

# TORONTO TRANSIT COMMISSION REPORT NO.

**MEETING DATE:** May 28, 2014

**SUBJECT:** Procurement Authorization Amendment - Payment Card  
Processing Services

## **ACTION ITEM**

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### **RECOMMENDATION**

It is recommended that the Board authorize the issuance of a contract amendment to Global Payments Canada Inc. for payment card processing services, to extend the contract from July 15, 2014 to April 30, 2015 with an increase of \$3,450,000 in the total upset limit amount, bringing the revised limit to \$6,461,000; noting that a publicly advertised Request for Bid (RFB) for the renewal contract for payment card processing services will be issued by staff in In the final quarter of 2014 upon successful completion of the Pilot for the Subway Collectors' Point of Sale System (Smart Cash Register System).

### **FUNDING**

Sufficient funds have been provided in the 2014 TTC Operating Budget and will be included in future years' Operating Budgets as appropriate.

### **BACKGROUND**

This contract provides for the processing and settlement of payment card purchases by TTC patrons of fare media at all TTC collector booths and at all Pass Vending Machines. All sales transactions are "acquired" for a fee based on a percentage of the transaction value for credit card payments and a fixed fee for debit card payments, and the funds (net of fees) are then remitted for deposit to the TTC's banking institution. Effectively, the service provider acts as a "clearing house" for these non-cash payments.

In July 2004, staff obtained approval to negotiate with two services providers, Global Payments Canada Inc. (Global) and Moneris Solutions Corporation (Moneris). A Request for Proposal (RFP) was issued to both Global and Moneris and as a result, Global offered the better pricing model and was awarded this contract from December 16, 2004 to July 15, 2006.

Set out below is a summary explanation of the four previous amendments:

Amendment 1: Upset limit was increased by an additional \$460,000 and contract term extended to July 15, 2008 to facilitate the commencement of the Pass Vending Machine (PVM) Pilot. Fees paid to Global totaled \$460,000 with Global retaining about \$69,000 as income (estimated) and the remainder paid to the bank card issuers and to Mastercard, Visa and Interac associations\*.

Amendment 2: Upset limit increased by an additional \$660,000 and contract term extended to July 15, 2010. There were a combination of factors such as PVM Roll-out (switching providers would have incurred substantial recertification costs), and conversion from “datapac” telecommunications lines to IP Protocol. Fees totaled \$660,000 with Global retaining about \$99,000 as income (estimated).

Amendment 3: Upset limit was increased by an additional \$810,000 and contract term extended to July 15, 2013. Continue existing arrangement until Presto plans are confirmed. During this extension to July 2013, fees were estimated at about \$810,000 and income earned by Global at about \$122,000 (estimated). As a result of the increased volume, staff negotiated acceptable lower credit and debit card fees for the contract extension.

Amendment 4: Upset limit was increased by an additional \$900,000 and contract term extended to July 15, 2014 to allow further time to prepare a Request for Bid (RFB) for a “front end” software/hardware integrated solution for the Subway Collectors’ sales channel; and to retrofit the Pass Vending Machines to be Chip and Pin enabled, for both debit and credit card acceptance. Contract was extended to July 2014 with an additional \$900,000 in estimated fees, of which \$135,000 was income to Global Payments.

\* A significant element of the processing fees consist of the “Interchange” and “Interac” rates set by Mastercard, Visa, American Express and “Interac”, all of which are flow-through fees payable to the bank card issuers and to Mastercard, Visa, American Express and Interac.

In early 2012, there were only 8 subway stations that offered debit/credit card acceptance for the purchase of fare media (metropasses) at a Collector booth. A concerted effort was made to undertake all necessary work (electrical, communications, etc.) to equip all remaining 61 subway stations with debit/credit card devices, both for customer convenience as well as to reduce the amount of cash handled for collector security. This was completed in time for the December 2012 sales period. In total, there are now 69 subway stations (95 collector booths) that accept debit/credit cards for the purchase of metropasses.

Sales trends for the past few months suggest that approximately 60% of all metropass sales at subway collectors are now being paid by debit/credit cards, thus significantly reducing the volume of currency handled. At the same time, such growth has presented other challenges in terms of sales reconciliation procedures and systems. This challenge becomes all the more pressing when debit/credit card acceptance will be extended to additional fare media products in the coming months.

In the second half of 2013, staff issued a RFB for the subway collectors’ integrated Point of Sale (POS) cash register which is a “front end” solution that can perform as a type of smart cash register (with a product menu and price list) to (a) speed up the time to complete the customer transaction; (b) capture sales and employee data for sales reconciliation purposes and (c) transmit those transactions to the payment card processing company (or any potential successor). The goal was to develop a cost effective solution which could then enable staff to define the scope of work (business and technical requirements) for inclusion in a RFB for the payment card processing services. A contract was awarded in December 2013 for the POS Systems Pilot (to develop this smart cash register).

Parallel with the above initiative, work proceeded to retrofit the Pass Vending Machines for “Chip and PIN” functionality (there are currently sixty (60) pass vending machines at 31 subway stations) and to accept credit card payment. This feature, which requires the combination of a Personal Identification Number (PIN) and an embedded microchip in the payment card for authentication, must be in place prior to any potential switch to another service provider. This required a rigorous certification and testing process under Payment Card Industry (PCI) standards.

By the end of April 2014, all Pass Vending Machines had been successfully upgraded and retrofitted for “Chip and PIN”, as well as for credit card acceptance. This marks an important milestone in our efforts to deliver on customer convenience. At the same time, the subway collectors’ integrated smart sales register project is poised to commence piloting at several locations shortly.

## **DISCUSSION**

When the last contract extension for one year to July 15, 2014 was approved in June 2013, it was contemplated that a RFB for a renewal contract would have been issued by staff by late 2013. This target was not met due to timelines for the Subway Collectors Point of Sale project (Smart Cash Register System) and for the retrofit of the PVMs for Chip and PIN and for credit card acceptance. Until it is known with certainty what the business and technical specifications are for inclusion in a RFB, it is not possible to issue this RFB without a further extension projected to April 30, 2015. Upon successful completion of the Pilot for the Smart Cash Register System, staff will issue a RFP for the renewal contract for payment card processing services, anticipated to be in the final quarter of 2014. If a new payment card processor is selected for the renewal contract, it is planned that staff work with the new company on systems implementation and testing with a possible overlap with the existing contract, If migration to the new processor is possible before April 30, 2015, it is staff’s intention to switch over sooner.

Setting aside this requirement for a time extension, the uptake of both debit and credit card presentment at subway collector booths has significantly surpassed original estimates, with a corresponding increase in processing fees. It should be noted that credit card processing fees are disproportionately more expensive than Interac debit fees, which are a fraction of credit card fees. The additional fees required for the balance of the current term to July 15, 2014 is estimated at \$600,000 over the current contract upset amount of \$3,011,000.

For the extension period July 16, 2014 to April 30, 2015, the additional fees will depend on the mix of debit/credit card usage, and the volume and average sales value of the fare media sold. Two significant drivers of processing fees will be (1) recently implemented credit card acceptance at PVMs; and (2) the imminent acceptance of debit/credit card payment for additional fare media sold at subway collector booths. Due to this significant potential sales base that could tender payment using a debit or credit card, it is estimated that the present upset limit of \$3,011,000 will need to be increased substantially by an additional \$2,850,000 to the end of April 2015 to cover for the increased sales. Together with the aforementioned \$600,000, the total amendment required is estimated at \$3,450,000, bringing the revised upset

limit contract amount to \$6,461,000. A summary of the original contract and amendments to date is set out below:

	<u>Contract Amount</u>	<u>Earned by Global</u> (estimated)
Original Contract Value	\$181K	\$27K
Amendment 1	+\$460K	\$69K
Amendment 2	+\$660K	\$99K
Amendment 3	+\$810K	\$122K
Amendment 4	+\$900K	\$135K
Amendment 5	+\$3,450K	\$518K
Revised Total	<u>\$6,461K</u>	<u>\$970K</u>

**JUSTIFICATION**

The contract extension to April 30, 2015 will allow staff to complete the Collectors smart cash register pilot and to issue an RFB taking into account transition time to switch to another payment card processor, if required.

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