

Cal-ITP Market Sounding

Payment Issuance for Transit Program Requirements

Issue Date: July 31, 2020

Issued By: Caltrans, on behalf of the California Integrated Travel Project

Overview

California is one of the leading economies in the world, and home to many new mobility and fintech innovation companies, as well as some of the largest public transportation networks in the United States. Yet to date, there have been limited efforts to provide a seamless, multimodal and public transportation experience for the residents, visitors, businesses and institutions of California.

To improve the State's mobility system and make it easier to get around, the California State Transportation Agency (CalSTA), Caltrans, and our intercity rail and local transit partners are engaged in an initiative to facilitate easy and accessible travel planning and payment across California - the California Integrated Travel Project (Cal-ITP). Cal-ITP is dedicated to making travel simpler and cost-effective for all, and to ensuring statewide benefits from our collaboration.

CalSTA, Caltrans, and our rail and transit partners, acting through the Cal-ITP Steering Committee, are conducting this Market Sounding exercise in order to gather input from companies in the marketplace with respect to their capabilities and interest in supporting travel payment integration by issuing payment credentials, such as a physical or digital card.

We invite you to respond to this Market Sounding Document. Your valuable contributions will help us shape future directions of this project and find the optimal and effective travel payment solution – enabling a seamless public transportation experience for the residents, visitors, businesses and institutions of California.

Your responses must be received no later than 5:00 p.m. (PST) on August 17, 2020.

If you have any questions, please feel free to contact us at calitp@dot.ca.gov

Kind regards,

Chad Edison, Deputy Secretary for Transportation, California State Transportation Agency (CalSTA)

Lori Pepper, Deputy Secretary, Innovative Mobility Solutions, CalSTA

Jeanie Ward-Waller, Deputy Director, Planning & Modal Programs, California Department of Transportation (Caltrans)

Gillian Gillett, Program Manager, California Integrated Mobility, Caltrans

About the California Integrated Travel Project

The California State Transportation Agency (CalSTA), the California Department of Transportation (Caltrans), and our rail and transit partners, acting through the California Integrated Travel Project (Cal-ITP) Steering Committee, are conducting this market sounding. Cal-ITP was established to help California deliver on statewide goals of increasing ridership, improving the customer experience of travel, reaching environmental targets, lowering transportation-related costs for public transportation service providers and the traveling public, and promoting equity throughout our state's vast transportation network.

California has 337 public transportation service providers, mostly composed of small bus operators, which are represented by numerous regional entities. This multitude of agencies has resulted in disarray when it comes to public transportation trip planning, payments and apps. Major agencies, such as LA Metro, SFMTA, BART, and San Diego MTS dominate statewide ridership, and participate in systems such as Clipper in the Bay Area, the TAP Card in Los Angeles, and the Compass Card in San Diego. While these systems serve many customers, they are based on proprietary systems, and are not interoperable.

Cal-ITP is developing tools, resources, and systems to facilitate easy and accessible travel planning and payments in California. The program is using the results of in-depth market research conducted in late 2019, which revealed three main areas of opportunity:

1. Improving reliable, **real-time information** (e.g. vehicle arrival time, planned service changes, crowding etc.);
2. Reducing friction in **payment**; and
3. Providing a process for transit riders to **verify eligibility for discounts** (e.g. youth, elderly, commuters receiving employee benefits, veterans, persons with disabilities and low-income riders).

Across these areas, Cal-ITP is standardizing and promoting existing data standards for passenger information and payments, and ensuring that these standards can be easily leveraged by rail and transit agencies, through the development of tools, resources, and technical assistance.

Cal-ITP Transit Payments Concept

Transit payments are critical to making traveling by public transportation easy to use and cost-effective for all. Through initial research and analysis, Cal-ITP refined early hypotheses about what the best approach would be for public transportation payment system integration across the State of California. The key assumptions and hypotheses are the following:

The adoption of global standards and practices is key to provide a seamless travel experience and to create a marketplace that leverages private sector investments and innovations that reduce costs for transportation services. In order to simplify payment acceptance in transit, Cal-ITP is promoting use of contactless EMV standards. EMV, together with contactless payment cards and digital wallets, provides a simple and consistent user experience in retail payments that can be applied to transit.

A transit service that deploys an EMV-based open loop fare payment solution allows customers to pay for a trip with a mechanism that can be used anywhere where payments are accepted. This is fundamental to ensuring a seamless experience between different transit systems and modes of transportation. The benefits of an EMV-based open loop fare payment solution for the customers are:

- Can use their own payment credentials and bank cards to pay for fares
- PAYG - have the flexibility to pay only for trips taken
- No more residual pre-paid stored value left on a card or secondary account once a trip is complete.
- Compatible with mobile solutions (e.g. mobile wallets such as Apple Pay, Google Pay or Samsung Pay) allowing less reliance on fare vending machines or proprietary apps to purchase or reload fare media.

Public transportation operators serve an important role providing mobility to unbanked and underbanked customers. Even before COVID-19, twenty (20) percent of Californians were underbanked, meaning that the household had a checking or savings account but also obtained financial products and services outside of the banking system, and seven (7) percent of Californians were unbanked and didn't make use of any banking services. Cal-ITP is interested in ensuring these customers, and other customers that don't want to use their own payment credential, have access to a statewide payment credential.

Cal-ITP Transit Payment Roles

Cal-ITP envisions a future payment ecosystem for public transportation that is flexible and adaptable to different transit agencies and customer needs. A high level and simplified overview of each role in the transit payment environment are described below. Note that actual companies may take multiple roles, and roles can be taken by one or more entities:

- The Payment Network ensures interoperability and processes and routes transactions. For open loop credentials, the relevant Payment Networks are Visa, Mastercard, Discover and American Express.
- The Acquirer processes payment transactions for its Transit Agency customers.
- The Transit Agency provides transportation services, sets fares and ensures there is payment acceptance infrastructure on-board vehicles and/or in stations. It typically holds a contract with a system integrator or a set of vendors to provide and maintain this infrastructure, and to integrate with the acquirer.
- The Technical Accounts Manager stores all tap and payment transactions for all credentials for customer service and fare integration purposes. This may also include an entrypoint for customers to obtain payment-related customer services, such as registering for an eligible fare discount, obtaining transaction overviews, and submitting claims and complaints.
- The Open Loop Payment (OLP) Issuer are banks that provide EMV-compliant contactless credit, debit and/or pre-paid open loop credentials to account holders (Private Customers) and will be responsible for final authorization of payment (subtracting paid fare amount from the customer account) and performing transaction settlement through Payment Networks.
- The Closed Loop Payment (CLP) Issuer is responsible for EMV-compliant, closed loop and pre-paid credentials that are accepted in transit.

Cal-ITP has initiatives underway to create a marketplace for acquiring services and payment acceptance services that transit agencies can leverage to accept payments. For this Market Sounding, the focus is on issuance of transit payment cards/credentials. Through the Market Sounding interviews, Cal-ITP will explore the following list of topics with market players to obtain feedback on technical feasibility, market appetite and procurement options.

- How could payment issuers efficiently reach people who are unbanked, undocumented, youth, and/or people that want to pay anonymously anywhere in California?
- How can cost and complexity be minimized while building an open system, statewide?
- What is the business model for the issuer to support a closed-loop customer base? What could the Cal-ITP partners do to increase the value?
- What is a fair and equitable opt-in strategy to incentivize users into the formal payment system?
- What are barriers to entry to the formal payment system that the Cal-ITP partners could address?
- What other services could Caltrans or other public agencies associate with this issuance to add value to customers?
- How could payment issuers best realize cash top-ups by customers? How can they ensure a dense, statewide network of top-up locations?
- Are there existing hybrid open and closed-loop issuance programs that could provide a model for transit payments in California?
- How should the State realize these services for California transit agencies, such as through a framework contract or setting standards for issuance?
- What is a logical grouping of roles and functions that may be provided by a CLP issuer?

Goal of the Market Sounding

Cal-ITP is using this Market Sounding to gain feedback about this project, these preliminary assumptions and hypotheses, and to learn about new or innovative approaches or solutions from the market specific to payment issuance. Specifically, we hope to understand:

- products, services, and capabilities in the market available to the State of California;
- the potential commercial benefit to private parties issuing payment credentials, such as physical or digital cards;
- ecosystem considerations from private parties, such as existing partnerships or framework contracts; and
- lessons learned and examples of procurement preferences or limitations.

This Market Sounding process is an important opportunity to test these early assumptions against the market, and the results will be used for adjustment, validation and refinement moving forward. Caltrans intends to publicize a relevant summary of the results of the market sounding and it will issue the summary under Chatham House Rule.

How to Respond

Interested parties should submit responses to the Market Sounding questions in Appendix A to CALITP@dot.ca.gov in the predetermined response format. Responses will be reviewed, and interviews scheduled on a rolling basis; but all responses should be submitted before 5:00 p.m. PST on Monday, August 17, 2020.

A Market Sounding **Kick-off Event** will be hosted by Cal-ITP on Friday, **July 31, 2020 at 10:00 a.m. PST** to further explain the project objectives and goals. Parties who wish to join the event should email CALITP@dot.ca.gov for further information. Materials from the event will be published at <https://dot.ca.gov/cal-itp>. The event will not be recorded.

At any time, please direct questions about the Market Sounding to CALITP@dot.ca.gov. We will publish all questions and answers specific to this Market Sounding on the Caltrans website.

It is the intention of Cal-ITP, at its sole discretion, to invite parties who submit a response to participate in a Market Sounding interview. The purpose of the interviews is to discuss in more detail the role of payment issuance. In addition, Cal-ITP reserves the right to request further clarifications on submissions.

Important Dates

Market Sounding Issued	July 31, 2020
Kickoff Event	July 31, 2020
Responses Due	August 17, 2020
Interviews	August/September

Terms and Conditions

Participation in this Market Sounding process is strictly voluntary, and is neither a pre-requisite nor a pre-qualification requirement for participation in any future opportunities related to fare payment and/or inspection or trip planning services. Information provided by any participant as part of this Market Sounding is not to be construed in any way as part of a competitive solicitation.

This Market Sounding is not an agreement to solicit or purchase goods or services. Caltrans is not bound to enter into a contract with any participant that submits a response to this Market Sounding. Caltrans is under no obligation to receive further information, whether written or oral, from any participant or provide any feedback.

Cal-ITP, at its sole discretion, will decide if procurement is warranted. In the event that Cal-ITP decides to proceed with procurement, procurement will be conducted through an open/public competitive procurement process in accordance with State of California procurement policies and procedures.

Cal-ITP will not return the submission or accompanying documentation submitted by the participant.

Neither Caltrans nor Cal-ITP will be liable for any expenses incurred, including the expenses associated with the cost of preparing responses to this Market Sounding. Participants will bear their own costs associated with or incurred through this Market Sounding process, including any costs arising out of or incurred in: (a) the preparation and issuance of this Market Sounding; (b) the preparation and making of a submission; or (c) any other activities related to this Market Sounding process.

The participants hereby agree that information provided in its submission may be disclosed by Caltrans where required by law, order of a court, or tribunal. The participants are advised that Caltrans may be required to disclose all, a part or parts of a participant's submission pursuant to the California Public Records Act. Caltrans

intends to publicize a relevant summary of the results of the Market Sounding, and will do so under Chatham House Rule.

Caltrans may share summarized results of this Market Sounding with state, joint powers, and federal funding partners, and may use the results to create a future Market Sounding, or a Request for Proposals (RFP) to procure services.

Appendix A: Response Format

Interested parties should submit responses to the market sounding questions below to CALITP@dot.ca.gov before 5:00 p.m. PST on Monday, August 17, 2020. Responses can be within the body of the email or in an attached word or PDF format.

Please limit your overall response to five (5) pages. Note that you are not required to answer all questions, and we ask you to give extended answers to those questions where you believe your expertise is most relevant.

Company Information

- Registered legal business name
- Brief overview of the company
- Legal structure of the company (incorporated, partnership, joint venture, parent, subsidiary or affiliate or other)
- Indicate willingness to be contacted for follow-up interview to go into more detail

Contact Person

- Name
- Title
- Email
- Telephone

Solutions

- What role does your company play in the current payment ecosystem?
- What payment issuance solutions does your company currently offer?
- How are your current or anticipated future products available to transit, and how do/will they contribute to a seamless payment's solution, including for mobility?
- What ideas do you have for how Cal-ITP can facilitate seamless payments and issuance of payment credentials/cards?
- If you have any feedback or questions regarding the envisioned ecosystem or Cal-ITP's considerations in this document, we encourage you to include it in your response.
- Further, if you have any feedback or questions regarding this process, or any other processes related to advancing payment solutions in transit or mobility generally, we encourage you to also include those in your response.

