

<b>TO:</b>	<b>CHAIR AND MEMBERS CORPORATE SERVICES COMMITTEE MEETING ON TUESDAY, OCTOBER 29, 2013</b>
<b>FROM:</b>	<b>MARTIN HAYWARD MANAGING DIRECTOR, CORPORATE SERVICES AND CITY TREASURER, CHIEF FINANCIAL OFFICER</b>
<b>SUBJECT:</b>	<b>SINGLE SOURCE DEBT MANAGEMENT SYSTEM</b>

<b>RECOMMENDATION</b>
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That, on the recommendation of the Managing Director, Corporate Services and City Treasurer, Chief Financial Officer, the following actions **BE TAKEN**:

1. Administration **BE AUTHORIZED** to negotiate with Quatro Group Software Systems Inc. of 4275 Village Centre Court, Unit 100, Mississauga, ON L4Z 1V3 for the design and installation of a Debt Management System, it being noted that:
  - a) Preliminary cost estimates indicate project value will be \$150,000 to \$170,000, excluding HST, dependent upon final system design.
  - b) Annual maintenance support costs are estimated to be \$30,000 plus applicable taxes.
  - c) Procurement through Quatro Software Systems Inc. is a single source purchase in accordance with sections 14.4 (e), (g) and (k) of the Procurement of Goods and Services Policy.
2. The financing for this acquisition **BE APPROVED** as set out in the Sources of Financing Report attached hereto as Appendix "A";
3. Civic Administration **BE AUTHORIZED** to undertake all the administrative acts that are necessary in connection with this purchase;
4. Approval given herein **BE CONDITIONAL** upon the Corporation entering into a formal contract with Quatro Group Software Systems Inc for the work subject to successful negotiations; and
5. The Mayor and City Clerk **BE AUTHORIZED** to execute any contract or other documents, if required, to give effect to these recommendations.

<b>BACKGROUND</b>
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**Desired Procurement**

The City requires a Debt Management System (DMS) that is capable of storing, calculating, tracking and reporting debt in an accurate and efficient manner. The City currently has approximately \$350 million of issued debt and approximately \$230 million of authorized and unissued debt. The current system, which the City's Information Technology Services (ITS) team designed and built in 1999, is an Oracle relational database system that does not perform any calculations. This system no longer meets the analytical demands required by Finance.

A new DMS will facilitate the City's debt management by performing a range of functions such as tracking authorized and outstanding debt, maintaining adequate financial records, handling timely debt payments, analyzing and forecasting future debt needs and associated repayment, as well as tracking the City's debt levels in relation to the provincially mandated Annual Repayment Limit (ARL).

## **Desired Procurement - continued**

In addition, the new system would contribute to creating the following efficiencies:

1. *Staff Efficiencies:* A great deal of time goes into inputting new debt (currently a manual process subject to a high degree of human error), as well as reporting debt status for monitoring, financial statement reporting, budgeting and forecasting. A new system would alleviate this issue.
2. *More efficient and accurate reporting:* The current debt system is not able to report on specific time basis without manual calculations. A new debt system that has the capability of reporting on a real time basis would be a significant benefit; staff could accurately report debt in a timelier manner and with less staff effort.
3. *Performing Calculations:* The current system does not perform calculations, such as allocation of interest and principal costs. As a result, the user calculates interest and principal costs and subsequently manually inputs the data into the system. This process is time consuming and is subject to a high degree of human error.

City Staff have identified this system as a risk area and resubmitted a request to upgrade several years ago. This has been reinforced by PricewaterhouseCoopers (PwC), our internal auditors who have identified the City's current debt system as an area of weakness with the highest business impact of all the findings in the 2013 internal audit. They have recommended that the City expedite the process of developing and implementing a new debt system that is capable of storing, calculating, tracking and reporting debt in an accurate and efficient manner. The targeted date for implementation of the new DMS is June 30, 2014.

## **Procurement of Goods and Services**

Section 14, of the City's Procurement of Goods and Services Policy indicates that "the procurement may be conducted using a Single Source process if the goods and/or services are available from more than one source, but there are valid and sufficient reasons for selecting one supplier in particular". In this case, the following criteria for a Single Source process apply:

1. The service requires special knowledge, skills, expertise or experience (s. 14.4 e);
2. It is advantageous to the City to acquire the goods or services from a supplier pursuant to the procurement process conducted by another public body (sec 14.4 g); and
3. Due to abnormal market conditions, the goods or service is in short supply (s. 14.4 k).

### **1. Requires Special Expertise and Experience**

To build a DMS for municipalities requires specialized knowledge, expertise and experience. Municipalities are required to track, monitor and report issued and authorized debt, allocate debt and payments to projects, as well as project future debt. Municipalities are also required to calculate annual repayments limits as specified by Ontario Regulation 403/02. Municipalities may also be responsible for administration of debt for other municipalities, boards, commissions and outside agencies. Civic Administration has provided a detailed summary of the necessary requirements in Appendix B, Business Requirements Document. Many of these requirements are unique to municipalities and require a customized build as an "off-the-shelf" product is not available (see # 3 for details).

Since the ITS area of the City does not have the resources to tackle this project in the required timeframe, a third party developer is the City's best option. Quatro Group Software Systems Inc. (Quatro) has proven to have the expertise and experience as demonstrated by the DMS in place at the City of Toronto (Toronto) and currently being implemented at the Regional Municipality of York (York).

### **2. Advantageous to Use the Supplier of Another Public Body**

Through a network of contacts, the City was able to connect with York, who addressed this same issue and their solution was to hire a developer, Quatro, to build a DMS specifically for the unique requirements of their municipality, which are very similar to the City's requirements. In June 2013, the City was able to travel to York to meet with their Treasury area to demo their DMS. At that time, York was in the process of upgrading their original system to add a debt and forecasting module to their existing system, along with other minor amendments. In 2012, York sought competitive bids and selected Quatro.

## **Procurement of Goods and Services - continued**

### **2. Advantageous to Use the Supplier of Another Public Body - continued**

In addition, Civic Administration contacted the City of Toronto and learned that approximately ten years ago, Toronto sought competitive bids to build a DMS and they selected Quatro. Toronto is very satisfied with the DMS that Quatro implemented, which they continue to use today. Toronto is currently in the process of upgrading their system to add additional features, such as the ability to handle loans with special payments.

The City benefits from the procurement process conducted by Toronto and York. Both municipalities sought competitive bids, one ten years ago and one last year, and selected Quatro. Both municipalities have large amounts of debt, with structures, such as sinking funds, that are more complex than the City's. The DMS implemented by Quatro has proven to be the best choice for these municipalities and Civic Administration believes that Quatro is the City's best choice.

### **3. Supply of the Goods or Service**

In seeking a solution for a DMS, the first option was to purchase an "off-the-shelf" product. A business requirement document was prepared and disbursed in the market and only two vendors responded. Of the two vendors, one product did not meet the City's requirements and the other would require extensive modification, which would dramatically increase the price of the product. In addition, there was no guarantee that the City would be satisfied with the final product because the vendor had not done the specific product modifications before.

Along with seeking an off-the-shelf product, ITS and Finance reached out to eight municipalities, MFOA and other financial contacts to learn what products or solutions were being utilized. The City discovered that three municipalities were utilizing customized builds (one in-house build and two Quatro developed systems, York and Toronto). Three municipalities had no specific debt management software, one municipality was using MS Excel in conjunction with other software (this software is being discontinued), and lastly one municipality was using their Systems Applications and Products (SAP) system.

The City also investigated adding a debt module to JD Edwards EnterpriseOne (JDE), the financial system used by the City. One of the JDE consultants recommended that a customized software solution would be the best option for the City due to its complex debt management needs. The consultant also noted that JDE would not be able to provide the functionality the City requires for a DMS.

In September of 2013, the City sent a request to Quatro to ascertain their capability of meeting the City's technical and business requirements. Their response indicated that they are capable of fulfilling the City's requirements and since they have done this successfully at the City of Toronto and are currently implementing the system at York, Civic Administration is confident that implementing the solution for the City will be successful and completed in a timely manner. Included in the response from Quatro was the estimated cost to implement the solution.

## **Financial Impact**

FP&P has accommodated the funding for the capital and operating costs of the DMS in the 2013 budget.

**Acknowledgements**

This report was written with support from Purchasing & Supply and Information Technology Services.

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RECOMMENDED BY:	
<b>Martin Hayward Managing Director, Corporate Services and City Treasurer, Chief Financial Officer</b>	

Attach.:       Appendix A - Source of Financing  
                  Appendix B - Business Requirements Document

Cc:             Mike Turner, Deputy City Treasurer  
                  Joseph Edward, Chief Technology Officer  
                  John Freeman, Manager, Purchasing and Supply  
                  Darren Hack, Project Manager, JD Edwards Upgrade