

State of Texas
Department of Information Resources



Exhibit 4.0

Business Model

Texas.gov Payment Services
DIR-ESS-TGOV-PMNT-254

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1 INTRODUCTION

The following documents comprise the entire Business Model for the Payment Services Request for Offer (RFO):

1. Exhibit 4.0 – Business Model
2. Exhibit 4.1 – Pricing Structure
3. Exhibit 4.2 – Financial Responsibility Matrix
4. Exhibit 4.3 – Form of Invoice

This Exhibit describes the methodology for calculating the Charges for all Services, unless otherwise expressly provided in the Master Services Agreement (“MSA” or “Agreement”).

The Respondent shall follow the instructions contained within these and all other RFO and Agreement documents, including all Exhibits.

All capitalized terms in this **Exhibit 4.0 Business Model** shall have the same meanings given them in **Exhibit 1.1 Definitions**. All **Exhibit 4.0 Business Model** documents hereto are incorporated by reference herein.

The Successful Respondent shall be responsible for the accuracy and completeness of the operational and financial assumptions underlying its pricing, and if such assumptions are incorrect or incomplete, the Successful Respondent shall not be entitled to adjust its pricing or any other terms of the Agreement.

All Charges calculated in accordance with **Exhibit 4.0 Business Model** shall be invoiced to DIR by the Successful Respondent in accordance with the applicable invoice and payment provisions set forth in **MSA Article 12 Invoicing and Payment**. The Successful Respondent shall not impose any fixed or monthly required minimum fees or support level pricing for any Service or at the total contract level; in no event will DIR be required to pay Successful Respondent for Services not consumed or utilized by DIR.

All Charges are expressed and shall be paid in U.S. Dollars.

2 CHARGES CATEGORIES

The Annual Charges for Successful Respondent Services for each Contract Year are set forth in **Exhibit 4.1 Pricing Structure** and reflect the resources required to provide Successful Respondent Services. There are five (5) Successful Respondent Services Charge Categories that fully compensate Successful Respondent for providing Services, each designed to bundle Services with similar economic profiles:

1. **Variable Charges** represent Services whose cost structure to deliver the Services is highly dependent on the underlying volumes of Service;
2. **Rate Card Services** compensate Successful Respondent for Services provided under section 2.1 – Rate Card Resources below;

3. **Optional Services** are for item(s) listed included amount and frequency;
4. **Pass-Through Expenses** are for Successful Respondent expenses that DIR has agreed to pay directly to a Third Party or reimburse to Successful Respondent, and
5. **Transition Charges** are for defined Milestones paid upon delivery and acceptance of Transition Services.

Charges may be revised from time to time by agreement of the Parties based on the usage, demand, and business requirements of DIR Customers not otherwise previously contemplated. Charges may only be modified over time in accordance with the Agreement, including this Exhibit. Successful Respondent acknowledges and agrees that the Charges (Variable and Transition), as adjusted pursuant to this Exhibit, fully compensate Successful Respondent for providing the Services.

Notwithstanding situations as contemplated in the previous paragraph, in managing the ongoing provision of Services, the Successful Respondent shall maintain the flexibility to respond to seasonal and routine changes in DIR Customers' demand for the Services on a day-to-day and month-to-month basis, particularly as to those portions of the Services where DIR Customers experience significant variations in transaction demand. Unless otherwise provided in the Agreement, if the routine provision of the Services requires increased dedicated support, additional resources, or extended hours of service, the Successful Respondent shall provide such support, resources, or extended hours of service at no additional charge to DIR Customers.

Exhibit 4.0 Business Model is not intended to fully describe each Service in detail but rather how the Services are charged, with **Exhibit 2.1.1 Cross-functional Statement of Work**, **Exhibit 2.1.2 Payment Services Statement of Work**, **Exhibit 2.2 Termination Assistance Services**, and **Exhibit 2.3 IT Service Management Continuity** providing a description of the Services, **Exhibit 3.0 Performance Model** providing a description of the expected performance, and the Successful Respondent solution document providing a description of how Successful Respondent intends to deliver the Services, including the required people, processes, and tools included in the Charges. **Exhibit 4.2 Financial Responsibility Matrix** provides guidance with respect to the financial responsibilities of the Successful Respondent and DIR.

The Successful Respondent shall invoice DIR on a monthly basis in accordance with **MSA Section 12.1 Payment Processing Services**. Variable Charges may change on a monthly basis based on the methodology for calculating Charges as described in **Section 8.1** below.

The Successful Respondent shall invoice DIR for Transition Charges upon completion of Milestones but no sooner than the first month following the Commencement Date.

2.1 Rate Card Resources

DIR Customers may, at their sole discretion, request Rate Card Resources related to this Agreement under the following basis:

1. Rate Card Resources are billable on Monthly Productive Hours Worked, based on the following guidelines:
 - a. For each Rate Card Resource that performs Monthly Productive Hours Worked in a given month, Successful Respondent shall invoice DIR Customers at the applicable rate in **Exhibit 4.1 Pricing Structure**, which is inclusive of all travel expenses. Rate Card Resource overtime hours will not be calculated as time and a half of the applicable rate.
 - b. Successful Respondent shall not invoice Customers in any given month for more than the maximum number of Monthly Productive Hours Worked which will be calculated by multiplying the number of DIR Business Days in the month by eight (8) hours, unless overtime is approved by the DIR Customer, which is to be paid at the same rate as Monthly Productive Hours Worked.
 - c. Successful Respondent shall not invoice DIR Customers for Rate Card Resource overtime, unless agreed to in advance, in writing and on an exception basis by the DIR Customer.
 - d. DIR Customers shall not incur any Rate Card Charges for the following activities:
 - i. Services performed by Successful Respondent Personnel that have not been approved, in advance, by DIR Customers per established approval processes;
 - ii. Services performed by Successful Respondent Personnel providing non-Rate Card Services;
 - iii. Project scoping, solutioning, and proposal activities;
 - iv. Time expended by Successful Respondent Personnel to remedy Successful Respondent performance failure;
 - v. Nonproductive time (whether or not conducted on DIR Customers' Sites), such as holidays, vacation time, sick leave, time spent consuming meals, or other personal time;
 - vi. Services performed by Successful Respondent Personnel to set up a new payment processing implementation if such implementation takes less than or equal to 16 hours; and
 - vii. Time used for education, training, mentoring, travel, administrative or management (for example: Successful Respondent internal meetings, internal reporting, process implementation work, time and expense accounting, performance reviews, knowledge transfer, etc.).

2.1.1 Rate Card Resource Management

1. The Successful Respondent shall utilize and manage the Rate Card Resources used to perform Services efficiently. DIR Customers shall approve in advance the nature and extent of Rate Card Resources to be provided by Successful Respondent, and the level of effort to be expended in connection therewith, and may, in its reasonable discretion, increase or decrease such Services and/or effort monthly.

2. DIR Customers may make changes to the Rate Card Resources in accordance with the following, but in all events subject to MSA **Section 9.5 Change Control**.
 - a. **Rate Card Resource Additions.** For Services performed on a Rate Card basis, if DIR Customers authorize additional Rate Card Resources in respect to any month, the Successful Respondent shall, in all cases, use commercially reasonable efforts to provide additional Rate Card Resource within **30** calendar days and meet the schedule set forth in DIR Customers' authorization in accordance with established service management processes and procedures, including, but not limited to processing Project Change Requests.
 - b. **Rate Card Resource Reductions.** For Services performed on a Rate Card basis, if Customers request Rate Card Resources reductions, the Successful Respondent shall, in all cases, use commercially reasonable efforts to reduce Rate Card Resources within **30** calendar days and meet the schedule set forth in DIR Customers' authorization in accordance with established service management processes and procedures, including, but not limited to processing Project Change Requests.
 - i. **Rate Card Resources Charge Cessation.** DIR Customers shall not pay for any Rate Card Resources hours that extend beyond those permitted by the notification periods or the scheduled expiration. In the event that Successful Respondent redeploys Rate Card Resources prior to the required redeployment date, Successful Respondent's Charges shall cease on the date the Rate Card Resources are redeployed.
 - ii. **Rate Card Resource Cancellation.** DIR Customers may change or cancel any Rate Card Resources addition or reduction notification, without incurring any penalty or Charge to the extent such notice is received by Successful Respondent prior to Rate Card Resources addition or redeployment.
 - iii. **Resources reporting.** For Rate Card Resources, Successful Respondent shall, on no less frequently than a monthly basis, measure, track and report Monthly Productive Hours Worked by Rate Card Resource, by Service Proposal, by activity based on DIR and Customers project tracking processes;
 - iv. **Resource On-boarding.** For the purposes of successful MSI Personnel education, familiarization and productive utilization into the Customer's environment, MSI shall invest in the training of each resource placed into service on the Customer's account.

2.2 Pass-Through Expenses

The Successful Respondent shall administer and invoice DIR for Pass-Through Expenses identified in **Exhibit 4.1 Pricing Structure** in accordance with MSA **Section 11.2 Pass-Through Expenses** and pursuant to the applicable procedures in the Service Management Manual (SMM). No new Pass-Through Expenses may be added without DIR's prior written

consent, which it may withhold in its sole discretion. The foregoing notwithstanding, the Successful Respondent shall comply with the terms and conditions of **MSA Section 11.2 Pass-Through Expenses** with respect to the procurement and pricing of any goods or services that are designated for procurement on a Pass-Through Expense basis. The administration/processing of Pass-Through Expenses by Successful Respondent will be charged to DIR Customers as a 5% markup of the Pass-Through invoice amount.

2.3 Transition Charges

Charges include certain Transition Charges set forth in **Exhibit 4.1 Pricing Structure** that are payable in the amounts set forth and so billed to DIR in accordance with the schedule set forth in **Exhibit 4.1 Pricing Structure** provided that MSI has obtained DIR's Acceptance of the applicable Transition Milestones. DIR will pay Transition Milestones completed and accepted prior to Commencement Date as part of the first Monthly Invoice to DIR after Commencement.

Transition Charges consist of Charges for performance and Acceptance of all Transition Services and must be set forth in **Exhibit 4.1 Pricing Structure**. Such Transition Charges will be itemized on the applicable Monthly Invoices to DIR in sufficient detail to delineate the specific nature of the Charges. The invoice will clearly identify each Transition Charges (i.e., the relevant Transition Milestone with which it is associated).

2.4 Changes to Pricing Structure

DIR may from time to time (e.g., based on information provided by Successful Respondent in response to a DIR request for analysis for savings opportunities pursuant to **Section 9.5(c) DIR Approval – Cost, Adverse Impact** of the Agreement) propose to add, remove, or modify the methodology for charging Services and may also from time to time, by giving at least thirty (30) days' notice to Successful Respondent (or such shorter period as may be required by applicable Laws), move Charges from one (1) Charge Category to another Charge Category, in each case for purposes of re-allocating the pricing under the Agreement without changes in scope; provided that, in any such event, the aggregate Monthly Charges for all Charge Categories shall not be increased or decreased as a result of such re-allocation. Notwithstanding the foregoing, in connection with changes to Charge Categories, DIR may also propose appropriate adjustments to reduce the existing or new Charges, as applicable, to reflect advancements or changes in technology and related changes in functionality and relative performance, where applicable. If DIR proposes to add or remove a Charge Category or move Charges from one Charge Category to another, the Parties shall agree on the Charges components applicable thereto and on corresponding adjustments to the Charges components for the remaining other Charge Categories. Notwithstanding the foregoing, to the extent any of the foregoing changes are required by federal funding requirements or applicable Laws, MSI will implement such changes in a timely manner upon notice from DIR, and if such changes require the addition or removal of a Charge Category, then the Charges components applicable thereto and the corresponding adjustments to the Charges components for the remaining other Charge Categories shall be equitably adjusted by the Parties.

2.5 Adjustments to Charges

Adjustments to the Charges pursuant to this Section shall not (a) be made because of any temporary or seasonal fluctuations in the volume of the Services and (b) result in Charges being higher than such Charges would have been if the then-current Charges methodology had been applied. DIR may, in its sole discretion and upon notice to Successful Respondent, direct Successful Respondent to move Charges from one Charges Category to another to maintain alignment of delivery costs with Services. Successful Respondent shall implement such changes as soon as practicable, but in no event more than ninety (90) days from receipt of DIR's notice, and implementation of such changes shall be at no cost to DIR.

2.6 Billing Measurement Validation

Prior to invoicing Services, DIR and the Successful Respondent shall review the tools and processes used for invoicing and Chargeback, as well as resulting data, to ensure such tools and processes are appropriate, accurate, and producing consistent data. Successful Respondent shall obtain DIR Acceptance for all measurement and tracking tools, methodologies, processes, and reports used to produce the Charges, and, in coordination with the MSI, Successful Respondent shall document tools, methodologies, and processes in the SMM.

DIR will have the right to access, audit, and validate the measurement and tracking tools and output results as a means to validate the Charges on a quarterly basis or as described in the SMM.

DIR may also require the Successful Respondent to utilize a designated measurement tool, approved by DIR, in the invoicing or Chargeback process, at no additional cost to DIR, if IV&V results determine the existing measurement or tracking tools do not consistently perform accurately or otherwise in accordance with the requirements of this **Exhibit 4 Business Model**. Any tool changes and/or processes proposed by Successful Respondent require prior DIR Acceptance, which DIR may withhold in its sole discretion.

2.7 New Services Charges

If and to the extent that DIR requests Successful Respondent to perform any New Services in accordance with the terms of the Agreement, the Charges shall be adjusted in accordance with the corresponding proposal submitted by Successful Respondent and approved by DIR in accordance with **Section 11.5 New Services** of the Agreement; provided, however that to the extent that any New Services are FTE-based, the Charges for such New Services shall be subject to the terms of **Section 2.4 Rate Card Resources**, unless the Parties otherwise agree in writing.

3 OTHER OPTIONAL SERVICES

Optional services are set forth in Exhibit 4.1. These services are billed as a one-time, non-recurring charge when elected by the Customer. The unit rate for a certified Point of Sale (POS) Device fully compensates Respondent for these optional Services. The volume of units will be applied against the optional service unit rate to determine the charge for the month.

4 BILLING TRIGGERS

A mutually agreed upon policy and process will be established to determine the criteria that must be met to initiate or stop billing for a Service. These billing triggers will be documented in the SMM. At a minimum, the billing triggers should address the following scenarios to determine the appropriate criteria that must be met to generate a Charge increase or decrease:

1. Criteria for a Variable Charge to begin billing
2. Criteria for a fixed milestone or charge to begin billing.
3. Criteria for Rate Card Resources to begin billing.
4. Criteria for Other Optional Services

The trigger documentation should address all Services impacted by the event with reference to CMDB status where appropriate.

5 CHARGEBACK

The Multi-sourcing Services Integrator (MSI) is responsible for developing, managing, and maintaining the Chargeback System as well as developing and coordinating the associated processes for all SCPs, as described in **Exhibit 2.1.1 Cross-Functional Statement of Work**. SCPs are responsible for data collection, data integrity, and providing data feeds to the MSI for charging back those fees to DIR Customers. Where applicable, the MSI manages the Chargeback unit rate development process in coordination with DIR. DIR provides the methodology and the MSI develops the calculations and maintains the process, which may include the allocation of some or all of the MSI's or SCP's Charges into another SCP's Charges for Chargeback purposes.

The MSI is the financial intermediary between the SCPs and DIR. In this role, the MSI provides the Services to provision and manage the Chargeback and Utilization Tracking System, Chargeback and utilization reporting, Chargeback invoice consolidation, and management of the invoice dispute process. A component of the Chargeback invoice consolidation responsibility is the reconciliation of the cumulative total of the MSI and all SCPs' Monthly Invoices with the cumulative total of the Customers' Chargeback invoices. The MSI provides DIR with the supporting detail necessary to facilitate DIR's payment of the Monthly Invoice to each SCP. A description of the current Chargeback system, capabilities and process is described in **Appendix B Chargeback and Reporting Services**.

For all Charges, Successful Respondent will provide data to the MSI to support the Charges by DIR Customer and DIR Customer account identifier that conforms with the requirements of **Section 12.1 Payment Processing Services** of the Agreement. The MSI shall make available to DIR and DIR Customers through the Portal the monthly chargeback volumes, rates, and extended charge per Service per DIR Customer and DIR Customer account identifiers. The MSI shall use the DIR approved methodology to allocate SCP and MSI service level credits to DIR Customers based on the nature of the credit and the impacted DIR Customers in accordance with the SMM. Service level credits are only allocated to DIR Customers once the right of Earnback has been lost or has expired. Chargeback detail for each Customer should be made available in the chargeback system and on the Portal in a format that aligns with the form(s) of invoice described in **Exhibit 4.3 Form of Invoice**.

At a minimum, DIR requires the Successful Respondent and MSI to provide detailed billing data by DIR Customer, DIR Customer account identifier, by service type and by such factors as requested by DIR, including the ability to track usage by major Application and Authorized User. DIR is responsible for providing Successful Respondent and MSI with the factors to track, as well as the methodology to be used to indicate usage among such factors. The MSI provides detailed billing information available online in a database that lends itself to searching, ad hoc reporting, and the ability to export data. This detailed billing information, provided by the MSI, must include the current Contract Year and the previous two (2) Contract Years' data. Billing detail beyond this time period is archived and available upon request.

Successful Respondent shall develop and implement changes to comply with OMB Guidance for Grants and Agreements (Title 2, Subtitle A, CFR 200) based upon chargeback requirements provided by DIR. The chargeback unit rate methodologies may be adjusted as necessary to meet federal approval or to better facilitate effective and efficient charging of the Services to DIR and DIR Customers.

For most billable Services, the chargeback methodology will distribute charges to the benefiting programs based upon proportionate usage. This approach requires appropriate utilization data be captured for each Service and used to distribute charges to the benefiting programs identified by each DIR Customer.

For certain billable Charges, such as Transition Charges, it may not be possible to determine utilization attributable to specific DIR Customers. In this case, the charges associated with each milestone are distributed to the DIR Customers in the following manner, as directed by DIR.

1. Charges directly attributable to a DIR Customer should be allocated to that DIR Customer.
2. Charges which cannot be attributable solely to a DIR Customer should be allocated based on each DIR Customer's total costs as a proportion of the total costs for all Customers.

6 FINANCIAL PLANNING AND FORECASTING

The Successful Respondent shall provide the MSI with a semi-annual forecast of Charges and usage trends by Service (aligned with the State's fiscal year). The forecast must be inclusive of all volumes and Charges, including Projects, New Services, and forecasted DIR Customer volume and Charge changes required to support their budgeting process. The forecast must include all known and expected changes captured as part of the Technology Plan and Capacity Management processes. As described in the SMM, such forecasts shall be delivered by Successful Respondent to DIR on the following schedule:

- In even-numbered years, the Financial Forecast will be delivered on **February 1** and **October 1**. The February 1 Financial Forecast will include updated forecasts for the current biennium and projections for the next biennium.
- In odd-numbered years, the Financial Forecast will be delivered on **April 1** and **October 1**.

The Successful Respondent shall provide DIR with a historical view of actual billed Services per month as set forth in a standard report delivered through the Portal – the form and substance of which shall be approved by DIR within sixty (60) days after the Effective Date. This report shall provide an eighteen (18) month rolling view of billed Services for the eighteen (18) months immediately prior to the month in which such report is provided.

7 VOLUME DISCOUNT

Successful Respondent shall apply the following volume-based discounts for the total work delivered to Customers as per the following incremental volume discount tiers:

Monthly Charges	Incremental Volume Discount %
Less than \$3 Million	0%
Between \$3 Million & \$5 Million	0.5%
Between \$5 Million & \$10 Million	1%
Above \$10 Million	1.5%

The foregoing discounts apply on an aggregate incremental tiers basis and not applied unilaterally to the entire sum of Charges. For example, if the Monthly Charges equals \$2.2M, the first \$1M will be discounted by the first tier percent and the second \$1.2M will be discounted by the second tier percent.

8 CONTRACT PERFORMANCE INCENTIVES

The Successful Respondent shall have the option throughout the term of this Agreement to propose initiatives to DIR that create value in areas that are not already identified and required in the Agreement. These Contract Performance Incentives (CPIs) are intended to incent Successful Respondent performance beyond the requirements of the Agreement, including but not limited to significant improvement in Key Performance Indicators (KPIs) described in **Exhibit 3.4 Performance Analytics**. CPIs are outcomes-based performance incentives that are designed to reward innovation investments that create value that is shared between the Successful Respondent and the state. As an example, the Successful Respondent may consider investing in a consumption management program designed to optimize Customer Shared Service spend that creates value beyond the cost of the initiative.

DIR may identify a business objective and solicit the Successful Respondent for a CPI initiative proposal or the Successful Respondent may independently approach DIR with a proposed CPI initiative. In either scenario, the Successful Respondent will develop a CPI proposal that includes the following:

1. Objective and quantified outcome;
2. Acceptance criteria defining measure of success;
3. Detailed description of initiative and solution;
4. Business model, including:
 - a. Successful Respondent investment amount and description;

- b. Total value created and proposed sharing of value between MSI and DIR; and
- 5. Assumption and dependencies.

DIR has the option to accept, propose changes to, or reject the proposed CPI initiative. DIR does not anticipate funding the CPI initiative but rather sharing the value that is created with the Successful Respondent. This value sharing may take the form of monetary compensation or contract term extension, depending on the nature and size of the value created. All approved CPI initiatives will be documented with a Work Order that describes the business model terms and acceptance criteria in detail.

9 PAYMENT SERVICES

9.1 Payment Processing Service Charges

The following Charges will fully compensate the Successful Respondent for all Payment Processing Services, including all applicable credit card and non-CPA ACH fees. The Successful Respondent will charge:

- a) a percentage of the daily Total Transaction Revenue less ACH transaction amount (excluding chargebacks, refunds and returns) processed by Successful Respondent, and paid on a daily basis; and
- b) a fixed per transaction rate of daily credit card transactions assessed, invoiced, processed by Successful Respondent, and paid on a daily basis.

The non-CPA ACH fees are included based on nominal, current volumes, and the Payment Processing Service Charges will be reviewed in the event volume exceeds 150 non-CPA ACH transactions in any given month.