ● Revenue collection standardization & centralization ● Reduction of City credit card fees 	<ul style="list-style-type: none"> ● Transferred revenue reconciliation, reporting and industry compliance, but not scaled ● Card fees passed for all services except parking
Business Model & Partnership	<ul style="list-style-type: none"> ● Flexible pricing model for partnership sustainment ● Joint business development for revenue share 	<ul style="list-style-type: none"> ● PayIt compensated for adoption ● PayIt has demonstrated flexibility in direction & pricing ● Commercialization benefits not realized to date

*Green is completed; Yellow is partially completed; Red is not completed

Conclusions & Next Steps

As the analysis of KPI's demonstrates the results are a mix of positive achievements, underperforming on targets and more generally unrealized potential. While there is room for PayIt to improve aspects of its platform, ensuring vendor(s) are successful and City outcomes are achieved will require greater alignment on the City's digital payment approach and requirements.

To support this, the Customer Experience Division (CXD) will lead analysis between now and Q2 2024 to summarize lessons learned from the experience with PayIt and develop a City-wide understanding of digital payments requirements. This work will engage our Technology Services team and key divisions with payments and be

augmented by resident engagement and hiring of a third party to help conduct a market analysis and scan to inform a renewed procurement approach.

Staff will report back to council in Q2 of 2024 to update on this work and recommend a go-forward plan with respect to an extension of the PayIt contract, permitted as part of the original contract terms, and a plan to go back to market through a competitive RFP following this period. During this period the PayIt platform will not be expanded to other divisions beyond Revenue Services Division.

Once the pre-authorized pay feature for property tax is implemented early in 2024 there will be no further expansion of services on the PayIt platform until the City has completed the competitive procurement referenced above.

RECOMMENDATIONS

The Deputy City Manager, Corporate Services and the Controller recommend that:

1. The General Government Committee receives this report for information.

FINANCIAL IMPACT

There is no financial impact from the adoption of the recommendations in this report.

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

DECISION HISTORY

At its meeting on May 5th 2021, City Council adopted [Item EX23.2 - Innovative Partnership to Accelerate Digital Services with Payments](#). In the adoption of this report, City Council directed the City Manager, the Deputy City Manager, Corporate Services and the Chief Financial Officer and Treasurer to report to City Council at the halfway point of the agreement with an evaluation of the success of the agreement and whether the City should begin work on a new procurement. Additional decision history adoptions and amended motions can be found in the below link.

For background three recommendations were approved as part of Item 2021.EX23.2:

1. City Council authorized the Chief Technology Officer to enter into and execute the agreement with PayIt for three (3) years plus two (2) one year extensions with a contract value estimated \$20.5 to 25.1M.
2. City Council amend City of Toronto Municipal Code Chapter 441 and delegate the Chief Financial Officer and Treasurer to establish policies and guidelines regarding payment methods and fees.

3. City Council authorize user fees for online card payments processed pursuant to the recommended agreement with Paylt Digital Government Inc.

COMMENTS

During Council's deliberation of the Paylt contract, some concerns were raised relating to vendor-lock in and transparency of fees for members of the public. Once approved, staff modified it's implementation approach to address and mitigate these concerns.

Implementation Progress

MTP launched as a City-branded and customized version of Paylt in January 2022 with two services; property tax and utility bill payments. Features included single sign on and account management, payment options including credit, debit and Electronic Fund Transfers (EFT), the ability to save payment preferences in a wallet, schedule payments and receive email notifications and confirmations, and 24*7 customer support.

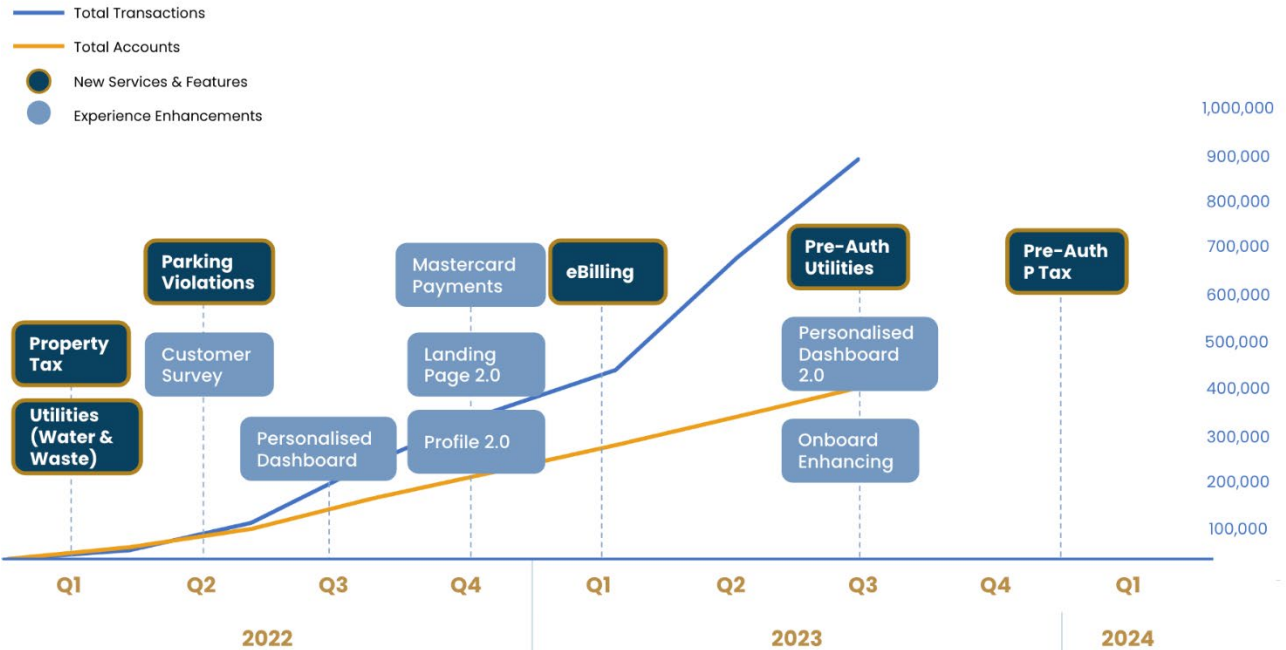
Since then, the City and Paylt have launched three additional services for Revenue Services including:

- Paying a parking violation,
- Signing up, receiving, and managing electronic property and utility bills (e-billing)
- Signing up for, and managing pre-authorized payments for utility payments (pre-authorized property tax payments coming in Q1 2024)

The MyToronto Pay service was launched with the goal to improve the residents' payment experience, leveraging a cloud-based solution with modern features, an integrated experience and continuous improvements through resident feedback and innovation.

Figure 1.1 Services, Features and Transaction Volumes

IMPLEMENTATIONS & RELEASES, OVERALL TRANSACTIONS, & OVERALL ACCOUNTS



Benefits to Residents

The MTP service was launched with the goal to improve residents' payment experience by providing access to digital payment alternatives compared to traditional channels, while increasing simplicity and efficiency of payments. This was particularly important during the pandemic as services needed to be contactless and counters were closed. The MTP platform leveraged a cloud-based solution with an account approach for recurring payments while making continuous improvements in the fintech industry. These continuous iterations/improvements introduced new features and services to drive value while incorporating resident feedback.

Customer Engagement and Adoption

Taking a more measured approach to implementation, to date MyToronto Pay (MTP) has been offered as an additional payment option while maintaining all other payment channels and options, such as online banking, in-person, mail and the paper-based pre-authorized payment program and the existing online parking payment.

Recognizing differences in the Canadian market (versus U.S.), the original report targeted 10% adoption for property tax and utility payments and assumed parking volumes would be migrated to MTP in its entirety and other payment services added to the experience to drive value and volumes. With the more measured approach, the City did not direct volumes solely to MTP as originally intended, but instead positioned it as an alternative payment option to traditional channels. The above resulted in lower adoption rates of 3-5% for property and utility payments and close to 30% adoption for parking fine payments made through the MyToronto Pay platform. Approximately 400,000 MTP customer accounts have been created to date.

Table 1.2 Adoption (*up to September 30, 2023)

	All Time	2022	2023*	YoY Growth	% of Total TXNs
MTP Transactions	904,197	333,683	570,514	75.33%	
Property Tax	237,226	75,638	161,588	26.45%	4.4%
Utility	61,701	23,561	38,140	129.16%	3.0%
Parking	605,270	234,484	370,786	76.06%	28.0%
Customer Accounts Created	386,759	194,767	191,992	--	--

Despite a slow start, growth rates are trending at approximately 100% year over year for property and utility and set to rise further with pre-authorized pay features as awareness of the service grows. Existing user engagement with the platform and usage of features is also increasing; 26% of account holders are recurring users and only 6% are deemed inactive.

Table 1.3 Engagement (*up to September 30, 2023)

	All Time	2022	2023*
Inactive Accounts	6%	--	6%
Scheduled Payments	18,368	4,716	13,652
eBilling Enrolments	22,473	5,866	16,607
Property Tax	13,968	3,427	10,541
Utility	8,505	2,439	6,066

Customer Feedback

Feedback from residents has been collected since launch to help gather public sentiment and identify opportunities for improvement. This has included resident testing sessions for new features and services, as well as a customer survey feedback tool introduced in Q2 of 2022.

As of Sep 2023, MyToronto Pay the City is currently seeing average ratings of satisfaction and ease as:

- Overall satisfaction: 3.1/5 (216 respondents)
- Ease of use: 3.7/5 (392 respondents)

Positive sentiment and feedback from engagements with residents have included the following themes:

- Overall easy to use and fast to navigate
- Felt guided through the process and confident in steps
- Appreciation for value-add features

Testimonial: “Was very quick and easy to follow and receipt by email was right away. Very pleased. Saves so much time.”

Areas of improvement have also been identified through customer feedback with efforts currently underway to address the identified opportunities. Primary themes include:

- Decreasing the number of overall steps
- Simplifying information and reducing quantity of text
- Feature requests (chat interfaces alterations, introduction of pre-authorized payments etc.)

Testimonial: “The chat format of the payment is very confusing. Would be better as just a standard checkout.”

Fees Paid to Paylt

At the time of the initial contract, Paylt offered a unique business model whereby the City pays Paylt a transaction fee for their end-to-end handling of each payment – including an account experience, payment processing, automated financial processing and reconciliation and customer support.

Payments to Paylt are usage driven meaning the City pays when there is adoption. There are two types of fees the City incurs: transaction fees paid to Paylt per service, as noted above, and processing fees based on the payment method (industry card fees paid to the payment card brand such as Visa, Mastercard, etc.). However, for the property tax and utilities services, the City is only charged EFT processing fees with residents and businesses, covering credit and debit fees per motion passed in April 2021 accompanying the Paylt contract award.

Table 1.4 - Total Fees Paid to Paylt (cumulative Jan 2022 to October 2023)

Fee Type	Fees Paid by City	Fees Transferred to Users	Total
Transaction Fees	\$1,443,879.70	\$0	\$1,443,879.70
Processing Fees*	\$910,726.25*	\$2,269,561.29	\$3,180,287.54
Total Fees	\$2,354,605.95	\$2,269,561.29	\$4,624,167.24

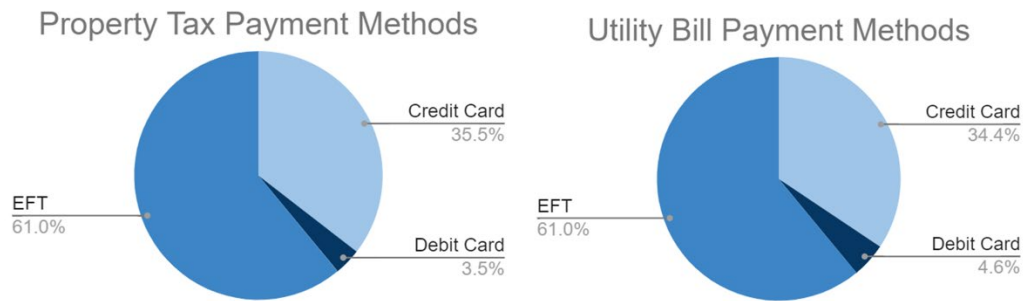
*Includes EFT processing fees for PT, UT and parking payments and debit and credit processing fees for parking.

It should be noted that of the \$4.6M total fees paid to Paylt, \$2.3M are industry card processing fees that are paid by the customer that represent savings to the City. These are industry card processing fees put in place by card brands such as Visa, Mastercard, etc., that would be paid regardless of the payment provider used.

The City incurred staff costs of about \$1M over the 2 plus years supporting implementation with Paylt. These staff costs were incurred by Customer Experience (311), Technology Services Division, Revenue Services Division and the Strategic

Public and Employee Communications Division through their existing complements and included staff working on requirements, communications, testing and technical integration. This amount was not identified in the original report (May 2021). If PayIt is successful and the platform expands to other divisions, these costs will continue to be incurred by the divisions listed above along with Division's whose services are being integrated.

Figure 1.2 Breakdown by Payment Type of Property & Utility Payments



Pricing Flexibility & Benefits to the City

Beginning in 2024, credit and debit card fees for parking violation payments will be paid by the customer, rather than the City, which will reduce the fees currently paid to PayIt by about \$550k. The authority for passing credit and debit fees to the customer was part of Council's adoption of EX23.2. The implementation was delayed due to industry ruling on card brand rules and associated implementation requirements.

Through further negotiations during the term of the contract PayIt agreed in principle to reduce EFT transaction fees from \$1.50 to \$1.00 (retroactive to January 2022) and agreed to beneficial (all-in) pricing for Pre-Authorized Payments.

Benefits to the City

In addition to resident/customer benefits there is value to the City in terms of cost avoidance of building its own modern payments platform with convenient features. By leveraging PayIt's platform, the associated cost avoidance amounts to approximately \$2.5M.

MyToronto Pay facilitates an end-to-end digital experience and workflow that has also had positive operational impacts on Revenue Services Division in the areas of revenue collection, payment processing and automation, customer support and financial reconciliation.

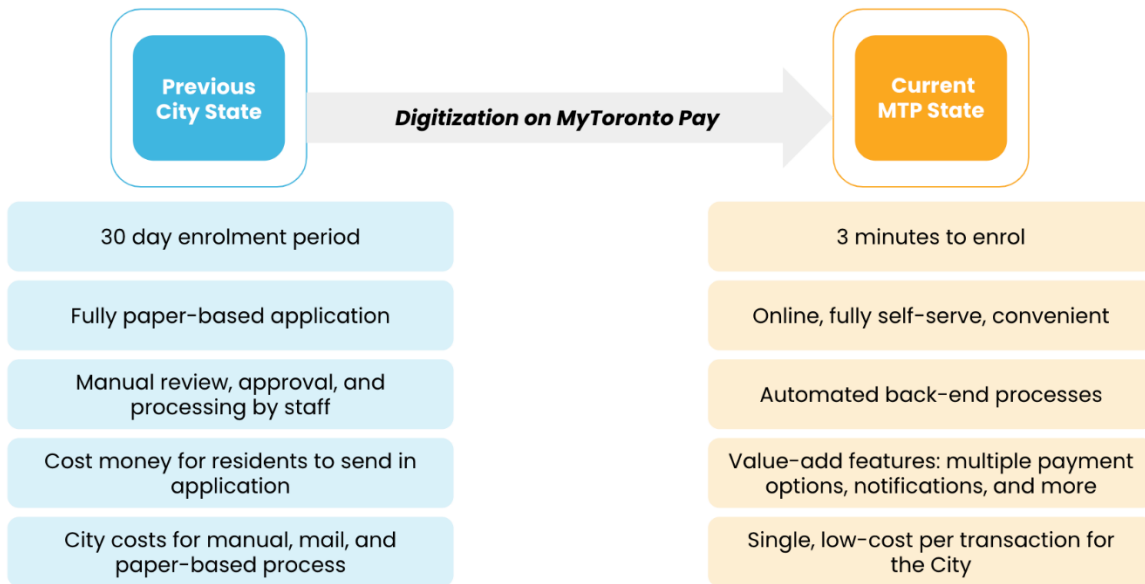
Reduction of Misapplied Payments	MTP has contributed to the reduction of misapplied payments by reducing keying errors for MTP users and promoting automation and elimination of manual data entry by City staff.
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Refund Processing	MTP significantly reduces time and effort of processing refunds making it as simple as a click of a button from full and partial refunds to customers. This reduces staff time and refunds processing for customers from 30 days down to 2 days.
Reduction in Mail & Handling	Reduction in mailing, print and paper costs attributed to e-billing.
Financial Reporting & Reconciliation	MTP includes reporting and reconciliation of funds helping the City save time, receive reports, and transfer accountability of PCI compliance in part to Paylt.
Timeliness of Revenue	MTP has increased the timeliness of payments with features such as proactive notification and reminders, pre-authorized payments, and e-billing.
Customer Support Cost Avoidance	Paylt offers customer support through call centres, live chat and emails included as part of the transaction fees. Close to 10,000 customer contacts to date have been handled by Paylt – amounting to savings of over \$100,000. The number of contacts to customer support represent under 1% of total transaction volumes which is an indication of a positive self-serve experience.

Pre-Authorized Payments: A MyToronto Pay End-to-End Digitization Case Study

Revenue Services Division offers a pre-authorized payment program for both property tax and utilities to residents, where they can set up and automatically pay their City bills if enrolled. This program is highly manual and paper-based requiring staff time to manage and administer the program, and operational costs including postage, printing and other costs. By making this new feature digital and accessible online and available to all users on the MyToronto Pay platform, the City and residents are able to realize gains in cost, time, quality and satisfaction. In the first two months of launching this program on MTP the City saw over 2,400 enrolments, 22% of those being net new users to MTP.

CASE STUDY: MYTORONTO PAY PRE-AUTHORIZED UTILITIES PAYMENTS



PayIt's Performance as Partner with Respect to City Standards, Compliance, Service Levels, and Collaboration

On Vendor Relationship, Collaboration, & Release Management:

In response to feedback from users and City divisional partners, PayIt has provided ongoing product development and support for its platform to enhance the user experience. PayIt has continued to release multiple iterations following the initial launch to introduce new functionality in consultation with Revenue Services, Customer Experience, and Technology Services Division thereby expanding the products and services available to Toronto businesses, residents and visitors.

Throughout releases they actively engage with subject matter experts from a variety of City divisions to understand how the business product lines and services operate so that users are provided the most efficient form of services. PayIt has been responsive to the City's specialized needs, incorporating user feedback and changes to ensure an efficient customer experience. At the same time, PayIt has ensured that the City receives transaction detail and financial-related data to allow the City to meet its financial reporting requirements, to process invoices, and to measure product growth.

On Public Education:

Since its launch, PayIt has worked with the Strategic Public and Employee Communications division to dedicate and invest resources to support marketing and advertising initiatives and collaborated to develop the associated plans and materials, to raise awareness of the MyToronto Pay platform. The City has been clear to position MyToronto Pay as an additional payment option, alongside other existing payment channels and options on the City's website. Tactics such as organic and paid social

media campaigns, digital and transit advertising have driven strong engagement results and data supports adoption rates growing in correlation with marketing efforts alongside increases in site visits to the City's MyToronto Pay page.

PayIt has supported the creation of marketing efforts by producing marketing materials in house that undergo feedback cycles with City to ensure they adhere to brand guidelines and City approval processes, and providing analytics to support decision making on future efforts.

On Technology Integration & Standards:

PayIt is a cloud-based solution that integrates into City systems to provide seamless customer experience and digital payment capabilities. The core PayIt product was largely ready out of the box, with enhancements required for digital accessibility, Notice of Collection, and eBilling, which were jointly delivered. The PayIt platform was also configured to integrate into City systems that support property tax, utilities, and parking violations as per the original agreement.

The PayIt platform and integrated architecture aligns to the City's Digital Infrastructure Strategic Framework (DISF) as well as the City's accessibility standards.

Currently, we have contractual Service Level Agreements (SLAs) in place, that provide clarity on what effort is required from the City for issue resolution.

On Security and Privacy:

Office of CISO (OC) has been involved since the initial launch of MyToronto Pay and has worked with PayIt to assess the solution from a security and privacy lens. Over the last two and a half years several security assessments have been completed in order to implement various components of the MyToronto Pay platform, and ensure a commitment to data protection, compliance with regulations, and proactive measures to mitigate security risks. A number of risks have been identified - the majority of these risks have already been addressed. Work is currently underway to mitigate any remaining items in adherence to agreed upon standards and plans.

Next Steps

Moving forward, the City requires alignment on the desired payment capability to ensure any vendor can be successful in meeting the City's needs and vision. As a result, the Customer Experience Division has begun work on analysing the digital payment requirements as noted above. This work will engage the Technology Services Division and other key divisions with payments to gain an understanding of the City's needs, costs and benefits. This work will be augmented by customer engagement and hiring of a third party to help conduct market analysis to inform the City's future direction.

Staff will report back to in Q2 of 2024 to update on this work and recommend a go-forward plan with respect to an extension of the PayIt contract and a plan to go back to market through a competitive RFP following the time-limited extension.

Once the pre-authorized pay feature for property tax is implemented early in 2024, there will be no further expansion of services on the PayIt platform until the City has completed a competitive procurement.

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ATTACHMENTS
