Report – Executive Policy Committee – September 21, 2006

Item No. 16 Expression of Interest and Proposal Process - Disposition of Assets/Equipment for Glacial Sand and Gravel Special Operating Agency
File GL-5.6.1

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

On September 21, 2006, the Executive Policy Committee concurred in the recommendations of the Alternate Service Delivery Committee and the Standing Policy Committee on Property and Development and submits the following to Council:

1. That the subject City Property held under the jurisdiction of the Glacial Sand and Gravel Special Operating Agency, shown outlined on Misc. Plan No. 12976, be declared surplus to the City's needs.

2. That an all cash sale of the subject City Property and Glacial Sand and Gravel's Pine Ridge facilities, equipment, and reserve assets to Proponent 4 (4698909 Manitoba Ltd., or a corporation to be incorporated and wholly owned by the Hansch Group of companies) be approved for the price of $11 million, plus GST.

3. That the Chief Administrative Officer be delegated the authority to finalize the terms and conditions of the agreement of purchase and sale.

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

Report – Executive Policy Committee – September 21, 2006

DECISION MAKING HISTORY:

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

On September 21, 2006, the Executive Policy Committee concurred in the recommendations of the Alternative Service Delivery Committee and the Standing Policy Committee on Property and Development and submitted the matter to Council.

Further, on September 21, 2006, the Executive Policy Committee received from Gary Swanson, President accompanied by Allen Bleich, Greg Mandzuk, Nicole Campbell, Karen Byzuk and Jeff Laurent, representatives of the Canadian Union of Public Employees, Local 500, photographs with respect to the Expression of Interest and Proposal Process - Disposition of Assets/Equipment for Glacial Sand and Gravel Special Operating Agency.

STANDING COMMITTEE RECOMMENDATION:

On September 19, 2006, the Standing Policy Committee on Property and Development concurred in the administrative recommendation and recommends to the Executive Policy Committee:

1. That the Subject City Property held under the jurisdiction of the Glacial Sand and Gravel Special Operating Agency, shown outlined on Misc. Plan No. 12976, be declared surplus to the City's needs.
2. That an all cash sale of the Subject City Property and Glacial Sand and Gravel's Pine Ridge facilities to Proponent 4 be approved for the price of $11 million, plus GST.
3. That the Chief Administrative Office be delegated authority to finalize the terms and conditions of the agreement of purchase and sale.

COMMITTEE RECOMMENDATION:

On September 18, 2006, the Alternate Service Delivery Committee concurred in the administrative recommendation and recommends to the Executive Policy Committee and Council:

1. That the all cash sale of Glacial Sand and Gravel's Pine Ridge equipment and reserve assets to Proponent 4 be approved for the price of $11 million plus GST.
2. That the Chief Administrative Officer be delegated authority to finalize the terms and conditions of the agreement of purchase and sale.

Further, on September 18, 2006, the Alternate Service Delivery Committee requested that the Chief Administrative Officer identify and report back on the options for the disposition of any retained surplus funds generated by the sale of the Glacial Sand and Gravel Special Operating Agency's primary asset.

Report – Executive Policy Committee – September 21, 2006

DECISION MAKING HISTORY (continued):

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

On February 15, 2006, the Executive Policy Committee concurred in the following recommendations of the Alternate Service Delivery Committee, as amended, and the Joint Committee of City Council and CUPE Representatives, namely:

1. That 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.

2. That prior to proceeding with any Strategy and Business Plan for Glacial Sand and Gravel Special Operating Agency the Joint Committee of City Council and CUPE Representatives be provided with the opportunity to comment on staffing impacts with respect to the results of the Expressions of Interest.

JOINT COMMITTEE OF CITY COUNCIL AND CUPE REPRESENTATIVE RECOMMENDATION:

On February 13, 2006, the Joint Committee of City Council and CUPE Representatives passed the following motion:

> WHEREAS on December 12, 2005, the Alternate Service Delivery concurred in the administrative recommendation as outlined in the report from the Director of Public Works, dated October 24, 2005, as amended:
>
> The Alternate Service Delivery Committee directed that the Chief Administrative Officer identify and report back on the options for the disposition of any retained surplus funds generated by the sale of the Glacial Sand and Gravel Special Operating Agency's primary asset.
>
> 1. That the Chief Administrative Officer be authorized to provide formal notification to the Canadian Union of Public Employees (CUPE) of the City's intention to arrange for the outside delivery of services currently provided by CUPE rated staff due to the business plan recommendation which proposes the sale of Glacial Sand and Gravel Special Operating Agency's active equipment and land/reserve assets.

Report – Executive Policy Committee – September 21, 2006

DECISION MAKING HISTORY (continued):

JOINT COMMITTEE OF CITY COUNCIL AND CUPE REPRESENTATIVE RECOMMENDATION (continued):

2. 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.

AND WHEREAS the Joint Committee of Council and CUPE Representatives met on January 16, 27 and February 13, 2006 and concurred in the recommendation of the Alternate Service Delivery with respect to the completion of an asset evaluation and issuing a request for Expressions of Interest (EOI);

THEREFORE BE IT RESOLVED that prior to proceeding with any Strategy and Business Plan for Glacial Sand and Gravel Special Operating Agency the Joint Committee of Council and CUPE Representatives be provided with the opportunity to comment on staffing impacts with respect to the results of the Expressions of Interest.

COMMITTEE RECOMMENDATION:

On December 12, 2005, the Alternate Service Delivery Committee concurred in the administrative recommendation, as amended:

1. That the Chief Administrative Officer be authorized to provide formal notification to the Canadian Union of Public Employees (CUPE) of the City's intention to arrange for the outside delivery of services currently provided by CUPE rated staff due to the business plan recommendation which proposes the sale of Glacial Sand and Gravel Special Operating Agency's active equipment and land/reserve assets.

2. 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.

Re: EXPRESSION OF INTEREST AND PROPOSAL (EOIP) PROCESS AND RECOMMENDATION FOR DISPOSITION OF ASSETS/EQUIPMENT FOR GLACIAL SAND AND GRAVEL (GSG) SPECIAL OPERATING AGENCY

For Submission to: ALTERNATE SERVICE DELIVERY COMMITTEE and STANDING POLICY COMMITTEE ON PROPERTY AND DEVELOPMENT

Submitted By: L. S. W. Larkin, P. Eng., Director of Public Works

Report Date: September 14, 2006

Recommendations:

1. That the Subject City Property held under the jurisdiction of the Glacial Sand and Gravel SOA, shown outlined on the attached Misc. Plan No. 12976, be declared surplus to the City's needs.
2. That an all cash sale of the Subject City Property and Glacial Sand and Gravel's Pine Ridge facilities, equipment, and reserve assets to Proponent 4 be approved for the price of $11 million, plus GST.
3. That authority be delegated to the Chief Administrative Officer to finalize the terms and conditions of the agreement of purchase and sale.
4. That the Proper Officers of the City be authorized to do all things necessary to implement the intent of the foregoing.

REPORT SUMMARY:

Key Issues:

- The Expression of Interest and Proposal (EOIP No. 150-2006) process resulted in 7 submissions with 13 offers to buy or lease the Pine Ridge Pit assets. A review of all the offers indicate that the best alternative for fulfilling the original mandate of maximizing taxpayers' return on the Glacial's Pine Ridge Pit assets is to sell the property to Proponent 4 (see Table 1 Net Present Values).
- Implementing the Sell option to Proponent 4 would yield the best Net Present Value to taxpayers and provide lower financial and operating risks than a leasing arrangement.
- When considering the likelihood and potential impacts of the staff transition costs and the potential longer-term cost impacts of monopoly pricing in the industry, from a corporate perspective, the Sell option is still the recommended option.
- Prior to the disposition of the City-owned land through a sale, Council must declare it surplus.
- Glacial Sand and Gravel ("GSG") currently has a formal long-term bank run supply agreement with one customer that would be impacted if the Pine Ridge Pit property were sold. This agreement will be assigned by the GSG to the new owners under this option.
- The City can purchase material for its own purposes at prices paid by top clients.
- The City of Winnipeg can be supplied with emergency materials under the proposed agreement and at the preferred rates.

IMPLICATIONS OF THE RECOMMENDATION(S):

General Implications:

	None
X	For the organization overall and/or other departments
	For the community and/or organizations external to the City
X	Involves a multi-year contract

Comments:

- The transfer of ownership of Glacial's Pine Ridge Pit material reserves may have implications for the organization in terms of timely low-cost access to primary materials, including in times of emergency.
- The Sell or Lease option will reduce the staff complement at Glacial. All permanent staff will be redeployed within City of Winnipeg departments as per collective agreement;
- Glacial currently has a formal long-term bank run supply agreement with one customer that would be impacted if the Pine Ridge Pit property were sold.

Policy Implications:

X	No
	Yes

Comments: None

Environmental Implications:

X	No
	Yes

Comments: None

Regulatory Implications:

X	No
	Yes

Comments: None

Human Resource Implications:

	No
X	Yes

Comments: Implementation of Sell option will impact the staff complement at Glacial and will require an HR transition plan consistent with the requirements set out in the CUPE and WAPSO collective agreements.

Financial Implications:

X	Within approved current and/or capital budget
	Current and/or capital budget adjustment needed

Comments: Proceeds from any divestitures of the Pine Ridge Pit under a disposition option are expected to exceed transaction related costs.

REASON FOR THE REPORT:

This report has been prepared as per the recommendations of the strategic review completed in 2005 for Glacial Sand and Gravel and the Strategy and Business Plan submitted to the Alternate Service Delivery Committee on December 12, 2005. The report was subsequently considered by Executive Policy Committee at an in camera meeting on February 15, 2006. The EPC disposition directed the administration to complete an asset evaluation and issue an Expression of Interest (EOI) for the disposition or other commercial arrangements with respect to all or part of the City's interest in Glacial Sand and Gravel's active equipment and land/reserve assets. It also directed that the Joint Committee of City Council and CUPE be provided with the opportunity to comment on staffing impacts with respect to the results of the Expressions of Interest.

Only Council can declare that the Subject City Property is surplus to the City's requirements.

This report provides information about the results of the Expressions of Interest and Proposal (EOIP) process and recommends a preferred option that is the best possible strategic option and in the best interest of the taxpayers.

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, the Agency 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.

Glacial Sand and Gravel as an SOA owns three properties;

- Pine Ridge Property (gravel mine in R.M. of Springfield)
- Transcona Property (gravel mine in R.M. of Springfield)
- Gunton Property (dormant limestone Quarry)

The Pine Ridge property is the only property being considered for disposition. The Gunton property, near Gunton, Manitoba, is unexcavated. The Transcona property has a lease agreement that runs until 2007 at which time it is expected that the above water resources will be exhausted. This report presents the best offers received for the Pine Ridge property.

Description of the Pine Ridge Asset

Glacial's Pine Ridge Pit is situated on approximately 240 acres of land in Section 5 Township 12 Range 5E in the R.M. of Springfield. Glacial conducted an aggregate assessment of its remaining reserves through an external surveying firm during winter of 2005. The estimates indicated above water reserves to be approximately 19,600,000 tonnes with another approximate

6,700,000 tonnes below water. Like any other gravel pit these reserves are a combination of stone, Gravel, Coarse Sand, Medium Sand, Fine Sand, Silt ,Clay and Overburden in different proportions in different locations of the pit.

Operation of the Agency
The creation of Glacial Sand and Gravel (GSG) as a SOA provided an opportunity for the Agency to market value-added processed products and raw pit materials to external organizations through various contractual and other arrangements. Glacial has the ability to screen raw bank run products on its own and has hired the services of private contractors when crushing is required. Glacial sells its products directly to external and internal customers. Glacial's mining and processing activities require the operation of wheel loaders, tandem trucks, screening equipment, conveyors, water pumps and weigh scale. In recent years Glacial has typically sold approximately 400,000-500,000 tonnes of primary materials annually.

Glacial was granted exclusivity for supplying materials to City of Winnipeg for its first three years of operation as an SOA. Glacial lost its exclusivity after 2004 and had to bid on contracts like any other private contractor. In spite of growing into what is probably the second largest sand and gravel supplier in the Pine Ridge area, Glacial has struggled both operationally and financially since inception. Glacial's Retained Deficit to December 31, 2005 amounted to $1,407,000 and is projected to approach $1.9 million by the end of 2006. Financial details are attached in Appendix A.

Business Review
In 2005, Glacial management, along with representatives from the departments of Public Works, Corporate Services and Corporate Finance, worked with a consultant to develop and evaluate alternative business options for Glacial. A detailed strategy and business plan was submitted to ASD Committee on December 12, 2005, that provided four options:

- **Selling Glacial's assets** at fair market value with no ongoing participation by Glacial;
- **Entering into Lease/Royalty Sales arrangements** with one or more aggregate processors to provide minimum annual revenues to Glacial through guaranteed raw material sales;
- **Growing Glacial operations** and market share through new processed products involving a commitment to staff increases and significant multi-year investment in excess of $4 million:
  and
- **Enhancing/optimizing Glacial operations** through product/market focus, investment in efficiency (in excess of $2 million) and slightly increased staff levels.

The status quo was not considered an option beyond the immediate term since it is unsustainable.

The operating and financial risks associated with each of the options were reviewed as well as the impacts of each option on Glacial's workforce and potential impacts on other City departments. Transition impacts including the cost of employment security for permanent employees were also considered.

This report documents the results of the Expression of Interest and Proposal (EOIP) process.

DISCUSSION:

Expressions of Interest and Proposal Process (EOIP No. 150-2006)
A three phase process for soliciting and negotiating the best possible arrangement for the taxpayers of Winnipeg was completed. It involved:

Phase I - EOIP Evaluation:
An Evaluation Working Group analyzed the EOIP submissions from the various proponents, based upon quantitative and qualitative criteria, to produce a short list of submissions.

Phase II - Detailed Proposal Solicitation and Evaluation:
The short-listed proponents were invited to submit detailed proposals. All the detailed submissions were again analyzed using the criteria.

Phase III - Negotiation and Due Diligence:
A team of senior managers from City of Winnipeg negotiated with the short-listed proponents from Phase II within the parameters of the EOIP.

Expression of Interest and Proposal Submission Review
Glacial received seven submissions with thirteen different offers for the disposition of Glacial's Pine Ridge Pit asset along with its active equipment and buildings. An Evaluation Working Group comprising senior management representatives from the departments of Public Works Department, Corporate Finance, Corporate Services and Planning, Property & Development analyzed the offers, using qualitative and quantitative criteria, to produce a short list of submissions that were determined to be the best possible strategic options and in the best interest of City of Winnipeg and the taxpayers.

Qualitative Analysis
The qualitative analysis was completed using following criteria:

Criteria
<u>Financial (Phase I and Phase II)</u>
1. Value of anticipated cash flow stream
2. Financial risks to taxpayers

<u>Operational (Phase I and Phase II)</u>
3. Operating risks to taxpayers
4. City access to reasonably priced primary materials
5. Length of agreement
6. Time to fully implement
7. Impacts on internal stakeholders
8. Impacts on external stakeholders

<u>Strategic (Phase I)</u>

9. Company/consortium experience
10. Fit with company operations

Definitions of these criteria are attached in Appendix B.

Weighting of Criteria
A certain criteria weight was discussed among the Evaluation Working Group and applied to each of the three main categories as per its importance for City of Winnipeg, i.e. Financial , Operational and Strategic. Each offer was rated versus these criteria and given a rating score (from 1 to 10) and a weighted score. The weighted scores were added to give an overall weighed score for the offer. All offers were analyzed and ranked based upon a maximum potential score of 10,000.

Quantitative Analysis (Financial Analysis)
Financial analysis was completed by the Evaluation Working Group, with assistance from a financial consulting firm. Working with the consultant, net present value calculations were developed for the leasing scenarios using a suitable discount rate to reflect the inherent risks of the forecasted cash flow stream. The lease options and cash flows were discounted accordingly. The cash flow stream for each leasing scenario incorporated a number of factors including:

- terms specific to each proponent (e.g. minimum guaranteed tonnage)
- rate of inflation
- rate of materials
- timing of payments
- residual value of the operating pit
- all the appropriate GSG costs (e.g. staff salaries and benefits, property taxes, depletion fee, operational costs, measurement of material costs)

The discount rate was comprised of two additive components: risk free rate such as a government bond and a risk premium specific to the business. Elements of risk that were considered include:

- Size of GSG's operations;
- Nature of the industry;
- Quality and availability of material;
- Terms of the agreement with the potential lessee; and
- Operational experience and history of potential lessee.

The results of the Phase II evaluation produced two short-listed options:

a) **Selling Glacial's active assets** including all reserves/land at the Pine Ridge Pit, all facilities on that land and all Glacial's Pine Ridge Pit equipment at a price of $11 million to Proponent 4. The sale of the asset will require Council to declare the land surplus. The City of Winnipeg will receive a one time cash payment resulting in lower financial and operational risks; and

b) **Entering into 30 year lease** with Proponent 4 to provide a guaranteed minimum annual rent payment which was evaluated to represent a total Net Present Value of $9.05 million. The City will have termination rights every 10 years subject to the performance of the lessee. There are certain operational costs associated with this option but it will provide the City with a guaranteed annual net cash flow of approximately $1million. The proponent will also buy all the active equipment of Glacial.

Table 1 summarizes the Net Present Value of the best sale offer and the best lease offer of the submissions received.

Table 1

Estimated Total Net Present Values: Best Sale and Best Lease Offer	
Best Sell Offer	$11,000,000
Best Lease Offer	$ 9,055,407

Glacial currently has an agreement with Customer A for materials in the Pine Ridge Pit. An offer was made by Customer A to amend and extend the current agreement. An analysis of the offer was completed to compare it with the NPV of other offers versus amending this agreement. It resulted in a lower NPV for the amendment/extension of the current agreement versus NPV of other offers of Proponent 4.

Additional Impacts

1. Human Resource Considerations

Implementation of any of these two options (Sell, Lease) will impact staff. A staff transition plan with analysis of salary and benefit costs has been developed. The staffing impact under different options is discussed below:

Currently, Glacial's permanent staff complement and FTE requirement under the Sell and Lease options are as shown in the Table 2 below:

Table 2

Position	**Category**	**Status**	**FTE**	**FTE Sell Option**	**FTE Lease Option**
Chief Operating Officer	Wapso Exempt	P	1	0	0.2
Clerk	CUPE	P	1	0	0.2
Foreman	CUPE	P	1	0	0.8
Weigh Master	CUPE	P	1	0	0.8
Equipment Operator	CUPE	P	1	0	0

P- Permanent, FTE - Full-Time Equivalent

The anticipated staffing impact for the Sell and Lease options are anticipated as follows:

Staffing Impacts - Sell option

Under the Sell option, 4 CUPE Permanent Glacial employees and 1 Wapso Exempt employee will not have a position at Glacial. All permanent employees will be redeployed in keeping with the respective appropriate collective agreement. It is assumed that the process of redeployment will start immediately after a decision is made and will be completed within 12 months;

Staffing Impacts - Lease Option
Under the Lease option, a Weigh Master position would be required at the Pine Ridge Pit scale to weigh material as it leaves the pit. This position would be shared by the Foreman during the longer summer hours of operation. The Chief Operating Officer, Clerk and Foreman would have their duties partially reassigned within City of Winnipeg. One permanent CUPE position would not be required and would be redeployed once a decision is made.

In the future, the Lessee and City of Winnipeg could consider using suitable and acceptable technology to measure material leaving the pit and in this scenario the weigh scale position may not be required;

2. Staff Transition Costs
Table 3 sets out the staff transition costs for the Sell and Lease options.

Table 3

Sell Option	$295,835
Lease with Weigh Scale Operator	$221,306
Lease without Weigh Scale Operator (using technology)	$190,204

Note: Staff transition costs have not been deducted from Net Present Values presented in Table 1

3. Potential Monopoly/Oligopoly Impacts:
The Pine Ridge Pit is one of the larger developed and above water reserves in this Bird's Hill area. With the sale or lease of Glacial's property there is a possibility of new owner/lessee controlling the market price. The City and other consumers of the aggregate products could face significantly increased material prices (sand, gravel and stone) and also indirectly through purchasing concrete or asphalt for capital and maintenance projects. There are, however, other alternatives available in the form of limestone from the Stonewall area and gravel from a number of both smaller and larger players that could mitigate any price increases.

The likelihood and timing of monopolistic/oligopolistic pricing are uncertain, Public Works developed an estimate of what these costs could be if they were to materialize. These costs are based on assumptions related to when it might occur, how much of a general price increase the City may face, what the City currently pays for its materials and how much tonnage it purchases. Based on these assumptions, the net present value of these estimated costs could be approximately $2 million. It has been assumed that even though a monopoly may not occur immediately but there is still a possibility of it occurring at a later date.

The impact of monopoly on the market could be different for different proponents depending upon their market share and company philosophy and is hard to quantify in advance. We believe Proponent 4 represents a lower risk of creating a monopoly than other alternatives after considering the factors noted above.

Note: Due to the uncertainty of the magnitude and timing of the impact of a monopoly, the amount of $2 million has not been deducted from Net Present Values presented in Table 1.

4. Impact on Existing Material Supply Agreements

Glacial currently has a formal long-term bank run supply agreement with a customer that will be impacted under the Sell option and the Lease option. This agreement will be assigned by the City to the new owners under this option.

5. Current Agency Liabilities

Glacial is expected to accumulate a retained deficit of about $1.9 million. Also, as at the end of fiscal year 2005, Glacial has equipment loan and capital lease obligations amounting to $177,000 at the end of 2005 on top of the long term debt of $3.8 million given to Glacial by City against the asset. These debts will have to be paid out from the final sell amount or annual lease payments.

Summary:

Glacial provides construction materials on a competitive basis, along with many private sector suppliers, to City departments for use in maintaining public infrastructure. Glacial's service, from the taxpayer's perspective, is therefore much less direct and the relationship between the service delivered and its value for the taxes paid is much less tangible than commonly experienced for City services. The service provided by Glacial is a discrete activity and is separate from other activities of the City. Therefore, the implementation of any of the options discussed above will not impact taxpayers directly.

Based upon the evaluation of all the submissions, the following represents the best Sell offer and the best Lease offer:

1. Sale of the Asset

Selling the asset to Proponent 4 provides an opportunity to sell all the reserve and equipment for $11 million with the least risks. Some of the advantages of this option are below;

Financial

- Immediate cash on closing (January 3, 2007)
- Right of first refusal

Operational -

- City would no longer risk liability from improper management of the resource from a safety and environmental point of view;
- No impact of Proponent not being able to remove the minimum guaranteed tonnage from the pit;
- No risk of reduction of revenue because of slump in the construction industry;
- No risk of deterioration of quality of aggregate removed from the pit over the years for their respective use; and
- No impact of any change in specifications of material used on capital projects.
- Provides the City with indirect access to materials on the property during an emergency

2. Lease of the Asset

Leasing the pit to Proponent 4 provides a NPV of $9,055,407 and has following advantages;

- Provides a guaranteed annual net cash flow of approximately $1million;
- Provides the City with indirect access to materials on the property during an emergency; and
- With respect to the potential for a monopoly in the market, with the Lease option, the City might have better control of the property as compared to the Sell option. The Lease option allows the City to negotiate rates and/or terminate the lease every 10 years subject to the performance of the Lessee.

In the above options of Sell and Lease, the staff complement will have to be redeployed in other departments. Staff transition costs will be incurred by Glacial until the transition process is completed under different proposals. This amount has been calculated separately and has not been deducted from NPVs.

An estimate of possible monopoly/oligopoly has been prepared. This amount has not been deducted from NPVs. We believe Proponent 4 represents a lower risk of creating a monopoly as discussed in this report.

Based on the best offers submitted by proponents, we recommend the Sell option to Proponent 4 because it reflects the highest net present value of the options and reflects lower financial risks (cash on closing as compared to a variable revenue stream over a longer period of 30 years) and operating risks (performance of the leasing company, weather, market conditions, changing demands for products and quality of material over 30 years). It is the best possible strategic option for the City of Winnipeg.

To maximize and preserve Glacial's asset value and return on investment for taxpayers, the City must strive to implement the proposed offer in time for the recommended proponent to prepare for the 2007 construction season. Timely approval is required for all parties to prepare for a January 2007 Date of Closing.

IN PREPARING THIS REPORT THERE WAS:

Internal Consultation With and Concurrence By:

- Corporate Services Department (Legal Services Division)
- Corporate Finance
- Public Works Department (Human Resource Division)
- Planning Property and Development Department

External Consultation With:

Not applicable

This Report Submitted by:

Department:	Public Works Department
Division:	Office of the Director
Prepared by:	Preetipal Paul, COO Glacial Sand and Gravel
Phone No:	986-5335
File name:	Administrative Report

Appendix A: Glacial Sand and Gravel Financial Details

GLACIAL SAND & GRAVEL SOA

Statement of Operations and Retained Earnings / (Deficit)
For the year ended December 31 (x000s)

	2001 (Audited)	2002 (Audited)	2003 (Audited)	2004 (Audited)	2005 (Audited)
Revenues					
Sales of goods and services	$ 2,667	$ 2,583	$ 2,959	$ 2,352	$ 2,297
					-
Expenses					
Administrative services	158	121	72	42	117
Amortization and depletion	126	111	173	184	201
Interest on long-term debt	265	261	280	286	303
Material, parts and supplies	552	474	516	580	445
Salaries and benefits	406	598	634	670	598
Services	1,103	1,208	1,400	1,295	1,114
	2,610	2,773	3,075	3,057	2,778
Net ncome (loss) before income taxes	**57**	**(190)**	**(116)**	**(705)**	**(481)**
Income tax recovery (charge)	(26)	87	53	-	(86)
Net income (loss) for the year	**31**	**(103)**	**(63)**	**(705)**	**(567)**
RETAINED EARNINGS / (DEFICIT) BEGINNING OF YEAR	-	31	(72)	(135)	(840)
RETAINED EARNINGS / (DEFICIT) END OF YEAR	$ 31	$ (72)	$ (135)	$ (840)	$ (1,407)

Appendix B: Evaluation Criteria Definitions

The definitions of the evaluation criteria are as follows:

Financial

1. Value of anticipated cash flow stream – the Net Present Value (NPV) of proposed cash flows to the City of Winnipeg (considering all appropriate revenues and costs to the City) discounted at the City's appropriate short or long term borrowing rate. These rates currently range from 4.5% - 5.0%. Higher NPV options will receive higher ratings on this criterion.
2. Financial risks to taxpayers – the potential volatility and reliability of proposed cash flows, agency and corporate balance sheet impacts, and other possible financial risks identified as being associated with a particular option. Higher risk options will receive lower ratings on this criterion

Operational

3. Operating risks to taxpayers – risks related to human safety, environmental liability, property maintenance and other possible operating risks identified as being associated with a particular option. Lower risk options will receive higher ratings on this criterion.
4. City access to reasonably priced primary materials - the ability for the City to secure on short notice at reasonable prices primary materials for its operating and emergency needs (e.g. sand for sandbagging, granular fill materials for excavations, certain surfacing materials for emergency repairs, etc.). Options providing better access and pricing terms for the City will receive higher ratings on this criterion.
5. Length of agreement – the duration of lease term or other commercial arrangements proposed. Longer term arrangements being generally considered of higher value to the City although the quality of the cash flows proposed will be a consideration.
6. Time to fully implement – the length of time required of the City to completely transition to the proposed option. Options containing shorter times will receive higher ratings on this criterion.
7. Impact on internal stakeholders – the impacts, both positive and negative, on various stakeholder groups within the City such as staff and management at Glacial, staff and management in other departments and agencies. Also considers the impacts on the operations of other departments and agencies. Options with more desirable net impacts will receive higher ratings on this criterion.
8. Impacts on external stakeholders - the impacts, both positive and negative, on various stakeholder groups external to the City such as current Glacial customers, Manitoba Heavy Construction Association, adjacent property owners, etc. Options with more desirable net impacts will receive higher ratings on this criterion.

Strategic

9. Company/Consortium Experience – Proponents with more operating experience and better overall track record in the aggregate and construction industry will receive higher ratings on this criterion. This criterion will consider such factors as experience and track record with the safe and responsible mining, processing, and/or placing of gravels and aggregates in Manitoba, corporate responsibility and leadership in the community, credit

and litigation history, etc.

10. Fit with company operations - Proponents with directly complimentary or similar operations, equipment, and infrastructure in the aggregate and construction industry will receive higher ratings on this criterion.