THE CITY OF WINNIPEG
FLEET MANAGEMENT - SPECIAL OPERATING AGENCY

Projected Financial Statements
Three Years Ending December 31, 2008

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 2006 financial projections represent the Agency's fourth 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 2005	2006	2007	2008
ASSETS				
Current				
Cash	$ 51	$ 1	$ 1	$ 1
Due from City of Winnipeg - General Revenue Fund (Note 3)	991	38	308	-
Accounts receivable (Note 4a)	145	148	267	286
Current portion of loans receivable (Note 4b)	70	75	13	-
Inventory	1,275	1,300	1,326	1,353
Prepaid expenses	208	183	186	190
	2,740	1,745	2,101	1,830
Loans receivable (Note 4b)	87	13	-	-
Capital assets (Note 5)	30,788	45,644	63,792	72,646
	$ 33,615	$ 47,402	$ 65,893	$ 74,476
LIABILITIES				
Current				
Accounts payable and accrued liabilities	$ 703	$ 684	$ 645	$ 956
Vacation payable	664	684	704	725
Debt (Note 6a)	23,977	16,280	11,780	7,334
	25,344	17,648	13,129	9,015
Deferred revenue	5,431	3,460	2,537	1,891
Retirement allowance (Note 7a)	681	652	649	648
Environmental liability (Note 8)	420	420	420	420
Long-term debt (Note 6b)	-	23,259	47,382	61,839
	6,532	27,791	50,988	64,798
	31,876	45,439	64,117	73,813
Commitments (Note 9)				
SURPLUS				
Contributed surplus	390	390	390	390
Retained earnings	1,349	1,573	1,386	273
	1,739	1,963	1,776	663
	$ 33,615	$ 47,402	$ 65,893	$ 74,476

See accompanying notes and schedule to projected financial statements

THE CITY OF WINNIPEG
FLEET MANAGEMENT - SPECIAL OPERATING AGENCY

PROJECTED STATEMENT OF OPERATIONS AND RETAINED EARNINGS

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

	Audited 2005	2006	2007	2008
REVENUES				
Fleet leases	$ 12,811	$ 13,894	$ 16,297	$ 18,433
Services and parts revenue (Schedule 1)	6,688	6,368	6,342	6,479
Fuel sales	6,001	5,649	5,648	5,761
Rental income	2,872	2,810	2,756	2,709
Amortization of deferred revenue	2,159	1,298	923	646
Gain on sale of capital assets	619	374	563	302
Total Revenues	31,150	30,393	32,529	34,330
EXPENSES				
Supplies	8,955	8,534	8,366	8,447
Salaries and employee benefits	7,261	7,520	7,656	7,903
Services	6,584	6,390	6,319	6,293
Amortization	4,767	4,974	6,566	7,975
Other	344	532	368	373
Interest (Note 6)	-	370	1,690	2,667
Total Expenses	27,911	28,320	30,965	33,658
Net income from operations	3,239	2,073	1,564	672
Charges from City of Winnipeg - General Revenue Fund (Note 10e)	(2,160)	(1,849)	(1,751)	(1,784)
Net income (loss) for the year	1,079	224	(187)	(1,112)
RETAINED EARNINGS, BEGINNING OF YEAR	2,520	1,349	1,573	1,386
Transfer to City of Winnipeg - General Revenue Fund (Note 10f)	(2,250)	-	-	-
RETAINED EARNINGS, END OF YEAR	$ 1,349	$ 1,573	$ 1,386	$ 274

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 2005**	**2006**	**2007**	**2008**
OPERATING				
Net income (loss) for the year	$ 1,079	$ 224	$ (187)	$ (1,112)
Non-cash items related to operations				
Amortization	4,767	4,974	6,566	7,975
Amortization of deferred revenue	(2,159)	(1,298)	(923)	(646)
Gain on sale of capital assets	(619)	(374)	(563)	(302)
Retirement allowance	27	(29)	(3)	(1)
Working capital from operations	3,095	3,497	4,890	5,914
Net change in working capital	(45)	(9)	(104)	(7)
	3,050	3,488	4,786	5,907
FINANCING				
Decrease (Increase) in Due from City - General Revenue Fund	6,877	953	(270)	609
Increase in debt	292	14,888	19,624	10,010
Increase in dividends	(2,250)	-	-	-
	4,919	15,841	19,354	10,619
INVESTING				
Purchase of capital assets	(8,708)	(19,828)	(24,716)	(16,828)
Decrease in loans receivable	71	75	13	-
Proceeds from sale of capital assets	719	374	563	302
	(7,918)	(19,379)	(24,140)	(16,526)
NET INCREASE/(DECREASE) IN CASH	51	(50)	-	-
CASH POSITION, BEGINNING OF YEAR	-	51	1	1
CASH POSITION, END OF YEAR	$ 51	$ 1	$ 1	$ 1

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, 2008
(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 vehicles, heavy vehicles 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

Amortization begins once an asset is placed in service.

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

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.

In addition, certain user charges and fees are collected for which the related services have yet to be performed. These amounts are recognized as revenue in the fiscal year in which the related expenses are incurred or services performed.

Financial instruments

Financial instruments include due from City of Winnipeg - General Revenue Fund, accounts receivable, loans receivable, accounts payable and accrued liabilities, vacation payable, and 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. Bank transactions are credited or charged to the "Due (to)/from" account when they are processed through the bank. 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, and a line of credit up to $5,000 thousand for short-term financing, from The City of Winnipeg at the City's borrowing rate.

4. *Receivables*

	Audited 2005	2006	2007	2008
a) Accounts receivable				
Trade receivables	$ 45	148	267	286
City of Winnipeg Fire Paramedic Service	100	-	-	-
	$ 145	$ 148	$ 267	$ 286
b) Loans receivable				
City of Winnipeg Glacial Sand and Gravel				
Equipment financing program loan, interest at 6.5%, payment of $6.5 thousand monthly, due February 2008	$ 157	$ 88	$ 13	$ -
	157	88	13	-
Current portion	(70)	(75)	(13)	-
	$ 87	$ 13	$ -	$ -

5. *Capital Assets*

	Net Book Value			
	Audited 2005	2006	2007	2008
Land	$ 390	$ 390	$ 390	$ 390
Building	1,670	4,469	6,422	8,326
Fleet assets				
Acquired at start-up	5,048	3,077	2,154	1,508
Fleet purchased	22,944	35,693	52,680	60,415
Equipment	736	2,015	2,146	2,007
	$ 30,788	$ 45,644	$ 63,792	$ 72,646

The 2005 net book value of fleet assets not yet in-services is $1,375 thousand.

6. *Debt*

	Audited 2005	2006	2007	2008
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)	22,747	15,050	10,550	6,104
Term debt (see below b)	-	23,259	47,382	61,839
	$ 23,977	$ 39,539	$ 59,162	$ 69,173

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. During 2005, interest charges ceased. The balance decreases during the year by repayments.

b) During 2006, the Agency will negotiate with the City and/or the City's bank for term debt.

7. *Employee Benefits*

a) Retirement allowance

Audited 2005	2006	2007	2008
$ 681	$ 652	$ 649	$ 648

Under the retirement allowance plan,qualifying employees become entitled to a cash payment upon retirement, death or termination of service under certain conditions (not resignation). The costs are actuarially determined using the projected benefit valuation method pro-rated on services and reflects management's best estimate of retirement ages of employees, salary escalation and length of services. In addition, adjustments arising from plan amendment, changes in assumptions, and experience gains and losses are amortized on a straight-line basis over 10.4 years, which represents the expected average remaining service life of the employee group. Amortization is calculated beginning in the year following the year of occurrence of the actuarial gains or losses.

The Agency measures its accrued retirment allowance obligation as at December 31 of each year. The most recent actuarial valuation report was at December 31, 2005.

7. Employee Benefits (continued)

b) 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, 2005 and has an actuarial surplus.

	Audited 2005	2006	2007	2008
Pension costs allocated to the agency	$ 392	$ 432	$ 440	$ 454

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. Commitments

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

	2006	2007	2008
Operating leases	$ 469	$ 427	$ 413

10. Related Party Transactions

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.

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

	Audited 2005	2006	2007	2008
a) Sales of goods and services to the City	$ 27,239	$ 22,517	$ 24,841	$ 27,164
b) Civic Accommodations Fund- rental of office space	$ 175	$ 176	$ 156	$ 156
c) Public Works Department - Human resource services	$ 79	$ 81	$ 82	$ 84
d) City of Winnipeg debt repayment	$ 37	$ 7,697	$ 4,500	$ 4,446
e) Charges from City of Winnipeg				
- General Revenue Fund (see below)	$ 2,160	$ 1,849	$ 1,751	$ 1,784
GST equivalency	$ 637	$ 580	$ 561	$ 561
Interest equivalency	500	400	375	250
General government charges	421	421	421	421
Grant - Autopac rebate to Public Works	406	414	422	430
Income tax equivalency (recovery)	164	(32)	(165)	(15)
Peoplesoft savings equivalency	32	66	137	137

10. Related Party Transactions (continued)

Goods and Services Tax (GST) 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 receives the full 7% input tax credit and is charged by the City a GST equivalency representing the 3% input tax credit retained by the City in 2004. The amount is reduced by 9 % in 2005 and 12% thereafter due to the City's contracting out of the garbage collection fleet.

Interest equivalency

During 2004 the Agency paid interest on debt due to the City of Winnipeg. In 2005, interest on debt due to the City of Winnipeg has ceased and the Agency is charged an interest equivalency by the City of Winnipeg, representing interest on that debt.

General government charges

The Agency is charged by the City of Winnipeg general government charges, as determined by the Corporate Finance Department.

Grant - Autopac rebate to Public Works Department

A grant has been made to the Public Works Department, representing the amount of Autopac Rebate received by the Agency.

Income tax equivalency (recovery)

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 $300 thousand of net income	18.12%
Manitoba Small Business Rate ($300 to $400 thousand)	27.12%
Regular corporate rate on the balance	37.12%

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

PeopleSoft savings equivalency

The City of Winnipeg operates a central finance function and charges the Agency a fee representing purchasing savings equivalency, as determined by the Corporate Finance Department.

f) Transfer to City of Winnipeg - General Revenue Fund

	Audited 2005	2006	2007	2008
Return of investment	$ 2,250	$ -	$ -	$ -

THE CITY OF WINNIPEG
FLEET MANAGEMENT - SPECIAL OPERATING AGENCY

SCHEDULE 1 - PROJECTED SCHEDULE OF SERVICES AND PARTS REVENUE

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

	Audited 2005	2006	2007	2008
Consumables and corrective maintenance	$ 2,942	$ 2,766	$ 2,658	$ 2,711
Insurance revenue	1,497	1,542	1,588	1,636
Manufacturing sales	777	793	809	825
Power tools	635	648	661	674
Autopac rebate	406	414	422	430
Other	155	55	57	59
Interest	154	25	20	14
Provincial support grant	122	125	127	130
	$ 6,688	**$ 6,368**	**$ 6,342**	**$ 6,479**

THE CITY OF WINNIPEG
FLEET MANAGEMENT – SPECIAL OPERATING AGENCY

ASSUMPTIONS TO THE PROJECTED FINANCIAL STATEMENTS

For the three years ending December 31, 2008
(in thousands of dollars)

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 retained earnings and cash flows, using management's assumptions that reflect the Agency's planned course of action for the three years ending December 31, 2008.

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

- That Council will authorize additional borrowing authority for 2006 in the amount of $8,500 thousand.
- That the City of Winnipeg, or external sources, will extend long-term funding for operations in the amount of $23,800 thousand, with long-term interest rates and repayment terms to be negotiated by the City, or external sources and the Agency during 2006.
- That the City will allow Agency customers to sign Agency lease agreements, including agreements with terms of over five years, for fleet management services.
- That the Agency's current customers will 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.
- That Council will authorize changes to the Agency's Operating Charter, allowing for the provision of Agency services to private sector companies that are under contract to City Departments and Special Operating Agencies, and other public funded organizations.
- That Council will authorize changes to the Operating Charter for purchasing authorities outlined in the Delegations and Exemptions Appendix 1 to the Operating Charter.

- That Council will authorize changes to the Agency's Operating Charter allowing GST equivalency transfers to the City's general revenue fund to be reduced by nine percent in 2006 and by 12 percent beginning in 2007 and thereafter, to reflect the loss of business caused by the outsourcing of the City's garbage collection fleet contracts.
- That in 2006, the City will authorize the Agency to repay a portion of its long-term debt - due to the City of Winnipeg in the amount of $7,700 thousand, and to reduce the balance by the loss on sale of the refuse packers due to the contracting out of the City's garbage collection fleet in the amount of $321 thousand.

The financial projections are based on current service levels, with a two percent inflationary increase, except where otherwise described in the notes to projected financial statements, or as noted in the assumptions below. In addition, the service level impact of the City's contracting out of garbage collection has been reflected in the affected revenues and expenses.

REVENUE ASSUMPTIONS

Fleet Leases

Fleet leases revenue is determined based on the number and types of units assigned to customers, and 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.

Services and Parts Revenue

- Insurance revenue is based on current Manitoba Public Insurance rates, with a three percent increase per year on the April 1st renewal date, applying the Agency's insurance mark-up.
- Consumables and corrective maintenance revenue is based on a one percent increase in 2006, a two percent increase in 2007 and 2008.
- Other revenue shows a reduction of $100 thousand in 2006 due to the completion of RTA implementation service to Fire Paramedic Services during 2005.

Fuel Sales

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

Rental Income

- External rental revenue is based on 2005 amounts with a five percent reduction per year.
- Internal rental revenue is based on 2005 amounts with a five percent increase per year.

Gain on Sale

The gain on sale of vehicles and equipment is based on the Agency's fleet replacement plan. Light fleet units are assumed to have no gain or loss on sale, as proceeds are estimated to be equal to residual value.

EXPENSE ASSUMPTIONS

Supplies

Parts costs are based on an increase of two percent in 2006, a decrease of two percent in 2007, and a decrease of one percent in 2008.

Salaries and Benefits

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

Services

- Consulting costs are based on a 25 percent reduction in 2006, with a two percent increase for 2007 and 2008.
- Equipment rental costs are based on external rental revenue assumptions applying the Agency's mark-up.
- Vendor repairs are based on an increase of two percent in 2006, a decrease of two percent decrease in 2007, and a decrease of one percent in 2008.
- Insurance expense is based on insurance revenue assumptions, applying the Agency's insurance mark-up, with the addition of insurance costs on internal rental units.
- Training and development is increased by 34 percent in 2006, by one percent in 2007 and decreased by eight percent in 2008.

Other

- Facility rent is based on information supplied by Civic Accommodations.
- New testing costs in 2006 amount to $170 thousand representing Bio-diesel emissions, Netistix and other testing projects.

Interest

Interest is based on City of Winnipeg long-term borrowing rates.

ASSET AND LIABILITY ASSUMPTIONS

Capital asset acquisitions are based on the following amounts:

	2006	2007	2008
Buildings	$2,907	$2,174	$2,212
Fleet Assets	$16,065	$22,066	$14,382
Equipment	$1,530	$475	$235
Total	$20,502	$24,715	$16,829

Building acquisitions represent building improvements and consolidation of the Agency's maintenance operations to its major garage facility at Tecumseh Street, during 2006 to 2008.

Fleet assets acquisitions assume replacement of units on a one for one basis, with no increase or decrease to customers' current assigned fleet. Replacement is based on the Agency's replacement plan which allows for replacement of fleet assets past their recommended lifecycle, by the end of 2008 based on lifecycle cost management principles.

Equipment acquisitions include shop equipment, power tools, fuel pumps and fuel equipment, and vehicle tracking equipment.

Vacation Payable

Vacation payable is based on 2005 amounts with a three percent increase per year.

Long-Term Debt

The Agency will incur long-term debt in the amount of $23,800 thousand in 2006, $26,600 thousand in 2007, and $18,800 thousand in 2008, representing partial repayments on its long-term debt – due to the City of Winnipeg balance in the amount of $7,700 thousand in 2006, and $4,500 thousand in both 2007 and 2008, and acquisition of fleet assets in the amount of $16,100 in 2006, $22,100 thousand in 2007 and $14,300 thousand in 2008.

The Agency will obtain long-term debt financing from both the City of Winnipeg and the Royal Bank. Interest rates used for these projections are based on the City of Winnipeg's long-term borrowing rates. New long-term debt repayment terms range from seven to 20 years.