



CITY OF HAMILTON
CORPORATE SERVICES
Customer Service, Access & Equity

TO:	Chair and Members Audit, Finance and Administration Committee
COMMITTEE DATE:	October 6, 2016
SUBJECT/REPORT NO:	Payment Processing (FCS16077) (City Wide)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Cindy Mercanti (905) 546-2424 Ext. 2654
SUBMITTED BY:	Cindy Mercanti, Director Corporate Services Customer Service, Access & Equity
SIGNATURE:	

RECOMMENDATION

THAT Council APPROVE the single source procurement, pursuant to Procurement Policy #11 – Non-competitive Procurements, to consolidate the current payment processing Contracts with the objective that the fee structure would be below the current structure for the same term as the City’s financial institution contract and that the General Manager, Finance and Corporate Services, or his designate, be authorized to negotiate, enter into and execute a Contract and any ancillary documents required to give effect thereto with Moneris (payment processing provider), in a form satisfactory to the City Solicitor.

EXECUTIVE SUMMARY

In 2002, the City revised its contractual agreement with Moneris (co-owned by the Bank of Montreal (BMO) and the Royal Bank of Canada (RBC)) which has been automatically renewing for the past several years. To-date, the City has 150 Point-of-Sale (POS) merchant terminals (excluding the Library, Police & Farmer’s Market) which are supported by approximately 106 individually managed contracts. Given the number of individual contracts, there is an opportunity to introduce fee saving strategies by consolidating the management of POS merchant terminals under one primary contract.

From a timing perspective, the City is at a critical juncture with respect to the introduction of enhanced on-line services that will improve the citizen service experience as well as reduce operating costs through processing efficiencies. The introduction of a Request for Proposal (RFP) would unfavourably impact the implementation schedule, by approximately 9-12 months, for Recreation’s new operating system as the installation of on-line payment options would be delayed pending the approval of a payment processing provider. Both Parking Services and Taxation are in a similar position with respect to requiring integration with a payment processing provider to support on-line services.

Staff recommend entering into negotiations with the current payment processing provider to examine the introduction of fee saving strategies through contract consolidation. If, through negotiations, an unfavourable fee structure emerges, staff will advise the Procurement team of the intention to initiate an RFP. Although an RFP would result in an unfavourable impact to the aforementioned on-line initiatives, the change to the impact assessment would warrant an adjustment in approach.

Alternatives for Consideration – See Pages 4 and 5

FINANCIAL – STAFFING – LEGAL IMPLICATIONS

Financial: One-time cancellation cost of approximately \$35,000.

Staffing: Unfavourable impact to the implementation schedules for on-line payments.

Legal: Not applicable

HISTORICAL BACKGROUND

In July 2014, City Council approved a City-Wide Cash Handling Policy that provided an organizational framework to facilitate operational consistency, deter fraudulent activity and mitigate the risk of financial losses. The Policy governs all aspects of the City’s cash handling practices.

During a policy review initiative, a cross-organizational staff team identified an opportunity to enhance the City’s relationship with the Royal Bank of Canada (RBC) and the current payment processing provider (Moneris) as a means to strengthen cash handling practices as well as prepare for the introduction of new and/or enhanced on-line services.

The City is currently in a 5-year contractual agreement with RBC as its primary financial institution. In 2002, the City revised its contractual agreement with Moneris which consisted of 121 POS merchant terminals. In the absence of notice, the 2002 contract has been automatically renewing for the past several years. To-date, the number of POS merchant terminals has increased to 150 (excluding the Library, Police & Farmer’s Market) and is supported by approximately 106 individually managed contracts. Each individual contract has unique terms and conditions that reference the framework outlined in the 2002 corporate contract.

On average, credit card payments account for 62% of all POS merchant terminal transactions. The total volume of credit card payments has grown from approximately \$13.5 million in 2012 to \$20 million in 2015. Over the past four years, total payment processing fee rates have ranged from 2.1% to 2.2%. Although payment processing fee rates have been consistent, the volume of credit card usage has almost doubled from 2012 to 2015. This trend in credit card usage is anticipated to continue as the total year-to-date (August) transaction volumes are 15% higher than 2015 volumes for the same period. In 2015, the City paid approximately \$500,000 in total payment processing fees.

Current agreement terms for all contracts are predicated on an automatic renewal, with a 90-day cancellation period and a deactivation fee per merchant contract which equates to a one-time cancellation cost of approximately \$35,000.

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

Under approved procurement policies, Council can approve staff negotiating an agreement for services in excess of \$250,000 without the issuance of an RFP or Tender.

RELEVANT CONSULTATION

Staff have contacted other municipalities such as the cities of Toronto, Richmond, Brantford, Mississauga as well as Halton Region in order to examine their current payment processing structure. Most recently, the City of Toronto and City of Richmond have each issued a Request for Proposal (RFP) as current contracts with their payment processing providers were approaching expiration.

ANALYSIS AND RATIONALE FOR RECOMMENDATION

Council's approval of RBC as its financial institution provided an opportunity for staff to engage in discussions with RBC representatives to examine industry best practices in the area of cash handling. Given RBC's relationship with Moneris and our current contractual status with both providers, a preliminary meeting was held with Moneris representatives to discuss the current state of the City's POS merchant terminal inventory.

Given the number of individual contracts, there is an opportunity to introduce fee saving strategies by consolidating the management of POS merchant terminals under one primary contract.

OUR Vision: To be the best place to raise a child and age successfully.

OUR Mission: To provide high quality cost conscious public services that contribute to a healthy, safe and prosperous community, in a sustainable manner.

OUR Culture: Collective Ownership, Steadfast Integrity, Courageous Change, Sensational Service, Engaged Empowered Employees.

From a timing perspective, the City is at a critical juncture with respect to the introduction of enhanced on-line services that will improve the citizen service experience as well as reduce operating costs through processing efficiencies. Specifically, Recreation has received Council approval to replace its current operating system with a new system that has advanced on-line payment options. In order to support the introduction of the new operating system, the Recreation vendor is required to commence integration discussions with the City’s payment processing provider thereby facilitating the exchange of information between the vendor and provider. The introduction of an RFP would unfavourably impact the implementation schedule, by approximately 9-12 months, as the installation of on-line payment options would be delayed pending the approval of a payment processing provider.

Similarly, both Parking Services and Taxation are in the exploratory phase of examining the introduction of new or enhanced on-line payment options as a means to support increased access to services and reduce operating costs. The introduction of these on-line payment options are predicated on the integration with a payment processing provider. The introduction of an RFP would delay these initiatives until such time that Council approves a payment processing provider.

ALTERNATIVES FOR CONSIDERATION

The cross-organizational staff team has identified one recommendation and one alternative for Council’s consideration. The recommendation and alternative are assessed based on the impact on on-line initiatives, operations and potential return.

Recommendation	Impact		
	On-line Initiatives	Operational	Return
Negotiate with the current payment processing provider for the same term as the City’s financial institution contract	<LOW> No delay in supporting integration	<LOW> No changes required to the current payment processing system	<MEDIUM> Objective that the fee structure would be below the current structure

Alternative	Impact		
	On-line Initiatives	Operational	Return
Initiate a Request for Proposal (RFP)	<HIGH> Schedule for the implementation of on-line payment options would be unfavourably impacted due to the time required to support the RFP process	<HIGH> Process changes required to support a new payment processing provider would require staff resources and time	<MEDIUM> Objective that the fee structure would be below the current structure

Given the above impact assessment, staff recommend entering into negotiations with the City’s current payment processing provider to examine the introduction of fee saving strategies through contract consolidation. The negotiations would be predicated on the objective that the fee structure would be below the current structure for the same term as the City’s financial institution contract. If, through negotiations, an unfavourable fee structure emerges, staff would advise the Procurement team of the intention to initiate an RFP. Although an RFP would result in an unfavourable impact to the aforementioned on-line initiatives, the change to the impact assessment would warrant an adjustment in approach. The issuance of an RFP would require Council’s approval for a Policy 11 with the current payment processing provider for a period of approximately one year to allow for the provision of service during the RFP process.

ALIGNMENT TO THE 2016 – 2025 STRATEGIC PLAN

Our People and Performance

Hamiltonians have a high level of trust and confidence in their City government.

APPENDICES AND SCHEDULES ATTACHED

None.