



Report to: General Committee

Meeting Date: May 31, 2021

SUBJECT: Merchant Services Contract
PREPARED BY: Darius Chung, Senior Buyer, Procurement, Ext. 2025

RECOMMENDATION:

1. That the report entitled “Merchant Services Contract” be received; and,
2. That the contract for payment services be awarded to the lowest priced respondent, Global Payment Solutions; and,
3. That staff be authorized to enter into a Merchant Services Agreement with Global Payment Solutions for a five year term; May 1, 2021 – April 30, 2026; and,
4. That the total cost of the merchant fees, hardware, support and maintenance fees for the five year term in the estimated amount of \$2,133,235 be funded from the existing departmental credit card accounts, subject to Council approval of the 2021 - 2026 operating budgets in the amount of:
 - 2021: \$142,216 (May 1 – December 31)
 - 2022: \$426,647
 - 2023: \$426,647
 - 2024: \$426,647
 - 2025: \$426,647
 - 2026: \$284,431 (January 1 - April 30)Term Total: \$2,133,235 and,
5. That the Treasurer be authorized to extend the contract for Merchant Services for an additional five (5) year period, May 1, 2026 – April 30, 2031, subject to the approval of the annual operating budget, performance and mutually agreed upon fees by both parties; and,
6. That staff be authorized and directed to do all things necessary to give effect to this resolution.

PURPOSE:

The purpose of the report is to obtain Council’s approval for Merchant Services (Debit and Credit Card Processing).

BACKGROUND:

The City of Markham accepts customer credit and debit card payments in a variety of ways from standard point of sale and online via the City’s Portal. In order to accept credit and debit card payments, the credit card organizations (Visa, MasterCard) require merchants to enter into service agreements with merchant service providers to process these payments

and transfer the funds into merchant's bank accounts. Merchants are then required to work with the merchant services provider to meet a set of standards, which are designed to protect data that is processed, transmitted and stored during manual or electronic payment transactions.

The Payment Card Industry Data Security Standard (PCI DSS) monitors compliance and requires all entities that store, process, or transmit cardholder data to demonstrate compliance on a regular basis. The merchant service provider manages the cardholder information on the merchant's behalf and ensures compliance with PCI DSS by establishing and maintaining a reliable, safe, and secure payment processing environment.

The requirements of PCI DSS are as follows:

1. Install and maintain a firewall configuration to protect cardholder data;
2. Do not use vendor-supplied defaults for system passwords and other security parameters;
3. Protect stored cardholder data;
4. Encrypt transmission of cardholder data across open, public networks;
5. Use and regularly update anti-virus software or programs;
6. Develop and maintain secure systems and applications;
7. Restrict access to cardholder data by business need to know;
8. Assign a unique ID to each person with computer access;
9. Restrict physical access to cardholder data;
10. Track and monitor all access to network resources and cardholder data;
11. Regularly test security systems and processes;
12. Maintain a policy that addresses information security for all personnel.

The City of Markham currently has a contract with Toronto-Dominion Bank for both banking and merchant services. In March of 2015, Council approved report "Banking and Merchant Services Contract Extension" which extended the 2013-2015 agreement to 2015-2020.

In 2020 City Staff met with representatives of TD Merchant Services ("TD") to discuss an extension and updates to PCI compliance regulation. TD advised the City that their in-person payment terminals do not support tokenization functionality which is a critical protection process of removing sensitive data from the City's database by replacing it with an undecipherable token and storing the token in a secure 3rd party cloud data vault. As a result, the City advised TD that it will extend the merchant services contract but will be seeking an alternative merchant services provider in the future. TD acknowledged and agreed to accept the extension, including adding a termination clause that would allow the City to terminate without penalty.

The City's software that processes payment card information reached the end of its life cycle in 2018 and a RFP was issued which resulted in Council approval to award proposal "062-R-16 Supply and Implementation of a Program Administration Facility Booking System (PAFBS) with Point of Sale (POS)" to Legend Recreation Software ("Legend"). Legend's software was evaluated as the best suited solution to meet the City's roadmap and reaffirmed by third party consultant MNP LLP that the software is fully PCI DSS compliant.

In 2020, Legend was acquired along with several other software companies by Transaction Services Group which is a revenue management solutions company and shortly after, the City received a formal written request for the assignment of the contract to Legend's sister company, PerfectMind Inc. ("PerfectMind"). The PerfectMind software offers a complete PCI DSS solution and shares similar data protection technology including tokenization for both online transactions and in-person transactions using the merchant service provider's payment terminal.

While TD Merchant Services does support tokenization for online transactions, their in-person payment terminals do not currently support tokenization and therefore requires staff to enter cardholder's credit card information into the City's system which results in higher risk and higher responsibility to ensure the information is kept secure.

In order to mitigate this risk and reduce PCI DSS compliance scope, it is imperative that payment options are tokenized. As a result, staff solicited quotations from two merchant service providers that support tokenization for both online and in-person transactions: Moneris and Global Payment Solutions.

OPTIONS/ DISCUSSION:

Staff compared the two compatible merchant service provider's rates with the City's existing rates with TD Merchant Services as shown in the table below:

Annual Merchant Service Costs	TD Merchant Services (2019 Actual)	Moneris	Global Payment Solutions
Visa	\$ 212,889	\$ 212,889	\$ 212,889
Visa Merchant Service Fee	\$ 51,344	\$ 46,902	\$ 50,754
MasterCard	\$ 135,080	\$ 135,080	\$ 135,080
MasterCard Merchant Service Fee	\$ 18,307	\$ 14,092	\$ 18,130
Debit Transaction Merchant Service Fee	\$ 1,419	\$ 2,487	\$ 2,487
Terminal (Pin Pads) Rental Fee	\$ 8,460	\$ 9,024	\$ 6,768
Transaction Fees	\$ 6,009	\$ 6,189	\$ 538
Tokenization and Token Vault Fees	N/A	\$ 2,715	\$ 0.00
Total Annual Cost	\$ 433,507	\$ 429,378	\$ 426,647
Total 5 Year Contract Cost	\$ 2,167,535	\$ 2,146,890	\$ 2,133,235

The merchant service costs noted in the table above are based on actual 2019 pre-pandemic transaction volumes. The actual merchant service costs will be subject to change based future transaction volumes.

The merchant services provider (Global Payment Solutions) will manage all transactions and distribute payments to the City and Visa/MasterCard. Approximately 75% of the total annual cost is paid to Visa and MasterCard by the merchant service provider and does not include card holder “Per Occurrence” Fees such as bounce back from non-sufficient funds or refunds.

Global Payment Solutions offers the lowest cost for terminal rental and transaction fees while also having competitive interest rates to that of its competitors. By using PerfectMind’s software and integrating it into Global Payments servers, The City will gain enhanced security and technology features including tokenization at a lower cost than what is currently being offered by the City’s existing merchant service provider.

Staff also recommend the following:

- The City coordinate with PerfectMind and Global Payment Solutions to implement the new solution with as little impact of internal and external users as possible. The scope of work includes but is not limited to:
 - Supply and replacement of all City Point of Sales (POS) hardware including new Pin Pads compatible with PerfectMind;
 - Software training and knowledge transfer services;
 - Data conversion, data migration and/or data archival as agreed to with the business and in accordance with defined data retention policies;
 - Completion of IT Security audit, including production of any required documentation;
 - Ongoing PCI DSS compliance support, maintenance and support;

The implementation of the new system is expected to be completed by Q4 2021.

FINANCIAL CONSIDERATIONS

Staff recommends the City enter into a Merchant Services Agreement with Global Payment Solutions for a five year term; May 1, 2021 – April 30, 2026 in the estimated amount of \$2,133,235. The estimated annual costs are as follows;

- 2021: \$142,216 (May 1 – December 31)
 - 2022: \$426,647
 - 2023: \$426,647
 - 2024: \$426,647
 - 2025: \$426,647
 - 2026: \$284,431 (January 1 = April 30)
- Total: \$2,133,235

The \$426,647 estimated annual cost will be funded from the existing departmental credit card accounts budget which is \$495,333 for 2021, therefore, the new service enhancements will have no financial impact.

HUMAN RESOURCES CONSIDERATIONS

Not applicable

ALIGNMENT WITH STRATEGIC PRIORITIES:

Goal	Examples – How the Solution can Help Achieve the Goal
Exceptional Services by Exceptional People	The new system will facilitate program registrations and other functions requiring reoccurring payment services.
Engaged, Diverse & Thriving City	The new hardware will integrate with new software supporting a smooth transition and user experience between customer and merchant.
Safe & Sustainable Community	All transactions will be safeguarded using industry best practices and be PCI DSS compliant.
Stewardship of Money & Resources	The new system supports responsible use of money and resources by choosing the most cost effective solution.

BUSINESS UNITS CONSULTED AND AFFECTED:

ITS and Financial Services were consulted in the preparation of this report and their comments have been included.

RECOMMENDED BY:

Joel Lustig
Treasurer

Trinela Cane
Commissioner, Corporate Services