Agenda - Executive Policy Committee - July 20, 2005

Report - Alternate Service Delivery Committee - July 18, 2005

Item No. 1 Annual Selection Report 2005 - Fleet Management Agency (SOA) File GL-5.6.1

STANDING COMMITTEE RECOMMENDATION:

On July 18, 2005, the Alternative Service Delivery Committee concurred in the administrative recommendation and submits the following to Council:

1. That the Fleet Management Agency's 2005 Selection Report, including the 2005 budget be approved, and the 2006 and 2007 financial projections received as information.

2. That the amendments to the Fleet Management Agency's Operating Charter and Organization Charts as tabled in Appendices A and C, respectively, be approved.

3. A. That additional long-term borrowing of up to $3.5 million in accordance with subsection 215 (4) of The City of Winnipeg Charter with respect to Special Service Units be approved, and authorization be given to the Fleet Management Agency Special Operation Agency to finance a portion of its capital purchase requirements through external sources including from the City's bank, or, from any other persons or corporations including the City of Winnipeg Sinking Fund Trustees, for a total borrowing authorization in 2005 of up to $9.5 million.

   B. That, in addition to the existing operating line of credit of $300,000.00, a line of credit of up to $5 million be authorized to allow for bridge financing between the time when the cash is needed and term financing is arranged, and that the $5 million line of credit be inclusive of and not in addition to the total borrowing authorization of $9.5 million for 2005.

4. That the 2004 audited financial statements, contained in Appendix D, be received as information.

5. That the Proper Officers of the City be authorized to do all things necessary to implement the intent of the foregoing

Pursuant to the provisions of the Operating Charters of the Special Operating Agencies, changes to the Agencies Operating Charters requires approval of two-thirds of the members present at Council.

Agenda - Executive Policy Committee - July 20, 2005

Report - Alternate Service Delivery Committee - July 18, 2005

DECISION MAKING HISTORY:

STANDING COMMITTEE RECOMMENDATION:

On July 18, 2005, the Alternate Service Delivery Committee concurred in the administrative recommendation and submitted the matter to the Executive Policy Committee and Council.

ADMINISTRATIVE REPORT

RE: ANNUAL SELECTION REPORT (2005) – FLEET MANAGEMENT AGENCY (SOA)

FOR SUBMISSION TO: **Alternate Service Delivery Committee**

ORIGINAL REPORT SIGNED BY: **Yvan Lupien (COO), Fleet Management Agency**

REPORT DATE: **June 30, 2005**

RECOMMENDATION(S):

It is recommended that:

1. Council approve the Fleet Management Agency's 2005 Selection Report including the 2005 budget, and receive as information, the 2006 and 2007 financial projections.
2. Council approve the amendments to the Fleet Management Agency's Operating Charter and Organization Charts as tabled in Appendices A and C, respectively.
3. Council approve:
    a. additional long-term borrowing of up to $3.5 million, in accordance with subsection 215 (4) of the City of Winnipeg Charter with respect to Special Service Units, and authorization be given to the Fleet Management Agency SOA to finance a portion of its capital purchase requirements through external sources, including from the City's bank, or from any other persons or corporations, including the City of Winnipeg Sinking Fund Trustees, for a total borrowing authorization in 2005 of up to $9.5 million; and,
    b. in addition to the existing operating line of credit of $300,000, a line of credit of up to $5 million be authorized to allow for bridge financing between the time when the cash is needed and term financing is arranged, and that the $5 million line of credit be inclusive of, and not in addition to, the total borrowing authorization of $9.5 million for 2005.
4. Council receive the 2004 audited financial statements, contained in Appendix D, as information.

REPORT SUMMARY:

Key Issues:

- There are proposed changes to the Agency's Operating Charter and Organization Chart.
- The Agency requires $9.5 million in long-term borrowing to fund its projected capital acquisitions for 2005. Council has approved $6.0 million in long-term borrowing for 2005, and the Agency is requesting an additional $3.5 million of long-term borrowing approval.

- The Agency will undertake a joint biodiesel study initiative with the Federation of Canadian Municipalities.
- The audited financial statements for year 2004 are included in Appendix D, as an attachment to this report.

Implications of the Recommendation(s):

General Implications

- [X] None
- [ ] For the organization overall and/or for other Departments
- [ ] For the community and/or organizations external to the City of Winnipeg
- [ ] Involves a multi-year contract

Comment(s):

Policy Implications

- [ ] No
- [X] Yes Comments: Changes to the Agency's Operating Charter require Council approval.

Environmental Implications

- [X] No
- [ ] Yes Comments:

Human Resource Implications

- [X] No
- [ ] Yes Comments:

Financial Implications

- [ ] Within approved current and/or capital budget
- [X] Current and/or capital budget adjustment required

Comment(s): Changes to the Agency's long-term borrowing requires Council approval.

REASON FOR THE REPORT:

Fleet Management Agency's Operating Charter stipulates that a Selection Report (summary of annual business plan) be submitted to Council each year.

HISTORY:

On May 28, 2003, the Fleet Management Agency (FMA) received Council approval to operate as a Special Operating Agency (SOA) of the City of Winnipeg, effective January 1, 2003. The creation of the SOA provided for a distinct, accountable Agency dedicated to fleet service delivery with the ability to provide integrated service and comprehensive fleet management expertise to its customers. FMA manages a fleet of approximately 1,700 light, heavy and specialty vehicles ranging from riding mowers to front end loaders, using life cycle cost management principles.

Other historical milestones in the creation of the Agency included:

- On March 20, 1997, Council adopted a document entitled "Reshaping our Civic Government". The document identified the development of Special Operating Agencies ("SOA") as one of the five strategic initiatives needed to create a more affordable and fundamentally better civic government.

- On September 24, 1997, Council adopted the strategic direction with regard to SOAs identified in the report entitled "Special Operating Agencies Initiative".

- On March 25, 1998, Council adopted the Policy and Framework for Alternative Service Delivery (ASD), which recommended that certain services be studied as potential candidates for delivery outside of the departmental structure of government.

- In 1999, Public Works Department conducted a feasibility study of alternative service delivery options for those services provided by Equipment and Material Services (EMS). The report was presented in June 2000 and it recommended that EMS become a Special Operating Agency.

- On October 18, 2000, Council approved the Alternative Service Delivery Committee's feasibility study recommendation that administration produce a Business Plan and Operating Charter to convert EMS to an SOA. Further, Council approved that the Business Plan and Operating Charter be premised on the following principles:

    - The SOA maintain the existing dedicated customer base for a period of three years;
    - The SOA assume ownership of the fleet of its current customers;
    - The SOA have the authority to access the Equipment Replacement Reserve as a financing source for the replacement of equipment; and
    - The SOA have the authority to increase its customer base.

DISCUSSION:

The Agency's mandate, mission, vision and lines of services are as follows:

Agency Mandate: To provide efficient and effective fleet, manufacturing and equipment management services to civic departments and other public organizations.

Agency Mission: To deliver the highest quality and most cost effective fleet management services to City of Winnipeg departments and other public organizations.

Agency Vision: To become the best public fleet service provider in North America.

Agency Services:

1. **Fleet Acquisition and Disposal Service–** FMA selects and acquires fleet vehicles and equipment. FMA is also responsible for vehicle and equipment disposal.

2. **Motor Pool Service-** The Agency has a pool of vehicles and equipment that are rented to the customer to meet short-term requirements that cannot best be met by more longer-term agreements.

3. **Fleet Maintenance Service** - This service includes preventative and corrective maintenance for vehicles and equipment. The maintenance and repair of the fleet is conducted at three major repair facilities and one satellite facility in Winnipeg. This is a service that has constant, day-to-day interactions with customers as their vehicles and equipment are being maintained.

   Service trucks are also used to conduct on-site maintenance as required for immobile equipment, flat tires, or for other like circumstances where the vehicle or equipment cannot attain access to a repair facility.

4. **Manufacturing and Fabrication Service**

   Manufacturing and fabrication services provide a one-stop solution to the unique needs of customers. The manufacturing and fabrication is conducted at one major manufacturing facility in Winnipeg, with certified staff. Mobile work units are customized while specialty equipment is manufactured to meet the changing needs of work crews. Services include machining, welding, carpentry and structural repair.

5. **Fuel Management Service –** The three fuel types provided by FMA include unleaded gas, clear diesel and purple diesel. Fuel is managed using a charge-back system to customers based on fuel consumption. Customers have access to fuel on a 24-hour per day basis, 7 days a week, at seven major fueling stations operated by the Agency.

6. **Insurance and Licensing Service -** FMA provides complete insurance and licensing services for all Agency vehicles and equipment and to other City departments with fleets separate from the Agency's fleet. Insurance and licensing includes accident investigation and claims settlement.

7. **Power Tools Service -** This is a rental and repair service that provides motor driven tools to City of Winnipeg departments engaged in outdoor construction, maintenance activities such as parks maintenance. Typical tools that are rented include chainsaws, quick cut saws and lawn mowers.

8. **Vehicle Safety Training Service**- This service provides safety/training for vehicle operators in addition to Occupational Safety Services within the Agency. This service also ensures appropriate accident management procedures are followed in the event of a vehicle or equipment accident.

9. **Leasing Service-** The Agency provides full maintenance leasing and some non-maintenance leasing to City of Winnipeg departments.

The Agency priorities for 2005 are to:

- Provide Fire and Paramedic Services with expanded fleet management service to optimize their fleet management operations.
- Develop standardized lease agreements.
- Develop a methodology to ensure all departments receive proportionate rates for fleet services.
- Devise a strategy for upgrading the fuel storage tanks and pumps at fueling locations owned by the City of Winnipeg, as a result of new provincial fuel storage regulations.
- Improve customer satisfaction by developing a communications plan for customers.
- Integrate FMA IT systems.
- Develop operational management reporting using RTA.
- Research options to implement best practices for retrieving fuel data such as odometer readings from customers.
- Develop a vehicle safety program and enforce workplace and vehicle safety standards, regulations and procedures.
- Conduct trials on fuel efficiency options for customers such as continuing the evaluation on hybrid vehicles, investigating idle reduction technologies, evaluating wireless vehicle diagnostic devices (to track idle time, vehicle mileage and other diagnostic information).
- Investigate alternative fuel opportunities by coordinating a biodiesel study, offering biodiesel at some fuel stations and by providing administrative support to the Red River Valley Clean Cities Coalition Winnipeg Chapter (a non-profit that promotes alternative fuel development locally).

Performance Measures

The Agency's performance will be based on the achievement of service goals and strategies as outlined in the 2005-2007 business plan, which includes the priorities for 2005 as listed above. Achievement of financial goals as detailed in FMA's 2005 projected financial statements will also be used to assess performance measurement for the Agency. An annual report prepared by the Agency will outline the success of the Agency in terms of meeting all of its performance measures.

There are a number of conditions that will need to be met in order to achieve the priorities for 2005 and to continue to improve the operational and cost effectiveness of the Agency. These critical success factors will position the Agency to be successful in the long term.

Critical Success Factors

- That the Agency will discontinue charging departments for funds that represent capital loans to the Agency, amounts which are based on 2001 contributions to the Equipment Replacement Reserve Fund (ERR), net of capital lease costs, and that the Agency may charge departments one rate for leasing vehicles and equipment, based on an amalgamation of operating and capital rates.
- That the City of Winnipeg, or external sources, will extend long-term funding for vehicles and equipment in the amount of $9.5 million, with long-term interest rates and repayment terms to be negotiated by the City, or external sources, and the Agency during 2005. Since Council has approved $6.0 million in long-term funding for 2005, the Agency is requesting approval for an additional $3.5 million.
- That in 2005, the Agency will pay a $2.25 million dividend to the City of Winnipeg, and repay $1.9 million of long-term debt due to the City, representing the communications account balance of the ERR, with interest, transferred to the Agency at start-up.
- That the City of Winnipeg will allow departments to enter into multi-year budget commitments resulting from lease agreements with the Agency.
- That the Agency will offer closed-end leases to City of Winnipeg customers, where the Agency assumes the residual value risk of gain or loss at the end of the lease period.
- That the Agency's current customers continue all services with the Agency, and that the City of Winnipeg, in working with the Agency, will determine the process, conditions, timing and approvals that will allow departments the option of using an alternate fleet management service provider. The initial Charter called for a three-year transition period. Due to major changes to the accounting and organizational structure, the authority for the CAO to extend this period for at least one year is requested.
- That the Agency will investigate consolidating its physical operations, at a site to be determined.
- That the Agency will have access to a bridge financing line of credit up to $5.0 million, as a means to provide bridge financing to long-term borrowing for capital purchases. The bridge financing line of credit will be converted to term loans on a quarterly basis, or as determined by the City and the Agency.

Financial Impact Statement Date: 9-Jun-05

Project Name: Selection Report - Fleet Management Agency (SOA)

COMMENTS:

See attached Projected Financial Statements of the Fleet Management Agency

Original Signed by C.Turman CA

Supervisor of Finance & Administration

IN PREPARING THIS REPORT THERE WAS CONSULTATION WITH, AND CONCURRENCE BY:
N/A

THIS REPORT SUBMITTED BY:

Department:	Public Works	
Division:	Fleet Management Agency	
Prepared by:	Yvan Lupien	986-5337
Processed by:	Ajaleigh Williams	986-7879
File No.:	Selection Report	

Appendices

A. Changes to the Operating Charter

B. Financial Projections

C. Organization Charts

D. Audited Financial Statement for FY 2004 (attachment to this report)

Appendix A

FLEET MANAGEMENT AGENCY

CHANGES TO THE OPERATING CHARTER

CHANGES TO THE OPERATING CHARTER

CHANGES TO SECTIONS 1-7 IN THE OPERATING CHARTER

OPERATING CHARTER	CURRENT	RECOMMENDED LANGUAGE
Section 2: Policy Framework		
2.2 Mission	Currently no mission statement	*To deliver the highest quality and most cost effective fleet management services to City of Winnipeg departments and other public organizations.*
2.5 Products and Services	The Special Operating Agency shall provide services in the following areas: 1. Acquisitions and Disposal Services 2. Fleet Maintenance Services 3. Insurance and Licensing Services 4. Fuel Services 5. Power Tools Services	*The Special Operating Agency shall provide services in the following areas:* *1. Acquisition and Disposal* *2. Motor Pool* *3. Fleet Maintenance* *4. Manufacturing and Fabrication* *5. Power Tools* *6. Insurance and Licensing* *7. Fuel Management* *8. Vehicle Safety Training* *9. Leasing*
2.6 Concept of Operations	The core of the SOA concept is the fair and efficient delivery of services to a diverse client base. FMA shall provide fleet management services to a number of City of Winnipeg departments. No single competitor exists that can provide the comprehensive fleet services for both light and heavy fleet through decentralized locations. FMA shall manage a fleet of approximately 2,100 units, ranging from riding mowers to ambulances and heavy machinery. Its four principal activities relate to fleet/equipment supply, maintenance support, power tools and fuel. Life Cycle Cost Management shall be the model implemented to manage the operations.	*The core of the SOA concept is the fair and efficient delivery of services to a diverse client base. FMA shall provide fleet management services to a number of City of Winnipeg departments and other public organizations. No single competitor exists that can provide the comprehensive fleet services for both light and heavy fleet through decentralized locations. FMA shall manage a fleet of approximately 1,700 units, ranging from riding mowers to ambulances and heavy machinery. Life Cycle Cost Management shall be the model implemented to manage the operations.*

OPERATING CHARTER	CURRENT	RECOMMENDED LANGUAGE
2.7 Clients/Customer Base	The customer base consists of City of Winnipeg departments and special operating agencies. Departments and agencies that currently purchase services from EMS shall not opt out of the services provided by FMA before January 1, 2006. An approved business plan showing net benefits to the City of Winnipeg shall be required to opt out after this period.	*The customer base consists of City of Winnipeg departments and special operating agencies and other public organizations. City of Winnipeg Departments and agencies that currently purchase services from FMA shall not opt out of the services provided by FMA or seek alternate arrangement for a three-year period following the inception of the Agency or another date as determined by the CAO. An approved business plan showing net benefits to the City of Winnipeg shall be required to opt out after this period.*
2.8 Fuel Services	Existing fuel customers, and City of Winnipeg departments or agencies that may subsequently become customers of the fuel services provided by FMA, shall not opt out or seek alternate arrangements for a 3 year period (the minimum leasing period) or as long as they use SOA maintenance services.	*Existing fuel customers, and City of Winnipeg departments or agencies that may subsequently become customers of the fuel services provided by FMA, shall not opt out or seek alternate arrangement for a three-year period following the inception of the Agency or another date as determined by the CAO or as long as they use SOA maintenance services.*
Section 3: Accountability Framework		
5.2 Implementation	At an administrative level, the CAO or designate and the Agency's Chief Operating Officer shall discuss and agree on the following, as detailed in the Selection Report: • accounting principles to be applied • assets and liabilities (an opening balance sheet) • periodic reporting • information systems and technology • long and short-term financing	*At an administrative level, the CAO or his/her representative and the Agency's Chief Operating Officer shall discuss and agree on the following, as detailed in the Selection Report:* • *accounting principles to be applied* • *assets and liabilities (an opening balance sheet)* • *periodic reporting* • *information systems and technology* • *long and short-term financing*

OPERATING CHARTER	CURRENT	RECOMMENDED LANGUAGE
	• cash management and investing • budget requirements (if any), and • material provision agreements/contracts As part of the management principles inherent in SOAs, budgetary expenditure controls applicable to City of Winnipeg departments do not apply. Bottom-line financial results are the mechanism for measuring the success of the Agency.	• *cash management and investing* • *budget requirements (if any), and* • *material provision agreements/contracts* • *internal controls* *As part of the management principles inherent in SOAs, budgetary expenditure controls applicable to City of Winnipeg departments do not apply. Bottom-line financial results and achievement of services goals are the mechanism for measuring the success of the Agency.*
5.4 Financial Model	The financial model will continue to be refined/adjusted to accommodate amounts in departmental budgets. Departments will be responsible for rationalizing size and mix of their fleet within their budget constraints.	*Departments will be responsible for rationalizing size and mix of their fleet within their budget constraints.*
5.5 Vehicle Leasing	Lease prices offered must be based on full cost recovery for full life cycle fleet management. This lease system shall include a monthly capital component, reflecting the value of the unit, and an operating component, reflecting usage rate that covers the expected cost of preventive maintenance. Any damages or excessive use repairs shall be charged on a pay-as-you-go basis. The Agency shall have the right, but not the obligation to provide leasing arrangements to a customer. Fuel shall continue to be billed on the current usage basis, and shall not be included in the operating lease.	*The Agency shall provide full service leasing. The Agency will enter into lease agreements with the customers. The Agency shall have the right to provide services with or without lease agreements. Fuel shall continue to be billed on the current usage basis, and shall not be included in the lease.*

OPERATING CHARTER	CURRENT	RECOMMENDED LANGUAGE
6.3 Reward and Recognition	The Agency shall devise and implement rewards that stem from the business successes of the organization and presented on a business-case basis. Any changes to the existing rewards and recognition system shall be negotiated with CUPE and/or WAPSO. The Agency shall seek separate approval before implementing a reward system.	The Agency shall devise and implement rewards that stem from the business successes of the organization. Appropriate incentive programs shall be explored in consultation with Human Resource Services and presented on a business case basis in the summary of the annual business plan.
7.2 Transition Period	A transition period of three years is required. This enables customers, stakeholders, and the Agency to adjust to the modified operating environment with minimal disruption to service delivery. Existing budget structures and client relationships shall be maintained during this period	*A transition period of three years from date of the inception of the Agency is required. This enables customers, stakeholders, and the Agency to adjust to the modified operating environment with minimal disruption to service delivery. An extension to the transition period may be made by the CAO.*

Appendix B

Fleet Management Agency

Financial Projections

Three Years Ending December 31, 2007

Projected Financial Statement Assumptions

The projected financial statements include management's best estimates of future financial performance and incorporate the financial implications of the Agency's goals and strategies. The financial projections are estimates of the financial position, results of operations and changes in cash flow, using management's assumptions that reflect the Agency's planned course of action for the three years ending December 31, 2007.

Management's judgment has been used in the assumptions and the most probable set of economic conditions, together with the hypotheses stated below. The hypotheses are consistent with the purpose of this information. Some assumptions inevitably will not materialize and unanticipated events and circumstances may occur subsequent to the date of this projection. Therefore, the actual results achieved during the projected period will vary from the projections and the variations may be material.

Hypotheses

The financial projections have been prepared based on the following hypotheses:

- That the City of Winnipeg will agree to provide the Agency with an operating line of credit at the City's short-term interest rate, as bridge financing to long-term debt for vehicles and equipment, the amount to be negotiated between the City and the Agency during 2005.
- That the Agency will discontinue charging departments for funds that represent capital loans to the Agency, amounts which are based on 2001 contributions to the Equipment Replacement Reserve Fund (ERR), net of capital lease costs, and that the Agency may charge departments one rate for leasing vehicles and equipment, based on an amalgamation of operating and capital rates.
- That the City of Winnipeg will extend long-term funding for vehicles and equipment in the amount of $9.5 million, with long-term interest rates and repayment terms to be negotiated by the City, or external sources, and the Agency during 2005. Since Council has approved $6.0 million in long-term funding during 2005, the Agency is requesting approval for an additional $3.5 million.
- That in 2005, the Agency will pay a $2.25 million dividend to the City of Winnipeg, and repay $1.9 million of long-term debt due to the City, representing the communications account balance of the ERR, with interest, transferred to the Agency at start-up.
- That the City of Winnipeg will allow departments to enter into multi-year budget commitments resulting from lease agreements with the Agency.

- That the Agency will offer closed-end leases to City of Winnipeg customers, where the Agency assumes the residual value risk of gain or loss at the end of the lease period.
- That the Agency's current customers continue all services with the Agency, and that the City of Winnipeg, in working with the Agency, will determine the process, conditions, timing and approvals that will allow departments the option of using an alternate fleet management service provider.

Assumptions

The financial projections are based on current service levels, and a 2% inflationary increase, except where otherwise described in the notes to projected financial statements, or as noted below. In calculating projected expenses, a GST equivalency cost of 3% has been removed from the 2004 base year, as GST is 100% recoverable by the Agency beginning in 2005, and identified as a separate equivalency charge.

Fleet Leases Revenue

Fleet leases revenue is determined based on the number and types of units assigned to customers at January 1, 2005, and is based on the Agency's fleet replacement plan. Fleet leases revenue includes an operating component and a capital component for full service customers, and a capital component for non-maintenance customers. Interest is based on the City's long-term borrowing rate, and lease terms are set based on lifecycle cost management principles.

Fuel Sales

Fuel sales are based fuel costs, applying the Agency's fuel mark-up.

Services and Parts Revenue

Insurance revenue is based on January 1, 2005 assigned units, and current Manitoba Public Insurance rates, with a 3% increase per year on the April 1st renewal date. Consumables and corrective maintenance revenue is based on a 1% decrease in 2005, a 1% increase in 2006 and an increase of 2% in 2007.

Rental Income

External rental revenue is based on 2004 actual amounts with a 5% reduction per year. Internal rental revenue is based on 2004 actual amounts with a 5% increase in 2005, and a 10% increase per year thereafter.

Gain on Sale

The gain on sale of vehicles and equipment is based on units in the start-up fleet, and according to the Agency's fleet replacement plan. Units acquired after start-up are assumed to have no gain or loss on sale, as proceeds are estimated to be equal to residual value.

Services Expense

Consulting costs are based on a 30% decrease in 2005, a 12% decrease in 2006, and a 2% increase in 2007. Equipment rental costs are based on the Agency's replacement plan, and on external rental

revenue assumptions, applying the Agency's markup. Repairs and maintenance costs are based on an increase of 2% in 2005, a 2% decrease 2006, and a decrease of 1% in 2007. Insurance expense is based on insurance revenue assumptions, applying the Agency's insurance mark-up. Training and development is based on an increase of 45% in 2005, and a 1% increase in 2006 and 2007.

Salaries and Benefits Expense

Salaries and benefits are based on the collective agreements for 112 positions, comprised of 1 WAPSO exempt, 19 WAPSO and 92 CUPE employees.

Supplies Expense

Parts costs are based on an increase of 2% in 2005, a decrease of 2% in 2006, and a decrease of 1% in 2007. Fuel costs are based on current usage levels with a 5% increase in 2005, and a 2% increase for 2006 and 2007.

Other Expense

Facility rent is based on information supplied by Civic Accommodations. New testing costs in 2005 amount to $217 thousand representing Bio-diesel emissions, Netistix and other testing projects.

Capital Assets

Capital asset acquisitions are based on the following amounts:

(In thousands of dollars)	**2005**	**2006**	**2007**
Buildings	$140	$49	$27
Fleet Assets	$14,227	$20,303	$16,800
Equipment	$1,069	$246	$166
Total	$15,436	$20,598	$16,993

Fleet assets are assumed to be replaced on a one for one basis, with no increase or decrease to customers' current assigned fleet. Replacement is based on the Agency's plan to dispose of all fleet assets past their most economic lifecycle, by the beginning of 2008, based on lifecycle cost management principles.

The Agency will require $.6 million to upgrade fuel pumps and equipment, and $.4 million for shop equipment in 2005.

Vacation Payable

Vacation payable is based on 2004 actual amounts with a 3% increase per year.

Long-Term Debt

The Agency will require long-term debt for acquisition of vehicles and equipment, in the amount of $9.5 million in 2005, $18 million in 2006, and $13.5 million in 2007, with long-term interest rates and repayment terms to be negotiated. The Agency will work with the City during 2005, to determine the terms and conditions of long-term debt financing, as this is a new arrangement between the Agency and the City. Interest rates used for these projections, are at the City of Winnipeg's long-term borrowing rates. The Agency will also examine long-term debt financing options from outside City sources, to determine the best financing options available to the Agency.

THE CITY OF WINNIPEG
FLEET MANAGEMENT - SPECIAL OPERATING AGENCY

Projected Financial Statements
Three Years Ending December 31, 2007

On March 20, 1997, Council adopted a document entitled "Reshaping our Civic Government". The document identified the development of Special Operating Agencies ("SOA") as one of the five strategic initiatives needed to create a more affordable and fundamentally better civic government.

On September 24, 1997, Council adopted the strategic direction with regard to SOAs identified in the report entitled "Special Operating Agencies Initiative".

On March 25, 1998, Council adopted the Policy and Framework for Alternative Service Delivery (ASD), which recommended that certain services be studied as potential candidates for delivery outside of the departmental structure of government.

In 1999, Public Works Department conducted a feasibility study of alternative service delivery options for those services provided by Equipment and Material Services (EMS). The report was presented in June 2000 and it recommended that EMS become a Special Operating Agency.

On October 18, 2000, Council approved the Alternative Service Delivery Committee's feasibility study recommendation that administration produce a Business Plan and Operating Charter to convert EMS to an SOA. Further, Council approved that the Business Plan and Operating Charter be premised on the following principles:

- The SOA maintain the existing dedicated customer base for a period of three years;
- The SOA assume ownership of the fleet of its current customers;
- The SOA have the authority to access the Equipment Replacement Reserve as a financing source for the replacement of equipment; and
- The SOA have the authority to increase its customer base.

The Agency commenced operations on January 1, 2003. The 2005 financial projections represent the Agency's third year as a Special Operating Agency.

THE CITY OF WINNIPEG
FLEET MANAGEMENT - SPECIAL OPERATING AGENCY

PROJECTED STATEMENT OF FINANCIAL POSITION

As at December 31
(in thousands of dollars)

	Audited 2004	2005	2006	2007
ASSETS				
Current				
Due from City of Winnipeg - General Revenue Fund (Note 3)	$ 7,868	$ 932	$ 2,392	$ 3,384
Accounts receivable	137	140	142	145
Income taxes recoverable (Note 4a)	81	227	249	253
Current portion of loans receivable (Note 5)	84	66	75	17
Inventory	1,096	1,118	1,141	1,163
Prepaid expenses	215	179	183	186
	9,481	2,662	4,182	5,148
Loans receivable (Note 5)	158	92	17	-
Capital assets (Note 6)	26,948	37,203	51,802	61,667
	$ 36,587	$ 39,957	$ 56,001	$ 66,815
LIABILITIES				
Current				
Accounts payable and accrued liabilities	$ 868	$ 873	$ 901	$ 924
Vacation payable (Note 7a)	460	474	488	503
	1,328	1,347	1,389	1,427
Deferred revenue	7,261	5,083	3,558	2,491
Retirement allowance (Note 7b)	654	625	622	621
Environmental liability (Note 8)	420	420	420	420
Long-term debt (Note 9)	24,014	31,544	48,377	59,343
	32,349	37,672	52,977	62,875
	33,677	39,019	54,366	64,302
Commitments (Note 10)				
SURPLUS				
Contributed surplus	390	390	390	390
Retained earnings	2,520	548	1,245	2,123
	2,910	938	1,635	2,513
	$ 36,587	$ 39,957	$ 56,001	$ 66,815

See accompanying notes and schedule to projected financial statements

THE CITY OF WINNIPEG
FLEET MANAGEMENT - SPECIAL OPERATING AGENCY

PROJECTED STATEMENT OF OPERATIONS

For the years ending December 31
(in thousands of dollars)

	Audited 2004	2005	2006	2007
REVENUES				
Fleet leases	$ 10,609	$ 13,382	$ 15,675	$ 18,161
Services and parts revenue (Schedule 1)	5,802	5,611	5,689	5,831
Fuel sales	4,649	4,979	5,078	5,180
Income from fleet acquired at start-up	3,282	2,178	1,525	1,067
Rental income	2,304	2,265	2,271	2,288
Gain on sale of capital assets	595	646	798	896
Total Revenues	27,241	29,061	31,036	33,423
EXPENSES				
Services	7,221	7,147	7,059	7,040
Salaries and employee benefits	6,679	7,325	7,469	7,707
Supplies	6,306	6,377	6,455	6,547
Amortization	4,856	5,181	5,998	7,127
Grant - Autopac rebate to Public Works Department	691	361	369	376
Interest	461	712	1,383	2,047
General government charges	421	421	421	421
Other	356	736	504	510
Total Expenses	26,991	28,260	29,658	31,775
Net income from operations	250	801	1,378	1,648
EQUIVALENCY CHARGES				
Income tax recovery (Note 4a)	(81)	(146)	(22)	(4)
Goods and services tax (Note 4b)	-	637	637	637
PeopleSoft purchasing savings (Note 4c)	-	32	66	137
	(81)	523	681	770
Net income for the year	331	278	697	878
RETAINED EARNINGS, BEGINNING OF YEAR	2,189	2,520	548	1,245
Dividends	-	(2,250)	-	-
RETAINED EARNINGS, END OF YEAR	$ 2,520	$ 548	$ 1,245	$ 2,123

See accompanying notes and schedule to projected financial statements

THE CITY OF WINNIPEG
FLEET MANAGEMENT - SPECIAL OPERATING AGENCY

PROJECTED STATEMENT OF CASH FLOWS

For the years ending December 31
(in thousands of dollars)

NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:	**Audited 2004**	**2005**	**2006**	**2007**
OPERATING				
Net income for the year	$ 331	$ 278	$ 697	$ 878
Non-cash items related to operations				
Amortization	4,856	5,181	5,998	7,127
Income from fleet acquired at start-up	(3,282)	(2,178)	(1,525)	(1,067)
Gain on sale of capital assets	(595)	(646)	(798)	(896)
Decrease in retirement allowance	(60)	(29)	(3)	(1)
Working capital from operations	1,250	2,606	4,369	6,041
Net change in working capital	(129)	(97)	(17)	63
	1,121	2,509	4,352	6,104
FINANCING				
Decrease (Increase) in Due from City of Winnipeg - General Revenue	3,585	6,936	(1,460)	(992)
Increase in long-term debt	5,293	7,530	16,833	10,966
Increase in dividends	-	(2,250)	-	-
	8,878	12,216	15,373	9,974
INVESTING				
Purchase of capital assets	(10,888)	(15,436)	(20,597)	(16,992)
Decrease in loans receivable	84	66	75	17
Proceeds from sale of capital assets	805	646	798	896
	(9,999)	(14,725)	(19,725)	(16,078)
CASH POSITION, END OF YEAR	$ -	$ -	$ -	$ -

See accompanying notes and schedule to projected financial statements

THE CITY OF WINNIPEG
FLEET MANAGEMENT - SPECIAL OPERATING AGENCY

NOTES TO THE PROJECTED FINANCIAL STATEMENTS

For the three years ending December 31, 2007
(in thousands of dollars)

1. Commencement of Operations

On May 28, 2003, Council adopted the Fleet Management Agency Selection Report, that recommended the Equipment and Material Services operation of the Public Works Department commence operations as a Special Operating Agency (SOA) effective January 1, 2003.

The Agency offers a complete range of fleet management services to The City of Winnipeg, its main customer, and provides light, super and heavy duty vehicles and construction and specialty equipment, using life cycle cost management principles.

2. Summary of Significant Accounting Policies

The preparation of periodic financial statements necessarily involves the use of estimates and approximations because the precise determination of financial data frequently depends on future events. These projected financial statements have been prepared by management within reasonable limits of materiality and within the framework of accounting policies summarized below.

The projected financial statements have been prepared on the basis of Canadian generally accepted accounting principles and include the following significant accounting policies:

Inventory

Inventory is recorded at the lower of cost and net realizable value.

Capital assets

Capital assets, other than land and buildings, transferred from The City of Winnipeg on January 1, 2003, are recorded at their estimated net realizable value on that date. Subsequent acquisitions are recorded at cost. Land and buildings are stated at assessed values as of January 1, 2003 which were determined by The City of Winnipeg Property Assessment Department.

Capital assets are amortized on the basis of their cost less approximate residual value over the estimated useful life using the following rates and methods:

Buildings	4%	Straight-line
Fleet assets		
Acquired at start-up	30%	Declining balance
Purchased	Lease term	Straight-line
Equipment	10% to 30%	Straight-line

Revenue recognition

The Agency enters into operating lease agreements to supply and maintain vehicles and equipment to lessees for specified lease periods. The Agency recognizes the monthly lease payments from the lessees as income each month. Services and parts revenue, including insurance and fuel sales, are recognized upon the completion of the work or transfer of the goods or service. Revenue from short-term rentals of vehicles or equipment is recognized as income evenly over the rental period.

Deferred revenue

Deferred revenue represents the value of fleet assets acquired from the City of Winnipeg at start-up. This amount is recognized as income at the same rate that the related assets are being amortized.

Financial instruments

Financial instruments include due from City of Winnipeg - General Revenue Fund, accounts receivable, income taxes recoverable/payable, loans receivable, accounts payable and accrued liabilities, and long-term debt. Unless otherwise stated, it is management's opinion that the Agency is not exposed to significant interest, currency or credit risks arising from these financial instruments.

3. Due from City of Winnipeg - General Revenue Fund

The City of Winnipeg operates a centralized treasury function with a single operating bank account in the General Revenue Fund. Consequently, the Agency does not have a bank account. Cash transactions are credited or charged to the "Due (to)/from" account. Interest is credited or charged based on the City's average short-term earnings (cost of funds) on the single bank account. The Agency has negotiated an operating line of credit up to $300 thousand from The City of Winnipeg at the City's short term borrowing rate. During 2005, the Agency will work with the City to extend the amount of the operating line in order to fund vehicle and equipment acquisitions as a transition to new term loans and to determine the process and conditions of new term loan financing.

4. Equivalency Charges

a) Income Tax Equivalency

As part of the municipal government, the Agency is not subject to corporate income taxes. However, in order to approximate a business model, the operation of the Agency is assessed with an income tax equivalency charge which is payable to (recoverable from) The City of Winnipeg based on the following rates:

Small business rate on the first $250 thousand of net income	18.12%
Regular corporate rate on the balance	37.62%

The gain on sale of fleet assets acquired at inception is excluded from net income for the purpose of the tax calculation.

b) Goods and Services Tax Equivalency

As part of the municipal government, the Agency pays 7% GST on its purchases. In 2004 the Agency received a 4% input tax credit, with the remaining 3% input tax credit retained by the City of Winnipeg. Beginning in 2005, the Agency will receive the full 7% input tax credit, and will be charged by the City, a GST equivalency in the amount of $637 thousand, representing the amount of the 3% input tax credit retained by the City in 2004.

c) PeopleSoft Purchasing Savings Equivalency

The City of Winnipeg operates a central finance function and charges the Agency an amount representing purchasing savings equivalency, under the assumption that a centralized purchasing system achieves efficiencies.

	2005	2006	2007
PeopleSoft Purchasing Savings Equivalency Charge	$ 32	$ 66	$ 137

5. *Loans Receivable*

	Audited 2004	2005	2006	2007
Glacial Sand and Gravel - Special Operating Agency				
Equipment financing program loan, interest at 6.5%, payment of $2.1 thousand monthly, due September 2005	$ 18	$ -	$ -	$ -
Equipment financing program loan, interest at 6.5%, payment of $6.5 thousand monthly, due February 2008	224	158	92	17
	242	158	92	17
Current portion	(84)	(66)	(75)	(17)
	$ 158	$ 92	$ 17	$ -

6. *Capital Assets*

	Cost	Accumulated Amortization	Audited 2004	Net Book Value 2005	2006	2007
Land	$ 390	$ -	$ 390	$ 390	$ 390	$ 390
Building	1,914	128	1,786	1,852	1,826	1,777
Fleet assets						
Acquired at start-up	14,818	7,557	7,261	5,083	3,558	2,491
Fleet	18,621	1,740	16,881	28,346	44,472	55,531
Equipment	1,051	421	630	1,532	1,556	1,478
	$ 36,794	$ 9,846	$ 26,948	$ 37,203	$ 51,802	$ 61,667

7. *Employee Benefits*

a) Vacation

The Agency's employees accrue vacation credits, which together with unused holidays from previous years generally become a charge to operations in the year they are earned.

b) Retirement allowance

Under various union agreements, unused sick leave credits accumulate and employees with specified minimum service requirements become entitled to a cash payment upon retirement, death or termination of service under certain conditions (excluding resignation). An actuarial valuation has estimated the retirement allowance liability at:

	Audited 2004	2005	2006	2007
	$ 654	$ 625	$ 622	$ 621

c) Pension

The Agency's employees are eligible for pensions under the Winnipeg Civic Employees' Benefits Program. The Plan is a defined benefit plan. The City of Winnipeg allocates its pension costs to various departments. An actuarial valuation for the Winnipeg Civic Employees' Benefits Program was made as of December 31, 2003 and has an actuarial surplus.

	Audited 2004	2005	2006	2007
Winnipeg Civic Employees' Benefits	$ 369	$ 419	$ 427	$ 441

8. Environmental Liability

The Agency has included an estimate of the cost to remediate fuel sites. A third party has estimated the cost at $420 thousand.

9. Long-Term Debt

	Audited 2004	2005	2006	2007
City of Winnipeg Equipment and Material Services - non-interest bearing, no repayment schedule	$ 1,230	$ 1,230	$ 1,230	$ 1,230
City of Winnipeg (see below a)	22,784	21,271	21,700	22,138
City of Winnipeg term loans (see below b)	-	9,043	25,447	35,975
	$ 24,014	$ 31,544	$ 48,377	$ 59,343

a) On May 28, 2003, Council approved the transfer of the Equipment Replacement Reserve Fund balance at January 1, 2003 to the Agency, to be used as a source of financing for fleet replacement, thereby resulting in the termination of the Fund at January 1, 2003. The balance increases during the year by interest, and is projected to decrease in 2005 by repayments in the amount of $1,950 thousand.

b) Term loans for vehicles and equipment - interest at the City's long-term borrowing rate, repayment based on lease terms for vehicles and equipment. The Agency will work with the City in 2005, to determine the process and conditions for the new term loans.

10. Commitments

The Agency has entered into lease agreements mainly for the lease of fleet equipment. Future minimum lease payments are as follows:

	Audited 2004	2005	2006	2007
Operating leases	$ 887	$ 540	$ 388	$ 363

11. Related Party Transactions

The Agency is economically dependent on The City of Winnipeg, as it derives most of its revenue and all of its financing requirements from the City.

In addition to those disclosed elsewhere in the projected financial statements, included in the Agency's projected revenues/expenses are the following transactions which occurr in the normal course of operations and are recorded at the exchange amount.

		Audited 2004	2005	2006	2007
a)	General government charges	$ 421	$ 421	$ 421	$ 421
b)	Civic Accommodations - rental of office space	$ 156	$ 175	$ 138	$ 137
c)	Payroll tax	$ 122	$ 124	$ 126	$ 129
d)	Income tax equivalency charge/(recovery)	$ (81)	$ (146)	$ (22)	$ (4)
e)	Grant - Autopac rebate transfer to Public Works	$ 691	$ 361	$ 369	$ 376
f)	Human resource services	$ 74	$ 73	$ 75	$ 76
g)	Goods and services tax equivalency	$ -	$ 637	$ 637	$ 637
h)	Peoplesoft purchasing savings equivalency	$ -	$ 32	$ 66	$ 137

THE CITY OF WINNIPEG
FLEET MANAGEMENT - SPECIAL OPERATING AGENCY

PROJECTED SCHEDULE OF SERVICES AND PARTS REVENUE

For the years ended December 31
(in thousands of dollars)

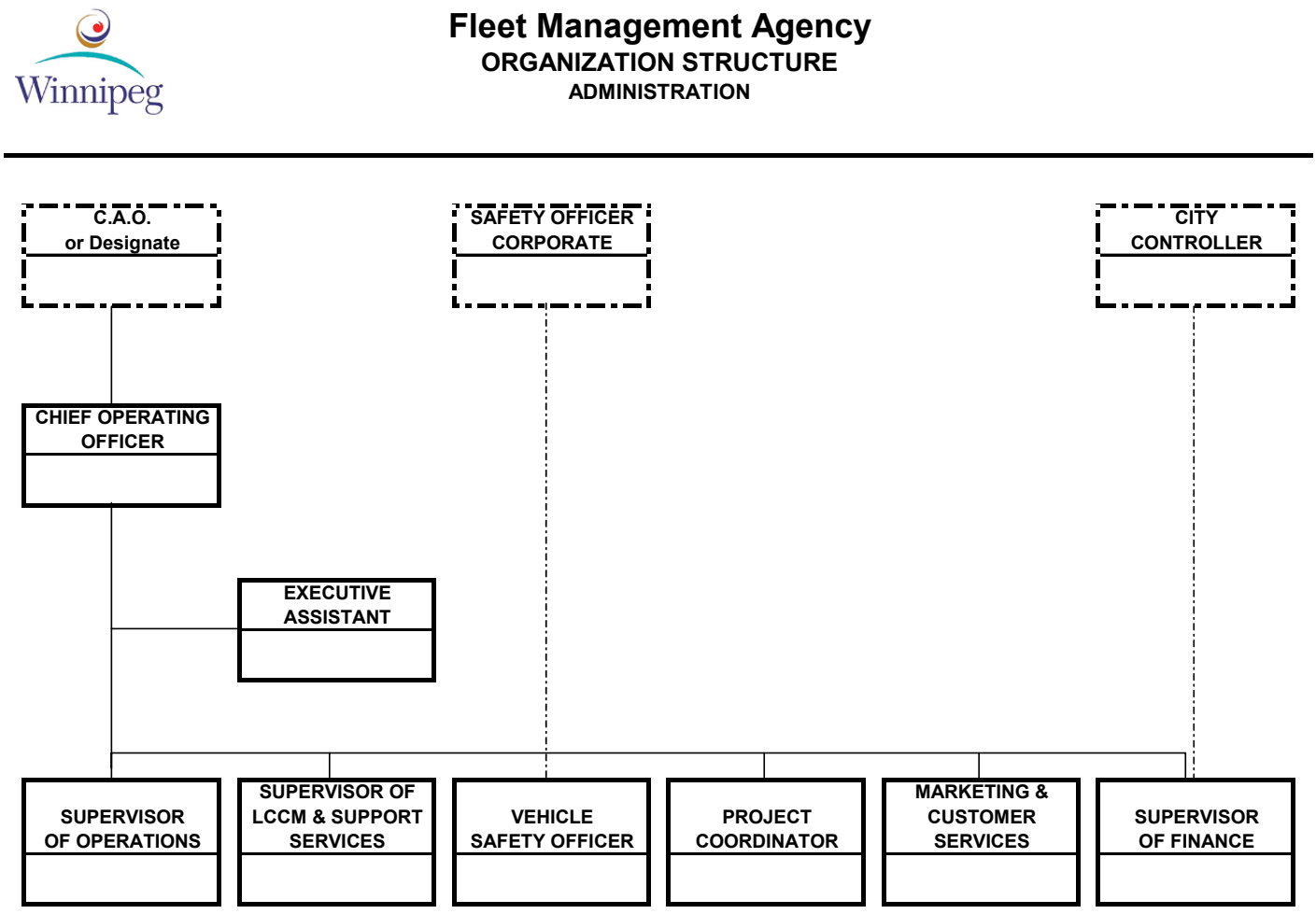
	Audited 2004	2005	2006	2007
Consumables and corrective maintenance	$ 2,383	$ 2,359	$ 2,382	$ 2,430
Insurance revenue	1,542	1,500	1,541	1,584
Power tools	633	646	659	672
Manufacturing sales	543	554	565	576
Autopac rebate	354	361	369	376
Interest	241	82	62	80
Provincial support grant	59	61	62	63
Other	47	48	49	50
	$ 5,802	**$ 5,611**	**$ 5,689**	**$ 5,831**

Appendix C

Fleet Management Agency
Organization Charts

Organization Chart

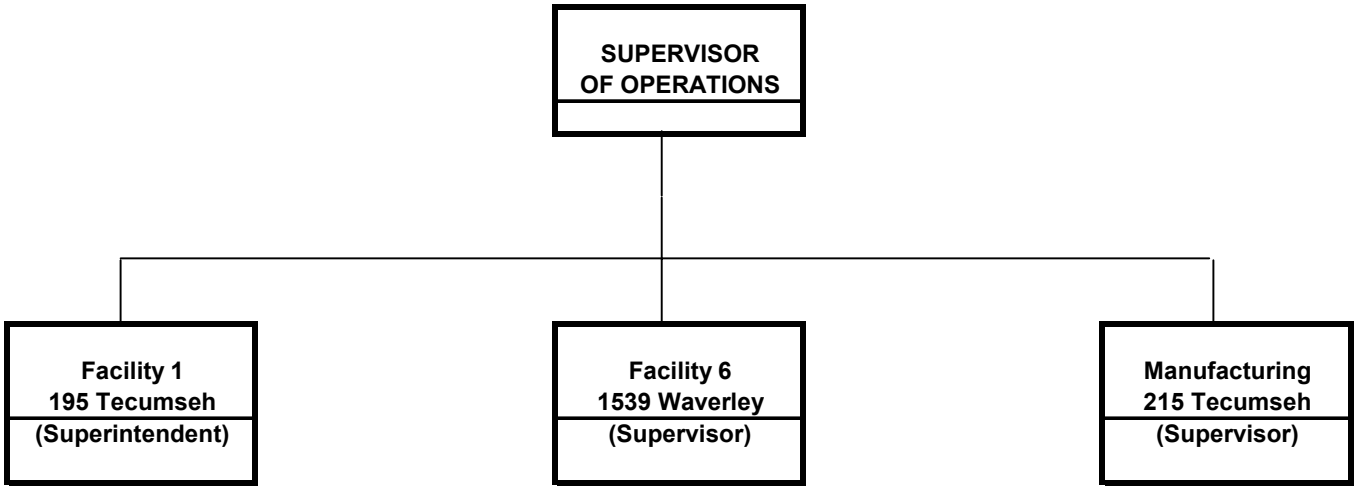
Changes to the organization are required to reflect the consolidation in the number of major maintenance workshops from 3 to 2 facilities. While the overall level of staffing will not change, the type of work and associated changes will require adjustments in classification for the FMA workforce.



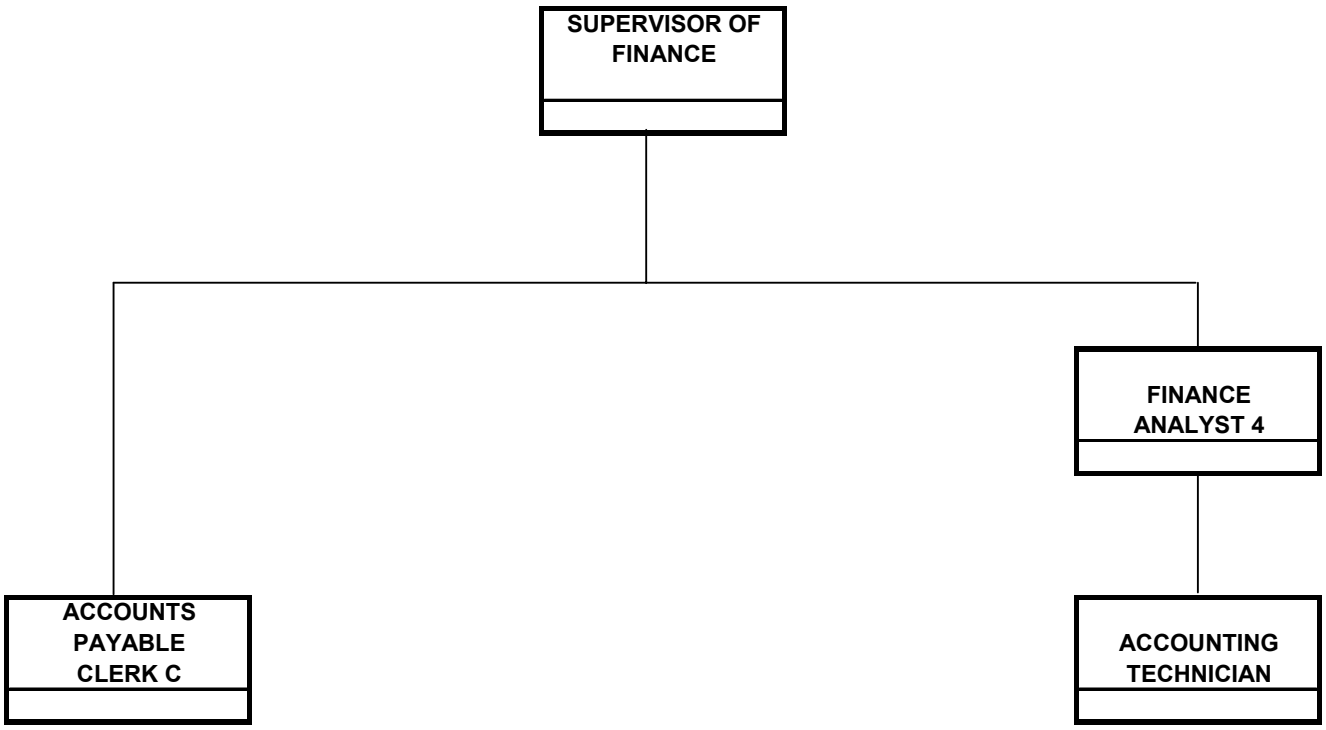
Fleet Management Agency

ORGANIZATION STRUCTURE

OPERATIONS



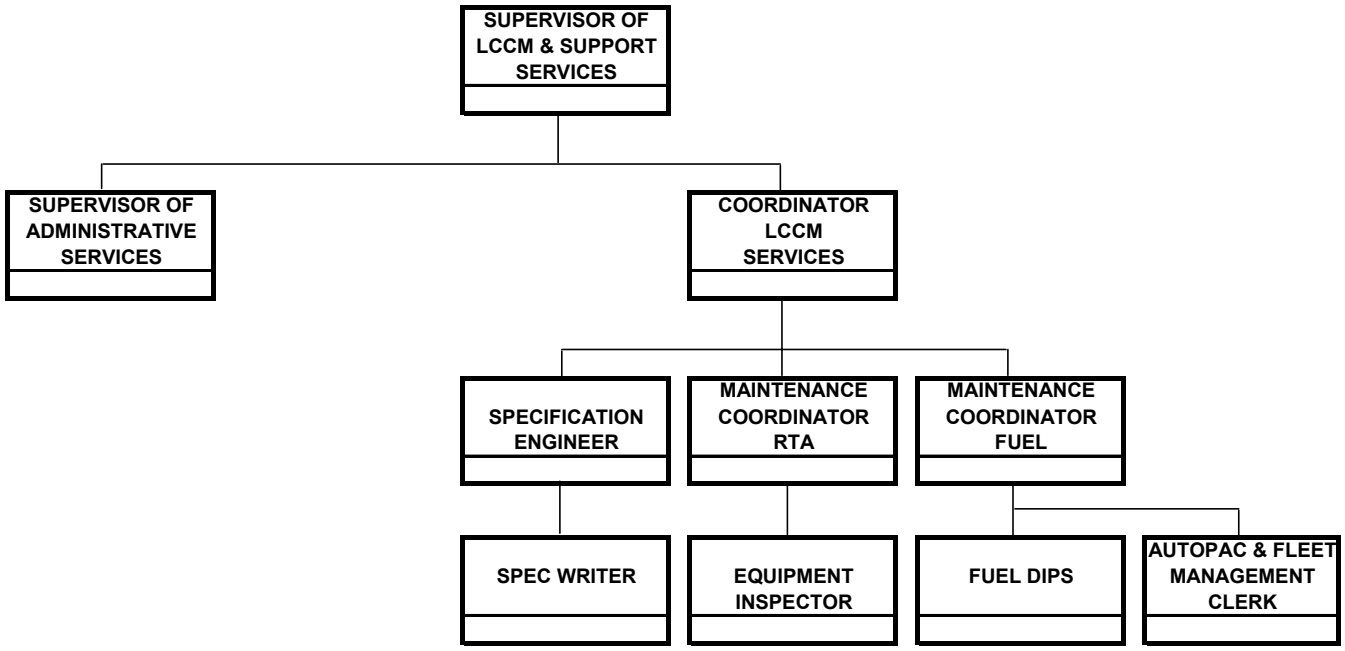
Fleet Management Agency
ORGANIZATION STRUCTURE
FINANCE



Fleet Management Agency

ORGANIZATION STRUCTURE

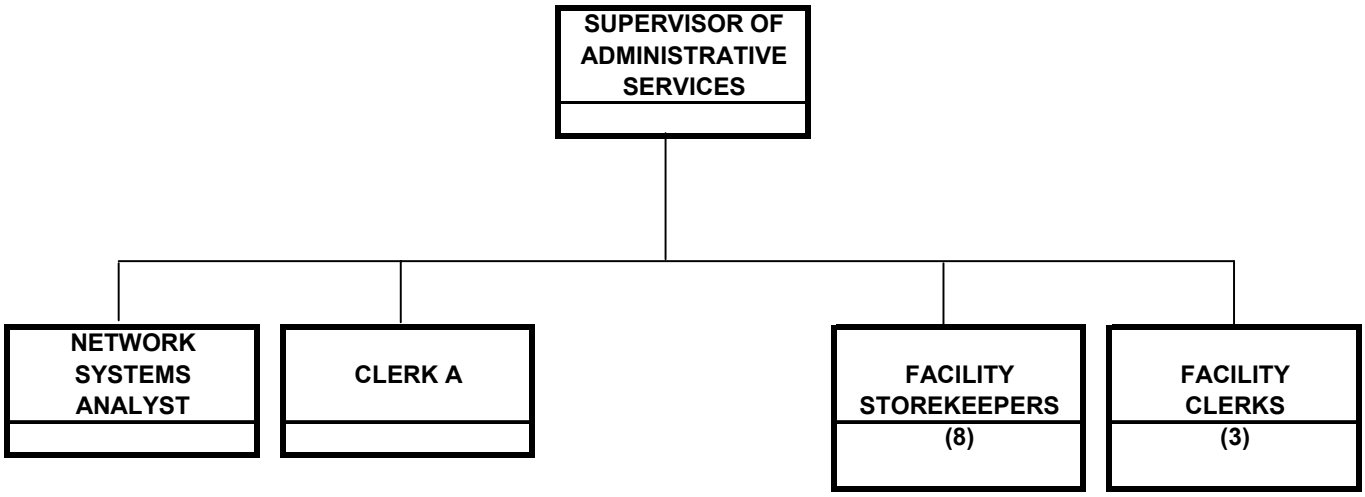
Life Cycle Cost Management (LCCM) & Support Services



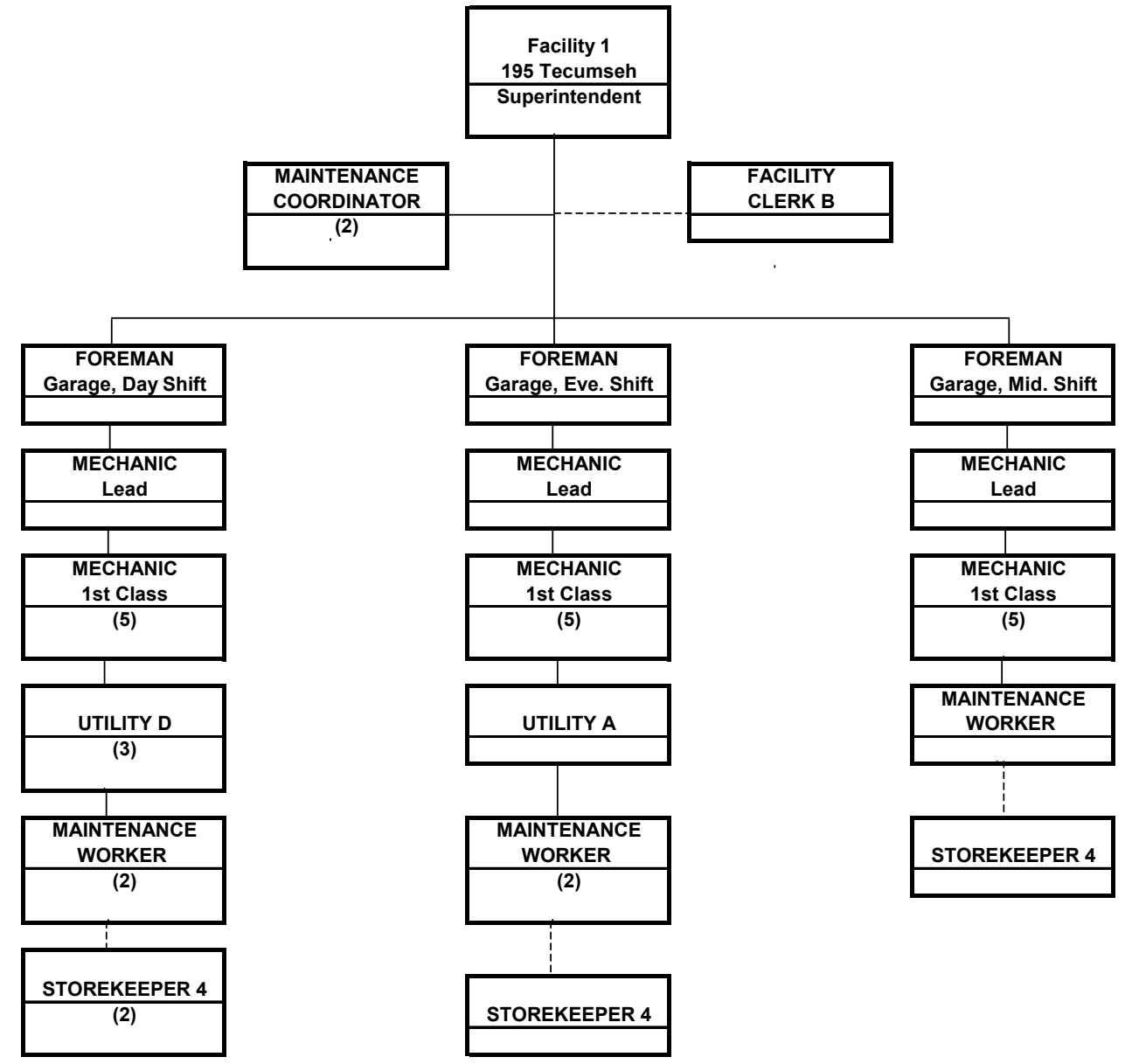
Fleet Management Agency

ORGANIZATION STRUCTURE

ADMINISTRATIVE SERVICES (LCCM)



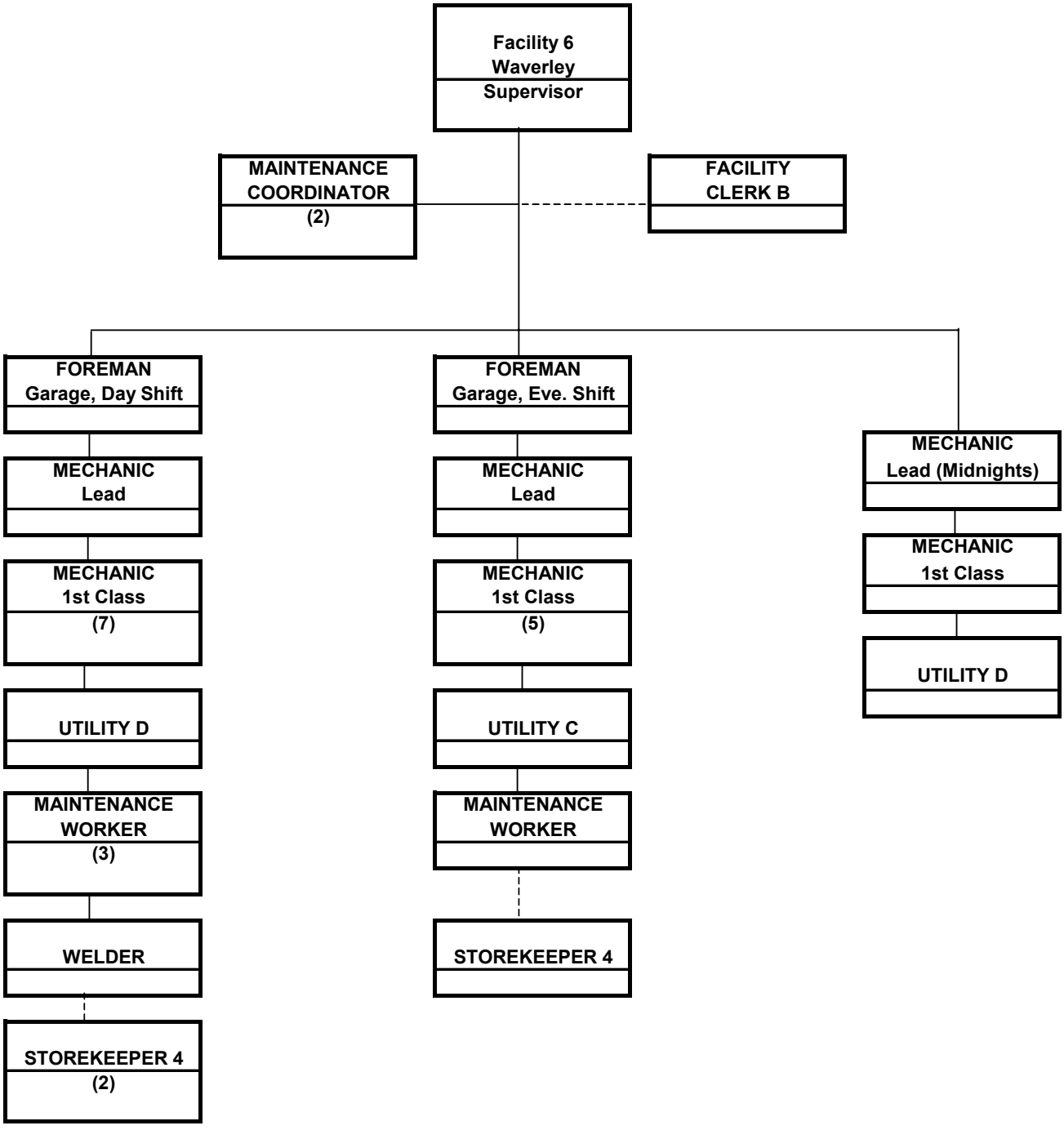
Fleet Management Agency
ORGANIZATION STRUCTURE
Facility 1 - 215 Tecumseh



Fleet Management Agency

ORGANIZATION STRUCTURE

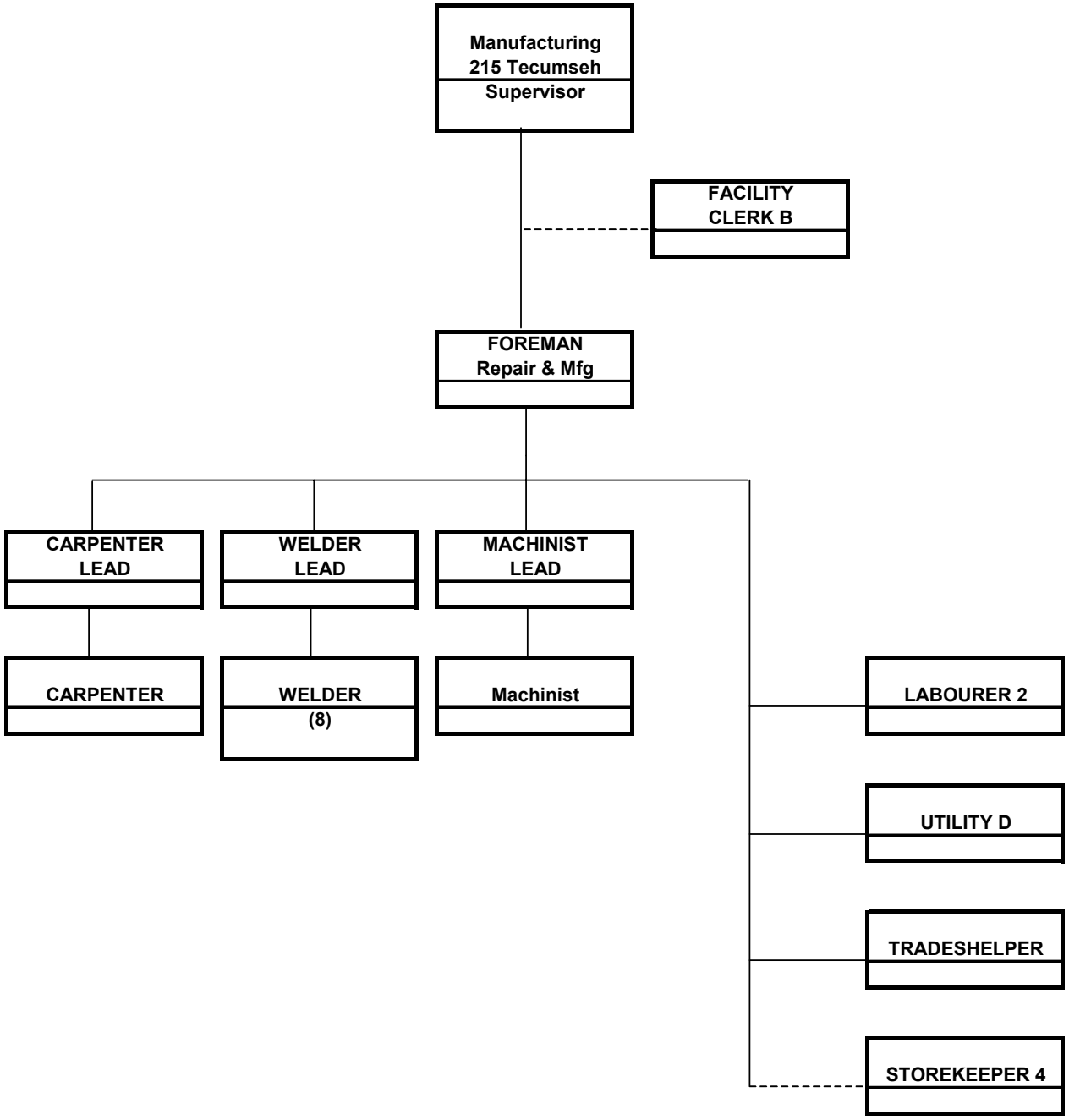
Facility 6 -1539 Waverley



Fleet Management Agency

ORGANIZATION STRUCTURE

Facility 7 - Central Repair & Manufacturing



Appendix D

Fleet Management Agency

Audited Financial Statements for FY 2004

Financial Statements

The City of Winnipeg
Fleet Management –
Special Operating Agency

December 31, 2004

AUDITORS' REPORT

To the Mayor and Members of City Council
The City of Winnipeg

We have audited the statement of financial position of **The City of Winnipeg Fleet Management – Special Operating Agency** as at December 31, 2004 and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of **The City of Winnipeg Fleet Management – Special Operating Agency** as at December 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Winnipeg, Canada,
April 15, 2004

Chartered Accountants

THE CITY OF WINNIPEG
FLEET MANAGEMENT - SPECIAL OPERATING AGENCY

STATEMENT OF FINANCIAL POSITION

As at December 31
(in thousands of dollars)

	2004	2003
ASSETS		
Current		
Due from City of Winnipeg - General Revenue Fund (Note 3)	$ 7,868	$ 11,453
Accounts receivable	137	77
Income taxes recoverable (Note 4)	81	-
Current portion of loans receivable (Note 5)	84	85
Inventory	1,096	794
Prepaid expenses	215	179
	9,481	12,588
Loans receivable (Note 5)	158	241
Capital assets (Note 6)	26,948	22,209
	$ 36,587	$ 35,038
LIABILITIES		
Current		
Accounts payable and accrued liabilities	$ 868	$ 428
Vacation payable (Note 7a)	460	222
Income taxes payable (Note 4)	-	328
	1,328	978
Deferred revenue	7,261	11,626
Retirement allowance (Note 7b)	654	714
Environmental liability (Note 8)	420	420
Long-term debt (Note 9)	24,014	18,721
	32,349	31,481
	33,677	32,459
Commitments (Note 10)		
SURPLUS		
Contributed surplus	390	390
Retained earnings	2,520	2,189
	2,910	2,579
	$ 36,587	$ 35,038

See accompanying notes and schedule to the financial statements

THE CITY OF WINNIPEG
FLEET MANAGEMENT - SPECIAL OPERATING AGENCY

STATEMENT OF OPERATIONS AND RETAINED EARNINGS

For the years ended December 31
(in thousands of dollars)

	2004	2003
REVENUES		
Fleet leases	$ 10,609	$ 9,194
Services and parts revenue (Schedule 1)	5,802	5,368
Fuel sales	4,649	4,446
Amortization of deferred revenue	3,282	5,014
Rental income	2,304	1,803
Gain on sale of capital assets	595	1,575
Total Revenues	27,241	27,400
EXPENSES		
Services	7,221	6,058
Salaries and employee benefits	6,679	5,913
Supplies	6,306	5,713
Amortization	4,856	5,741
Grant - Autopac rebate to Public Works Department (Note 11f)	691	-
Interest	461	472
General government charges (Note 11b)	421	363
Other	356	623
Total Expenses	26,991	24,883
Net income from operations	250	2,517
Income tax recovery (equivalency charge) (Note 4)	81	(328)
Net income for the year	331	2,189
RETAINED EARNINGS, BEGINNING OF YEAR	2,189	-
RETAINED EARNINGS, END OF YEAR	$ 2,520	$ 2,189

See accompanying notes and schedule to the financial statements

THE CITY OF WINNIPEG
FLEET MANAGEMENT - SPECIAL OPERATING AGENCY

STATEMENT OF CASH FLOWS

For the years ended December 31
(in thousands of dollars)

NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:

	2004	2003
OPERATING		
Net income for the year	$ 331	$ 2,189
Non-cash items related to operations		
Amortization	4,856	5,741
Amortization of deferred revenue	(3,282)	(5,014)
Gain on sale of capital assets	(595)	(1,575)
Retirement allowance	(60)	-
Working capital from operations	1,250	1,341
Net change in working capital	(129)	501
	1,121	1,842
FINANCING		
Decrease in Due from City of Winnipeg - General Revenue Fund	3,585	6
Increase in long-term debt	5,293	6,169
	8,878	6,175
INVESTING		
Purchase of capital assets	(10,888)	(9,393)
Decrease (increase) in loans receivable	84	(199)
Proceeds from sale of capital assets	805	1,575
	(9,999)	(8,017)
CASH POSITION, END OF YEAR	$ -	$ -

See accompanying notes and schedule to the financial statements

THE CITY OF WINNIPEG
FLEET MANAGEMENT - SPECIAL OPERATING AGENCY

NOTES TO THE FINANCIAL STATEMENTS

As at December 31, 2004
(in thousands of dollars)

1. *Commencement of Operations*

On May 28, 2003, Council adopted the Fleet Management Agency Selection Report, that recommended the Equipment and Material Services operation of the Public Works Department commence operations as a Special Operating Agency (SOA) effective January 1, 2003.

The Agency offers a complete range of fleet management services to The City of Winnipeg, its main customer, and provides light, super and heavy duty vehicles and construction and specialty equipment, using life cycle cost management principles.

2. *Summary of Significant Accounting Policies*

The preparation of periodic financial statements necessarily involves the use of estimates and approximations because the precise determination of financial data frequently depends on future events. These financial statements have been prepared by management within reasonable limits of materiality and within the framework of accounting policies summarized below.

The financial statements have been prepared on the basis of Canadian generally accepted accounting principles and include the following significant accounting policies:

Inventory

Inventory is recorded at the lower of cost and net realizable value.

Capital assets

Capital assets, other than land and buildings, transferred from The City of Winnipeg on January 1, 2003, are recorded at their estimated net realizable value on that date. Subsequent acquisitions are recorded at cost. Land and buildings are stated at assessed values as of January 1, 2003 which were determined by The City of Winnipeg Property Assessment Department.

Capital assets are amortized on the basis of their cost less approximate residual value over the estimated useful life using the following rates and methods:

Buildings	4%	Straight-line
Fleet assets		
Acquired at start-up	30%	Declining balance
Purchased	Lease term	Straight-line
Equipment	10% to 30%	Straight-line

Revenue recognition

The Agency enters into operating lease agreements to supply and maintain vehicles and equipment to lessees for specified lease periods. The Agency recognizes the monthly lease payments from the lessees as income each month. Services and parts revenue, including insurance and fuel sales, are recognized upon the completion of the work or transfer of the goods or service. Revenue from short-term rentals of vehicles or equipment is recognized as income evenly over the rental period.

2. *Summary of Significant Accounting Policies (continued)*

Deferred revenue

Deferred revenue represents the value of fleet assets acquired from the City of Winnipeg at start-up. This amount is recognized as income at the same rate that the related assets are being amortized.

Financial instruments

Financial instruments include due from City of Winnipeg - General Revenue Fund, accounts receivable, income taxes recoverable/payable, loans receivable, accounts payable and accrued liabilities, and long-term debt. Unless otherwise stated, it is management's opinion that the Agency is not exposed to significant interest, currency or credit risks arising from these financial instruments.

3. *Due from City of Winnipeg - General Revenue Fund*

The City of Winnipeg operates a centralized treasury function with a single operating bank account in the General Revenue Fund. Consequently, the Agency does not have a bank account. Cash transactions are credited or charged to the "Due (to)/from" account. Interest is credited or charged based on the City's average short-term earnings (cost of funds) on the single bank account. The Agency has negotiated an operating line of credit up to $300 thousand from The City of Winnipeg at the City's borrowing rate.

4. *Income Tax Equivalency*

As part of the municipal government, the Agency is not subject to corporate income taxes. However, in order to approximate a business model, the operation of the Agency is assessed with an income tax equivalency charge which is payable to (recoverable from) The City of Winnipeg based on the following rates:

Small business rate on the first $250 thousand of net income	18.12%
Regular corporate rate on the balance	37.62%

The gain on sale of fleet assets acquired at inception is excluded from net income for the purpose of the tax calculation.

5. *Loans Receivable*

Glacial Sand and Gravel - Special Operating Agency	**2004**	2003
Equipment financing program loan, interest at 6.5%, payment of $2.1 thousand monthly, due September 2005	**$ 18**	$ 42
Equipment financing program loan, interest at 6.5%, payment of $6.5 thousand monthly, due February 2008	**224**	284
	242	326
Current portion	**(84)**	(85)
	$ 158	$ 241

6. *Capital Assets*

	Cost	Accumulated Amortization	Net Book Value 2004	2003
Land	$ 390	$ -	$ 390	$ 390
Building	1,914	128	1,786	1,661
Fleet assets				
Acquired at start-up	14,818	7,557	7,261	11,626
Purchased	18,621	1,740	16,881	7,979
Equipment	1,051	421	630	553
	$ 36,794	$ 9,846	$ 26,948	$ 22,209

7. *Employee Benefits*

a) Vacation

The Agency's employees accrue vacation credits, which together with unused holidays from previous years become a charge to operations in the year they are earned.

b) Retirement allowance

Under various union agreements, unused sick leave credits accumulate and employees with specified minimum service requirements become entitled to a cash payment upon retirement, death or termination of service under certain conditions (excluding resignation). An actuarial valuation has estimated the retirement allowance liability at $654 thousand at December 31, 2004 (2003 - $714 thousand).

c) Pension

The Agency's employees are eligible for pensions under the Winnipeg Civic Employees' Benefits Program. The Plan is a defined benefit plan. The City of Winnipeg allocates its pension costs to various departments. During the year, $369 thousand (2003 - $333 thousand) of pension costs were allocated to the Agency. An actuarial valuation for the Winnipeg Civic Employees' Benefits Program was made as of December 31, 2003 and has an actuarial surplus.

8. *Environmental Liability*

The Agency has included an estimate of the cost to remediate fuel sites. A third party has estimated the cost at $420 thousand (2003 - $420 thousand).

9. *Long-Term Debt*

	2004	2003
City of Winnipeg Equipment and Material Services - non-interest bearing, no repayment schedule	$ 1,230	$ 1,586
City of Winnipeg (see below)	22,784	17,135
	$ 24,014	$ 18,721

On May 28, 2003, Council approved the transfer of the Equipment Replacement Reserve Fund balance at January 1, 2003 to the Agency, to be used as a source of financing for fleet replacement, thereby resulting in the termination of the Fund at January 1, 2003. The balance increases during the year by customer capital contributions and interest, and decreases by the amount of capital leases charged to customers, to the limit of the annual contribution amount. Interest paid on the balance was $461 thousand for the year (2003 - $412 thousand). The balance at December 31, 2004 is $22,784 thousand (2003 - $17,135 thousand).

10. Commitments

The Agency has entered into lease agreements mainly for the lease of fleet equipment. Future minimum lease payments are as follows:

	Operating Leases
2005	$ 540
2006	388
2007	363
2008	335
2009	260
	$ 1,886

11. Related Party Transactions

The Agency is economically dependent on The City of Winnipeg, as it derives most of its revenue and all of its financing requirements from the City.

In addition to those disclosed elsewhere in the financial statements, included in the Agency's revenues/expenses are the following transactions which occurred in the normal course of operations and are recorded at the exchange amount.

a) Revenues include sales of goods and services of $22,264 thousand (2003 - $19,880 thousand) to The City of Winnipeg.

b) General government charges in the amount of $421 thousand (2003 - $363 thousand) to the General Revenue Fund, which represents a transfer to The City of Winnipeg as determined by Corporate Finance Department.

c) An amount of $156 thousand (2003 - $271 thousand) has been transferred to the Civic Accommodations Fund for the rental of office space.

d) An amount of $124 thousand (2003 - $162 thousand) has been transferred to the General Revenue Fund for payment in lieu of business taxes, payment in lieu of municipal tax and human resource services.

e) An amount of $328 thousand (2003 - $0) has been transferred to the General Revenue Fund for 2003 income tax equivalency.

f) A grant in the amount of $691 thousand has been made to the Public Works Department representing the 2003 and 2004 Autopac rebate.