Agenda – Executive Policy Committee – July 19, 2006

Report - Alternate Service Delivery Committee - July 17, 2006

Item No. 1 Glacial Sand and Gravel Special Operating Agency - 2006 Business Plan
File GL-5.6.1

COMMITTEE RECOMMENDATION:

1. That the Glacial Sand and Gravel Special Operating Agency 2006 Business Plan be approved and the Three Year Financial History and Projections to December 31, 2006, as outlined in Appendix A to the report from the Director of Public Works dated May 3, 2006, be approved as the 2006 budget for Glacial Sand and Gravel.

2. That the Glacial Sand and Gravel Special Operating Agency 2005 unaudited draft financial statements, as outlined in Appendix B to the report from the Director of Public Works dated May 3, 2006, be received as information.

3. That an operating line of credit, not to exceed $2, 500,000.00, be established for Glacial Sand and Gravel Special Operating Agency at the City's borrowing rate and accessed through the inter-company balance with the General Revenue Fund.

4. That the long term debt associated with the Pine Ridge Pit become non-interest bearing and the return to the City instead be provided as part of the lump sum transfer in the amount of $200,000.00 approved in the City of Winnipeg's 2006 tax-supported operating budget.

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

Agenda – Executive Policy Committee – July 19, 2006

Report - Alternate Service Delivery Committee - July 17, 2006

DECISION MAKING HISTORY:

COMMITTEE RECOMMENDATION:

On July 17, 2006, the Alternate Service Delivery Committee concurred in the administrative recommendation and submitted the matter to the Executive Policy Committee and Council.

Further, on July 17, 2006, the Alternate Service Delivery Committee received from Mr. B. Larkin, Director of Public Works, and Mr. P. Paul, Chief Operating Officer, Glacial Sand and Gravel Special Operating Agency, a presentation titled "Glacial Sand and Gravel Special Operating Agency 2006 Selection Report".

RE: 2006 Business Plan: Glacial Sand and Gravel Special Operating Agency

FOR SUBMISSION TO: Alternate Service Delivery Committee

ORIGINAL REPORT SIGNED BY: Bill Larkin, P. Eng. Director of Public Works

REPORT DATE: May 3, 2006

RECOMMENDATIONS:

1. That the 2006 Business Plan for the Glacial Sand and Gravel Special Operating Agency (GSG) be approved and that the "3 Year Financial History and Projections to December 31, 2006", attached as Appendix A, be approved as the 2006 budget for GSG.
2. That the 2005 unaudited draft financial statements for the Glacial Sand and Gravel Special Operating Agency be received as information in Appendix B.
3. That an operating line of credit be established for Glacial at the City's borrowing rate and accessed through the inter-company balance with the General Revenue Fund and that this line of credit not exceed $2,500,000.
4. That the long term debt associated with the Pine Ridge Pit become non-interest bearing and that the return to the City be instead provided as part of the lump sum transfer ($200,000 in 2006) approved in the City's 2006 tax-supported operating budget.

Report Summary

Key Issues:

- Glacial and the Department of Public Works completed a review of strategic options for the Agency in 2005;
- The strategic review culminated in recommendations to and concurrence by Alternate Service Delivery Committee on December 12, 2005 including:

  "That subsequent to, and subject to, due consideration by Executive Policy Committee of the Joint Council/CUPE Committee report, the Administration be directed to complete an asset evaluation and issue a request for Expressions of Interest (EOI) for disposition or other commercial arrangements with respect to all or part of the City's interest in Glacial Sand and Gravel Special Operating Agency's active equipment and land/reserve assets."

- In anticipation of a new strategic direction being implemented before year end, Glacial operated essentially under status quo conditions for 2005 with the goal of providing the highest levels of customer satisfaction possible while minimizing operating losses;

- Glacial will pursue similar goals for 2006 while completing the Expression Of Interest (EOI) solicitation process ultimately leading to a new direction for the Agency;
- Glacial will operate on a much reduced scale in 2006 compared to 2005 employing fewer staff and operating significantly less equipment. It will also continue to honor its royalty contracts with customers in the Transcona and Pine Ridge pits;
- In late March Glacial negotiated tentative terms for a one year extension to the existing Transcona agreement. Finalization of the extension is anticipated in the coming days.

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
( ) Involves a multi-year contract
Comment(s):

Policy Implications

(X) No
( ) Yes
Comment(s):

Regulatory Implications

(X) None
( ) Eliminates or reduces regulatory impact
( ) Proposes regulatory impact
Comment(s):

Environmental Implications

(X) No
( ) Yes
Comment(s):

Human Resources Implications

(X) No
( ) Yes
Comment(s):

Financial Implications

(X) Within approved current and/or capital budget
( ) Current and/or capital budget adjustment required
Comment(s):

Report

REASON FOR THE REPORT:

The Glacial Sand and Gravel Operating Charter stipulates that an annual business plan be submitted to Council each year.

HISTORY:

Glacial Sand and Gravel (GSG) was designated a Special Operating Agency (SOA) by Council effective January 1, 2001. Operating as a SOA, and adhering to business-like principles, was intended to produce the following benefits:

1. Improve financial returns to the City over other alternative service delivery (ASD) options;
2. Maintain control of the City of Winnipeg's sand and gravel resource assets; and
3. Keep other ASD options open in the future.

The reduction in construction projects performed by City staff prior to GSG's consideration for Alternative Service Delivery resulted in declining aggregate material sales from Pine Ridge. The creation of GSG as a SOA provided an opportunity for the Agency to market value added processed products and raw pit materials. The assumption was that operating as a high value-added producer of crushed gravel and aggregate materials would maximize the economic returns from the assets.

DISCUSSION:

Critical Success Factors
The following critical success factors (in order of decreasing importance) faced Glacial going into 2005. An indication of how the Agency performed in light of these factors is provided:

1. Replacing the substantial annual sales volumes realized under the former exclusive 3-year sales arrangements with the City of Winnipeg;
    - Glacial was able to increase year over year sales of products (excluding the formerly exclusive Treated Sand) by 97,400t for $368,500

representing increases of 27% in terms of tonnage and 25% in terms of dollars;

2. Minimizing cost of sales through prudent management of staff and equipment;
    - Cost of Sales (COS) decreased year over year by $353,000 an approximate 15% improvement;
3. The ability to obtain cost effective and sensitive operating and administrative support services such as accounting, IT, HR, engineering, etc. through arrangements with both internal City of Winnipeg providers and external providers;
    - The operating and administrative support provided by third parties was cost effective and generally sensitive. Further development of Glacial's production costing system was delayed due to competing priorities in 2005 so the decision was made to defer it until the Agency's future is decided.
4. Overcoming the instability created by the loss of key staff, management and administrative support over the past four years;
    - Stability in all these positions has been maintained since early 2005 (most since late 2004) leading to improved managerial, operational and administrative continuity.

Selected Operating and Administrative Accomplishments in 2004/05

The following is a list of accomplishments achieved by Glacial in 2005. Some of these were initiatives carried over from late 2004 that were not expected to be fully effective until 2005.

1. Increased Production - Glacial's own production increased substantially in terms of year over year tonnage processed. Its production of screened and washed products increased from approximately 164,000 tonnes to approximately 217,000 tonnes an improvement of nearly a full third or 32%. Factors contributing to Glacial's substantial production improvements include:
    - significant investment made in equipment repairs and preventative maintenance reducing down time and increasing production efficiency;
    - a focus on fewer product offerings to reduce set up time and production inefficiencies;
    - cross training staff to maximize employee flexibility and deployment;
    - leasing loaders and other material handling equipment operated by Glacial staff versus hiring external hourly equipment and operators;
    - collaborative staff/management approaches to production planning and problem solving;
      and
    - initiatives to create better focused and more motivated staff such as cross training, job rotation, formal work planning and feedback, etc..

2. Increased Efficiency - As a result of reducing operating expenses year over year, Glacial's production efficiency also increased substantially. The factors listed above contributed to this increased efficiency as well as productivity. Another contributing factor was the introduction of weekly production management meetings and operations monitoring by Glacial.

3. Customer Satisfaction - Glacial instituted a written customer satisfaction survey in fall 2005. The survey was sent to 67 of Glacial's customers both internal and external to the City of Winnipeg (excluding its two customers under formal purchase agreements). This represents approximately 60% of Glacial's entire 2005 customer base but approximately 75% of Glacial's customer base purchasing on more than one occasion or in significant volumes. Glacial received 19 responses in total for a 28% response rate.

   The overall results of the survey indicated Glacial was superior to competitors (on a scale of 1 to 5 with 1 being worse and 5 being better than other suppliers) in 6 of the 7 categories used. The only exception was Operating Hours. Many private sector customers expect suppliers be open long hours during the week and also to be open on weekends (at least Saturdays) during construction season. These customers' expectations were simply greater than Glacial could meet for economic and other reasons. However, the rating of 2.8 from external customers indicates that Glacial's hours of operation were still reasonable when compared with competitors.

Survey Item	**External Customers** (13 Responses**)**	**Internal Customers** (6)	**Average Rating (19)**
1. Product Quality Overall	3.8	4.0	**3.9**
2. Customer Service Overall	3.3	4.3	**3.7**
3. Operating hours	2.8	3.3	**2.9**
4. Staff courtesy	3.5	4.5	**3.8**
5. Staff helpfulness	3.6	4.5	**3.9**
6. Operational safety	3.8	4.3	**3.9**
7. Value proposition overall	3.7	3.8	**3.8**
Average Rating	**3.5**	**4.1**	**3.7**

Rating in relation to other suppliers: Worse 1 2 Same 3 4 Better 5

4. Continued Good Safety Record - Glacial has had a very good safety record in maintaining a safe workplace and recording negligible lost time due to accidents in the past two years. Glacial operates in an extremely hazardous environment containing substantial dust, noise, heavy equipment, truck traffic, potentially dangerous processing equipment and other factors. Even with several new seasonal and student hires over the past two years Glacial experienced only three lost days due to one specific fall in a staffroom. These results are a testament to Glacial's diligent staff and a culture of safety supported at all levels.

5. Structured Business Processes - Several business processes were improved with the introduction of structure, tools and/or simple clarity. Examples of these include:
    - financial controls, monitoring and reporting processes;
    - formal product pricing/quotation process for customers;
    - employee work planning and feedback process; and
    - production planning and monitoring processes.

Selected Strategic Accomplishments in 2004/05

Glacial undertook and completed a comprehensive review of alternative long term strategies for the SOA. The review culminated in recommendations to ASD Committee in December and the committee's concurrence with the following key recommendation:

> *"That subsequent to, and subject to, due consideration by Executive Policy Committee of the Joint Council/CUPE Committee report, the Administration be directed to complete an asset evaluation and issue a request for Expressions of Interest (EOI) for disposition or other commercial arrangements with respect to all or part of the City's interest in Glacial Sand and Gravel Special Operating Agency's active equipment and land/reserve assets."*

It is worthy to note that Glacial was able to achieve its operating and financial goals for the year despite widespread uncertainty about its future, a second consecutive year of record precipitation in the region, and extremely high fuel prices. Glacial staff commitment and resolve remained strong in the face of these negative factors. This contributed to the Agency meeting its 2005 financial objectives and surpassing 2004 production performance by a substantial margin.

2005 Financial Highlights
The following reflect Glacial's unaudited financial results for fiscal 2005:

	2005 Budget ($000s)	2005 Actual ($000s)	Variance ($000s)	Comments:
Revenues	2,292	2,326	34	
Cost of Sales	1,943	1,998	(55)	
Gross Margin	349	327	(21)	
Selling, General & Administrative Expenses	383	415	(32)	
Other Expenses	455	431	24	
Earnings Before Taxes	(489)	(519)	(30)	Glacial incurred approximately $35,000 of non-recurring expenses directly related to preparing for a possible Agency disposition.
Provision for taxes	-	(86)	(86)	Glacial incurred a one time $86,000 write-down of its cumulative income tax assets due to the uncertainty of its future profitability.
Government Grants	13	13	-	
Net Income(Loss)	(476)	(592)	(116)	

- Revenue of $2,326,000 outperformed budget by $34,000 or 1.5%.
- Revenue from product sales of $1,829,500 was higher than budget by $4,500 or 0.2% (see product sales table below). Product sales accounted for nearly 80% of revenues.

Glacial Product Sales - 2005 vs. Forecast

DOLLARS	2005			
	Forecast	Actual	Actual vs. Forecast	
Sand, gravel, aggregate & misc. products	$1,651,000	$1,515,800	($135,200)	(8.2%)
Limestone products	$183,000	$313,700	$130,700	71.4%
Total Material Sales	$1,834,000	$1,829,500	($4,500)	(0.2%)

TONNES	2005			
	Forecast	Actual	Actual vs. Forecast	
Sand, gravel, aggregate & misc. products	460,000	412,900	(47,100)	(10.2%)
Limestone products	30,000	47,100	17,100	57.0%
Total Material Sales	490,000	460,000	(30,000)	(6.1%)

DOLLARS/TONNE	2005			
	Forecast	Actual	Actual vs. Forecast	
Sand, gravel, aggregate & misc. products	$ 3.59	$ 3.67	$ 0.08	2%
Limestone products	$ 6.10	$ 6.66	$ 0.56	9%
Total Material Sales	$ 3.74	$ 3.98	$ 0.23	6%

- Glacial also generated $492,700 from hauling services which was largely offset by charges from Glacial's hauling contractor. Other Revenue items include interest income and miscellaneous incidental revenue items.
- Cost of Sales of $1,998,000 was higher than budget by $55,000 in terms of dollars and 1.1% as a percentage of revenues.
- Operating expenses were $2,845,000 ($64,000 or 2.3% higher than budget).
- Glacial's Earnings Before Taxes and Government Grants (EBT), which is an indication of the Agency's ability to generate operating income was ($519,000). This is approximately $30,000 less than the budget of ($489,000). However, Glacial incurred non-recurring operating expenses of approximately $35,000 related to the assessment of Glacial's aggregate reserves. The assessment was required to prepare for the possible disposition of the agency. Without these non-recurring expense items, Glacial's EBT was ($484,000) or $5,000 better than budget.
- Glacial's Net Income was impacted by the one time write-down of its $86,000 in accumulated income tax equivalent assets due to the uncertainty of the Agency's future profitability. This write-down was not anticipated at the time the 2005 Selection Report was prepared.

Historical financial statements are attached for comparison (see Appendix A).

Performance Measurement

2005 was the fifth year of operation for Glacial Sand and Gravel as an SOA. The Agency continued to establish performance measurements where it made sense in light its uncertain future. The table below outlines the status of performance measures for four measurable performance goals.

GOAL	PERFORMANCE MEASUREMENT	MEASURE OF SUCCESSS/TARGET	STATUS (as of Dec. 31, 2005)
Financial	• Budgeted net income as per Business Plan projections	• To meet and/or exceed	• Completed
Operational	• Expand volume of materials produced at Pine Ridge location	• To meet and/or exceed	• Completed
	• Increase overall Agency volumes	• To meet and/or exceed	• Completed
	• Implement management information systems	• Certain systems installed with others under way	• Production and Inventory costing system development deferred indefinitely
	• Meet and/or exceed productivity rates	• Initial benchmarking required	• Benchmarks to be developed
Customer Satisfaction	• Obtain customer satisfaction feedback	• Feedback and action taken	• Implemented and ongoing
Training and Development	• Implement a comprehensive training strategy	• Strategy implemented	• Ongoing
	• Provide cross-training opportunities	• Strategy implemented	• Cross training provided on an ongoing basis
	• Obtain staff feedback	• Feedback and action taken	• Implemented and ongoing

Conclusion

At the time of this report, Glacial's strategic future remains uncertain. However, it is anticipated that Glacial will no longer operate as a significant processor of materials under any of the strategic options being considered. For this reason, Glacial will continue to operate on a status quo basis for 2006 which is to maximize customer satisfaction while minimizing costs. Similar to the 2005 Business Plan, this report presents a one-year budget and historical financial information for comparative purposes. The 2006 budget reflects Glacial doing only a modest amount of material processing with significantly reduced staff and equipment compared to 2005. It should be noted that the one year budget in this report is highly speculative given the uncertain outcome and timing of the EOI process recently initiated.

Advisory Board

The role of the Advisory Board is to provide advice on the Agency's strategic operations and on changes to its mandate, structure, business practices, and finances.

The Advisory Board is comprised of seven members; four City of Winnipeg employees, one CUPE Local 500 executive representative and two business representatives. Professor Ed Bruning resigned from his position of Business Representative on the Board during 2005 due to conflicting commitments.

The status and make-up of the Advisory Board will depend on the outcome of the current strategic review process.

Current Advisory Board Members:

Bill Larkin P. Eng.	Director of Public Works
W. Joe Funk, MBA, P. Eng	Chief Operating Officer
Bruce McPhail P. Eng	CAO Representative
Jeff Laurent	Employee Representative
Jim Husiak, C.A.	CUPE Local 500 Representative
Bob Morris (Consultant)	Business Representative

Appendix A: 3 Year Financial History and Projections

Glacial Sand and Gravel – Special Operating Agency

3 Year Financial History and Projections to

December 31, 2006

GLACIAL SAND & GRAVEL SOA

Balance Sheet
At December 31,

	2003	2004	2005	2006 (forecast)
Assets				
Current				
Cash	$	$	$	$
Accounts receivable	291,746	454,984	565,266	282,633
Inventory	551,493	548,630	525,576	262,788
Income taxes recoverable	85,973	86,001	-	-
Total Current Assets	929,213	1,089,615	1,090,842	545,421
Capital assets	4,527,392	4,515,844	4,378,270	4,253,270
	$ 5,456,605	$ 5,605,459	$ 5,469,112	$ 4,798,691
Liabilities				
Current				
Due to City of Winnipeg- General Revenue Fund	$ 641,761	$ 1,117,884	$ 2,019,051	$ 2,231,274
Accounts payable and accrued liabilities	543,287	747,782	312,118	156,059
Rehabilitation payable	-	-	-	-
Deferred Revenue		253,998	441,799	236,000
Vacation	41,843	67,313	67,313	67,313
Current portion of long term debt	151,405	197,164	78,286	82,963
Total Current Liabilities	1,378,295	2,384,141	2,918,568	2,773,609
Long Term				
Retirement allowance	84,000	84,000	84,000	84,000
Debt - City of Winnipeg	4,129,115	3,977,450	3,899,164	3,816,201
	4,213,115	4,061,450	3,983,164	3,900,201
RETAINED EARNINGS / (DEFICIT)	(134,808)	(840,134)	(1,432,620)	(1,875,120)
	$ 5,456,602	$ 5,605,457	$ 5,469,112	$ 4,798,690

Note: Presentation differs from format of audited statements. Cash is netted against bank indebtedness in this presentation.

The 2006 projections above are highly speculative given the uncertain outcome and timing of the EOI process currently under way.

GLACIAL SAND & GRAVEL SOA

Statement of Operations and Retained Earnings / (Deficit)
For the year ended December 31,

	2003	2004	2005	2006 (forecast)
Revenue	$ 2,958,505	$ 2,339,074	$ 2,325,651	1,176,000
Cost of sales	2,134,100	2,350,999	1,998,486	893,000
Gross profit	824,405	(11,925)	327,165	283,000
Expenses				
Bank charges and interest expense (revenue)	-	14,149	41,163	58,000
Depreciation - property and equipment	91,132	124,505	128,349	125,000
Selling, general and administrative	581,217	295,839	414,767	341,000
Interest on long-term debt	280,182	271,775	262,259	8,000
Transfer to General Revenue Fund				200,000
	952,531	706,266	846,537	732,000
Earnings (loss) before income tax equivalents and government grant	**(128,127)**	**(718,192)**	**(519,372)**	**(449,000)**
Provision for income tax equivalents	53,597	-	(86,001)	-
Government grant	11,607	12,866	12,886	6,500
Net earnings (loss) for the year	**(62,923)**	**(705,326)**	**(592,486)**	**(442,500)**
RETAINED EARNINGS / (DEFICIT) BEGINNING OF YEAR	(71,885)	(134,808)	(840,134)	(1,432,620)
RETAINED EARNINGS / (DEFICIT) END OF YEAR	$ (134,808)	$ (840,134)	$ (1,432,620)	$ (1,875,120)

Note: Format differs from that of audited statements for presentation purposes.

The 2006 projections above are highly speculative given the uncertain outcome and timing of the EOI process currently under way.

Glacial's forecast financial statements reflect changes to expenses made in early 2006 in anticipation of a new business model for the agency by year end. These changes replace long term debt interest and other expenses with a lump sum transfer to be consistent with budget decisions made in the City's 2006 tax-supported operating budget. More comprehensive budget changes will be possible and are anticipated for Glacial once a new business model has been established for the agency.

GLACIAL SAND & GRAVEL SOA

STATEMENT OF CASH FLOWS
For the year ended December 31,

	2003	2004	2005	2006
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income for the year	$ (62,923)	$ (705,326)	$ (592,486)	$ (442,500)
Depreciation, depletion and amortization which do not require a cash outlay	173,079	183,808	201,068	125,000
Changes in non-working capital items:				
Decrease (increase) in accounts receivable	(45,897)	(163,238)	(110,282)	282,633
Decrease (Increase) in inventory	(156,504)	2,863	23,054	262,788
Increase (decrease) in income taxes recoverable	(24,875)	(28)	86,001	-
Decrease in prepaid expenses	-	-	-	-
Increase in accounts payable and accrued liabilities	(3,634)	204,495	(435,664)	(156,059)
Increase (decrease) in income taxes payable	-	-	-	-
Increase (decrease) in rehabilitation payable	(81,368)	-	-	-
Increase (decrease) in deferred revenue		253,998	187,801	(205,799)
Increase (decrease) in accrued vacation	2,202	25,470	-	-
	(199,920)	(197,958)	(640,509)	(133,937)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of fixed assets (net)	(421,386)	(172,260)	(63,494)	-
CASH FLOWS FROM FINANCING ACTIVITIES				
Increase in retirement allowance	(16,000)	-	-	-
Increase (decrease) in debt- City of Winnipeg	199,114	(105,905)	(197,164)	(78,286)
	183,114	(105,905)	(197,164)	(78,286)
NET INCREASE (DECREASE) IN CASH	(438,192)	(476,123)	(901,167)	(212,223)
Cash (bank indebtedness) at beginning of year	(203,569)	(641,761)	(1,117,884)	(2,019,051)
Bank indebteness at the end of year	$ (641,761)	$ (1,117,884)	$ (2,019,051)	$ (2,231,274)
				-

Note: Presentation differs from format of audited statements. Cash is netted against bank indebtedness in this presentation.

The 2006 projections above are highly speculative given the uncertain outcome and timing of the EOI process currently under way.

Notes to the Financial Projections

For Year ending December 31, 2006

1. Description of Business

On March 20, 1997, Council adopted a document entitled "Reshaping our Civic Government". The document identified the development of Special Operating Agencies (SOAs) 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." Consistent with the foregoing process, Equipment and Material Services of the Public Works Department prepared a report that outlined all options for alternate service delivery. This report identified the Special Operating Agency option as the most financially viable option. On February 23, 2000, Council directed Public Works to prepare a business plan based on the SOA recommendation. GSG commenced operations as an SOA on January 1, 2001.

Glacial will sell the following products to the City of Winnipeg and other customers in 2006:

1.) Sand, gravel and aggregate products mined and processed at the Pine Ridge and Transcona pits.

2. Accounting Principles

The projected financial statements have been prepared on the basis of Canadian generally accepted accounting principles. The projections include the following significant 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 transferred from the City of Winnipeg on January 1, 2001 were recorded at their estimated value. Subsequent acquisitions are recorded at cost. Capital assets are amortized over the estimated useful life using the following rates and methods:

Machinery	10 years	Straight Line
Buildings	4 – 5%	Declining Balance
Office Equipment	20%	Declining Balance
Computer Equipment	30%	Declining Balance

The depletion of the gravel pit is recorded at a rate of 20 cents per tonne of aggregate inventory extracted on an annual basis.

Revenue Recognition:

Revenue is recognized upon delivery of products.

Financial Instruments:

Financial instruments include cash, accounts receivable, income taxes recoverable, due to City of Winnipeg - General Revenue Fund, 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. The book value of the Agency's financial assets and liabilities approximates their fair value.

3. Fixed Assets, Plant & Equipment

The agency acquired certain of the equipment and structures owned by the former Primary Materials Branch. In addition, assets in the amount of $15,720 has been included at book value. The Agency annually evaluates the merits of acquiring additional strategic plant and equipment such as a modern crusher, wheel loaders, overland conveyors, etc. vs. renting. Previous capital expenditures are being financed via long-term debt through Fleet Management Agency, repayable over a 5 year period at an interest rate of 6.5% (the City of Winnipeg long term borrowing rate).

The City and the SOA determined, and mutually agreed, that the value of the Pine Ridge Pit at December 31, 2001 was $3,800,000, and this value was placed on the SOA balance sheet along with a similar amount in long-term debt. It has been assumed that City Council will make this long-term debt become non-interest bearing starting in 2006 with a return to the City being instead provided as part of a lump sum transfer ($200,000 in 2006) as approved in the City's 2006 tax-supported operating budget. Principal will be repaid at a mutually agreed upon date in the future, consistent with Council decision in this regard.

Glacial does not anticipate any capital assets acquisitions in 2006.

4. Financial Projections

This financial projection is an estimate of the financial position, results of operations, and change in cash flow for the operation of GSG Special Operating Agency, using management’s assumptions that reflect the Agency’s planned course of action for the year ending December 31, 2006.

These projections are based on the SOA operating as a self-contained business unit, including all costs required to support its operations. Cost categories considered and included are: human resources, operations and maintenance, facilities, capital expenditures and associated operating or term debt, overhead and one-time conversion costs. These costs represent a full costing model.

Management’s judgment has been used in the assumptions and the most probable set of economic conditions, together with the hypotheses stated in note 5 below. The hypotheses are consistent with the purpose of the information, but are not necessarily the most probable in management’s judgment. Since assumptions inevitably will not materialize and unanticipated

events and circumstances may occur subsequent to the date of this projection, the actual results achieved during the projected period will vary from the projections and the deviations may be material.

5. Hypotheses

The financial projection has been prepared based on the following hypotheses:

a) That the SOA will be allowed to purchase any support services from the City or external providers required to sustain ongoing operations.

b) 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/recovery of 46% which is payable to (recoverable from) The City of Winnipeg. Amounts paid are to be directed to infrastructure renewal in the City of Winnipeg. As there is no expectation of profitability in the near future it was determined that there is no basis for maintaining an income tax recoverable amount on the balance sheet at December 31, 2005. The prior year balance was recorded as a charge to the current year's operations.

c) The City of Winnipeg will continue to extend operating credit and long term lending sufficient for the SOA to operate with interest charged at the City's prevailing short and long term rates.

d) The Council approval of GSG's Selection Report.

e) Glacial will process only minor volumes of screened materials to meet customer demands in 2006;

f) Glacial will sell 50% of its current inventory at market prices in 2006;

g) Glacial's seasonal staff will be redeployed to Public Works at the time of spring recall;

h) Glacial's royalty agreement for the Transcona pit will expire at mid year;

i) Glacial's royalty agreement for the Pine Ridge pit is in effect for the entire year;

j) Glacial's customer base remains in tact to the extent its product line meets current customer needs;

k) Glacial will not supply limestone products beyond February 2006; and

l) Glacial operates for the entire fiscal year without significant financial or operating impacts from the impending change in its strategic model (e.g. no capital asset dispositions or acquisitions, no transaction related proceeds or losses, no departures of permanent staff, etc.);

6. Assumptions - Revenue

Approximate sale tonnages and dollars are based on recent experience and anticipated market conditions going forward. Hauling revenues are also based on recent experience.

Sales	**Tonnes**		**Dollars**	
	2005 (actual)	**2006 (projected)**	**2005 (actual)**	**2006 (projected)**
Sand, gravel and related	413,000	446,000	$ 1,516,000	$1,023,000

aggregate products				
Limestone products	47,000	4,000	$ 314,000	$ 30,000
Total Material Sales	**460,000**	**450,000**	**$ 1,830,000**	**$1,053,000**
Hauling services on above	-	-	$ 493,000	$ 123,000
Total Operating Revenues	-	-	**$ 2,323,000**	**$ 1,176,000**

It is anticipated that Glacial's sales mix will be more heavily weighted toward lower priced products and bank run in 2006 than in 2005.

7. Assumptions - Expenses

a) **Cost of Sales**

- **Salaries and benefit costs**

  The SOA expects to operate with the following staff levels in 2006:

  - WAPSO Exempt 1
  - WAPSO 1
  - CUPE 5

- **Equipment costs**

  Overall equipment costs for 2006, particularly expenditures related to repairing and maintaining Glacial's plant and equipment, are expected to decline significantly from 2004 and 2005 levels when substantial restorative and safety investments were made.

b) **Depreciation**

Depreciation is based on rates identified in Note 2.

c) **Depletion**

Pit depletion charged at $0.20/tonne for material from Pine Ridge and Transcona pits.

d) **Administrative Charges**

The SOA expects to purchase administrative services from both the Public Works Department and Corporate Services. Included in these costs are fees for financial, human resources, information technology, legal, purchasing and others expected to equal those in 2005.

e) **Interest**

It has been assumed that City Council will make Glacial's long-term debt become non-interest bearing starting in 2006 with a return to the City being instead provided as part of a lump sum transfer ($200,000 for 2006) as approved in the City's 2006 tax-supported operating budget. Operating loan interest will continue to be paid at the City's prevailing rate for operating credit.

n) **Other Governmental Charges**

Payments for the Provincial Rehabilitation Levy of 10¢/tonne and the Rural Municipality of Springfield's Aggregate Mining Levy and Road Maintenance Levy of 6.8¢/tonne combined will be expensed on an annual basis. The Provincial Rehabilitation Levy extinguishes the SOA from further site restoration obligations.

8. Assumptions – Assets and Liabilities

a) **Cash on hand**

Petty cash of $150 will be available for incidental expenditures.

b) **Accounts Receivable**

Accounts receivable have been estimated at half of the December 31, 2005 balance.

c) **Aggregate Inventory**

The agency has purchased the gravel pit asset at a value of $3,800,000. It is being financed as long-term debt from the City of Winnipeg at an annual rate of 6.5%.

d) **Property and equipment**

The agency will purchase in accordance with Note 3.

e) **Accounts payable and accrued liabilities**

Accounts payable have been estimated at half of the December 31, 2005 balance.

f) **Retirement allowance and vacation liability**

At the time of agency inception, a retirement liability was determined that would extinguish the amounts entitled to employees of the agency upon retirement. Vacation liability has been assumed the same for 2006 as in 2005.

g) **Due to City of Winnipeg**

The agency will require short-term financing in the form of an operating line of credit from the City of Winnipeg from the General Revenue Fund. Interest is assumed at the City's prevailing short term rate.

h) **Long-term debt**

Debt for property and equipment purchases is obtained from either Fleet Management Agency or the City of Winnipeg. Debt taken for the purchase of the gravel pit in the amount of $3,800,000 will become non-interest bearing starting in 2006 with a return to the City being instead provided as part of a lump sum transfer ($200,000 in 2006) as approved in the City's 2006 tax-supported operating budget. The $3,800,000 gravel pit debt has no fixed term of repayment (see Note 3).

Appendix B: Unaudited Draft Financial Statements

Glacial Sand and Gravel – Special Operating Agency

Unaudited Draft Financial Statements at

December 31, 2005

THE CITY OF WINNIPEG
GLACIAL SAND AND GRAVEL - SPECIAL OPERATING AGENCY

STATEMENT OF FINANCIAL POSITION

As at December 31
(in thousands of dollars)

	2005	2004
DRAFT - UNAUDITED		
ASSETS		
Current		
Cash	**$ 84**	$ 39
Accounts receivable	**565**	455
Income taxes recoverable	**-**	86
Inventory	**526**	549
	1,175	1,129
Capital assets	**4,378**	4,516
	$ 5,553	$ 5,645
LIABILITIES		
Current		
Due to City of Winnipeg - General Revenue Fund	**$ 2,095**	$ 1,157
Accounts payable and accrued liabilities	**320**	748
Deferred revenue	**442**	255
Vacation payable	**67**	67
Current portion of long-term debt	**78**	197
	3,002	2,424
Retirement allowance	**84**	84
Long-term debt	**3,899**	3,977
	6,985	6,485
CAPITAL DEFICIENCY		
Deficit	**(1,432)**	(840)
	$ 5,553	$ 5,645

THE CITY OF WINNIPEG
GLACIAL SAND AND GRAVEL - SPECIAL OPERATING AGENCY

STATEMENT OF OPERATIONS AND DEFICIT

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

	2005	2004
DRAFT - UNAUDITED		
REVENUES		
Sales of goods and services	**$ 2,326**	$ 2,352
EXPENSES		
Administrative services	**42**	42
Amortization and depletion	**201**	184
Interest on long-term debt	**303**	286
Material, parts and supplies	**487**	580
Salaries and benefits	**644**	670
Services	**1,155**	1,295
	2,832	3,057
Net loss before income taxes	**(506)**	(705)
Income tax recovery	**(86)**	-
Net loss for the year	**(592)**	(705)
(DEFICIT), BEGINNING OF YEAR	**(840)**	(135)
DEFICIT END OF YEAR	**$ (1,432)**	$ (840)

Financial Impact Statement Date: April 21, 2006

Project Name: 2006 Business Plan: Glacial Sand and Gravel Special Operating Agency

COMMENTS:

2006 Financial Projections are included as appendices to this report. The 2005 historical financial information included throughout this report is based on preliminary financial results and do not reflect 2005 final audited financial information.

"Original signed by Darcy Stewart, CA"

Manager of Finance & Administration

IN PREPARING THIS REPORT THERE WAS:

Internal Consultation With and Concurrence By:
CIT Department (Alternative Service Delivery Development Officer)

External Consultation With:
No external consultation was warranted.

THIS REPORT SUBMITTED BY:

Department:	Public Works Department	
Division:	Glacial Sand & Gravel SOA	
Prepared by:	W. Joe Funk, MBA, P. Eng.	Phone No: 986-5335
File No.:	Glacial 2006 Business Plan (May 3-06)	