



**STAFF REPORT
ACTION REQUIRED**

**Sole Source Contract with Moody's Investor Service for
Credit Rating Services**

Date:	July 9, 2010
To:	Government Management Committee
From:	Deputy City Manager and Chief Financial Officer
Wards:	All
Reference Number:	P:\2010\Internal Services\Cf\Gm10035cf (AFS #12505)

SUMMARY

The purpose of this report is to seek City Council authority to award a sole source contract to Moody's Investor Service for credit rating. The maximum limit of \$500,000 net of all taxes has almost been reached through previous sole source spending allowed under staff authority, as per the Toronto Municipal Code, Chapter 71- Financial Control, Section 71-11.

One or more credit ratings assigned by well-recognized credit rating agencies are a required precondition for the purchase of debentures by most institutional investors. Moody's is one of the three acceptable credit rating agencies for many investors of City debentures that are recognized in Canada and the U.S.

The City requires rating services and credit reviews provided by all three credit rating agencies to ensure the most cost-efficient distribution of its debt. Moody's annual financial review and credit rating of the City contributes to the City's ability to raise capital in the fixed-income market at a favourable cost.

Since services from Moody's are expected to be required for the foreseeable future, Corporate Finance and Purchasing and Materials Management Division are recommending a four year approval for a period from January 1, 2011 to December 31, 2011 and include three (3) additional one (1) year term periods. The option to renew for the three one-year periods will be based on the review of Moody's performance level over the prior year and the availability of funds in the City's operating budget for the renewal term. The City will not be under any obligation to exercise a renewal option.

RECOMMENDATIONS

The Deputy City Manager and Chief Financial Officer recommends that

1. Council grant authority to award a sole source contract to Moody's at a cost not to exceed \$353,783 plus applicable taxes if all three option years are exercised for a period from January 1, 2011 to December 31, 2014. The option to extend three (3) additional one (1) year term periods at the sole discretion of the City and subject to budget approval.
2. The Deputy City Manager and Chief Financial Officer instruct the Director, Purchasing and Materials Management to process the necessary contract renewals under the same terms and conditions, should the option(s) be exercised.

Financial Impact

The following is a breakdown of funding totalling the following amounts* which are required in each year:

2011	2012	2013	2014
\$76,230	\$83,853	\$92,238	\$101,462
Total			\$353,783

*plus applicable tax

The potential increase for the four one-year period is conservatively forecasted to be no more than 10% per every year.

The City has confirmed that it receives fair pricing from Moody's as its credit rating fee is comparable to the pricing provided for other Canadian local government issuers with similar credit characteristics.

The requested amounts for 2011 to 2014 inclusive are estimated and represent "not to exceed" amounts over the four year period for the purposes of obtaining approval to enter the contracts with Moody's and will be subject to Operating Budget approval in each year. The amounts are based upon current and potential future requirements as well as estimated inflationary increases.

DECISION HISTORY

Services provided by Moody's are essential for the Capital Markets' debt management function that can only be provided by this vendor. The City has been using Moody's since 1955 as the former Municipality of Metropolitan Toronto until amalgamation, when the service was retained by the City.

Since it was established that the contract needed to be renewed every year for the foreseeable future, a multi-year purchase requisition was issued in 2006. To avoid additional administration costs for the Purchasing Division and delays in invoice

payment, the decision was made to request approval from Council for the sole source request in retaining Moody's services for the period of 2011-2014.

The option to renew for the three one-year periods will be based upon a review of Moody's performance level over the prior year and the availability of funds in the City's operating budget for the renewal term. The City will not be under any obligation to exercise a renewal option.

ISSUE BACKGROUND

One or more credit ratings assigned by well-recognized credit rating agencies are required as a precondition for the purchase of debentures by most institutional investors. Moody's is one of the three acceptable credit rating agencies for many investors who purchase City debentures that is recognized in Canada and the U.S. The City requires rating services and credit reviews provided by all these three credit rating agencies. Moody's annual financial review and credit rating assignment of the City of Toronto contributes to the City's ability to raise capital and issue debt at a more favourable cost.

Until 2006, purchase requisitions for continuing professional services were submitted annually. The Purchasing and Materials Management Division approved a multi-year purchase requisition in 2006 to lower the administrative cost and expedite invoice payment. The total cumulative dollar value spent to date by Corporate Finance for the procurement of credit rating services through the sole source process with Moody's is \$464,440 net of all taxes and any further spending will exceed the threshold of \$500,000 net of all taxes allowed under staff authority as per the Toronto Municipal Code, Chapter 71-Financial Control, Section 71-11 and, therefore Council approval is required for future expenditure.

Upon approval, the Corporate Finance Division will be in a position to enter into four consequent one-year renewable contracts with Moody's. The renewal of the next three one-year renewable agreement will be subject to Operating Budget approval and review of the services provided by the vendor.

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SIGNATURE

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